

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



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Application of Pacific Gas and Electric
Company (U39E) for Approval Under Public
Utilities Code Section 851 to Lease
Entitlements to Transmission Projects to
Citizens Energy Corporation.

Application 24-03-009
(Filed March 12, 2024)

OPENING BRIEF OF THE UTILITY REFORM NETWORK



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OPENING BRIEF OF THE UTILITY REFORM NETWORK

I. INTRODUCTION AND SUMMAR OF RECOMMENDATIONS

Pursuant to Rule 13.12 of the Commission's Rules of Practice and Procedure and Administrative Law Judge's Ruling Modifying Procedural Schedule, issued on September 22, 2025, The Utility Reform Network ("TURN") respectfully submits this opening brief.

Below is a summary of TURN's recommendations:

- The Commission should apply a heightened standard of review for this novel Proposed Transaction.
- The Proposed Transaction is adverse to the public interest and should be denied.
- If the Commission approves the Proposed Transaction, it should impose the following conditions:
 - The rate of return to Citizens Energy Corporation ("Citizens") should be no higher than 6.93% (8.13% return on equity and 5.73% cost of debt).
 - Pacific Gas and Electric Company ("PG&E") shareholders should be required to backstop the promised charitable contributions should Citizens fail to honor its commitments.

II. A HEIGHTENED STANDARD OF REVIEW IS WARRANTED FOR THIS NOVEL PROPOSED TRANSACTION

Even though PG&E attempts to frame the legal standard for this application as whether the Proposed Transaction will be adverse to the public interest,¹ that is not the correct legal standard as the Commission repeatedly and recently noted that for an 851 application, "the Commission may also consider whether the transaction will serve the public interest."² The Commission further noted,

The Commission has previously explained that it sets a high bar for determining that

¹ PG&E Amended Application, p. 36.

² D.24-05-004, p. 9, citing D.05-04-022 at 9; D.04-08-048 at 12; D.04-07-032 at 11-12.

novel transactions meet the “public interest” and “tangible benefits” standards.³ The Commission has also found that a heightened standard of review should apply to an application, which potentially impacted rates and the Commission’s jurisdiction, among other factors.⁴

Despite PG&E’s attempt to characterize the Proposed Transaction as one similar to two previous transactions between San Diego Gas & Electric Company (“SDG&E”) and Citizens, the reality is that the Proposed Transaction is novel and unprecedented. Not only does the magnitude of the proposed transaction differ drastically than the previous two transactions (37 times of one transaction and 12 times the other transaction),⁵ the Proposed Transaction is also novel and unprecedented because it is seeking approval for lease entitlements to transmission projects *that have yet to be identified or approved* -- PG&E has provided a list of 51 potential projects, and everything is “subject to adjustment by PG&E.”⁶ PG&E’s proposal does not definitively identify the projects it intends to include the entitlement program. Rather, PG&E describes “a universe of projects”⁷ in multiple tranches that may or may not be included on the Master Project List.⁸ As such, the projects to be included in PG&E’s investment program are still relatively undefined and consequently appear more like vehicles to transfer arbitrary cash streams than bona fide asset investments.

Commission approval of the Proposed Transaction would mean that the Commission deems it appropriate to permit an entity outside of its control the right to earn a cost-of-service-regulated-ratemaking-return on significant investments without providing utility service to any customers. Unlike SDG&E, which had an A category credit rating when it undertook its

³ D.24-05-004, p. 9, citing D.22-12-032 at 33.

⁴ D.24-05-004, p. 9, citing D.11-06-032 at 12.

⁵ D.19-03-024 involved a \$27 million transaction, and D.11-05-048 involved a \$83 million transaction.

⁶ PG&E Amended Application, Attachment 1 & 2.

⁷ Ex. PGE-01, p. 2-9.

⁸ Ex. PGE-01, p. 2-9.

transactions and had a strong balance sheet, PG&E carries a BBB category credit rating at the utility, and PG&E Corporation's credit remains below investment grade since it entered bankruptcy in 2019.⁹

Thus, the Commission should find that the Proposed Transaction is novel and apply a heightened standard of review to this application, and therefore it must evaluate whether the proposed transaction is reasonable *and* in the public interest.

