

Decision No. 88031 OCT 25 1977**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
 EDISON COMPANY to issue and sell not )  
 exceeding 600,000 shares of \$100 )  
 Cumulative Preferred Stock, 7.80% )  
 Series (par value \$100 per share). )

Application No. 57572  
 (Filed September 16, 1977;  
 Amended September 30, 1977)

O P I N I O N

By this application Southern California Edison Company (Edison) requests authority to issue and sell 600,000 shares of a new series of its \$100 Cumulative Preferred Stock, 7.80% Series, of a par value of \$100.

Edison proposes to issue and sell the stock by private placement to a group of institutional purchasers. The utility would use the net proceeds from the sale of stock to reimburse its treasury, in part, for capital expenditures. Edison also proposes to use a portion of such reimbursed general treasury funds to repay a portion of its short-term bank borrowings, commercial paper and banker's acceptances expected to aggregate approximately \$125,000,000 at the time of such repayment.

Preliminary forms of the Purchase Agreement and the Certificate of Determination of Preferences relating to the stock are attached to the first amendment to the application as Exhibit E, and substantially provide as follows:

- (a) Edison will pay the expenses of the purchasers of the stock, reasonably incurred in connection with the sale of the stock, including fees and disbursement costs of special counsel for the purchasers incurred in connection with the sale of the stock. The amount of the expenses is not currently ascertainable, but it is not expected to exceed \$50,000.

- (b) Optional redemption price - \$110.00 per share if redeemed on or prior to November 30, 1987; and, during each succeeding 12-month period on or prior to November 30, 2004 at decreasing prices (\$104.91 to \$100.29) per share and thereafter at \$100 per share.
- (c) Nonrefundable prior to December 1, 1982, if such redemption is in anticipation of any refunding operation involving the application of borrowed funds or the proceeds of an issue of any stock ranking prior to or on a parity with the shares of stock to be issued, as to payment of dividends or liquidation preferences, if such borrowed funds have an effective interest rate or cost to Edison, or such stock has an effective dividend rate or cost to Edison, less than the dividend rate per year of 7.80%.
- (d) Mandatory redemption of the stock from the operation of the sinking fund at a price of \$100 per share. Redemption to commence on November 30, 1983 and continue each year in accordance with the following schedule which shows by year the percentage of the shares to be redeemed:

<u>Years</u>	<u>Percentage of Total Shares Issued</u>
1983 - 1987	2.5% per year
1988 - 1992	3.0
1993 - 1997	4.0
1998 - 2002	5.0
2003 and thereafter	5.5

Edison may also, at its option, provide for the redemption of additional shares through the operation of the sinking fund in any of years listed above, provided that such optional redemptions shall be noncumulative and will not exceed 40 percent of the stock originally issued.

Edison states that it believes the provisions contained in the Purchase Agreements attached to its application as Exhibit E will be required in order to secure commitments from the purchasers of the stock and are in fact comparable to provisions contained in similar private placements with institutional investors being negotiated by other utilities at this time.

A letter dated September 9, 1977, from H. Fred Christie, Senior Vice President of Edison, provided the staff of the Finance Division with background information and reasons supporting the private placement of stock. Pertinent portions of that letter are as follows:

"This proposed offering is for up to 600,000 shares of \$100 Cumulative Preferred Stock. Although our investment bankers have tentative commitments for approximately \$55 million, the Application has been prepared for \$60 million to provide for possible additional commitments. The maturity is 30 years, while sinking fund provisions create an average life of 20 years." and,

"As may be noted, the 7.80% dividend on this issue compares favorably with other recent private placements, and with recent public offerings of preferred stock . . ."

"As you know, one of the functions of an investment banker is the development and coordination of a market for a new issue. This is particularly important for direct placements, which by their nature involve a smaller potential market and require more negotiation and coordination. Regarding this placement, our investment bankers, First Boston and Blyth Eastman Dillon, approached more than 120 potential purchasers on our behalf, and we believe purchasers of this issue will number approximately 20. We consider our investment bankers' efforts on this offering to be outstanding."

"The investment bankers' fees associated with this offering would be approximately \$165,000 on the \$55,000,000 tentatively committed, or 0.3%. This compares very favorably with the fees paid on recent public offerings. . ."

"In addition to the 7.80% dividend rate and the 0.3% investment banking fees, we were also pleased with the maturity length which we were able to arrange. As you will note from Table I, most issues in the recent market have been offered for shorter periods than the 20 year average life of this issue. We feel this longer life provides another benefit which makes the issue particularly advantageous."

Edison's capital ratios, as of June 30, 1977, and as adjusted for the effect of the proposed issue of preferred stock, and for July and August, 1977 sales and issuance of common stock, bonds, and conversion of preference stock, are as follows:

	<u>June 30, 1977</u>	<u>Pro Forma</u>
Mortgage Bonds	44.8%	46.5%
Convertible Debentures	1.6	1.5
Other Long-Term Debt	.5	.4
Preferred Stock	11.7	12.3
Preference Stock	2.7	2.6
Common Equity	<u>38.7</u>	<u>36.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>

As of June 30, 1977, Edison's uncapitalized construction amounted to approximately \$751,364,000, which has not been reimbursed from the proceeds of the sale of securities.

