

**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) A.07-05-__

**APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR
AUTHORIZED COST OF CAPITAL FOR UTILITY OPERATIONS FOR 2008**

Pursuant to the Rate Case Plan of the California Public Utilities Commission (“CPUC”) set forth in Decision No. (“D.”) 89-01-040, D.06-08-026, and established CPUC Rules of Practice and Procedure, Southern California Edison Company (“SCE”) hereby submits this application requesting that the CPUC find reasonable and authorize:

- SCE’s capital structure for 2008 to remain at 48% common equity, 43% long-term debt, and 9% preferred stock;
- SCE’s return on common equity of 11.80% for 2008;
- SCE’s embedded cost of debt of 6.20% for 2008;
- SCE’s embedded cost of preferred equity of 5.98% for 2008; and,
- Based on the preceding capital structure and cost factors, SCE’s weighted average return on rate base of 8.87% for 2006.

SCE’s proposed rate of return and capital structure will result in a projected revenue requirement increase of \$16.902 million for SCE’s customers.

I.

PROCEDURAL BACKGROUND

Pursuant to the Rate Case Plan, SCE is required to file, on or before May 8 of each year, an application for CPUC authorization of its cost of capital for the subsequent year. In 2006, SCE was excused from filing such an application following its request for a waiver of the requirement. In D.06-08-026, the CPUC found that neither SCE's capital structure nor its cost of long-term debt was expected to change materially in 2007 from what the CPUC had previously authorized. The CPUC, however, noted that unless otherwise ordered, SCE was to file a 2008 Cost of Capital application by May 8, 2007.¹

Consistent with the directives of state law, CPUC rulings, and SCE's assessment of the electricity industry, SCE presents testimony on the following issues critical to any assessment of its cost of capital: business and regulatory risk, debt equivalence, interest rates and general economic conditions, capital structure, and return on debt, common equity, and preferred equity.

II.

SCE'S REQUESTED COST OF CAPITAL FOR 2008

SCE requests authorization of the following capital structure, costs of long-term debt and preferred equity, and return on common equity, to become effective January 1, 2008.

¹ See D.06-08-026 at Finding of Fact No. 12.

SCE's 2008 Cost of Capital Request

Component	Percentage of Capital	Projected Cost/Rate of Return	Projected Weighted Cost/Rate of Return
Long-Term Debt	43.00%	6.20%	2.67%
Preferred Equity	9.00%	5.98%	0.54%
Common Equity	48.00%	11.80%	5.66%
Total	100%		8.87%

SCE's request results in a projected revenue requirement increase of \$16.902 million in 2008. SCE proposes to consolidate the revenue requirement change adopted in this proceeding with revenue changes from other SCE applications. If the revenue requirement change caused by this application were to be allocated on a system average percentage basis, the projected change by customer group would be as shown below.

***Projected Customer Group Revenue Impact
Due to Requested Change in the Cost of Capital – 2008***

Customer Group	Revenue Change (\$ Millions)	%
Domestic (Residential)	8,166	0.18%
Lighting – Small & Medium Power	5,757	0.13%
Large Power	2,433	0.10%
Agricultural & Pumping	525	0.16%
Street and Area Lighting	20	0.02%
Total	16,902	0.15%

When ruling on SCE's requested return on equity, the CPUC must consider four primary principles. These principles, set forth by the U.S. Supreme Court are:

- The return should be comparable to those of similar investments with similar risk profiles;
- The return should be sufficient to maintain the utility's credit status;

- The return should allow the utility to attract the capital necessary to provide proper service to customers; and
- The return should be sufficient to ensure confidence in the financial soundness of the utility.²

Adhering to these principles strikes the appropriate balance between a reasonable shareholder return and the interests of customers in reasonable rates.

III.

STATUTORY AND REGULATORY REQUIREMENTS

A. Statutory Authority

This application is submitted pursuant to Sections 451, 454, 701, 702, *et al.* of the California Public Utilities Code, the CPUC's Rules of Practice and Procedure, and the CPUC's prior decisions, orders, and resolutions.

