COMMENTS OF ALAN J. FOHRER TO THE SEC ROUNDTABLE ON OVERSIGHT OF CREDIT RATING AGENCIES, APRIL 15, 2009
(File No. 4-579)

Introduction

Good afternoon. I am Alan J. Fohrer, Chairman and Chief Executive Officer of the Southern California Edison Company, Edison International's regulated electric utility and one of the nation's largest electric companies. I welcome the opportunity to give an issuer's perspective on potential changes in the SEC's regulatory oversight of the credit rating agencies.

As a representative of the electric utility industry, I believe I speak for most capital-intensive industries in the United States. Our companies view the credit agencies as an integral component in the process of raising capital. In addition, my company uses rating agency reports to assess the credit capacity of counterparties from whom we buy and sell power. My career at Edison International has spanned more than 35 years including a significant time as Chief Financial Officer and two years as CEO of Edison International's unregulated independent power company. During this time, the electric utility industry has undergone dramatic changes. Also during this period, the credit ratings of Edison companies I have managed have run the full spectrum from the high quality of AA to the defaulted status of D. Throughout this time and the range of ratings we have experienced, I have viewed the agencies as focused on determining the appropriate ratings for the company and not taking positions on company or industry actions—the focus has been on the rating.

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Main Points

I wish to make three main points today regarding capital markets and the credit rating agencies.

The first point is that for the nation's capital intensive industries like electric utilities, access to capital is essential. To maintain the electric grid and to meet growing needs of customers, vast sums of money are required. Most if not all of the nation's utilities are ramping up their capital expenditures to meet the challenges of customer growth, aging infrastructure, and environmental agendas including higher renewable power and lower greenhouse gas emissions. As providers of key inputs to the rest of the U. S. economy, all utilities, including electric, gas, water and telecommunications companies, must have access to credit markets at all times. Southern California Edison's capital budget for the next five years is $20 billion. It would be impossible for Edison to self-finance this capital program; thus, access to new investor capital is essential. Any changes imposed on the credit rating agencies must not foster confusion or uncertainty in the capital markets to the detriment of these businesses seeking financing.

My second point is that credit ratings provided by the rating agencies must be credible. For the most part, historically the agencies have served the utility industry well. The rating agencies have provided an independent assessment of credit quality that investors can use in conjunction with publicly available data and their own analyses. Many large institutional investors perform their own rating of securities that they wish to purchase, but they also employ ratings from the credit agencies as independent confirmation of their own assessments. Indeed, many are required to do so. I think it is worth underscoring that the ratings are a tool along with credible public information and an investor's own analysis that should help investors make decisions.

For ratings to be credible, the credit rating process must be transparent and understandable to outsiders. The credit agencies need to provide a clearer picture of how they arrive at a rating. However, I believe that any new mandates regarding transparency must focus on the process of determining a rating and not necessarily on the information, particularly non-public information that is used to determine a rating. I will say more on this later.

My third point is that the credit rating system is working for the utility industry. The overall credit rating process is not broken. Expanding current rules with more prescriptive requirements may not serve market needs any better than the existing framework and could cause further disruptions.

Rating securities is a complex and challenging business that requires detailed experience and understanding not only of the target company, but also of the industry and markets in which the target company conducts business. For example, a company's credit quality depends on business and financial conditions that differ substantially both within each industry and across different industries. The rating agency's task is to distill these disparate business and financial conditions across companies and industries into a common rating system for all issuers. It is a difficult task, requiring skills that are not easily duplicated.

Finally, in addressing the particular ills contributing to the current financial crisis, the Commission must be careful that it does not take actions that scare the credit agencies into becoming ultra-conservative and subjective about credit quality. Faced with criticism and calls for extensive regulation and oversight, it would only be natural for the credit agencies to err on the side of undue caution and unnecessarily raise the standards for achieving particular credit ratings. This would unnecessarily raise costs and potentially disrupt access to capital.

Actions That Are Being Considered

One of the changes proposed by the Commission in the credit rating industry is increasing competition by expanding the number of National Recognized Statistical Rating Organizations. Increased competition in the credit rating industry is a laudable objective, but it will take years to achieve this result. It is not possible to develop new firms overnight because the credit rating business requires substantial experience and judgment, neither of which is acquired quickly. There is value in having multiple credit rating agencies, as in the present market structure, because each agency has a particular perspective and approach to its work. In my view, investors benefit from these different perspectives. However, I am concerned that if there are too many firms in the industry, credit agencies will be spread too thin to properly rate issues and the quality of their analysis will suffer as a result. Companies may also find it burdensome to cooperate fully in the ratings process with an expanded array of firms. With many firms issuing ratings the meaning of a specific rating such as an "A" rating may have an inconsistent meaning across the agencies. This may make the rating process less not more reliable for investors. Finally, as the number of credit agencies increases, so does the potential for "forum shopping."

In addition, issuers typically provide the credit rating agencies with legally protected material non-public information as part of the process of determining credit ratings for companies. Adding more credit agencies increases the potential for misuse or abuse of this information. However, eliminating agency access to inside information to create a competitive rating market would be a disservice to investors who rely on the agencies' assessment and interpretation of proprietary information to produce credible ratings.

Use and disclosure of material inside information must be considered very carefully. As it seeks to improve the transparency of the rating process by disclosing information about the process, the Commission must ensure that inside information is protected from disclosure.

Actions That Should Be Considered

The Commission is right to seek ways to curb the worst excesses regarding structured finance, but it would be wrong to single out the rating agencies as the main source of the problem. As implied by my earlier remarks, I urge the Commission to move cautiously and deliberately. Oversight should focus on process and transparency of that process, not on the outcomes of the rating process with respect to particular entities or specific financial securities.

Regarding issuer-paid versus subscriber-paid credit ratings, I believe that there is a place for both types of ratings and that both types of ratings provide value to investors. While there may be value in encouraging subscriber-paid credit ratings, the Commission should not bar issuer-paid ratings. My experience has been that the objectivity of the rating process has not been affected by the fact we were paying for the rating. We have certainly not always agreed with the ratings in all cases but we understood the role of the agencies.

It is important to recognize that credit ratings are only part of the information that investors should utilize. Investing relies on complete and adequate disclosures by management, investor research, and credit ratings. Correcting the rating process should not be the sole focus of the Commission.

Conclusion

This concludes my prepared remarks. Thank you.