

ENERGY/ICRJ/RHG

Decision 03-11-018 November 13, 2003

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY U-338-E to issue, sell, and deliver one or more series of Debt Securities and to guarantee the obligations of others in respect of the issuance of Debt Securities to finance its Fuel Oil, Nuclear Fuel, Natural Gas, and Coal Inventories in an aggregate principal amount not to exceed \$750,000,000; to execute and deliver one or more indentures; to sell, lease, assign, mortgage or otherwise dispose of or transfer utility property; and for an exemption from the Commission's Competitive Bidding Rule.

Application 03-07-029
(Filed July 11, 2003)

OPINION GRANTING AUTHORITY TO ISSUE DEBT SECURITIES

Summary

This decision grants Southern California Edison Company (SCE) the authority requested in Application (A.) 03-07-029 (Application).

SCE requests authority, pursuant to §§ 816 through 818, 821, 830 and 851 of the Public Utilities (Pub. Util.) Code for the following:

1. To issue, sell and deliver one or more series of debt securities, including but not limited to first and refunding mortgage bonds, debts secured by a pledge of its accounts receivable, debentures, notes, preferred securities, overseas indebtedness, foreign currency denominated securities, commercial paper, extendible

commercial notes, other floating or variable rate debt, credit or loan agreements, and other evidences of indebtedness (collectively, "Debt Securities"), to guarantee the debt securities of a regulated subsidiary or affiliate of SCE, the proceeds of which may be loaned to SCE or to another regulated subsidiary or affiliate of SCE;

2. To renew and/or refund commercial paper, extendible commercial notes and other floating rate Debt Securities, so that the combined term of the obligations may exceed twelve months without the need for further authorization from the Commission;
3. To arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the securities, and to modify such credit facilities;
4. To execute and deliver an indenture or supplemental indentures in connection with any Debt Securities and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;
5. To pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities;
6. To issue, sell, and deliver Debt Securities by public offering or private placement;
7. To obtain an exemption from the Commission's Competitive Bidding Rule with respect to all Debt Securities, except fixed-rate debt securities in the form of first and refunding mortgage bonds, intermediate- and long-term notes and debentures ("fixed rate bonds and debentures"), of \$200,000,000 or less in principal amounts that are sold publicly in the domestic market;

8. With respect to fixed rate bonds and debentures of \$200,000,000 or less in principal amounts that are sold publicly in the domestic market, authorizing SCE to shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof; to accelerate, postpone, or cancel the scheduled date and time for receipt of bids; to reject all bids submitted; to request the resubmission of bids; to reschedule subsequent receipt of bids; and to vary the amount, terms, and conditions of the Debt Securities submitted for bids, all of the above to be without newspaper publication;
9. Stating that the Debt Securities and guarantees which may be made pursuant to the Application shall not exceed \$750,000,000 in aggregate principal amount, the proceeds of which will be used to finance SCE's fuel oil inventory (Fuel Oil), nuclear fuel inventories (Nuclear Fuel), natural gas fuel inventories (Natural Gas), and coal inventory (Coal) (collectively Fuels); and
10. To utilize at its discretion features to enhance debt and to enter into caps, collars, and swaps.

Notice of the filing appeared on the Commission's Daily Calendar of July 23, 2003. No protests have been received.

Background

SCE is a corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for light, heat and power in portions of central and southern California as a public utility subject to the jurisdiction of this Commission. SCE's properties,

substantially all of which are located within the State of California, primarily consist of hydroelectric and thermal electric generating plants, together with transmission and distribution lines and other property necessary in connection with its business.

By Decision (D.) 88-07-069 dated July 22, 1988 in A.88-03-024, the Commission authorized SCE to issue, sell and deliver at any time or times \$900,000,000 aggregate principal amount of other floating rate debt, commercial paper, debenture, overseas indebtedness, foreign securities, notes and loans by negotiated public offerings, negotiated private placements or by means of competitive bidding, to finance Fuels cost, and to guarantee the debt securities of others in connection with the financing of Fuels.

The purpose of the authorization is to allow SCE to closely match its actual fuels financing cost with the carrying cost authorized by this Commission.

