

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE  
STATE OF CALIFORNIA**

Application of Southern California Edison	)	
Company or Authorized Cost of Capital for	)	A.07-05-003
Utility Operations for 2008.	)	
_____	)	
	)	
And Related Proceedings.	)	A.07-05-007
_____	)	A.07-05-008

**NOTICE OF EX PARTE COMMUNICATION OF SOUTHERN CALIFORNIA EDISON  
COMPANY (U 338-E)**

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Dated: **May 19, 2008**

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Pursuant to Rule 8.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (“CPUC”), Southern California Edison Company (“SCE”) gives notice of the following *ex parte* communication.

On May 16, 2008, John Hughes of SCE’s Regulatory Affairs, and Paul Hunt of SCE’s Treasurer’s Department, met with Steve St. Marie, advisor to Commissioner John Bohn to discuss the Proposed Decision in Phase II of this proceeding. The meeting took place at 1:30 p.m. and lasted 60 minutes. The meeting was conducted at the CPUC’s San Francisco offices located at 505 Van Ness Ave., San Francisco, California 94102. The communication was oral and written (with a copy of the attachment SCE provided during this meeting attached hereto as Appendix A).

SCE orally addressed the following points with Mr. St. Marie:

- In the automatic adjustment mechanism contained in the Proposed Decision for the period between cost of capital applications, the return on equity should adjust

at 50% of the interest rate index change. There should be no "deductible" for the interest rate change that lies within the 100 basis point deadband;

- The CPUC should grant the capital structure flexibility that SCE has requested; and
- Certain matters regarding the interest rate index should be clarified in the Proposed Decision. These include: the benchmark value should be calculated for the period from 10/06 through 9/07, so that the mechanism can be applicable to the cost of capital for 2009 and 2010, if necessary; and the interest rate index for SCE should be based on the Moody's Baa utility bond rate.

To obtain a copy of this notice please contact:

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Respectfully submitted,

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/s/ Laura I. Genao

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By: Laura I. Genao

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May 19, 2008

**Appendix A**



# 2008 Cost of Capital, Phase II CPUC Ex Parte Communication

May 16, 2008

## SCE Comments Regarding Phase II Proposed Decision

- SCE supports:
  - Full cost of capital applications held every three years, with filing date moved forward to April 20
  - Adjustment mechanism to adjust SCE’s cost of capital between full applications
  - Use of 12-month average of Moody’s long term utility bond yield
  - 100 basis point deadband
  - Opportunity to file application to adjust ratemaking capital structure between full applications
- SCE believes that the cost of capital mechanism (CCM) can be improved with respect to:
  - How ROE is adjusted in response to a change in the bond yield index
  - Capital structure flexibility
  - Construction of bond yield index and starting value

## Return on Equity Adjustment in the CCM

- The CCM adjusts ROE whenever the bond yield index changes by at 100 basis points from its benchmark value
- The PD adjusts ROE by 50 percent of the change in the bond yield index, minus 50 basis points, to account for the change that is within the deadband
- Instead, the CCM should adjust ROE by 50 percent of the change in the bond yield index without the 50 basis point deduction
  - No evidence in the application supports the 50 basis point deductible
  - Applying a deductible reduces the cumulative change from a sequence of triggering events occurs, versus a single large triggering event of the same size
- Consider two examples with the same 300 basis point change to the bond yield index
  - Case A: 300 basis point increase in year 1, 0 basis point change in year 2. ROE change by end of year 2 is 100 basis points; deductible applied once
  - Case B: 150 basis point increase in year 1, 150 basis point change in year 2. ROE change by end of year 2 is only 50 basis points; deductible applied twice

## Capital Structure Flexibility

- SCE request: ability to vary actual ratemaking equity ratio up to three percent above or below its authorized ratemaking equity ratio
- Need: potential financial stress (debt equivalence) from
  - Capital investment program
  - CDWR contract termination/novation
  - Market structure changes
- Authorized ratemaking equity ratio only changes through an application, SCE cannot change it unilaterally
- No direct effect on ratepayers, because revenue requirement does not change
- Indirect effect on ratepayers likely to be positive
  - SCE will be able to respond more quickly to factors that could adversely affect its credit quality
  - Credit agencies may view capability as a positive credit factor
- SCE request consistent with capital structure flexibility authorized in SCE PBR (D.96-09-092, Ordering Paragraph 18)

