From: Bromson, Jonathan

Sent: 9/28/2012 2:58:54 PM

To: Jan Reid (janreid@coastecon.com); 'paul.hunt@sce.com' (paul.hunt@sce.com)

Cc: Hughes, John (Reg Rel) (/O=PG&E/OU=Corporate/cn=Recipients/cn=J8HS); ek@a-klaw.com (ek@a-klaw.com); CManzuk@SempraUtilities.com (CManzuk@SempraUtilities.com); angelica.morales@sce.com (angelica.morales@sce.com); Marcel Hawiger (Marcel@turn.org); Redacted Redacted Earl, Laura M (LEarl@semprautilities.com); Oh, Jerry (jerry.oh@cpuc.ca.gov); 'Hassan, Kim' (KHassan@semprautilities.com); Redacted Redacted ; mihee.moon@sce.com (mihee.moon@sce.com); Redacted Woo, Shirley A (Law) (/O=PG&E/OU=Corporate/cn=Recipients/cn=SAW0); 'mgorman@consultbai.com' (mgorman@consultbai.com)

Bcc:

Subject: RE: Exhibit 35A

A couple of observations. DRA has a separate DCF model for its electric and gas proxy group. DRA will need two separate lines, one for electric and another for gas. Otherwise the gas and electric numbers are automatically averaged, and the model summary presents that average number that isn't actually used. Similarly, DRA also has 2 different betas for gas and electric proxy groups respectively in our CAPM analysis, and in the summary chart they are averaged to produce another average number that isn't actually used.

Jonathan

From: Paul.Hunt@sce.com [mailto:Paul.Hunt@sce.com]
Sent: Friday, September 28, 2012 10:57 AM
To: Jan Reid
Cc: Angelica.Morales@sce.com; CManzuk@semprautilities.com; ek@a-klaw.com; Hughes, John (Reg Rel); Oh, Jerry; Bromson, Jonathan; 'Hassan, Kim'; Earl, Laura M; Marcel Hawiger; Mihee.Moon@sce.com; Redacted Knecht, Ron; Woo, Shirley A (Law)
Subject: Re: Exhibit 35A

I respectfully disagree. As I read it, Ms. Hassan's spreadsheet does not allow the presentation of important information about SCE's cost of capital estimates, particularly the leverage adjustments presented in Exhibit 17 (SCE-1) at page 68 through 71 that are summarized in Tables IV-9 and IV-10 in

that exhibit.

Paul Hunt
Director of Regulatory Finance and Economics
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Paul.Hunt@sce.com

I do not support the use of PG&E's spreadsheet for submission to Commissioner
Ferron because Ms. Hassan's spreadsheet is easier to understand and more
importantly, consistent with what Commissioner Ferron has requested.

If a party feels that significant explanation is required, a party can include that
information in its opening brief.

Regards,

Jan Reid
Coast Economic Consulting
3185 Gross Road
Santa Cruz, CA 95062
(831) 476-5700

----- Original Message -----
From: Redacted
To: Marcel Hawiger ; Bromson, Jonathan ; 'Hassan, Kim' ; 'ek@a-klaw.com' ;
Angelica.Morales@sce.com ; Earl, Laura M ; Woo, Shirley A (Law) ; 'janreid@coastecon.com'
; 'paul.hunt@sce.com' ; Mihee.Moon@sce.com ; Manzuk, Chuck
(CManzuk@semprautilities.com)
Cc: Oh, Jerry ; Redacted   ; Hughes, John (Reg Rel)
Sent: Thursday, September 27, 2012 5:55 PM
Subject: RE: Exhibit 35A

I'm attaching an excel workbook we've been developing to capture and simply summarize the various
model inputs of the parties. As we all know, this gets very messy very quickly because very few of the

ROE modelers have just one simple version of a model. We thought the intent of this exhibit is to simply show each of the parties' inputs to the various models. Doing that may mean taking averages of several growth rates, or betas, etc. even though the ROE experts would claim that taking a simple average of their inputs does not represent how they would weigh them.

