

ENERGY/KPC/KOK/ev8

Decision 05-08-008 August 25, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U-338-E) for authority to issue, sell and deliver one or more series of Debt Securities and guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such indebtedness and guarantees not to exceed \$2.0 billion; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, an aggregate amount not to exceed \$500 million par or stated value of Cumulative Preferred Stock -- \$25 Par Value, Cumulative Preferred Stock -- \$100 Par Value, Preference Stock or any combination thereof, and guarantee the obligations of others in respect of the issuance of that Stock; and for an exemption from the Commission's Competitive Bidding Rule.

Application 05-02-018
(Filed February 14, 2005)

**OPINION AUTHORIZING THE ISSUANCE OF DEBT
AND PREFERRED STOCK**

Summary

This decision grants Southern California Edison Company (SoCal Edison) the authority requested in Application (A.) 05-02-018, as amended (Application).

SoCal Edison requests authority, pursuant to Pub. Util. Code §§ 816, 817, 818, 821, 830, and 851^[1] for the following:

1. Obtain debt capital in an aggregate amount not to exceed \$2.0 billion through the issuance of one or more series of indebtedness, including but not limited to first and refunding mortgage bonds, debt 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 or other securities of a regulated subsidiary or affiliate of SoCal Edison, the proceeds of which may be loaned or otherwise transferred to SoCal Edison or to another regulated subsidiary or affiliate of SoCal Edison, and/or guarantee or otherwise secure the obligations of one or more governmental entities in respect of their issuance of debt securities for pollution control and sanitary and solid waste disposal, or other eligible facilities;
2. Renew and/or refund commercial paper, extendible commercial notes and other floating or variable 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. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing Debt Securities, and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;
4. Execute and deliver an indenture or supplemental indenture in connection with any issue of 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;

^[1] All statutory references are to the Public Utilities Code unless otherwise indicated.

5. Pledge or otherwise dispose of or encumber accounts receivable in connection with the issuance and sale of Debt Securities;
6. Issue, sell, and deliver Debt Securities by public offering or private placement;
7. Exempt SoCal Edison 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 amount that are sold publicly in the domestic market;
8. Use certain procedures for Fixed Rate Bonds and Debentures subject to the Competitive Bidding Rule;
9. Issue, sell and deliver one or more series of Cumulative Preferred Stock -- \$25 Par Value, Cumulative Preferred Stock -- \$100 Par Value, and Preference Stock, or any combination thereof as authorized in SoCal Edison's Articles of Incorporation (Preferred Stock) in an aggregate amount not to exceed \$700 million; and
10. Determine the precise amount and timing of each debt financing, the market in, and method by which each is issued, the principal amounts and maturities and, if any, the terms of redemption, repurchase security, other security, subordination and conversion provisions, rights, warrants, and the other terms and provisions and the price and interest rate (which may be fixed, adjustable, variable, or set by auction, remarketing, or other rate setting procedures) of the borrowings and of any securities related thereto or issuable in connection therewith in the manner set forth in the Application.

On May 12, 2005, SoCal Edison filed an Amended Application to increase the issuance of Preferred Stock and the guarantee of the obligations of others in respect of the issuance of Preferred Stock securities

from an aggregate amount not to exceed \$500 million to an aggregate amount not to exceed \$700 million^[2].

SoCal Edison proposes to use the proceeds from the issuance of debt and equity securities for purposes allowed under § 817, including the acquisition of property, for the construction, completion, extension or improvement of facilities, for the retirement or the refunding of securities, and to reimburse its treasury for monies actually expended from income.

Notice of the filing of the A.05-02-018 appeared on the Commission's Daily Calendar of February 23, 2005. The Amended Application appeared on the Commission's Daily Calendar of May 18, 2005. No protests have been received.

Background

SoCal Edison 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 the Commission. SoCal Edison'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.

^[2] In April 2005, SoCal Edison was able to take advantage of low interest rates to refinance two series of Cumulative Preferred Stock, \$100 Par Value, with the proceeds of the issuance of a new series of lower-cost Preference Stock. The unexpected opportunity to refinance the more expensive Cumulative Preferred Stock used Commission authorization that otherwise would have been used for other financing transactions.

