

ORIGINAL

Decision No. 67915

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN CALIFORNIA EDISON COMPANY,)
 a corporation, for authority to)
 issue and sell not to exceed)
 1,500,000 shares of Common Stock of)
 the par value of \$8-1/3 per share)
 and for the exemption of such)
 proposed issue from the)
 requirements of the competitive)
 bidding rule established in this)
 Commission's Decisions Nos. 38614)
 and 49941.)

Application No. 46926
Filed August 26, 1964

Rollin E. Woodbury, Harry W. Sturges, Jr., Robert J.
 Cahall, and Donald J. Carman, by Robert J. Cahall,
 and O'Melveny & Myers, by Harry L. Dunn, for
 applicant; and
Sidney J. Webb, for the Commission staff.

O P I N I O N

Southern California Edison Company has filed this appli-
 cation for authority to issue and sell, exempt from competitive
 bidding, 1,500,000 shares of its common stock of the par value
 of \$8-1/3 a share.

A public hearing was held before Examiner Donovan in
 San Francisco on September 10, 1964, at which time the matter
 was taken under submission subject to receipt of a proposed form
 of underwriting agreement as a late filed exhibit, which now has
 been received. The Commission has received no protests in the
 proceeding.

Purpose of Issue

Applicant proposes, and seeks authorization, to use the proceeds from the issuance and sale of its shares, after paying expenses incident to such issuance and sale, (1) to retire and discharge short-term promissory notes issued, or to be issued, which are expected to be approximately \$26,000,000 by the time the stock proceeds become available, and (2) to reimburse its treasury for moneys actually expended from income or from other moneys in its treasury not secured by or 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.

Capital Expenditures

The evidence shows that the company has had and will have need for proceeds from the issue of its short-term notes and for treasury funds to meet its capital requirements. In exhibits filed with the application, the company reports cash requirements during 1964 and 1965 for capital additions and for repayment of certain notes and bonds as follows:

	<u>1964</u>	<u>1965</u>	<u>Total</u>
To repay notes	\$ 46,750,000	\$ -	\$ 46,750,000
To repay bonds	30,000,000	37,884,000	67,884,000
For gross additions -			
Production	47,078,271	60,923,358	108,001,629
Transmission	28,434,365	42,503,240	70,937,605
Distribution	74,507,138	80,122,128	154,629,266
Other	13,480,795	12,397,954	25,878,749
Overhead	<u>7,000,000</u>	<u>7,000,000</u>	<u>14,000,000</u>
Total	<u>\$247,250,569</u>	<u>\$240,830,680</u>	<u>\$488,081,249</u>

The company has met, or proposes to meet, its expenditures with moneys obtained, or to be obtained, from the following sources:

	<u>1964</u>	<u>1965</u>	<u>Total</u>
Salvage	\$ 11,780,994	\$ 8,300,000	\$ 20,080,994
Internal funds	106,526,809	108,171,520	214,698,329
Series R bonds	59,527,200	-	59,527,200
Price adjustments on purchases of electrical equipment	6,415,566	359,160	6,774,726
Common stock	51,000,000	-	51,000,000
To be financed	<u>12,000,000</u>	<u>124,000,000</u>	<u>136,000,000</u>
Total	<u>\$247,250,569</u>	<u>\$240,830,680</u>	<u>\$488,081,249</u>

Capital Structure

At this time applicant desires to issue common stock, rather than some other form of security, in order to take advantage of what appear to be favorable market conditions for the sale of common stock and, at the same time, to improve its capital structure and to conserve its borrowing capacity. It reports its capital ratios as of June 30, 1964, and as adjusted to give effect to the proposed common stock offering, the assumed complete conversion of its debentures, and the retirement of its First and Refunding Mortgage Bonds, Series of 3-1/4s, Due 1964, as follows:

	<u>June 30, 1964</u>	<u>Pro Forma</u>
Long-term debt	55%	52%
Preferred stock	8	8
Common stock equity	<u>37</u>	<u>40</u>
Total	<u>100%</u>	<u>100%</u>

Sale of Common Shares

The company has not yet entered into a contract for the sale of its common shares. Its plans call for such sale to a nationwide group of underwriters under arrangements which will be similar to those it has employed in earlier common stock negotiations whereby the price agreed upon was based on the reported prices, or quotations, of the outstanding common shares on the New York Stock Exchange immediately prior to the final agreed determination of the price. The record in the present proceeding shows that the range of negotiation, per share, will be between a high of the last sale price or the last asked price, whichever is higher, plus the New York Stock Exchange commission, on the one hand, and a low of 50 cents under the last sale price or last bid price, whichever is lower, on the other hand, less, of course, the negotiated underwriter commission which will not exceed 3% of the initial public offering price.