Through subsequent decisions, the Commission extended the authority granted in D.88-07-069 and modified its scope to include financing for natural gas inventories¹ and to allow SCE to file quarterly, rather than monthly, the reports required by General Order (G.O.) 24. In D.03-06-011 dated June 5, 2003, the Commission granted SCE broader exemption from the Competitive Bidding Rule.

Because the Fuels authorization will expire on June 30, 2003, SCE filed a timely Petition for Modification (Petition) on April 15, 2003 requesting an extension of time to June 30, 2008². SCE subsequently filed

¹ D.91-09-076 dated September 25, 1991 included natural gas in the definition of Fuels. Pursuant to SCE, no debt has been issued under the Fuels Decision to finance natural gas inventory.

² In a companion order issued today, we find SCE's April 15, 2003 Petition for Modification moot, given the filing of the instant Application.

the instant Application. But in the meantime, the authority granted to SCE by D.88-07-069, as extended and modified³ (prior Fuels Decision) necessarily expired on June 30, 2003.

SCE believes that it has continued need for fuels financing through the issuance of Debt Securities. The utility continues to face challenges due to its non-investment grade credit rating and difficulties facing the energy industry in general.

Description of Debt Securities

SCE seeks in this Application to be granted \$750,000,000 debt authorization for Fuels financing. The principal amount, form and terms and conditions of each series of Debt Securities will be determined by SCE's board of directors or management according to market conditions at the time of sale or issuance. The Debt Securities may bear a fixed, floating, or variable rate of interest and may be issued at par or with an original issue discount or premium. The Debt Securities will be issued with maximum maturities of 40 years for first and refunding mortgage bonds, and 29 years for debentures, notes, preferred securities, and credit or loan agreements. Commercial paper and other forms of short-term debt may be issued with maturities of 364 days or less, but may be rolled over for periods exceeding 12 months. SCE may issue Debt Securities directly or may issue them through an affiliate that will in turn lend or otherwise transfer the proceeds to or for the benefit of SCE. SCE will notify the Commission by letter, quarterly after the date of issuance of any Debt Securities, of the terms and conditions of those Debt Securities.

³ This order has approximately \$485,000,000 of remaining unissued authorization whereby the Pub. Util. Code § 1904(b) fee has been paid for.

SCE or its affiliate propose to issue any of the following Debt Securities, which are described in detail under Section III, pages 5 to 10 of the Application:

1. Secured Debt Securities (first and refunding mortgage bonds)
2. Accounts Receivable Financing⁴
3. Unsecured Debt Securities (debentures, notes, trust preferred securities⁵, or other evidences of indebtedness)
4. Overseas Indebtedness
5. Foreign Currency Denominated Securities
6. Medium-Term Notes (MTNs)
7. Direct Loans
8. Commercial Paper and Extendible Commercial Notes
9. Other Floating Rate Debt (debt instruments bearing interest based on various short-term interest rate indices, bankers' acceptances)

Features to Enhance Debt Securities

SCE requests authorization to include at its discretion one or a combination of the following additional features in SCE or affiliate Debt Securities presented on pages 10 to 12 of the Application. Such features will be used as appropriate to improve the terms and conditions of Debt Securities and to lower SCE's overall cost of money for the benefit of ratepayers:

1. Credit Enhancements
2. Redemption Provisions
3. Put Options
4. Sinking Funds
5. Warrants

⁴ Effectively with encumbrance on SCE's utility properties since accounts receivable are considered to be utility property.

⁵ A subsidiary in the form of a trust that would issue preferred securities to the public would be created. The preferred securities would represent an interest in the debentures issued by SCE to the trust, and would also be guaranteed by SCE.

Features to Enhance Debt Securities

As discussed on pages 12 to 14 of the Application, SCE seeks authority to reduce the risks associated with interest rate volatility through various financial instruments or entering into one or more contracts for the purpose of managing interest rate risk. Such contracts could take a number of forms including interest rate cap, floor, collar and swap agreements.

