

ORIGINAL

Decision No. 71425

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. 48793
Filed September 16, 1966

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

O P I N I O N

Southern California Edison Company has filed this application for an order of the Commission exempting from competitive bidding the proposed issue and sale of not to exceed 2,800,000 shares of a new series of its Cumulative Preferred Stock of the aggregate par value of \$70,000,000.

After due notice, a public hearing in this matter was held before Examiner Donovan in San Francisco, on September 29, 1966, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The company estimates that it will expend in excess of \$577,000,000 for construction during the years 1966 and 1967, of which amount approximately \$335,000,000 would be derived from permanent financing with the balance from internal sources. Deducting the \$155,000,000 aggregate principal amount of bonds already sold during 1966, leaves approximately \$180,000,000 which applicant contemplates obtaining prior to December 31, 1967, through three new security issues including the preferred stock presently under consideration. The utility's capital ratios as of August 31, 1966, and as adjusted to give effect to \$50,000,000 aggregate par value of the proposed issue of preferred stock and to the entire \$70,000,000, are summarized from Exhibit No. 2 filed in this proceeding as follows:

	<u>Actual</u>	<u>Pro Forma</u>	
		<u>\$50,000,000 Issue</u>	<u>\$70,000,000 Issue</u>
Long-term debt	55.9%	54.5%	54.0%
Preferred stock	6.7	9.0	9.9
Common stock equity	<u>37.4</u>	<u>36.5</u>	<u>36.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

In view of the existing debt ratio and the diluting effects of additional common stock, the record shows that a preferred stock offering would be the proper form of security issue under prevailing conditions. Moreover, the testimony shows that preferred stock issues are entitled to the income tax benefit of an 85% dividend received credit which can

make them attractive to institutional investors. At this time, however, applicant is not seeking authority to issue and sell its shares. Following the granting of the requested exemption from the competitive bidding rule, the company intends to enter into negotiations for the sale of the preferred stock and at a later date to file an appropriate application seeking authority to issue and sell such stock.

Applicant's financial vice-president expressed doubts that the company would receive even one bid if the proposed preferred stock issue were to be offered at competitive bidding. He cited the recent sale through competitive bidding of the company's Series U bonds as an illustration of difficulties being experienced by underwriters under current market conditions. Said witness indicated that the existing market requires very careful preparation if dividend and spread are to be held to a minimum and that such preparation is possible only through negotiation. Also, he expressed the opinion that in order to market successfully the proposed issue of preferred stock, it would be necessary to have a large enough group of underwriters available to reach nearly every potential preferred stock investor in the country, which would be impossible under competitive bidding. Moreover, the testimony shows that, as a means of attracting funds which may not be available immediately, the company anticipates employing deferred delivery contracts, which it could not do under competitive bidding.

From a review of the application, testimony and exhibits we find that the sale of the proposed issue of preferred stock should not be required to be at competitive bidding. On the basis of this finding we conclude that the application should be granted.

O R D E R

IT IS ORDERED that the issue and sale by Southern California Edison Company of not to exceed 2,800,000 shares of the new series of Cumulative Preferred Stock referred to in this proceeding are hereby exempted from 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, in Case No. 4761.

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

Dated at San Francisco, California,
this 12th day of OCTOBER, 1966.

[Signature] President
George T. Brown
Fredrick P. Holdhoff
[Signature]
[Signature] Commissioners