



As required by the Assigned Commissioner’s Scoping Memo and Ruling, Southern California Edison (SCE) submits this late-filed exhibit updating its embedded costs of debt and preferred stock based on the September 2007 Global Insight Control projection. Based on the September 2007 Global Insight projection of interest rates, SCE’s embedded costs of debt and preferred stock for 2008 are projected to be 6.22 percent and 6.01 percent, respectively.<sup>1</sup> SCE’s updated recommended overall cost of capital for 2008 is shown in Table 1.

**Table 1**  
**2008 Recommended Cost of Capital**

| Component       | Percentage of Capital | Cost   | Weighted Cost |
|-----------------|-----------------------|--------|---------------|
| Long-Term Debt  | 43.00%                | 6.22%  | 2.67%         |
| Preferred Stock | 9.00%                 | 6.01%  | 0.54%         |
| Common Equity   | 48.00%                | 11.80% | 5.66%         |
| <b>Total</b>    | <b>100.00%</b>        |        | <b>8.87%</b>  |

Table 2 compares the April 2007 Global Insight Control projection of selected interest rates with the September 2007 Global Insight Control projection of selected interest rates.<sup>2</sup> The rates from the September 2007 Global Insight projection are incorporated in SCE’s updated embedded costs of long-term debt and preferred stock.<sup>3</sup>

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<sup>1</sup> See Appendixes A and B.

<sup>2</sup> The projections shown in Table 2 are for the same interest rates SCE projected in its last two cost of capital applications. See A.04-05-021, Exhibit 34 and A.05-05-011, Exhibit 49.

<sup>3</sup> In its direct testimony (Exhibit 4, Appendix G), SCE estimated the cost of new long-term debt and preferred stock issues to be equal to the 30-year Treasury bond yield plus 125 basis points (1.25%). However, as shown in SCE’s rebuttal testimony (Exhibit 5, Table III-1, Line 5) and in Table 2, the yield spread between utility bonds and 30-year Treasury bonds has increased by between 22 basis points (on a forecast basis for 2008) and 27 basis points (on an actual basis). For purposes of updating its estimated cost of new long-term debt and preferred stock issues, SCE now estimates the cost of each type of new issue to equal the 30-year Treasury bond yield plus 150 basis points (1.50%).

**Table 2**  
**Comparison of April 2007 and September 2007**  
**Global Insight Interest Rate Projections**

| Line No. | Interest Rate                           | 2007 Q1 | 2007 Q2 | 2007 Q3 | 2007 Q4 | 2007 Avg. | 2008 Q1 | 2008 Q2 | 2008 Q3 | 2008 Q4 | 2008 Avg.    |
|----------|---|---------|---------|---------|---------|-----------|---------|---------|---------|---------|--------------|
|          | Moody's Aa Long-Term Utility Bond Yield |         |         |         |         |           |         |         |         |         |              |
| 1        | April 2007                              | 5.72%   | 5.76%   | 5.83%   | 5.90%   | 5.80%     | 5.98%   | 6.13%   | 6.34%   | 6.47%   | <b>6.23%</b> |
| 2        | September 2007                          | 5.72%   | 5.96%   | 6.06%   | 6.03%   | 5.94%     | 5.99%   | 6.09%   | 6.22%   | 6.28%   | <b>6.15%</b> |
|          | Federal Funds Rate                      |         |         |         |         |           |         |         |         |         |              |
| 3        | April 2007                              | 5.26%   | 5.25%   | 5.10%   | 5.00%   | 5.15%     | 5.00%   | 5.00%   | 5.00%   | 5.00%   | <b>5.00%</b> |
| 4        | September 2007                          | 5.26%   | 5.25%   | 5.10%   | 4.78%   | 5.10%     | 4.50%   | 4.50%   | 4.50%   | 4.50%   | <b>4.50%</b> |
|          | Three-Month Treasury Rate               |         |         |         |         |           |         |         |         |         |              |
| 5        | April 2007                              | 4.98%   | 4.92%   | 4.91%   | 4.90%   | 4.93%     | 4.90%   | 4.90%   | 4.90%   | 4.90%   | <b>4.90%</b> |
| 6        | September 2007                          | 4.98%   | 4.75%   | 4.49%   | 4.14%   | 4.59%     | 4.12%   | 4.17%   | 4.22%   | 4.25%   | <b>4.19%</b> |
|          | Ten-Year Treasury Rate                  |         |         |         |         |           |         |         |         |         |              |
| 7        | April 2007                              | 4.68%   | 4.65%   | 4.72%   | 4.78%   | 4.71%     | 4.85%   | 4.98%   | 5.13%   | 5.21%   | <b>5.04%</b> |
| 8        | September 2007                          | 4.68%   | 4.85%   | 4.75%   | 4.55%   | 4.70%     | 4.51%   | 4.60%   | 4.72%   | 4.77%   | <b>4.65%</b> |
|          | Thirty-Year Treasury Rate               |         |         |         |         |           |         |         |         |         |              |
| 9        | April 2007                              | 4.80%   | 4.83%   | 4.87%   | 4.93%   | 4.86%     | 5.00%   | 5.13%   | 5.30%   | 5.43%   | <b>5.21%</b> |
| 10       | September 2007                          | 4.80%   | 4.99%   | 4.94%   | 4.82%   | 4.89%     | 4.77%   | 4.86%   | 4.98%   | 5.03%   | <b>4.91%</b> |

1           Finally, SCE has estimated the impact of a ten-basis point change in its authorized return on  
2 equity on its 2008 revenue requirement. The impact is \$9,279,000.