III. THE PROPOSED TRANSACTION IS ADVERSE TO THE PUBLIC INTEREST AND SHOULD BE DENIED

PG&E's Proposed Transaction is an expensive arrangement whose one-sided benefits favor Citizens to the detriment of ratepayers overall, notwithstanding the planned transfer payments to specific classes of low-income residential customers. The Proposed Transaction essentially sells a portion of PG&E's future revenue requirements for current cash. PG&E's ratepayer are charged its weighted average cost of capital rather than a more appropriate long-term debt rate for Citizens' investment capital. Payments to Citizens reduce cashflow and funds from operations ("FFO") because Citizens' loan repayment includes a portion of PG&E's shareholder profit which would have increased PG&E's equity. Citizens contributes no equity capital and consequently, the transaction does not strengthen PG&E's balance sheet by reducing leverage/financial risk even as PG&E repeatedly highlights its desire to improve its credit ratings. Under the Proposed Transaction, Citizens would receive a fully regulated return, which is substantially higher than its own cost of capital, funded by ratepayers, and none of the attendant risk of operating the transmission asset or potential wildfire liabilities, which PG&E retains.

⁹ Ex. TURN-01E, p. 3.

The Proposed Transaction is likely to harm customers in three primary ways. First, PG&E is overpaying Citizens for investment capital that it could obtain more economically as traditional debt or for the same costs as a combination of debt and equity which would strengthen its balance sheet. Second, the lease/loan payments to Citizens reduce PG&E's available cash flow to support operations because they assign a portion of equity earnings/profits to Citizens that would otherwise flow to PG&E. At the same time, they do nothing to reduce debt or mitigate the current over-leverage in PG&E's capital structure. Consequently, the investment program is unlikely to help improve PG&E's credit ratings or reduce its borrowing cost in the longer-term. Based on TURN's analysis, the potential ratepayer benefits appear smaller than the cost to ratepayers and are provided to a tiny subset of low-income customers, and the purported benefits from locking in the lease/loan rate may not benefit ratepayers given rates are currently relatively high. Finally, the Commission has no jurisdiction over Citizens' promise of charitable contributions either in the amount paid or the timing of the payment. As such, absent a (likely protracted) undertaking by PG&E to enforce its contractual rights on behalf of ratepayers after the fact, should Citizens decide that it will not pay the \$450 million in ratepayer benefits or elect to pay a different lower amount or even a different schedule of payments, the Commission and ratepayers have little recourse. While it is laudable to support REACH and CARE programs (as this is surely needed), overpaying and providing profits to Citizens so that they will fund a charitable contribution to reduce bills for low-income customers amounts to subsidizing one set of customers by increasing costs for others.

A. The Proposed Transaction Requires Ratepayers to Bear Both Higher Costs and Higher Risks Relative to Traditional Financing

PG&E's proposal to lease up to \$1 billion of entitlements amounts to selling a percentage of PG&E's revenue requirement associated with unspecified transmission assets to Citizens in exchange for lease prepayments. Although Citizens is entitled to up to 49.5% of the revenue requirements¹⁰ associated with any of the projects earmarked for the entitlements program, PG&E would indemnify Citizens, and Citizens would bear none of the risks associated with operating the transmission assets, *including wildfire risks*.¹¹ Hence, Citizens, an entity outside of the Commission's jurisdiction, could earn a rate of return equivalent to the rate of return authorized for PG&E under the cost of service ratemaking framework for regulated utilities. This alone should give the Commission pause as to the appropriateness of this application.

One might ask what is the objection to Citizens' lease of entitlements since ratepayers pay the same revenue requirement that they would otherwise, which Citizens refers to as the "PG&E Representative Rate."¹² As discussed further below, the investment program is problematic because relative to traditional utility financing, ratepayers are asked both to pay a higher cost for capital and bear higher risks.

¹⁰ Ex. PGE-01, p. 1-4.

¹¹ PG&E would indemnify Citizens from and against "all liability and expense on account of any and all damages, claims or actions (including injury to or death of persons or damage to property arising from any act or failure to act), by PG&E, its officers, employees, representatives, advisors, contractors or agents, whether by negligence or otherwise, arising out of or pertinent to the operation, maintenance, upgrades, replacement, repair, malfunction or defect of or in the Projects (including, without limitation, any fire, blackout or brownout." (PG&E Amended Application, Exhibit A, p. 22.)