Edison is engaged in an extensive construction program and estimates that the gross expenditures required for such construction program during the years 1977 and 1978 will approximate \$1,119,195,000. Details of this construction program, estimated as of July 21, 1977 and approved by Edison's Board of Directors, are as follows:

	(Thousands of Dollars)		
	<u>1977</u>	<u>1978</u>	<u>Total</u>
Electric Generating Plants	\$436,396	\$474,670	\$ 911,066
Electric Transmission Lines and Substations	37,177	33,842	71,019
Electric Distribution Lines and Substations	115,326	119,217	234,543
Other Expenditures	<u>19,971</u>	<u>21,153</u>	<u>41,124</u>
Total	608,870	648,882	1,257,752
Less: Allowance for Funds Used During Construction	<u>61,995</u>	<u>76,562</u>	<u>138,557</u>
Funds Used or Required for Construction Expenditures	<u>\$546,875</u>	<u>\$572,320</u>	<u>\$1,119,195</u>

The Operations Division of the Commission staff has reviewed Edison's construction budget and has no objection to the proposed security issue. However, the Division reserves the right to consider the reasonableness of construction expenditures in future rate proceedings.

Edison's cash requirements for 1977 and 1978, estimated as of September 6, 1977, are as follows:

	(Thousands of Dollars)		
	<u>1977</u>	<u>1978</u>	<u>Total</u>
Funds Used or Required for Construction Expenditures	\$546,875	\$572,320	\$1,119,195
Bond maturities:			
First and refunding mortgage bonds, Series E, due 2/15/78 (3-5/8%)	-	30,000	30,000
First mortgage bonds (California Electric) Series of 3's due 6/1/78	-	5,500	5,500
Short-term debt outstanding as of 12/31/76	<u>36,050</u>	-	<u>36,050</u>
	582,925	607,820	1,190,745
Less: Estimated cash available from internal sources	<u>114,219</u>	<u>219,465</u>	<u>333,714</u>
Additional new money required from outside sources	<u>\$468,676</u>	<u>\$388,355</u>	<u>\$857,031</u>
To be provided as follows:			
(1) Proceeds from sale of 2,480,000 shares of preference stock, par value \$25 per share, 7.375% series authorized by Decision No. 86930, dated Feb. 1, 1977, in Application No. 57012.	\$ 61,615	\$ -	\$ 61,615
(2) Proceeds from sale of First and Refunding Mortgage Bonds, Series HH, due 2002 authorized by Decision No. 87473, dated June 21, 1977, in Application No. 57336.	122,525	-	122,525
(3) Proceeds from sale of First and Refunding Mortgage Bonds, Series II, due 1984, authorized by Decision No. 87473, dated June 21, 1977, in Application No. 57336.	74,640	-	74,640
(4) Estimated proceeds from sale of common stock under the Dividend Reinvestment and Stock Purchase Plan authorized by Decision No. 84882, dated Sept. 10, 1975, in Application No. 55870.	8,000	10,000	18,000
(5) Estimated proceeds from sale of common stock under the Employee Stock Purchase Plan authorized by Decision No. 85037, dated October 21, 1975, in Application No. 55963.	13,000	13,200	26,200
(6) Estimated proceeds from sale of common stock under Tax Reduction Act Stock Ownership Plan authorized by Decision No. 87785, dated Aug. 20, 1977, in Application No. 57478.	2,653	4,300	6,953
(7) Estimated proceeds from proposed sale of \$100 Cumulative Preferred Stock.	60,000	-	60,000
(8) Additional cash requirements.	<u>125,243</u>	<u>360,855</u>	<u>486,098</u>
Total	<u>\$468,676</u>	<u>\$388,355</u>	<u>\$ 857,031</u>

The Finance Division of the Commission's staff has analyzed the above cash requirement, estimated by Edison as of September 6, 1977, and attached to the application as Exhibit "D". The staff has determined that internally generated funds will provide only 20 percent of the capital requirements (primarily construction expenditures) estimated for 1977 and 36 percent of the requirements estimated for 1978. The Finance Division has concluded that the proposed preferred stock issue will be necessary to help meet estimated cash requirements.

After consideration the Commission finds that:

1. The proposed stock would be for proper purposes.
2. Edison has need for external funds for the purposes set forth in this proceeding.
3. The proposed redemption restriction is reasonable.
4. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and no reason to delay granting the authority requested. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. Because of time commitments related to issuance of the preferred stock, and having paid the fee of \$36,000 prescribed by Section 1904.1 of the Public Utilities Code, Edison requests that the order become effective on the date hereof.

In issuing our order herein, we place Edison 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 it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of value of the company'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

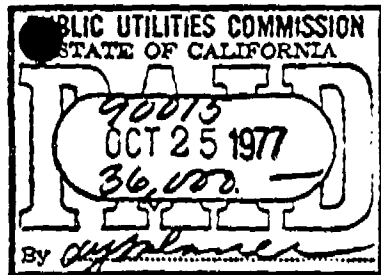
IT IS ORDERED that:

1. Southern California Edison Company, on or after the effective date hereof and on or before December 31, 1977, may issue, sell and deliver not exceeding 600,000 shares of its \$100 Cumulative Preferred Stock, 7.80% Series, of the par value of \$100 per share at the price of \$100, plus accrued dividends, if any, upon substantially the terms and conditions set forth in the application.
2. Southern California Edison Company shall apply the net proceeds from the sale of said stock to the purposes set forth in the application.
3. Southern California Edison Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 25<sup>th</sup> day of OCTOBER, 1977.

Commissioner Robert Batinovich, being necessarily absent, did not participate in the disposition of this proceeding.



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President  
*William J. Johnson Jr.*  
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*Raymond L. Stegeman*  
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*Michael D. Cavalle*  
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*Clair J. Decker*  
Commissioners