We've taken a stab at aggregating our ROE model inputs using simple averages, and they're shown in the spreadsheet as an example of how we think this could be done without overly complicating the final product.

Thinking about Jonathan Bromson's comment about showing adjustments, I'm not sure graphing them makes sense. We may want to consider using notes, e.g., a note on the CAPM page that PG&E also employed a size adjustment and state the average of it. And it's not clear how to deal with CAPMs and ECAPMs – whether to just exclude ECAPM (and other models such as PG&E's expected earnings model, Fama-French), add a fourth model (the transcript clearly contemplates just 3 models), somehow roll it into CAPM results using implied betas etc.

I realize people are very busy preparing for hearings next week, but perhaps the utilities' analysts can try and find a common ground for aggregation and presentation and then float those ideas with DRA and intervenors.

From: Marcel Hawiger [mailto:Marcel@turn.org]
Sent: Thursday, September 27, 2012 4:27 PM
To: Bromson, Jonathan; 'Hassan, Kim'; 'ek@a-klaw.com'; Angelica.Morales@sce.com; Earl, Laura M; Woo, Shirley A (Law); 'janreid@coastecon.com'; Redacted   'paul.hunt@sce.com'
Cc: Oh, Jerry
Subject: Re: Exhibit 35A

I believe we need to work a bit more to determine the level of aggregation that provides useful information. A single sheet for CAPM makes sense. However, for the DCF and RP we may need separate sheets for each IOU. I attach a very disaggregated spreadsheet. I think the best course is to fill this in FIRST, then determine whether we can collapse some of the DCF and RP tables without losing relevant information (ie. Perhaps collapse the tables from different data sources into one table with a range). However, TURN cannot participate more on this prior to close of hearings. I suggest we explain to the ALJ and ask for any guidance, and propose that we submit a late-filed exhibit after close of hearings.

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From: "Bromson, Jonathan" <jonathan.bromson@cpuc.ca.gov>
Date: Thursday, September 27, 2012 4:07 PM
To: "'Hassan, Kim'" <KHassan@semprautilities.com>, Marcel Hawiger <marcel@turn.org>, "'ek@a-klaw.com'" <ek@a-klaw.com>, "Angelica.Morales@sce.com" <Angelica.Morales@sce.com>, "Earl, Laura M" <LEarl@semprautilities.com>, "'SAW0@pge.com'" <SAW0@pge.com>, Jan Reid <janreid@coastecon.com>, Redacted   "'paul.hunt@sce.com'"

<paul.hunt@sce.com>
Cc: "Oh, Jerry" <jerry.oh@cpuc.ca.gov>
Subject: RE: Exhibit 35A

DRA would suggest that there also be a column for each method for the various adjustments parties make to the results of the models, i.e., flotation adjustments, growth adjustments, etc. The column should be to the right of the inputs and left of the final recommended ROE. Otherwise the results from the models don't equal the recommendations made by the parties.

Jonathan Bromson
Principal Counsel
DRA

From: Hassan, Kim [mailto:KHassan@semprautilities.com]
Sent: Thursday, September 27, 2012 1:37 PM
To: 'Marcel@turn.org'; 'ek@a-klaw.com'; Angelica.Morales@sce.com; Earl, Laura M; Bromson, Jonathan; 'SAW0@pge.com'; 'janreid@coastecon.com'; Redacted ; 'paul.hunt@sce.com'
Subject: Exhibit 35A

Commissioner Ferron asked for an exhibit (Exhibit 35A), which provides the inputs for the various formulas used by the parties. Attached is a spreadsheet for the CAPM, DCF, and RP models. Because there are modeling variations, ranges are used to reflect parties' various growth rates, dividend rates, risk premiums, and resultant ROE estimates. Assuming, parties agree with the template, please insert the relevant data for your party. Thank you.

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