¹² Notably, the "PG&E Representative Rate" *approximates*, but does not equal to, the capital costs PG&E could recover at the time of execution of an Entitlements Lease for the projects over the life of those assets if PG&E had not leased the Entitlements to Citizens. (Ex. PGE-01, p. 3-6.)

1. The Proposed Transaction Overcompensates Citizens for Investment Capital, Resulting in Higher Costs for Ratepayers

TURN estimates that the internal rate of return (IRR) to Citizens associated with an illustrative \$200 million investment is over 9%.¹³ In comparison, PG&E projects its cost of new long-term debt in 2025 and 2026 at between 6.0% and 6.3%.¹⁴ Thus, Citizens' proposed return is between 2.7% and 3.0% more expensive for ratepayers than long-term debt.

In the case of a long-term debt holder, PG&E could elect not to pay or to delay payment.¹⁵ However, under the Proposed Transaction, Citizens is to be paid directly from the CAISO. Consequently, Citizens faces repayment risk more in-line with that of the utility's securitized bondholders. The CAISO arguably acts as a collection agent for Citizens' entitlement payments in the same way that PG&E collects utility securitization dedicated rate components for the Special Purpose Entity who owns them from the utility.¹⁶ The primary difference is that Citizens' revenue collection agent has higher credit quality than PG&E's. At worst, Citizens' credit exposure would be to the CAISO, which as of December 31, 2024, had an issuer credit rating of A+ from S&P and by Fitch, and A1 by Moody's.¹⁷ Troublingly, this is a far less adverse exposure than PG&E's ratepayers/tax equity investors with respect to the Customer Credit Trust,¹⁸ yet Citizens would earn a rate of return equivalent to PG&E.

Much like securitized debtholders, Citizens would receive a cashflow stream effectively partitioned from and independent of PG&E's operating revenues. Since the CAISO would pay Citizens directly, these cash flows would be bankruptcy remote with respect to PG&E.

¹³ Ex. TURN-01E, p. 6.

¹⁴ Ex. TURN-01E, p. 6.

¹⁵ Ex. TURN-01E, p. 6.

¹⁶ Ex. TURN-01E, p. 7.

¹⁷ Ex. TURN-01E, p. 7.

¹⁸ Ex. TURN-01E, p. 7.

Likewise, Citizens would not be subject to any liability for wildfires, poor operational performance, or regulatory disallowances as the investment program would include only assets already approved for recovery and would not be included until they were completed. Recently in A.24-06-013 (filed June 2024), PG&E estimated the rate for a roughly 10-year securitization at 5.33%.¹⁹ In the past, most utility securitizations have been rated AAA.²⁰ As of August 1, 2025, Moody's Aaa corporate bond yields for maturities 20 years and above is 5.45%,²¹ which is consistent with PG&E's indicative figure. Yet, to accept a level of risk like that of securitized debtholders, PG&E proposes to compensate Citizens with a return that is nearly 400 bps higher.²²

Citizens' illustrative analysis results in a levelized annual lease entitlement cost to ratepayers of \$20.436 million per year for 30 years, or a total of \$613 million,²³ for a \$200 million project. TURN estimates that the levelized cost at a return equal to the 5.45% securitized debt rate would be \$15.498 million per year.²⁴ Calculated on the same basis, this is a ratepayer savings of \$5 million annually,²⁵ or \$150 million over 30 years.²⁶ For the total \$1 billion program financed as proposed, the cost over 30 years would be nearly \$3.1 billion.²⁷ The costs at a securitized debt rate or return more consistent with Citizens' risk would be \$2.3 billion,²⁸ for which ratepayers would pay about \$740 million *less*.

¹⁹ Ex. TURN-01E, p. 7, citing PG&E Direct Testimony (A.24-06-013), p. 2-27, Table 2-7.

²⁰ Ex. TURN-01E, p. 7.

²¹ Ex. TURN-01E, p. 8.

²² $9.44\% - 5.45\% = 399$ bps higher.

²³ Ex. TURN-01E, p. 8.

²⁴ Ex. TURN-01E, p. 8, citing DR_CalAdvocates_001-Q001_82794Atch02_827949.

²⁵ Ex. TURN-01E, p. 8.

²⁶ Ex. TURN-01E, p. 8.

²⁷ Ex. TURN-01E, p. 8.

²⁸ Ex. TURN-01E, p. 8.

