

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of Pacific Gas and Electric Company
for Authority to Establish Its Authorized Cost of
Capital for Utility Operations for 2026

Application 25-03-010

And Related Matters.

Application 25-03-011

Application 25-03-012

Application 25-03-013

SAN DIEGO GAS & ELECTRIC COMPANY'S (U 902 M) OPENING BRIEF

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SUMMARY OF RECOMMENDATIONS

- San Diego Gas & Electric Company (SDG&E) is requesting the following Test Year 2026 authorized cost of capital:

SDG&E’s Proposed TY 2026 COC Structure

Component	Capital Ratio	Cost	Weighted Cost
Long-Term Debt	46.00%	4.59%	2.11%
Preferred Stock	0.00%	6.22%	0.00%
Common Equity	54.00%	11.25%	6.08%
Rate of Return (ROR)	100.00%		8.19%

- SDG&E also requests that the cost of capital mechanism (CCM) as established in D.08-05-035 continue through 2028.
- The legal standard for setting a fair rate of return has been established by the United States Supreme Court in the *Bluefield* and *Hope* cases, which provide that a public utility is entitled to earn a return that is reasonably sufficient to ensure confidence in the financial soundness of the utility, and adequate, under efficient management, to maintain and support its credit and to enable it to raise the money necessary for the proper discharge of its public duties.
- In D.19-12-056 (2020 Decision), in setting SDG&E’s authorized ROE at 10.20 percent, the Commission, “conclude[d] that” SDG&E’s “adopted ROE should be set at the upper end of the just and reasonable range,” and observed that SDG&E’s “10.20% authorized ROE is significantly higher than the 9.60% average ROEs granted to United States electric utilities during 2018.” In D.22-12-031 (2023 Decision), in setting SDG&E’s authorized at 9.95%, the Commission found that SDG&E’s ROE should “be set at the mid-upper end of the just and reasonable range,” and reduced SDG&E’s ROE from 10.20% to 9.95% due to a “downward trend of 20-30 basis points” in the RRA national authorized electric average since the 2020 Decision.
- The factors that the Commission considered in those Decisions—including SDG&E’s credit ratings, relative risk profile, nationwide authorized ROE averages, and capital market conditions—now all support a higher ROE. SDG&E’s risk profile, at a minimum, has not changed. SDG&E’s credit ratings remain at the same level as they were during the 2023 Decision.
- SDG&E’s wildfire risk, however, has in fact increased following the January 2025 Eaton Fire in Southern California, due to a combination of increased wildfire risk, the ongoing application of inverse condemnation that makes an electric utility the insurer of last resort, and concerns over the depletion of the AB 1054 wildfire fund.

- Both the California legislature and credit rating agencies see SB 254 as only a temporary, stop-gap measure without reform of inverse condemnation or liability limits. In fact, on September 17, S&P *downgraded* Southern California Edison Company's (SCE) credit rating in response to SB 254, both because the new fund is smaller than the AB 1054 fund, as well as due to the ever-increasing wildfire risk in California. And as Moody's details, the ongoing equity contributions themselves to the fund are credit negative, making it difficult for SDG&E to ever earn its authorized ROE.
- On top of this increased risk, the relevant capital market conditions that the Commission considers—including interest rates, inflation, and national ROE authorized averages—are all higher today than at the time of the 2020 and 2023 Decisions. The average authorized ROE granted to electric utilities nationwide has increased by 30-40 basis points compared to the national averages cited in the 2023 Decision and is about 15 basis points higher than the average cited in the 2020 Decision. Just as the Commission relied in the 2023 Decision on a downward trend in the national authorized ROE average to support reducing SDG&E's ROE by 25 basis points, so too here the increase in ROE by around 35 basis points since that Decision supports a higher ROE here.
- SDG&E's 54% common equity, 46% long-term debt authorized capital structure request better reflects SDG&E's actual capital structure and has been identified by Moody's as credit supportive. By having an actual capital structure with a higher common equity ratio than its authorized one, SDG&E's investors are buttressing the Company's credit ratings—providing a benefit to ratepayers through lower borrowing costs—without receiving a return on their investment.

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SAN DIEGO GAS & ELECTRIC COMPANY’S (U 902 M) OPENING BRIEF

I. INTRODUCTION

San Diego Gas & Electric Company’s (SDG&E) requested 11.25% return on equity (ROE) is consistent with higher interest rates and inflation, an increase by over 30 basis points in the nationwide average authorized ROE for electric utilities, and SDG&E’s heightened risks—reflected in Senate Bill (SB) 254, Southern California Edison Company’s (SCE’s) September 17, 2025 credit rating downgrade, and the downgrade of the California regulatory environment—demonstrating that SDG&E’s cost of equity has increased since Decision (D.) 22-12-031 (2023 Decision).¹

Figure 1: SDG&E’s Proposed TY 2026 COC Structure²

Component	Capital Ratio	Cost	Weighted Cost
Long-Term Debt	46.00%	4.59%	2.11%
Preferred Stock	0.00%	6.22%	0.00%
Common Equity	54.00%	11.25%	6.08%
Rate of Return (ROR)	100.00%		8.19%

¹ SDG&E submits this Opening Brief supporting its 2026 cost of capital application pursuant to Rule 13.12 of the California Public Utilities Commission’s Rules of Practice and Procedure (Rule).

² Exhibit (Ex.) SDG-05, *Prepared Rebuttal Testimony of Maritza Mekitarian Capital Structure, Embedded Cost of Debt, and Preferred Equity on Behalf of San Diego Gas & Electric Company* (Aug. 20, 2025) (Ex. SDG-05 (Mekitarian Rebuttal)) at Appendix A, Late-Filed Exhibit (Embedded Cost of Debt) at A-3).

As the Commission has long recognized, a utility’s return must be set commensurate with returns for companies having corresponding risks. A return that is set consistent with the market-required return supports a utility’s credit ratings, allows for necessary investments, and balances the interest of shareholders and ratepayers. Otherwise, investors will invest in other utilities that have the same return for less risk.³

In D.19-12-056 (the 2020 Decision), in setting SDG&E’s authorized ROE at 10.20 percent, the Commission, “conclude[d] that” SDG&E’s “adopted ROE should be set at the upper end of the just and reasonable range,” and observed that SDG&E’s “10.20% authorized ROE is significantly higher than the 9.60% average ROEs granted to United States electric utilities during 2018.”⁴ In the 2023 Decision, in setting SDG&E’s authorized at 9.95%, the Commission found that SDG&E’s ROE should “be set at the mid-upper end of the just and reasonable range,” and reduced SDG&E’s ROE from 10.20% to 9.95% due to a “downward trend of 20-30 basis points” in the RRA national authorized electric average since the 2020 Decision.⁵

Now, the factors that the Commission considered in the 2020 and 2023 Decisions—including SDG&E’s credit ratings, relative risk profile, nationwide authorized ROE averages, and capital market conditions—all support a higher ROE. SDG&E’s risk profile, at a minimum, has not changed. SDG&E’s credit ratings remain unchanged from the 2023 Decision—two notches lower from all three credit rating agencies prior to downgrades in response to 2018 and 2019 wildfires in the state and concerns over wildfire liability—despite SDG&E not being the

³ D.23-08-025 at 9 (an “unreasonably low ROE may not be in the public interest because it could cause investors to move to utilities with higher ROEs”) (citation omitted).

⁴ D.19-12-056 at 42-43 (citing S&P [RRA] Global Market Intelligence, July 22, 2019, at Table 1).

⁵ D.22-12-031 at 34-35.

cause of a significant wildfire during that time and being repeatedly lauded by credit rating agencies for its wildfire mitigation efforts.

In fact, SDG&E's wildfire risk has increased following the January 2025 Eaton Fire in Southern California. As the California legislature, Moody's, and S&P have all recently recognized, this increased wildfire risks stems from a combination of:

- The ever-increasing incidence and severity of wildfires in California due to climate change;
- The significant financial burden from catastrophic wildfires due to California's liability regime, including inverse condemnation strict liability and the absence of liability limits;
- The increased risk to life and property from wildfire threats in dense urban areas; and
- Imminent concerns about the Assembly Bill (AB) 1054 wildfire fund being exhausted by the Eaton fire.⁶

In response, on September 13, 2025, California enacted SB 254. SB 254 creates a new "continuation" wildfire fund of up to \$18 billion, split equally between shareholders and ratepayers. But as both the California legislature, S&P, and Moody's recognize, SB 254 is merely a temporary, "interim" solution until more permanent liability reforms can be developed. Although better than no fund, this continuation fund could likewise be quickly extinguished. For this reason—as well as the ever-increasing susceptibility to wildfires in California where inverse condemnation is applied, making an electric utility the insurer of last resort—on September 17, S&P *downgraded* Southern California Edison Company's (SCE) credit rating in response to SB

⁶ SB 254, Stats. 2025-2026, Legislative Counsel's Digest (Cal. 2025); Ex. SDG-04, *Prepared Rebuttal Testimony of Valerie A. Bille on Behalf of San Diego Gas & Electric* (Aug. 20, 2025) (Ex. SDG-04 (Bille Rebuttal)) at 10-11 (quoting (Ex. SDG-08C, Moody's Ratings, *Sector In-Depth: Regulated Electric and Gas Utilities – California, Wildfire fund depletion will increase credit risk, requiring a replenishment plan or other liability remedies* (Aug. 4, 2025) (Ex. SDG-08C (Moody's Aug. 2025)); Ex. SDG-08C (Moody's Aug. 2025) at 1.

254. Moreover, as Moody’s recognizes, the continued need for contributions is not sustainable, given the ever-present wildfire threat. And as Moody’s details, the ongoing equity contributions themselves are credit negative, making it difficult for SDG&E to ever earn its authorized ROE.