Use of Proceeds

SCE proposes to use the proceeds from the issuance and sale of the Debt Securities, or the proceeds lent to SCE from the issue and sale of Debt Securities by an affiliate, other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident to their issue and sale: (1) to finance SCE's Fuels; (2) for the retirement or refunding of securities previously issued and upon which SCE paid the fees prescribed by Pub. Util. Code §§ 1904 and 1904.1; and/or (3) to reimburse SCE for money it has actually expended from income, or from any other money in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes, or other evidences of SCE's indebtedness, for any of the aforesaid purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

We will authorize SCE's proposed Debt Securities in the aggregate principal amount of \$750,000,000. SCE should use the proceeds exclusively for transactions related to Fuels financing, including but not

limited to reimbursement of its treasury for funds used to finance Fuels, which may not have been funded by earlier Commission decisions.

Pub. Util. Code § 817(d) allows a public utility to issue stock or evidences of indebtedness payable at period of more than 12 months for the discharge or lawful refunding of its obligations.

Pub. Util. Code § 823(d) states that no note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness without the consent of the Commission.

Pub. Util. Code § 1904(b) states that there is no fee on such portion of any issue that will be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission.

Pursuant to Pub. Util. Code § 818, we will approve SCE's proposed debt issue, the proceeds of which are to be used to retire existing long-term debt securities and for capital expenditures.

Pursuant to Pub. Util. Code § 823(d), we will allow the continuous refunding of previously issued short-term debt securities (commercial paper and extendible commercial notes) such that the combined terms of the refunded issues and the new debt securities may exceed twelve months. However, SCE must maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities (long-term debt, preferred stock and common stock) then outstanding at least once every twelve months.

Pursuant to Pub. Util. Code § 851, we will allow SCE to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

Pub. Util. Code § 701.5 prohibits utilities from issuing bonds or notes, guaranteeing financial transactions, or pledging utility assets for or on behalf of their subsidiaries, but allows exceptions in some instances. SCE states that the subsidiary referred to in the Application is SCE Capital Company (SCE Capital) or any other SCE affiliate or subsidiary, which qualifies for exemption under Pub. Util. Code § 701.5. SCE Capital is a wholly owned subsidiary of SCE, for which guarantees are allowable under Pub. Util. Code § 701.5 (a) since the Commission considers its revenues and expenses when reviewing SCE's ratemaking filings.

In D.00-10-063 dated October 19, 2000 in A.00-07-006, the Commission granted SCE the use of a special purpose entity for the purpose of issuing trust preferred securities. Having explicitly determined them reasonable previously, we see no reason to object, and pursuant to Pub. Util. Code § 701.5 we will grant SCE the authority to issue Debt Securities, to guarantee, or to pledge its assets on behalf of SCE Capital or any other regulated affiliate or subsidiary who qualifies to transact financing arrangements pursuant to Pub. Util. Code § 701.5.

SCE's subsidiary should be created solely for the purpose of issuing securities to the public or privately to support SCE's operations or service. SCE should have 100% ownership and control of the subsidiary. In addition, the activities of the subsidiary should be subject to federal or state securities regulation and to the regulation of the Commission through its oversight of SCE's financing activities.

In D.98-02-104 and more recently in D.00-10-063, SCE received authorization to enter into swap contracts with some restrictions. Having previously stated the parameters whereby swap transactions and other derivative financial instruments may be used, we will in this decision require SCE to do the following:

1. SCE should separately report all interest income and expense arising from all swap transactions in its reports to the Commission.
2. Swap transactions should not exceed at any time 20% of SCE's long-term debt outstanding.
3. If SCE elects to terminate a swap transaction before the original maturity or the swap partner terminates the agreement, all costs associated with the termination will be subject to review in SCE's next cost of capital proceeding.
4. Swap transactions, and other derivative financial instruments carrying potential counterparty risk which SCE received in connection with long-term debt, must have counterparties with investment grade credit ratings of two notches higher than SCE.
5. SCE shall maintain and make available within 30 days of request, 1) a report analyzing the swap transactions including all costs associated with the swap in comparison to a projection of all-in costs without a swap, and 2) a complete copy of the executed swap agreement and all associated documentation.

Competitive Bidding Rule

Commission Resolution (Res.) No. F-616 dated October 1, 1986, states, "Requests for exemption from the [Competitive Bidding] Rule will only be entertained for debt issues in excess of \$200 million, and will only

be granted upon a compelling showing by a utility that because of the size of the issues, an exemption is warranted.”

