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

Application of Pacific Gas and Electric
Company (U 39 E) for Approval Under
Public Utilities Code Section 851 to Lease
Entitlements to Transmission Projects to
Citizens Energy Corporation.

(U 39 E)

Application No. 24-03-009
(Filed March 12, 2024)

**OPENING BRIEF OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)**

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SUMMARY OF PG&E’S RECOMMENDATIONS

Based upon the arguments set forth in this brief, PG&E respectfully submits the following summary of its recommendations¹ in this Proceeding:

1. The Commission should find that the proposed Investment Program between PG&E and Citizens is not adverse to the public interest and, in fact, that it offers substantial benefits to customers and the public.
2. The Commission should grant the relief requested in the Amended Application, including authorizing PG&E to enter directly into the first Entitlements Lease under the Investment Program and to submit future Entitlements Leases for further review and approval via Tier 3 Advice Letters, as proposed.
3. The Commission should defer to FERC’s exclusive jurisdiction to establish a final transmission rate for Citizens that is just and reasonable under federal law.

¹ See Rule 13.12.

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(U 39 E)

Application No. 24-03-009
(Filed March 12, 2024)

**OPENING BRIEF OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)**

Pursuant to the California Public Utility Commission’s (“Commission”) Rule of Practice and Procedure (“Rule”) 13.12, the Scoping Memo issued May 6, 2025,¹ and the Administrative Law Judge’s (“ALJ”) Ruling Modifying Procedural Schedule issued on September 22, 2025,² Pacific Gas and Electric Company (“PG&E”) submits this opening brief in support of its Application.

I. INTRODUCTION

This Application presents the Commission with the opportunity to secure substantial benefits – including over \$450 million in incremental direct bill-paying assistance for PG&E customers at risk of being unable to pay their energy bills - at no expected incremental cost. These benefits will be achieved through a transaction structure that was evaluated and approved by the Commission in three prior cases, and that has a demonstrated track record of bringing substantial benefits to low-income families and disadvantaged communities in California.

¹ *Assigned Commissioner’s Scoping Memo and Ruling* (May 6, 2025), pp. 6-7 (establishing general schedule for the Proceeding) (“Scoping Memo”).

² *ALJ Ruling Modifying Procedural Schedule* (Sept. 22, 2025), p. 3 (setting the date for filing of opening briefs as October 24, 2025).

The Application presents a framework for a series of transactions between PG&E and Citizens Energy Corporation (“Citizens”³) involving the lease of “Entitlements”⁴ to Citizens, which will allow Citizens, rather than PG&E, to recover a transmission revenue requirement approved by the Federal Energy Regulatory Commission (“FERC”) related to certain transmission capital projects built by PG&E (the “Investment Program”).

PG&E and Citizens have incorporated multiple protections into the Investment Program to ensure against any adverse impact to customers or the public. Nothing in the Investment Program would affect or modify how these transmission projects are planned, built, operated, or maintained by PG&E, and the projects will continue to be under the operational control of the California Independent System Operator (“CAISO”). In exchange for these Entitlements, Citizens will provide prepaid rent in a lump sum to PG&E, equivalent to the present value of the revenue that PG&E would otherwise have expected to recover from customers over the life of the transmission assets in the absence of the Investment Program. PG&E, in turn, will remove from its own transmission rates the recovery of costs for those portions of transmission assets that are subject to an Entitlements Lease with Citizens, thus ensuring that customers are not charged twice for the same assets.

Beyond these protections against adverse impacts, the Investment Program also offers substantial benefits to customers and the public. First, the public will benefit because PG&E will recover the capital it invested in its transmission system immediately, rather than over the lifetime of the assets, allowing that capital to be immediately reinvested in needed infrastructure.

³ Citizens Energy Corporation’s wholly-owned subsidiary Citizens Pacific Transmission LLC is expected to enter into any specific transactions pursuant to this Agreement. For ease of reference, this brief refers to both of these entities as “Citizens,” although it is important to note that Citizens Pacific Transmission LLC is the specific entity that is expected to become a public utility regulated by the FERC.

⁴ Entitlements are defined in Appendix A to the California Independent System Operator Corporation (“CAISO”) Tariff as “[t]he right of a Participating [Transmission Owner] obtained through contract or other means to use another entity’s transmission facilities for the transmission of Energy.” CAISO Fifth Replacement FERC Electric Tariff (Aug. 6, 2025), Appendix A, Entitlements.

Second, at-risk PG&E customers who are struggling to pay their bills will benefit because Citizens has committed to allocate an increasing portion of its after-tax cash flows from the Entitlements Leases to direct bill-paying assistance for at-risk PG&E customers, which is expected to yield \$16 million per year by year five of the Investment Program – enough to provide assistance to over 54,000 additional PG&E households annually at the assumed benefit level for the existing Relief for Energy Assistance through Community Help (“REACH”) program – and more than \$450 million in total assistance over the life of the transactions if the program is fully implemented. Third, all PG&E customers will benefit through expected reductions in uncollectable bills that would otherwise be broadly recovered in rates. Each of these benefits will be secured at no expected incremental cost to customers, since Citizens’ transmission revenue requirement is contractually capped at what PG&E would otherwise expect to recover in the absence of Citizens’ involvement.

Not surprisingly, given the public and customer benefits provided by the Citizens transmission business model, the Commission has twice reviewed and approved similar transactions between Citizens and San Diego Gas & Electric Company (“SDG&E”). It has also approved a similar transaction between Southern California Edison Company (“SCE”) and Morongo Transmission LLC (“Morongo”). FERC has also approved each of those prior transactions pursuant to its jurisdiction under the Federal Power Act (“FPA”), and FERC has additionally approved a fourth similar transaction between Citizens and the Imperial Irrigation District (an entity not subject to this Commission’s jurisdiction under Section 851). The present Application involves a transaction that is closely modeled on the previously approved Citizens transactions with modifications that will achieve additional, incremental customer benefits.