For the year ended December 31, 2004, SoCal Edison reported total operating revenues of \$8,448,000,000 and net income of \$921,000,000. The balance sheet as of the same period is summarized as follows:

(\$ in millions)	
<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$12,535
Construction work in progress	789
Nuclear fuel, at amortized cost	151
Other Property and Investments	3,887
Current Assets	2,076
Deferred Charges	<u>3,852</u>
 Total Assets	 <u>\$23,290</u>
 <u>Liabilities & Stockholders Equity</u>	
Capitalization	\$ 4,789
Long-term Debt	5,225
Current Liabilities	3,048
Deferred Credits	9,819
Minority Interest	<u>409</u>
 Total Liabilities & Stockholders Equity	 <u>\$23,290</u>

Discussion

A. Issuance of Preferred Stock

SoCal Edison seeks authority to offer, issue and sell Preferred Stock in one or more offerings in an aggregate amount not to exceed \$700 million par or stated value, with the method of sale, price, dividend rate, voting rights, liquidation preferences and other rights, preferences, privileges and restrictions to be determined prior to each offering in consideration of then prevailing market conditions. SoCal Edison anticipates that the terms of the Preferred Stock may include, but will not be limited to: (i) restrictive redemption provisions; (ii) dividend rates which may be fixed, floating,

adjustable or which may be set by a market auction procedure; (iii) mandatory sinking funds; and (iv) such other provisions as SoCal Edison may deem appropriate in connection with its issuance and sale of the preferred stock. Each offering of Preferred Stock will bear such terms and conditions as may be approved by SoCal Edison's board of directors at or immediately prior to the date of issuance or sale in light of market conditions that may exist at that time. The rights, preferences and privileges applicable to each series of Preferred Stock will be fixed by resolution of SoCal Edison's board of directors, and a certificate of determination of preferences which includes the content of such resolution will be filed with the California Secretary of State.

SoCal Edison also requests authority to issue Preferred Stock as part of an issuance of trust preferred securities. In such an instance, SoCal Edison would create an affiliate in the form of a trust or other entity that would issue preferred securities to the public. The preferred securities would represent an interest in the preferred stock issued by SoCal Edison to the trust, and would also be guaranteed by SoCal Edison.

B. Issuance of Debt Securities

SoCal Edison proposes to issue Debt Securities in an aggregate principal amount not to exceed \$2.0 billion, in one or more of the forms outlined below. The principal amount, form and terms and conditions of each series of Debt Securities will be determined by SoCal Edison's board of directors or management according to market conditions at the time of sale or issuance.

Debt Securities may include but not limited to first and refunding mortgage bonds, debt secured by a pledge of SoCal Edison's accounts receivables, 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, or other evidences of indebtedness. A general description of the debt securities is shown on pages 4 to 9 of the Application.

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 49 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. SoCal Edison proposes also to 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 SoCal Edison. The Application states that SoCal Edison 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.

C. Features to Enhance Debt Securities

SoCal Edison requests authorization to include at its discretion one or a combination of the following additional features in SoCal Edison or affiliate Debt Securities described on pages 9 to 12 of the Application. Such features will be used as appropriate to improve the terms and conditions of the Debt Securities and to lower SoCal Edison's overall cost of money.

1. Credit Enhancements

SoCal Edison may obtain credit enhancements for Debt Securities, such as letters of credit, standby bond purchase agreements, surety bonds

or insurance policies, or other credit support arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms.

2. Redemption Provisions

Each issue of Debt Securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Debt Securities to be redeemed or repaid at any time, or it may allow the Debt Securities to be redeemed or repaid only after a certain restrictive period. In either case, the Debt Securities would be redeemable at a premium over par or at a stated price.

3. Tax-Exemption

Debt Securities may be issued through a governmental body, political subdivision or other conduit issuer to obtain tax-exempt status for the securities. This will be used whenever SoCal Edison's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, SoCal Edison would unconditionally guaranty or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, SoCal Edison may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

4. Put Options

The cost of Debt Securities may be reduced by the inclusion of a put option. This allows the holders of Debt Securities to require SoCal Edison or an affiliate to repurchase all or a portion of each holder's securities. This is the reverse of a call provision whereby the debt holders are required to sell back the Debt Securities to SoCal Edison or an affiliate. Debt holders may be willing to accept a lower interest rate in exchange for the protection that a put option offers them.

