

Application No: A.07-05-003
Exhibit No: SCE-5
Witness: P. T. Hunt



(U 338-E)

***Supplemental Testimony Regarding Multi-Year
Cost of Capital Mechanisms***

Before the
Public Utilities Commission of the State of California

Rosemead, California
January 4, 2008

2008 COST OF CAPITAL SUPPLEMENTAL TESTIMONY

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1 I.

2 **SUPPLEMENTAL TESTIMONY REGARDING MULTI-YEAR COST OF CAPITAL**
3 **MECHANISMS**

4 Pursuant to the Assigned Commissioner’s Scoping Memo and Ruling, issued June 21, 2007,
5 Southern California Edison Company (“SCE”) submits this supplemental testimony regarding multi-
6 year cost of capital mechanisms. The purpose of this testimony is to supplement SCE’s previously-filed
7 testimony on this subject.¹

8 **A. Clarification Of SCE’s Earlier Testimony On Multi-Year Cost Of Capital Mechanisms**

9 In Exhibit 4, Chapter VII, SCE listed several features that should be incorporated into a multi-
10 year cost of capital mechanism, should the California Public Utilities Commission (“Commission”)
11 decide to establish one. One of these features is that the trigger mechanism for adjustment of the cost of
12 capital should be calibrated on a 12-month average of Moody’s Baa long-term utility bond yield. SCE
13 wishes to clarify its proposal regarding the timing of these adjustments.

14 SCE recommends that the 12-month interest rate measurement period end with October of each
15 year. Thus, for a cost of capital revision effective January 1, 2009, the recorded data would cover 12
16 months ending with October 2008.² This would result in revisions to authorized returns only on a
17 calendar year basis. (SCE does not recommend allowing revisions to authorized returns immediately
18 after recorded data for any rolling 12-month period might exceed the trigger value.) SCE’s proposed
19 approach will allow for return on equity adjustments in response to major changes in interest rates, but
20 would eliminate the need for continuous monitoring and potentially reduce volatility in the authorized
21 cost of capital.

22

¹ See Exhibit 4 at Chapter VII.

² Assuming that the Commission used the 2008 authorized cost of capital as a starting point for a multi-year mechanism, under SCE’s proposal, the initial trigger mechanism value would be the 12-month average of the Moody’s Baa long-term utility bond yield ending in October 2007. This simple average is 6.27 percent.

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 **Southern California Edison Company's (U338-E) Supplemental Testimony Regarding Multi-Year Cost of Capital Mechanisms**. 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 4th Day of January 2008, at Rosemead, California.

/s/ Cecilia R. Jones _____
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