B. Legal Name and Correspondence

SCE is a public utility organized and existing under the laws of the State of California. SCE's principal place of business is located at 2244 Walnut Grove Avenue, Rosemead, California 91770. SCE is a wholly-owned subsidiary of Edison International, a public utility holding company duly organized consistent with the Public Utility Holding Company Act of 1935 and incorporated in the State of Delaware. Correspondence or communications regarding this application should be addressed to:

² See *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia, et al.*, 262 U.S. 679 (1923), *Federal Power Commission, et al. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

Laura Genao, Esq.
 Paul T. Hunt
 Southern California Edison Company
 Post Office Box 800
 2244 Walnut Grove Avenue
 Rosemead, California 91770
 Telephone: (626) 302-6842
 Facsimile: (626) 302-1990
 E-mail: laura.genao@sce.com
 E-mail: paul.hunt@sce.com

Case Administration
 Law Department
 Southern California Edison Company
 Post Office Box 800
 2244 Walnut Grove Avenue
 Rosemead, California 91770
 Telephone: (626) 302-4875
 Facsimile: (626) 302-3119
 E-mail: case.admin@sce.com

C. Proposed Categorization, Need for Hearings, and Proposed Schedule

SCE proposes that this application be designated a “ratesetting” proceeding.³ At this time, SCE cannot determine whether hearings will be necessary. Hearings will likely be necessary if other parties contest SCE’s application. SCE proposes the following schedule for submission of proposed testimony, briefs, hearings, and other proceedings.

DAY	DATE	DAY OF WEEK	EVENT
0	May 8, 2007	Tuesday	Application filed
7	May 15, 2007	Tuesday	ALJ, staff counsel, and Commissioner assigned
42	June 19, 2007	Tuesday	Prehearing Conference
76	July 23, 2007	Monday	DRA testimony due; intervenor testimony due
94	August 10, 2007	Friday	Rebuttal testimony due
104	August 20, 2007	Monday	Hearings begin

³ Rule 1.3(e) defines a “ratesetting” proceeding as one “in which the Commission sets or investigates rates for a specifically named utility (or utilities), or establishes a mechanism that in turn sets the rates for a specifically named utility (or utilities).”

108	August 24, 2007	Friday	Hearings end
129	September 14, 2007	Friday	Late-filed exhibit (interest rate update); Opening briefs due.
143	September 28, 2007	Friday	Reply briefs due
182	November 6, 2007	Tuesday	Proposed Decision due
202	November 26, 2007	Monday	Comments on Proposed Decision due
209	December 3, 2007	Monday	Reply to comments on Proposed Decision due
212	December 6, 2007	Thursday	Final decision scheduled

D. Exhibits Supporting This Application

SCE has concurrently served its Exhibit SCE-1, entitled *Testimony in Support of 2008 Cost of Capital Application* in support of this application.

E. Notice and Service of Application

Pursuant to D.93-12-022, every applicant in a cost of capital proceeding should provide appropriate notice and service in accordance with the procedures set out in D.92-11-047, regardless of the utility's expectation of the cumulative effect of the CPUC's findings on the utility's rates.⁴ Additionally, Rule 3.2 of the CPUC's Rules of Practice and Procedure sets forth various notice requirements for utility applications that request rate increases. SCE will provide

⁴ The procedures established in D.92-11-047 include filing with the CPUC prior to the first prehearing conference a notice of compliance with Paragraph 1 of Rule 24 and filing by the close of hearings proof of publication and proof of mailing of bill insert notice. D.93-12-022 at 84.

proof of compliance with the various provisions of such rules as specified in D.92-11-047 or in applicable rules.

F. Description of SCE’s Service Territory and Utility System

SCE’s service territory is located throughout Central and Southern California and includes approximately 200 incorporated communities as well as outlying rural territories. A list of the counties and municipalities served by SCE is attached hereto as Appendix B.

SCE is engaged in the business of generating, transmitting, and distributing electricity in portions of Central and Southern California. Within California, SCE owns and operates a diesel electric generating plant, 38 hydroelectric plants, and an undivided 78.21% interest in San Onofre Nuclear Generating Station Units 2 and 3. In addition to properties in California, SCE owns, in some cases jointly, facilities in Nevada, Arizona, and New Mexico.⁵ In Arizona, SCE owns a 15.8% share interest in Palo Verde Nuclear Generating Station Units 1, 2, and 3. In New Mexico, SCE owns a 48% share of Units 4 and 5 of the Four Corners Project, a coal-fired steam electric generating plant. In Nevada, SCE owns a 56% undivided interest in the Mohave Generating Station.⁶

Additionally, a wholly-owned subsidiary of SCE, Mountainview Power LLC, owns and operates the Mountainview Project in San Bernardino, California. SCE purchases 100% of this plant’s output subject to a long-term power purchase agreement.

