STATE OF CALIFORNIA GAVIN NEWS[illegible]or

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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September 10, 2024 **Agenda ID #22915**
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 22-04-008 et al.:

This is the proposed decision of Administrative Law Judge Jonathan Lakey. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's October 17, 2024 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE
Michelle Cooke
Chief Administrative Law Judge

MLC:avs
Attachment

Decision **PROPOSED DECISION OF ALJ LAKEY (Mailed 9/10/2024)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and to Reset the Cost of Capital Adjustment Mechanism. (U39M.)	Application 22-04-008
And Related Matters.	Application 22-04-009 Application 22-04-011 Application 22-04-012

PHASE 2 DECISION

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PHASE 2 DECISION

Summary

This decision modifies the Cost of Capital Mechanism that impacts the authorized cost of capital for the applicants with an effective date of January 1, 2025 and the following returns on equity for each applicant.

Applicant	Return on Equity
Pacific Gas and Electric Company	10.28%
Southern California Edison Company	10.33%
San Diego Gas & Electric Company	10.23%
Southern California Gas Company	10.08%

This decision also adopts a filing date of March 20 in the year prior to the test year for cost of capital applications being filed by the applicants.

This decision declines to implement distinct electric and gas returns on equity for combined service gas and electric utilities. This decision further denies Pacific Gas and Electric Company's Yield-Spread Adjustment request. This decision does not make any other policy modifications to future cost of capital applications.

This proceeding is closed.

1. Background

The applicants are public utilities subject to the jurisdiction of California Public Utilities Commission (Commission) as defined in Section 218 of the Public Utilities Code. Southern California Edison Company (SCE), a California corporation and wholly owned subsidiary of Edison International, provides electric service principally in southern California. Pacific Gas and Electric Company (PG&E), a California corporation, provides electric and gas services in northern and central California. San Diego Gas & Electric Company (SDG&E), a

California corporation wholly owned by Sempra Energy, provides electric service in a portion of Orange County and electric and gas services in San Diego County. Southern California Gas Company (SoCalGas), a California corporation wholly owned by Sempra Energy, provides gas services throughout Central and Southern California from Visalia to the Mexican border.

All four applicants filed their respective Test Year (TY) 2023 cost of capital applications with the Commission on April 20, 2022. These applications were consolidated in the July 12, 2022, Assigned Commissioner's Scoping Memo and Ruling, which also allowed for a policy-focused Phase 2 upon conclusion of Phase 1. Phase 1 issues were resolved in Decision (D.) 22-12-031.

On October 31, 2023, the Administrative Law Judge's (ALJ) Ruling Outlining Phase 2 Issues and Schedule was issued. This ruling allowed testimony entered into the record in Phase 1 of this proceeding to be considered in Phase 2. Direct testimony for Phase 2 of the present proceeding was served January 29, 2024, and reply testimony in Phase 2 of the present proceeding was served February 26, 2024. There was no evidentiary hearing in Phase 2, as ruled in the March 19, 2024, ALJ Ruling Denying Motion for Evidentiary Hearing. Exhibits for Phase 2 of this proceeding were entered into the evidentiary record by the April 16, 2024, ALJ Ruling Entering Exhibits into the Evidentiary Record.

Opening briefs were filed on April 22, 2024, by Southern California Generation Coalition (SCGC), The Utility Reform Network (TURN), Protect Our Communities Foundation (PCF), Energy Producers and Users Coalition and Indicated Shippers (EPUC/IS), Public Advocates Office at the California Public Utilities Commission (Cal Advocates), Utility Consumers' Action Network (UCAN), Environmental Defense Fund (EDF), Wild Tree Foundation (Wild Tree), and jointly by SCE, SoCalGas, SDG&E, and PG&E (together, Joint

Utilities). Reply briefs were filed on May 6, 2024, by EDF, Wild Tree, EPUC/IS, UCAN, TURN, PCF, and Joint Utilities. Sur-reply briefs were filed May 31, 2024, by EPUC/IS, UCAN, PG&E, and jointly by SDG&E, SoCalGas, and SCE.

1.1. Submission Date

This matter was submitted on May 31, 2024, upon the filing of sur-reply briefs.

2. Issues Before the Commission

The issues in scope for Phase 2 of the present proceeding are:

1. The timing of the filing of subsequent cost of capital applications.
2. Whether a blended return on equity (ROE) should be authorized for combined service gas and electric investor-owned utilities for future cost of capital cycle applications.
3. PG&E's proposed yield spread adjustment (YSA) and the cost recovery associated with the related memorandum account authorized in D.22-12-031.
4. Modifications to the Cost of Capital Mechanism (CCM).
5. Whether other policy modifications should be ordered with regard to future cost of capital application cycles, including:
    a. How non-cash accounting adjustments to the ratemaking capital structure should impact the Commission's determination of the appropriate authorized costs of capital.
    b. Whether to set a common accounting approach for non-cash accounting adjustments across Commission-regulated utilities for the purposes of cost of capital determinations.
    c. Whether it is appropriate to require inclusion of only the equity capital that provided cash funding of utility rate base investments in combination with debt capital rate base to be used in calculating ratemaking capital structure equity and debt weightings of total capital.

d. Appropriate methodologies for calculating ROE.

e. Measures to prevent circularity, self-reference, and status quo biases.

f. Affordability considerations.

This decision addresses all issues in the scope of Phase 2 of this proceeding.

3. Timing of Filing for Subsequent Cost of Capital Applications

Starting with D.08-05-035, PG&E, SCE, and SDG&E have been on a 3-year cost of capital cycle with updates to the ROE coming in interim years through the CCM. SoCalGas' cost of capital cycle and use of the CCM were aligned with PG&E, SCE, and SDG&E in D.13-03-015, which set an April 20 application filing deadline in the year prior to the test year for PG&E, SCE, SDG&E, and SoCalGas.

We turn to the question of whether this timing for the filing of the applicants' triennial cost of capital authorization applications should be modified.

3.1. Party Positions

Cal Advocates recommends that the Commission make no changes to the current timing of the filing of subsequent cost of capital applications.[1]

Joint Utilities propose submitting their cost of capital filings by March 20 of every third year, a month earlier than the current deadline, with a modified schedule.[2] The modified schedule shortens the period for protests and replies to protests to 15 days and 5 days, respectively, to allow additional time for testimony.

