

**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)	
_____)	
)	
)	A.07-05-007
And Related Proceedings.)	A.07-05-008
_____)	

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

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Dated: **November 29, 2007**

Respectfully submitted,

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November 29, 2007

Attachment A



2008 Cost of Capital

November 26, 2007

PD Lowers ROE Of Weakest Utility

Credit ratios from Proposed Decision:

**APPENDIX A
CREDIT RATIOS INCLUDING DEBT EQUIVALENCE
TEST YEAR 2008**

	CASH FLOW TIMES (x) INTEREST COVERAGE	DEBT/ CAPITAL	CASH FLOW/ DEBT
S&P Rating Benchmarks			
@ Business Profile 5			
A Range	4.5 - 3.8 x	42%-50%	30% - 22%
BBB Range	3.8 - 2.8 x	50% - 60%	22% - 15%
SCE			
@ Requested 11.80% ROE	4.2x	54.4%	15.7%
@ Current 11.60% ROE	4.1x	54.4%	15.5%
SDG&E			
@ Requested 11.60% ROE	4.6x	56.3%	20.8%
@ Current 10.70% ROE	4.5x	56.5%	20.4%
PG&E			
@ Requested 11.70% ROE	5.6x	53.8%	22.1%
@ Current 11.35% ROE	5.6x	53.9%	21.9%

Reducing SCE's ROE Is Not Reasonable

- SCE's debt equivalence is increasing (Ex. 4, p. 18)
- SCE is investing in its system at an unprecedented rate (Ex. 4, p. 7)
- SCE is an electric-only utility, not diversified across electricity and gas
- SCE's credit statistics are weakest among California IOUs
- Procurement risks have not declined; risks are increasing
- **SCE's ROE should be increased**

Backup Slides

2008 CPUC Cost of Capital Application

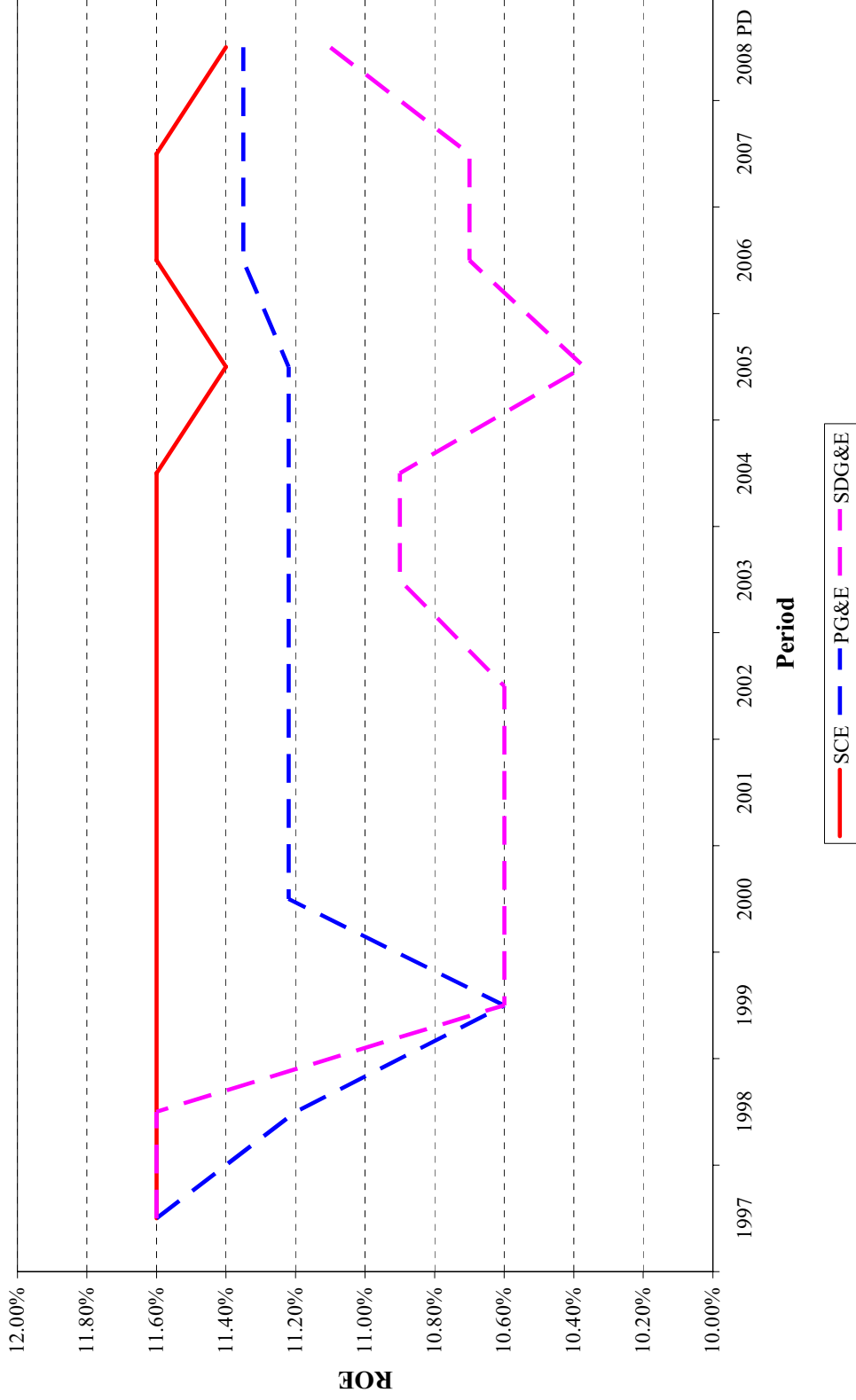
- Credit quality is the key issue that the Commission must address: does the authorized cost of capital adequately support SCE's credit?
 - Cost of capital includes embedded cost of debt and preferred equity, plus capital structure, in addition to return on common equity
- SCE is investing an unprecedented amount of capital in its business at this time (Ex. 4, p. 7)
- SCE must finance not only its capital investment and continuing operations, but independent power producers rely on SCE's credit quality to finance their own operations (Ex. 4, pp. 18, B-1)
 - Debt equivalence from IPP contracts increases to \$1.8 billion in 2008 (Ex. 4, p. 18)

