*Southern California Edison*
**2012 LTPP R.12-03-014**

**DATA REQUEST SET R.12-03-014 DRA-SCE-001**

**To:** DRA
**Prepared by:** Paul T. Hunt, Jr.
**Title:** Director of Regulatory Finance and Economics
**Dated:** 07/16/2012

**Question 01:**

1. Please list all cases in which the Commission has authorized SCE to change its capital structure outside SCE's cost of capital proceeding.

**Response to Question 01:**

Prior to 1988, SCE's authorized capital structure was determined in SCE's general rate cases on the basis of financial projections. In 1988, SCE's Holding Company decision imposed the requirement that "Edison shall maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in Edison's most recent general rate case decision. Edison's equity shall be retained such that the Commission's adopted capital structure will be maintained on average over the period the capital structure is in effect for ratemaking purposes." (D.88-01-063, Ordering Paragraph 1, Condition 9, 1988 Cal. PUC LEXIS 2 at *77-78.)

D.96-09-092 granted SCE "limited capital structure flexibility": "We will adopt DRA's proposal in its testimony for limited capital structure flexibility which allows Edison to vary the share of debt or equity by no more than 5 percent from the percentage authorized in the 1997 Cost of Capital proceeding, adjusted for the share of total ratebase which is allocated to nongeneration as of January 1, 1997." (D.96-09-092, 1996 Cal. PUC LEXIS 965; 68 CPUC2d 275; 172 P.U.R.4th 393.)

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**Question 02:**

2. Please list all cases in which the Commission has authorized a utility other than SCE to change its capital structure outside that utility's cost of capital proceeding.

**Response to Question 02:**

SCE has not conducted exhaustive research on this question. However, in 1989 in D.89-10-031, the Commission established a "New Regulatory Framework" for large telecommunications utilities in California. That decision effectively ended Commission regulation of the telecommunications utilities' capital structures. In that decision, the Commission wrote: ""We do not believe it necessary to reach conclusions regarding the capital structures which the utilities should employ ..." (D.89-10-031, *mimeo* , p. 277; 33 CPUC 2d 43, 182.)

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**Question 03:**

3. Please provide a copy of Standard and Poor's (S&P's) "Southern California Edison," *Ratings Direct on the Global Credit Portal, July 28, 2011,* referenced in footnote 48, page 27 of SCE's June 25, 2012 Testimony.

**Response to Question 03:**

A copy of the report is provided with this response.

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**Question 04:**

4. Please explain how Moody's Investor Service (Moody's) considers debt equivalence in its credit rating determination of SCE.

**Response to Question 04:**

Moody's methodology is described in the file that is provided with this response.

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**Question 05:**

5. Please explain how Fitch Ratings (Fitch) considers debt equivalence in its credit rating determination of SCE.

**Response to Question 05:**

The report that is provided with this response explains Fitch Ratings's debt equivalence methodology.

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**Question 06:**

6. Please explain what are SCE's current credit ratings and outlook for senior unsecured, senior secured, commercial paper and preferred stock (four debt instruments) as determined by the three credit rating agencies (S&P, Moody's and Fitch)?

**Response to Question 06:**

A list of the ratings in contained in the file that is provided with this response. The current outlook for all of the ratings is "Stable."

Please note that although the credit rating agencies provide ratings for preferred stock, preferred stock is not debt. Preferred stock is a form of equity.

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**Question 07:**

7. Referring to question #6, please explain how long has SCE maintained this credit rating, as determined by the three credit rating agencies (S&P, Moody's and Fitch), for the four debt instruments mentioned above? Has the current credit rating been a downgrade or an upgrade from the previous credit rating for each of the four debt instruments?

**Response to Question 07:**

Question 6 provides ratings for multiple categories. When a rating agency changes a rating for a company, some of the ratings may change while others are unaffected. The most recent rating changes for SCE are as follows:

S&P
November 5, 2008, senior unsecured debt rating changed to BBB+ from BBB-, other ratings did not change

Moody's
August 3, 2009, senior secured debt rating changed from A2 to A1, other ratings did not change

Fitch
On July 10, 2008, the preferred stock rating was A-. On July 1, 2010, the preferred stock rating was BBB+. SCE has not determined precisely when the rating changed. The other Fitch ratings were the same on both dates.

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**Question 08:**

8. Please explain SCE's current debt equivalence based on the three credit rating agencies' (S&P, Moody's and Fitch) methodologies? What was SCE's debt equivalence for the last five years as determined by the three credit rating agencies (S&P, Moody's and Fitch)?

**Response to Question 08:**

SCE's current debt equivalence and for the last five years, as computed by Standard & Poor's, is provided in the attachment below. Moody's and Fitch do not explicitly show such calculations.

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**Question 11:**

11. Please explain when SCE would expect to start paying the capacity cost component of purchased power contracts that are considered to be "debt equivalents" should SCE be required to contract for generation to meet LCR needs? Please explain why SCE cannot wait until its next cost of capital proceeding to consider issues related to any purchase power agreements that the Commission authorizes SCE to execute for generation to meet LCR needs?

**Response to Question 11:**

SCE cannot answer the first part of this question because SCE does not know what contracts it will sign to meet LCR needs, when it will sign those contracts and when its obligations under the contracts will begin.

The reason that SCE cannot wait until its next cost of capital proceeding is that under the current schedule for CPUC energy cost of capital proceedings, established in D.08-05-035 and D.09-10-016, SCE's cost of capital applications occur only every three years: 2012, 2015, 2018, etc. Depending on when SCE signs PPAs to meet LCR needs and when the credit rating agencies impute debt equivalence from those contracts, SCE
could need to remedy increased debt equivalence much sooner to avoid a rating downgrade.

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**Question 12:**

12. On page 27 of Southern California Edison's Long Term Procurement Plan testimony filed on June 25, 2012, SCE claims that "the LCR procurement contracts could increase SCE's DE by an amount ranging from $.09 billion to $2.9 billion." Please explain in detail the methodology, input assumptions and other relevant details used in calculating such a wide range of debt equivalence amount.

**Response to Question 12:**

Please see page 2, lines 10-12, of Appendix B of SCE's testimony for a listing of some of SCE's assumptions that underlie these estimates. More details of SCE's calcuations are shown in the Excel file provided with this response.