On top of this increased risk, as most parties to this proceeding recognize,⁷ the relevant financial conditions that the Commission has considered—including interest rates, inflation, and national ROE authorized averages—are all higher today than at the time of the 2020 and 2023 Decisions. The increase in interest rates is self-evidently reflected in the fact that the cost of capital mechanism (CCM) triggered in the fall of 2023 for 2024; resulting in SDG&E’s current 10.23% ROE for 2025 following D.24-10-008.⁸

And it is reflected in the fact that, as intervenors demonstrate, the average authorized ROE granted to electric utilities nationwide between July 2024-July 2025 has increased by nearly 40 basis points to 9.74%,⁹ compared to the 9.39% cited in the 2023 Decision for the first half of 2022.¹⁰ Indeed, the authorized ROE average is nearly 15 basis points higher than the 9.60% average cited in the 2020 Decision, where SDG&E was granted an authorized ROE of

⁷ The parties to this proceeding are applicants SDG&E, Pacific Gas and Electric Company (PG&E), SCE, and Southern California Gas Company (SCG), and intervenors Public Advocates Office of the California Public Utilities Commission (CA), Environmental Defense Fund (EDF), Energy Producers and Users Coalition (EPUC), Federal Executive Agencies (FEA), Indicated Shippers (IS), Protect our Communities Foundation (PCF), Sierra Club, The Utility Reform Network (TURN), Utility Consumers’ Action Network (UCAN), and Wild Tree Foundation (WTF). Citation to record exhibits will use the following example: exhibit party abbreviation, exhibit number, exhibit title, if referenced, page number(s), if applicable.

⁸ D.24-10-008 at 28 (setting SDG&E’s ROE at 10.23% for 2025 after changing the ROE adjustment from 50% to 20% of the change in the applicable Moody’s utility bond index).

⁹ Ex. SDG-04 (Bille Rebuttal) at 2 (citing RRA Regulatory Focus, Major Energy Rate Case Decisions in the US—January-June 2025 (July 25, 2025) (“Ex. SDG-11C (RRA July 25, 2025)” at 3, Table 1); Ex. SDG-11C (RRA July 25, 2025)) at 3, Table 1.

¹⁰ D.22-12-031 at 32 (citation omitted).

10.20%.¹¹ Just as the Commission relied in the 2023 Decision on a downward trend in the national authorized ROE average to support reducing SDG&E's ROE by 25 basis points,¹² so too here the increase in ROE by around 35 basis points since that Decision supports a higher ROE.

Likewise, SDG&E's 54% common equity, 46% long-term debt authorized capital structure request better reflects SDG&E's actual capital structure and has been identified by Moody's as credit supportive. By having an actual capital structure with a higher common equity ratio than its authorized one, SDG&E's investors are buttressing the Company's credit ratings—providing a benefit to ratepayers through lower borrowing costs—without receiving a return on their investment. If SDG&E reduced its actual common equity ratio to its currently authorized one it could harm the Company's credit ratings, potentially resulting in higher borrowing costs for ratepayers.¹³ Finally, the Commission should continue the CCM established in D.08-05-035.

II. SDG&E'S ROE PROPOSAL IS CONSISTENT WITH COMMISSION PRECEDENT, CAPITAL MARKET CONDITIONS SHOWING A HIGHER COST OF EQUITY, AND SDG&E'S UNIQUE RISKS

As noted, the Commission in the 2020 Decision set SDG&E's ROE at 10.20 percent. In so doing, the Commission found that SDG&E's ROE should be set at the upper end of the just and reasonable range and placed it well above the national authorized all-electric utility average.¹⁴ In the 2023 Decision, the Commission set SDG&E's authorized at 9.95%. In so doing, the Commission found that SDG&E's ROE should “be set at the mid-upper end of the just and

¹¹ D.19-12-056 at 43.

¹² D.22-12-031 at 32-34.

¹³ See Ex. SDG-02, *Prepared Direct Testimony of Maritza Mekitarian on Behalf of San Diego Gas & Electric Company* (Mar. 20, 2025) (Ex. SDG-02 (Mekitarian Direct)) at 9-10 (credit rating agencies assess SDG&E financial risks based upon the Company's actual capital structure).

¹⁴ D.19-12-056 at 42-43.

reasonable range,” and supported reducing SDG&E’s ROE from 10.20% to 9.95% based on a “downward trend of 20-30 basis points” in the RRA national authorized electric average since the 2020 Decision.¹⁵

SDG&E’s current authorized ROE is 10.23%—reflecting the significant increase in interest rates that triggered the CCM.¹⁶ SDG&E’s credit ratings remain unchanged. And SDG&E’s risks are at least the same—if not higher—than in the 2020 and 2023 Decisions. Moreover, market conditions, inflation, interest rates, and ROE modeling all demonstrate a higher cost of equity—reflected in the 30-plus basis point increase in the national authorized ROE average for electric utilities since the 2023 Decision. Just as the Commission in that Decision relied upon a decrease in the national average to support a decrease in SDG&E’s authorized ROE, so too here that increase supports an increase in SDG&E’s ROE.

A. The Commission Follows Applicable Legal Standards in Setting Authorized ROE

To invest in ‘rate base assets,’ such as wires, poles, pipelines, and substations to deliver electricity and/or natural gas to customers, a utility raises funds by either issuing debt or selling equity. Both methods have costs. The company pays interest to debt creditors on borrowed funds. Or it pays a portion of its profits or dividends to equity investors, *i.e.*, shareholders. These costs are known as the cost of capital.

1. The Commission Must Set ROE Commensurate with Market Returns on Investments Having Corresponding Risks

As the Commission has recognized, the United States Supreme Court has long established the legal standard for setting a fair rate of return to meet the costs of capital in the

¹⁵ D.22-12-031 at 33-34.

¹⁶ *See* D.24-10-008 at 28.

Bluefield and *Hope* decisions.¹⁷ In applying those constitutional requirements, the Commission “attempt[s] to set the ROE at a level of return commensurate with market returns on investments having corresponding risks and adequate to enable a utility to attract investors,” ensuring a return that is “reasonably sufficient to ensure confidence in the financial soundness of the utility, and adequate, under efficient management, to maintain and support its credit and to enable it to raise the money necessary for the proper discharge of its public duties.”¹⁸

As the Commission has repeatedly applied, ROE is a market-based concept, predicated upon the return on investment that investors require to purchase shares in the market.¹⁹ As the Commission has found, an ROE that is too low is not “in the public interest because it could cause investors to move to utilities with higher ROEs.”²⁰

2. The Commission Considers Multiple Financial Models, Risks, Credit Ratings, and Other Relevant Factors Before Applying Informed Judgment

Because SDG&E and other utilities are not publicly traded companies—and thus the required ROE is not directly observable—the Commission considers the application of multiple financial models to an applicable proxy group to estimate the necessary ROE.²¹ The Commission

¹⁷ See D.22-12-031 at 14-15 (citing *Fed. Power Com. v. Hope Nat’l Gas Co.*, 320 U.S. 591, 601 (1944); *Bluefield Co. v. Pub. Serv. Comm’n*, 262 U.S. 679, 692 (1923)) and Conclusions of Law (COL) 2 at 50 (“The legal standard for setting the fair ROE has been established by the United States Supreme Court in the *Bluefield* and *Hope* cases.”).

¹⁸ D.22-12-031 at 15; D.23-08-028 at 9 (“[W]e must balance the interests of ratepayers as well as set the ROE at a level of return adequate to enable a utility to attract investors to finance the replacement and expansion of the utility’s facilities to fulfill its public utility service obligation.”) (citation omitted).

¹⁹ See D.22-12-031 at 15-16; Ex. SDG-03, *Prepared Direct Testimony of Joshua C. Nowak on Behalf of San Diego Gas & Electric Company* (Mar. 20, 2025) (Ex. SDG-03 (Nowak Direct)) at 10 (“SDG&E competes with other investments of similar risk for equity capital from the market.”).

²⁰ D.23-08-028 at 9.

²¹ See D.22-12-031 at 16 (describing the basis for using proxy groups and to screen out companies that: (1) do not have investment grade credit ratings; (2) do not have a history of paying dividends; and (3) are undergoing a restructure or merger.).

has found that the proxy group should consist of companies comparable to the utility,²² and has repeatedly determined that the “financial models commonly used in ROE proceedings are the Capital Asset Pricing Model (CAPM), the Risk Premium Model (RPM), and the Discounted Cash Flow (DCF) model.”²³

The Commission has found that it “will not litigate the specific mechanics of each proposed models, inputs, and assumptions.”²⁴ Rather, the Commission uses the quantitative financial models as a “starting point,”²⁵ and relies “on the results of the models only as a gauge of the realm of reasonableness of the ROEs.”²⁶

The Commission has instead determined that it is the “application of informed judgment, not the precision of quantitative financial models, which is the key to selecting a specific ROE.”²⁷ In applying informed judgment, the Commission considers numerous factors, including “evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors including business risk and interest covered presented by the parties.”²⁸

²² *Id.*

²³ *Id.* at 18-19; *accord* D.19-12-056 at 20 (same).

²⁴ D.22-12-031 at 21.

²⁵ *Id.* at 49, Findings of Fact (FOF) 46.

²⁶ D.23-08-028 at 7.

²⁷ D.22-12-031 at 53, COL 14.

²⁸ D.23-08-028 at 6-7 (quoting D.22-12-031 at 37).

B. Capital Market Conditions Support a Higher ROE than in the 2020 and 2023 Decisions

The capital market metrics that the Commission considered in the 2020 and 2023 Decisions—ROE modeling, interest rates, market conditions, and trends—all support a higher ROE than the Commission granted in those Decisions.

1. ROE Modeling Underscores the Increase in SDG&E’s Cost of Equity

Joshua Nowak sponsored SDG&E’s authorized ROE request at 11.25%. Mr. Nowak established a just and reasonable ROE range for SDG&E of 10.50-11.50%, before recommending an ROE in the upper half of that range after considering capital market conditions and SDG&E’s risk profile.²⁹

Figure 2: Nowak ROE Results³⁰

	Low Mean	Mean	High Mean
<i>Primary Analyses</i>			
DCF Result	10.26%	10.30%	10.35%
CAPM Result	11.44%	12.15%	12.84%
Risk Premium	10.35%	10.47%	10.55%
Average		10.97%	
<i>Benchmark Analysis</i>			
Expected Earnings	11.27%		

²⁹ Ex. SDG-03 (Nowak Direct) at 3.

³⁰ *Id.* at 4, Figure 1.

