

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

U-4

Copy for:

Orig. and Copy
to Executive Director

Director
Numerical File
Alphabetical File
Accounting Officer

RESOLUTION E-1970

UTILITIES DIVISION
BRANCH: Rate Design and Economics
DATE: June 15, 1983

R E S O L U T I O N

SOUTHERN CALIFORNIA EDISON COMPANY (SCE) ORDER AUTHORIZING
LOAN DOCUMENTS TO IMPLEMENT RESIDENTIAL CONSERVATION FINANCING
PROGRAM (RCFP)

By Project Letter, dated March 1, 1983, SCE requests authorization under Section 701 of the Public Utilities Code and such other sections thereof as may be applicable to file specific loan documents, proposed for execution between SCE, affiliate Conservation Financing Corporation (CFC) and the lender, Bank of America (Bank). The facts are as follows:

1. The loan documents submitted include: the "Residential Conservation Financing Program Agreement"; the "Administrative Services Agreement"; the "Equity Subscription and Working Capital Agreement"; the "Revolving Credit Agreement"; the "Revolving Credit Note"; the "Security Agreement"; the "Subordination Agreement"; and the "Consent and Agreement Form" (Loan Documents).
2. SCE, through affiliate CFC, will provide low interest loans to SCE's customer-owners of residential units for residential conservation projects.
3. Decision 82-11-086, dated November 17, 1982, authorized SCE to recover through the Conservation Load Management Adjustment Clause (CLMAC) all of the costs associated with the RCFP.
4. Following negotiations with the Bank, SCE has submitted the Loan Documents for Commission approval.
5. The Project Letter, the Loan Documents, and all other accompanying documents have been reviewed by the staff of the Utilities, Legal, and Revenue Requirements Divisions and approval is recommended.
6. After due review and consideration of the Project Letter and the Loan Documents, the Commission finds, concludes, and resolves the provisions set forth in Attachment A to this resolution and incorporates Attachment A in this resolution.

THEREFORE:

1. Under Section 701 of the Public Utilities Code and other such sections thereof as may be applicable, in accordance with Ordering Paragraph 9 of Decision 82-11-086, and based on the findings and conclusions detailed in Attachment A of this resolution, Southern California Edison Company shall execute, deliver and perform the provisions of the Loan Documents substantially in the form filed with the Project Letter dated March 1, 1983, and the Project Letter and Loan Documents are approved.

Resolution E-1970

Conference of June 15, 1983

Page 2

2. Southern California Edison Company is authorized to recover 100% of the debt service in a timely manner and under all circumstances through the RCFP portion of the CLMAC tariff through quarterly advice filings.
3. SCE shall make an annual CLMAC filing consistent with Decisions 82-11-086 and 82-12-055.
4. SCE shall file a revised Preliminary Statement describing the CLMAC procedure approved herein to be effective on regular statutory notice.
5. Within 30 days of execution of the approved form of the Loan Documents, SCE shall file copies with the Commission.
6. The above Project Letter and accompanying documents shall be marked to show that they were approved by Commission Resolution E-1970. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular conference on June 15, 1983. The following Commissioners approved it:

Executive Director

Attachments

1. Project financing is a form of financing in which the Bank lends money for the development of a specific project or program rather than for the overall operation of a corporation, and the amounts lent are primarily secured by the flow of funds from specific projects.

2. In addition to the security of a flow of funds, project financing is often secured by the pledging of the assets of a single cohesive project with ownership limited to a small number of entities where, in the event of default, the assets of such a project can be taken over by the Bank, completed and operated, or sold to recoup debt investment.

3. The Edison-authorized RCFP does not provide a pledged tangible assets form of security because the funds will be devoted to thousands of individual projects, all separately owned, which the Bank could not realistically take over in the event of default and which would not produce significant revenue for the Bank.

4. Because of the nature of the underlying assets (such as air conditioning devices, insulation, weatherstripping, caulking, etc.) and the lack of traditional lender credit standards and remedies, the Bank cannot be expected to rely on enforcement of the lending agreements and security on loans to ensure loan repayment and must necessarily rely on the flow of funds under the Residential Conservation Financing Program Agreement (RCFP Agreement).

5. It is in the ratepayers' interest to project finance RCFP and thereby achieve a lower cost of capital.

6. Bank justifiably will be acting in reliance on the Commission's commitment to prompt recovery of debt service costs under the Conservation Load Management Adjustment Clause ("CLMAC") whenever Bank makes loans to CFC to fund Commission-approved RCFP financings.