[1] Cal Advocates Opening Brief at 2.

[2] Joint Utilities Opening Brief at 26-27.

Event	Date
Filing of Application	March 20 prior to test year
Protests due	15 calendar days after Filing
Reply to Protests	5 calendar days after Protests
Prehearing Conference	As soon as practicable
Intervenor Testimony	First Week of June
Reply Testimony	Last Week of June
Hearings (if necessary)	Second Week of July
Opening Briefs	Last week of July
Reply Briefs	Second Week of August
Proposed Decision	November
Final Decision	No later than December 31

EPUC/IS proposes that the next full cost of capital application be filed in February 2025 for test year 2026,[3] though it is unclear whether EPUC/IS asserts that all subsequent cost of capital applications should be filed in February instead of the current April filing deadline. Joint Utilities note that a February 2025 filing date coincides with their Securities and Exchange Commission Annual 10-K reports.[4]

TURN opposes Joint Utilities' proposed schedule, noting that it decreases the amount of time available for Intervenor Testimony.[5]

No party is in favor of eliminating three-year cost of capital cycles unless the CCM is not modified.

[3] EPUC/IS Opening Brief at A-4 to A-5.

[4] Joint Utilities Opening Brief at 26.

[5] TURN Reply Brief at 12.

3.2. Discussion

It is reasonable to adopt an earlier cost of capital application filing date to provide more time for consideration of this complex issue by intervenors, and ultimately the Commission, in making its final determination. We adopt a new filing deadline of March 20 in the year prior to the test year, a modification from the current filing deadline of April 20 in the year prior to the test year. As such, the filing deadline for the cost of capital applications for TY 2026 will be March 20, 2025. We do not adopt any of the Joint Utilities' other suggestions regarding a modified schedule for cost of capital applications. The schedule for future cost of capital applications for the applicants will continue to be addressed in the scoping memo and ruling.

4. Blended Return on Equity for Combined Service Gas and Electric Investor-Owned Utilities for Future Cost of Capital Cycle Applications

The issue of blended ROE for combined service gas and electric investor-owned utilities was raised by EDF in Phase 1 of the present proceeding. We turn now to the question of distinct electric and gas ROEs for combined service utilities.

4.1. Party Positions

Parties interested in the topic of a blended ROE for combined electric and gas utilities are split on the question of distinct electric and gas ROEs. EDF argues that the Commission should implement a policy that sets distinct gas and electric ROEs for California's combined service utilities. EDF argues that a single ROE for combined service utilities results in cross-subsidization and that excessive gas-related ROEs over-incent investment in gas infrastructure. EDF further argues that separate electric and gas ROEs for the combined service utilities is supported by both *Bluefield*[6] and AB 1054.[7,8]

SDG&E and PG&E argue that the Commission should continue to authorize a blended ROE for combined gas and electric utilities, noting that the Commission approved a blended ROE for SDG&E and PG&E in D.22-12-031 and has done so for decades. SDG&E and PG&E state that a blended ROE for combined gas and electric utilities is consistent with the practice in numerous other jurisdictions. They also note that, as a practical matter, electric and gas operations for combined service utilities are financed together, not separately.[9]

Cal Advocates recommends that issues related to a blended ROE be addressed and litigated in future cost of capital applications.[10]

4.2. Discussion

We are not persuaded that distinct gas and electric ROEs for the combined service utilities (*i.e.,* PG&E and SDG&E) are necessary at this time. When the risk for investing in electric utilities and gas utilities is different, a blended ROE for combined service utilities can and should reflect these differing risks. While EDF argues that there is cross-subsidization within combined service utilities that over-incents investment in gas infrastructure, this is only the case when:

- The investor risk of investing in a utility's electric operations is different from investing in that utility's gas operations;

[6] *Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia*, 262 U.S. 679 (1923).

[7] Assembly Bill (AB) 1054 (Holden), Stats. 2019, ch. 79.

[8] EDF Opening Brief at 4-5.

[9] Joint Utilities Opening Brief at 11-15.

[10] Cal Advocates Opening Brief at 3.

- The utility's electric operations are higher risk; and
- The blended ROE is not adjusted proportionally to the risk level and size of the gas operations of the utility.

That is, cross-subsidization is not a necessary feature of a blended ROE. Further, it is a reality that combined service utilities finance the electric and gas side of their operations together as one entity. As such, we are not compelled to find that the authorized ROE for the combined service electric and gas utilities should be broken into distinct authorizations for each commodity element of their operations.

5. PG&E's Proposed Yield Spread Adjustment and the Cost Recovery Associated with the Related Memorandum Account Authorized in D.22-12-031

We turn to the issue of whether PG&E's YSA proposal, as set forth in its application, should be approved. We will also consider whether PG&E should be authorized to recover the costs tracked in the corresponding memorandum account that was authorized in the Phase 1 decision in this proceeding.

PG&E indicated the basis for making this YSA request relates to it seeking cost recovery for its actual short-term financing cost in light of its limited access to some markets since its recent emergence from bankruptcy. PG&E asserts that it does not have access to the Commercial Paper short-term debt rate (Commercial Paper) due to its current credit ratings,[11] which remains sub-investment grade since its bankruptcy emergence. It is not disputed that PG&E currently lacks access to Commercial Paper.

PG&E states that it is required to pay higher short-term debt costs than Commercial Paper rates and therefore it is not being fairly compensated because memorandum and balancing accounts are currently authorized to accrue interest

[11] Exhibit PG&E-004 at 4-6.

at the Commercial Paper rate. Furthermore, PG&E asserts that its actual higher short-term debt cost impedes its ability to earn the authorized rate of return.[12] PG&E proposes to set the YSA on an annual, prospective basis based on the average difference between the Commercial Paper rate and PG&E's actual cost of short-term debt over the 12-month October-November previous year period.[13] PG&E proposes to submit a Tier 2 Advice Letter by November 15 of each year to set the YSA to become effective January 1 of the following year.