The Investment Program directly addresses two key challenges facing California. First, it addresses affordability concerns by substantially increasing, on a sustained basis, the funding available for low-income bill-paying assistance. Second, it helps to address PG&E’s capital investment needs created by the historic transformation of the energy sector underway in California. PG&E is experiencing substantial demand for additional transmission infrastructure

investments due to the electrification and decarbonization of California’s economy, large new loads, and other factors. The transformation of the state’s electricity sector requires that PG&E consider new opportunities to meet its increasing capital needs without unduly increasing the costs of financing passed on to its customers. The Investment Program provides a diverse source of capital to accelerate these needed investments without harming PG&E’s credit metrics or otherwise causing PG&E’s cost of capital to increase. For all of these reasons, PG&E submits that the Investment Program should be approved by the Commission.

In the following sections, PG&E provides factual background and procedural history as context. It then presents its argument for approval of the Application based on the evidence, addressing each of the issues included in the Scoping Memo.

II. BACKGROUND

A. FACTUAL BACKGROUND

PG&E filed the Amended Application on January 31, 2025, seeking approval from the Commission under Section⁵ 851 to lease Entitlements to certain high-voltage transmission projects to Citizens. The Investment Program was closely modeled on three prior transactions between Citizens and other California retail sellers of electricity, including two such transactions between Citizens and SDG&E that were previously approved by the Commission.⁶ The proposed Investment Program is designed to provide substantial public benefits, including significant direct bill-paying assistance for at-risk PG&E customers, while ensuring that

⁵ References to codified sections of statute in this brief refer to the California Public Utilities Code, unless otherwise specified.

⁶ The Commission approved two prior Citizens investments in the SDG&E transmission system under Section 851 in 2011 and 2019, respectively: D.11-05-048 (Sunrise Section 851 Decision); D.19-03-024 (Sycamore Section 851 Decision). A third, substantially similar Citizens transmission investment in California involved a non-jurisdictional, publicly-owned utility (Imperial Irrigation District), and thus did not require Commission approval. Exhibit (“Exh.”) PGE-01 (Amended Prepared Testimony), p. 5-3, fn. 3.

ratepayers as a whole pay no more than they would in a business-as-usual scenario, in which PG&E uses traditional financing and cost recovery mechanisms.⁷

1. Parties to the Investment Program

PG&E is a regulated investor-owned utility responsible for providing electric and gas service throughout much of Northern and Central California. Citizens is a non-profit charitable corporation founded in 1979. Its mission is to use profits from energy-sector investments to fund charitable programs to make energy more affordable for vulnerable customers.⁸ Citizens has a track record of using after-tax profits from energy investments to provide assistance to low-income families and disadvantaged communities. Since its founding over 45 years ago, Citizens has provided over \$600 million charitable benefits, including over \$20.4 million in California through the two prior Commission-approved transactions with SDG&E.⁹

2. General Description of the Proposed Investment Program

The terms of the proposed Investment Program are spelled out in the Amended and Restated Development, Coordination, and Option Agreement (“DCOA”) between PG&E and Citizens.¹⁰ The DCOA provides that PG&E may lease up to \$1.0 billion in entitlements to certain high-voltage transmission projects to Citizens, in up to five separate tranches of approximately \$200 million each (referred to as “Entitlements Leases”). Each option, if exercised, will result in the execution of an Entitlements Lease for a specific group of projects (an “Investment Tranche”). The DCOA prescribes detailed eligibility criteria for projects, the process for project selection, the financial terms, and the regulatory approvals required for each Investment Tranche.¹¹

⁷ See *Id.*, p. 1-6, line 5 to p. 1-15, line 20.

⁸ *Id.*, p. 5-4, lines 13-16.

⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 5-6, line 7 to p. 5-10, line 18; *id.*, p. JPK-6, line 21; *id.*, p. JPK-7, line 9; *id.*, p. JPK-8, line 12.

¹⁰ The DCOA is provided at Attachment 1 to the Amended Application.

¹¹ Amended Application, pp. 8–16; *id.*, Attachment 1 (DCOA).

The DCOA was originally executed on February 20, 2024. It was amended and restated on January 29, 2025, to reflect stakeholder input on the original Application and to memorialize a commitment by Citizens to dedicate all charitable contributions derived from the Investment Program to direct bill-paying assistance for at-risk PG&E customers.¹²

Each Entitlements Lease will be a 30-year agreement between PG&E and Citizens, granting Citizens a leasehold percentage interest (capped at 49.9%) in the Entitlements to a group of transmission projects. Each Entitlements Lease would be executed upon Citizens' exercise of an option under the DCOA and satisfaction of all regulatory and contractual conditions precedent.¹³ Under each such Entitlements Lease, Citizens will receive the right to the revenue associated with the use of its Entitlements, which is paid directly by the CAISO through the High-Voltage Transmission Access Charge ("TAC").¹⁴ At the end of the lease term, the Entitlements will revert to PG&E for the benefit of its customers, at which point the underlying assets will be fully depreciated and free and clear of any liens or encumbrances.¹⁵

For each option period, PG&E will present Citizens with a "Project List" identifying the transmission projects offered for lease. Each Project List will include PG&E's estimated costs to develop, design, permit, engineer, procure, and construct each project, as well as the estimated Citizens leasehold percentage interest and prepaid rent due for each project.¹⁶ PG&E and Citizens will attach a schedule to each Entitlements Lease allocating the Prepaid Rent payment over the 30-year lease term and will report this payment as accruing for tax purposes semi-annually in arrears according to the schedule.¹⁷

¹² Amended Application, p. 2.

¹³ Exh. PGE-01 (Amended Prepared Testimony), p. 2-10, line 25 to p. 2-13, line 12.

¹⁴ *Id.*, p. 2-8, lines 22-23.

¹⁵ *Id.*, p. 2-4, lines 4-5.

¹⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 2-15, lines 5-16.

¹⁷ *Id.*, p. 2-15, lines 17-20; *see generally id.*, Chap. 4 (Testimony of James Higham, Jr.).