Proposed Decision

- The PD's authorized cost of capital for SCE is not adequate
 - SCE's authorized return on common equity should be 11.8%
 - All other components of the PD's authorized cost of capital for SCE are adequate
- The PD contains technical errors, as explained in SCE comments that will be filed today
 - Upper end of base ROE range for SCE should be higher
 - The Commission should utilize Fama-French results
- The PD reduced the business risk adjustment incorporated in SCE's 2006 COC decision; instead the Commission should substantially increase it
- SCE's ROE should be set at the top of the reasonable range
 - SCE is the applicant with the weakest credit statistics

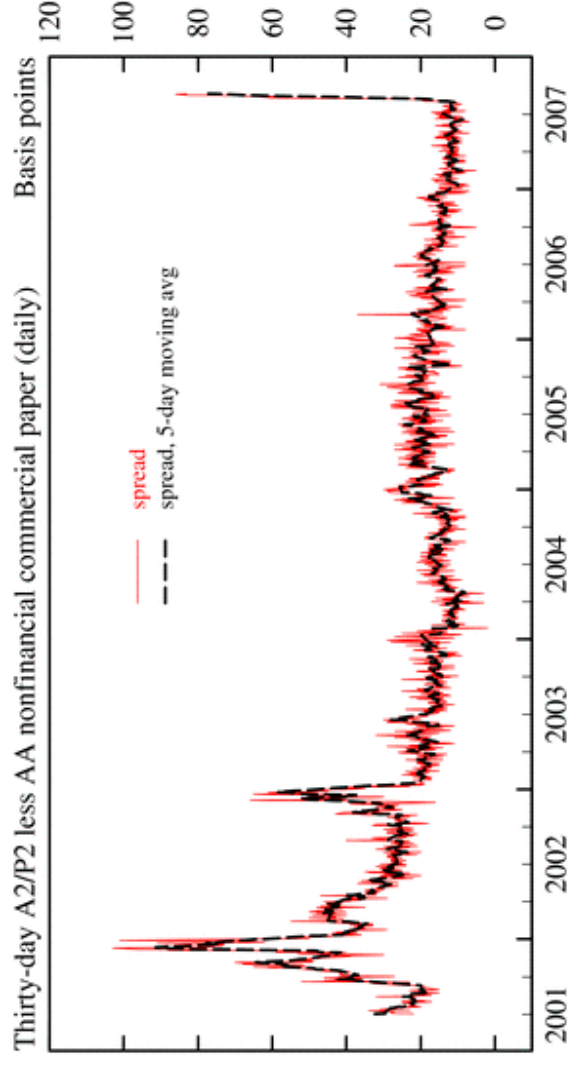
Historical Authorized Returns on Equity

AUTHORIZED CPUC RETURNS ON EQUITY, 1997-2007, PLUS PD



Subprime Mortgage Crisis Demonstrates Need For Single-A Rating To Lessen Exposure To Market Volatility

- Discount rate spread between Tier-1 (A-1/P-1, or AA) and Tier-2 (A-2/P-2) commercial paper issuers widened dramatically in August 2007 (Ex. 5, pp. 10-11)
- SCE had to vacate the commercial paper market and utilize bank credit lines to obtain short-term capital (Ex. 5, p. 11)



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 **29th day of November, 2007**, at Rosemead, California.

/s/ Henry Romero _____
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A.07-05-003, A.07-05-007, A.07-05-008

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