PG&E cites to two previous examples where the Commission approved interest rate premiums for SDG&E and SCE when their short-term debt costs exceeded Commercial Paper rates.[14]

PG&E states that the average annual under-collected account balances for 2022 that needed short-term debt financing were $5.911 billion for electric and $967.2 million for gas.[15] PG&E estimates that granting the requested YSA would increase annual revenue requirements by approximately $89.1 million.[16]

The Phase 1 decision in this proceeding, D.22-12-031, authorized PG&E to open a Yield Spread Adjustment Memorandum Account (YSAMA) to track the YSA impacts beginning January 1, 2023.[17] PG&E filed advice letter 4700-G/6829-E to establish the YSAMA which was approved by the Commission on March 1, 2023, to be effective January 1, 2023. Therefore, PG&E's current request is to establish and recover the YSA beginning January 1, 2023.

[12] Joint Utilities Opening Brief at 30.

[13] Exhibit PG&E-004 at 2.

[14] Exhibit PG&E-01 at 4-3 to 4-5.

[15] Exhibit PG&E-004 at 3.

[16] Exhibit PG&E-004 FN 2, at 4.

[17] D.22-12-031 at OP 8.

5.1. Party Positions

EPUC/IS argues that granting the YSA would result in unfair and imbalanced treatment of PG&E's carrying costs and result in excessive charges to customers, when considered in combination with the overall rate of return on rate base. EPUC/IS states that upon PG&E's emergence from bankruptcy, "the Commission approved a ratemaking capital structure with an authorized common equity ratio that is much greater than PG&E's actual common equity ratio of total capital that is recorded on its balance sheet."[18] EPUC/IS asserts that PG&E's revenue requirement uses a capital structure with a 52% equity ratio rather than PG&E's actual common equity weight of 46%, resulting in PG&E customers paying approximately $222 million more than PG&E's actual rate base carrying charge.[19] EPUC/IS concludes that the YSA should be denied because, when netted against the approximately $90 million under-charge for PG&E's lack of access to commercial paper, customers still experience an annual net increase carrying cost of approximately $132 million.[20]

Cal Advocates recommends denying the YSA and closing the memorandum account while voicing support for EPUC/IS' arguments.[21]

PG&E opposes EPUC/IS's position and asserts that there is no substantive connection between the YSA proposal and the capital structure waiver. PG&E further asserts that the waiver relates to PG&E's authorized long-term capital

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[18] Exhibit EIS-11 at 19.

[19] Exhibit EIS-11 at 19.

[20] *Id*. at 20.

[21] Cal Advocates' Opening Brief at 6.

structure, which does not include short-term debt (the topic of the YSA). Additionally, PG&E argues the two ratemaking issues do not affect each other.[22]

5.2. Discussion

We understand PG&E's assertion that the short-term debt cost adjustment proposed in PG&E's YSA request and PG&E's long-term capital structure waiver granted by D.20-05-053 are distinct issues. However, we view this issue holistically and acknowledge there are intertwined concepts that relate to each other that are involved. PG&E states that "revisiting [D.20-05-053] now and reversing it by arbitrarily denying the YSA is unsupported and wrong both legally and from a policy perspective."[23] Yet we find D.20-05-053 also considered arguments relating to PG&E's possible bankruptcy-related higher costs of debt in the future stating, "…this is an indirect effect stemming from PG&E's future financial condition, including its credit ratings and capital structure" before concluding, "these arguments are more appropriately considered under the issue of PG&E's financial condition and capital structure."[24] Since the underlying premise for the YSA is that PG&E lacks access to Commercial Paper is a condition that is unchanged since PG&E's bankruptcy proceeding and subsequent emergence from bankruptcy, it is consistent with D.20-05-053 that we now find it appropriate to consider the YSA request under the issue of PG&E's financial condition and capital structure.

We agree with EPUC/IS that due to the 5-year capital structure waiver, PG&E actually maintains an equity ratio lower than the 52% authorized for ratemaking in the Phase 1 decision of this proceeding. While PG&E takes issue

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[22] Exhibit PG&E-005 at 2.

[23] Joint Utilities Opening Brief at 34.

[24] D.20-05-053 at 75.

with EPUC/IS' use of a 46% actual equity ratio for its calculations and the EPUC/IS claim that PG&E customers currently overpay by $222 million annually, PG&E does not put forth its own calculations nor does it deny that it maintains an actual equity ratio lower than the equity ratio adopted for its ratemaking capital structure.[25] Furthermore, PG&E does not provide analysis that the approximately $89.1 million per year revenue requirement increase it is seeking is the actual cause of it being unable to earn its authorized rate of return, or to what extent it is actually impeded. Considering the YSA request in light of EPUC/IS' analysis, PG&E's financial condition, and PG&E's capital structure under the capital structure waiver approved in D.20-05-053, we are not convinced that PG&E is insufficiently compensated. Because we view the YSA request in this way, we are similarly unconvinced to draw parallels with the past Commission decisions for SCE and SDG&E cited by PG&E.

Therefore, we find it reasonable to deny the YSA until the 5-year capital structure waiver authorized by D.20-05-053 expires. PG&E may request the YSA again in a future proceeding after the 5-year capital structure waiver expires, if it still lacks access to Commercial Paper. Within 60 days of issuance of this decision, PG&E shall file a Tier 1 Advice Letter to eliminate the Yield Spread Adjustment Memorandum Account.

6. Effective Date of Modifications to the CCM

Ordering Paragraph 6 of D.22-12-031 requires the CCM to be in effect for the TY 2023 cycle, unless modified by subsequent Commission decision. Moreover, D.22-12-031 stated that a second phase of the proceeding was necessary to evaluate the CCM, including proposals put forth by the applicants

[25] Exhibit PG&E-005 at 3.

in the first phase of the proceeding.[26] The October 31, 2023 ALJ's Ruling Outlining Phase 2 Issues and Schedule (Phase 2 Ruling) includes "Modifications to the Cost of Capital Mechanism" as an issue to be resolved in the second phase of the proceeding. Regarding the effective date of any Phase 2 modifications to the CCM, parties offered specific recommendations.

6.1. Party Positions

TURN argues that the Commission should modify the CCM "effective immediately."[27] TURN cites to Ordering Paragraph 6 of D.22-12-031 which states the CCM would be adopted for the cycle "unless modified by a subsequent commission decision."