To be eligible for inclusion on a Project List, a project must satisfy the following criteria:

1. The expected Citizens leasehold percentage share of the capital costs of the proposed project must not already be included in PG&E's existing FERC transmission rates for purposes of cost recovery;
2. The proposed project must be expected to be eligible for cost recovery through the CAISO High-Voltage TAC (a FERC-regulated transmission rate);
3. The proposed project must be expected to operate at 200 kV or above; and
4. The proposed project must have received all regulatory approvals and permits necessary at that time, including, to the extent applicable, having undergone review under the California Environmental Quality Act ("CEQA").¹⁸

All projects must achieve commercial operation before the start of the relevant lease and are projects that PG&E would put into service in the near term regardless of whether the Investment Program is implemented.¹⁹

3. Financial Mechanics of the Proposed Investment Program

If an Entitlements Lease is executed for any of the Investment Tranches, Citizens would prepay the rent for those leased entitlements to PG&E in a lump sum at the start of the lease ("Prepaid Rent").²⁰ This would enable PG&E to immediately recover the cost of its capital investment in the underlying transmission projects associated with the Entitlements rather than recovering those costs ratably over the lifetime of the capital assets as it otherwise would. The Prepaid Rent is calculated as the sum of the "Project Costs" (as defined in the Entitlements Lease) for each project in the tranche, multiplied by Citizens' leasehold percentage interest (not to exceed 49.9% for any project).²¹ This Prepaid Rent will allow PG&E to use the recovered

¹⁸ Exh. PGE-01 (Amended Prepared Testimony), p. 2-7, line 19 to p. 2-8, line 6.

¹⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 2-8, lines 6-10.

²⁰ Exh. PGE-01 (Amended Prepared Testimony), p. 2-15, lines 5-16.

²¹ *Ibid.*

capital to undertake needed investments to ensure safety and risk mitigation, to accelerate work to interconnect beneficial new loads, supporting affordability and California’s economic growth, and to interconnect new clean generation and storage resources to support California’s decarbonization, reliability, and other policy objectives.²²

The investments funded by the proceeds of the Investment Program will go through the required regulatory processes and approvals, including any such processes needed to determine need and prudence.²³

Citizens’ capital cost recovery (i.e., the recovery of Prepaid Rent and capped financing costs) is the largest component of the rate it will charge customers. This capital component is contractually capped at the “PG&E Representative Rate,” which is calculated using a cost-of-service methodology based on PG&E’s own FERC-approved parameters at the time of lease execution.²⁴ The Representative Rate Model uses inputs such as the cost of debt, return on equity, capital structure, taxes, and depreciation period, and produces a levelized annual amount over the 30-year lease term.²⁵ Under the Investment Program contractual documents, Citizens may not propose to FERC a rate exceeding this cap, which is a provision designed to ensure that customers will not pay more than they would if PG&E financed the projects itself.²⁶

Citizens is responsible for obtaining its own financing for the Prepaid Rent, and PG&E has no obligation to provide or guarantee financing to Citizens.²⁷

²² Exh. PGE-02 (Rebuttal Testimony), p. 1-5, lines 1-6; Exh. PGE-01 (Amended Prepared Testimony), p. 1-10, lines 3-8.

²³ Exh. PGE-01 (Amended Prepared Testimony), p. 1-10, lines 8-12.

²⁴ Exh. PGE-01 (Amended Prepared Testimony), p. 3-6, lines 12-25.

²⁵ *Id.*, p. 3-7, lines 18 to p. 3-10, line 11; *id.*, p. 3-10, lines 23-26.

²⁶ *Id.*, p. 2-18, line 18 to p. 2-19, line 5; *see also* Amended Application, Attachment 1 (DCOA), Exhibit A (Form of Entitlements Lease), § 4.3.2.

²⁷ Amended Application, Attachment 1 (DCOA), § 4.2(d).

4. Regulatory Approvals

The effectiveness of each Entitlements Lease is contingent on approvals from both this Commission and FERC:

- **Commission Approval:** By this Application, PG&E is seeking Commission approval under Section 851 for the lease of utility property. Approval of the first Entitlements Lease is requested as part of this Application; subsequent Entitlements Leases (covering Investment Tranches 2–5) are proposed to be approved through an expedited Tier 3 Advice Letter process, with stakeholder consultation and Commission review to ensure consistency with the approved Investment Program.²⁸
- **FERC Approval:** As discussed in more detail in Section III.F.1.c, below, PG&E and Citizens will seek FERC approvals under the FPA for each Investment Tranche, including for the transfer of an interest in the applicable Projects to Citizens (FPA Section 203), for amendments to PG&E’s transmission service tariff (FPA Section 205), and for Citizens’ cost recovery methodology and issuance of securities (FPA Sections 204 and 205). The CAISO will seek FERC approval to amend its Transmission Control Agreement to add Citizens as a Participating Transmission Owner (“PTO”).²⁹

The DCOA and form of Entitlements Lease specify that all required regulatory approvals must be obtained in a form and substance acceptable to both parties before each Entitlements Lease is executed.³⁰

5. Customer Protections

The DCOA and form of Entitlements Lease include multiple customer protections, including:

²⁸ Amended Application, pp. 30–35; Exh. PGE-01, p. 2-26, lines 14-28.

²⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 5-14, line 7 to p. 5-15, line 6.

³⁰ Amended Application, Attachment 1 (DCOA), § 4.3.

- **Rate Cap:** Citizens’ capital cost recovery is capped at the PG&E Representative Rate. This cap is designed to ensure that customers do not pay more than they would under PG&E’s traditional financing and cost recovery mechanisms.
- **No Double Recovery:** PG&E must exclude from its own transmission rates the capital and expense costs allocated to Citizens, preventing double recovery.
- **No Recovery of Citizens’ Incremental Costs:** Citizens is prohibited from recovering its own project, development, transaction, regulatory, O&M, administrative, or tax costs (i.e., all costs other than Citizens’ capped financing costs) from customers.
- **Transparency and Oversight:** PG&E will submit annual reports detailing Citizens’ direct bill-paying assistance. PG&E will also submit each executed Entitlements Lease to the Commission after it is executed.
- **Operational Control:** PG&E retains ownership and operational responsibility for the projects; Citizens’ leasehold interest is limited to the Entitlements, and operational control is transferred to CAISO for the duration of the lease.³¹

6. Project Lists

The Application includes detailed project lists as attachments:

- Exhibit B to the DCOA identifies the projects that PG&E expects may be included in the first option period (“Proposed Project List for Option Period 1”), with estimated project costs, Citizens’ percentage interest, and estimated project rent for each project.
- Attachment 2 to the Amended Application provides a “Master Project List” from which PG&E expects to draw for each of the option periods under the Investment Program. The Master Project List includes project descriptions, estimated costs, specifications, and permit status for each project. Projects for subsequent option

³¹ Exh. PGE-01 (Amended Prepared Testimony), p. 1-4, lines 18-23.

periods (Investment Tranches 2–5) are expected to be selected from this list, subject to the eligibility criteria and regulatory approvals described above.

