

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

Application of Southern California Edison)	
Company (U 338-E) for Authorized Cost of)	A.07-05-003
Capital for Utility Operations for 2008.)	(Filed May 8, 2007)
<hr/>		
)	
And Related Proceedings.)	A.07-05-007
)	A.07-05-008
<hr/>		

OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

MICHAEL D. MONTOYA
LAURA I. GENAO

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-6842
Facsimile: (626) 302-1935
E-mail: laura.genao@sce.com

Dated: **February 13, 2008**

Opening Brief of Southern California Edison Company (U 338-E)

TABLE OF CONTENTS

Section		Page
I.	THE CPUC SHOULD RETAIN ANNUAL COST OF CAPITAL PROCEEDINGS.....	1
II.	IF THE CPUC ADOPTS MULTI-YEAR MECHANISMS, THOSE MECHANISMS SHOULD INCLUDE VARIOUS FEATURES	2
A.	Capital Structure Features.....	3
1.	Capital Structure Flexibility.....	3
2.	One-time Opportunity to Adjust Authorized Capital Structure.....	4
B.	Rate Of Return Features.....	4
III.	THE CPUC NEED NOT ADOPT A SINGLE MECHANISM FOR ALL OF THE UTILITIES.....	5
IV.	CONCLUSION.....	6

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

Application of Southern California Edison Company (U 338-E) for Authorized Cost of Capital for Utility Operations for 2008.)	A.07-05-003 (Filed May 8, 2007)
_____)	
And Related Proceedings.)	A.07-05-007
_____)	A.07-05-008

OPENING BRIEF OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)

Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (“CPUC”) and the oral ruling of Administrative Law Judge Michael Galvin, issued January 29, 2008, Southern California Edison Company (“SCE”) submits this Opening Brief in support of its proposal to maintain annual cost of capital proceedings. SCE also outlines its recommendations for attributes any multi-year mechanism must contain in the event the CPUC decides a multi-year mechanism is preferable.

I.

THE CPUC SHOULD RETAIN ANNUAL COST OF CAPITAL PROCEEDINGS

SCE’s primary recommendation in this proceeding is that the CPUC retain the annual cost of capital application for SCE.¹ The annual cost of capital process currently provides SCE with a thorough and defined process by which all of the factors which relate to the various risks SCE faces can be assessed and acted on to authorize SCE a level of returns that is appropriate.

¹ See SCE/Hunt, Ex. 4, 44:10-19.

The current process is consistent with the benchmark Supreme Court decisions of *Hope* and *Bluefield*,² recognizing and compensating for the risks and uncertainties that are faced by California’s regulated energy utilities. A multi-year mechanism, calibrated to nationwide quantitative metrics such as interest rates, would not provide the California utilities and the CPUC as favorable a framework to address current business and regulatory conditions that need to be considered in the cost of capital decision making process.³

In the event that the current annual proceeding is maintained, SCE suggests that the Rate Case Plan set out in D.89-01-040 be revised to reflect the increased complexity of cost of capital applications.⁴ Under SCE’s proposed schedule, the new calendar for annual cost of capital proceedings would recognize that additional time is needed to address certain parts of the case and add such time. For example, the filing date for the entire case would be earlier.⁵ The CPUC’s Division of Ratepayer Advocates (“DRA”) also supports an earlier filing date.⁶ SCE’s proposed schedule will afford more time for rebuttal testimony and briefing, which will help inform the CPUC’s judgment by producing a more complete record.⁷

II.

IF THE CPUC ADOPTS MULTI-YEAR MECHANISMS, THOSE MECHANISMS SHOULD INCLUDE VARIOUS FEATURES

While SCE supports continuation of the current annual cost of capital process, it recognizes the desire on the part of some parties to have the CPUC adopt or retain multi-year mechanisms.⁸ If the CPUC should decide to adopt a multi-year mechanism for SCE, certain

² *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia et al.* (“*Bluefield*,” 262 U.S. 679, 43 S.Ct. 675 (1923)), and *Federal Power Commission et al. v. Hope Natural Gas Co.* (“*Hope*,” 320 U.S. 591, 64 S.Ct. 281 (1944)).

³ SCE/Hunt, Ex. 4, 44:11-16; *See also* DRA/Wuehler, Ex. 69, 2:16-23.

⁴ SCE/Hunt, Tr. 823:21-824:8.

⁵ SCE/Hunt, Ex. 74, 11:9-10.

⁶ DRA/Wuehler, Ex. 69, 2:3-14, 4:9-10.