TURN also argues that a logical reading of D.22-12-031 demonstrates that the Phase 2 issues are intended to apply to the TY 2023 cycle, because D.22-12-031 identifies two specific issues for the Phase 2: modifications to the CCM and PG&E's requested YSA adjustment. D.22-12-031 allowed a YSA memorandum account (YSAMA) to track the proposed YSA and then be reviewed in the second phase of the proceeding – yet TURN asserts that there would be no need for the YSAMA if the Phase 2 was intended to apply only for future proceedings. Regarding modifications to the CCM for Phase 2, TURN argues that D.22-12-031 Ordering Paragraph 6 leaves no ambiguity with the language continuing the CCM for the cycle "unless modified by subsequent commission decision."[28]

In addition, TURN states that the Phase 2 Ruling clearly indicates which of the Phase 2 issues are under consideration for future cost of capital application

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[26] D.22-12-031 at 43.

[27] TURN Opening Brief at 18-20.

[28] TURN Opening Brief at 19-20.

cycles.[29] TURN argues that the Phase 2 Ruling lists the issues that are specifically to be considered for future cost of capital cycles, but TURN notes the Phase 2 Ruling does not include "modifications to the CCM" as one of those issues indicated for future cycles.[30]

EPUC/IS recommends the Commission suspend the existing CCM for the remainder of 2024, revert to the cost of capital adopted in D.22-12-031, and implement EPUC/IS' procedural and substantive modifications to the CCM for 2025.[31]

SCE argues that any modifications to the CCM should be considered for future cost of capital cycles only. SCE asserts that Phase 2 is forward-looking as to future cost of capital cycles and does not apply to the 2023 cycle.[32] SCE states that D.22-12-031 clearly specified the CCM in its current form "should be extended through the 2023 Test Year Cost of Capital Cycle."[33] SCE further argues that the ALJ Ruling provides that the Phase 2 of this proceeding will be submitted in mid-2024 and that it would undermine regulatory certainty and investor confidence were a decision in this phase to alter the CCM's operation six to twelve months after it was implemented for 2024.[34] SCE concludes by stating that "because the rates of return adopted in Phase 1 assumed operation of the CCM, the CCM could not be modified for this cycle without relitigating the

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[29] TURN Opening Brief at 20.

[30] TURN Opening Brief at 20.

[31] EPUC/IS Opening Brief at 24.

[32] Exhibit SCE-09 at 8.

[33] *Id.*

[34] Exhibit SCE-09 at 8-9.

authorized rates of return altogether."[35] The Joint Utilities further argue that proposals to change the CCM during this cycle are out of scope for the proceeding.[36]

6.2. Discussion

We find that, consistent with D.22-12-031, the modifications to the CCM discussed herein are to become effective during this cost of capital cycle, yet such modifications should be implemented prospectively, effective January 1, 2025. We are not persuaded that there is a need to relitigate the TY 2023 authorized rates of return because D.22-12-031 authorized the TY 2023 rates of return for the cycle, clearly contemplating that the CCM might be modified by a subsequent decision during the cycle. For the same reason, regulatory certainty should likewise remain unaffected. As TURN points out, Ordering Paragraph 6 of D.22-12-031 continues the CCM for the cycle, "unless modified by subsequent Commission decision."[37] Regarding the scope, we note, as TURN does, that the Phase 2 Ruling lists the issues to be resolved in the Phase 2 and specifically indicates that only certain issues apply to future cost of capital proceedings. The Phase 2 Ruling does not include PG&E's proposed yield spread adjustment or modifications to the CCM among the issues indicated as applying to future cost of capital proceedings. Therefore, consistent with the Phase 2 Ruling, we find that proposed changes to the CCM during this cycle are properly within the scope for Phase 2 of the proceeding.

Finally, we point out that in comments to the Phase 1 proposed decision, approved by the Commission as D.22-12-031, SCE requested the Commission

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[35] Exhibit SCE-09 at 9.

[36] Joint Utilities Reply Brief at 8-9.

[37] D.22-12-031 at 54.

clarify that changes to the CCM apply beginning in the next cost of capital cycle.[38] PG&E's comments also requested clarification on this point while suggesting that the Proposed Decision's Ordering Paragraph 6 "appears to inadvertently include language that suggests the CCM could be modified before the end of the 2023 cycle."[39] In response to these comments, D.22-12-031 contains no such requested clarifications, leaving the language in Ordering Paragraph 6 unchanged. For the reasons discussed above, the modifications to the CCM adopted herein are to be implemented during the TY 2023 cycle prospectively and shall be effective January 1, 2025.

7. Modifications to the Cost of Capital Mechanism

Established in D.08-05-035 for PG&E, SDG&E and SCE and in D.13-03-015 for SoCalGas (together, the CCM Decisions), the CCM was created as a way for the Commission-adopted cost of capital to reasonably adjust if market conditions change significantly between cost of capital test year cycles. The CCM Decisions require the Joint Utilities to each file a Cost of Capital application on a three-year cycle and provide two methods for them to adjust their authorized cost of capital if conditions change significantly between applications. First, if there is a difference of 100 basis points between the trailing 12-month October through September average Moody's utility bond index rates and the Joint Utilities' respective benchmark rates, the Formula Adjustment Mechanism (*i.e.,* the CCM) automatically triggers and the Joint Utilities must file a Tier 2 Advice Letter by

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[38] SCE Opening Comments to the Proposed Decision at 13: "If the Commission decides to move forward with a second phase, it should clarify that it would be quasi-legislative and that any changes to the CCM or cost of capital procedures would be prospective in nature and apply beginning in the 2025 cost of capital cycle."

[39] PG&E Opening Comments to the Proposed Decision at 11-12.

