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ORIGINAL

Decision 93678 NOV 3 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY to Issue, Sell and Deliver in one or more series Not to Exceed $92,500,000 Aggregate Principal Amount of its First and Refunding Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness or, in the alternative, Guarantee Obligations of Another in respect of the Issuance of Securities, to Execute and Deliver one or more Supplemental Indentures, and to Sell Utility Plant; and for an Exemption from the Competitive Bidding Requirements of the California Public Utilities Commission.	Application 60958 (Filed October 2, 1981)

O P I N I O N

Southern California Edison Company (Edison) requests authority, under Public Utilities (PU) Code Sections 816 through 851 for the following:

1. To issue, sell, and deliver to the City of Farmington (City), New Mexico, one or more series of its First and Refunding Mortgage Bonds (Bonds), debentures, notes, and/or other evidences of indebtedness (referred to collectively as New Mexico Indebtedness) in an aggregate principal amount of up to $92,500,000 or, in the alternative, to guarantee unconditionally the City's obligations in respect of its debt;

2. To sell to the City its share of certain acquired or constructed facilities located at the Four Corners Generating Station in New Mexico;

3. To execute and deliver one or more supplemental indentures; and

4. To exempt the issue and sale of the New Mexico Indebtedness from the competitive bidding requirements of the Commission.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 5, 1981. No protests have been received.

Edison, a California corporation, operates as a public utility under the jurisdiction of this Commission. Edison engages primarily in the business of generating, purchasing, transmitting, distributing, and selling electric energy in portions of central and southern California.

For the 12 months ended June 30, 1981, Edison reported it generated total operating revenues of $3,920,505,000 and net income of $373,028,000 shown as part of Exhibit A attached to the application.

In Decision (D.) 92412, dated November 18, 1980 in Application (A.) 59966, we authorized Edison to enter into a pollution control financing transaction with the City wherein Edison would issue its indebtedness to the City or guarantee obligations of the City in order to finance pollution control facilities at the Four Corners Generating Station. Edison now proposes to engage in a refunding transaction to refund the intermediate term debt which was issued in that pollution control financing.

Edison anticipates that at sometime after the effective date of this order and prior to the maturity date, March 1, 1984, of the pollution control revenue bonds (Pollution Control Bonds) issued in the prior transaction, the City will issue and sell by private placement or by an underwritten public offering one or more series of long-term debt (Refunding Bonds) in an aggregage principal amount of up to $92,500,000 in order to refund the Pollution Control Bonds. In order to secure the payment of principal, premium (if any), and interest on the Refunding Bonds, Edison would issue its New Mexico Indebtedness or, alternatively, its guarantee in the form or forms and upon the terms and conditions as will be consistent with the Refunding Bonds so as to adequately secure and provide funds sufficient to pay the principal, premium (if any), and interest on the Refunding Bonds. Edison's Bonds (if issued) would conform with the provisions of and be secured by Edison's Trust Indenture, as amended and supplemented by supplemental indentures. Edison may enter into an installment sale agreement under which the pollution control facilities will be conveyed to the City and reconveyed to Edison in order to facilitate the refunding transaction. Edison undertakes to file with the Commission copies of documents proposed to be used in connection with the issuance and sale of the New Mexico Indebtedness.

On October 20, 1981, Edison provided the Revenue Requirements Division with the following description of the Four Corners Pollution Control Facilities, a list of participants in construction of the units, and the type of financing used, if known to Edison.

Four Corners Pollution Control Facilities

The addition of pollution control facilities at the Four Corners Generating Station is under rules adopted by the New Mexico Environmental Improvement Board. The rule sets forth a December 31, 1982 compliance date.

General Description of the Facilities

The facilities consist of various systems, machinery and equipment at Units 4 and 5 at the plant which may be generally described as follows:

1. The flue gas draft system which provides the necessary draft to remove the products of combustion from the boiler and pass them through certain flue gas particulate removal equipment and ultimately through the stack to the atmosphere;

2. The fabric filter baghouses which remove fly ash from the flue gas; and

3. The fly ash handling system removes fly ash from the baghouse hoppers and conveys it to silos for storage from which trucks transport disposal in the mine.

In addition, there are the following auxiliary subsystems:

1. The fire protection system which minimizes the effect of a fire in the filter baghouse facilities area and

2. The compressed air system which provides oil-free, dry air for certain pneumatic control system equipment, and devices and dry service air for pneumatic maintenance tools and other air uses.