In its rebuttal testimony, Citizens argues that a rate of return of 6.3% would result in a debt service coverage ratio of 1.15, which is lower than Citizens' experience with lenders that typically require a "debt service coverage ratio of at least 1.25 for this type of transaction."²⁹ Citizens concedes in discovery that a rate of return of 6.93% would be sufficient for it to obtain a 1.25 debt service coverage ratio,³⁰ which is typically required for this type of transaction by its lenders. Citizens then tries to walk back its testimony and claim that a 6.93% rate of return would not be enough because it *only* assumes \$500,000 in annual overhead costs³¹ (which is the amount forecasted by Citizens in the application, even though Citizens claims that it is foregoing the recovery of its own upfront and ongoing incremental costs),³² and that PG&E ratepayers should pay a rate of return of 7.45% that assumes more than \$1.5 million in annual overhead costs, or more than *triple* the amount forecasted by Citizens.³³ (At \$1.5 million of overhead costs, the necessary rate of return for 1.25 debt service coverage ratio is 7.34%).³⁴ The Commission should find it preposterous that Citizens proposes to earn a rate of return that includes overhead costs *greater than triple the amount* Citizens forecasted as part of its application, when it clearly committed to not recovering incremental costs from ratepayers. This is further compelling evidence that the Proposed Transaction overcompensates Citizens and harms ratepayers.

However, if the Commission authorizes the Proposed Transaction, the rate of return to Citizens should be no higher than 6.93%, which would result in a debt service coverage of 1.25, which Citizens testifies its lenders typically require.

²⁹ Ex. Citizens-01, p. 15.

³⁰ Ex. TURN-02, p. 1.

³¹ Ex. TURN-02, p. 2.

³² PG&E Amended Application, p. 12.

³³ Ex. TURN-02, p. 3.

³⁴ Ex. TURN-02, p. 3.

2. The Proposed Transaction Increases Financial Risk Faced by Ratepayers, Further Increasing Costs to Ratepayers

In addition to the high ratepayer financing costs, Citizens' lease entitlement transactions do not increase equity in PG&E's GAAP capital structure which is already over-leveraged relative to authorized equity.³⁵ For example, PG&E's 2024 authorized equity capital structure was 52%, but its actual GAAP book capital structure as calculated by S&P was 48.3%³⁶ resulting in ratepayers paying for more equity in the capital structure than investors have provided.³⁷ Setting aside the higher ratepayer revenue requirement attendant to PG&E's lower-than-authorized equity/ higher-than-authorized leverage, the Commission has recognized that higher than-authorized debt ratios in a utility's capital structure increase financial risk.³⁸

Leverage may also hinder a utility's ability to absorb extraordinary business risks through its own resources (typically new debt or shareholder's equity), and that potential weakness may be reflected in a lower credit rating. In that case, ratepayers may be asked to provide additional funding to support the utility's investment grade ratings even if the company has acted imprudently or unreasonably. The Commission has articulated its concerns of these issues in the past.³⁹ Finally, the Commission has observed that "as a utility's debt ratio increases, a higher return on equity may be needed to compensate for that increased risk."⁴⁰ These are all negative impacts that pass through to ratepayers either in the form of higher costs of capital or the higher

³⁵ Ex. TURN-01E, p. 9.

³⁶ Ex. TURN-01E, p. 9.

³⁷ Ex. TURN-01E, p. 8.

³⁸ "Financial risk is tied to the utility's capital structure. The proportion of its debt to permanent capital determines the level of financial risk that a utility faces. As a utility's debt ratio increases, a higher return on equity may be needed to compensate for that increased risk." (D.07-12-049, Section 5.3.1, Financial Risk).

³⁹ "Because 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 there are adequate ratepayer protections regarding the costs of the components of capitalization." D.19-12-056, p. 6.

⁴⁰ D.07-12-049, Section 5.3.1, Financial Risk.

risk that ratepayers will be required to fund a utility financial bailout. The Proposed Transaction increases ratepayer costs of capital and may marginally increase PG&E's leverage and financial risks.