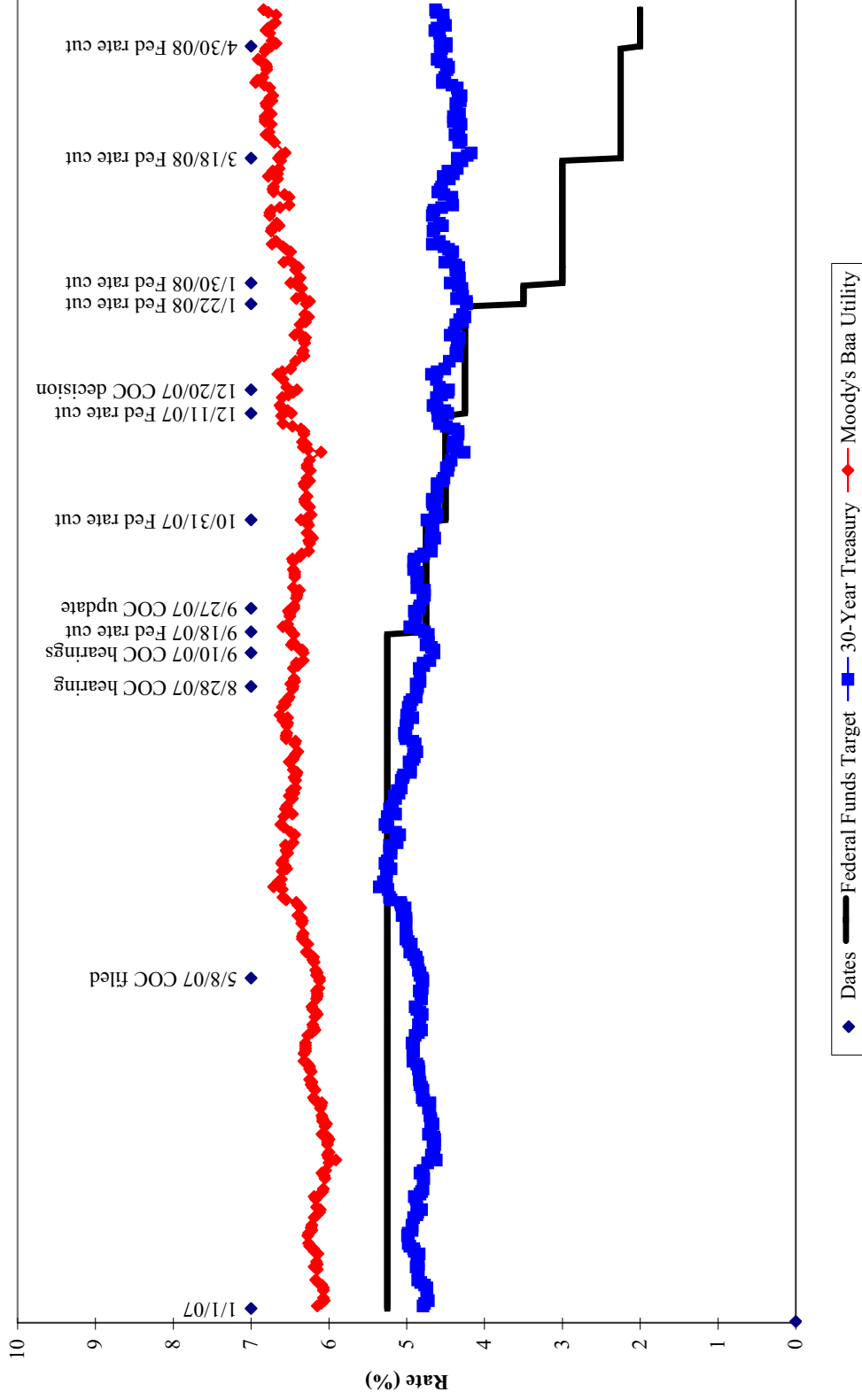
## Bond Yield Index

- PD does not assign a Moody's utility bond interest rate for utilities in the BBB rating class (BBB+, BBB, BBB-) or the BB rating class (BB+, BB, BB-)
- For utilities in the AA rating class or higher, the Moody's Aa utility bond interest rate should be used; for utilities in the A rating class, the Moody's A utility bond interest rate should be used; and for utilities in the BBB rating class or lower, the Moody's Baa utility bond interest rate should be used
- CCM should take effect immediately so that SCE's cost of capital can be adjusted for 2009 or 2010 if necessary
  - Benchmark values should be 12-month averages that span October 2006 through September 2007
  - Aa benchmark value: 5.87%
  - A benchmark value: 6.02%
  - Baa benchmark value: 6.26%

## Backup Slides

# Interest Rate Data

Selected Interest Rates, 2007 to Present



## Return on Equity Adjustment in the CCM

- Example A: 100 basis point change in ROE
  - Approximate revenue requirement increase of \$108 million in 2009 for SCE
- Example B: 50 basis point change in ROE
  - Approximate revenue requirement increase of \$54 million in 2009 for SCE

## Size Of Deadband

### FREQUENCY OF COST OF CAPITAL ADJUSTMENT, 1986-2007

Bond Yield Index	100 Basis Point Deadband	50 Basis Point Deadband
Moody's Aa	3	10
Moody's A	3	9
Moody's Baa	5	10

Note: Benchmark value is 12-month average ended September 1986; first possible adjustment year is 1987. Deadbands are plus-or-minus around benchmark value.

**CERTIFICATE OF SERVICE**

I hereby certify that, pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true copy of NOTICE OF EX PARTE COMMUNICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) on all parties identified on the attached service list(s). Service was effected by one or more means indicated below:

Transmitting the copies via e-mail to all parties who have provided an e-mail address.  
First class mail will be used if electronic service cannot be effectuated.

Executed this **19th day of May, 2008**, at Rosemead, California.

/s/ Henry Romero  
Henry Romero  
Project Analyst  
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
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**FILER: SOUTHERN CALIFORNIA EDISON COMPANY (U338E)**  
**LIST NAME: LIST**  
**LAST CHANGED: APRIL 29, 2008**

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