G. Depreciation

SCE follows the CPUC’s orders, as issued through various decisions, with regard to depreciation. The methods used for various purposes relevant to this application are:

⁵ SCE’s share of the facilities located outside of California produce electricity for use by SCE’s customers in California.

⁶ This generating station is no longer operating.

- Straight-line remaining life depreciation for computing book depreciation expense for accounting and ratemaking purposes in connection with SCE’s operations.⁷
- Accelerated depreciation for income tax purposes with a “flow through” reduction in income taxes to ratepayers within the CPUC’s jurisdiction for property in service prior to 1981.⁸
- Accelerated cost recovery system for determining depreciation in connection with federal income tax issues and to “normalize” depreciation timing differences to ratepayers for property placed in service after 1980 in compliance with the Economic Recovery Act of 1981.⁹
- Modified accelerated cost recovery system for determination of depreciation for federal income tax purposes and, in compliance with the Tax Reform Act of 1986, “normalization” of depreciation timing differences to ratepayers for property placed in service after 1986.¹⁰

H. Articles of Incorporation

A copy of SCE’s Restated Articles of Incorporation, as amended through March 2, 2006, certified by the California Secretary of State and presently in effect, was filed with the CPUC on March 14, 2006, in connection with Application No. 06-03-020¹¹ and is incorporated herein by reference pursuant to Rule 2.2 of the CPUC’s Rules of Practice and Procedure.

I. Capital Stock and Proxy Statement

Certain classes and series of SCE’s and Edison International’s (SCE’s parent company) capital stock are listed on a “National Securities Exchange” as defined in the Securities

⁷ See D.49665, dated February 16, 1954.

⁸ See D.59926, dated April 12, 1960.

⁹ See D.93848, dated December 15, 1981.

¹⁰ See D.88-01-061, dated January 28, 1988.

¹¹ A.06-02-030, filed March 14, 2006, For Approval of Early Transfer of Anaheim’s Share of SONGS 2 & 3 to SCE.

Exchange Act of 1934. Three copies of the joint proxy statement of SCE and Edison International, which was sent to their shareholders, were filed with the CPUC pursuant to General Order Nos. 65-A and 104-A, and in compliance with Ordering Paragraph No. 1 of D.88-01-063, Condition No. 5-D, by letter dated April 2, 2007.

IV.

CONCLUSION

SCE respectfully requests that the CPUC issue a decision:

1. Finding reasonable and authorizing SCE to maintain a capital structure for 2008 of 48% common equity, 43% long-term debt, and 9% preferred equity;
2. Finding reasonable and authorizing SCE a return on common equity of 11.8% for 2008, an embedded cost of debt of 6.2% for 2008, and an embedded cost of preferred equity of 5.98% for 2008;
3. Based on the preceding capital structure and cost factors, finding reasonable and authorizing a weighted average return on utility rate base of 8.87% for 2008;
4. Rendering such other Findings of Fact, Conclusions of Law, and issuing orders consistent with the foregoing request; and
5. Granting such other relief as the CPUC finds to be just and reasonable.

Respectfully submitted,

FRANK J. COOLEY
LAURA I. GENAO

/s/ Laura I. Genao

By: Laura I. Genao

Attorneys for
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770
Telephone: (626) 302-6842
Facsimile: (626) 302-1935
E-mail: Laura.Genao@sce.com

May 8, 2007

VERIFICATION

I am an officer of the applicant corporation herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 8th day of May, 2007, at Rosemead, California.

/s/ Robert C. Boada
Robert C. Boada
Vice President and Treasurer
SOUTHERN CALIFORNIA EDISON COMPANY
2244 Walnut Grove Avenue
Post Office Box 800
Rosemead, California 91770

Appendix A

SOUTHERN CALIFORNIA EDISON COMPANY

BALANCE SHEET

DECEMBER 31, 2006

A S S E T S

(Millions of Dollars)

UTILITY PLANT:

Utility plant, at original cost	\$19,071
Less - Accumulated depreciation and decommissioning	(4,821)
	<hr/> 14,250
Construction work in progress	1,486
Nuclear fuel, at amortized cost	177
	<hr/> <hr/> 15,913

OTHER PROPERTY AND INVESTMENTS:

Nonutility property - less accumulated provision for depreciation of \$633	1,046
Nuclear decommissioning trusts	3,184
Other Investments	62
	<hr/> 4,292