In the Proposed Transaction, PG&E contemplates up to \$1 billion of total entitlements. Using traditional financing, PG&E would add an additional \$500 million of equity either by selling new common stock and hybrid securities, or by using internally generated funds to balance its capital structure. Because the entitlements being proposed are not debt, the Proposed Transaction does not require PG&E to balance its capital structure with additional equity. This is consistent with PG&E's concession that the primary purpose of the Proposed Transaction is for PG&E to access \$1 billion in capital,⁴¹ and that it would "complement PG&E's other efforts to raise capital,"⁴² which included "the proposal to transfer substantially all of PG&E's non-nuclear generation assets to a new subsidiary and to sell minority equity interests in such subsidiary to one or more third-party investors."⁴³ The Commission recently issued D.24-05-004 regarding PG&E's proposal referenced above, which not only denied PG&E's application but also emphatically stated that PG&E did not demonstrate that "the proposed transaction meets even the minimal public interest standard."⁴⁴ As discussed thoroughly in that application, PG&E is actively attempting to avoid issuing equity in order to avoid diluting its existing shareholders, and therefore PG&E is constructing proposed transactions, including the instant application, that allow PG&E to raise capital at the expense of other stakeholders in order to benefit shareholders.

⁴¹ PG&E Application, p. 2.

⁴² PG&E Application, p. 16 fn 17.

⁴³ PG&E Application, p. 16 fn 17.

⁴⁴ D.24-05-004, p. 10.

As noted above, PG&E is proposing to indemnify Citizens from and against “all liability and expense on account of any and all damages, claims or actions (including injury to or death of persons or damage to property arising from any act or failure to act), by PG&E, its officers, employees, representatives, advisors, contractors or agents, whether by negligence or otherwise, arising out of or pertinent to the operation, maintenance, upgrades, replacement, repair, malfunction or defect,” including, without limitation, any *fire* and other events.⁴⁵ In other words, Citizens gets to earn a rate of return based on PG&E’s rate (which will be paid for by ratepayers), and it gets to pass any risks (including wildfire risks) to PG&E ratepayers, and it does not have to be subject to the Commission’s regulations or penalties!

Thus, not only will PG&E be left with fewer resources to address any extraordinary costs, PG&E ratepayers will also have to shoulder the risk for the assets leased to Citizens, while Citizens earns the same rate of return as PG&E. This is clearly adverse to the public interest and results in an unjust and unreasonable outcome.

B. The Proposed Transaction Does Not Improve PG&E’s Credit Profile

PG&E asserts that it “is in the best interests of PG&E’s customers to target credit ratings from all three credit rating agencies in the A category.”⁴⁶ “Having strong credit ratings, and commensurately higher credit capacity (i.e., a strong balance sheet), means that PG&E is able to raise more debt financing in a time of stress.”⁴⁷ Given that PG&E’s current utility credit ratings for secured debt range from BBB+ (Moody’s) to BBB (S&P and Fitch) and PG&E Corporation’s issuer ratings remain below investment grade,⁴⁸ ratepayers face very real risks of being forced to fund a financial bailout in the event of further operational misadventure.

⁴⁵ PG&E Amended Application, Exhibit A, p. 22.

⁴⁶ Ex. TURN-01E, p. 11, citing A.25-05-010, PG&E Testimony, p. 4-2.

⁴⁷ Ex. TURN-01E, p. 11, citing A.25-05-010, PG&E Testimony, p. 4-2.

⁴⁸ Ex. TURN-01E, pp. 11-12.

Of its current BBB category credit quality, PG&E laments:

Ratings of BBB or lower put at risk the Utility's ability to attract capital during periods of catastrophic events or financial market disruptions and provide insufficient cushion against further events affecting credit markets or the Utility that could result in downgrades to sub-investment grade.⁴⁹

PG&E explains that credit ratings are driven by business risks, "and by financial metrics, such as the amount of annual cash flow available to make payments of principal and interests that indicate a firm's ability to service and pay back its debt."⁵⁰

While PG&E's testimony cites financial flexibility to support capital spending as a benefit of the Proposed Transaction,⁵¹ PG&E made this same argument in its application to sell its non-nuclear generating assets.⁵² As noted above, the Commission resoundingly denied PG&E's application.⁵³ This is yet another attempt by PG&E to raise capital while avoiding the issuance of equity.

PG&E states that unlike issuing debt, approving the Proposed Transaction would not "adversely affect its financial profile and credit metrics."⁵⁴ This is not true since the Proposed Transaction removes equity cashflows from PG&E's revenue stream, which could have supported an improvement in its balance sheet or credit ratings. In addition to supporting less equity in PG&E's capital structure and thus, less credit capacity, the Proposed Transaction will negatively impact PG&E's cash flow from operations.