Mr. Nowak’s rebuttal testimony update confirmed his range and recommendations.³¹

Figure 3: Nowak ROE Rebuttal Results³²

	Direct (2/28/25)	Rebuttal (7/31/2025)
<i>Primary Analyses</i>		
DCF Result	10.30%	10.55%
CAPM Result	12.15%	11.26%
Risk Premium	10.47%	10.50%
Average	10.97%	10.77%
<i>Benchmark Analysis</i>		
Expected Earnings	11.27%	11.36%

As SDG&E is not a publicly traded company, Mr. Nowak arrived at that range by applying the results of three ROE models (DCF, CAPM, and Risk Premium) to a proxy group of 26 investment-grade, dividend-paying electric and combination electric/gas utilities’ parent companies.³³ The three models that Mr. Nowak applied—and Mr. Nowak’s approach to applying those models—are summarized as follows:

- DCF: estimates the cost of equity based on market data on dividend yields and analysts’ projected earnings per share growth rates from reputable third-party sources, based on the theory that a stock’s current price represents the present value of all expected cash flows.³⁴ Mr. Nowak applied a constant growth, single-stage DCF analysis based upon forecasted earnings per share growth rates from equity analysts.³⁵

³¹ Ex. SDG-06, *Prepared Rebuttal Testimony of Joshua C. Nowak – Return on Equity on Behalf of San Diego Gas & Electric Company* (Aug. 20, 2025) (Ex. SDG-06 (Nowak Rebuttal)) at 14.

³² *Id.* at 12, Figure 3.

³³ Ex. SDG-03 (Nowak Direct) at 20-24; *see* Ex. SDG-06 (Nowak Rebuttal) at 23 (noting that Messrs. Rothschild, Gorman, and Ellis adopted Mr. Nowak’s proxy group).

³⁴ Ex. SDG-03 (Nowak Direct) at 5.

³⁵ *Id.* at 25-27.

- CAPM: Risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium, based on both current and forecasted interest rates and a forward-looking market risk premium.³⁶ To estimate CAPM, Mr. Nowak considered three estimates of the expected risk-free rate, two Beta coefficients and, consistent with FERC precedent, the constant-growth DCF model to estimate the market risk premium;³⁷ and
- Risk Premium Model: A calculation of the risk premium as the spread between authorized ROEs for electric utilities and Treasury bond yields—given that equity is riskier than debt.³⁸ Mr. Nowak calculated the “appropriate risk premium based on the relationship between historic authorized ROEs for electric utilities and Treasury bond yields over the last 33 years.”³⁹

Consistent with Commission precedent, Mr. Nowak emphasized the importance of using multiple models, especially given currently high inflation and interest rates.⁴⁰ As Mr. Nowak testified, “[t]he standard ROE estimation tools, such as the DCF, CAPM, and Risk Premium approaches, each reflect the state of the general economy and financial markets by incorporating specific economic and financial data.”⁴¹ Mr. Nowak continued, however, that these inputs are “only samples of the various economic and market forces that determine a utility’s required return.”⁴²

³⁶ *Id.* at 5.

³⁷ *Id.* at 31-32 (citing *Ass’n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator, Inc.*, Opinion No. 569-A, 171 FERC ¶ 61,154 (2020) (“Opinion No. 569-A”)).

³⁸ *Id.* at 5-6.

³⁹ Ex. SDG-06 (Nowak Rebuttal) at 64.

⁴⁰ *Id.* at 5 (“The cost of equity for regulated utility companies is being affected by several key factors in the current and prospective capital markets, including the interest rate environment and central bank monetary policy as well as current inflationary pressure and the longer-term outlook for inflation. Long-term interest rates remain elevated, and capital market volatility has increased. These circumstances also reinforce the importance of considering the results of multiple models.”); *accord* Ex. SDG-03 (Nowak Direct) at 20.

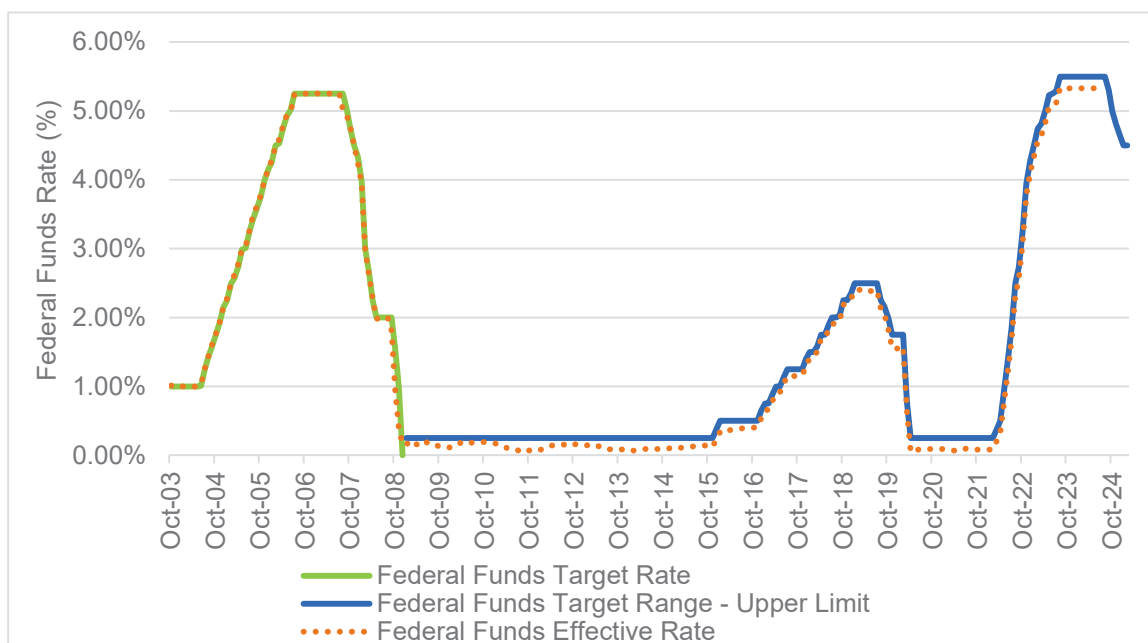
⁴¹ Ex. SDG-03 (Nowak Direct) at 11.

⁴² *Id.*

2. Utilities’ Cost of Equity Has Increased Due to Higher Inflation and Interest Rates

Instead, using the models as a starting point, Mr. Nowak then analyzed how the increase in inflation, interest rates, and the volatility index supports his recommendations.⁴³ As Mr. Nowak shows, beginning in 2022, inflation surged to levels not seen since the late-1970s and early-1980s, resulting in the Federal Reserve aggressively raising the overnight federal funds rate (*i.e.*, the overnight lending rate set by the Federal Open Market Committee (“FOMC”) at which commercial banks borrow and lend their excess reserves to each other). The Federal Reserve had been at a target rate of 4.25-4.50% from December 18, 2024, to September 17, 2025.⁴⁴

Figure 4: FOMC Federal Funds Rate



⁴³ See Ex. SDG-06 (Nowak Rebuttal) at 5; Ex. SDG-03 (Nowak Direct) at 12.

⁴⁴ Ex. SDG-03 (Nowak Direct) at 13; Ex. EIT-01, *Direct Testimony of Michael P. Gorman on behalf of Energy Producers & Users Coalition, Indicated Shippers, and The Utility Reform Network* (July 30, 2025) (Ex. EIT-01 (Gorman Direct)) at 45-46 (acknowledging that Federal Reserve had maintained its target rate in 2025).

The Federal Reserve’s actions have already significantly raised other interest rates—reflected in the fact that the CCM triggered for 2024 based upon a 141-basis point increase in the Moody’s Baa utility bond index between October 1, 2022, and September 30, 2023. This increased SDG&E’s ROE 70 basis points to 10.65%;⁴⁵ before being lowered to its current 10.23% due to the Commission changing from 50 to 20% the amount that ROE is modified as a percentage of the change in interest rates.⁴⁶

Interest rates have remained elevated.

Figure 5: U.S. Treasury Yields (June 2024 vs. July 2025)⁴⁷

	1-year Treasury	2-year Treasury	10-year Treasury	30-year Treasury
June 28, 2024	5.09%	4.71%	4.36%	4.51%
July 31, 2025	4.10%	3.94%	4.37%	4.89%
Change	-0.99%	-0.77%	+0.01%	+0.38%

The 30-year Treasury Bond Yield has consistently been above 4.5% throughout 2025 and has in fact increased in recent months.⁴⁸

Figure 6: Comparison of Bond Yields between February 2025 and July 2025

Bond	30-day Average as of February 28, 2025	30-day Average as of July 31, 2025	Change (basis points)
30-Year Treasury Bond Yield	4.73%	4.90%	+17
Moody’s Utility “A” Index	5.75%	5.88%	+13

⁴⁵ Resolution (Res.) E-5306 (July 11, 2024) at 3-4.

⁴⁶ D.24-10-008 at 26 (modifying the CCM to adjust ROE by 20% of the change in the Moody’s utility bond index instead of 50% and applying that change to 2025).

⁴⁷ Ex. SDG-06 (Nowak Rebuttal) at 17.

⁴⁸ *Id.* at 16; *accord* Stipulation of Facts, No. 2 (showing that the 30-year Treasury has increased from 4.85% in January 2025 to 4.92% in July 2025).

As Mr. Nowak testifies, because equity investments are riskier than investing in debt due to debt investors' residual claim on a company's assets, in "general, as interest rates on government bonds increase, the cost of capital also must increase, as utilities—competing with interest rates on government bonds—must offer higher dividend yields to attract and retain investors."⁴⁹ Mr. Nowak continued that, as "dividend yields increase . . . the stock price declines (and, therefore, the cost of equity increases)."⁵⁰ Mr. Nowak concluded that, "to reflect this correlation in ROE models, all else being equal, higher dividend yields produce higher ROE estimates."⁵¹ This correlation, again, is the premise behind the CCM.⁵²

Although on September 17, 2025, the Federal Reserve moderately decreased the federal fund overnight rate by 25-basis points to 4.0-4.25%,⁵³ this is only expected to affect short-term rates. Long-term rates are expected to remain near current levels.⁵⁴ In fact, 10, 20, and 30-year Treasury yields were all higher on September 17 following the Federal Reserve's announcement.⁵⁵

⁴⁹ See Ex. SDG-03 (Nowak Direct) at 17.

