

Presentation to the Commission on the 21st Century Economy
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My name is Jeffrey Barnett and I am the Vice President of Tax for Edison International which is headquartered in Rosemead, California.

I want to first express our gratitude to you Mr. Chairman and to the other members of the Commission on the 21st Century Economy (Commission) for taking on this very important and challenging responsibility of identifying a more stable tax structure for the state of California. I also want to express to you our appreciation for this opportunity to participate in today's hearing. Edison International has been closely monitoring this effort. Edison International, as a large California taxpayer, has a significant stake in the California tax reform outcome.

Edison International is the parent company of Southern California Edison and the Edison Mission Group. SCE is a utility regulated by the California Public Utilities Commission and the Federal Energy Regulatory Commission. SCE serves a customer population of more than 13 million in a service territory that includes more than 180 California cities. EMG is based in Irvine California and is primarily engaged in selling electricity from its competitive electric generation facilities, which are located in 14 states including California.

Edison International supports the principles set forth in the Governor's Executive Order which established the mandate for this Commission and we realize the enormous challenge you face in identifying a tax structure they succeeds in meeting these principles.

I understand that you want me to limit the scope of our comments today to the Business Net Receipts Tax (BNRT) as you have discussed in your open meetings and which has been described in the documents you previously shared with the public.

The electric industry, both regulated and competitive, is highly capital intensive. Over the next five years, Southern California Edison has plans to spend up to \$20 billion to maintain the reliability of its electric system and meet the needs of its customers. The industry is also highly dependant on capital markets to help finance its capital program. . As I understand the BNRT proposal, interest expense incurred by non-financial businesses would not be deductible in deriving the tax base, which would increase our tax base significantly. However, given that the BNRT proposal requires financial institutions to include interest income in their gross receipts, it would seem that the corresponding interest expense incurred by borrowers should be deductible in deriving the borrower's tax base.

EIX employs over 16,000 people in the State of California. For 2008, labor and benefits for the utility alone were in excess of \$1.8 billion. As I understand the BNRT proposal, internal labor costs and related employee benefit costs that would not be deductible from the tax base under the BNRT proposal would also significantly increase our tax base. We understand that the Commission is still evaluating the possibility of allowing for a deduction for employee benefit costs in deriving the BNRT, which Edison International would support.

The capital intensity of our business may also benefit from the more rapid write-off of capital assets. This could result in a significant tax timing benefit. Assuming the Commission decides to recommend the immediate expensing of capital assets, we respectfully request the Commission consider the need for an appropriate carryforward in years where net deductions exceed gross receipts. The Commission proposal currently includes a 5-year carry-forward, however, we have some concern that in periods of high capital asset acquisition the 5-year carry-forward period may not be sufficient to achieve the full recovery of this excess. We encourage the Commission to take into consideration whether a longer carryforward period should be allowed to the extent the immediate expensing of capital assets is part of the Commission's overall recommendation.

We understand that the rate is not yet determined, but a rate of approximately 3 percent has been used by the Commission in examples it provided to the public. Edison International encourages the Commission to take into consideration the fact that a small shift in the rate when applied to the larger tax base can result in a significant change in the BNRT.

Our approach to evaluating any tax proposal is heavily based on its economic impact to us. We view taxes no differently than any other business cost and, as such, we attempt to manage and minimize this cost within the legal parameters. We don't believe that the Commission intends for there to be a shift in the relative tax burden among the various industries resulting from the transition to a new tax structure. However, anytime there is a fundamental change in the tax structure, we have to assume there is some risk of this shift occurring. Until there is more clarity as to the key variables such as the rate, period of capital asset write-off and other changes that may be included as part of the entire tax package, we cannot reach a conclusion as to the economic impact to us vis-à-vis the existing California tax structure and thus gain an appreciation as to whether there would be a potential shift of the tax burden to our industry.

Another area of concern for us in moving to the BNRT relates to the transition rules. We respectfully encourage the Commission to take great care in developing the recommendation for the transition rules. Edison International believes that the transition rules should provide for the recovery of all tax attributes arising in the pre-transition period that would otherwise be available to be used if the corporate income tax were to continue in the future. This should include the tax attributes associated with the cost basis of the capital assets acquired in the pre-transition years that has not been previously deducted in determining the income subject to the California corporate income tax.

Edison International is grateful for this opportunity to address this Committee and anxiously await additional details from the Committee that will allow us to fully evaluate the impact of the proposed changes in California's tax structure.