



Innovative Funding for Public Policy Objectives

Robert Boada
Vice President and Treasurer
Southern California Edison

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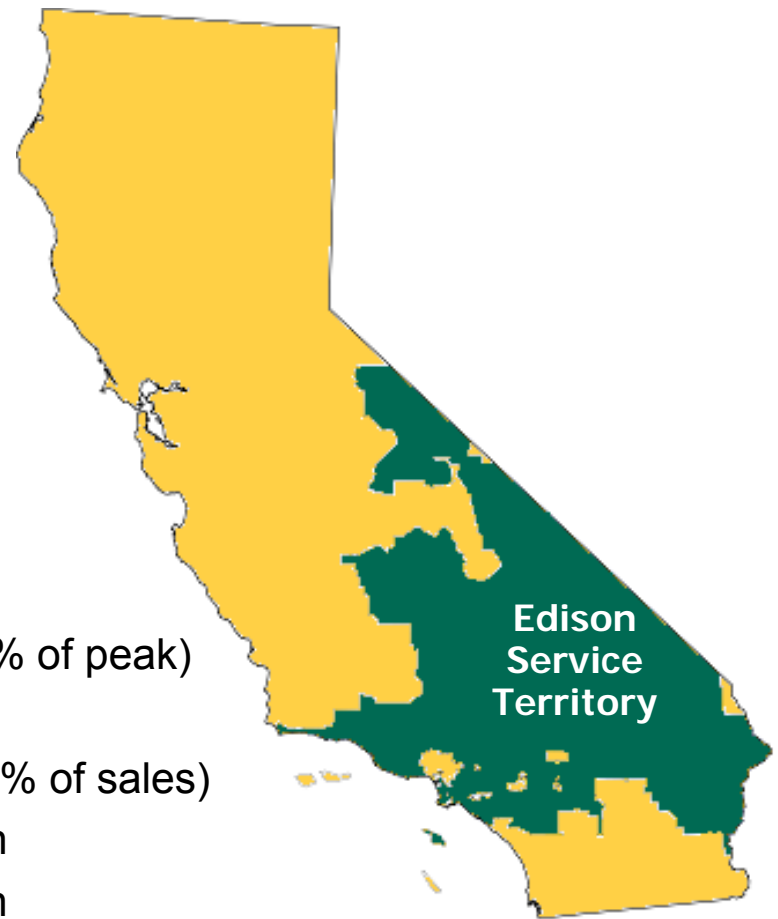
Southern California Edison

- One of nation's largest electric utilities and largest in California
 - 50,000 square-mile service area
 - 13 million residents
 - 4.9 million customers

- State and Federal regulators
 - California Public Utilities Commission
 - Federal Energy Regulatory Commission

- 2008 Statistics:

• Peak Load	22.0 TW
• Utility Owned Generation	5.3 TW (25% of peak)
• Electric Sales	98.6 TWh
• Renewable Energy Supply	13 TWh (16% of sales)
• Assets	\$32.6 Billion
• Revenues	\$11.2 Billion



California – at the leading edge of policy implementation

		<u>Utility Credit Quality</u>
1980s:	<ul style="list-style-type: none"> ▪ PURPA power supply development 	AA
1990s:	<ul style="list-style-type: none"> ▪ Deregulation and IPP development 	A/BBB+
2000s:	<ul style="list-style-type: none"> ▪ Energy crisis and industry restructuring 	A/BBB+ → D → BBB+/A
2010s:	<ul style="list-style-type: none"> ▪ Electric infrastructure for reliability ▪ Renewable portfolio standards ▪ Technology advances ▪ Carbon emission reductions ▪ New economy support 	A or better needed