The project lists are subject to modification by PG&E to account for changes in project development, regulatory approvals, or operational needs, provided that all projects included in an Entitlements Lease meet the eligibility criteria set forth in the DCOA.³²

7. Expected Benefits of the Investment Program

This Section summarizes the potential customer and public interest benefits of the Investment Program that motivated PG&E to agree to the proposal and to bring it before the Commission for approval. These public benefits and the customer protections summarized in the prior Section are discussed in more detail in Section III.C.1, below.

a. Direct Bill-Paying Assistance for At-Risk Customers

A central feature of the Investment Program is Citizens' binding, contractual commitment to dedicate an escalating amount (starting at 50% and escalating to 90%) of the after-tax cash flows from its participation in the Investment Program to direct bill-paying assistance for PG&E customers in need, including those in disadvantaged communities.³³ This commitment is memorialized in Section 5.3.1 of the DCOA³⁴ and in the form of Entitlements Lease.³⁵ Citizens estimates that, if the full \$1.0 billion investment is realized, more than \$450 million in bill-paying assistance will be funded over the 35-year duration of the program.³⁶ This level of charitable giving represents substantial increases in both the total amount and proportional

³² Exh. PGE-01 (Amended Prepared Testimony), p. 2-9, line 1 to p. 2-10, line 2.

³³ Exh. PGE-01 (Amended Prepared Testimony), p. 2-16, line 21 to p. 2-17, line 4. More specifically, Citizens has agreed to contribute 50% of its after-tax profits from the first \$200 million invested, 60% from the next \$200 million, 70% from the third \$200 million, 80% from the fourth \$200 million, and 90% from the fifth \$200 million. *Id.*, p. JPK-12, lines 9-12.

³⁴ Amended Application, Attachment 1 (DCOA), § 4.4.

³⁵ Amended Application, Attachment 1, Exhibit A (Form of Entitlements Lease), § 5.3.1.

³⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 5-12, line 32 to p. 5-13, line 2.

amount of after-tax cash flow compared to Citizens’ prior commitments in the Commission-approved Sunrise and Sycamore projects.³⁷

b. Diverse Source of Capital to Support PG&E’s Infrastructure Investment

PG&E faces substantial capital investment requirements to meet California’s decarbonization and risk reduction goals, including the electrification of buildings and vehicles and other new large load demands, and the integration of renewable energy resources.³⁸ PG&E’s five-year capital investment plan for 2024 through 2028 has increased to \$63 billion in light of this historic need for investment,³⁹ and the company must pursue diverse sources of capital to meet these needs.⁴⁰ The Investment Program provides PG&E with accelerated access to up to \$1.0 billion in capital, enabling timely infrastructure investments necessary to support reliability, safety, new beneficial load growth, and the State’s clean energy transition.⁴¹

c. Rate Certainty and Stability

The Investment Program is designed to provide rate certainty and stability for customers. Citizens’ capital cost recovery (i.e., the recovery of Prepaid Rent and financing costs) will be fixed and levelized over the 30-year term of each lease, providing a hedge against future market volatility and resulting changes in the cost of capital.⁴²

d. Alignment with State Policy Goals

As more fully discussed in Section III.C.1.b.3, below, the Investment Program is explicitly designed to advance the Commission’s statutory and policy goals, including those set forth in Senate Bill (“SB”) 350, the Commission’s Affordability Rulemaking (R.18-07-006), and

³⁷ See *Id.*, p. 5-12, line 19 to p. 5-13, line 5.

³⁸ Exh. PGE-01 (Amended Prepared Testimony), p. 1-8, lines 18-26.

³⁹ *Id.*, p. 1-9, lines 14-16.

⁴⁰ *Id.*, Ch. 9, p. 3, lines 5-10.

⁴¹ See *id.*, p. 1-8, lines 18-26; see also Exh. PGE-02 (Rebuttal Testimony), p. 1-5, lines 2-6.

⁴² Exh. PGE-01 (Amended Prepared Testimony), pp. 8-2 to 8-3 and 8-17 to 8-18.

the Commission’s Environmental and Social Justice (“ESJ”) Action Plan.⁴³ Citizens’ commitment to direct bill-paying assistance is targeted to benefit disadvantaged communities, consistent with the Commission’s focus on affordability and equity.

8. Relief Requested

The Application requests that the Commission issue a Decision in this Proceeding:

1. Authorizing PG&E under Section 851 to enter into the first Entitlements Lease with Citizens pursuant to the terms and conditions of the Investment Program created by the DCOA and as described in the Amended Application;
2. Authorizing PG&E to seek approval for the second through fifth Entitlements Leases through an expedited Tier 3 Advice Letter process to ensure each future Entitlements Lease is consistent with the terms of the DCOA, including the project eligibility criteria, and the Commission’s order on this Amended Application; and,
3. Directing PG&E to submit information regarding executed Entitlements Leases and Citizens’ direct bill-paying assistance through submittals at the times and intervals proposed in the Amended Application.⁴⁴

9. Supporting Record Evidence

The Application is supported by extensive testimony and exhibits that have been admitted into the record of this Proceeding.⁴⁵ This evidentiary record includes the following that are cited throughout this brief as relevant:

- Amended Prepared and Rebuttal Testimony of PG&E and Citizens witnesses (including Barry J. Bentley, Michael Medeiros, Divya Raman, James Higham Jr.,

⁴³ Exh. PGE-01 (Amended Prepared Testimony), p. 5-2, lines 14-30.

⁴⁴ Amended Application, pp. 31, 46.

