

ORIGINAL

Decision No. 52468

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 as amended by Decision No. 49941, the proposed issuance and sale of a new series of Cumulative Preferred Stock.

Application
No. 37616

Bruce Renwick, Rollin E. Woodbury, and Robert J. Cahall, by Rollin E. Woodbury, and O'Melveny & Myers, by Herry L. Dunn, for applicant.

OPINION

In this application Southern California Edison Company seeks an order exempting a proposed issue of \$30,000,000 of preferred stock from the Commission's competitive bidding rule.

A public hearing was held before Examiner Coleman in San Francisco on January 9, 1956, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The record shows that applicant has outstanding short-term notes in the amount of \$12,000,000, that it has an estimated construction budget for 1956 of approximately \$123,500,000, and that it will be required to raise \$100,000,000 of its capital requirements through the issue of permanent securities.^{1/} It has concluded that conditions are favorable for the sale at this time of preferred stock and it is taking steps, therefore, to create a new series of preferred shares

^{1/} The remainder of the requirements will be financed from internal sources, such as provisions for depreciation, amortization, and other reserves, from retained earnings and from bank loans if needed.

and to sell \$30,000,000 par value of such new stock.^{2/}

According to the testimony, applicant's management is of the opinion that the company, through negotiation, can obtain a price for its shares of stock which would at least equal, and probably exceed, the price it could obtain under competitive bidding, and in addition will obtain other advantages. It is asserted that the large size of the proposed offering does not lend itself to competitive bidding, that greater local distribution can be obtained under negotiated arrangements, and that the company has experienced unfavorable results in the past in competitive offerings of its stock.

In Exhibits 2 and 3 applicant has submitted a list of all preferred stock offerings by utilities throughout the country during 1954 and 1955. The statements show that with respect to offerings of \$15,000,000 or more two were sold at competitive bidding and seven were handled through negotiated underwritings and that in no case was there an offering in excess of \$25,000,000 par value, as compared with applicant's \$30,000,000 financing proposal. The testimony given in connection with the exhibits indicates that there were five competitive offerings of \$10,000,000 or more and that in each case the issues were reported as moving very slowly, whereas under the negotiated sales, eleven in number, the underwriters reported favorable reception of the offerings. Applicant points out that it is faced with the necessity of going into the market later in the year for additional sums of

^{2/} Applicant's capital ratios as of November 30, 1955, and as adjusted to give effect to the proposed stock issue, are as follows:

	<u>November 30, 1955</u>	<u>Pro Forma</u>
Bonds	44.6%	42.9%
Debentures	5.1	4.8
Preferred stock	12.3	15.7
Equity capital, including preference stock	<u>38.0</u>	<u>36.6</u>
Total	<u>100.0</u>	<u>100.0</u>

money and it is of the opinion it is important to the success of future financing that this presently proposed issue be favorably received.

In the past applicant has disposed of blocks of its preferred and common shares at competitive bidding as well as under negotiated arrangements. It has maintained a consistent policy of promoting local ownership and it feels that such ownership more likely can be achieved under negotiated arrangements than at competitive bidding. It points out that in 1953 it sold common stock at competitive bidding under arrangements which provided for an allocation of less than 10% of the issue to underwriters whose addresses were in California, but that in 1954 in a negotiated sale more than 40% of a larger offering was allocated to this state.

With respect to applicant's post war preferred stock offerings it has disposed of four blocks of preferred shares by negotiation and one block by competitive bidding, as indicated in the following tabulation:

<u>Date</u>	<u>Type of Security</u>	<u>Type of Transaction</u>	<u>Number of Shares</u>	<u>Cost to Company</u>
5-8-47	Cumulative Preferred Stock	Negotiated	1,653,429	3.78%
5-8-47	Convertible Preference Stock	Negotiated	1,653,429	3.93
12-9-47	Cumulative Preferred Stock	Competitive	800,000	4.87
5-12-48	Convertible Preference Stock	Negotiated	800,000	4.54
5-17-50	Cumulative Preferred Stock	Negotiated	1,000,000	4.07

It is reported that despite the fact the 1947 competitive offering was made on a high yield basis, the market price broke during the distribution period and the stock sold at \$1.25 below the offering price. It was claimed by the witness that the effect of a break such as was experienced in connection with this issue can be, and frequently is, reflected in the pricing of subsequent issues. It is felt that under a negotiated deal the underwriting group would have the opportunity and the incentive to take appropriate steps to prepare the market in advance of the offering and that the group, because of greater flexibility in timing the offering, can deal with abnormal or adverse developments in market conditions which may be of a temporary nature.

Upon a review of this matter we are of the opinion that we are warranted in making an order exempting the proposed issue of shares of preferred stock from the Commission's competitive bidding rule. At a later date applicant will file a further application for authorization to issue and sell its shares.

O R D E R

A public hearing having been held upon 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 as follows:

1. The issue and sale of not exceeding \$30,000,000 par value of cumulative preferred stock by Southern California Edison

Company hereby is exempted from the provisions of the Commission's competitive bidding rule.

2. This order is effective upon the date hereof.

Dated at San Francisco, California, this 16th day of January, 1956.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.