

Decision No. 40089

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN CALIFORNIA EDISON COMPANY LTD., )  
 a corporation, for authority to issue, )  
 exchange and/or sell 1,653,429 shares of )  
 Cumulative Preferred stock and 1,653,429 )  
 shares of Preference stock, of the )  
 aggregate par value of \$82,671,450, and )  
 1,653,429 shares of Common stock of the )  
 aggregate par value of \$41,335,725, and )  
 for an Order exempting said securities )  
 from the Competitive Bidding Rule, )  
 Decision No. 38614. )

ORIGINAL

Application  
No. 28263

Gail C. Larkin and Rollin E. Woodbury, and  
O'Melveny & Myers, by Graham L. Sterling, Jr.,  
 for applicant.  
D. T. Boardman, in propria persona, protestant.

## O P I N I O N

In this application, Southern California Edison Company Ltd. asks the Commission to enter its order authorizing the applicant to issue, exchange and/or sell 1,653,429 shares (\$41,335,725 par value) of cumulative preferred stock, 1,653,429 shares (\$41,335,725 par value) of preference stock, and 1,653,429 shares (\$41,335,725 par value) of common stock, all upon the basis and for the purposes hereinafter set forth. Applicant also asks for an order exempting said issue, exchange and/or sale of said stocks from the competitive bidding order set forth in Decision No. 38614, dated January 15, 1946.

Applicant is a corporation organized and existing under the laws of the State of California, and is engaged in the business of generating, transmitting and distributing electric energy for light, heat and power. For 1946, applicant reports operating revenues of \$73,173,180.56, and net income, that is, the amount available for dividends and surplus, of \$10,860,478.26. During 1946 applicant paid dividends on preferred stocks in the amount of \$5,027,077.06, and on common stock \$4,771,468.49.

As of December 31, 1946, applicant reports its assets and liabilities as follows:

Assets

Utility plant	\$385,948,399.77
Cost of electric plant requisitioned by U.S. Government including dismantlement expenses (amount of settlement not determined) less partial payments received of \$900,000	1,708,134.32
Investment and funds accounts	1,852,357.85
Current and accrued assets	40,722,028.24
Deferred debits	13,520,731.71
Capital stock discount and expense	3,363,946.38
Total assets and other debits	<u>\$447,112,598.27</u>

Liabilities

Capital stocks, stated value	\$156,185,507.99
Bonds	138,000,000.00
Current and accrued liabilities	26,358,626.19
Deferred credits	3,452,238.32
Reserves	109,387,109.84
Contributions in aid of construction	1,489,585.66
Earned surplus	12,239,530.27
Total liabilities and other credits	<u>\$447,112,598.27</u>

Applicant's \$138,000,000 outstanding bonds consist of \$108,000,000 of first mortgage 3% bonds due September 1, 1965, and \$30,000,000 of first mortgage 3½% bonds due September 1, 1964.

Applicant's outstanding capital stock and surplus on December 31, 1946, are reported as follows:

	<u>Stated value of Capital stock and Surplus</u>
Original Preferred Stock, 5% Cumulative Participating, \$25 par value, 160,000 shares, (par value \$4,000,000)	\$ 4,000,000
Preferred Stock, Series B, 6%, \$25 par value, 1,907,256 shares, par value \$47,681,400)	46,852,868
Preferred Stock, Series C, 5½%, \$25 par value, 1,399,601 shares (par value \$34,990,025)	34,588,943
Common Stock, \$25 par value, 3,182,805 shares, (par value \$79,570,125)	70,743,697
Earned Surplus at December 31, 1946	12,239,530

The original preferred stock is non-callable. The preferred stock, Series B, 6%, and Series C, 5½%, is redeemable at \$28.75 plus accrued dividends. Applicant proposes to replace the preferred stock, Series B, 6%, and Series C, 5½%, with preferred stocks bearing a lower dividend rate commensurate with lower cost of such capital and increase its junior equity capital base in order to facilitate future senior security financing at a minimum cost.