Strong Utility Credit Ratings are Vital

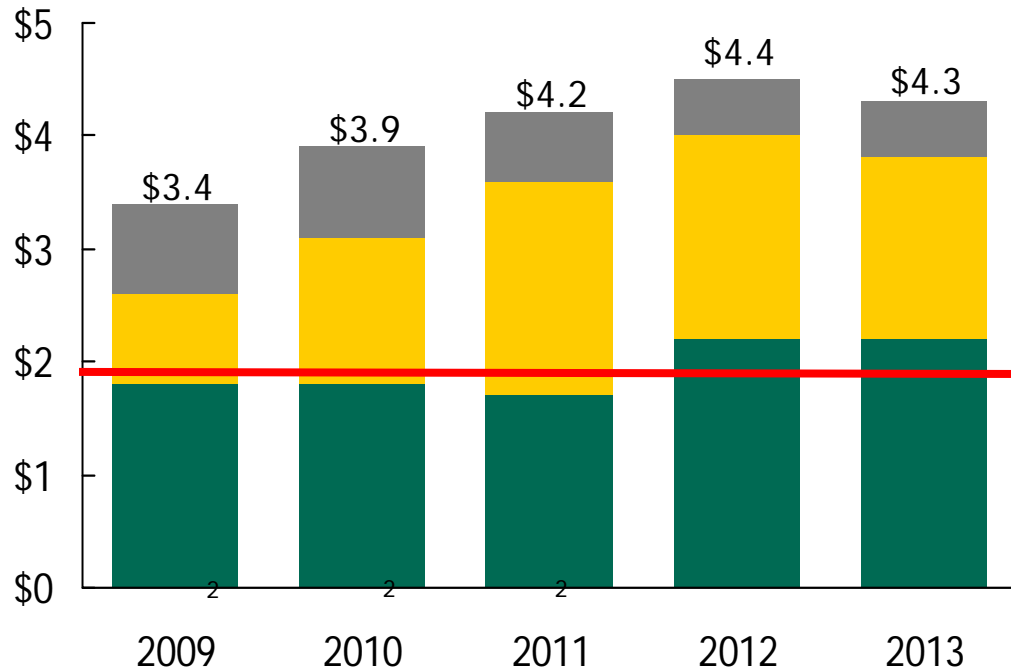
- Capital intensive businesses require ongoing market access
- Last October, at height of financial crisis, SCE was able to access credit markets because of strong credit rating
 - Ability to issue first mortgage bonds was required
- IPP's ability to issue project debt based on PPA contracts with highly rated utilities
 - Strong utility balance sheets and credit quality are needed to make IPP financing possible now and in the future
 - Impact of debt equivalence needs to be addressed
- Going forward capital needs for policy goals are substantial
 - California's 33% by 2020 will require \$95-115 billion of capital¹

Higher credit ratings benefit utilities and IPPs by lowering costs and ensuring market access

1. Source: "33% Renewables Portfolio Standard: Implementation Analysis Preliminary Results," June 2009 issued by CPUC ED staff – with and without transmission and conventional generation

Edison's 5-Year Capital Investment Need

\$ Billions



— 2003-08 average capital expenditures = \$1.9 billion

5-Yr By Classification:		
	\$	%
Generation	3.1	15
Transmission	7.4	37
Distribution	9.7	48
Total	20.2	100

Issues

- \$20 billion core capital need is 2x historical trend
- Policy goals likely to add substantially more to capital need
- Current financial crisis has heightened investors' risk aversion
 - Can customers afford?
 - Will Wall Street provide funding?

Project Finance Market Capacity

- 2005-08 average annual financing activity:
 - Power: \$15 billion
 - Renewables: \$8 billion
- 2009 total financings under \$4 billion year to date
- \$95-115 billion¹ for California's 33% renewables need represents:
 - 50% of total historical average project financing activity for 10 years
 - 150% of historical average renewable financing activity for 10 years
- Where will investment dollars for nationwide RPS come from?
- Ability to utilize renewable project finance market is a non-starter if contracts are with lower rated utilities

1. Source: "33% Renewables Portfolio Standard: Implementation Analysis Preliminary Results," June 2009 issued by CPUC ED staff – with and without transmission and conventional generation

Key Issues for Evaluating Alternative Funding Sources

- Utilities need strong credit quality to perform public policy role (A rating)
 - Need to attract both debt and equity and IPP financings of PPAs
 - Credit ratings need clear regulatory support
- Utilities and regulators must keep financial community trust to attract capital at lowest cost to customers
 - Budget deficits will compete for available capital
 - Regulatory actions establish track record
- Stimulus Plan funding options
 - DOE loan guarantees developing slowly
 - Total available dollars not enough to meet all needs

Understand customers' ability to absorb policy costs and Wall Street's ability to fund

