

5.C.

Application No. 59351
Exhibit No. 145
Witness D. Gardner
Commissioner L. Grimes
Adm. Law Judge J. Haley

California Public Utilities Commission
Revenue Requirements Division
Rate of Return Unit

ADDITIONAL
PREPARED TESTIMONY OF
DANA T. GARDNER

Application No. 59351
Southern California Edison Company

San Francisco, California
November 18, 1980

8108110718

Additional Prepared Testimony of
Dana T. Gardner

Q.1 Have you previously testified in this proceeding?

A.1 Yes, I have. I sponsored Exhibit 55, entitled Study of the Cost of Capital and Rate of Return for Southern California Edison Company.

Q.2 What is the purpose of your additional testimony?

A.2 The purpose of my testimony is to revise the recommended rate of return for Southern California Edison Company (Edison) to recognize changes in the costs of long-term debt and preferred stock which have occurred since my March 18, 1980 study.

Q.3 What is your revised recommendation?

A.3 I am recommending that the Commission authorize Edison a return on rate base of 10.54% for the test year 1981 and that the return be adjusted upward in 1982 by 24 basis points to offset the effects of financial attrition. The following tabulation compares my original recommendation, which appears in Exhibit 55, with my revised recommendation.

Revised Rate of Return Recommendation

Component	Capital Ratios	Cost Factors	Weighted Costs
Average Year 1981			
Long-Term Debt	47.00%	8.61%	4.06%
Preferred Stock	13.00	8.03	1.04
Common Stock Equity	40.00	13.60	5.44
Total	<u>100.00%</u>		<u>10.54%</u>
Average Year 1982			
Long-Term Debt	47.00%	9.07%	4.26%
Preferred Stock	13.00	8.28	1.08
Common Stock Equity	40.00	13.60	5.44
Total	<u>100.00%</u>		<u>10.78%</u>

Exhibit 55
Rate of Return Recommendation

Average Year 1981			
Long-Term Debt	47.00%	8.29%	3.90%
Preferred Stock	13.00	7.98	1.04
Common Stock Equity	40.00	13.60	5.44
Total	<u>100.00%</u>		<u>10.38%</u>
Average Year 1982			
Long-Term Debt	47.00%	8.51%	4.00%
Preferred Stock	13.00	8.12	1.06
Common Stock Equity	40.00	13.60	5.44
Total	<u>100.00%</u>		<u>10.50%</u>

Both recommendations are based on the company's target capital structure, average capital costs, and a return on common stock equity of 13.60%. The difference results from my recognition of Edison's recorded 1980 financing costs and the assumption that higher interest and dividend rates will continue throughout the test period. The effect of these higher rates on the utility's embedded costs of long-term debt and preferred stock are shown in Tables Nos. 1 and 2, which correspond to Tables Nos. 5 and 7 of Exhibit 55. Edison's final 1980 bond financing is scheduled for sale through competitive bidding on November 19, 1980. Although I have estimated a rate of 14.00% on the \$150 million issue, I recommend that the Commission take official notice of the actual costs as reported in the G.O. 24-B filing in determining the authorized rate of return.

Q.4. How does your revised recommendation affect Edison's gross revenue requirements?

A.4. The 16 basis point increase in the rate of return recommended for 1981 results in an increase in revenue requirements of approximately \$7.2 million. The higher financial attrition allowance recommended for 1982 will require an additional \$7.5 million.

Q.5. In view of the recent volatility in interest rates, how do you recommend the Commission protect ratepayers from an over-estimation of future interest rates, or vice versa, compensate investors if you have substantially underestimated the cost of new securities?

A.5. If the Commission adopts a step rate procedure to recognize the operational and financial attrition likely to occur in 1981, I recommend that the Rate of Return staff be required to review Edison's 1981 financing costs before incremental rates are put into effect. At that time the allowance would be adjusted for any differential between the adopted interest rates and recorded results. Such a procedure would ensure that ratepayers would be protected if capital markets improved and interest rates declined and conversely the utility would be able to recover current interest and dividend costs prior to the end of the two-year regulatory cycle.

Q.6. Does this conclude your testimony?

A.6. Yes, it does.

TABLE NO. 1

SOUTHERN CALIFORNIA EDISON COMPANY

Effective Interest Rate on Long-Term Debt
 Estimated as of December 31, 1980, 1981 and 1982

Description	Par Value (a)	Net Proceeds (b)	Annual Charge (c)	Effective Rate (d)
Outstanding, December 31, 1979	\$2,782,652	\$2,757,185	\$204,000	7.40%
<u>1980</u>				
Bond Issues				
Series LL - 9.625%	50,000	49,500	4,889	9.88
Series NN - 15-1/8%	200,000	196,741	30,380	15.44
Series NNA - 14%	150,000	150,000	21,000	14.00
Maturing Debt				
Cal. Elect. 2.875% Series	(6,000)	(5,890)	(176)	2.99
Debentures	(74,902)	(76,057)	(2,264)	2.98
Promissory Note	(3,639)	(3,530)	(272)	7.70
Outstanding, December 31, 1980	3,098,111	3,067,949	257,557	8.40
<u>1981</u>				
Planned Bond Issue ^{1/}				
Series OO - 13%	300,000	300,000	39,000	13.00
Maturing Debt				
Series G	(40,000)	(39,157)	(1,484)	3.79
Series EE	(100,000)	(98,477)	(9,217)	9.36
Promissory Note	(3,561)	(3,454)	(266)	7.70
Outstanding, December 31, 1981	3,254,550	3,226,861	285,590	8.85
<u>1982</u>				
Planned Bond Issue ^{1/}				
Series PP - 12%	300,000	300,000	36,000	12.00
Maturing Debt				
Series H	(37,500)	(37,101)	(1,610)	4.34
Series I	(40,000)	(39,789)	(1,909)	4.80
Series J	(40,000)	(40,016)	(1,949)	4.87
Promissory Note	(3,522)	(3,416)	(263)	7.70
Outstanding, December 31, 1982	<u>\$3,433,528</u>	<u>\$3,406,539</u>	<u>\$315,859</u>	9.27%

^{1/} Estimated Rates.

TABLE NO. 2

SOUTHERN CALIFORNIA EDISON COMPANY

Effective Dividend Rate on Preferred and Preference - Stock
 Estimated as of December 31, 1980, 1981, and 1982

Description	Par Value (a)	Net Proceeds (b)	Annual Charge (c)	Effective Rate (d)
Outstanding, December 31, 1979	\$812,150	\$805,063	\$59,579	7.40%
<u>1980</u>				
Stock Issue			(\$1000)	
12.00% Series	75,000	73,975	9,000	12.17
Conversions				
Convertible Series 5.20%	<u>(12,000)</u>	<u>(11,712)</u>	<u>(624)</u>	5.33
Outstanding, December 31, 1980	875,150	867,326	67,955	7.83
<u>1981</u>				
Planned Stock Issue				
12.00% Series ^{1/}	75,000	75,000	9,000	12.00
Conversions				
Convertible Series 5.20%	<u>(12,000)</u>	<u>(11,712)</u>	<u>(624)</u>	5.32
Outstanding, December 31, 1981	938,150	930,614	76,331	8.20
<u>1982</u>				
Planned Stock Issue				
11.00% Series ^{1/}	50,000	50,000	5,500	11.00
Conversions				
Convertible Series 5.20%	<u>(1,895)</u>	<u>(1,778)</u>	<u>(255)</u>	
Outstanding, December 31, 1982	<u>983,255</u>	<u>978,836</u>	<u>81,576</u>	8.30%

^{1/} Estimated Rates.