CURRENT ASSETS:

Cash and equivalents	83
Restricted cash	56
Margin and collateral deposits	55
Receivables, including unbilled revenues, less reserves of \$29 for uncollectible accounts	939
Accrued unbilled revenue	303
Inventory	232
Accumulated deferred income taxes - net	250
Derivative assets	56
Regulatory assets	554
Other current assets	54
	<hr/> 2,582

DEFERRED CHARGES:

Regulatory assets	2,818
Derivative assets	17
Other long-term assets	488
	<hr/> 3,323
	<hr/> \$26,110

SOUTHERN CALIFORNIA EDISON COMPANY

BALANCE SHEET

DECEMBER 31, 2006

CAPITALIZATION AND LIABILITIES

(Millions of Dollars)

CAPITALIZATION:

Common stock	\$2,168
Additional paid-in capital	383
Accumulated other comprehensive loss	(14)
Retained Earnings	2,910
Common shareholder's equity	<u>5,447</u>
Preferred and preference stock not subject to redemption requirements	929
Long-term debt	<u>5,171</u>
	<u>11,547</u>

CURRENT LIABILITIES:

Long-term debt due within one year	396
Accounts payable	856
Accrued taxes	193
Accrued interest	114
Counterparty collateral	36
Customer deposits	198
Book overdrafts	140
Derivative liabilities	99
Regulatory liabilities	1,000
Other current liabilities	624
	<u>3,656</u>

DEFERRED CREDITS:

Accumulated deferred income taxes - net	2,675
Accumulated deferred investment tax credits	112
Customer advances	160
Derivative liabilities	77
Power purchase contracts	32
Accumulated provision for pensions and benefits	809
Asset retirement obligations	2,749
Regulatory liabilities	3,140
Other deferred credits and other long-term liabilities	802
	<u>10,556</u>

Minority interest	<u>351</u>
	<u>\$26,110</u>

SOUTHERN CALIFORNIA EDISON COMPANY

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2006

(Millions of Dollars)

OPERATING REVENUE	<u>\$10,312</u>
OPERATING EXPENSES:	
Fuel	1,112
Purchased power	3,409
Provisions for regulatory adjustment clauses - net	25
Other operation and maintenance expenses	2,678
Depreciation, decommissioning and amortization	1,026
Property and other taxes	206
Net gain on sale of utility property and plant	(1)
Total operating expenses	<u>8,455</u>
OPERATING INCOME	<u>1,857</u>
Interest income	58
Other nonoperating income	85
Interest expense - net of amounts capitalized	(400)
Other nonoperating deductions	(60)
INCOME BEFORE TAX AND MINORITY INTEREST	<u>1,540</u>
INCOME TAX	438
MINORITY INTEREST	<u>275</u>
NET INCOME	827
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK - NOT SUBJECT TO MANDATORY REDEMPTION	<u>51</u>
NET INCOME AVAILABLE FOR COMMON STOCK	<u><u>\$776</u></u>

Appendix B

SOUTHERN CALIFORNIA EDISON COMPANY

Citizens or some of the citizens of the following counties and municipal corporations will or may be affected by the changes in rates proposed herein.