⁵⁰ *Id.* at 17-18.

⁵¹ *Id.* at 18.

⁵² D.08-05-035 at 14 (finding that "a major change in bond rates impacts equity investments").

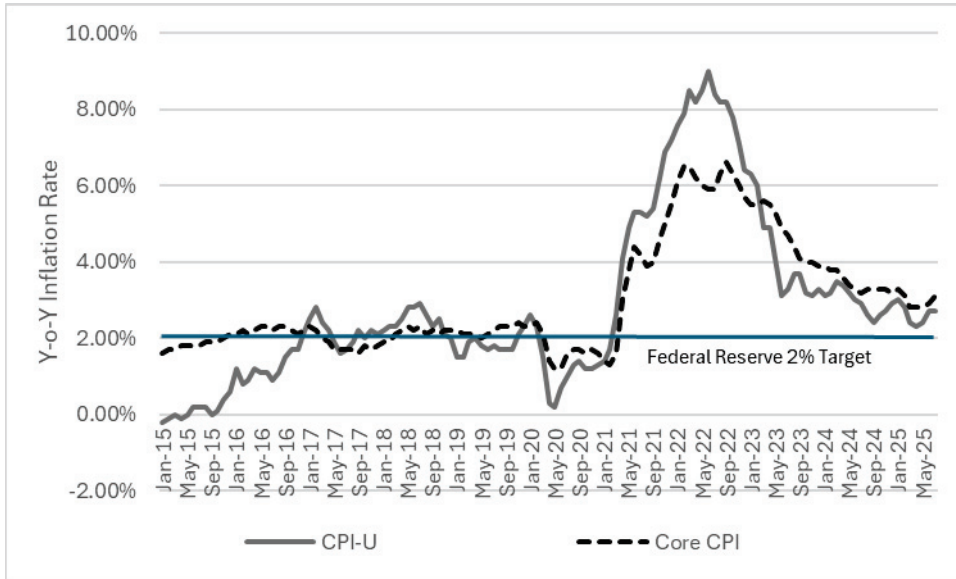
⁵³ See Board of Governors of the Federal Reserve System, *Federal Reserve issues FOMC Statement* (Sept. 17, 2025), available at: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917a.htm>. Per Rule 13.10, the Commission may take official notice of matters that may be judicially noticed under Evidence Code 450, *et seq.*, which provides that notice may be taken of "[o]fficial acts of the legislative, executive, and judicial departments of the United States and of any state of the United States."

⁵⁴ Ex. SDG-06 (Nowak Rebuttal) at 16.

⁵⁵ U.S. Department of Treasury, *Daily Treasury Par Yield Curve Rates* (Sept. 2025), available at: https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202509. Per Rule 13.10, the Commission may take official notice of this data. See n.52.

Blue Chip Financial Forecasts projects the 30-year Treasury yield to remain as high as 4.6% through 2026, with longer-term forecasts project the 30-year Treasury yield to remain at 4.4% through 2030.⁵⁶ Inflation is likewise expected to remain elevated above the Federal Reserve’s 2.0 percent target.⁵⁷

Figure 7: Year-Over-Year Inflation (2015-2025)⁵⁸



And due to uncertainty regarding the federal government’s trade policy, the Volatility Index is also higher, further increasing the cost of equity.⁵⁹

3. An Increase in the National Authorized ROE Average Supports a Higher ROE

Consistent with this increase in interest rates, the national authorized ROE average for electric utilities for June 2024-June 2025 increased by **35 basis points** compared to the first half

⁵⁶ Ex. SDG-03 (Nowak Direct) at 17.

⁵⁷ Ex. SDG-06 (Nowak Rebuttal) at 17-18; *see also* Ex. EIT-01 (Gorman Direct) at 45 (“inflation is still slightly elevated”).

⁵⁸ Ex. SDG-06 (Nowak Rebuttal) at 18 (citing Source: U.S. Bureau of Labor Statistics).

⁵⁹ *Id.* at 18-19; Ex. CADV-02, *Amended Report on California Energy Companies Cost of Capital* (July 31, 2025) ((Ex. CADV-02 (Woolridge Direct)) at 16 (the VIX “fear gauge” has increased).

2022 figure cited by the Commission in the 2023 Cost of Capital Decision—from 9.39 to 9.74%.⁶⁰

Figure 8: National Authorized Electric Utility ROE Average⁶¹

Year	Electric Authorized Average
2021	9.38%
1H 2022	9.39%
2022	9.54%
2023	9.60%
2024	9.74%
1H 2025	9.68%

Multiple intervenors recognize this upward trend.

- UCAN (Pavlovic)—Acknowledging that the authorized electric utility average was 9.74% in 2024;⁶²
- Cal Advocates (Woolridge)—Stating that the authorized ROE for electric utilities increased “by 21 basis points” between 2022-2024 (though this understates the increase);⁶³ and
- EPUC/IS (Gorman)—Showing an increase from 9.39% in 2021 to 9.74% for 2024 and 9.72% for the first quarter of 2025.⁶⁴

⁶⁰ Compare D.22-12-031 at 33 with Ex. SDG-11C (RRA Jul. 25, 2025) at 3; see generally Ex. SDG-04 (Bille Rebuttal) at 14-16 (discussing trend).

⁶¹ Ex. SDG-04 (Bille Rebuttal) at 15-16 (citing RRA, *Major Energy Rate Case Decisions in the US, January-December 2023*, 3 (Feb. 6, 2024), RRA, *Major Energy Rate Case Decisions in the US, January-December 2024*, 3 (Feb. 4, 2025), and Ex. SDG-11C (RRA July 25, 2025) at 3); see (Ex. SDG-11C (RRA July 25, 2025) at 3 (providing relevant authorized ROE data); D.22-12-031 at 32 (providing authorized national average for electric utilities for 2021 and the first half of 2022).

⁶² Ex. UCAN-02, *Prepared Direct Testimony of Karl Richard Pavlovic on Behalf of Utility Consumers’ Action Network Concerning San Diego Gas and Electric Company 2026 Cost of Capital* (July 30, 2025) (Ex. UCAN-02 (Pavlovic Direct)) at 7.

⁶³ Ex. CADV-02 (Woolridge Direct) at 20.

⁶⁴ Ex. EIT-01 (Gorman Direct) at 34, Figure 1 (charting authorized ROE excluding limited issue riders).

As Ms. Dowdell for TURN notes, the “Commission has a long record of setting the authorized ROE significantly higher than the national average as a means of both encouraging and signaling to the broader financial markets a commitment to financially healthy California utilities.”⁶⁵ Ms. Dowdell cites the Commission’s finding in the 2020 Decision that the Commission ““further observe[s] that the 10.30% authorized ROE [granted SCE] is significantly higher than the 9.60% ROE granted to United States electric utilities during 2018.””⁶⁶ She concluded that from 2010-2024, “California utilities have enjoyed authorized ROEs that exceeded the national average among US Utilities by 70 bps.”⁶⁷

Ms. Dowdell adds that “S&P’s notes indicate that what may be most important for investors and credit is the relationship of the authorized ROE to the industry average,” citing S&P viewing the recent granting of a 10.30% ROE to Duke Energy Florida as credit supportive.⁶⁸ Moody’s similarly concludes that a credit-supportive feature for SDG&E has been “above-average returns,”⁶⁹ with a ROE that “compares favorably to the authorized returns in other jurisdictions.”⁷⁰

⁶⁵ Ex. TRN-01, *Prepared Testimony of Jennifer Dowdell Submitted on Behalf of The Utility Reform Network* (July 30, 2025) (Ex. TRN-01 (Dowdell Direct)) at 30.

⁶⁶ *Id.* at 31 (quoting D.19-12-056 at 40-41 and citing *id.* at 41-42, 42-43, and 43).

⁶⁷ Ex. TRN-01 (Dowdell Direct) at 30.

⁶⁸ *Id.* at 31. (quoting S&P Global, North American Utility Regulatory Jurisdictions Update: *Some Notable Developments*, September 24, 2024).

⁶⁹ Ex. SDG-01, *Prepared Direct Testimony of Valerie A. Bille on Behalf of San Diego Gas & Electric Company* (Mar.20, 2025) (Ex. SDG-01 (Bille Direct)) at 14-15 (quoting Moody’s Apr. 2025 at 6); SDG-09-C (Moody’s Apr. 2025) at 6.

⁷⁰ Ex. SDG-01 (Bille Direct) at 15 (quoting Ex. SDG-09C, Moody’s Ratings, *Credit Opinion, San Diego Gas & Electric Company Update to Credit Analysis* (April 3, 2025) (Ex. SDG-09C (Moody’s Apr. 2025)) at 5, 8); Ex. SDG-09C (Moody’s Apr. 2025) at 5, 8; *see generally* Ex. SDG-01 (Bille Direct) at 17 n.56.

As noted, in the 2023 Decision, the Commission explicitly recognized a “downward trend of 20-30 basis points” in the RRA national authorized electric average since the 2020 Decision and reduced the ROE authorization for each utility by 25 basis points as a result, while maintaining SDG&E’s ROE at the “mid-upper end of the just and reasonable range “⁷¹ Applying that same precedent here—and the Commission’s longstanding policy of setting authorized ROEs significantly above the national average—supports increasing SDG&E’s authorized ROE, given the 30-40 basis point increase in the national authorized electric average since that 2023 Decision.⁷² It likewise supports a higher ROE than authorized in the 2020 Decision, as the national authorized electric ROE is currently higher than the 9.60% average cited there.⁷³

In sum, ROE modeling, higher inflation, higher interest rates, and an increase in the nationwide authorized ROE averages all support a higher ROE than granted in the 2020 and 2023 Decisions; particularly given the fact that SDG&E’s risks are at a minimum the same, if not higher, then at the time of those Decisions, as discussed below.

