Commissioner Ferron's Report on Meetings with Utility Investors, October 3, 2013

This week I met with 3 groups of investors, something which we all do every few quarters or so. Collectively these investors represented more than $3 trillion dollars in assets under management. (That's Trillion with a "T"). These specific individuals are the ones within their respective organizations that eat, sleep and breathe public utilities across the country and around the world.

You'll not be surprised that they were very focused on learning more about the two big "headline issues" in California: San Bruno and San Onofre. Of course, I could not and, of course, would not talk about these cases in any way shape of form. I must stress that these investors did not attempt to engage in a discussion of pending adjudicatory cases and were very respectful of our ex parte rules.

But we have to keep in mind that these investors are watching from the outside with some confusion and great concern as the politics surrounding these cases have played out in a dramatic and public manner in the press.

So I asked them for a kind of report card on how the Commission has been doing, and how the investment climate in California is perceived. To the extent that there was a collective judgement, here is what I heard:

In the aftermath of the Energy Crisis of 2001 and the bankruptcy of PGE and near bankruptcy of EIX, California was perceived as a very high risk regime for investors – California was seen as an capital unfriendly, "banana republic" (their words) - - and that period represented a kind of "lost decade" for investors in California utilities. But thanks to the cumulative actions of the CPUC over the next decade, led by President Peevey, investors absorbed their losses and the image of California as a banana republic was for the most part rehabilitated.

Three years ago, with a new Governor and three (now four) new commissioners, there was again considerable nervousness about the future direction of the regulatory and investment climate in California. But through the actions of this Commission over a wide range of cases watched closely by the investment community, California has moved from being a high-risk outlier to being somewhere in the middle of the pack in terms of risk perception. This is despite California and this Commission taking a serious approach to climate change and a concerted approach to renewables, something that is somewhat unique and of some concern to many sceptical investors.

This reduction in risk has led to a direct reduction in the cost of financing capital for the utility sector in California. If you do the math, the reduction in the risk premium - - the reduction in the incremental cost of capital to our utilities - - when applied to the balance sheet of our utilities, is equal to several hundred million dollars every year in direct savings to rate-paying customers. In short, the ratepayer is ultimately the direct benefactor of this Commission making decisions that improve the investment climate in California.

Of course the motto on Wall Street is: “So what have you done for me lately?” They are ruthlessly focused on the future. So these folks will look through all the rhetoric, and will look directly at the actions we take - specifically in the two big headline issues.

So, my conclusion: I'm not talking about policy, I'm not talking about what we should or shouldn't do for any of these headlines cases. I'm just talking arithmetic. If, for whatever reason, we were to return to where the investor perception of California is that it is an capital-unfriendly place and that IF investors demand an incremental risk premium for an extended period of time - as it did a decade ago - this would cost ratepayers multiple billions of dollars in added expense. That’s Billions with a “B”.

Personally, I find this arithmetic very sobering.