5. Sinking Funds

SoCal Edison anticipates that from time to time the cost of Debt Securities may be reduced by the use of a sinking fund. A sinking fund may require SoCal Edison periodically to redeem, repurchase or retire a specified principal amount of Debt Securities.

6. Warrants

The cost of Debt Securities may be reduced by attaching warrants to such securities. Each warrant would entitle the holder to purchase an additional bond, note or debenture or a share of capital stock. The debt security to be issued upon exercise of debt warrant would bear interest at a pre-established rate and would mature at a pre-established time. Debt warrants would most likely be exercised if interest rates decline below the pre-established rate and would most likely expire unexercised if rates remain above the pre-established rate.

D. Interest Rate Risk Management

SoCal Edison seeks authority to reduce the risks associated with interest rate volatility through various financial instruments. In normal market conditions, floating interest rate debt (including, all Debt Securities with floating or variable interest rates) initially carries a lower interest rate than comparable fixed rate debt. The floating rate could increase so that the average floating rate over the life of the security is higher than the fixed rate.

In order to manage interest rate risk, SoCal Edison requests authorization to enter into an interest rate cap agreement, interest rate floor agreement, interest rate collar agreement, and interest rate swap agreement. A general description of the debt instruments is shown on pages 12 to 14 of the Application.

The contracts may include hedging future fixed rate debt issuances such as Treasury locks, caps and collar agreements. The use of these interest rate management contracts are not considered as separate debt for purposes of calculating SoCal Edison's remaining financing authority, since the use of such contracts would not affect the amount of the underlying securities issued.

SoCal Edison states in the Application that it will enter into swap or hedging contracts only in connection with actual, pending or planned issue of authorized debt securities or preferred stock. The terms and conditions of swaps and hedges will be determined by SoCal Edison according to market conditions at the time such transactions are negotiated. Caps, collars, swaps or hedges entered into by an affiliate may also be guaranteed by SoCal Edison.

SoCal Edison also requests that swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which SoCal Edison receives in connection with long-term debt, must have counterparties with a minimum rating in the "A" category from Moody's Investor Services (Moody's) or Standard & Poor's Corporation.

In D.03-12-004, the Commission restricted SoCal Edison to entering into such transactions with counterparties having an investment grade credit rating at least two notches higher than SoCal Edison's rating. SoCal Edison states that such a restriction may unnecessarily limit the number of counterparties that it may enter into transactions. It is in its best interest to use counterparties with strong credit ratings and SoCal Edison believes that a minimum "A" category rating will adequately protect it and its ratepayers.

Use of Proceeds

SoCal Edison proposes to use the proceeds from the issuance and sale of the Debt Securities and Preferred Stock (other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident thereto) for the (1) acquisition of property; (2) construction, completion, extension or improvement of facilities; (3) retirement or refunding of securities previously issued; (4) reimbursement of treasury for money actually expended from income or from any other money in its treasury not secured by or obtained from the issue of debt and equity securities, for any of the aforesaid purposes except maintenance of service and replacements. SoCal Edison expects to use approximately \$1.25 billion of the requested Debt Securities and \$148,080,000 of the requested Preferred Stock for the retirement or refunding of securities previously issued and upon which the fees prescribed by §1904(b) have been paid and the remaining debt and equity securities for any of the purposes specified above.

SoCal Edison's Application is subject to §§ 816 *et seq.*, which provide, in relevant part as follows:

Section 816: The power of public utilities to issue... evidences of indebtedness and to create liens on their property situated within this State is a special privilege, the right of supervision, regulation, restriction, and control of which is vested in the State, and such power shall be exercised as provided by law under such rules as the commission prescribes.

Section 817: A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others...

- (b) For the construction, completion, extension, or improvement of its facilities.
- (g) For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other ...evidence of indebtedness of such public utility, with or without the payment of cash.

Section 818: No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness payable at periods of more than 12 months..., in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied.

Section 823(d): 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 ob bonds, notes of any term or character, or any other evidence of indebtedness without the consent of the Commission.

Section 851: No public utility... shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its... plant, system, or other property necessary or useful in the performance of its duties to the public... without first having secured from the commission an order authorizing it so to do.

