

Decision No. 56190

**ORIGINAL**

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. 39737

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY, a corporation, for authority to issue and sell not to exceed 1,000,000 shares of Cumulative Preferred Stock,          % Series, of the par value of \$25 per share.

Application No. 39759

Rollin E. Woodbury, Harry W. Sturges, Jr., and Robert J. Cahall, by Robert J. Cahall, and O'Melveny & Myers, by Harry L. Dunn, for applicant.

O P I N I O N

In Application No. 39737, Southern California Edison Company requests exemption from the Commission's competitive bidding rule with respect to a proposed issue of 1,000,000 shares of cumulative preferred stock of the aggregate par value of \$25,000,000.

In Application No. 39759, Southern California Edison Company seeks authorization to issue and sell said 1,000,000 shares of cumulative preferred stock.

As required by the Commission's competitive bidding rule, a public hearing was held on the request for exemption from such rule before Examiner Coleman in San Francisco on January 27, 1958. The Commission has received no protests to the company's proposal.

The purpose of the proposed financing is to provide applicant with funds to reimburse its treasury for moneys expended from income, or other moneys not obtained from the issue of securities, for the acquisition of property and the construction, completion, extension or improvement of facilities, exclusive of maintenance of service and replacements, and to enable it to proceed with its construction program. The company reports its uncapitalized construction as of December 31, 1957 was \$87,140,846 and it estimates that its construction budget will call for the expenditure during 1958 of approximately \$130,000,000, that about \$55,000,000 of this amount will be available from internal sources and from cash on hand and that \$75,000,000 will be obtained from new permanent financing, including the presently proposed \$25,000,000 stock issue.

The record shows that applicant has as its objective the maintenance of a capital structure comprised of approximately 45% to 50% long-term debt, 15% preferred stock and 35% to 40% common stock. At this time applicant desires to issue preferred stock, rather than some other form of security, in order to take advantage of what appear to be favorable market conditions and, at the same time, to improve its capital structure and conserve its borrowing capacity. It reports its capital ratios as of December 31, 1957, and as adjusted to give effect to the proposed stock offering, as follows:

	As of December 31, <u>1957</u>	<u>As Adjusted</u>
Bonds	50.7%	49.4%
Debentures	2.6	2.5
Cumulative preferred stock	12.5	14.7
Preference stock	1.3	1.2
Common stock equity	<u>32.9</u>	<u>32.2</u>
Total	<u>100.0%</u>	<u>100.0%</u>

It is expected that the presently outstanding debentures ultimately will be converted into common stock.

With respect to the disposition of the shares of stock, applicant has concluded that the sale can be made under more favorable terms by means of a negotiated underwriting than by competitive bidding. Upon a number of occasions, applicant has come before the Commission for authorization to issue and sell preferred shares by negotiated and by competitive bidding. A review of the previous transactions shows that in the negotiated proceedings it was possible for applicant to relate the sale price of the shares more closely to the market price at the time the transactions were closed than was the case with competitive bidding, and, on one occasion, to postpone the sale upon the market taking an unfavorable turn. Exhibit No. 4 shows that since 1947 applicant has made five offerings of preferred and preference stock under negotiated arrangements, and only one under competitive bidding, and that the highest cost to the company, as well as the highest underwriting commission, occurred in the competitive bidding sale. Exhibits Nos. 2 and 3 show that elsewhere in the country the larger offerings of preferred shares by other utilities in general have been made through negotiation.

It clearly appears that applicant has been able to dispose of its preferred stock in the past under favorable conditions by means of negotiation and although conditions may be different at this time than those which prevailed during applicant's earlier financing operations there seems to be no reason for now withholding from applicant the opportunity to proceed with its sale in the same manner it has successfully used in the past. The order herein will grant the exemption and will give applicant preliminary authorization to proceed with the sale of its shares of preferred stock. At a later date, upon the filing by applicant of a supplemental application setting forth the price for the stock, the dividend rate, redemption price and voluntary liquidation preferences applicable to such shares, the Commission will give *consideration* to entering a final order in this proceeding.

The approval herein given goes to exemption from competitive bidding and to the issue and sale of preferred stock and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matters and being of the opinion that the applications should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale by Southern California Edison Company of 1,000,000 shares of its cumulative preferred stock is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954, provided that applicant obtain for said shares a price satisfactory to the Commission.

2. Southern California Edison Company, after the effective date hereof and on or before June 30, 1958, may issue and sell said 1,000,000 shares of cumulative preferred stock at a price to be fixed by the Commission in a supplemental order in this proceeding, it being the opinion of the Commission that the money, property or labor to be procured or paid for by the issue and sale of said shares of preferred stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.




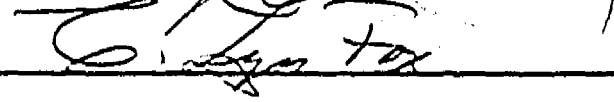
3. Southern California Edison Company shall use the net proceeds to be received from the issue and sale of such shares to reimburse its treasury for moneys actually expended from income, or from moneys not secured by or obtained from the issue of securities, for the purpose of acquiring properties or constructing, completing, extending and improving its facilities.

4. Within 90 days after the issue and sale of said 1,000,000 shares of cumulative preferred stock, Southern California Edison Company shall file with the Commission three copies of its prospectus and a report showing the names of the underwriters to

whom said shares are sold, the number of shares sold to each underwriter, the compensation received, and the expenses incurred incidental to the issue and sale of such shares.

5. The authority herein granted to issue and sell shares of stock will become effective when the Commission, by supplemental order, has fixed the price at which said 1,000,000 shares may be sold. In other respects, this order is effective upon the date hereof.

Dated at San Francisco, California, this 4<sup>th</sup> day of February, 1958.

  
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President  
  
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Commissioners