Applicant intends to call a meeting of its stockholders on May 6, 1947, to amend its articles of incorporation. The principal purposes of the proposed amendments are: (a) to eliminate "Ltd." from the company's name; (b) to make the company's corporate existence perpetual; (c) to authorize two new classes of preferred stock to be designated respectively cumulative preferred stock, comprising 6,000,000 shares of the par value of \$25 each, issuable in series, and preference stock comprising 3,000,000 shares of the same par value, issuable in series, with authorization to the Board

of Directors to determine the dividend rate, conversion rights, voting rights, redemption price and/or liquidation preferences of any wholly unissued series of either class of such stocks, and to fix the number of shares constituting any unissued series; and (d) to increase the authorized amount of common stock from 4,400,000 shares to 8,000,000 shares.

At the present time applicant's authorized stock consists of the following:

	<u>Shares</u>	<u>Par Value</u>
Original preferred	160,000	\$ 4,000,000
Preferred Series A	1,080,000	27,000,000
Preferred Series B	2,120,000	53,000,000
Preferred Series C	2,240,000	56,000,000
Common stock	<u>4,400,000</u>	<u>110,000,000</u>
Total	10,000,000	\$250,000,000

After the articles of incorporation are amended and the 6% and 5½% preferred stock replaced or redeemed applicant's authorized stock will be as follows:

	<u>Shares</u>	<u>Par Value</u>
Original preferred	160,000	\$ 4,000,000
Cumulative preferred stock	6,000,000	150,000,000
Preference stock	3,000,000	75,000,000
Common stock	<u>8,000,000</u>	<u>200,000,000</u>
Total	17,160,000	\$429,000,000

all shares will have a par value of \$25 each.

The increase in applicant's authorized stock is an essential step in the replacement or redemption of its preferred stocks Series B, 6%, and Series C, 5½%, with preferred stocks bearing lower dividend rates.

Applicant has about 92,000 stockholders, no one of whom owns as much as 1% of applicant's outstanding stock. To create the two new classes of preferred stock, to wit, the cumulative preferred and the preference stock, requires a 2/3 vote of all outstanding stock. If this vote is obtained applicant will offer the initial series of cumulative preferred stock, \$25 par value, and the initial series of preferences stock, \$25 par value, in exchange for the outstanding preferred stock Series B, 6%, and Series C, 5½%. on the basis of 1/2 share of cumulative preferred stock and 1/2 share of preference stock for each outstanding share of preferred stock Series B, 6%, or Series C, 5½%. Applicant proposes to fix a dividend rate for the new cumulative preferred stock, and the new convertible preference stock and the conversion price for the latter stock at a point which will give the new preferred stock offered in exchange, a value at the time the exchange is made, of not less than \$28.75, the redemption price per share of the old preferred stock. The exchange offer will have the added feature of being non-taxable for federal income tax purposes. Any Series B, 6%, and Series C, 5½%, stock which is not retired through such exchange would be called and redeemed at the call price of \$28.75 per share, and any unexchanged cumulative preferred and preference stock will be sold through security dealers.

If the 2/3 vote of all the outstanding stock necessary to effect the amendment of applicant's articles of incorporation is not obtained, applicant proposes to borrow sufficient funds to redeem the outstanding Series B, 6%, and Series C, 5½%, call such stock for redemption, amend the articles of incorporation by vote

of the Original Preferred stock and Common stock to create the new cumulative preferred stock and preference stock and offer the new stocks for sale through investment bankers. In that event, the proceeds will be applied to the repayment of the loan.

The outstanding Series B, 6%, and Series C, 5½%, stocks were, except for \$10,000,000, sold by the company with its own employees through its own sales department. The stock is held by 41,736 holders, of whom about 31,615, or nearly 80%, reside in California and hold nearly 2/3 of the B and C stock. 12,265 stockholders own only 1 to 10 shares each, 8,155 own from 11 to 25 shares each, 15,257 own from 26 to 100 shares, 5,505 own from 101 to 500 shares, and 554 own 501 shares or more. Applicant's management feels that so large a group of California stockholders is a valuable asset which it should retain. It is for this reason that applicant is desirous of effecting as large an exchange of stock as possible.

In the refunding of its Series B, 6%, and Series C, 5½%, stocks, applicant is confronted with three major undertakings; first, the amendment of its articles of incorporation; second, the solicitation of its stockholders to exchange their stock, and third, the execution of an agreement with some investment banker or bankers covering the purchase of the shares of the new stock not exchanged.

As stated applicant's Series B, 6%, and Series C, 5½%, stock is redeemable at \$28.75 per share and accrued dividends. In view of the current lower level of the cost of money, public interest we feel requires that said stocks be refunded through the issue of lower dividend paying stocks. Applicant is not at this

time in a position to advise the Commission of the specific terms of exchange or of the sale price of the new stocks not issued in exchange for outstanding stocks. The testimony shows that the new cumulative preferred stock and the preference stock would each have a call price of not less than the present call price of the Series B, 6%, and Series C, 5½%, stock. The preference stock would be convertible into common stock at a rate of not less than 3/5 nor more than 4/5 of a share of common for each share of preference stock. Dividend rates would be established for each of the stocks of not less than 4% nor more than 4½% on \$25 par value resulting in a yield on the stockholder's investment of \$28.75 per share, which is established by the call price of his stock, of not less than 3.48% nor more than 3.91%. The dividend rate will not necessarily be the same on both the cumulative preferred and the preference stock. The specific terms of the cumulative preferred and the preference stock will be submitted in a supplemental application.

Applicant at this time asks that the issue, exchange and/or sale of the cumulative preferred stock, of the preference stock, and of the common stock be exempt from the competitive bidding order in Decision No. 38614. That order exempts certain classes of securities and "Any security as to which the Commission shall find, upon due showing by a public utility that the sale thereof at competitive bidding should not be required." The testimony shows that it is doubtful that the ends which applicant is seeking through the proposed refunding, to wit, the largest possible exchange of stock and the improvement of its capital set-up as outlined in this application can be achieved through competitive

bidding. A negotiated sale should facilitate the securing of the necessary proxies to amend the articles of incorporation and expedite the exchange solicitation. It permits the timing and planning of the entire operation on a definite basis. All of these are important steps in applicant's \$82,671,450 refunding operation. The exemption requested by applicant will be granted.

D. T. Boardman asks the Commission to deny this application on the ground that the refunding of the Series B 6% and Series C 5½% stock on the basis outlined in this application will result in a loss to the holders of such stock. As stated, both classes of stock are redeemable at \$28.75 per share plus accrued dividends. Applicant, we feel, would be subject to criticism if it does not go forward with its refunding program. Obviously it is for the individual stockholder to determine at the opportune time whether he will exchange his stock or accept the redemption price.

O R D E R

The Commission having considered the evidence submitted in this matter and it being of the opinion that the issue, exchange and/or sale by Southern California Edison Company Ltd. of cumulative preferred stock, preference stock and common stock to refund its preferred stocks, Series B, 6%, and Series C, 5½%, should, in the public interest, be exempted from the order in Decision No. 38614, dated January 15, 1946, therefore,

IT IS HEREBY ORDERED that the issue, exchange and/or sale of 1,653,429 shares of cumulative preferred stock, 1,653,429



shares of preference stock and 1,653,429 shares of common stock for the purposes set forth in this application are exempted from the order in Decision No. 38614, dated January 15, 1946.

IT IS HEREBY FURTHER ORDERED that the Commission retains jurisdiction of the issue, exchange and/or sale of said cumulative preferred, said preference and said common shares of stock.

IT IS HEREBY FURTHER ordered that this order is effective as of this date.

Dated at Los Angeles, California this 25th day of March, 1947.

Harold Hule

Justus F. Calmer

A. Z. Anderson

Harold H. Patton

COMMISSIONERS