Section 1904(b): No fee need be paid 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 § 818, we will approve SoCal Edison's proposed issue of debt and equity securities for the purposes indicated under the Use of Proceeds section of this order.

Pursuant to § 823(d), we will allow the continuous refunding of previously issued short-term debt instruments (commercial paper and extendible commercial notes) such that the combined terms of the refunded issues and the new debt may exceed twelve months. However, SoCal Edison must maintain or bring down the aggregate amount of short-term borrowings to 5% of the other securities (long-term debt, preferred and common stocks) then outstanding at least once every twelve months and must file an annual report each year in compliance with this requirement, forty five days after the end of each year, starting in 2005.

Pursuant to § 851, we will allow SoCal Edison to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

Section 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.

D.03-12-004 dated December 4, 2003 in A.03-07-030 and D.00-10-063 dated October 19, 2000 in A.00-07-006, granted SoCal Edison with conditions, the authority to use a special purpose entity for the purpose of issuing trust preferred securities as part of its overall request to issue debt and equity securities. Having explicitly determined them reasonable previously, we will grant SoCal Edison the authority to use a subsidiary that qualifies to transact financing arrangements pursuant to § 701.5 to facilitate the issuance of trust preferred securities with the following conditions:

1. SoCal Edison's subsidiary should be created solely for the purpose of issuing securities to the public or privately to support SoCal Edison's operations or service.
2. SoCal Edison should have 100% ownership and control of the subsidiary.
3. 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 SoCal Edison's financing activities.

A. Counterparty Requirement

SoCal Edison has previously received Commission authority to enter into one or more interest rate transactions. In D.00-10-063 dated October 19, 2000 in A.00-07-006, SoCal Edison was required among other conditions for swap transactions, a counterparty rating of equal to or better than SoCal Edison's.

During the middle part of 2000, the prices for wholesale electricity soared to staggering levels and SoCal Edison defaulted on its debt payments. On July 11, 2003, SoCal Edison filed A.03-07-030 requesting authority to issue \$3.0 billion Debt Securities and \$300 million Preferred Stock in order to have sufficient long-term financing authority on hand and to take advantage of the then low interest rates. The Commission issued D.03-12-004 in December 2003 granting the financing authority, but due to the utility's financial condition at the time, required among other conditions for swap transactions, a counterparty rating of two notches higher than that of SoCal Edison. The utility's bond rating as of September 2003 was "BBB-".

In this Application, SoCal Edison requests permission to use counterparties for interest rate transactions with a minimum “A” category rating. As of May 2005, SoCal Edison’s Standard & Poor’s corporate rating is “BBB+”.

In D.05-02-049 dated February 24, 2005 in A.04-11-020, the Commission authorized Southwest Gas Corporation^[3] to enter into one or more interest rate transactions with the condition, among others, that the utility limits its counterparty portfolio exposure as follows:

<u>Counterparty Rating</u>	<u>Limitation</u>
AAA	no limitation
AA	no limitation
A	no more than 60% of the total amount of counterparty exposure
BBB	no more than 30% of the total amount of counterparty exposure

We will adopt the above limits for counterparty portfolio exposure for this proceeding. We believe that this is not a strict restriction that will limit the number of counterparties that SoCal Edison may use. Accordingly, SoCal Edison will be subject to the following conditions under which interest rate risk management contracts and other derivative financial instruments may be used.

1. SoCal Edison will separately report all interest income and expense arising from all swaps and hedging transactions in its report to the Commission.
2. Swap and hedging transactions will not exceed at any time 20% of SoCal Edison's total long-term debt outstanding.
3. If SoCal Edison elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs

^[3] Rated "BBB-" in Standard & Poor's 2004 Bond rating.

associated with the termination will be subject to review in SoCal Edison's next cost of capital proceeding.

4. SoCal Edison should limit its counterparty portfolio exposure as follows:

<u>Counterparty Rating</u>	<u>Limitation</u>
AAA	no limitation
AA	no limitation
A	no more than 60% of the total amount of counterparty exposure
BBB	no more than 30% of the total amount of counterparty exposure

(To be based on the lower rating, if applicable counterparty Has a split rating.)

