Decision ______________

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.	Application 07-05-003 (Petition for Modification Filed October 30, 2009)
And Related Matters.	Application 07-05-007 Application 07-05-008

DECISION MODIFYING COST OF CAPITAL MECHANISM ESTABLISHED BY DECISION 08-05-035 AND MODIFIED BY DECISION 09-10-016

Summary

This decision defers the filing of San Diego Gas & Electric Company's (SDG&E) next full cost of capital application from April 20, 2010 for a test year 2011 return on equity to April 20, 2012 for a test year 2013 return on equity. The currently authorized costs of capital of SDG&E shall continue to apply for its calendar year 2010.

1. Background

Decision (D.) 08-05-035 established a uniform cost of capital mechanism (CCM) to avoid the need for Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric (SDG&E) to file annual cost of capital applications. That decision changed the filing date of these utilities' cost of capital applications to once every three years from an annual basis, with their first full cost of capital applications to be filed on April 20, 2010 under this CCM.

The utilities' cost of capital is governed in the intervening years by a trigger adjustment tied to an interest rate index that varied between utilities based on their respective corporate credit rating. During those intervening years, the utilities are required to file a Tier 2 advice letter on October 15 of any year when the difference between the current 12-month October through September average utility bond rate and their respective interest rate benchmark exceeds a trigger of 100 basis points. If triggered, the utilities' return on equity for the following calendar year would automatically be adjusted by one-half the difference between the current average utility bond rates and their benchmarks. Although the authorized capital structure would not be adjusted, the long-term debt and preferred stock costs would be updated.

Joint petitions by SCE and DRA on August 7, 2009 and by PG&E and DRA on August 14, 2009 were filed for authority to forgo increases in their authorized cost of capital for 2010 based on the projected increase in the Interest Rate Index for 2009 resulting from a dramatic increase in the cost of utility debt that began in September 2008 after the bankruptcy of Lehman Brothers and continued into 2009. SCE, PG&E, and DRA explained that they sought to forgo transitory increases in SCE and PG&E's authorized cost of capital that could be reversed in a year's time as the financial markets stabilize. Joint petitions also requested the authority to defer the utilities' scheduled April 20, 2010 cost of applications to April 20, 2012. D.09-10-016 granted the joint petitioners' request that the utilities' authorize return on equity for 2010 remain unchanged. The decision also granted the deferral of SCE and PG&E's scheduled cost of capital applications from April 20, 2010 to April 20, 2012.

2. Petition

SDG&E and DRA filed an October 30, 2009 joint petition for authority to defer SDG&E's April 20, 2010 cost of capital application to April 20, 2012, similar to the deferrals granted SCE and PG&E by D.09-10-016. Unlike SCE and PG&E, SDG&E's CCM would not trigger in 2009 and its authorized return on equity for 2010 would be unchanged. While SDG&E has a different credit ratings than SCE and PG&E, SDG&E and DRA believe that it is administratively efficient and reasonable for SDG&E to forgo a stand-alone cost of capital proceeding at a time when no change is needed.

3. Discussion

This is an uncontested matter. Approval of this petition would benefit the ratepayers and shareholders of SDG&E by postponing the requirement for full cost of capital applications to April 2012 from 2010. All parties, including Commission staff would benefit by a reduction of workload requirements and regulatory costs.

The unopposed petition for modification of D.08-05-035, as modified by D.09-10-016 is reasonable and should be adopted.

4. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Therefore, pursuant to Pub. Util. Code § 311(g)(2) and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

5. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. D.08-05-035 established a uniform cost of capital mechanism for SCE, SDG&E, and PG&E that specified that these utilities would file full cost of capital applications every three years beginning with 2010 to set authorized cost of capital for 2011.
2. D.09-10-016 authorized SCE and PG&E to extend their currently authorized return on equity through 2010, and extend their date for filing full cost of capital applications from April 20, 2010 for test year 2011 to April 20, 2012 for test year 2013.
3. SDG&E and DRA jointly filed a petition to modify D.08-05-035 by authorizing SDG&E to extend its currently authorized return on equity through 2010, and extend SDG&E's date for filing a full cost of capital application from April 20, 2010 for a test year 2011 to April 20, 2012 for a test year 2013.
4. There was no protest to the petition.
5. A hearing is not required.

Conclusions of Law

1. SDG&E's petition for authority to modify D.08-05-035, as modified by D.09-10-016 should be granted as set forth below.
2. This decision should be effective today because it is in the interest of SDG&E and its ratepayers.

O R D E R

IT IS ORDERED that:

1. Ordering Paragraph 1 of Decision (D.) 08-05-035, as modified by D.09-10-016, is modified to defer San Diego Gas & Electric Company's first filing of a complete costs of capital application under the cost of capital mechanism

from April 20, 2010 for test year 2011 return on equity to April 20, 2012 for test year 2013 return on equity, as detailed in Appendix A to this decision.

2. Ordering Paragraph 2 of D.08-05-035, as modified by D.09-10-016, is modified to maintain San Diego Gas & Electric Company's currently authorized return on equity in effect for the year 2010, as detailed in Appendix A to this decision.

3. Application (A.) 07-05-003, A.07-05-007, and A.07-05-008 are closed.

This order is effective today.

Dated ______________________________, at San Francisco, California.

APPENDIX A

DECISION 08-05-035 as MODIFIED BY DECISION 09-10-016 and DECISION 10-01-___

O R D E R

IT IS ORDERED that:

1. A cost of capital mechanism is adopted for Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company. For Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company, their first full cost of capital applications shall be due on April 20, 2012 for test year 2013 returns on equity. These first complete filings under the cost of capital mechanism should address the parties' experience with the mechanism and whether modifications to the mechanism are warranted. The cost of capital mechanism shall be based on:
   a. A full cost of capital application due on April 20 of every third for the following test year.
   b. Capital structure is the most recently adopted.
   c. Long-term debt and preferred stock cost is the most recently adopted.
   d. Deadband is equal to 100 basis points.
   e. Index is Moody's Aa utility bonds for AA credit-rated utilities or higher and Moody's Baa utility bonds for BB credit-rated utilities or lower.
   f. Data source is Moody's or Mergent Bond Record.
   g. Measurement period is the average 12-month October through September period.
   h. Adjustment ratio is 50%.

2. In any year where the difference between the current 12-month October through September average Moody's utility bond rates and the benchmark

exceeds a trigger of 100 basis points, an automatic adjustment to the utilities' return on equity (ROE) shall be made as follows:

a. ROE is adjusted by one-half of the difference between the Aa utility bond average for AA credit-rated utilities or higher and Baa utility bond average for BBB credit-rated utilities or lower and the benchmark.

b. Long-term debt and preferred stock costs are updated to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.

c. Authorized capital structure is not adjusted.

d. On October 15 of such year, a Tier 2 advice letter is filed that updates the ROE and related rate adjustments to become effective on January 1 of the following year.

e. In any year where the 12-month October through September average Moody's utility bond rates triggers an automatic ROE adjustment, that average becomes the new benchmark.

f. Workpapers outlining the calculations required as set forth in Ordering Paragraphs 2(a), 2(b), and 2(e) shall be submitted with the advice letter to the Energy Division and active parties to this proceeding, and shall be made available to any party upon request.

No cost of capital change from the current authorized cost of capital shall be implemented for Southern California Edison Company, San Diego Gas & Electric Company, or Pacific Gas and Electric Company for the period of test year 2010 after the effective date of this decision.

3. Application (A.) 07-05-003, A.07-05-007, and A.07-05-008 are closed.

This order is effective today.

Dated May 29, 2008, at San Francisco, California.

(END OF APPENDIX A)