C. SDG&E’s Credit Ratings Are Unchanged and Company’s Risks Have Increased Since the 2023 Decision

SDG&E’s need for a higher ROE, consistent with this increase in capital market conditions, is underscored by the fact that SDG&E’s risks remain the same—if not higher—than in the 2020 and 2023 Decision. Specifically, SDG&E has the same credit ratings, the same (if not increased) wildfire risks, and new, additional risks, further supporting an increased ROE.

⁷¹ D.22-12-031 at 33-34.

⁷² See Ex. SDG-04 (Bille Rebuttal) at 17.

⁷³ See D.19-12-056 at 43 (average ROE granted to United States electric utilities in 2018 was 9.60%).

1. SDG&E’s Credit Ratings Remain the Same as in the 2023 Decision

In the 2023 Decision, the Commission noted that SDG&E’s credit rating had “been upgraded” since the 2020 Decision, with Moody’s upgrading SDG&E in March 2021 to A3.⁷⁴ SDG&E’s S&P and Fitch credit ratings, by contrast have remained BBB+ since January 2019.⁷⁵ Since then, SDG&E’s credit ratings from all three agencies have remained the same—two notches below the rating that SDG&E possessed prior to 2018 and 2019 wildfires in the state—despite SDG&E not being the cause of a significant wildfire during that time and being repeatedly lauded by credit rating agencies for its wildfire mitigation efforts.⁷⁶

Figure 9: SDG&E Credit Ratings

Credit Rating Agency	January 1, 2018	January 1, 2023	August 20, 2025
Fitch	A	BBB+	BBB+
Moody’s	A1	A3	A3
S&P	A	BBB+	BBB+

2. SDG&E’s Wildfire Risk Remains At Least The Same Since the 2023 Decision and Have in Fact Increased in 2025

SDG&E’s credit ratings remain depressed principally due to concerns regarding California electric utilities’ unique wildfire risks, arising from the combination of above-average risk of wildfires, California’s application of inverse condemnation strict liability to utility-caused wildfires, and concerns about the recovery of potentially massive liabilities due to the threat of

⁷⁴ D.22-12-031 at 33.

⁷⁵ *Id.* at 49, FOF 44 (“SDG&E has an investment grade rating of BBB+ from S&P”); Ex. UCAN-02 (Pavlovic Direct) at 6; *see* Ex. SDG-04 (Bille Rebuttal) at 4-5 (collecting SDG&E credit ratings).

⁷⁶ Ex. SDG-01 (Bille Direct) at 10-11; *see* Stipulated Facts at 1 (providing SDG&E’s credit ratings).

wildfires in developed urban areas.⁷⁷ Specifically, as Moody’s describes, California electric utilities face a unique risk from wildfire liability (even after AB 1054’s passage) from a combination of:

- “Severe wind events;”
- “Growing housing developments in fire-prone areas;” and
- Inverse condemnation, which renders utilities “strictly liable for damages from fires ignited by their equipment, regardless of fault or how reasonably they acted.”⁷⁸

Regarding physical wildfire risks, as Michael Gorman quotes on behalf of EPUC/IS, S&P finds that, for SDG&E, the “threat of wildfires in [SDG&E’s] service territory is high relative to that of its utility peers across North America.”⁷⁹ As S&P later added, SDG&E faces “*above-average* physical risk compared with peers because of wildfires in California.”⁸⁰

Regarding California’s legal liability scheme, Moody’s states that inverse condemnation “heightens the utilities’ risk exposure to property damage.”⁸¹ California also lacks any limits on

⁷⁷ Ex. SDG -01 (Bille Direct) at 6-17; Ex. SDG-04 (Bille Rebuttal) at 9 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 1); Ex. SDG-03 (Nowak Direct) at 39-50; Ex. SDG-08C (Moody’s Aug. 2025) at 1.

⁷⁸ Ex. SDG-04 (Bille Rebuttal) at 5 (quoting Ex. SDG-09C (Moody’s Apr. 2025) at 9); Ex. SDG-09C (Moody’s Apr. 2025) at 9.

⁷⁹ Ex. Ex. EIT-01 (Gorman Direct) at 191 (quoting Ex. SDG-13C, S&P, *San Diego Gas & Electric* (Jun. 26, 2024) (Ex. SDG-13C (S&P Jun. 2024)) at 2.

⁸⁰ Ex. SDG-04 (Bille Rebuttal) at 6 (quoting Ex. SDG-12C, S&P, *Tear Sheet: San Diego Gas & Electric Co. Monitored Due to Risk of Material Draw on Wildfire Fund* (Feb 11, 2025) (Ex. SDG-12C, S&P Feb. 2025)) at 4) Ex. SDG-12C, S&P Feb. 2025) at 4; *see* Ex. SDG-01 (Bille Direct) at 6-9 (17 of the 20 most destructive wildfires in California have occurred since 2007 and 57% of SDG&E’s service territory is a high-fire threat district); Ex. SDG-03 (Nowak Direct) at 39-41 (same).

⁸¹ Ex. SDG-04 (Bille Rebuttal) at 7 (quoting Moody’s Apr. 2025 at 9); Ex. SDG-09C (Moody’s Apr. 2025) at 9; *see also* Ex. SDG-12C, S&P Feb. 2025) at 1) (“if SCE’s equipment is found to have contributed to the [Eaton] wildfire, third parties would likely file significant claims against SCE because of the inverse condemnation doctrine in California”); Ex. SDG-04 (Bille Rebuttal) at 6-7 (inverse condemnation for a utility-caused wildfire is a doctrine that is unique to California).

liability.⁸² By contrast, as Moody’s recently noted, other Western states—such as Utah and Idaho—have “caps on noneconomic [wildfire-related] damages that contain liability exposure.”⁸³ And finally, unlike other states, credit rating agencies find that SDG&E and other California electric utilities face significant threats in dense, property-rich, urban areas.⁸⁴ Because of this heightened liability risk, investor analysts explicitly apply a discount to Sempra’s stock price.⁸⁵

Although AB 1054, passed in 2019, has helped mitigate SDG&E’s wildfire risk, it did not eliminate it—reflected in the fact that SDG&E’s credit ratings remain the same as they were during the 2023 Decision.⁸⁶ Among other things, AB 1054:

- Created liquidity through the creation of a \$21 billion wildfire fund that a utility can immediately use to pay claims and then reimburse the fund later if there are any disallowances should the utility be deemed imprudent;
- Capped the amount that the utility would have to reimburse the fund at 20% of the equity portion of the utility’s rate base; and
- Revised the prudence standard that applies at the Commission if the utility has a valid state safety certification.⁸⁷

But there is a limit to those mitigation efforts. The AB 1054 fund has no replenishment mechanism, and the liability cap ceases to apply if the fund is exhausted.⁸⁸ Although the revised

⁸² Ex. SDG-04 (Bille Rebuttal) at 6 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 3); Ex. SDG-08C (Moody’s Aug. 2025) at 3.

⁸³ *Id.*

⁸⁴ See Ex. SDG-08C (Moody’s Aug. 2025) at 1 (in California wildfires are occurring in densely populated metropolitan areas rather than in forested rural areas); Ex. SDG-04 (Bille Rebuttal) at 9 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 1).

⁸⁵ Ex. SDG-01 (Bille Direct) at 12-13 (collecting investment analysts’ quotes).

⁸⁶ See Ex. SDG-06 (Nowak Rebuttal) at 77-78 (how AB 1054 did not fully mitigate wildfire risks).

⁸⁷ *Id.* at 10-11; see generally Ex. SDG-09C (Moody’s Apr. 2025) at 9 (describing AB 1054’s features).

⁸⁸ Ex. SDG-09C (Moody’s Apr. 2025) at 10; Ex. SDG-03 (Nowak Direct) at 45 (“Under AB 1054, if the wildfire fund is depleted the liability cap also goes away, meaning that much of the legislation’s benefits are negated.”); Ex. Ex. EIT-01 (Gorman Direct) at 28 (“if the fund is depleted, the majority

prudency standard would remain, it has not been tested.⁸⁹ And investors have ongoing concerns that a California utility will not receive cost recovery for the same conduct that would be found prudent in other jurisdictions, based on the Commission denying—and FERC granting—SDG&E’s recovery for the same conduct arising out of SDG&E’s 2007 fires.⁹⁰

The limitations of the AB 1054 framework have become of immediate concern this year due to the January 2025 Eaton Fire in Southern California—specifically that the AB 1054 wildfire fund will be exhausted by the Eaton Fire and with it, the cap on liability. In response, credit rating agencies have downgraded California’s regulatory environment and have threatened to downgrade SDG&E’s credit ratings due to this perceived increase in risk.

- *Regulatory Research Associates July 2025: Downgraded California’s regulatory environment from Average/1 to Average/2 due to immediate concern about the 2025 wildfires and the adequacy of California’s 1054 Wildfire Insurance Fund.*⁹¹
- *Fitch Jun. 30, 2025: “Fitch believes that the recent Eaton Fire in Southern California is a significant adverse development for SDG&E.” Fitch added that, a “diminished AB 1054 fund would meaningfully increase wildfire risk for the three large investor-owned utilities in California, including SDG&E, thereby pressuring its credit worthiness.” In “this scenario, adverse credit rating actions are likely without meaningful incremental legislative support.”*⁹²

of credit supportive elements, including the liability cap will terminate.”) (quoting Moody’s, *San Diego Gas & Electric Co.*, 7-9 (Mar. 10, 2025)).

⁸⁹ Hearing Tr. (Bille) 144:10-12.

⁹⁰ Ex. SDG-09C (Moody’s Apr. 2025) at 10; *see also* Ex. SDG-03 (Nowak Direct) at 44 (“The only relevant precedent of a CPUC prudence review is the Commission’s 2017 100 percent imprudence finding in SDG&E’s aforementioned application, further increasing uncertainty.”); SDG-01 (Bille Direct) at 9-10 (noting that FERC found SDG&E prudent regarding the 2007 wildfires).