SCE believes that compelling circumstances exist for an exemption from the Competitive Bidding Rule for the requested debt issues in the Application, in excess of \$200,000,000 principal amount. Those circumstances have been previously addressed in SCE’s Expedited Petition for Modification of D.88-07-069, D.98-12-104, D.00-10-040, and D.00-10-063 (Expedited Petition) filed on January 25, 2001, and subsequent filings made with the Commission in such proceeding and are discussed in D.03-06-011, which granted SCE’s request for Competitive Bidding Rule exemption. Because the considerations described therein continue to apply, without attempting to repeat them, the reasons supporting SCE’s exemption request can be generally summarized as follows:

1. Competitively bidding larger issues may result in higher costs of funds to SCE due to the fragmenting of the investment banking community into competitive bidding syndicates and the increased risk thereby effectively assumed by each of them;
2. The competitive bidding process is fundamentally designed for highly-rated, well-known issuers who do not need to avail themselves of the opportunities for communicating to, and receiving market intelligence from, the investment community in order to achieve a successful offering; and
3. Competitive bidding may leave SCE limited and undesirable options for obtaining needed financing.

For these reasons, SCE believes its request for Competitive Bidding Rule exemption for debt issued in excess of \$200,000,000 in principal

amount is within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Res. F-616.

SCE also requests exemption from the Competitive Bidding Rule for debt issues for which competitive bidding is not viable or available. Such debt issues are: obtaining loans, issuing variable or floating rate Debt Securities, issuing Debt Securities as part of a trust preferred securities transaction, issuing debts secured by a pledge of its accounts receivable, and issuing overseas indebtedness, foreign currency securities, and notes and tax-exempt securities.

SCE asserts that it is often not possible to issue the previously identified types of debt on favorable terms by using the Competitive Bidding Rule.

In addition, to provide added flexibility to take advantage of market opportunities, SCE requests permission to use the following procedures for those situations where the Competitive Bidding Rule remains applicable:

1. To shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof (which time period may be as short as a few hours);
2. To accelerate, postpone, or cancel the scheduled date and time for receipt of bids;
3. To reject all bids submitted;
4. To request the resubmission of bids;
5. To reschedule subsequent receipt of bids;

6. To vary the amount, terms, and conditions of the Debt Securities submitted for bids; and
7. To waive the requirement for newspaper publication of the above items.

SCE states in the Application that other fixed rate Debt Securities in the form of first and refunding mortgage bonds, intermediate and long term notes, and debentures (fixed rate bonds and debentures), of \$200,000,000 or less in principal amount (other than tax-exempt securities) that are sold publicly in the domestic market will be offered through competitive bidding⁶.

We grant SCE's request for the previously described exemptions from the Competitive Bidding Rule. We do so based on SCE's representation that granting the exemptions will enable SCE to obtain debt in a manner advantageous to SCE and its ratepayers. This decision makes no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SCE pursuant to the exemptions granted herein.

When SCE's bond rating⁷ rises to "A", all underwritten public offerings of fixed interest rate debentures and first mortgage bonds (other than tax-exempt securities) in the principal amount of \$200 million or less that will be effected in the domestic capital markets must be competitively bid.

⁶ Because the Competitive Bidding Rule applies only to utilities who have ratings of "A" or higher, SCE does not intend to competitively bid such fixed rate bonds and debentures of \$200,000,000 or less in principal amount, until such time as it meets the minimum bond rating threshold.

⁷ Fitch Ratings dated September 9, 2003 raised the credit ratings of SCE as follows: first mortgage bonds to 'BBB-' from 'BB'; unsecured debt to 'BB' from 'BB-'; and preferred securities to 'B+' from 'B'.

Financial Information

For the three months ended March 31, 2003, SCE reported total operating revenues of \$1,823,482,000 and net income of \$105,139,000, as shown in its Statement of Income, attached as Exhibit A, A-23 to the Application. SCE's Balance Sheet at March 31, 2003, shown also as part of Exhibit A, A-24 and A-25, is summarized as follows:

<u>Assets and other Debits</u>	<u>Amount</u>
Net Utility Plant	\$10,290,723,000
Other Property and Investments	2,620,884,000
Current Assets	2,883,407,000
Deferred Charges	<u>4,242,271,000</u>
Total	<u>\$20,037,285,000</u>
Common Shareholder's Equity	\$ 4,487,365,000
Preferred Stock	270,085,000
Long-term Debt	5,119,252,000
Current Liabilities	4,005,439,000
Minority Interest	395,000
Deferred Credits & Other Liabilities	<u>6,154,749,000</u>
Total	<u>\$20,037,285,000</u>