COUNTIES				
Fresno	Kings	Orange	Tuolumne*	
Imperial	Los Angeles	Riverside	Tulare	
Inyo	Madera	San Bernardino	Ventura	
Kern	Mono	Santa Barbara		
MUNICIPAL CORPORATIONS				
Adelanto	Cudahy	La Habra	Ojai	Santa Monica
Agoura Hills	Culver City	La Habra Heights	Ontario	Santa Paula
Alhambra	Cypress	La Mirada	Orange	Seal Beach
Aliso Viejo	Delano	La Palma	Oxnard	Sierra Madre
Apple Valley	Desert Hot Springs	La Puente	Palm Desert	Signal Hill
Arcadia	Diamond Bar	La Verne	Palm Springs	Simi Valley
Artesia	Downey	Laguna Beach	Palmdale	South El Monte
Avalon	Duarte	Laguna Hills	Palos Verdes Estates	South Gate
Baldwin Park	El Monte	Laguna Niguel	Paramount	South Pasadena
Barstow	El Segundo	Laguna Woods	Perris	Stanton
Beaumont	Exeter	Lake Elsinore	Pico Rivera	Tehachapi
Bell	Farmersville	Lake Forest	Placentia	Temecula
Bell Gardens	Fillmore	Lakewood	Pomona	Temple City
Bellflower	Fontana	Lancaster	Port Hueneme	Thousand Oaks
Beverly Hills	Fountain Valley	Lawndale	Porterville	Torrance
Bishop	Fullerton	Lindsay	Rancho Cucamonga	Tulare
Blythe	Garden Grove	Loma Linda	Rancho Mirage	Tustin
Bradbury	Gardena	Lomita	Rancho Palos Verdes	Twentynine Palms
Brea	Glendora	Long Beach	Rancho Santa Margarita	Upland
Buena Park	Goleta	Los Alamitos	Redlands	Victorville
Calabasas	Grand Terrace	Lynwood	Redondo beach	Villa Park
California City	Hanford	Malibu	Rialto	Visalia
Calimesa	Hawaiian Gardens	Mammoth Lakes	Ridgecrest	Walnut
Camarillo	Hawthorne	Manhattan Beach	Rolling Hills	West Covina
Canyon Lake	Hemet	Maywood	Rolling Hills Estates	West Hollywood
Carpinteria	Hermosa Beach	McFarland	Rosemead	Westlake Village
Carson	Hesperia	Mission Viejo	San Bernardino	Westminster
Cathedral City	Hidden hills	Monrovia	San Buenaventura	Whittier
Cerritos	Highland	Montclair	San Dimas	Woodlake
Chino	Huntington Beach	Montebello	San Fernando	Yorba Linda
Chino Hills	Huntington Park	Monterey Park	San Gabriel	Yucaipa
Claremont	Indian Wells	Moorpark	San Jacinto	Yucca Valley
Commerce	Industry	Moreno Valley	San Marino	
Compton	Inglewood	Murrieta	Santa Ana	
Corona	Irvine	Newport Beach	Santa Barbara	
Costa Mesa	Irwindale	Norco	Santa Clarita	
Covina	La Canada Flintridge	Norwalk	Santa Fe Springs	

*SCE provides electric service to a small number of customer accounts in Tuolumne County and is not subject to franchise requirements.

Appendix C

**Southern California Edison
Summary of Earnings
2007 GRC-Related Adopted Revenue Requirement ^{1/}
Thousands of Dollars**

Line No.	Item	Total
1.	Base Revenues	3,915,200
2.	Expenses:	
3.	Operation & Maintenance	1,812,704
4.	Depreciation	826,047
5.	Taxes	588,142
6.	Revenue Credits	(167,481)
7.	Total Expenses	3,059,412
8.	Net Operating Revenue	855,788
9.	Rate Base	9,758,124
10.	Rate of Return	8.77%

^{1/} D.06-05-016/Advice Letter 2054-E-A
Includes one SONGS 2&3 refueling and maintenance outage

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 APPLICATION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR AUTHORIZED COST OF CAPITAL FOR UTILITY OPERATIONS FOR 2008 on all parties identified on the attached service list(s). Service was effected by 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 **8th day of May, 2007**, at Rosemead, California.

/s/ Cecilia Jones _____

Cecilia Jones

Project Analyst

SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue

Post Office Box 800

Rosemead, California 91770

A.05-05-011

Tuesday, May 8, 2007

GREG CHANG
BLOOMBERG NEWS
345 CALIFORNIA ST., STE 3500
SAN FRANCISCO, CA 94104
A.05-05-011

Michael J. Galvin
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 5015
SAN FRANCISCO, CA 94102-3214
A.05-05-011

JEFFREY P. GRAY
ATTORNEY AT LAW
DAVIS WRIGHT TREMAINE, LLP
505 MONTGOMERY STREET, SUITE 800
SAN FRANCISCO, CA 94111-6533
A.05-05-011

WILLIAM HARN
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770
A.05-05-011

Diana L. Lee
CALIF PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
ROOM 4300
SAN FRANCISCO, CA 94102-3214
A.05-05-011

N.A. N.A.
MRW & ASSOCIATES, INC.
1814 FRANKLIN STREET, SUITE 720
OAKLAND, CA 94612
A.05-05-011

ADAR ZANGO
ZIMMER LUCAS PARTNERS
45 BROADWAY, 28/F
NEW YORK, NY 10006
A.05-05-011

CALIFORNIA ENERGY MARKETS
517-B POTRERO AVENUE
SAN FRANCISCO, CA 94110
A.05-05-011

CASE ADMINISTRATION
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE, RM.370
ROSEMEAD, CA 91770
A.05-05-011