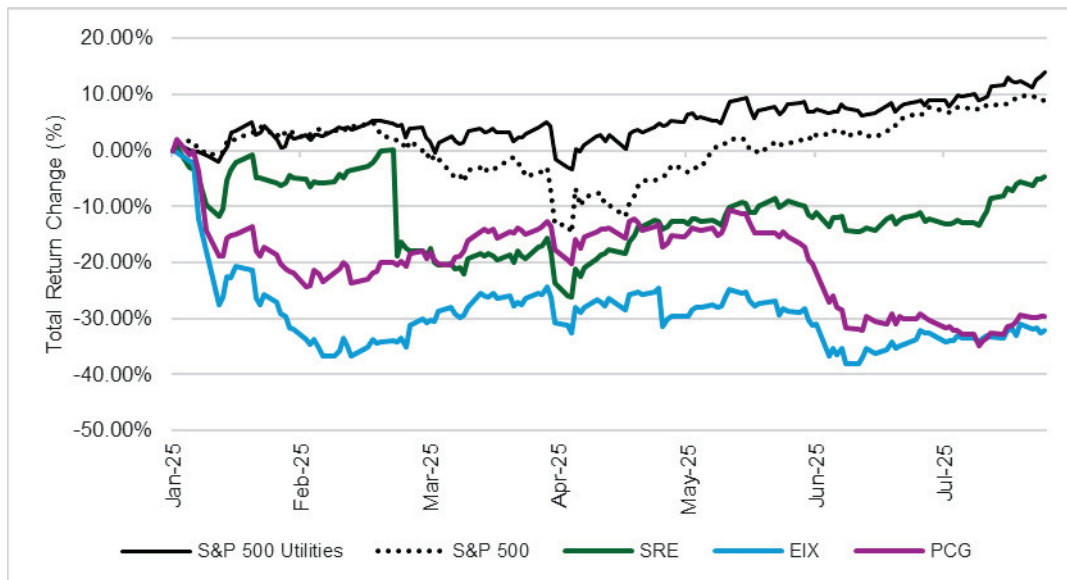
⁹¹ Ex. TRN-01 (Dowdell Direct) at 14-15 (citing Ex. SDG-10C (RRA Jul. 2025) at 4); *accord* Ex. UCAN-02 (Pavlovic Direct), Attachment KPR-3 (containing the report); Ex. SDG-10C (RRA Jul. 2025); *see* Ex. SDG-06 (Nowak Rebuttal) at 77-78 (discussing regulatory environment downgrade).

⁹² Ex. SDG-04 (Bille Rebuttal) at 9-10 (quoting Ex. SDG-07C, Fitch Ratings, *San Diego Gas & Electric Co.* (Jun. 30, 2025) (Ex. SDG-07C (Fitch. Jun. 2025)) at 1); Ex. SDG-07C (Fitch. Jun. 2025) at 1.

- *Moody's Apr. 3, 2025*: “Negative momentum on [SDG&E’s] rating is also possible if SDG&E’s wildfire risk exposure unexpectedly increases or the state’s wildfire fund is materially depleted.”⁹³

Mr. Nowak likewise quantified the decline in EIX, PG&E, and Sempra stock prices following the Eaton Fire—underscoring that investors saw an increased risk to SDG&E and PG&E despite there being no risk to either of direct liability.⁹⁴

Figure 10: Relative Performance of California Companies, January 2025 – July 2025⁹⁵



As Mr. Nowak notes, less than half of Sempra’s assets are associated with SDG&E. As such, EIX and PG&E better represent the risks to California utilities such as SDG&E.⁹⁶

⁹³ Ex. SDG-09C (Moody’s Apr. 2025) at 9; *accord* SDG-06 (Nowak) at 79 n. 181 (quoting Ex. SDG-09C (Moody’s Apr. 2025)).

⁹⁴ Ex. SDG-03 (Nowak Direct) at 48-49; SDG-06 (Nowak) at 20-21.

⁹⁵ Ex. SDG-06 (Nowak Rebuttal) at 21.

⁹⁶ Ex. SDG-03 (Nowak Direct) at 49.

3. **SB 254 Is an Interim Solution that, at best, puts SDG&E’s Risk Profile Back to where it was with AB 1054**

Given these increasing concerns, on September 13, 2025, the California Legislature passed SB 254. If SDG&E, PG&E, and SCE opt-in, this legislation would create a “continuation fund” with additional 50-50 contributions (\$9 billion each) from shareholders and ratepayers for a total fund of up to \$18 billion.⁹⁷ The Fund Administrator also has the right to exercise a “call option” requiring SDG&E to contribute up to an additional \$167.5 million over five years if the Administrator determines that additional funding is necessary.⁹⁸ In introducing this legislation, the legislature made the following findings regarding the increased risk to SDG&E and other California electric utilities:

- “Climate change is driving an increase in the frequency and severity of extreme weather events . . . including a significant increase in the incidence and severity of catastrophic wildfires.”
- “In California, wildfires have grown significantly more intense and destructive in recent years, with 15 of the 20 most destructive wildfires on record occurring in the last 10 years. The 2025 wildfire season is already surpassing previous years in acreage burned and destruction;”
- “The risk to life and property from catastrophic wildfires has been aggravated by historical land use policies that place more people and property in the wildland-urban interface (WUI). Simultaneously, climate change has dramatically increased the number of acres in California considered high risk fire areas;”
- “The risk of wildfires is also impacting utility rates. Utilities and their customers bear the immediate and long-term financial burden of infrastructure upgrades, wildfire prevention, and post-fire liabilities, driven in part by California’s application of inverse condemnation, which holds utilities liable for all damage caused by their equipment regardless of fault;”
- “Th[e] January 2025 wildfires also created significant uncertainty regarding the adequacy of the Wildfire Fund to protect against electrical

⁹⁷ SB 254, Stats. 2025-2026, Legislative Counsel’s Digest (Cal. 2025).

⁹⁸ *Id.*

corporation bankruptcy risks and undermined confidence in the financial stability of the state’s electrical corporations. The prospect that electrical corporations and their customers could be required to bear, on an ongoing basis, losses of the magnitudes of those wildfires is unsustainable;”

- “Any financial instability of the state’s electrical corporations threatens to increase costs to ratepayers, worsening utility bill affordability, delaying timely payment of utility-caused wildfire victims’ claims, and delaying and undermining infrastructure investments necessary to ensure timely customer energization and electric grid decarbonization;” and
- “As longer term solutions are developed, it is necessary to establish an interim framework to provide the Wildfire Fund with access to additional assets, if needed.”⁹⁹

At best, SB 254 places SDG&E’s risk profile back to where it was during the 2023 Decision by simply maintaining the status quo relative to the AB 1054 framework. In reality, however, Moody’s—in assessing this legislation in August when it was first publicly reported—found that SDG&E and other California electric utilities’ risk profiles would remain higher after the Eaton and Palisades fires even with such legislation.¹⁰⁰

Notably, the continuation fund would be smaller than the AB 1054 fund, which itself could be exhausted within six years. As a result, on September 17, 2025, S&P downgraded SCE’s credit rating to BBB- with a negative outlook, based on the fact that the continuation fund was “smaller than expected,” and due to the “potential for a more challenging operating environment going forward.”¹⁰¹ Specifically, S&P “assesse[d] the new fund as about 50%

⁹⁹ *Id.* at 28-31.

¹⁰⁰ Ex. SDG-04 (Bille Rebuttal) at 11 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 1-3); Ex. SDG-08C (Moody’s Aug. 2025) at 1-3.

¹⁰¹ Ex. SCE-09C, S&P Global Ratings, *Edison International and Subsidiary Downgraded to ‘BBB- ‘On Smaller-Than-Expected Wildfire Fund; Outlook is Negative* (Sept. 17, 2025) at 1, 3.

smaller on a net present value basis compared with” the AB 1054 Fund.¹⁰² S&P added more broadly that:

The occurrence of these severe wildfires, occurring slightly more than six years apart, suggests a potential for continued negative impacts on California IOU[s’] credit quality due to escalating wildfire risks. While multi-billion-dollar investments such as system hardening and situational awareness aimed at mitigating wildfire risk are beneficial, they do not eliminate the possibility of a catastrophic event. A single, devastating wildfire could significantly impair a utility’s financial performance and trigger a multi-notch downgrade. We believe such high risks faced by California IOUs are unsustainable.¹⁰³

The ratings agency added that, because of climate change, “areas are becoming drier for longer periods, increasing their susceptibility catastrophic wildfires.”¹⁰⁴ Moreover, “under California’s interpretation of the legal doctrine of inverse condemnation, a California utility can be financially responsible for a wildfire if its facilities were a contributing cause of the fire, irrespective of negligence.”¹⁰⁵ S&P underscored that these “rising risks are increasing for all of California’s IOUs.”¹⁰⁶

S&P concluded that utilities “were never established to be the last resort for wildfire risk.”¹⁰⁷ Nor was the utility industry “designed to handle this enormous rising wildfire risk.”¹⁰⁸

¹⁰² *Id.*

¹⁰³ *Id.* at 2.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

Instead, as S&P notes, “SB 254 recognizes that more must be done to support Edison’s credit quality.”¹⁰⁹

Moody’s similarly determined that such a legislative solution would only be a “temporary fix” and “not sustainable in a world where large fires continue to occur,” given the “inherent limits of how much can be raised through company contributions or customer surcharges.”¹¹⁰ As Moody’s continued, the Eaton and Palisades fires “appeared to confirm a new normal in which large-scale wildfires are threatening to become a recurring phenomenon, even if densely populated metropolitan areas where damage claims are far higher than in forested rural areas.”¹¹¹

The credit rating agency instead determined that the only “permanent solution” would “require legislative action to address utility wildfire liability,” such as the elimination of inverse condemnation and/or other liability reforms.¹¹² As Moody’s continued, “if the state enacts liability reforms, it would alleviate pressure on investor-owned utility financial profiles and reduce overhang risk for future wildfires,” and suggested that only permanent reforms like “hard liability caps” could boost credit quality.¹¹³ Indeed, as noted, the California legislature itself admits that SB 254 is an interim fix while more permanent solutions are considered.

¹⁰⁹ *Id.*

¹¹⁰ Ex. SDG-04 (Bille Rebuttal) at 11 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 1-3); Ex. SDG-08C (Moody’s Aug. 2025) at 1-3.

¹¹¹ Ex. SDG-04 (Bille Rebuttal) at 11 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 1); Ex. SDG-08C (Moody’s Aug. 2025) at 1.