Participants in the New Mexico Pollution Control Facilities

Participants	Percent Share of Facilities	Financing Amount (Millions)	Financing Terms
So Cal Edison	48%	$92.5	3 years
Arizona Public Service	15	65.0*	3 years
Public Service of New Mexico	13	26.0	30 years
Salt River Project	10	NOT AVAILABLE	
El Paso Electric	7	NOT AVAILABLE	
Tucson Electric	7	16.3	3 years
Total	100%		

* Amount includes facilities at Units 1, 2, and 3 in addition to Units 4 and 5. Facilities costs for all other participants reflect Units 4 and 5 only.

Edison is not a participant in Units 1, 2, and 3 as these were built prior to Edison becoming involved in this contruction. Edison is a participant in Units 4 and 5 and will own 48% of the plant and will provide 48% of the pollution control financing.

Edison is informed, believes, and alleges that substantially all of the proceeds from the issuance of the Refunding Bonds will be used to refund the City's tax-exempt Pollution Control Bonds, and it is expected that the interest payable on the Bonds will be exempt from all present federal income taxes and state taxes under existing statutes, regulations, court decisions, and rulings.

Since the interest payable on the Refunding Bonds is anticipated to be exempt from present federal income taxes, the Bonds will be sold at an annual interest rate substantially less than would be realized if Edison were to issue and sell taxable debt obligations. In order for Edison to take advantage of the favorable interest rates applicable to the Refunding Bonds, Edison must issue its New Mexico Indebtedness to the City. The full amount of the interest rate savings will be passed on to Edison and its ratepayers.

Edison seeks an order of this Commission granting an exemption of the proposed issue and sale of the New Mexico Indebtedness from the Commission's competitive bidding rule established by D.38614, as amended by D.49941 and D.75556. These decisions contemplate that under appropriate circumstances the Commission will not require competitive bidding. Edison believes that the reasons set forth below are compelling and justify the issuance by the Commission of an order granting this exemption.

Because of the statutory structure of pollution control financing mechanisms of the City, competitive bidding for Edison's New Mexico Indebtedness is not possible. The Commission has previously recognized this unique method of financing by issuing decisions exempting pollution-control-related debt issues from the competitive bidding requirements of the Commission, including Edison's D.83022 dated June 25, 1974 in A.54888; D.92412 dated November 18, 1980 in A.59966; D.93319 dated July 22, 1981 in A.60652; and Pacific Gas and Electric Company's (PG&E's) D.92118 dated August 19, 1980 in A.59803. Edison believes that the application of the Commission's competitive bidding requirement would preclude it from taking advantage of the benefits provided by this type of financng and would not be in the best interests of Edison or its ratepayers. Edison anticipates that the New Mexico Indebtedness could be sold at least 200 basis points below that of the normal market.

Given the nature and structure of the New Mexico statutory pollution control financing mechanisms and the benefits to be gained from participating in this financing activity, the Commission's Revenue Requirements Division is of the opinion that Edison must issue and sell the indebtedness to the City. Therefore, the application of the Commission's competitive bidding requirements would not, in this proceeding, be in the best interest of Edison or its ratepayers as it would not operate in a manner to allow

Edison's sale of the indebtedness at the most favorable available cost of money. Our position is consistent with D.92118 dated August 19, 1980 in A.59803 (PG&E), relating to pollution control financing by California utilities.

Edison's capital ratios as of June 30, 1981 adjusted to give effect to

1. The proposed issuance of up to $92,500,000 of pollution control First and Refunding Mortgage Bonds, Debentures, Notes, and/or other Evidences of New Mexico Indebtedness;

2. The sale of 258,385 shares of Common Stock, $8-1/3 par value, issued under Edison's Employee Stock Purchase Plan on July 1, 1981 (D.90059 dated March 13, 1979 in A.58606);

3. The sale of 39,185 and 37,901 shares of Common Stock, $8-1/3 par value, issued under Edison's Employee Stock Ownership Plan and Trust Agreement on July 1, 1981 and August 1, 1981, respectively (D.91198 dated January 8, 1980 in A.59295);

4. The sale of 461,580 shares of Common Stock, $8-1/3 par value, issued on August 1, 1981 under Edison's Dividend Reinvestment and Stock Purchase Plan (D.91434 dated March 18, 1980 in A.59441);

5. Funds drawn from the Construction Fund in July and August for the New Mexico Pollution Control Revenue Bonds, 1981 Series A (D.92412 dated November 18, 1980 in A.59966);