Competitive Bidding

In order to proceed with its plans to dispose of its shares the company seeks exemption from the Commission's competitive bidding rule. It asserts that under negotiated arrangements it is possible for it to relate the sale price more closely to the market price at the time the transaction is closed than would be the case in competitive bidding where, once the invitations have been published and the date set for opening the bids, no flexibility remains to correlate the sale of the

Competitive Bidding (Cont'd.)

stock with changes in market conditions. On this point it appears, from the testimony, that in the last four negotiated sales by the company its common shares (\$25 par value for the first three and \$8-1/3 par value for the fourth) were priced at or about the prevailing market prices, as indicated in the following tabulation:

<u>Date of Offering</u>		<u>Initial Offering Price</u>	<u>Stock Exchange Price</u>
March	1, 1954	\$ 40-1/4	\$ 40
September	11, 1956	48-1/2	48-7/8
January	19, 1959	60	60
January	22, 1962	29-5/8	29-3/4

In support of its request for exemption from competitive bidding, applicant submitted, as exhibits, tabulations showing all common stock offerings in excess of \$20,000,000 by electric utilities since 1956, under both negotiated and competitive bidding arrangements. These tabulations show that for issues of \$20,000,000 or more there were three sales under negotiated arrangements and five under competitive bidding; that the weighted average underwriters' commissions were 2.34% of the initial public offering price in the three negotiated sales and 2.41% in the five competitive bidding sales. The tabulations show that, in general, there was a better reception of the offering by the public in the negotiated sales. It is to be noted that from a dollar standpoint applicant's proposed financing is the second largest of those during the period covered by the exhibits.

Competitive Bidding (Cont'd.)

Applicant's financial officer testified that the company was interested not only in the most favorable price for its shares but also in a satisfactory distribution and that these objectives can best be attained by a negotiated sale. This utility in the past has come before the Commission for authorization to issue and sell common shares by negotiated arrangements and by competitive bidding. The witness reported that in the company's 1953 competitive bidding issue less than ten percent of the shares were assigned to California underwriting firms but in the 1962 negotiated offering almost half of the issue was sold in California, and he stated that the company will attempt to have about the same percent of the present offering assigned to California underwriters. The witness asserted that it is desirable to have as many California underwriters as possible in order to stimulate local ownership in the company.

Findings and Conclusions

From a review of the record developed in this proceeding, it is clear that applicant will have need for additional funds to liquidate its short-term borrowings, to improve its capital structure and to reimburse its treasury. In view of applicant's past success in disposing of its common shares at satisfactory prices, we see no reason why it should not be authorized to proceed at this time under similar arrangements. Under market conditions presently prevailing, especially in view of the size of the proposed offering, it is quite likely that a better price would be obtained in a negotiated sale than under competitive bidding.

Findings and Conclusions (Cont'd.)

The Commission has considered this matter and finds that: (1) the proposed stock issue is for proper purposes; (2) applicant's plan of selling the proposed issue of common stock through a negotiated underwriting rather than by competitive bidding will not be adverse to the public interest; (3) the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes specified herein; and (4) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The issue and sale by Southern California Edison Company of not to exceed 1,500,000 shares of its common stock is exempted from the provisions of the Commission's competitive

bidding rule as set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954.

2. Southern California Edison Company, on or after the effective date hereof and on or before December 31, 1964, may issue, sell and deliver not to exceed 1,500,000 shares of its \$8-1/3 par value common stock at a price not less than that to be determined in the manner hereinabove set forth.

3. Southern California Edison Company shall use the proceeds from the sale of said shares, after payment of obligations incurred for expenses incident to their issue and sale, to retire and discharge promissory notes and 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 ninety days after the issue and sale of the 1,500,000 shares of common stock, Southern California Edison Company, in lieu of a report, or reports, under General Order No. 24-B, shall file with the Commission three copies of its prospectus and a report showing the expenses incurred incident to the issue and sale of such shares.

5. The effective date of this order shall be five days after the date hereof.

Dated at Los Angeles, California, this 30th day of SEPTEMBER, 1964.

Fredrick B. Halesoff
President

Peter E. Mitchell

George J. Thorer

William W. Bunnell

Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.