⁴⁵ *Administrative Law Judge’s Ruling Granting Stipulated Motion to Identify and Admit Exhibits in Lieu of Evidentiary Hearings* (Oct. 15, 2025).

Peter F. Smith, Ronald E. Kennedy, Joseph P. Kennedy III, Susan F. Tierney, and Jennifer E. Nelson);

- The DCOA and form of Entitlements Lease (setting forth the contractual terms, eligibility criteria, and customer protections);
- Master Project List and Project Descriptions (identifying the universe of projects eligible for inclusion in the Investment Program); and
- The PG&E Representative Rate Model (demonstrating how the Investment Program is designed so that customers will not pay more than under traditional cost recovery).

B. PROCEDURAL HISTORY

On March 12, 2024, PG&E filed its initial Application for Approval Under Public Utilities Code Section 851 to Lease Entitlements to Transmission Projects to Citizens Energy Corporation.

On March 21, 2024, Chief ALJ Cooke issued Resolution ALJ 176-3543, preliminarily categorizing this proceeding as ratesetting.⁴⁶

On March 22, 2024, Citizens filed a Motion for Party Status, which was granted by email ruling on March 26, 2024.

On March 26, 2024, The Utility Reform Network (“TURN”) filed a Motion for Party Status, which was granted by email Ruling on March 27, 2024.

On March 29, 2024, TURN filed a Motion for Reassignment on Peremptory Challenge, which was granted by Chief ALJ Cooke on April 12, 2024.

On April 15, 2024, the Public Advocates Office at the Commission (“Cal Advocates”) and TURN each filed a Protest to the Application.

⁴⁶ The ratesetting categorization was subsequently confirmed in the Scoping Memo, p. 7.

On April 24, 2024, Citizens Energy Corporation filed a Motion for Leave to File a Reply to Protests and a Motion to Shorten Time for Responses, which was denied by email ruling on May 1, 2024.

On April 25, 2024, PG&E filed a Reply to Protests to the Application.

On May 13, 2024, Cal Advocates filed a Motion to Dismiss, to which PG&E, TURN, and Citizens each filed responses on June 4, 2024.

On July 17, 2024, Center for Accessible Technology (“CforAT”) filed a Motion for Party Status, which was granted by email ruling on July 23, 2024.

The first prehearing conference was held by ALJ Goldberg on July 26, 2024. The transcript was added to the docket on July 31, 2024.

Citizens served Supplemental Testimony on August 9, 2024, as it had been authorized to do during the July 26, 2024 prehearing conference.

On October 16, 2024, Chief ALJ Cooke filed a notice of co-assignment of ALJ Chang with ALJ Goldberg.

On November 18, 2024, PG&E filed a motion to hold the proceeding in abeyance with the intent of filing an Amended Application by no later than January 31, 2025 that took into account stakeholder concerns with the original Application. On December 3 and 4, 2024, TURN and Cal Advocates filed responses to the motion. On December 5, 2024, ALJ Chang issued a ruling granting the motion.

On January 31, 2025, PG&E filed its Amended Application and served Amended Prepared Testimony on behalf of both PG&E and Citizens witnesses. The Amended Prepared Testimony superseded the previously served original Prepared Testimony of the same witnesses and the Supplemental Testimony served by Citizens on August 9, 2024.

On March 3, 2025, Cal Advocates and TURN each filed a protest to the Amended Application. CforAT filed a response to the Amended Application on the same date.

On March 13, 2025, PG&E filed a reply to the protests and response to the Amended Application.

On April 2, 2025, ALJ Chang issued a Ruling directing PG&E to file additional information. PG&E filed a response to the ruling on April 11, 2025.

On April 9, 2025, National Diversity Coalition (“NDC”) filed a motion for party status. On April 10, 2025, ALJ Chang issued a Ruling directing NDC to file additional information. On April 21, 2025, NDC filed a response to the Ruling. ALJ Chang issued an email ruling granting NDC party status on April 28, 2025.

ALJ Chang held a second prehearing conference on April 14, 2025. The transcript was added to the docket on April 21, 2025.

On May 6, 2025, Commissioner Douglas issued an Assigned Commissioner's Scoping Memo and Ruling.

On June 18, 2025, PG&E filed a motion requesting to modify the proceeding schedule to identify hearing dates and proposing dates acceptable to the parties. On June 20, 2025, ALJ Chang issued an email ruling shortening the period to respond to PG&E's motion. On June 27, 2025, Cal Advocates and CforAT each filed a response to the motion. On June 30, 2025, ALJ Chang issued a ruling partially granting the motion, setting hearing dates as needed, and denying without prejudice the request to hold the hearings virtually.

TURN and CforAT served intervenor testimony on August 4, 2025. TURN served an errata to its testimony on September 2, 2025.

PG&E and Citizens separately served Rebuttal Testimony on September 3, 2025.

The parties met and conferred pursuant to Commission Rule 13.9 on September 8, 2025.

ALJ Chang held a status conference on September 16, 2025.

On September 22, 2025, ALJ Chang issued a Ruling modifying the procedural schedule for the proceeding. In particular, the ruling directed the parties to meet and confer regarding discovery and the need for evidentiary hearings, and it ordered PG&E to either file a joint motion to admit evidence in lieu of hearings or to file a further status report.

On October 2, 2025, PG&E filed a stipulated motion jointly with each of the other parties to identify and admit evidence in lieu of evidentiary hearings. The stipulated joint motion was granted by a Ruling issued by ALJ Chang on October 15, 2025.

III. ARGUMENT

A. SUMMARY OF THE ARGUMENT

PG&E argues that the Commission should review the Investment Program to determine whether its approval would be “adverse to the public interest.” PG&E further explains that a heightened standard of review is not warranted, given that the Investment Program is closely modeled on, and in all material aspects similar to, transactions previously reviewed and approved by the Commission under the normal Section 851 standard of review, i.e., “not adverse to the public interest.” The Investment Program, accordingly, does not raise novel issues. PG&E’s proposal in this case, moreover, is readily distinguished from the *Pacific Generation* precedent relied upon by intervenors in arguing for a heightened standard of review. PG&E also discusses its burden of proof as an applicant in a ratesetting proceeding.