5. SoCal Edison will 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 SoCal Edison's rationale for the transaction; and (ii) SoCal Edison's estimated costs for the "alternative" or unhedged transaction.

The Commission may review the reasonableness of the effective interest rates for swaps, interest rate cap, floor, or collar agreements issued by SoCal Edison in conjunction with SoCal Edison's general rate case or other ratemaking proceedings.

Financial Information

A. SoCal Edison's Current Financing Authorization

SoCal Edison has previously issued debt and equity securities authorized by this Commission. The remaining amounts of SoCal Edison's financing authorizations are as follows:

<u>Decision No./ Date</u>	<u>Authority/Type</u>	<u>Remaining Authority as of 12/31/04</u>
00-10-063 10/19/00	\$1,584,849,000 Debt Securities \$250,000,000 Preferred Securities	\$475,000,000 \$250,000,000
03-12-004 12/4/03	\$3,000,000,000 Debt Securities \$300,000,000 Preferred Securities	\$1,639,685,000 \$300,000,000
91433, et seq.	Short-term Borrowing Facility in the amount of \$650,000,000 of which \$441,288,502 is the authorized amount in excess of the limitations of § 823(c)	Expiring 6/30/05 ^[4]
00-10-140 10/10/00	\$700,000,000 Balancing Account	\$550,000,000
03-11-018 11/13/03	\$750,000,000 Fuel Inventories	\$600,000,000

The authorization requested in the Application is in addition to the unused authority shown above. SoCal Edison's external funding requirements will be discussed later under the Funds from Outside Sources section of this decision.

^[4] SoCal Edison filed A.05-02-025 on February 25, 2005, requesting authority to issue short-term obligations through June 30, 2010 in an aggregate principal amount of \$776,301,000 (based on its 2004 outstanding securities), of which \$441,288,502 is in excess of the limitations of § 823(c).

B. Construction Budget

SoCal Edison's forecasted capital expenditures for calendar years 2005 through 2007 are as follows:

	(\$ in millions)		
<u>Components</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Generation	\$ 319	\$ 206	\$ 222
Distribution	845	1,011	953
Transmission	169	221	462
Other	<u>357</u>	<u>427</u>	<u>444</u>
Total	<u>\$1,690</u>	<u>\$1,865</u>	<u>\$2,081</u>

SoCal Edison's forecasted capital budget for 2005 through 2007 totals \$5,636,000,000

C. Cash Requirements Forecast

SoCal Edison's Statement of Cash Requirements for 2005 through 2007 is as follows:

	(\$ in millions)			
<u>Uses of Cash</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Funds Used or Required for				
Construction Expenditures	\$1,690	\$1,865	\$2,081	\$5,636
Maturities/Refinancing:				
Maturities of Long-term Debt	650	681	316	1,647
Rate Reduction Bonds Payments	246	246	246	738
Preferred Stock Redemption	4	9	79	92
Short-term Debt	<u>0</u>	<u>(98)</u>	<u>16</u>	<u>(82)</u>
Total	\$2,590	\$2,703	\$2,738	\$8,031
Less: Estimated Cash Avail- able from Internal Sources	<u>1,308</u>	<u>1,563</u>	<u>1,771</u>	<u>4,642</u>
Additional New Funds Required from Outside Sources	<u>\$1,282</u>	<u>\$1,140</u>	<u>\$ 967</u>	<u>\$3,389</u>

D. Funds from Outside Sources

SoCal Edison proposes to secure the funding^[5] as follows:

(\$ in millions)				
<u>Source of Capital Funding</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Issue of Bonds	\$ 650	\$1,026	\$ 787	\$2,463
Issue of Preferred Equity	632	114	180	926
Issue of Common Equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,282</u>	<u>\$1,140</u>	<u>\$ 967</u>	<u>\$3,389</u>

SoCal Edison's Statement of Cash Requirements for the three years represented above indicates that it would require additional funds from external sources amounting to about \$3.4 billion. The requested authority in A.05-02-018 for the issuance of \$2 billion Debt Securities and an estimated \$700 million proceeds from the Preferred Stock are necessary to help meet the forecasted cash requirements. In addition, SoCal Edison will use certain existing unused debt and capital authorities to augment its financial requirements, as shown in the Capital Ratios section that follows.