⁷ SCE/Hunt, Tr. 821:13-21, 823:3-7.

⁸ PG&E/Patterson, Ex. 23, 1-1:15-23; PG&E/Hendra, Ex. 23, 5-1:5-18; SDG&E/Schneider, Ex.75, MMS-1:6-14.

safeguards must be implemented into the cost of capital process to allow SCE appropriate relief in case of financial need.⁹ These features are most easily categorized as capital structure features and rate of return features. Each of these is described in greater detail below.

A. Capital Structure Features

Any revision of the current cost of capital process should ensure that the regulated utilities maintain flexibility with regard to their capital structure. This is necessary because significant changes in debt equivalence and other factors that affect utility credit quality can occur quickly, without significant advance warning.¹⁰ SCE proposes two related features that should be incorporated in a multi-year mechanism: (1) capital structure flexibility and (2) a one-time (per three-year mechanism cycle) to request an adjustment in SCE's authorized capital structure.

1. Capital Structure Flexibility

SCE proposes that a regulated utility's actual ratemaking ratio be allowed to vary by up to three percent from the authorized ratemaking ratio.¹¹ Such capital structure flexibility would, among other things, allow SCE to mitigate significant balance sheet leverage changes that might be required in case of significant changes to its overall level of debt and financial leverage from such factors as debt equivalence.¹² SCE's proposed capital structure flexibility is equivalent to capital structure flexibility that was authorized for SCE while SCE's performance-based ratemaking mechanism was in effect from 1997 to May 2003.¹³

⁹ SCE/Hunt, Ex. 4, 46:4-12.

¹⁰ SCE/Hunt, Ex. 74, 6:3-14.

¹¹ SCE/Hunt, Ex. 4, 45:10-12.

¹² SCE/Hunt, Tr. 809:2-8.

¹³ SCE/Hunt, Ex. 4, 46:11-12; Aglet-TURN-UCAN/Weil, Ex. 67, 5:29-30.

2. One-time Opportunity to Adjust Authorized Capital Structure

While capital structure flexibility will be a necessary addition to the utilities' framework of tools to mitigate adverse increases in debt equivalence and other changes in financial risk, the most important financial metrics used by the rating agencies are cash flow measures: the ratio of funds from operations to interest expense and the ratio of funds from operations to total debt. Changing the utility's actual capital structure can improve these financial metrics in a limited way, but the full effect can only be realized if the utility's authorized capital structure is also changed. SCE proposes that in each three-year cycle between full cost of capital reviews, the utilities each be allowed to request one adjustment to the authorized capital structure by application to the CPUC.¹⁴

The two capital structure features are complementary. Capital structure flexibility gives the utility limited ability to respond to changes in debt equivalence and other financial factors without CPUC intervention, whereas the ability to request a change in authorized capital structure permits a stronger response, but one that can only be taken after review and evaluation by the CPUC in the application process. The CPUC should include these features in any multi-year mechanism that it adopts for SCE.

B. Rate Of Return Features

While a multi-year mechanism may be considered and implemented, it is important to continue a process which allows for regular, full, cost of capital review on a regular basis. Such a hybrid approach to the cost of capital (a multi-year mechanism, with required, full, proceedings at regular intervals) should allow for such full cost of capital review at least every three years.¹⁵

Additionally, any multi-year mechanism adopted by the CPUC should include a trigger allowing adjustment of the regulated utility's return on equity ("ROE") to reflect changes in

¹⁴ SCE/Hunt, Ex. 4, 45:13-20.

¹⁵ SCE/Hunt, Ex. 4, 44:23.

capital market conditions. An appropriate trigger mechanism for SCE would be calibrated on a 12-month average of Moody's Baa long-term utility bond yield.¹⁶ Under SCE's plan, the 12-month mechanism would, for an annual cost of capital adjustment, effective January 1, 2009, cover the 12 months ending with September 2008.¹⁷ The mechanism would also contain a deadband of plus-or-minus 100 basis points, within which variations in the trigger index would not cause a cost of capital adjustment. If an adjustment is triggered, the ROE change would equal 70% of the interest rate change, while the embedded costs of long-term debt and preferred stock would be updated.¹⁸ Had such a mechanism been in place in the two decades between 1986 and 2006, the mechanism would only have been activated five times.¹⁹

III.