PG&E then applies the standard of review to the facts set forth in the record of this Proceeding to demonstrate that the Investment Program should be approved by the Commission under Section 851. Not only does the evidentiary record show the lack of adverse impacts to the public interest, through customer protections built into the transaction, but it goes substantially beyond the required showing to demonstrate several substantial benefits to PG&E’s customers and the public more generally. The customer protections include: (1) a contractual cap on the rate that Citizens may seek to recover at FERC, which is designed to ensure that transmission ratepayers will pay no more than they otherwise would have for the underlying transmission investments in the absence of the Investment Program; (2) a requirement that PG&E exclude from its own transmission rates those costs recovered by Citizens under the Investment Program, ensuring customers do not pay twice for the same investment; and (3) Citizens’ contractual

commitment not to recover in transmission rates its own project, development, transaction, regulatory, operation and maintenance, administrative and general, or administrative costs.

While these protections alone would meet the applicable standard of showing no adverse impact, the Investment Program further offers the following substantial and incremental public and customer benefits: (1) if fully implemented, the Investment Program will generate over \$450 million in incremental direct bill-paying assistance for PG&E customers in need, which will address in a meaningful and sustained manner the customer affordability concerns raised by the Commission and the Governor; (2) this assistance is expected to benefit all PG&E customers, not just those who receive bill-paying assistance, because it will reduce the amount of arrearages in uncollected customer bills that are socialized in all customers' bills; (3) Citizens' fixed and levelized rate structure will offer rate stability and a hedge against the potential for future market changes, offering a benefit previously recognized by the Commission and FERC as being in the public interest; and (4) the Investment Program allows PG&E to recover the capital it invested in transmission assets in a lump sum at the start of each Entitlement Lease, rather than over the lifetime of the transmission assets through rates as it normally would, which provides PG&E with a diverse source of capital to accelerate needed investments in its system in a way that does not harm PG&E's financial health or raise PG&E's cost of capital. Each of these customer protections and public benefits is secured without any change to how or when the underlying transmission investments would otherwise be constructed, operated, or maintained, and all entitlements to the underlying assets revert to PG&E for the benefit of its customers at the end of each 30-year Entitlements Lease to Citizens. Further, these are benefits that customers will not receive in the absence of the Investment Program.

Having established that the standard for approval of the Investment Program as a whole is met, PG&E next argues that the Commission should specifically authorize PG&E to enter directly into the first Entitlements Lease. PG&E has identified in the record of this Proceeding the definitive list of underlying transmission projects that are eligible to be subject to that first Entitlements Lease, allowing the Commission to authorize the first Investment Tranche as part of

its final decision. Additionally, PG&E provides justification for its request that the Commission adopt PG&E's proposal for stakeholder consultation followed by an expedited and limited Tier 3 Advice Letter submittal. This open and participative process will provide the Commission and stakeholders a definitive list of projects underlying Investment Tranches 2-5, and thus will enable the Commission and stakeholders to confirm that the listed projects are consistent with the definitive eligibility criteria set forth in the Application.

Finally, PG&E addresses TURN's suggestion that the Commission in this case should attempt to set or place conditions on the transmission rate that Citizens may charge for any leased Entitlements under the Investment Program. This would not be appropriate. The Commission should not attempt to prescribe a specific transmission rate because that is FERC's exclusive responsibility under the FPA. The law is clear that FERC exercises exclusive and preemptive jurisdiction over the rates for transmission service, including the rates that Citizens would recover under the Investment Program. Accordingly, the Commission should not accept TURN's invitation to attempt to set or otherwise determine the reasonableness of Citizens' transmission rate. In looking at the totality of the circumstances presented by the Investment Program under Section 851, the Commission should defer to FERC to set that transmission rate as just and reasonable under federal law. PG&E's argument describes for context the separate FERC proceedings that are required in order to carry out the Investment Program. The Commission and interested parties will have the opportunity to participate in those FERC proceedings and raise in that forum any concerns about Citizens' transmission rates.

B. STANDARDS OF REVIEW AND PROOF

1. Standard of Review (Scoping Issue 1)

Under Section 851, PG&E must receive prior authorization from the Commission to "sell, lease, assign, mortgage, or otherwise dispose of, or encumber the whole or any part of its ... line, plant, system, or other property necessary or useful in the performance of its duties to the

public....”⁴⁷ Generally, the Commission performs a public interest analysis in determining whether to authorize a transaction under Section 851.⁴⁸ In conducting that public interest analysis, the correct standard of review, as established by longstanding Commission precedent, is whether the proposed transaction is “not adverse to the public interest.”

a. The applicable standard of review is “not adverse to the public interest.”

In Section 851 proceedings, the Commission has generally held that the appropriate inquiry is whether the proposed transaction is “not adverse to the public interest.” The prior Citizens-SDG&E transactions, which are the model for the present application, were approved under this routine standard.⁴⁹ Similarly, the Commission applied the “not adverse to the public interest” in approving a similarly structured lease of entitlements between SCE and Morongo pursuant to Section 851.⁵⁰ The present Application utilizes the same transmission investment model used in those prior transactions, and, accordingly, the Commission should apply the same standard.

Even ignoring the substantial, tangible public and customer benefits provided by the Investment Program, detailed below, the Application meets the “not adverse to the public interest” standard for approval. This is because the Investment Program does not change or degrade the way in which PG&E’s customers would be served by the underlying transmission

⁴⁷ Pub. Util. Code, § 851.

⁴⁸ D.24-05-004, p. 8.

⁴⁹ D.19-03-024, pp. 9-10 (Sycamore Section 851 Decision); D.11-05-048, pp. 9-11 (Sunrise Section 851 Decision).