^[5] For all years presented, there will be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The exact timing and amount of future financing will depend on numerous internal and external factors.

E. Capital Ratios

SoCal Edison's capital ratios as of December 31, 2004, are shown below as recorded and as adjusted to give pro forma effect to the transactions listed:

(\$ in thousands)					
	<u>Recorded</u>			<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Adjustments</u>	<u>Amount</u>	<u>Percent</u>
Long-Term Debt	\$ 5,417,074	53.0	\$3,595,310 (a)	\$ 9,012,384	60.4
Preferred and					
Preference Equity	276,835	2.7	1,101,920 (b)	1,378,755	9.3
Common Equity	<u>4,520,970</u>	<u>44.3</u>	<u>0</u>	<u>4,520,970</u>	<u>30.3</u>
Total	<u>\$10,214,879</u>	<u>100.0</u>	<u>\$ 4,697,230</u>	<u>\$14,912,109</u>	<u>100.0</u>

(a) Long-term Debt**Issues:**

(1) Debt Securities related to fuel inventories – Authorized but unissued	\$ 600,000,000
(2) Debt Securities related to balancing accounts – Authorized but unissued	550,000,000
(3) Debt Securities – Authorized but unissued	2,114,685,000
(4) Amount requested in A.05-02-018	<u>2,000,000,000</u>
Sub-total	<u>\$5,264,685,000</u>

Maturities/Redemptions:

(1) 2005-2007	<u>(\$1,669,375,000)</u>
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Total	<u>\$3,595,310,000</u>
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(b) Preferred Stock**Issues:**

(1) Authorized but unissued	\$ 550,000,000
(2) Amount requested in A.05-02-018	<u>700,000,000</u>
Sub-total	<u>\$1,250,000,000</u>

Redemptions:

(1) 2005	<u>(\$ 148,080,000)</u>
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Total	<u>\$1,101,920,000</u>
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SoCal Edison's authorized capital structure as shown in D.04-12-047 dated December 16, 2004, consists of 48% common equity, 9% preferred equity, and 43% long-term debt.

For many years the Commission has granted SoCal Edison various authorities to issue debt and equity securities, and short-term debt in excess of the limitations of § 823(c). This has provided the utility with necessary financing authorities and flexibility to issue specific types of debt when market conditions are attractive. In 2003 SoCal Edison requested authorization under A.03-07-029 for a \$750,000,000 debt issuance to finance its Fuel Oil, Nuclear Fuel, Natural Gas, and Coal Inventories. The utility included in its projections the issuance of various debt instruments under existing unused authorities and the refinancing of existing debts for the years 2003 through 2005. This resulted in a 2003 proforma capital structure of 65.6% long-term debt, 2.0% preferred stock, and 32.4% common equity.

In this Application, SoCal Edison's December 31, 2004 recorded capital structure consists of 53.0% long-term debt, 2.7% preferred stock, and 44.3% common equity.

In comparison with the 2003 pro forma capital structure, SoCal Edison's 2004 recorded long-term debt of 53.0% is actually lower by 12.6% and the 2004 recorded common equity of 44.3% is higher by almost 12%. It does not appear that SoCal Edison is utilizing all its financing authority and borrowing power granted by the Commission. We notice that recorded capital structure ratios are higher than authorized capital ratios for the same period. SoCal Edison should provide a reconciliation of the difference in future financing applications.

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.

The Commission's regular review of cost of capital will provide guidance on future actions and compliance with Commission requirements regarding capital structure.

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."

SoCal Edison 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 SoCal Edison'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 discussed in D.03-06-011 and D.03-12-004, that granted SoCal Edison's request for Competitive Bidding Rule exemption. Because the conditions described therein continue to apply, without attempting to repeat them, the reasons supporting SoCal Edison's exemption request can be summarized as follows:

1. Competitively bidding larger issues may result in higher costs of funds to SoCal Edison 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 SoCal Edison limited and undesirable options for obtaining needed financing.

For these reasons, SoCal Edison 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.

SoCal Edison 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.

SoCal Edison asserts that it is often not possible to issue the previously identified types of debt on favorable terms by using the Competitive Bidding Rule. SoCal Edison states that it intends to deviate from the Competitive Bidding Rule only when it is reasonably confident that the deviation will allow it to obtain debt at lower cost or upon more favorable terms and conditions.