October 15th that will result in a revised authorized rate of return effective January 1 of the following year. Upon this occurrence, the CCM Decisions order the Joint Utilities' authorized ROE to be automatically adjusted by one-half the basis point difference from the benchmark.[40]

Second, if an extraordinary or catastrophic event materially impacts a Joint Utilities' respective cost of capital and/or capital structure and affects them differently than the overall financial markets, Joint Utilities may file an off-cycle cost of capital application outside of the CCM process.[41]

Since the establishment of the CCM, the triggering conditions for the CCM have been met four times, in 2009, 2012, 2021, and 2023. In 2009, petitions were filed jointly by SCE and Cal Advocates and PG&E and Cal Advocates to defer the filing of cost of capital applications for two years and to forego CCM adjustments. These petitions were approved in D.09-10-016. In 2012, CCM triggering conditions were met, but this occurred during the cost of capital application proceedings, so the CCM was not triggered. In 2021, CCM triggering conditions were met to decrease authorized ROEs, and SCE, SDG&E, and PG&E filed off-cycle applications seeking to forego the CCM adjustments due to the economic impacts of the COVID-19 pandemic. This request was approved in D.22-11-018, and the Joint Utilities' respective authorized ROEs were not adjusted downward. In 2023, the CCM triggering conditions were met to increase Joint Utilities' authorized ROEs, and the Joint Utilities filed respective Tier 2 Advice Letters in October 2023. These Advice Letters were approved by

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[40] D.08-05-035 at 21; Ordering Paragraph 5 of D.13-03-015 directs SCE, SDG&E, SCE, SoCalGas, and PG&E to use the CCM adopted in D.08-05-035.

[41] *Id*. at 19.

the Commission's Energy Division, and the CCM upward adjustments were implemented in January 2024.

7.1. Party Positions

The intervenors to this proceeding are generally in favor of modifying or eliminating the CCM.[42] Additionally, several of the parties are in favor of eliminating the CCM if their proposed modifications are not accepted by the Commission.[43] The Joint Utilities generally support the continuation of the CCM as it currently exists.

SCGC argues that the Cost of Capital Mechanism (CCM) should be terminated. SCGC argues that the assumption that changes in utility bond yields are correlated with changes in the utility cost of equity does not hold. SCGC also argues that the Commission has applied the CCM inconsistently.

To better correlate with market conditions, Cal Advocates proposes modifying the CCM by either reducing the equity adjustment ratio from the current 50% to 20% or applying the 50% equity adjustment only to the portion of the interest rate change above the 100-basis point threshold. As support, Cal Advocates includes a Table with the 2010-2022 national average authorized ROEs while noting that the most significant change shown is a 28-basis point downward change in any 3-year period.[44] If the Commission does not make either of these recommended changes, Cal Advocates recommends that the CCM be eliminated.[45]

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[42] SCGC Opening Brief at 6.

[43] Cal Advocates Opening Brief at 5; Wild Tree Reply Brief at 3; EPUC/IS Opening Brief at 3; UCAN Opening Brief at 3-8.

[44] Exhibit CA-02 at 3.

[45] Cal Advocates Opening Brief at 3 – 5.

TURN argues that the CCM has a structural flaw that results in an asymmetry between the chance of benefits and burdens to ratepayers and shareholders and must be modified to correct this asymmetry.[46] TURN provides several possible paths forward on how to modify the CCM.

First, TURN recommends that the Commission make the CCM adjustments more automatic in those cases in which it is true that a change in interest rates correlates with the equity requirements, with the Joint Utilities filing a Tier 1 Advice Letter. In those circumstances where the correlation between changes in interest rates and equity requirements does not hold, TURN argues that all parties should have the same opportunity to support or contest the implementation of the CCM-triggered adjustment, with the Joint Utilities filing a Tier 3 Advice Letter employing the methodology and extraordinary circumstances criteria established in D.08-05-035. TURN proposes that Energy Division staff could make the factual determination of whether or not utility bond yields and equity risk premiums are moving in the same direction using publicly available data.[47]

Second, TURN indicated that if its first recommendation is rejected by the Commission, it supports Cal Advocates' proposal to reduce the size of the formula ROE adjustment ratio from 50% to 20% of the total difference between the old interest rate benchmark and the new interest rate benchmark or apply the 50% equity adjustment only to the portion of the interest rate changes beyond the 100-basis point threshold. TURN notes that the equity return dollar amounts at stake when the CCM triggers are substantially higher now than in 2008 when the

[46] Exhibit TRN-21 at 7.

[47] *Id*. at 7 – 8.

CCM was adopted because of the growth in rate base. As such, an adjustment of less than 50% may be warranted even if the statistical relationship between the authorized ROE and bond yields is consistent with a 50% adjustment.[48]

Third, in reply briefs, TURN proposes that the Commission retain the CCM with the existing benchmark and adjustment ratio but limit the implementation of CCM adjustment to utility bond rate changes between 100 and 150 basis points, capping the potential ROE at 75 basis points. Additionally, TURN's reply brief proposal would eliminate the Joint Utilities' ability to file extraordinary event applications to be relieved of the effects of the CCM. TURN argues that modifications to the CCM should go into effect immediately and should not be implemented in the next Cost of Capital cycle.[49]

EPUC/IS proposes that the CCM be modified in several ways. EPUC/IS recommends that the Joint Utilities be required to provide notice to the Commission and stakeholders in mid- to late May if market conditions are expected to trigger a CCM adjustment for the following year as well as meet and confer with stakeholders within two weeks of providing this notice to pursue a settlement that implements or suspends the CCM adjustment. EPUC/IS also recommends that Joint Utilities and stakeholders be authorized to submit any resulting settlement for Commission review by application or in a then-pending cost of capital proceeding. EPUC/IS recommends that the Joint Utilities and stakeholders be authorized to submit expedited applications by July 1 in the year preceding the anticipated CCM adjustment requesting to forego implementation of the CCM based on market evidence. This expedited proceeding would

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[48] TURN Opening Brief at 15 – 17.

[49] TURN Reply Brief at 7 – 9.

conclude within 180 days of filing and would allow the Commission to consider whether an adjustment to authorized ROEs is just and reasonable. [50]

EPUC/IS proposes changing the CCM trigger to be based on changes in actual utility bond yields between the benchmark and trigger periods, changes in the projected Treasury bond yields offered into evidence in the test year for which the currently authorized ROE was approved and actual Treasury bond yields in the CCM trigger period, and changes in equity risk premiums supported by observations of spreads in utility bond yields and utility stock yields between the benchmark period (test year) and the trigger period.[51] Similar to TURN, EPUC/IS recommends implementing changes immediately, including suspending the CCM for the remainder of 2024, reverting to the cost of capital adopted in D.22-12-031, and implementing their proposed modifications for a modified CCM in 2025.[52]

UCAN argues that the CCM has not supported the goals of promoting regulatory efficiency and reducing the administrative burden on the utilities, intervenors, and Commission staff.[53] Like other intervenor parties, UCAN argues that the provisions of the CCM have been applied asymmetrically to the detriment of ratepayers. UCAN further argues that refining and revising the CCM process would not reduce the controversy around the CCM nor address the asymmetric application of the CCM. As such, UCAN proposes eliminating the CCM.