⁴⁹ Ex. TURN-01E, p. 12, citing A.25-05-010, PG&E Testimony, p. 4-2.

⁵⁰ Ex. TURN-01E, p. 12, citing A.25-05-010, PG&E Testimony, p. 4-4.

⁵¹ Ex. PGE-01, Chapter 9, pp. 18- 19.

⁵² "The proposed Transaction increases PG&E's financial flexibility consistent with its deleveraging strategy and its path to an investment-grade issuer credit rating." PG&E's Application to Transfer Generation Assets (A.22-09-018), p.24.

⁵³ See D.24-05-004.

⁵⁴ Ex. PGE-01, Chapter 9, p. 19

Again, if PG&E encumbers a portion of the revenue requirement to Citizens, including the full amount of the proportionate equity return normally accruing to shareholders, there will necessarily be less cash flow available and lower FFO to support operations or service existing debt. Thus, debt coverages will be lower under PG&E's Proposed Transaction, all else being equal. To illustrate, PG&E recently reported an adjusted FFO to Debt of 13.7%.⁵⁵ In year one, \$1 billion of entitlements would reduce FFO by roughly \$70 million,⁵⁶ reducing PG&E's FFO to Debt ratio to 13.5%,⁵⁷ a step in the wrong direction. In contrast, the day after PG&E issued \$1 billion of common equity and \$1.4 billion of hybrid securities (mandatory convertible preferred stock) in December of 2024 to bolster its equity, S&P revised its rating outlook on PG&E from stable to positive, expressly citing "stronger balance sheet."⁵⁸ S&P states that "FFO to debt for the 12-months-ended September 2024 was 13.9%, but we expect FFO to debt will improve to the 14%-17% range during the 2024-2028 period."⁵⁹ S&P explains that it could revise its outlook downward to stable from positive if business and or PG&E's management of regulatory risk materially weakens, and if PG&E does not maintain its FFO to debt above 13%.⁶⁰

Reduction in FFO will also reduce retained earnings by this same amount, making PG&E less able to weather operational events, internally finance capital spending, and reducing financial flexibility rather than enhancing it. Again, less cash and equity results in ratepayers being more likely to face another bailout, be it due to catastrophic wildfire or jeopardized investment grade credit rating, increasing both costs and risk.

⁵⁵ Ex. TURN-01E, p. 14.

⁵⁶ Ex. TURN-01E, p. 14.

⁵⁷ Ex. TURN-01E, p. 14.

⁵⁸ Ex. TURN-01E, p. 14.

⁵⁹ Ex. TURN-01E, p. 14.

⁶⁰ Ex. TURN-01E, p. 14.

Finally, funding from Citizens is not necessary for PG&E to undertake its capital plan. Nothing in PG&E's communications to investors indicates that Citizens' entitlements leasing is a piece of financing necessary to achieve its stated Five-Year Financing Plan. In its 2025 Second Quarter earnings presentation, PG&E shows the elements of its financing plan from 2024-2028⁶¹ to support an incremental \$63 billion of capital spending. These elements include \$11 billion of refinanced long-term debt, an incremental \$14.5 billion of utility long-term debt issuances, and \$3 billion of common equity issuance.⁶² None of this investor material references the need or includes the Proposed Transaction for \$1 billion lease to Citizens.

C. Potential Customer Benefits from the Proposed Transaction Are Questionable and Not Guaranteed

TURN is concerned that Citizens' plan for charitable contributions to relieve customer arrearages, while laudable in its sentiment, does not effectively address the problem of affordability because it results in overcharges to all customers unreasonably to help a subset of ratepayers. For the full program, TURN estimates the levelized value of overpayments at roughly \$25 million per year,⁶³ based on Citizens' IRR of more than 9% compared to a return commensurate with its investment risk as discussed above (5.5%). Even though Citizens proposes to contribute an estimated \$450 million over 30 years to "direct bill-paying assistance programs including REACH and CARE,"⁶⁴ this ratepayer benefit at roughly \$15 million per year on average appears substantially less than ratepayers' overpayment for the program.

Even so, ratepayers cannot be certain that they will receive the advertised charitable contributions since Citizens is not subject to the Commission's jurisdiction and oversight. The

⁶¹ Ex. TURN-01E, p. 15.