Construction Budget

SCE's estimated construction budgets for 2003 through 2005, as shown in Exhibit A, A-29 to the Application, are as follows:

<u>Components</u>	(Millions of Dollars)		
	Estimated		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Electric Generating Plant	118	287	308
Electric Transmission Lines and Substations	210	299	282
Electric Distribution Lines and Substations	598	712	748
Other Plant Expenditures	<u>154</u>	<u>112</u>	<u>92</u>
Total ⁸	1080	1410	1430
Less: Allowance for Funds Used During Construction	<u>-18</u>	<u>-18</u>	<u>-17</u>
Cash Required for Construction Expenditures	<u>1062</u>	<u>1392</u>	<u>1413</u>

We will not make a finding in this decision on the reasonableness of SCE's proposed construction program. Construction expenditures and the resulting plant balances in rate base are normally addressed in general rate cases.

⁸ Based on numbers approved by the company in November 2001.

Cash Requirements Forecast

SCE's estimate of cash requirements for 2003 through 2005 is summarized as follows:

<u>Components</u>	(Thousand of Dollars)			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Construction expenditures ⁹	1,360,802	1,482,590	1,496,356	4,339,748
Maturities of long-term debt	1,425,000	125,000	700,000	2,250,000
Rate reduction bonds				
Payments	246,300	246,300	246,300	738,900
Preferred stock redemption	8,750	8,750	8,750	26,250
Short-term debt	<u>300,000</u>	<u>-175,000</u>	<u>-35,000</u>	<u>90,000</u>
Total uses of cash	3,340,852	1,687,640	2,416,406	7,444,898
Estimated net cash available from internal sources (includes proceeds from asset divestitures)	2,237,140	1,388,452	1,321,017	4,946,609
Additional new funds required from outside sources	1,103,712	299,188	1,095,389	2,498,289
Be provided as follows:				
(1) Bonds	1,103,712	299,188	864,350	2,267,250
(2) Preferred equity	0	0	231,039	231,039
(3) Common equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	1,103,712	299,188	1,095,389	2,498,289
Internal Generation of Funds	67%	82%	55%	66%

⁹ Different from the construction breakdown due to adjustments and changes in projections (to date not yet formally approved by SCE's management).

Cash Requirements Forecast

SCE's capital ratios as of March 31, 2003, are presented below as recorded and adjusted to give pro forma effect to the transactions listed below:

	(Thousands of Dollars)				
	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma</u>	
Long-term debt	5,824,542	55.0%	3,264,635	9,089,177	65.6%
Preferred Stock	278,835	2.6%	-	278,835	2.0%
Common Equity	<u>4,487,365</u>	<u>42.4%</u>	<u>-</u>	<u>4,487,365</u>	<u>32.4%</u>
Total	<u>10,590,742</u>	<u>100.0%</u>	<u>3,264,635</u>	<u>13,855,377</u>	<u>100.0%</u>

1. The \$1,000,000,000 issue of debt and equity (combined and not distinguished for purposes of presenting the pro forma ratios) under the authorization requested in this Application, to be used for the acquisition of property, construction, completion, extension or improvement of SCE's facilities, or reimbursement of SCE's treasury.
2. The proposed issuance and sale of \$750,000,000 Debt Securities requested in A.03-07-029 to finance SCE's fuel inventories.
3. The issuance and sale of \$2,200,000,000 Debt Securities under the authority granted by D.87-09-050 pertaining to balancing accounts.
4. The issuance and sale of \$1,780,600,000 Debt Securities under the authority granted by D.98-02-104 and D.00-10-63 to be used for refinancing debt.
5. The decrease of \$1,500,000,000 in Procurement-Related Obligations Account (PROACT).

6. The planned refinancing (exchange offer) of \$965,965,000 of SCE's Series 2003B securities.

SCE's authorized capital structure as shown in D.02-11-027 dated November 7, 2002, consists of 47% long-term debt, 5% preferred stock, and 48% common stock. SCE indicates in its supplement information to the Application that since its PROACT balance has been fully recovered, it expects to gradually rebalance its capital structure to the authorized levels.