In addition, to provide added flexibility to take advantage of market opportunities, SoCal Edison 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.

SoCal Edison 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 bidding^[6].

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

When SoCal Edison's bond rating^[7] 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.

Mandated Loan Fee

The requested authority subject to the fee required by § 1904(b) follows:

Debt securities	\$2,000,000,000
Preferred Stock	<u>700,000,000</u>
Total	\$2,700,000,000
Less: Retirement or refunding of existing debt securities	(1,250,000,000)

^[6] Because the Competitive Bidding Rule applies only to utilities who have ratings of "A" or higher, SCE does not intend to competitively bid issues of 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] The utility's senior secured credit ratings as of May 2005 are "A3" from Moody's and "BBB+" from Standard and Poor's (defined as having adequate capacity to meet financial commitments but adverse economic conditions or changing circumstances may lead to a weakened capacity to meet financial commitments).

Less: Redemption of Preferred Stock (148,080,000)

Amount subject to fee \$1,301,920,000

The fee determined in accordance with § 1904(b) is \$656,960^[8].

Category and Need for Hearings

In Resolution ALJ 176-3148 dated February 24, 2005, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that an evidentiary hearing would not be necessary. Based on the record of this proceeding, we affirm that this is a ratesetting proceeding and that a hearing is not necessary.

Comments on the Draft Decision

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

Assignment of Proceeding

Kevin P. Coughlan is the assigned Examiner in this proceeding.

Findings of Fact

1. SoCal Edison, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. SoCal Edison needs external funds for the purposes set forth in the Application.

^[8] The amount subject to the fee is \$1,301,920,000. The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + (\$1 \times (9,000,000/1,000)) + (\$0.50 \times (1,291,920,000/1,000)) = \$656,960$.

3. The proposed debt and equity securities, and guarantees in respect of the issuance thereof are for proper purposes and not adverse to the public interest.

4. Authorizing SoCal Edison 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. SoCal Edison'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 SoCal Edison 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 SoCal Edison's authorized cost of capital.

7. The special purpose entity described in the Application would be under SoCal Edison's ownership and control and would engage only in activities in support of its operations.

8. Authorizing SoCal Edison to encumber utility assets in the event that such encumbrance will be required to secure debt securities is for proper purposes and is not adverse to the public interest.

9. The Commission does not by this decision determine that the SoCal Edison'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.

10. The use of credit enhancements, interest rate caps, collars and swaps in appropriate circumstances are not adverse to the public interest. These features are tools which may improve the terms and conditions of debt issues and may lower overall cost of money for the benefit of ratepayers.

11. The recorded capital structure ratios are higher than authorized capital ratios for the same period. SoCal Edison should provide a reconciliation of the difference in future financing applications.

12. Section 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.

13. The Application shows that SoCal Edison plans to use \$1,250,000,000 of the requested \$2.0 billion Debt Securities to refinance existing debts; and \$148,080,000 of the requested issuance of \$700,000,000 Preferred Stock for stock redemption purposes.

14. SoCal Edison requests several exemptions from the Competitive Bidding Rule. The requested exemptions are identified in the body of this decision. The Commission granted similar exemptions in D.03-06-011 and D.03-12-004.

15. SoCal Edison represents that granting the requested exemptions from the Competitive Bidding Rule will help SoCal Edison issue debt on terms that are favorable to the utility and its ratepayers.