⁵⁰ D.16-08-017, p. 39 (“We find that the proposed transaction is not adverse to the public interest and should be approved.”) (citing D.11-05-048 (Sunrise Section 851 Decision) at 9; D.09-07-035; and D.09-04-013 for the standard that “that the subject transaction should not be adverse to the public interest and that transactions that are in the public interest are to be encouraged.”) *See also, id.*, p. 45 (Conclusion of Law (COL) 8).

facilities⁵¹ and because it does not harm PG&E’s credit rating or metrics or create additional financial risk in a way that could adversely impact customers through PG&E’s cost of capital.⁵²

In Section III.C.2, below, PG&E provides a comparison of the similarities between the present Investment Program and the prior Citizens-SDG&E transactions. In the same Section, PG&E demonstrates that the differences between these precedents and the Investment Program are attributed to scaling the same model in order to provide incremental customer and public benefits. PG&E also notes the similarities between this transaction and the SCE-Morongo Entitlements lease approved by the Commission in 2016. These comparisons confirm that there is no basis to consider the Investment Program “novel” or to otherwise distinguish the Investment Program from the precedent with regard to the applicability of the standard of review.

b. Intervenor’s invocation of the *Pacific Generation* standard is inapt.

Intervenors disagree that the Commission’s well-established Section 851 standard applies here. Instead, they rely on the Commission’s *Pacific Generation* decision to support their argument that a heightened standard of review should apply to this transaction.⁵³ But *Pacific Generation* is clearly distinguishable from the facts of this case.

In applying a heightened standard of review, *Pacific Generation* relied on two prior decisions, both of which involved proposed utility transfers of control under Section 854 of the Public Utilities Code.⁵⁴ Section 854, an entirely separate statutory provision that is not at issue in this Proceeding, applies a distinct standard of review for transfers of control and expressly

⁵¹ See Section III.C.1.e, below.

⁵² See Section III.C.1.d, below.

⁵³ See, e.g., TURN Protest (Apr. 15, 2024), pp. 2-3 (citing A.22-09-018, Application of PG&E and Pac. Generation LLC, Proposed Decision of ALJ Park (issued Mar. 15, 2024)). The Commission ultimately issued a final D.24-05-004 in the Pacific Generation Application proceeding on May 9, 2024, following TURN’s protest in this Proceeding.

⁵⁴ See D.24-05-004, p. 9 (citing D.22-12-032 and D.11-06-032).

requires a finding that the transaction provides “short-term and long-term economic benefits to ratepayers.”⁵⁵ Although Section 854 and other related grants of authority to the Commission to review utility activities that are found in the same division of the Public Utilities Code contain similar explicit standards of review requiring a showing of benefits, Section 851 contains no such requirement.

At issue in *Pacific Generation* was a proposal by PG&E to transfer the ownership of its entire fleet of non-nuclear generating assets to a new subsidiary company, which in turn would be partially owned by PG&E and partially owned by third-party investors. By any measure, the proposal in this case – to lease transmission Entitlements to Citizens, consistent with the Commission-approved Sunrise and Sycamore transactions – is far more modest. In applying a heightened standard of review in the *Pacific Generation* case, the Commission relied on the novelty and unprecedented nature of the transaction. In the Commission’s words, a heightened standard should apply to an Application “which potentially impacted rates and the Commission’s jurisdiction, among other factors.”⁵⁶ In short, the proposal at issue in the *Pacific Generation* proceeding involved the potential loss of the Commission of its longstanding regulatory control over key utility assets, namely, a large fleet of power plants. That is not comparable to what is being proposed in this Proceeding. Under the DCOA, PG&E will continue to own, maintain, and operate all the transmission assets that will be subject to the Entitlements Leases. There will be no change in the regulatory oversight of the operation of these transmission assets. Additionally, and as further explained in Section III.C.1.a, below, the Investment Program is carefully designed to ensure that rates are not increased as a result.

Thus, the *Pacific Generation* proposal was fundamentally different from this one. In contrast to what was at issue in *Pacific Generation*, the proposed Investment Program in this case does not entail a major restructuring of PG&E’s business by transferring a huge fleet of

⁵⁵ Pub. Util. Code, § 854(b)(1).

⁵⁶ D.24-05-004, p. 9.

assets to a new owner,⁵⁷ and Citizens, as a mere lessee of transmission Entitlements, will not own or operate any PG&E's assets.⁵⁸ In contrast to the proposal in *Pacific Generation*, the Investment Program in this case also will not diminish or otherwise affect the Commission's existing regulatory authority over PG&E.⁵⁹

TURN's contention that the magnitude and structure of the proposed Investment Program are "novel and unprecedented," comparable to the proposal in *Pacific Generation* decision,⁶⁰ simply does not withstand scrutiny. As described above, the differences between this Investment Program and its Commission-approved predecessors are related only to scale, provide incremental benefits, and do not introduce new potential impacts to PG&E's ability to provide safe and reliable retail service to customers or to this Commission's regulatory oversight of PG&E. The fact that this Investment Program involves a series of Investment Tranches is also not "novel," given that the proposal is merely a series of transactions that use the same approved model.

For these reasons, the Commission should reject intervenor arguments that a heightened standard of review should be applied.

c. Even if a heightened standard of review were applied, the Investment Program would meet that standard.

Although, for the reasons discussed above, PG&E does not agree that this Application warrants a heightened standard of review, even if the Commission were to apply a heightened standard of review, the record demonstrates that the proposed Investment Program would satisfy even such a heightened standard. The affirmative and tangible public benefits provided by the Investment Program to customers and to the broader public include the following: (1) the potential for more than \$450 million in direct incremental bill-paying assistance to at-risk PG&E

⁵⁷ Cf., *id.*, p. 9.

⁵⁸ Cf., *id.*, pp. 9-10.

⁵⁹ Cf., *id.*, p. 10.

⁶⁰ TURN Protest (Apr. 15, 2024), pp. 2-4.

customers; (2) rate stability and a valuable hedge from Citizens' fixed and levelized rate structure over 30 years; and (3) providing a new and diverse source of capital to accelerate investments in PG&E's system to support safety, reliability, decarbonization, and new load interconnections, among other state policy goals. Each of these benefits is detailed and supported by evidence in Section III.C.1.b-d, below. Additionally, the argument in Section III.C.1.a, below, demonstrates that these benefits will be secured without any expected adverse impacts to customers. Given the incremental and substantial benefits offered by the Investment Program, it would warrant approval by the Commission even if a heightened standard of review were applied.

d. The Section 851 standard of review does not require consideration of speculative or infeasible alternatives.