¹¹² Ex. SDG-04 (Bille Rebuttal) at 11 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 3); Ex. SDG-08C (Moody’s Aug. 2025) at 3.

¹¹³ Ex. SDG-04 (Bille Rebuttal) at 11 (quoting Ex. SDG-08C (Moody’s Aug. 2025) at 3); Ex. SDG-08C (Moody’s Aug. 2025) at 3.

Moreover, Moody's noted that the Continuation Fund's "same 50-50 cost sharing structure" between shareholders and ratepayers itself has "downside implications from a credit perspective."¹¹⁴ As Moody's continued:

The contributions themselves represent direct financial losses, which erode [the utilities'] earnings, and could impact creditworthiness especially if they are financed with debt without corresponding equity. When a utility contributes to the fund, it is effectively absorbing a portion of the cost of wildfire damages in advance, regardless of whether it has acted prudently. Furthermore, the cost of a fire would be distributed among SCE, PG&E and SDG&E through the shared fund, regardless of which utility was responsible for starting the fire.

The utilities' ability to recover their prudently incurred costs and earn a reasonable return—core elements of the regulatory compact—is fundamental to their business model and a significant credit consideration. Maintaining a strong and stable stream of recurring income and cash flow is essential for achieving a sustaining a high credit rating. In particular, this issue falls under Factor 2 of our methodology for rating regulated electric and gas utilities—the ability to recover costs and earn returns, which contributes 25% of the credit scoring.¹¹⁵

Moody's thus determined that "[c]ontributing to the wildfire fund also has a negative impact on credit quality by reducing the utility's return on its investment,"¹¹⁶ removing equity that could otherwise be invested in rate base to help provide safe and reliable service and making it difficult for California electric utilities to ever earn their authorized ROEs. For example, Moody's calculated that "SCE's \$2.4 billion contribution to the [AB 1054] fund and its annual

¹¹⁴ Ex. SDG-04 (Bille Rebuttal) at 12 (quoting Ex. SDG-08C (Moody's Aug. 2025) at 2); Ex. SDG-08C (Moody's Aug. 2025) at 2.

¹¹⁵ Ex. SDG-04 (Bille Rebuttal) at 12 (quoting Ex. SDG-08C (Moody's Aug. 2025) at 2); Ex. SDG-08C (Moody's Aug. 2025) at 2.

¹¹⁶ Ex. SDG-04 (Bille Rebuttal) at 12 (quoting Ex. SDG-08C (Moody's Aug. 2025) at 3); Ex. SDG-08C (Moody's Aug. 2025) at 3.

\$95 million contribution reduced its return on equity by about 73 basis points in 2023 and 49 basis points in 2024.”¹¹⁷

Figure 11: Impact of AB 1054 Contributions on SCE Earned ROE

	ROE with impact of fund contributions	ROE without impact of fund contributions	Impact
SCE 2023	7.57%	8.30%	-0.73%
SCE 2024	8.31%	8.80%	-0.49%

Those AB 1054 contributions have had a similar impact upon SDG&E.¹¹⁸

Figure 12: Impact of AB 1054 Contributions on SDG&E’s Earned ROE

	Earned ROE with impact of fund contributions	Earned ROE without impact of fund contributions	Impact
SDGE 2023	9.87%	10.45%	-0.58%
SDGE 2024	8.70%	9.09%	-0.39%

Under SB 254, SDG&E will continue making annual contributions through 2045. And if the call option is exercised, SDG&E would have an additional \$33.5 million in contributions paid annually for five years; in addition to requiring SDG&E to make \$258 million in wildfire mitigation capital commitments without an equity return. These risks are borne by shareholders. In other words, credit ratings do not fully account for the risks for equity investors; both from the unmitigated downside risk of a wildfire and from these ongoing annual equity contributions that serve as a form of insurance that erode earnings.¹¹⁹

¹¹⁷ *Id.*

¹¹⁸ *See* Ex. SDG-04 (Bille Rebuttal) at 13.

¹¹⁹ *See* Ex. SDG-06 (Nowak Rebuttal) at 78.

4. SDG&E's Other Risks Have Also Increased

SDG&E also faces other risks since the 2023 Decision. As Mr. Pavlovic for UCAN acknowledges, Moody's cites "SDG&E's 2024 general rate case as posing a credit risk."¹²⁰ Specifically, Moody's states that SDG&E's 2024 GRC decision has "introduced some regulatory uncertainty. This uncertainty affects the utility's cash flow visibility compared to previous multi-year rate case outcomes and tempers [SDG&E's] A3 credit rating."¹²¹

Moody's found that one of the risks arising out of that GRC decision was the denial of "two-way balancing account treatment for several regulatory accounts" and the conversion of "some existing two-way accounts to one-way accounts."¹²² The credit rating agency determined that this reduced use of two-way balancing accounts could "negatively affect the timeliness of true-ups for recovering under-collected amounts,"¹²³ heightening SDG&E's "exposure to regulatory lag."¹²⁴ In addition, several cost caps were implemented without the ability to track for future recovery any potential costs above the cap.¹²⁵

As such, Moody's only gives a SDG&E a Baa rating regarding the "consistency and predictability of regulation" and the "timeliness of recovery of operating and capital costs."¹²⁶

¹²⁰ Ex. UCAN-02 (Pavlovic Direct) at 11 (citing Ex. SDG-09C (Moody's Apr. 2025)).

¹²¹ Ex. SDG-04 (Bille Rebuttal) at 13 (quoting Ex. SDG-09C (Moody's Apr. 2025) at 1); Ex. SDG-09C (Moody's Apr. 2025) at 1.

¹²² Ex. SDG-04 (Bille Rebuttal) at 13 (quoting Ex. SDG-09C (Moody's Apr. 2025) at 6-7); Ex. SDG-09-0C (Moody's Apr. 2025) at 6-7.

¹²³ Ex. SDG-04 (Bille Rebuttal) at 13 (quoting Ex. SDG-09C (Moody's Apr. 2025) at 6); Ex. SDG-09C (Moody's Apr. 2025) at 6.

¹²⁴ Ex. SDG-04 (Bille Rebuttal) at 13 (quoting Ex. SDG-09C (Moody's Apr. 2025) at 1); Ex. SDG-09C (Moody's Apr. 2025) at 1.

¹²⁵ Ex. SDG-04 (Bille Rebuttal) at 14.

¹²⁶ *Id.* (quoting Ex. SDG-09C (Moody's Apr. 2025) at 15); Ex. SDG-09C (Moody's Apr. 2025) at 15.

The rating agency added that a credit challenge faced by SDG&E is the “[e]levated political risk and public scrutiny in California amid demanding public policy goals,”¹²⁷ noting that the length of the 2024 GRC proceeding is an “example[] of the heightened regulatory uncertainty and scrutiny that the utility faces.”¹²⁸ Moody’s similarly cites California’s climate change mitigation requirements as a challenge, with Mr. Nowak finding that the California electric utilities face more stringent standards compared to the proxy companies.¹²⁹ Moody’s cites this cost of capital proceeding as “another point of reference to assess SDG&E’s relationship with the CPUC and the constructiveness of the regulatory environment.”¹³⁰

In sum, SDG&E has the same credit ratings and faces the same—if not higher—risks compared to the 2023 Decision. And inflation, interest rates, and the nationwide authorized ROE average are all higher compared to that Decision, supporting a higher authorized ROE.

III. SDG&E’S CAPITAL STRUCTURE PROPOSAL IS CONSISTENT WITH SDG&E’S ACTUAL CAPITAL STRUCTURE

The Commission should likewise grant SDG&E’s capital structure proposal that reflects SDG&E’s longstanding actual capital structure, is seen as credit supportive, and helps lower costs for ratepayers.

¹²⁷ Ex. SDG-04 (Bille Rebuttal) at 14 (quoting Ex. SDG-09C (Moody’s Apr. 2025) at 2); Ex. SDG-09C (Moody’s Apr. 2025) at 2.

¹²⁸ Ex. SDG-04 (Bille Rebuttal) at 14 (quoting Ex. SDG-09C (Moody’s Apr. 2025) at 7); Ex. SDG-09C (Moody’s Apr. 2025) at 7; *see* Ex. SDG-03 (Nowak Direct) at 54-55 (noting that half of Moody’s overall assessment of business and financial risk for regulated utilities is based upon the regulatory environment) (citation omitted).

¹²⁹ Ex. SDG-03 (Nowak Direct) at 53.

¹³⁰ *Id.* at 8.

A. The Commission Must Authorize a Capital Structure That Supports a Utility’s Credit Ratings and Helps Attract Capital

A utility’s capital structure is the “proportional authorization of shareholders’ equity and debt,” consisting of long-term debt, preferred equity (when relevant), and common equity.¹³¹ As the Commission has found, “[b]ecause the level of financial risk that the utilities face is determined in part by the proportion of their debt to permanent capital, or leverage, we must ensure that the utilities’ adopted equity ratios are sufficient to maintain reasonable credit ratings and attract capital while also ensuring that there are adequate ratepayer protections regarding the costs of the components of capitalization.”¹³²

The Commission has long established long-term debt and preferred equity costs on actual, or embedded, costs.¹³³ As the Commission held in the 2023 Decision, “[w]e recognize that actual interest rates do vary and that our task is to determine ‘reasonable’ debt cost rather than actual cost based on an arbitrary selection of a past figure.”¹³⁴ The Commission continued that, “[c]onsistent with past practice, we conclude that the latest available interest rate forecast should be used to determine embedded debt cost in cost of capital proceedings.”¹³⁵

B. SDG&E’s Proposed Capital Structure Reflects its Longstanding Actual Capital Structure

SDG&E proposed capital structure of 54 percent common equity ratio, 46 percent long-term debt, and zero percent preferred equity better aligns SDG&E’s authorized capital structure

¹³¹ D.22-12-031 at 4.

¹³² *Id.*

¹³³ *Id.* at 12.