7. The Commission has authority to assure complete and timely recovery of RCFP debt service costs under CLMAC on all Commission-approved RCFP subsidiary borrowings under all circumstances over the life of the borrowings. Debt is financing of an expenditure so that the cost of the expenditure is spread over a number of years, and to the extent RCFP expenditures and financings are approved by the Commission, debt service costs related to such financings should be assured complete recovery.

8. When the Commission approves a RCFP financing project letter, it will be with the understanding that as to that RCFP financing, Edison will be authorized to recoup through the CLMAC procedure, at a minimum, the actual debt service costs of such financing over its lifetime.

9. As a part of the implementation of the Commission's commitment to full recovery of debt service costs, the Commission finds that

(a) The debt service component of the RCFP portion of the CLMAC revenues under the CLMAC procedure covering recoupment of debt service costs will be subject to the Commission's commitment to full recovery and may be adjusted as needed by advice letter filings and/or applications to reflect changes in applicable costs. The debt service component of the RCFP shall be separately identified in Edison's Preliminary Statement by inserting the following language: "The Current Specified Program Rate set forth above for the Residential Conservation Financing Program (RCFP) contains _____ cents per kilowatt hour attributable to the debt service portion of the RCFP." The other expenses of the RCFP including cash incentive payments, administrative and general expenses, taxes and the rate of return on Edison's investment in CFC, may be adjusted pursuant to the CLMAC procedure as set forth in Edison's tariff and will be subject to Commission review of the reasonableness of such expenses in Edison's annual CLMAC filing.

(b) A Balancing Account is authorized which will allow for the balancing of revenues received with costs incurred and thereby provide security to Bank. Edison shall be entitled to adjustments in the debt service component of the RCFP portion of CLMAC by advice letter filings and/or applications as needed for the purpose of bringing the RCFP debt service portion of the CLMAC Balancing Account to zero. The CLMAC Balancing Account is separately maintained by Edison

and is described in the Preliminary Statement in Edison's tariffs. Edison shall modify its Preliminary Statement to include the following language: "Edison shall separately identify the revenue and expense accounts associated with the debt service portion of the RCFP for purposes of making the monthly entry to the Balancing Account."

10. The Balancing Account treatment of debt service costs and the CLMAC procedure hereby approved are intended to assure the Bank of full recovery of debt service in a timely manner and to encourage its investments in the RCFP under terms favorable to both the Bank and ratepayers.

11. The project financing structure proposed for obtaining capital to finance RCFP, as reflected by the Financing Documents, provides a mechanism by which Edison's RCFP subsidiary, CFC, is able to borrow funds at interest rates which (a) at the time of borrowing, are likely to be at or near current short-term rates available only to large corporate borrowers and, will thereby lower the debt service costs for RCFP, and (b) are likely to be lower than individual loan interest rates RCFP participants could obtain themselves without the aid of RCFP. The financing structure proposed for implementation is thus in the ratepayers' interest.

12. Although interest expenses and costs under the Revolving Credit Agreement are likely to fluctuate during the term of the RCFP Financing Documents, and may thereby increase the costs of financing RCFP, the options provided in the Revolving

Credit Agreement for choices of interest rates allows CFC to finance RCFP with maximum flexibility and to utilize the best of the short term rate options available to CFC from time to time and is thereby beneficial to CFC and Edison and in the ratepayers' interest.

13. The Financing Documents for RCFP, including the Revolving Credit Agreement, the Revolving Credit Notes, the Security Agreement, the Subordination Agreement, the Consent and Agreement, the RCFP Agreement, the Administrative Services Agreement, and the Equity Subscription and Working Capital Agreement, and each of them, are fair, reasonable, prudent and in the public interest, and the execution, delivery and performance thereof by Edison are hereby approved by the Commission.

14. The financing terms and conditions set forth in the Financing Documents, including, without limitation,

(a) the interest rate options contained in the Revolving Credit Agreement;

(b) the formulae or definitions in the Revolving Credit Agreement for the derivation and calculation of the three base interest indices, and the escalating percentage margin added thereto;

(c) the fees, costs, and expenses described and provided for in the Revolving Credit Agreement, including without limitation Commitment Fees, Increased Costs, Expenses and taxes described in Section 1.3, 2.2, and 6.5 and those otherwise contemplated by the Financing Documents; and

(d) the provisions for principal repayment;
are in each case, fair, reasonable, prudent, and in the public
interest and are hereby approved by the Commission.

