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Decision No. 10748.

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA

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ORIGINAL

In the Matter of the Application of )  
SOUTHERN CALIFORNIA EDISON COMPANY, )  
a corporation, for an order approving )  
a proposed reclassification of its )  
capital stock, and authorizing the )  
issuance and sale of 95,000 shares of )  
7 per cent. cumulative non-participa- )  
ting preferred stock of the par value )  
of \$100.00 each. )

Application No. 8032.

Roy V. Reppy, for Applicant.

BENEDICT, Commissioner.

O P I N I O N

In the above entitled application SOUTHERN CALIFORNIA EDISON COMPANY asks permission to reclassify its stock and issue and sell \$9,500,000.00 of 7 per cent. cumulative non-participating preferred stock to retire outstanding second preferred stock and for other purposes specified in subdivision (b) of Section 52 of the Public Utilities Act.

Applicant has an authorized stock issue of \$100,000,000. divided into -

\$4,000,000.00 of first preferred,  
12,500,000.00 of second preferred,  
83,500,000.00 of common.

As of July 14, 1922, it reported \$4,000,000.00 of first preferred, \$12,029,900.00 of second preferred and \$46,378,200.00 of common stock outstanding, and \$10,815,400.00 of common stock subscribed. The \$46,378,200.00 of common stock includes \$10,836,628.00 of stock controlled by the company through ownership of the Pacific Light and Power Corporation stock, leaving net common stock outstanding in the amount of \$35,541,572.00.

It is of record that applicant's Board of Directors at a regular meeting held June 23, 1922, voted unanimously to amend paragraph six of applicant's Articles of Incorporation by --

- (a) - Changing the name of first preferred stock to original preferred stock;
- (b) - Reducing the second preferred stock to \$12,029,900.00 par value and the common stock to \$60,000,000.00 par value;
- (c) - Creating in the place of the second preferred stock and common stock eliminated by such reduction \$23,970,100.00 par value of preferred stock;
- (d) - Making second preferred stock exchangeable for preferred stock and retirable out of the proceeds of preferred as well as common stock.

A special meeting of the stockholders of applicant will be held on August 1, 1922, to act on the proposed amendment. If the amendment receives the vote of two-thirds of applicant's subscribed stock, it will become effective. Applicant will then have an authorized stock issue of \$100,000,000.00 divided into --

\$4,000,000.00 of Original Preferred,  
12,029,900.00 of Second Preferred,  
23,970,100.00 of Preferred,  
60,000,000.00 of Common.

Under its present Articles of Incorporation, applicant may retire its second preferred stock upon the payment of \$103.00 per share and accumulated dividends. All of the \$12,029,900.00 of second preferred stock is owned or controlled by H.E. Huntington. He has agreed to sell this stock to the company for \$9,453,322.00, or at a price of approximately \$78.00 per share. It is the company's intention, if permitted by the Commission, to issue and sell preferred stock and use proceeds obtained from the sale of such stock and from the sale of common stock to retire its second preferred stock, amounting to \$12,029,900.00. If this stock is retired, it can never be re-issued under the proposed amended Articles of Incorporation. The amount of authorized second preferred stock shall be decreased to the extent of \$12,029,900.00 and

the amount of authorized preferred stock shall be correspondingly increased. When the second preferred stock is retired, applicant's \$100,000,000.00 of authorized stock will consist of -

\$4,000,000.00 of Original Preferred,  
36,000,000.00 of 7% cumulative non-participating Preferred  
60,000,000.00 of Common stock.

In its Exhibit No. 4, applicant estimates its construction expenditures for 1922 and for the six years thereafter as follows:-

1922,.....	\$27,344,300
1923,.....	18,055,800
1924,.....	13,829,000
1925,.....	22,290,000
1926,.....	16,209,000
1927,.....	15,975,000
1928,.....	11,800,000

Applicant under its present financial structure has but two sources from which to get moneys to finance permanently its construction expenditures, -such sources being the sale of common stock and the sale of bonds. Its officers believe that it should have a third source of funds, namely -the sale of preferred stock. It is argued that there is a group of investors who will not buy common stock, but who are interested in acquiring preferred stock and that the company will be able to get its money cheaper through the sale of bonds, preferred stock and common stock than through the sale of only bonds and common stock.