[50] EPUC/IS Opening Brief at 14.

[51] *Id*. at 22.

[52] *Id.* at 24.

[53] UCAN Opening Brief at 4 – 6.

Wild Tree argues that the current CCM Formula Adjustment Mechanism does not accurately reflect changes in the cost of equity and that implementation of the CCM has been highly inefficient. Wild Tree notes that 2024 is the first year that the CCM has been used to adjust the ROE and that adjustments have been applied asymmetrically. Wild Tree recommends that the Commission establish a new model for the CCM that better reflects changes in the cost of equity and provides a starting point for one such possible model and for market mechanisms that can be used to test CCM results. However, Wild Tree argues that the Commission does not have sufficient information and has not provided an adequately robust process to be able to make an informed decision on changes to the CCM methodology in this phase of the present proceeding. Wild Tree recommends that the Commission make a determination in this proceeding that modifications to the CCM methodology and process are necessary and open a rulemaking to determine the CCM methodology and process. That is, Wild Tree recommends that no model for the CCM be adopted at this time.[54]

The Joint Utilities argue that the CCM should be maintained with some clarifications. The Joint Utilities claim that the CCM provides regulatory certainty and relieves all stakeholders and the Commission of the regulatory burden of annual cost of capital proceedings.[55] The Joint Utilities are opposed to eliminating the CCM or making the CCM "more complicated."[56] The minor clarifications the Joint Utilities recommend include clarifying how to address "split" credit ratings from different agencies, what happens when credit ratings change, and requiring the Commission to specify the applicable benchmark

[54] Wild Tree Opening Brief at 6 – 7.

[55] Joint Utilities Opening Brief at 17.

[56] *Id*.

index and rate in its decisions in full cost of capital proceedings. The Joint Utilities also support EPUC/IS's proposal for the Joint Utilities to provide an informational status update on the CCM each year in between full cost of capital proceedings that include the current CCM benchmark and the October through April average Moody's utility bond rate applicable to the respective utilities.[57]

7.2. Discussion

We are persuaded that modifications to the CCM are warranted. One of the primary goals of the CCM is to reduce the regulatory burden associated with annual cost of capital proceedings.[58] However, because the smallest possible ROE adjustment from the current CCM is 50 basis points, changes to ROE from the CCM are likely to be controversial given the resulting financial impacts.

Relatedly, and as noted by many parties,[59] there is a structural asymmetry in the implementation of the CCM that favors shareholders. Ratepayers have no direct path to challenge an upward CCM adjustment. If the CCM results in a downward adjustment to ROE, the Joint Utilities are able to file a cost of capital application outside of the CCM process citing to an "extraordinary or catastrophic event," as allowed under D.08-05-035. If the CCM results in an upwards adjustment to ROE, ratepayer intervenors can protest the Joint Utilities' Tier 2 Advice Letters implementing the CCM adjustments but cannot directly challenge the adjustments unless the Joint Utilities file an off-cycle application. Together, these features of the CCM do not necessarily lead to the reduction in regulatory burden on which the CCM is premised.

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[57] *Id*. at 25 – 26.

[58] D.08-05-035 at 5.

[59] TURN Opening Brief at 9; EPUC/IS Opening Brief at 8; UCAN Opening Brief at 8; and Wild Tree Opening Brief at 4.

Further, we agree with ratepayer intervenors that a 50% adjustment factor likely leads to excessive changes to ROE.[60] The Joint Utilities note that a 50% adjustment factor is used in several other regulatory jurisdictions, including the Vermont Public Utilities Commission, the Ontario Energy Board, and the Alberta Utilities Commission.[61] Unlike the current CCM, each of these regulatory jurisdictions uses a formula that is applied annually (*i.e.,* not just when a deadband is surpassed) and/or includes different inputs and adjustments from those in the CCM.[62] While a 50% adjustment factor is used in these other regulatory jurisdictions, it is not clear that the 50% adjustment factor is appropriate for a formula that relies solely on changes in utility bond yields relative to a benchmark rate and has a 100-basis point deadband, as the CCM does.

Cal Advocates and UCAN argue that a 20% adjustment factor is more appropriate. Cal Advocates presents evidence that, from 2010-2022, the most significant change in any 3-year period for the average annual authorized ROE for electric utilities was a 28-basis point change,[63] considerably less than the 70-basis point adjustment provided by the CCM over a single year. Joint Utilities contest Cal Advocates' analysis as misguided by noting that Cal Advocates' analysis provides no comparison of authorized ROEs to Baa utility bond yields.[64] However, we find Cal Advocates' presentation useful in that it demonstrates how little the average authorized ROEs move over time compared to the 50 basis

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[60] Exhibit CA-02 at 4:12-14; Exhibit UCN-08 at 8:12-13

[61] Joint Utilities Opening Brief at 23.

[62] Exhibit JIOU-02 at 9:28 - 11:20.

[63] Exhibit CA-02 at 2:14 - 3:6

[64] Exhibit JIOU-02 at 5:21 - 6:16.

points minimum annual change when the CCM triggers. UCAN's linear regression analysis of authorized ROEs against Baa utility bond rates is also persuasive, showing that a 100-basis point change in bond rates correlates with an approximate 21-basis point change in ROE over the period 2009-2023.[65] UCAN supports Cal Advocates' position and states that the Joint Utilities' arguments rely on stale data and information from only three jurisdictions.[66] At the least, this suggests that an adjustment factor of less than 50% and closer to 20% is more empirically accurate regarding the relationship between Baa utility bond yields and authorized ROEs.