**Appendix A**

**Calculation of SCE's 2008 Embedded Cost of Debt**

**Southern California Edison Company**  
**Projected Embedded Cost of Long-Term Debt**  
(Thousands of Dollars)

| Line No.  | Principal | Net Premium /<br>(Discount) and<br>Expense | Net Proceeds | Annual<br>Interest<br>Expense | Annual<br>Amortization<br>Expense | Embedded<br>Cost |
|---|-----------|--|--------------|-------------------------------|-----------------------------------|------------------|
| 1. March 31, 2007 (Recorded)                      | 5,077,835 | (233,430)                                  | 4,844,405    | 270,992                       | 29,349                            | 6.20%            |
| 2. 2007 Third Quarter Issue                       | 250,000   | (2,469)                                    | 247,531      | 16,100                        | 83                                |                  |
| 3. 2007 Fourth Quarter Issue                      | 450,000   | (4,481)                                    | 445,519      | 28,440                        | 150                               |                  |
| 4. CEMA Matures                                   | (99,466)  |  | (99,466)     | (5,436)                       |                                   |                  |
| 5. Ft. Irwin Acquisition Debt Amortization        | (29)      |  | (29)         | (1)                           |                                   |                  |
| 6. Amortization and Adjustments                   |           | 22,012                                     | 22,012       | 0                             | 0                                 |                  |
| 7. December 31, 2007 Forecast                     | 5,678,340 | (218,368)                                  | 5,459,972    | 310,095                       | 29,582                            | 6.22%            |
| 8. 2008 First Quarter Issue                       | 100,000   | (971)                                      | 99,029       | 6,270                         | 33                                |                  |
| 9. 2008 Second Quarter Issue                      | 100,000   | (979)                                      | 99,021       | 6,360                         | 33                                |                  |
| 10. 2008 Third Quarter Issue                      | 200,000   | (1,975)                                    | 198,025      | 12,960                        | 67                                |                  |
| 11. 2008 Fourth Quarter Issue                     | 300,000   | (2,988)                                    | 297,013      | 19,590                        | 100                               |                  |
| 12. Ft. Irwin Acquisition Debt Amortization       | (40)      |  | (40)         | (2)                           |                                   |                  |
| 13. Amortization and Adjustments                  |           | 29,582                                     | 29,582       | 0                             | 0                                 |                  |
| 14. December 31, 2008 Forecast                    | 6,378,300 | (195,698)                                  | 6,182,602    | 355,273                       | 29,816                            | 6.23%            |
| <b>15. Average Embedded Cost of Debt for 2008</b> |           |  |              |                               |                                   | <b>6.22%</b>     |

**Appendix B**

**Calculation of SCE's 2008 Embedded Cost of Preferred Stock**

**Southern California Edison Company**  
**Projected Embedded Cost of Preferred Equity**  
(Thousands of Dollars)

| Line No.   | Face Value | Net Premium /<br>(Discount) and<br>Expense | Net Proceeds | Annual<br>Dividend | Annual<br>Amortization<br>Expense | Embedded<br>Cost |
|--|------------|--|--------------|--------------------|-----------------------------------|------------------|
| 1. March 31, 2007 (Recorded)                                 | 928,755    | (13,268)                                   | 915,487      | 51,273             | 2,402                             | 5.86%            |
| 2. 2007 Fourth Quarter Issue                                 | 245,000    | (4,880)                                    | 240,120      | 15,484             | 163                               |                  |
| 3. Amortization and Adjustments                              |            | 1,801                                      | 1,801        | 0                  | 0                                 |                  |
| 4. December 31, 2007 Forecast                                | 1,173,755  | (16,346)                                   | 1,157,409    | 66,757             | 2,565                             | 5.99%            |
| 5. 2008 Second Quarter Issue                                 | 135,000    | (2,644)                                    | 132,356      | 8,586              | 90                                |                  |
| 6. Amortization and Adjustments                              |            | 2,565                                      | 2,565        |                    |                                   |                  |
| 7. December 31, 2008 Forecast                                | 1,308,755  | (16,425)                                   | 1,292,330    | 75,343             | 2,655                             | 6.04%            |
| <b>8. Average Embedded Cost of Preferred Equity for 2008</b> |            |  |              |                    |                                   | <b>6.01%</b>     |

**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 (U-338-E) ***2008 Cost of Capital Late-Filed Exhibit: Updated Estimates of SCE's 2008 Embedded Costs of Long-Term Debt and Preferred Stock***. 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 20<sup>th</sup> Day of September 2007, at Rosemead, California.

/s/ \_\_\_\_\_

Meraj Rizvi

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**A.07-05-003**

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