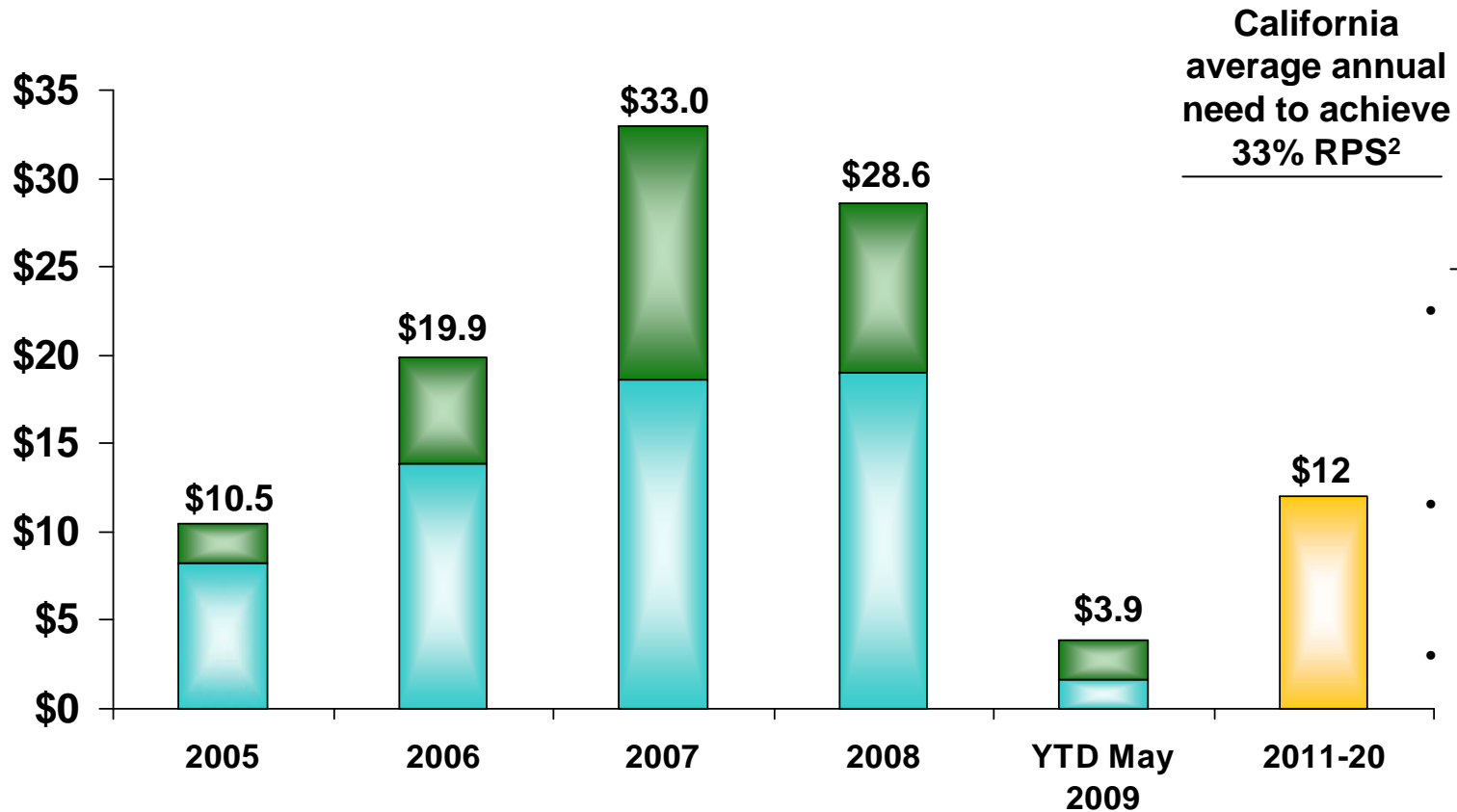
Backup

Securitization

Viabile Market:

- \$40+ billion issued to date
- Best use view: Efficient take-out financing for term-out of operating costs
- Current rating agencies' views are positive, yet rating agencies' opinions are never permanent
- Know legislative appetite and issuance capacity limits
- Risk transfer to equity holder needs to be considered

Total US Power and IPP Project Finance Market¹ (\$ Billions)



Issues

- What is total US RPS funding need?
- What is funding source?
- What are alternatives?

Other Power:	\$8.2	\$13.9	\$18.6	\$19.0	\$1.6
Renewables:	\$2.3	\$6.0	\$14.4	\$9.6	\$2.3

1. Source: Infrastructure Journal

2. E3/CPUC study estimated requirement to achieve 33% RPS by 2020, averaged ratably over 10 years for both renewable power and transmission

Southern California Edison – Business Drivers

- \$20 billion 5-year capital investment plan
- A3/BBB+ credit rating
- Decoupled revenues and sales to promote energy efficiency
- Pass through mechanisms for fuel and purchased power, pensions
- Operating needs: Transmission driven by renewables, Generation supply, system reliability
- Active public policy initiatives: Renewables to 20%-33%, carbon emissions, water

Investor Owned Utility Industry – Key Issues

- Unprecedented need for capital
- Declining credit quality since 1980s
- Risk averse credit and capital markets
- Renewable IPP capital needs far exceed project finance market

Southern California Edison (SCE)