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Izetta C.R. Jackson is the assigned Examiner in this proceeding.

In Resolution (Res.) ALJ 176-3117 dated August 21, 2003, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3117.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. SCE, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. SCE needs external funds to finance Fuels.

3. The proposed Debt Securities and guarantees in respect of the issuance of Debt Securities are for proper purposes and not adverse to the public interest.

4. Authorizing SCE to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, price, interest rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), and other material terms and provisions of each debt issue and of any Debt Securities related thereto in the manner and subject to the limitations set forth in the Application, would not be adverse to the public interest.

5. SCE's proposal to use a special purpose entity for the purpose of issuing trust preferred securities and to unconditionally guarantee or otherwise secure the entity's payment obligations would be for proper purposes and could offer financial advantages to SCE and its ratepayers.

6. Savings resulting from the difference in costs between raising capital through trust preferred securities and a traditional Preferred Stock issuance will be passed to ratepayers in the annual revisions of SCE's authorized cost of capital.

7. For trust preferred securities transactions, ratepayers should not be responsible for penalties or interest on penalties, if any.

8. The special purpose entity described in the Application would be under SCE's ownership and control and would engage only in activities in support of SCE's operations.

9. Authorizing SCE to encumber utility assets in the event that such encumbrance will be required to secure the Debt Securities is for proper purposes and is not adverse to the public interest.

10. The Commission does not by this decision determine that the SCE's construction budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.

11. The use of credit enhancements, interest rate caps, collars and swaps in appropriate circumstances is not adverse to the public interest. This may provide the utility the means to better manage its cost of capital.

12. SCE's swaps and other interest rate transactions should not exceed 20% of its total long-term debt outstanding.

13. Limiting SCE's swaps in connection with this decision to those involving counterparties with investment grade credit rating will help keep counterparty risk within acceptable bounds.

14. The reasonableness of any resulting interest rate and cost of money arising from debt capital is normally subject to review in cost of capital or general rate case proceedings.

15. Pub. Util. Code 1904(b) states that there is no fee on such portion of any issue that will be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission.

16. SCE requests several exemptions from the Competitive Bidding Rule. The exemptions requested are identified in the body of this decision. The Commission granted similar exemptions in D.03-06-011.

17. SCE represents that granting the exemptions requested from the Competitive Bidding Rule will help SCE issue debt on terms that are favorable to SCE and its ratepayers.

18. SCE's bond rating as of September 9, 2003 is "BBB-".

19. Notice of the filing of the Application appeared on the Commission's Daily Calendar of July 23, 2003. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order that follows.
3. Issuing bonds, notes, or guarantees or pledging assets on behalf of a subsidiary or affiliate is allowable under Pub. Util. Code § 701.5.
4. This authorization is not a finding of the value of SCE's stock or property, nor does it indicate approval of matters subject to review in ratemaking proceedings.
5. Res. F-616 allows exemption from the Competitive Bidding Rule for: (1) debt issues in excess of \$200 million, and (2) variable rate debt, structured transactions, bank borrowings, and other securities privately placed with specific lenders.
6. Certain bidding procedures and deviations from the Competitive Bidding Rule are permitted in Res. F-616.
7. SCE's request for exemptions from the Competitive Bidding Rule described in the body of this decision is reasonable and should be granted.
8. SCE should pay the fee determined in accordance with Pub. Util. Code § 1904(b).
9. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Southern California Edison Company (SCE), upon terms and conditions substantially consistent with those set forth or contemplated in Application 03-07-029 (Application), is authorized to:

- a. Issue, sell and deliver one or more series of debt securities, including but not limited to first and refunding mortgage bonds, debts secured by a pledge of its accounts receivable, debentures, notes, preferred securities, overseas indebtedness, foreign currency denominated securities, commercial paper, extendible commercial notes, other floating or variable rate debt, credit or loan agreements, and other evidences of indebtedness (collectively, "Debt Securities") in an aggregate principal amount not to exceed \$750,000,000;
- b. Guarantee the debt securities of a regulated subsidiary or affiliate of SCE, the proceeds of which may be loaned to SCE or to another regulated subsidiary or affiliate of SCE;
- c. Renew and/or refund commercial paper, extendible commercial notes and other floating rate Debt Securities, so that the combined term of the obligations may exceed twelve months without the need for further authorization from the Commission;
- d. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the securities, and to modify such credit facilities;