THE CPUC NEED NOT ADOPT A SINGLE MECHANISM FOR ALL OF THE UTILITIES

SCE, Pacific Gas and Electric Company ("PG&E") and San Diego Gas & Electric Company ("SDG&E"), have all proposed marginally different mechanisms for the CPUC's consideration.²⁰ While SCE's proposal differs from that of the other utilities, SCE's proposal is one that best suits SCE's needs. These may not be the same as what PG&E and SDG&E consider their most pressing needs. Accordingly, the CPUC should consider rejecting a one-size-fits-all mechanism for all of the utilities. As the CPUC knows, it has not historically applied identical mechanisms to all regulated companies. In the late 1990s, SCE, SDG&E, and Southern California Gas Company ("SoCalGas") had trigger mechanisms for adjustment of the cost of capital, but these mechanisms were not the same.²¹ Similarly, even within the same parent company, the CPUC does not apply the same mechanism. For example, Sempra Energy

¹⁶ SCE/Hunt, Ex. 4, 45:3-4.

¹⁷ SCE/Hunt, Ex. 74, 4:19-21.

¹⁸ SCE/Hunt, Ex. 4, 45:6-8. In addition, the trigger index deadband would be reset. SCE/Hunt, Tr. 824:18-27.

¹⁹ SCE/Hunt, Ex. 4, 46:4-5; SCE/Hunt, Tr. 811:21-812:4.

²⁰ See e.g., Ex. 4, 23, 70, 73, 74, 75, 76.

²¹ SCE/Hunt, Ex. 4, 46:19-20.

subsidiaries SDG&E and SoCalGas have trigger mechanisms that are not identical.²² When considering multi-year mechanisms, there is no requirement that any such feature be the same for all regulated utilities. Accordingly, the CPUC should consider adopting SCE's proposal, for SCE in this proceeding.

IV.

CONCLUSION

For all of the foregoing reasons, SCE urges the CPUC to maintain the current cost of capital structure, or if a change is required, to adopt a mechanism for SCE that contains the features set forth above.

Respectfully submitted,

MICHAEL D. MONTOYA
LAURA I. GENAO

/s/ Laura I. Genao

By: Laura I. Genao

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-6842
Facsimile: (626) 302-1935
E-mail: laura.genao@sce.com

February 13, 2008

²² SCE/Hunt, Ex. 4, 46:15-17. SoCalGas was not a party to the instant proceeding.

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 OPENING BRIEF 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 **13th day of February, 2008**, at Rosemead, California.

/s/Meraj Rizvi _____
Meraj Rizvi
Project Analyst
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800

A.07-05-003, A.07-05-007, A.07-05-008

Wednesday, February 13, 2008

CASE ADMINISTRATION
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
A.07-05-003, A.07-05-007, A.07-05-008

STEPHEN D. BAKER
SENIOR REGULATORY ANALYST
FELLON-MCCORD AND ASSOCIATES
9960 CORPORATE CAMPUS DRIVE, STE.
2000
LOUISVILLE, KY 40223
A.07-05-003, A.07-05-007, A.07-05-008

John Bohn
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 5200
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

JONATHAN BROMSON
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4107
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

LISA BROWY
REGULATORY CASE ADMINISTRATOR
SAN DIEGO GAS & ELECTRIC COMPANY
101 ASH STREET, CP32D
SAN DIEGO, CA 92123
A.07-05-003, A.07-05-007, A.07-05-008

FRANK J. COOLEY
ATTORNEY AT LAW
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
A.07-05-003, A.07-05-007, A.07-05-008

KATHE H. CORDOVA
SAN DIEGO GAS AND ELECTRIC COMPANY
8330 CENTURY PART CT. - CP32D
SAN DIEGO, CA 92123
A.07-05-003, A.07-05-007, A.07-05-008

KAY DAVOODI
NAVY UTILITY RATES AND STUDIES OFFICE
1322 PATTERSON AVE., SE - BLDG. 33
WASHINGTON NAVY YARD, DC 20374-5018
A.07-05-003, A.07-05-007, A.07-05-008

MAYBELLINE DIZON
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, MC B10A
SAN FRANCISCO, CA 94105
A.07-05-003, A.07-05-007, A.07-05-008

THOMAS A. DOUB
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4205
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

KEVIN DUGGAN
CALPINE COPORATION
3875 HOPYARD ROAD, SUITE 345
PLEASANTON, CA 94588
A.07-05-003, A.07-05-007, A.07-05-008

CENTRAL FILES
SAN DIEGO GAS & ELECTRIC
8330 CENTURY PARK COURT, CP31E
SAN DIEGO, CA 92123
A.07-05-003, A.07-05-007, A.07-05-008

