

Ferron Comments on Investor Meetings

September 13, 2012

This week I met with two groups of investors hosted by the Equity Research teams of, on Tuesday, Citi and then on Wednesday, BofA Merrill Lynch. I believe that both Commissioner Florio and Sandoval met with these folks.

I have a series of observations that came out of these meetings that I would like share:

1. As we all know, across the United States and particularly in California, a staggering investment is needed in gas and electricity infrastructure both to meet our RPS objectives and to replace and upgrade infrastructure reaching the end of its life span. At the same time money from the Federal government is rapidly receding. This means that we will need to encourage private investment into the sector and specifically into the gas and electric companies in California.
2. Investors typically look for attractive opportunities within the utility / electricity sector across the country, so CA utilities need to be competitive in terms of risk vs return against utilities across the country.
3. California is still perceived as a relatively risky place. This is not just because of the credit risk premium associated with the state of California (which I think is a misplaced notion), but rather because of the perception that the market and regulatory uncertainty is higher in California. Higher perceived risk means a higher cost to attract capital which means a higher cost to consumers.
4. Many things are contributing to this uncertainty: we have a more complex (and more ambitious) energy policy, the impact of renewables and their intermittency is not well understood (by anyone), and we have 3 new commissioners, who are still somewhat unknown quantities.

When I asked the equity analysts what was the one thing that we could do as a Commission to help reduce the level of investor concern about CA, both sets of analysts answered identically: investors are concerned about the delays in the decision-making process for several key financial decisions affecting the utilities.

There are many such decisions pending: the fine and other financial consequences associated with the San Bruno pipeline explosion, the Sempra and Edison rate cases, the cost of capital case, and there are many sources for the delay:

1. the added time it has taken to conclude investigations,
2. the lack of resources (for example, the fact that the availability of court reporters can often drive the scheduling for hearings, etc.),
3. the simple fact that these are very large and complex cases, and
4. for whatever reason, the fact that we are seeing many issues be fully litigated, which takes more time than if they were settled by the parties. The Commission has often observed that there are strong public policy reasons in favor of settlements, both because settlements can help reduce litigation costs and agency time and resources and because they allow parties to develop creative solutions that a court or agency cannot order.

So in conclusion: I am concerned that we address head-on this perception that California has an uncertain, risky or investor-unfriendly regulatory environment, so that we do not unnecessarily burden our ratepayers / customers with higher costs associated with our infrastructure investment. Accordingly, I have a couple of friendly reminders or suggestions:

1. We Commissioners need to do a better job of communicating with the investor community and show them that we are all reasonable people who value regulatory consistency and have the long-term interest of the state at heart
2. We all - -commissioners and judges - - need to be mindful that there is an audience beyond the commission, who are very important to our ability to attract the needed investment into this state and who are tracking closely our progress (or lack thereof) on key cases.
3. This suggests that we need to be extra diligent on keeping to our schedules and that we use our holds sparingly over the next few meetings because we do have a lot of key decisions to cover before the end of the year, and the market is watching.