- e. Execute and deliver an indenture or supplemental indentures in connection with any Debt Securities and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;
 - f. Pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities;
 - g. Issue, sell, and deliver Debt Securities by public offering or private placement; and
 - h. Utilize at its discretion features to enhance debt and to enter into caps, collars, and swaps.
2. SCE shall apply the proceeds of the indebtedness authorized to finance its fuel oil inventory, nuclear fuel inventories, natural gas fuel inventories, and coal inventory (collectively Fuels) as specified in the Application and shall not use the funds for operating expenses, capital additions or payment of dividends.
3. Trust preferred securities transactions shall be subject to conditions consistent with our findings.
4. SCE may enter into one or more contracts for the purpose of managing interest rates risk. Such contracts could take a number of forms including interest rate cap agreements, interest rate floor agreements, interest rate collar agreements and interest rate swap agreements. SCE may also enter into contracts to reduce the risk of increased interest rates associated with planned financings. Such contracts could include hedging future fixed rate debt issuances such as Treasury locks, caps and collar agreements. This authority shall not to be considered as separate debt for

purposes of calculating the remaining financing authorization granted by this order.

5. SCE is limited to entering into swap and hedging transactions aggregating no more than 20% of its total long-term debt outstanding.

6. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which SCE receives in connection with long-term debt, shall have counterparties with investment grade credit ratings of two notches higher than SCE.

7. SCE shall separately report all interest income and expense arising from all swap and hedging transactions in its report to the Commission.

8. If SCE elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination shall be subject to review in a ratemaking proceeding.

9. SCE shall make available, within 30 days of request: (i) a report that would include a summary of the swap or hedge transaction, including but not limited to the term, costs of the transaction (fees or other expenses), dollar amount involved, and SCE's rationale for the transaction; and (ii) SCE's estimated costs for the "alternative" or unhedged transaction.

10. SCE shall enter into interest rate swap and hedging contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

11. SCE's debt issues with principal amounts greater than \$200 million, variable rate debt securities, and negotiated financing transactions are exempt from the requirements of the Commission's Competitive Bidding Rule. When SCE's bond rating rises to "A", all issues of fixed-rate bonds and debentures (other than tax-exempt securities) over \$20 million but not greater than \$200 million are subject to the Competitive Bidding Rule.

12. Consistent with the modifications to the Competitive Bidding Rule set forth in Resolution No. F-616, SCE is authorized to:

- a. Shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof (which time period may be as short as a few hours);
- b. Accelerate, postpone or cancel the scheduled date and time for the receipt of bids;
- c. Reject all bids submitted, request the resubmission of bids, reschedule subsequent receipt of bids, and vary the amount, terms, and conditions of the Debt Securities submitted for bids; and
- d. Waive the requirement for newspaper publication of the above items.

13. On or before the 25th day of the month following each quarter, SCE shall file the reports required by General Order No. Series 24-B.

14. The authority granted in this decision shall replace and supersede the authority granted in Decision (D.) 88-07-069, as previously modified by D.89-08-021, D.91-09-076, D.94-07-026, D.95-11-065, D.99-06-018, D.00-07-012, and D.03-06-011.

15. The authority granted by this order shall become effective when SCE pays \$138,500¹⁰ as required by Pub. Util. Code § 1904(b).

16. The Application is granted as set forth above.

17. Application 03-07-029 is closed.

This order is effective today.

Dated November 13, 2003, at San Francisco, California.

MICHAEL R. PEEVEY

President

CARL W. WOOD

LORETTA M. LYNCH

SUSAN P. KENNEDY

Commissioners

Commissioner Geoffrey F. Brown, being necessarily absent, did not participate.

¹⁰ The amount subject to the fee is \$265,000,000 (\$750,000,000 Debt Securities less \$485,000,000 remaining authorization in SCE's prior Fuels Decision whereby Pub. Util. Code § 1904(b) fee has been paid for). The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + (\$1 \times 9,000,000/1,000) + (\$0.50 \times (255,000,000/1,000)) = \$138,500$.