6. The proposed issuance of the remaining $200,000,000 authorized but unissued First and Refunding Mortgage Bond (D.92875 dated April 7, 1981 in A.60300);

7. The issuance in July of a 14-3/4% Promissory Note in the principal amount of $50,000,000 (D.92376 and D.92755 dated November 4, 1980 and March 3, 1981, respectively, in A.59939);

8. Funds drawn from the Construction Fund in August for the 10-3/4% First and Refunding Mortgage Bonds, Series QQP (D.92412 dated November 18, 1980 in A.59966);

9. The issuance of 35,008 shares of common stock in July and August, due to conversion of 44,829 shares of Preference Stock, 5.20% Convertible Series;

10. The retirement of $100,000,000 principal amount of First and Refunding Mortgage Bonds, Series EE, due November 1, 1981 (D.83680 dated October 16, 1974 in A.55175); and

11. The retirement of 5-1/2% Promissory Notes, due August 31, 1981 in the principal amount of $1,762,000

are as follows:

	June 30, 1981	Pro Forma
Long-Term Debt	47.4%	48.8%
Preferred/Preference Stock	12.5	12.1
Common Equity	40.1	39.1
Total	100.0%	100.0%

The following authorized issues have been excluded from the pro forma ratios because the timing of these proposed issues is uncertain:

1. The proposed issuance of up to $200,000,000 of New Mexico Pollution Control evidence of indebtedness (D.93319 dated July 21, 1981 in A.60652);

2. The proposed issuance of up to $150,000,000 of Preferred/Preference Stock (D.92933 dated April 21, 1981 in A.60331);

3. The proposed issuance of up to $200,000,000 of Debt Securities (D.92486 dated September 2, 1981 in A.60773); and

4. The proposed issuance of 8,000,000 shares of common stock at an assumed price of $26 per share estimated to produce net proceeds of $208,000,000 (D.93677 dated NOVEMBER 3, 1981 in A.60926).

The Commission's Revenue Requirements Division has reviewed Edison's application and has concluded that the proposed financing is necessary; however, the Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

<u>Findings of Fact</u>

1. Edison, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed Installment Sale Agreement, requiring Edison to provide security for the purchasers of the Refunding Bonds, would not be adverse to the public interest.

3. The proposed indebtedness would be for a proper purpose.

4. The proposed sales and delivery of the acquired or constructed facilities would not be adverse to the public interest.

5. The money, property, or labor to be procured or paid for by the proposed debt securities is reasonably required for the purpose specified in the application.

6. The sale of the proposed indebtedness should not be required to be through competitive bidding.

7. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The proposed security issue is for a lawful purpose and the money, property, or labor to be obtained by it is required for this purpose. Proceeds from the security issue may not be charged to operating expenses or income.

Edison, by letter dated October 1, 1981, requests the authorization for the proposed financing be processed on an expedited basis. Edison's request is based on the September 25, 1981 announcement of Treasury Secretary Regan stating that the Reagan Administration intends to eventually eliminate pollution control bonds as well as other tax-exempt vehicles. Because of the interest savings that are afforded through tax-exempt financing, Edison seeks to obtain authorization before this financing is eliminated. We will therefore make the following order effective on the date of signature. No fee is required, because Edison previously paid the fee required by PU Code Section 1904(b), in connection with the intermediate term debt which was issued in the pollution control financing authorized by D.92412 dated November 18, 1980 in A.59966.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company (Edison) may issue, sell, and deliver at any time or times after the effective date of this order and prior to March 1, 1984 up to $92,500,000 aggregate principal amount of one or more series of its First and Refunding Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness upon the terms and conditions as set forth in, or contemplated by, the application and the documents filed in connection with these proceedings or, in the alternative, guarantee unconditionally obligations of the City of Farmington, New Mexico (City) in respect of the issuance of its Debt.

2. Edison may sell and deliver to the City the acquired or constructed facilities under the terms and conditions set forth in, or contemplated by, the application.

3. Edison may execute and deliver one or more supplemental indentures in substantially the form attached to the application as Exhibit E.

4. Edison shall apply the proceeds of the indebtedness authorized for the purpose specified in the application.

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5. Edison shall file the reports required by General Order Series 24.

6. This order is effective today.

Dated NOV 3 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I certify that this decision was approved by the above Commissioners today.

Joseph E. Bodovitz