

ORIGINAL

Decision No. 49619

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 :
Decision No. 38614 the proposed)
issuance and sale of not to exceed :
600,000 shares of Common Stock.)
----- :

Application
No. 35077

Bruce Renwick and Harry L. Dunn, for applicant.

O P I N I O N

Southern California Edison Company has filed this applica-
tion for an order exempting from competitive bidding a proposed
issue of 600,000 shares of its common stock of the aggregate par
value of \$15,000,000.

The application was filed with the Commission on January
20, 1954. Thereafter, a public hearing was held before Commissioner
Potter and Examiner Coleman in San Francisco on February 1, 1954, at
which time the matter was taken under submission. The Commission
has received no protest to the granting of applicant's request.

At this time applicant is not seeking authorization to
issue and sell its shares of stock. If the Commission in its
decision in this proceeding should grant exemption, as requested,
applicant intends to enter into negotiations for the sale of its
shares and, at a later date, to file an appropriate application seek-
ing authorization to issue and sell and setting forth the terms of
the purchase agreement and the purposes for which the proceeds will
be used.

Applicant does report at this time that it will have need for funds from external sources during 1954 to pay short-term loans, to reimburse its treasury and to meet construction requirements. According to the testimony it is faced with capital expenditures of approximately \$72,900,000 during the current year and it must obtain \$51,000,000 of the estimated amount from the sale of stock and bonds. Its management is of the opinion that it should undertake the sale of shares of common stock in order to take advantage of favorable equity capital market conditions which now are prevailing and to improve its position through the addition of equity funds in its structure so as to broaden the base upon which its present and future debt financing will rest. Its capital ratios as of November 30, 1953, are as follows:

Bonds	\$298,000,000	48%
Preferred stock	90,298,625	14
Convertible preferred stock	33,507,000	5
Common stock equity -		
Common stock	151,071,822	
Premium on stock	18,895,968	
Surplus	<u>35,379,988</u>	
Total common stock equity	<u>205,347,778</u>	33
Totals	<u>\$627,153,403</u>	100%

The record shows applicant's request for exemption from the Commission's competitive bidding rule with respect to the proposed offering is made because it has concluded from its past experience that competitive bidding cannot serve its needs as effectively as can a negotiated sale in this instance and that at this time it can obtain a better price and receive other benefits through a negotiated underwriting. A witness called on behalf of applicant testified that the record of other offerings, as well as applicant's own record in the past, warrant these conclusions and that, in addition, flexibility in timing and advantageous distribution of the stock in its service area more likely can be achieved under negotiated arrangements.

Exhibits 1 and 2 presented by applicant contain a list of all direct common stock offerings by utilities in 1952 and 1953 and show that there were 40 offerings in all, of which 19 were made under competitive bidding and 21 under negotiated arrangements. The exhibits indicate that with issues of a size comparable with applicant's proposed offering there were three issues under competitive bidding with the percentages of dividends to proceeds ranging from 5.93% to 6.32% and underwriters' spreads from 4.66% to 2.04%, and that there were two negotiated issues with percentages of dividends to proceeds of 6.12% to 6.39% and with underwriting spreads of 2.80% to 2.75%. The witness who presented the exhibits testified that, in his opinion, in relatively normal and stable markets there would be no measurable differences in the cost of underwriting services whether an offering is made on a negotiated or a competitive basis.

As to applicant's own experience, it has had three common stock offerings since the close of the war, one of 800,000 shares under negotiated arrangements in May of 1949, a second, also of 800,000 shares, under negotiation in April of 1952, and a third of 500,000 shares at competitive bidding in January of 1953. As to the latter offering, it appears that upon the announcement of the sale the market price on the shares of stock suffered a decline, although there was generally a buoyant market then prevailing, and applicant has concluded that had the issue been negotiated instead of submitted to bidding it would have realized a better price by as much as fifty cents a share.

In addition, the witness called by applicant testified that based upon his experience in the earlier financing he had found it possible under negotiation to relate the sale price more nearly to market price at the time the transaction is closed than is the case

when competitive bidding is employed and that, in addition, with negotiation the underwriting group is afforded an opportunity during the registration period to do a certain amount of market preparation through its sales organization and to stabilize the market.

As to the better distribution of stock which applicant asserts can be obtained through negotiation rather than through competitive bidding, the record shows that in the two negotiated common stock offerings since the close of the war more than 50% of the stock was sold in California whereas in the competitive bidding offering of 1953 only seven of the 44 underwriters were listed in California and approximately 30% of the issue was finally distributed in this area. Applicant is of the opinion it is to its advantage to have its stock distributed locally, so far as possible, and that this can be accomplished through negotiation where it has a voice in the selection of the members of the underwriting group and their participation.

From a review of the evidence 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. Under the showing made in this particular proceeding the Commission is warranted in granting applicant's request.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED that the issue and sale by Southern California Edison Company of 600,000 shares of its common stock is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, provided that applicant obtain for said shares a price satisfactory to the Commission.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 2nd day of February, 1954.

R. F. Johnson
President

James J. Cahill

Samuel P. Potter
John C. K. Hill

Walter J. Quinn
Commissioners