15. The descriptions and subcategories of debt service costs, including Interest Due Lender, Associated Fees Due Lender, and Provision for Doubtful Accounts, in the Financing Documents and the provisions for recovery thereof under the RCFP Agreement, are consistent with the debt service costs contemplated by Decision No. 82-11-086. Debt service costs calculated in accordance with the provisions of the RCFP Agreement as filed and approved herewith shall, subject to the making by Edison of all necessary filings with the Commission, be allowable for ratemaking purposes and such debt service costs are the subject of the Commission's commitment of full recovery as set forth herein and in Ordering Paragraphs 11 and 12 of Decision No. 82-11-086, issued November 17, 1982.

16. The Commission recognizes that a Provision for Doubtful Accounts will be created, as set forth in the definition of debt service costs in the RCFP Agreement being approved herewith. The Commission further acknowledges that there currently exists insufficient experience with RCFP bad debts to determine whether the interim level of rate recoupment as reflected in Edison's Application No. 61066 under the CLMAC procedure will be excessive or inadequate. Consistent with the commitment in Decision No. 82-11-086 and under this Resolution to full recovery of debt service costs, the Commission will authorize rates to recover

those costs as requested pursuant to advice letter filings filed on an as needed basis, as authorized in Decision 82-11-086. The Commission finds that RCFP loans made in accordance with the credit criteria adopted from time to time by this Commission for the RCFP, and any bad debts resulting therefrom, shall be deemed prudent, and shall be entitled to the benefit of the Commission's commitment to full recovery of debt service costs, irrespective of whether such credit criteria might themselves be deemed prudent on the basis of objective criteria unrelated to the RCFP.

17. The Commission recognizes that Edison has agreed to pay to CFC the amounts authorized to be included under the CLMAC procedure for the cost of RCFP (including administrative and general costs), whether billed under CLMAC or such other Tariff(s) as may be authorized by the Commission which supercede the current CLMAC Tariff, and that the resultant payments to CFC provide the primary credit support for the project financing. To the extent that the Commission orders or specifically authorizes the use of tariffs other than the CLMAC Tariff for recovery of RCFP costs and expenses, the Commission resolves to separately identify the revenue requirements and applicable rates to be approved for rate recovery of the debt service portion of the RCFP in order to facilitate payment of such amounts by Edison to CFC.

18. The Commission recognizes that a future Commission could determine that prospective RCFP financings would no longer be in the public interest; however, consistent with our finding in Decision No. 82-11-086 that RCFP is in the public interest and our

finding herein that the RCFP project financing structure proposed for implementation through the Financing Documents is fair, reasonable, prudent, and in the public interest, and to avoid confiscation of funds already advanced thereunder in good faith by the Bank, the Commission concludes and resolves that recovery under the RCFP Agreement of debt service costs incurred in financing RCFP in accordance with the Financing Documents hereby approved will not be reduced, delayed, or otherwise impaired. The Commission further resolves that, upon the making by Edison of necessary advice filings with the Commission, such debt service costs as are incurred pursuant to the terms and conditions of the Financing Documents shall be recovered under the CLMAC procedure in keeping with the Commission's commitment to full recovery as set forth in Decision No. 82-11-086.

19. To the extent that the Financing Documents, including, in particular, the Consent and Agreement, contain provisions which may obligate Edison to maintain payments to CFC under certain stated circumstances and such obligation or any other obligation in such Financing Documents may be deemed to constitute an assumption of an obligation or liability in respect of CFC's performance under the Financing Documents, such provisions and assumptions in connection therewith are fair, reasonable, prudent and in the public interest and are hereby approved by the Commission.

20. Acceptance and authorization of the Financing Documents, including the RCFP Agreement, will enable financing of this

project on a basis substantially similar to the "project financing" contemplated and approved in Decision No. 82-11-086 under the most favorable terms available, to the benefit of the ratepayers.

21. Edison's Project Letter dated March 1, 1983 is a financing project letter within the meaning of Decision No. 82-11-086 and is hereby approved.

22. This filing will not increase any rate or charge, cause the withdrawal of service, nor conflict with any rule or schedule. However, Edison does plan to periodically adjust CLMAC rates by advice letters and/or applications in accordance with proper procedures to reflect changing debt service costs as authorized by the Commission in Decision No. 82-11-086.