¹³⁴ *Id.*

¹³⁵ *Id.*

with its five-year average actual capital structure of 54.90 percent common equity, 45.10 percent long-term debt, and zero percent preferred equity.¹³⁶

Figure 13 – SDG&E’s Historical Actual Capital Structure

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Five-Year Average
Common Equity	57.55%	57.21%	55.61%	56.15%	58.26%	56.31%	56.43%	53.97%	53.36%	54.43%	54.90%
Long-Term Debt	42.45%	42.79%	44.39%	43.85%	41.74%	43.69%	43.57%	46.03%	46.64%	45.57%	45.10%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

By having an actual capital structure with a higher common equity ratio than its authorized one, SDG&E’s investors are buttressing the Company’s credit ratings—providing a benefit to ratepayers through lower borrowing costs—without receiving a return on their investment.¹³⁷ Credit rating agencies assess SDG&E financial risks based upon the Company’s actual capital structure.¹³⁸ In other words, Mr. Gorman’s statement that SDG&E has “strong financial metrics”¹³⁹ is because SDG&E’s shareholders are putting capital into SDG&E that they are not receiving a return on to bolster those credit metrics—to the benefit of ratepayers.

Again, SDG&E is “having to finance costs subject to cost recovery—including those in balancing and memorandum accounts—for longer terms, with more expensive long-term financing.”¹⁴⁰ As of the end 2024, SDG&E’s under collected balances were \$924 million, and as of the end of June 2025 about \$1.4 billion, compared to a historical average closer to \$300

¹³⁶ Ex. SDG-02 (Mekitarian Direct) at 7.

¹³⁷ Ex. SDG-01 (Bille Direct) at 13-14; Ex. SDG-04 (Bille Rebuttal) at 20.

¹³⁸ See Ex. SDG-02 (Mekitarian Direct) at 9-10.

¹³⁹ Ex. Ex. EIT-01 (Gorman Direct) at 196.

¹⁴⁰ Ex. SDG-02 (Mekitarian Direct) at 14.

million.¹⁴¹ As noted, Moody’s has already raised concerns regarding the uncertainty surrounding SDG&E’s cash flow from 2025-2027.¹⁴² SDG&E must also manage ongoing debt equivalence from power purchase agreements, which “does have an impact on financial risk” and is “reflected in the utilities’ credit ratings.”¹⁴³

SDG&E’s 54% actual common equity ratio helps balance these financial commitments. SDG&E’s proposal thus better rewards the Company for the judicious management of its capital structure by moving SDG&E’s authorized capital structure closer to its actual one—instead of continuing with a fictitious authorized capital structure that includes preferred equity that the Company does not have. In the 2012 Cost of Capital Decision, the Commission granted SDG&E actual capital structure as its authorized one, finding that “utilities should be given some discretion to manage their capitalization with a view towards a balance between shareholders’ interest, regulatory requirements, and ratepayers’ interest.”¹⁴⁴ Yet the Commission has kept SDG&E’s authorized capital structure at the ratio granted in that 2012 Decision—despite SDG&E’s actual capital structure no longer reflecting that authorization.

TURN likewise suggests that the “Commission should require alignment of [a]uthorized [e]quity [c]apital [p]ercentages with [b]ook [e]quity.”¹⁴⁵ Indeed, TURN’s statement that “absent Commission directives, utility managements are incentivized to operate with the maximum

¹⁴¹ *Id.*; SDGE-Q2 10-Q, available at <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://investor.sempra.com/static-files/38d4fe4e-8f57-4e91-be66-773a88c690a3>, note 4. Per Rule 13.10, the Commission may take official notice of this document. *See* n.52.

¹⁴² Ex. SDG-04 (Bille Rebuttal) at 13 (quoting Ex. SDG-09C (Moody’s Apr. 2025) at 2); Ex. SDG-09C (Moody’s Apr. 2025) at 1.

¹⁴³ D.19-12-056 at 26; *see* SDG-02 (Mekitarian Direct) at 15.

¹⁴⁴ *See, e.g.*, D.12-12-034 at 11.

¹⁴⁵ Ex. TRN-01 (Dowdell Direct) at 47.

amount of leverage that investment grade quality will allow since more leverage increases shareholders' returns,"¹⁴⁶ augurs all the more in favor of the Commission adopting SDG&E's actual common equity ratio as its authorized. For over a decade now, SDG&E has done the exact opposite of what TURN insinuates, maintaining a higher actual common equity ratio than its authorized one—supporting SDG&E's financial health to the benefit of ratepayers.¹⁴⁷

C. SDG&E's Proposed Capital Structure Helps Counterbalance SDG&E's Risks

Indeed, the stability provided by SDG&E's proposed capital structure is more important now than ever in the face of the increased risks discussed above.¹⁴⁸ As noted, with SB 254, SDG&E will be expected to make equity contributions for decades to a wildfire fund without a return, putting further pressure on SDG&E's equity ratio. Moody's has already stated that a "downgrade of SDG&E's ratings is possible if the company generates weaker credit metrics in the aftermath of the implementation of the 2024 GRC such that its ratio of CFO pre-WC to debt falls below 20%."¹⁴⁹ If SDG&E reduced its actual common equity ratio to its currently authorized one it could harm the Company's credit ratings, potentially resulting in higher borrowing costs for ratepayers.¹⁵⁰ And Mr. Nowak found that SDG&E's proposed common equity ratio is well within the range of common equity ratios for the utility operating companies in his proxy group.¹⁵¹

¹⁴⁶ *Id.* at 53.

¹⁴⁷ *See* Ex. SDG-04 (Bille Rebuttal) at 21.

¹⁴⁸ Ex. SDG-03 (Nowak Direct) at 58–59.

¹⁴⁹ Ex. SDG-02 (Mekitarian Direct) at 18 (quoting Moody's, San Diego Gas & Electric Company Credit Opinion (Mar. 10, 2025); Ex. SDG-09C (Moody's Apr. 2025) at 3.

¹⁵⁰ *See* Ex. SDG-02 (Mekitarian Direct) at 9-10; Ex. SDG-05 (Mekitarian Rebuttal) at 12.

¹⁵¹ Ex. SDG-03 (Nowak Direct) at 58.

As noted, SDG&E’s proposed capital structure also reasonably removes the fictitious preferred equity layer from the Company’s authorized capital structure that lacks any relationship to SDG&E’s actual management of the Company. Preferred stock is a source of capital that is issued in shares, like common equity, but comes with preferential treatment for dividends.¹⁵²

Preferred stock is rarely used by utility companies, with SDG&E only finding two utilities that have issued preferred stock in the last decade.¹⁵³ SDG&E has not issued preferred stock since 1993, redeemed all outstanding shares of preferred stock in 2013, and does not plan to issue this type of financing.¹⁵⁴ That said, if the Commission again orders SDG&E to include preferred equity in its authorized capital structure, SDG&E should be granted an embedded cost of preferred stock of 6.22%, consistent with SDG&E’s previously authorized methodology and cost of preferred stock.¹⁵⁵ The Commission should also authorize SDG&E’s requested 4.59% cost of long-term debt, which reflects SDG&E’s forecasted embedded cost of debt for 2026, calculated consistent with longstanding Commission precedent.¹⁵⁶

In sum, SDG&E’s proposed 54% common equity, 46% long-term debt authorized capital structure proposal is more consistent with the Company’s longstanding capital structure, has

¹⁵² Ex. SDG-02 (Mekitarian Direct) at 2 (“Due to the preferred treatment on dividends, preferred stock generally has a lower cost than common equity.”).

¹⁵³ *Id.* at 9.

¹⁵⁴ *Id.*

¹⁵⁵ *Id.* at 21 (citing SDG&E Advice Letter 3499-E/2836-G, approved as March 20, 2020, and effective March 24, 2020).

¹⁵⁶ Ex. SDG-05 (Mekitarian Rebuttal) at 15 and Attachment A; *see also* Ex. SDG-02 (Mekitarian Direct) at 19-20 (describing SDG&E process for calculating).

been identified by Moody’s as being credit supportive, and has maintained SDG&E’s strong financial metrics in the face of increasing risks. It should be granted.

IV. THE COMMISSION SHOULD CONTINUE THE CCM FRAMEWORK

Finally, the Commission should continue the CCM as established in D.08-05-035—providing for a three-year cost of capital cycle with the CCM applying in the interim years, combined with the utilities’ right to file an application under that Decision’s “extraordinary circumstances” standard.¹⁵⁷ As the Commission has found, the “CCM is a beneficial mechanism for the Commission to employ to protect both ratepayers and shareholders from major market shifts.”¹⁵⁸ Moody’s has similarly found that the CCM is credit supportive.¹⁵⁹

V. CONCLUSION

SDG&E’s requested cost of capital should be granted. SDG&E’s credit ratings remain the same as in the 2023 Decision. And SDG&E’s risks have increased following the Eaton Fire—evidenced by the downgrade in California’s regulatory environment, the underperformance of California utility stocks, the imminent concerns about increased wildfire risks, and the presumed exhaustion of the AB 1054 wildfire fund. Moody’s, S&P, and the California Legislature see SB 254 as only a temporary, stopgap measure until more permanent legislative reform can be agreed upon—reflected in the recent credit rating downgrade for SCE.

¹⁵⁷ D.08-05-035 at 13-14; Ex. SDG-01 (Bille Direct) at 22, n.75.

¹⁵⁸ D.22-12-031 at 49, FOF 51.

¹⁵⁹ Ex. SDG-09C (Moody’s Apr. 2025) at 8 (“California utilities also benefit from the [CCM] that includes annual adjustments to the ROE if the difference between the average October through September Moody’s utility bond index (for SDG&E, Moody’s Baa utility index) and a baseline yield (specific for each utility) exceeds 100 basis points. In addition, the utilities are allowed to file a CoC application when an extraordinary or catastrophic event materially impacts its cost of capital.”).

On top of this increased risk, Capital market conditions also support a higher ROE. The nationwide authorized ROE average for electric utilities has increased by 30-40 basis points, consistent with the significant increase in inflation and interest rates. That average is now higher than the average that was considered in the 2020 and 2023 Decisions. Just as the Commission relied in the 2023 Decision on a downward trend in the national authorized ROE average to support reducing SDG&E's ROE, the increase in ROE by around 35 basis points since that Decision supports a higher ROE here.

Respectfully submitted,

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