The Commission's attention is also called to the fact that one individual now owns and controls \$12,029,900.00 of applicant's outstanding stock and that it is not to the best interest of the company to have so large an amount of stock eventually pass into the hands of owners who might take a different attitude towards the management of these properties than the present owner of the stock.

The \$9,500,000.00 of 7 per cent. cumulative non-participating preferred stock which applicant asks permission to issue

will according to law be offered by applicant to its stockholders. H.E. Huntington has agreed to acquire \$4,000,000.00 of the preferred stock and pay therefor \$4,000,000.00 in cash. He will thus provide \$4,000,000.00 of the \$9,453,322.00 which he is to receive for his \$12,029,900.00 of second preferred stock. The remaining \$5,453,322.00 which applicant has agreed to pay for the second preferred stock it intends to obtain from the sale of common stock and preferred stock. In its Exhibit Number Three, applicant reports that on July 11, 1922, it had on hand from the sale of common stock the sum of \$1,544,900.00. On account of common stock sold on the installment plan, applicant estimates that on or before December 31, 1922, it will receive an additional sum of \$1,900,000.00 from the sale of such stock, making a total of \$3,444,900.00. In another proceeding now pending before this Commission, it asks permission to use the \$3,444,900.00 to redeem in part its second preferred stock. Deducting the \$3,444,900.00 from the \$5,453,322.00 leaves a balance of \$2,008,422 that must be obtained from the sale of 7 per cent. preferred stock or from other sources. If the last mentioned amount is obtained from the sale of preferred stock at par, it will use in effect \$6,008,422 to retire second preferred stock, leaving \$3,491,578.00 available to finance new construction.

The immediate effect of the retirement of applicant's second preferred stock as herein proposed, will be an increase of \$63,505.00 in applicant's annual dividend payments and a reduction of \$2,529,900.00 in applicant's outstanding capitalization. However, the increase in the dividend payments can be offset by the sale at par of about \$6,500,000.00 of 7 per cent. preferred stock instead of selling a like amount of common stock on which applicant is paying 8 per cent. dividend on par. If applicant will continue with its construction program as outlined, it will be required to sell large amounts of stock and should be able to effect substantial savings through the sale of the preferred stock.

I herewith submit the following form of Order:

O R D E R

SOUTHERN CALIFORNIA EDISON COMPANY having applied to the Railroad Commission for permission to reclassify its stock and issue \$9,500,000.00 of 7 per cent. cumulative non-participating preferred stock, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant and that this application should be granted as herein provided;

IT IS HEREBY ORDERED, that SOUTHERN CALIFORNIA EDISON COMPANY be, and it is hereby, authorized to reclassify its stock as proposed in its Exhibit "B" filed in this proceeding, and to issue and sell for cash, at a net price of not less than par, \$9,500,000.00 par value of its 7 per cent. cumulative non-participating preferred stock.

The authority herein granted is subject to further conditions as follows:-

- 1.--The authority herein granted will not become effective until applicant has filed with the Commission a certified copy of its Articles of Incorporation amended as proposed in this application.
- 2.--Of the proceeds realized from the sale of the stock herein authorized, the sum of \$6,008,422.00 may be used to retire in part applicant's outstanding second preferred stock. The remaining proceeds and such part of the \$6,008,422.00 not used to retire second preferred stock shall be placed and held in applicant's treasury, or in a special fund, and shall be disbursed only for such purposes as the Railroad Commission may authorize in a supplemental order or orders. The proceeds may be consolidated with the proceeds obtained from the sale of stock, the issue of which has heretofore been authorized by the Commission.

3.-- Southern California Edison Company shall keep such record of the issue and sale of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

4.--The authority herein granted will apply only to such stock as may be issued, sold and delivered on or before December 31, 1922.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 21<sup>st</sup> day of July, 1922.

H. B. Brundage  
Henry Martin  
Charles A. Lawrence  
J. J. Pendleton

Commissioners.