We adopt Cal Advocates' proposal to modify the CCM to implement a 20% adjustment ratio instead of the current 50%. As Cal Advocates has shown, the CCM recently triggered, resulting in a 70-basis points ROE increase from 2023 to 2024, while average authorized ROEs for electric and gas utilities rarely change by even 28 basis points over a three-year period.[67]

Moreover, we note that recent Commission Cost of Capital decisions themselves rarely authorize test year changes to ROEs exceeding 25 basis points. For example, D.22-12-031, which authorized the TY 2023 Cost of Capital, decreased the Joint Utilities' ROEs by 25 basis points after a proceeding that lasted nine months and included substantial expert witness testimony, hearings, and briefs. D.19-12-056 resolved the TY 2020 Cost of Capital proceeding and left the Joint Utilities' ROEs completely unchanged. We find a 50% adjustment ratio excessive considering the empirical relationship between Baa utility bond yields and authorized ROE discussed above that suggest a 20% adjustment factor, in

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[65] Exhibit UCN-08 at 10:2-5.

[66] UCAN Reply Brief at 7.

[67] Exhibit CA-02 at 3.

addition to Cal Advocates' data. Reducing the CCM adjustment ratio to 20% would better align CCM ROE changes with recent Commission Cost of Capital decision ROE changes, in addition to the nationwide average annual changes in ROEs noted by Cal Advocates and the linear regression analysis put forth by UCAN.

Although the Joint Utilities put forth two economic studies to support continuing the 50% adjustment ratio, we find these studies to be of limited value for our purposes, when faced with over a decade of data showing real-world authorized ROE changes. The Joint Utilities also do not dispute the accuracy of Cal Advocates' data nor refute UCAN's analysis. We are not persuaded by the assertion that Cal Advocates' proposal relies "only on the fact that a lower number would reduce the CCM's impact."[68] As discussed above, Cal Advocates' proposal relies on data demonstrating that the average annual authorized ROEs from 2010-2022 typically change less than 28 basis points over a three-year period. We remind parties that the Joint Utilities retain the right to file off-cycle cost of capital applications in the event of an extraordinary or catastrophic event that materially impacts their respective cost of capital and/or capital structure and affects them differently than the overall financial markets.

Lastly, to inform parties of a possible triggering of the CCM, it is reasonable to require Joint Utilities to annually file an informational Advice Letter that includes the current CCM benchmark and the October through June average Moody's utility bond rate applicable to the respective utilities. Beginning in 2025, the Joint Utilities shall jointly file a Tier 1 Advice Letter on July 15 of each year that includes the current Cost of Capital

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[68] Joint Utilities Reply Brief at 17.

Mechanism benchmark and the October through June average Moody's utility bond rate applicable to the respective utilities.

7.3. Effective Date of 20% CCM Adjustment Ratio

Ordering Paragraph 6 of D.22-12-031 adopted the CCM for the 2023 Cost of Capital cycle unless modified by subsequent Commission decision, therefore it is consistent with D.22-12-031 that this modification to the CCM adjustment ratio be applied prospectively, effective January 1, 2025.[69] The Joint Utilities are to apply a 20% adjustment ratio to the 141-basis points interest rate increase that most recently triggered the CCM. This modification should result in an ROE increase of approximately 28 basis points, which shall be applied to the ROEs originally adopted for the Joint Utilities by D.22-12-031 for the TY 2023 cycle and shall be effective January 1, 2025, if the CCM does not trigger this year.

As a result of this modification, we adopt the following 2025 ROEs for the applicants.

Applicant	Return on Equity
PG&E	10.28%
SCE	10.33%
SDG&E	10.23%
SoCalGas	10.08%

We therefore direct the Joint Utilities to each file an updated Tier 2 CCM Advice Letter within 30 days of this decision to adjust ROEs to reflect this CCM modification, with an effective date of January 1, 2025. The Joint Utilities' Tier 2

[69] Any request for an extension of time to comply with this deadline should be provided by December 15, 2024, to ensure that there will be sufficient Commission staff available to evaluate the request.

Advice Letters shall include a table with updated 2025 rates of return and list the estimated 2025 revenue requirement impact of the change. The Joint Utilities shall be permitted to update the cost of debt and preferred equity for 2025, if applicable, in the Tier 2 Advice Letters. The Joint Utilities are still required to file a Tier 2 Advice Letter on October 15, 2024, if the CCM is triggered for 2025.

8. Other Policy Modifications for Future Cost of Capital Cycles

Cal Advocates recommends that no other policy modifications should be ordered for future cost of capital applications. Similarly, the Joint Utilities are opposed to most policy modifications under consideration and are in support of none. Several parties provided testimony on one or more of the policy modifications under consideration for future cost of capital cycles. TURN, PCF, UCAN, EDF, and EPUC/IS provided recommendations on ROE calculation methodologies and modeling. EPUC/IS and TURN provided recommendations on non-cash accounting adjustments. PCF, EPUC/IS, EDF, and TURN provided recommendations on affordability considerations.

On the broader question of constraining future cost of capital applications in their use of particular models or assumptions (*i.e.,* issues 5(a) through 5(e)) above), we decline to implement these constraints at this time. To constrain future cost of capital cycles in this way implies that there are no conditions under which the models or assumptions intervenor parties currently disfavor hold true or prove useful in the future. It is incumbent upon the Joint Utilities to file applications with empirically accurate and reasonable assumptions about past, present, and future states of the world. It is incumbent upon the intervenor parties to provide testimony and argument to the extent the Joint Utilities do not do so.

On the question of affordability, the Commission agrees that affordability is of paramount importance. Cost of capital proceedings address affordability in that they set an allowed – but not guaranteed – rate of return for public utilities, in exchange for exclusive rights to serve ratepayers in a defined geographic area. However, cost of capital proceedings do not set the utilities' approved rate base; they set overall rates of return to the rate base approved in the General Rate Case and other applications. As such, they are ill suited to more targeted consideration of the affordability of specific expenditures and investments. The legal standard for setting the fair rate of return has been established by the United States Supreme Court in the *Bluefield* and *Hope*[70] cases. The *Bluefield* decision states that a public utility is entitled to earn a return on the value of its property employed for the convenience of the public and sets forth parameters to assess a reasonable return.[71] Such a return should be equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings attended by corresponding risks and uncertainties. That return should be reasonably sufficient to ensure confidence in the financial soundness of the utility and adequate, under efficient management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. The *Hope* decision emphasizes that such returns should be sufficient to cover capital costs of the business. The return should also be commensurate with returns available on alternatives investments of comparable risk. In approving a cost of capital, the Commission has a duty to utility ratepayers to protect them from unreasonable risks, including risks of

[70] *The Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944).

