Decision 09-10-016 October 15, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Authorized Cost of Capital for Utility Operations for 2008.	Application 07-05-003 (Filed May 8, 2007)
And Related Matters.	Application 07-05-007 Application 07-05-008

Peter Van Mieghem and Shirley A. Woo, Attorneys at Law, for Pacific Gas and Electric Company; Laura Genao and Frank J. Cooley, Attorneys at Law, for Southern California Edison Company; Sempra Energy, by Carlos F. Pena, Attorney at Law, and Kim F. Hassan, Attorney at Law, for San Diego Gas & Electric Company; applicants.

Norman J. Furuta, Attorney at Law, for Federal Executive Agencies; Aglet Consumer Alliance, by James Weil, and The Utility Reform Network, by Hayley Goodson, Attorney at Law, and Michael Shames, Attorney at Law, by Consumer Alliance, and Utility Consumers' Action Network, jointly for Aglet Consumer Alliance, The Utility Reform Network, and Utility Consumers' Action Network; interested parties.

Jonathan Bromson, Attorney at Law, for the Division of Ratepayer Advocates.

DECISION MODIFYING COST OF CAPITAL MECHANISM DECISION 08-05-035

Summary

This decision defers the filing of Southern California Edison Company's (SCE) and Pacific Gas and Electric Company's (PG&E) next full cost of capital applications 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 SCE and PG&E shall continue to apply for their calendar year 2010.

1. Background

Decision (D.) 08-05-035 established a 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 Company 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.

2. Petitions

SCE, PG&E, and the Division of Ratepayer Advocates (DRA) recognized that projected increases in the 2009 interest rate indexes are largely the result of dramatic increases in the cost of utility debt that began in September 2008 after the bankruptcy of Lehman Brothers and continued into 2009. However, the utilities' equity markets have not returned to normalcy and are still showing significant continued risk aversion by investors.

SCE's current interest rate forecasts showed that its CCM would trigger in 2009 requiring it to file an October 15, 2009 advice letter to increase its revenue requirement by approximately $92 million beginning January 1, 2010. PG&E's current interest rate forecasts also showed that its CCM would trigger in 2009 requiring it to file an October 15, 2009 advice letter to increase its revenue requirement by approximately $120 million beginning January 1, 2010.

SCE, PG&E, and DRA sought to forgo transitory increases in authorized cost of capitals that could be reversed in a year's time as the financial markets stabilize. Hence, on August 7, 2009, SCE and DRA filed a joint petition to avoid SCE filing an October 15, 2009 Tier 2 advice letter for authority to increase SCE's 2010 revenue requirement and to defer SCE's first cost of capital application under the recently adopted CCM by two years from April 20, 2010 for a test year 2011 return on equity to April 20, 2012 for a test year 2013 return on equity. A similar petition was filed jointly by PG&E and DRA on August 14, 2009.

However, to preserve their rights under the CCM in the event their joint petitions are not granted by the end of 2009, SCE and PG&E will file October 15, 2009 advice letters for their 2010 cost of capital increases. SCE and PG&E will withdraw their cost of capital advice letters if the joint petitions are granted before December 31, 2009.

3. Discussion

This is an uncontested matter. Approval of the petitions would benefit the ratepayers and shareholders of SCE and PG&E. Ratepayers would benefit by avoidance of revenue requirement increases that would have occurred in 2010 due to a triggering of the utilities' CCMs. Shareholders would benefit 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 petitions for modification of D.08-05-035 are 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. SCE and DRA jointly filed a petition to modify D.08-05-035 by authorizing SCE to extend its currently authorized return on equity through 2010, and extend SCE'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.

2. PG&E and DRA jointly filed a petition to modify D.08-05-035 by authorizing PG&E to extend its currently authorized return on equity through 2010, and extend PG&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.

3. There were no protests to the joint petitions.

4. A hearing is not required.

Conclusions of Law

1. The joint petition of SCE and DRA for authority to modify D.08-05-035 should be granted as set forth below.

2. The joint petition of PG&E and DRA for authority to modify D.08-05-035 should be granted as set forth below.

3. This decision should be effective today because it is in the interest of SCE and PG&E and their respective ratepayers.

O R D E R

IT IS ORDERED that:

1. Ordering Paragraph 1 of Decision 08-05-035 is modified to defer Southern California Edison Company's and Pacific Gas and Electric Company's first filing of complete costs of capital applications under the cost of capital mechanism from April 20, 2010 for test year 2011 returns on equity to April 20, 2012 for test year 2013 returns on equity, as detailed in Appendix A to this decision.

2. Ordering Paragraph 2 of Decision 08-05-035 is modified to maintain Southern California Edison Company's and Pacific Gas and 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 October 15, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

APPENDIX A

DECISION 08-05-035 as MODIFIED BY DECISION 09-10-016

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 San Diego Gas & Electric Company, the first full cost of capital application shall be due on April 20, 2010 for a test year 2011 return on equity. For Southern California Edison 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 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)