⁶² Ex. TURN-01E, p. 15.

⁶³ Ex. TURN-01E, p. 15.

⁶⁴ PG&E Application p. 4.

Commission will also not be able to enforce the terms of the agreement and levy penalties on Citizens, if necessary. If Citizens does not follow through on its charitable commitments, the only remedy available would be contractual; PG&E would need to take legal actions. Should Citizens decide that it will not pay the \$450 million in ratepayer benefits, elect to pay a different lower amount or even a different schedule of payments, the Commission and ratepayers have little recourse. Given that shareholder benefits and interests are not at stake, the extent and proactiveness of PG&E efforts to seek such contractual remedies in the future on behalf of disadvantaged communities are questionable. Thus, since PG&E repeatedly touts the charitable contributions as the main benefit to ratepayers from the Proposed Transaction, if the Commission approves the Proposed Transaction, it should require shareholders to backstop the promised charitable contributions should Citizens fail to honor its commitments. After all, PG&E's main motivation for the Proposed Transaction is to avoid issuing equity that would dilute existing shareholders. Since PG&E shareholders are the primary beneficiaries of the Proposed Transaction (in addition to Citizens), PG&E shareholders should bear the risk of Citizen's failure to abide by its commitments, which both PG&E and Citizens claim to be minimal.

Citizens' targeted programs are REACH and CARE, which are only available to customers whose incomes are no more than 200% above the federal poverty guidelines.⁶⁵ Since CARE customers comprise roughly 1.4 million⁶⁶ of PG&E's 5 million customers, this leaves off a significant number of households that are struggling with arrearages and high monthly bills and will nonetheless be funding Citizen's profits and charitable contributions. PG&E states that these contributions could provide bill-paying assistance for more than 54,000 additional households annually. That would represent only about 1% of PG&E residential customers, while

⁶⁵ Ex. TURN-01E, p. 16.

⁶⁶ Ex. TURN-01E, p. 16.

the remaining 99% of residential customers, including CARE customers, would have to overpay Citizens in order to fund the charitable contributions.

PG&E claims that another benefit of Citizens' program is that its rate would be locked in over the 30-year term.⁶⁷ While PG&E notes that it has modeled its amended application on SDG&E projects,⁶⁸ which the Commission approved in 2011 and 2019, the fixed rate embedded in the leases does not provide the ratepayer benefit the Commission cited in D.19-03-024. Unlike 2019 when the Federal Reserve cut interest rate three times to a range of 1.5% to 1.75%,⁶⁹ the recent Fed Funds target rate is 4.25% - 4.50%.⁷⁰ Further, PG&E has repeatedly expressed its intention to raise its credit rating to category A from its current level of BBB.⁷¹ Any improvement in PG&E's credit rating would likely lower its financing costs, further increasing the relative amount by which Citizens is over-compensated for its capital at a rate locked-in for 30 years.

While SDG&E's entitlements transactions Sunrise (D.11-05-048) and Sycamore (D.19-03-024) represented single, modestly sized investments of \$27 million and \$83 million respectively,⁷² PG&E proposes to lease entitlements of \$1 billion in multiple tranches expected to be twice the size of SDG&E's largest lease. Thus, the cost of the financing becomes even more significant to ratepayers.

Finally, PG&E also claims that customers will benefit especially because the assets will be fully depreciated after 30 years and ratepayers will "receive the benefit for the remaining

⁶⁷ Ex. PGE-01, p. 1-12.

⁶⁸ PG&E Amended Application, p. 3.

⁶⁹ Ex. TURN-01E, p. 18.

⁷⁰ Ex. TURN-01E, p. 18.

⁷¹ Ex. TURN-01E, p. 18.

⁷² D.19-03-024 involved a \$27 million transaction, and D.11-05-048 involved a \$83 million transaction.

useful life of those facilities without being charged for their capital costs for such period.”⁷³

However, this is a dubious ratepayer benefit since the same can be said of any long-lived asset whose useful life exceeds its depreciable one, regardless of how the asset is financed.

IV. CONCLUSION

In conclusion, TURN strongly urges the Commission to deny the Proposed Transaction because it is not in the public interest. However, if the Commission decides to approve the Proposed Transaction, the Commission should impose the conditions discussed above.

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Respectfully submitted,

By: /s/
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⁷³ Ex. PGE-01, p. 1-12.