[71] *Hope* held that the value of a utility's property could be calculated based on the amount of prudent investment minus depreciation.

imprudent management. The issue of affordability as it relates to the cost of capital is subsumed under the *Hope* and *Bluefield* standards. Considerations of affordability beyond the *Hope* and *Bluefield* standards risk undermining them.

9. Summary of Public Comment

Rule 1.18 of the Commission's Rules of Practice and Procedure (Rules) allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

There are no public comments on the Docket Card of this proceeding that are relevant to Phase 2 of this proceeding.

10. Conclusion

This decision modifies the Cost of Capital Mechanism that impacts the authorized cost of capital for the applicants with an effective date of January 1, 2025. This decision declines to implement distinct electric and gas ROEs for combined service utilities, adopts a filing date of March 20 for cost of capital applications in the year prior to the test year, and denies PG&E's Yield-Spread Adjustment. This decision does not adopt any other policy modifications to future cost of capital applications.

11. Procedural Matters

This decision affirms all rulings made by the assigned ALJ and the assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

12. Comments on Proposed Decision

The proposed decision of ALJ Jonathan Lakey in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Rules. Comments were filed on __________, and reply comments were filed on ______________ by ________________.

13. Assignment of Proceeding

President Alice Reynolds is the assigned Commissioner and Jonathan Lakey is the assigned ALJ and presiding officer in this proceeding.

Findings of Fact

1. The current April 20 filing deadline for cost of capital proceedings does not provide sufficient time for consideration of the complex issues in cost of capital applications.

2. A blended ROE does not necessarily result in cross-subsidization of gas or electric services for the customers of PG&E and SDG&E.

3. Combined gas and electric utilities finance the electric and gas side of their operations together as one entity.

4. PG&E maintains an equity ratio lower than the 52% authorized for ratemaking in D.22-12-031.

5. PG&E is not able to access the Commercial Paper market, a limitation that results from its recent bankruptcy and emergence.

6. PG&E is sufficiently compensated through the 5-year capital structure waiver authorized in D.20-05-053 to cover its short-term debt costs.

7. Since the establishment of the CCM, the triggering conditions for the CCM have been met four times, in 2009, 2012, 2021, and 2023.

8. A 50-basis point modification in an electric or gas utility's authorized ROE results in a significant increase or decrease in the utility's revenue requirement.

9. The minimum ROE adjustment that may result from a triggered CCM is 50 basis points due to the 50% adjustment ratio and 100-basis point deadband set in D.08-05-035 for PG&E, SCE, and SDG&E and D.13-03-015 for SoCalGas.

10. Because the minimum ROE adjustment in the current design of the CCM, upon its triggering, is 50 basis points, the CCM being triggered is likely to be controversial in each instance.

11. There is a structural asymmetry in the implementation of the CCM that is biased towards shareholders at the expense of ratepayers.

12. A linear regression analysis of utility authorized ROEs against Baa utility bond rates shows that a 100-basis point change in Baa utility bond rates correlates with an approximate 21-basis point change in utility authorized ROE over the period 2009-2023.

13. An adjustment factor of less than 50%, and closer to 20%, is more empirically accurate regarding the relationship between Baa utility bond yields and utility authorized ROEs.

14. A 100 basis points change in utility bond yields correlates with a 20 basis points change in authorized ROEs.

15. Modifications to the CCM for this cycle are within scope of this proceeding.

16. A CCM adjustment ratio of 20% would better align the CCM with the empirical evidence of the relationship between Baa utility bond rates and utility authorized ROEs.

Conclusions of Law

1. The Commission should adopt an earlier cost of capital application filing deadline of March 20 in the year prior to the test year for a given cost of capital application cycle.

2. It is reasonable to deny PG&E's YSA request.

3. PG&E may request the YSA again in a future proceeding after the 5-year capital structure waiver expires, if it still lacks access to Commercial Paper.

4. The CCM adjustment ratio should be modified from the current 50% to 20%.

5. The modification of the CCM adjustment ratio from 50% to 20% should be effective January 1, 2025 and should be applied to the ROEs adopted in D.22-12-031.

6. The Commission should adopt the following ROEs, effective January 1, 2025:

(a) 10.28% for PG&E;

(b) 10.33% for SCE;

(c) 10.23% for SDG&E; and

(d) 10.08% for SoCalGas.

7. The Joint Utilities should annually file a joint informational advice letter by July 15 that includes the current CCM benchmark and the October through June average Moody's utility bond rate applicable to the respective utilities.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company shall file their respective cost of capital applications by March 20 of the year preceding the test year for a given cost of capital cycle.

2. Within 60 days of this decision, Pacific Gas and Electric Company (PG&E) shall file a Tier 1 Advice Letter to eliminate the Yield Spread Adjustment Memorandum Account.

3. The following 2025 Return on Equity (ROE) levels are approved, effective January 1, 2025:

   (a) Pacific Gas and Electric Company 10.28% ROE,

   (b) Southern California Edison Company 10.33% ROE,

   (c) San Diego Gas and Electric Company 10.23% ROE, and

   (d) Southern California Gas Company 10.08% ROE.

4. Within 30 days of this decision, Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company (together, Utilities) shall each submit a Tier 2 Advice Letter to reflect the Cost of Capital Mechanism adjustment ratio modification from 50% to 20%, with an effective date of January 1, 2025. Such Tier 2 Advice Letters shall include a table with updated 2025 rates of return and list the estimated 2025 revenue requirement impact of the change. The Utilities shall update the cost of debt and preferred equity for 2025, if applicable, in the Tier 2 Advice Letters.

5. Starting in 2025, Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company shall jointly file a Tier 1 Advice Letter on July 15 of each year that includes the current Cost of Capital Mechanism benchmark and the October through June average Moody's utility bond rate applicable to the respective utilities.

6. Application (A.) 22-04-008, A.22-04-009, A.22-04-11, and A.22-04-012 are closed.

This order is effective today.

Dated ____________________________, at Sacramento, California.