16. As of May 2005, SoCal Edison's senior secured bond rating is "BBB+".

17. Notice of the filing of the Application and the Amended Application appeared on the Commission's Daily Calendar of February 23, 2005 and May 18, 2005 respectively. 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 § 701.5.
4. This authorization is not a finding of the value of SoCal Edison's stock or property, nor does it indicate the amounts to be included in ratemaking procedures.
5. Res. F-616 allows exemption from the Competitive Bidding Rule for: (1) debt issues in excess of \$200 million, (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. SoCal Edison's request for the exemptions from the Competitive Bidding Rule described in the body of this decision is reasonable and should be granted.
8. SoCal Edison should pay the fee determined in accordance with § 1904(b).
9. The following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Southern California Edison Company (SoCal Edison), upon terms and conditions substantially consistent with those set forth or contemplated in Application 05-02-018, as amended (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, debt 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 (Debt Securities) in an aggregate principal amount not to exceed \$2.0 billion;
- b. Guaranty the securities of a regulated subsidiary or affiliate of SoCal Edison, the proceeds of which may be loaned to SoCal Edison or to another regulated subsidiary or affiliate of SoCal Edison, and/or to guaranty or otherwise secure the obligations of one or more governmental entities in respect of their issuance of Debt Securities for pollution control and sanitary and solid waste disposal, or other eligible facilities;
- c. Determine the precise amount and timing of each debt financing, the market in, and method by, which each is issued, the principal amounts and maturities and, if any, the terms of redemption, repurchase security, other security, subordination and conversion provisions, rights, warrants, and the other terms and provisions and the price and interest rate (which may be fixed, adjustable, variable, or set by auction, remarketing, or other rate setting procedures) of the borrowings and of any securities related

thereto or issuable in connection therewith in the manner set forth in the Application;

- d. Renew and/or refund commercial paper, extendible commercial notes and other floating or variable rate debt securities, so that the combined term of the obligations may exceed twelve months without the need for further authorization from the Commission;
 - e. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing Debt Securities, and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;
 - f. Execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities, and to assign, mortgage, or encumber utility property in connection with the issuance and sale of Debt Securities;
 - g. Pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities;
 - h. Issue, sell, and deliver Debt Securities by public offering or private placement; and
 - i. Issue, sell and deliver one or more series of Cumulative Preferred Stock--\$25 Par Value, \$100 Cumulative Preferred Stock--\$100 Par Value, and Preference Stock, or any combination thereof (Preferred Stock), as authorized in SoCal Edison's Articles of Incorporation in an aggregate amount of up to \$700 million par or stated value.
2. Trust preferred securities transactions shall be subject to the following conditions:

- a. SoCal Edison's subsidiary shall be created solely for the purpose of issuing securities to the public or privately to support SoCal Edison's operations or service;
 - b. SoCal Edison shall have 100% ownership and control of the subsidiary;
 - c. The activities of the subsidiary shall be subject to federal or state securities regulation and to the regulation of the commission through its oversight of SoCal Edison's financing activities.
 - d. 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 SoCal Edison's authorized cost of capital.
3. SoCal Edison 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. SoCal Edison 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.
4. SoCal Edison is limited to entering into swap and hedging transactions aggregating no more than 20% of its total long-term debt outstanding.

5. SoCal Edison shall limit its counterparty portfolio exposure as follows:

<u>Counterparty Rating</u>	<u>Limitation</u>
AAA	no limitation
AA	no limitation
A	no more than 60% of the total amount of counterparty exposure
BBB	no more than 30% of the total amount of counterparty exposure

(To be based on the lower rating, if applicable counterparty has a split rating).

6. SoCal Edison shall separately report all interest income and expense arising from all swaps and hedging transactions in its report to the Commission.

7. If SoCal Edison 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.

8. SoCal Edison 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 SoCal Edison's rationale for the transaction and (ii) SoCal Edison's estimated costs for the "alternative" or unhedged transaction.

9. SoCal Edison 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.

10. SoCal Edison shall file a new application and pay the corresponding fee if it uses more than \$750,000,000 of the total authorized Debt Securities and more than \$551,920,000 of the total authorized Preferred Stock in this order for acquisition of property or for the construction, completion, extension or improvement of facilities.

11. SoCal Edison'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 SoCal Edison'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, SoCal Edison 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, SoCal Edison shall file the reports required by General Order No. Series 24-B (including the terms and conditions of securities issued). SoCal Edison shall maintain or bring down the aggregate amount of short-term borrowings to 5% of the other capital (long-term debt, preferred stock and common stock) then outstanding at least once every twelve months, and shall file an annual report each year in compliance with the requirement, forty five days after the end of each year, starting in 2005. The report shall be sent to the Water Division's Audit and Compliance Branch.

14. The authority granted by this order shall become effective when SoCal Edison pays \$656,960 as required by Pub. Util. Code § 1904(b).

15. The Application is granted as set forth above.

16. Application 05-02-018 is closed.

This order is effective today.

Dated August 25, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners

