

ORIGINAL

Decision No. 46873

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )	
SOUTHERN CALIFORNIA EDISON COMPANY, )	
a corporation, for an order exempting )	
from the competitive bidding rule in )	Application
Decision No. 38614 the proposed )	No. 33200
issuance and sale of 800,000 shares )	
of Common Stock. )	
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Bruce Renwick and Rollin E. Woodbury, by Bruce Renwick,  
and O'Melveny & Myers, by William P. Martin, for  
applicant.

O P I N I O N

In this application Southern California Edison Company re-  
quests the Commission to enter an order exempting from competitive  
bidding a proposed issue and sale of 800,000 shares of common stock,  
of the aggregate par value of \$20,000,000. At this time, applicant  
does not seek an order authorizing the issue and sale of said shares  
of stock, but reports that if it is allowed to enter into a negotiated  
underwriting it will file an appropriate application at a later date,  
setting forth details in connection with the issue.

Applicant proposes to use the proceeds from the sale of  
said shares of stock, if authorized to issue them, to retire prom-  
issory notes which may be outstanding, estimated in the amount of  
\$8,000,000, to reimburse itself for moneys expended from income or  
other moneys in its treasury for construction purposes, and to finance  
its construction program. The record shows that during the six years  
following the close of the war, applicant had construction expendi-  
tures amounting to approximately \$344,160,000 and that it is faced

with the continuing necessity of providing for capital additions in substantial amounts in the future. It estimates that during 1952 it will be called upon to expend for plant approximately \$82,012,722, as follows:

<u>New Construction</u>	
Steam production	\$33,373,895
Hydraulic production	1,782,159
Transmission lines	4,435,657
Transmission substations	5,964,170
Distribution lines	13,810,837
Distribution substations	3,170,228
Other new construction	848,342
Engineering, administration, and interest during construction	<u>2,157,790</u>
Total New Construction	<u>65,543,078</u>
<u>Replacements</u>	
Steam production	354,924
Hydraulic production	65,348
Transmission lines	1,108,625
Transmission substations	1,294,017
Distribution lines	8,725,841
Distribution substations	3,344,983
Other replacements	1,033,696
Engineering, administration, and interest during construction	<u>542,210</u>
Total Replacements	<u>16,469,644</u>
Total	<u>\$82,012,722</u>

The estimated expenditures for steam production include those for the new Etiwanda generating plant in San Bernardino, a first unit of which, having an operating capacity of 125,000 kilowatts, will be placed in operation in the latter part of the year, and a second unit, of like capacity, in the early part of 1953. Testimony given at the hearing on this proceeding shows that a portion of the total estimated expenditures will be provided from internal sources, but that a greater portion must be obtained from the issue of stock and bonds. It appears that plans now under consideration provide for additional financing through the medium of bonds in the amount of \$25,000,000 later in the year.

It has been applicant's practice in meeting its capital requirements to issue bonds and shares of preferred and common stock.

Its capital structure as of the close of 1951 consisted of the following:

<u>First and Refunding Mortgage Bonds -</u>	
Series of 3s, Due 1965	\$108,000,000
Series of 3-1/4s, Due 1964	30,000,000
Series A, Due 1973 (3-1/8%)	40,000,000
Series B, Due 1973 (3%)	25,000,000
Series C, Due 1976 (2-7/8%)	35,000,000
Series D, Due 1976 (3-1/8%)	30,000,000
Total	<u>268,000,000</u>
<u>Preferred Stock -</u>	
Original Preferred, 5%, prior, cumulative, participating--authorized 160,000 shares	4,000,000
Cumulative Preferred--authorized 6,000,000 shares -	
4.08% Series	25,000,000
4.32% Series	41,335,725
4.88% Series	19,962,300
Preference--authorized 3,000,000 shares -	
4.48% Convertible Series	36,938,675
4.56% Convertible Series	9,620,675
Total	<u>136,857,375</u>
<u>Equity Capital -</u>	
Common Stock	105,520,072
Premium on Stock	6,535,968
Surplus	29,139,734
Total	<u>141,195,774</u>
Total	<u>\$546,053,149</u>

At present, the bond component of applicant's capital structure amounts to 49.6% of the total. With the issue of the shares of stock, as here proposed, this will be reduced to 47.3%.

It clearly appears that applicant will have need for additional funds from external sources to enable it to proceed with its 1952 construction program and that the issue of shares of common stock at this time is desirable in that it will improve applicant's capital structure and place it in a position which should permit debt financing more readily at a later date. There remains for consideration, however, applicant's request that the proposed issue of shares of common stock be exempted from competitive bidding.

In connection with the request for exemption, applicant's officers take the position that the stock can be disposed of through

negotiation at more favorable terms than could be obtained if it engaged in competitive bidding. Its vice-president testified that it is possible under negotiation to gear the sale price more nearly to market prices at the time the transaction is closed, than would be the case if competitive bidding were to be employed. The witness presented exhibits showing the experience of other large utilities in stock offerings of more than \$2,000,000 under negotiated and competitive arrangements, and pointed out that the size of the proposed offering probably would preclude the formation of more than one bidding group, should resort be made to competitive bidding. He urged further that it is advantageous to distribute the additional shares of stock principally in California and that such a distribution, in his opinion, can be achieved with greater certainty under a negotiated sale. In the latest common stock offering in 1949, according to the witness, most of the California underwriting firms, under a negotiated arrangement, were members of the selling group and more than half of the shares were sold in this state.

The exhibits filed in applicant's behalf show that since April, 1949, there have been 13 common stock offerings at competitive bidding by utilities in the United States and 18 under negotiated underwritings, exclusive of offerings to shareholders on a subscription basis. The exhibits indicate that 5 of the 13 competitive sales and 6 of the 18 negotiated sales were made at a cost to the issuing company of less than 6.5%. The remaining issues in each class of transaction reflected ranges from 6.5% to approximately 8%, with one exception. In both types of sales, whether competitive or negotiated, the underwriters' compensation ranged from approximately 2.5% to approximately 6%.

It does not appear that applicant's proposal to sell its shares of stock under a negotiated underwriting will be adverse to the public interest and, under the showing made in this proceeding, the Commission is warranted in granting applicant's request.

O R D E R


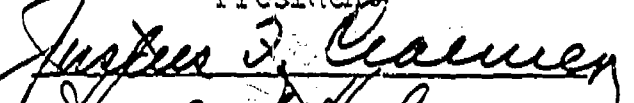
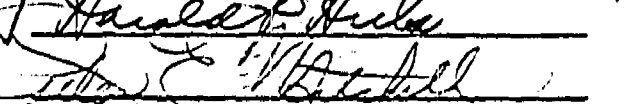

A public hearing having been held in the above entitled matter, and the Commission having considered the evidence submitted and being of the opinion that applicant's request should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED that the issue and sale of 800,000 shares of common stock by Southern California Edison Company is exempted from the provisions of the order in Decision No. 38614, dated January 15, 1946, provided applicant obtain for said shares a price satisfactory to the Commission.

IT IS HEREBY FURTHER ORDERED that the Commission retain jurisdiction over the issue and sale of said 800,000 shares of common stock.

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

Dated at San Francisco, California, this 17th day of March, 1952.

  
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President  
  
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Commissioners