NORMAN J. FURUTA
ATTORNEY AT LAW
FEDERAL EXECUTIVE AGENCIES
1455 MARKET ST., SUITE 1744
SAN FRANCISCO, CA 94103-1399
A.07-05-003, A.07-05-007, A.07-05-008

Michael J. Galvin
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 5015
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

LAURA GENAO
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
A.07-05-003, A.07-05-007, A.07-05-008

HAYLEY GOODSON
ATTORNEY AT LAW
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO, CA 94102
A.07-05-003, A.07-05-007, A.07-05-008

KIM F. HASSAN
ATTORNEY AT LAW
SAN DIEGO GAS & ELECTRIC COMPANY
101 ASH STREET, HQ-12
SAN DIEGO, CA 92101
A.07-05-003, A.07-05-007, A.07-05-008

STEPHEN G. HILL
HILL ASSOCIATES
PO BOX 587
HURRICANE, WV 25526
A.07-05-003, A.07-05-007, A.07-05-008

EDWARD HOWARD
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 5110
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

PAUL T. HUNT
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
A.07-05-003, A.07-05-007, A.07-05-008

Donald J. Lafrenz
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
AREA 4-A
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

LAD LORENZ
V.P. REGULATORY AFFAIRS
SEMPRA UTILITIES
601 VAN NESS AVENUE, SUITE 2060
SAN FRANCISCO, CA 94102
A.07-05-003, A.07-05-007, A.07-05-008

CAROL MANSON
SAN DIEGO GAS & ELECTRIC CO.
8330 CENTURY PARK COURT CP32D
SAN DIEGO, CA 92123
A.07-05-003, A.07-05-007, A.07-05-008

MICHAEL D. MONTOYA
ATTORNEY AT LAW
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
A.07-05-003, A.07-05-007, A.07-05-008

CARLOS F. PENA
SEMPRA ENERGY LAW DEPARTMENT
101 ASH STREET HQ12
SAN DIEGO, CA 92101
A.07-05-003, A.07-05-007, A.07-05-008

Robert M. Pocta
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4205
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

Thomas M. Renaghan
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4205
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

FELIX ROBLES
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
AREA 4-A
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

FILE ROOM
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 7442
SAN FRANCISCO, CA 94120-7442
A.07-05-003, A.07-05-007, A.07-05-008

MICHAEL SHAMES
ATTORNEY AT LAW
UTILITY CONSUMERS' ACTION NETWORK
3100 FIFTH AVENUE, SUITE B
SAN DIEGO, CA 92103
A.07-05-003, A.07-05-007, A.07-05-008

JAMES SIMMONS
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4108
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

STEPHEN ST. MARIE
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 5202
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

NINA SUETAKE
ATTORNEY AT LAW
THE UTILITY REFORM NETWORK
711 VAN NESS AVE., STE 350
SAN FRANCISCO, CA 94102
A.07-05-003, A.07-05-007, A.07-05-008

PETER VAN MIEGHEM
PACIFIC GAS & ELECTRIC COMPANY
PO BOX 7442
SAN FRANCISCO, CA 94120
A.07-05-003, A.07-05-007, A.07-05-008

JAMES WEIL
DIRECTOR
AGLET CONSUMER ALLIANCE
PO BOX 37
COOL, CA 95614
A.07-05-003, A.07-05-007, A.07-05-008

DON WOOD
PACIFIC ENERGY POLICY CENTER
4539 LEE AVENUE
LA MESA, CA 91941
A.07-05-003, A.07-05-007, A.07-05-008

A.07-05-003, A.07-05-007, A.07-05-008
Wednesday, February 13, 2008

J. RANDALL WOOLRIDGE
THE PENNSYLVANIA STATE UNIVERSITY
302 BUSINESS BUILDING
UNIVERSITY PARK, PA 16802
A.07-05-003, A.07-05-007, A.07-05-008

SHIRLEY A. WOO
ATTORNEY AT LAW
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 7442
SAN FRANCISCO, CA 94106
A.07-05-003, A.07-05-007, A.07-05-008

James R. Wuehler
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4208
SAN FRANCISCO, CA 94102-3214
A.07-05-003, A.07-05-007, A.07-05-008

STELLA ZAHARIUDAKIS
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET, MCB10A
SAN FRANCISCO, CA 94105
A.07-05-003, A.07-05-007, A.07-05-008

ADAR ZANGO
ZIMMER LUCAS PARTNERS
45 BROADWAY, 28TH FLOOR
NEW YORK, NY 10006
A.07-05-003, A.07-05-007, A.07-05-008