TURN's testimony may be read to suggest that PG&E must demonstrate that the proposed transaction is superior to the speculative and infeasible alternative of financing the transmission projects at issue entirely through long-term debt.⁶¹ However, nothing in Section 851 or Commission precedent requires consideration by the Applicant of such speculative and infeasible alternatives, and it should not be required in this Proceeding.

The Commission's established approach under Section 851 does not require applicants to prove their proposal is superior to all conceivable alternatives.⁶² Indeed, TURN's argument is counter to the Scoping Memo in this proceeding, which applies the correct standard when it included within scope the question of whether "PG&E [has] demonstrated that the ratepayer impact of this transaction *will not be less favorable* than the ratepayer impact of PG&E paying for these same transmission projects *through its usual practice of including the costs on its*

⁶¹ Exh. TURN-01E (Prepared Testimony of Jennifer Dowdell), p. 6, lines 7-12 (comparing the Investment Program to financing through long-term debt, and thereby implying that PG&E could alternatively finance the transmission investments at issue here through solely issuance of long-term debt).

⁶² See, e.g., D.21-09-029, pp. 2-4; D.19-03-024, p. 9; D.11-05-048, pp. 8-9.

*balance sheet and recovering those costs through rates[.]”*⁶³ The Scoping Memo recognizes, consistent with precedent, that PG&E’s burden is to demonstrate that ratepayers will not be adversely impacted. It does not require PG&E to show that the Investment Program is more favorable than or superior to any alternative, no matter how speculative or infeasible.

A requirement that Section 851 proceedings review speculative and infeasible alternatives would not only be unprecedented, it would also likely be inadvisable from a policy perspective. The Commission and parties would need to grapple in each case with setting boundaries for the universe of potential alternatives that should be considered. Section 851 proceedings to dispose or encumber utility assets would become protracted. None of this is required by, or even hinted at, by the Section 851 statute itself, and such an alternatives analysis contradicts the Commission’s historic approach of examining whether the proposed Section 851 transaction – not some other hypothetical transaction – is adverse to the public interest. For these policy, practical, and legal reasons, the Commission should not accept TURN’s suggestion that PG&E must consider an alternative that is speculative and infeasible.

2. Standard of Proof

The standard of proof in a ratesetting matter such as this Proceeding is preponderance of the evidence.⁶⁴ As the Applicant, PG&E bears the burden of proof to establish the reasonableness of its requests for relief in this proceeding. Preponderance of the evidence usually is defined “in terms of probability of truth, e.g., ‘such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth’.”⁶⁵ In short, PG&E must present more evidence that supports its request than would support an alternative outcome. Where intervening parties propose a result different from that requested by PG&E, “they have the burden of going forward to produce evidence, distinct from the ultimate burden of

⁶³ Scoping Memo, p. 4 (emphasis added).

⁶⁴ D.16-12-063, p. 9 (citing D.12-12-030, p. 44).

⁶⁵ D.12-12-030, p. 42, aff’d D.15-07-044, pp. 28-30.

proof.”⁶⁶ This “burden of going forward to produce evidence relates to raising a reasonable doubt as to the utility’s position and presenting evidence explaining the counterpoint position.”⁶⁷ Mere argument is not enough; intervenors must present evidence to raise reasonable doubt as to PG&E’s position.⁶⁸

PG&E submits that the testimony it has submitted, as discussed below, meets the applicable burden of proof and therefore that its requests for relief should be granted.

C. THE COMMISSION SHOULD AUTHORIZE THE PROPOSED INVESTMENT PROGRAM BETWEEN PG&E AND CITIZENS PURSUANT TO SECTION 851 OF THE PUBLIC UTILITIES CODE. (SCOPING ISSUE 3)

This Application asks the Commission to apply the standard of review described in Section III.B.1, above, to determine whether it is reasonable to approve the proposed Investment Program under Section 851. In this Section, PG&E breaks down this overarching question into two key sub-components: (1) whether there will be adverse impacts or incremental benefits to customers and the public as a result of the Investment Program compared to how PG&E would otherwise have financed the underlying transmission investments; and (2) whether prior Commission decisions authorizing substantially similar transactions support approval in this case.

1. Customers Will Not Be Adversely Impacted By, And in Fact Will Benefit From, The Investment Program Compared To PG&E’s Usual Means Of Financing The Same Transmission Investments. (Scoping Issue 2)

The record evidence demonstrates that the Investment Program is appropriately structured to deliver substantial public and customer benefits, including affordability and support of important State objectives, without any expected increase in rates or negatively impacting

⁶⁶ D.08-01-022, p. 4.

⁶⁷ *Id.*, p. 4.

⁶⁸ *Id.*, p. 5.

PG&E's financial health. This demonstration supports a finding that approval is warranted under Section 851 given that, as the Commission has found, "the public interest is served when utility property is used for other productive purposes without interfering with the utility's operation or affecting service to utility customers."⁶⁹

a. The Investment Program Is Designed To Limit The Rates For The Transmission Investments To No More Than Customers Would Have Otherwise Paid. (Scoping Issue 2.C)

The Investment Program is designed to ensure that customers will pay no more for the subject transmission investments than they would have paid had PG&E financed the projects itself.⁷⁰ This is achieved through a binding contractual mechanism: Citizens' recovery of capital costs for each Entitlements Lease is capped at the "PG&E Representative Rate."⁷¹ This Representative Rate is calculated in a Representative Rate Model using PG&E's own FERC-approved cost of capital and capital structure, in effect at the time of execution of each Entitlements Lease under the Investment Program, and approximates the capital-based revenue requirement PG&E would expect to have recovered if PG&E had financed the projects itself.⁷²

The Representative Rate Model calculates a levelized annual capital-related revenue requirement over a 30-year lease term, using cost-of-service ratemaking principles, and discounts the sum of the capital-related revenue requirements over the composite average service life for PG&E electric transmission assets (55 years) at PG&E's weighted average cost of capital.⁷³ This process produces a net present value approximation of what customers would be expected to pay if PG&E financed the assets itself.⁷⁴ The form of Entitlements Lease makes the cap based on the

⁶⁹ D.03-12-056, p. 7 (citing D.02-10-022, pp. 9-10).

⁷⁰ Exh. PGE-01 (Amended Prepared Testimony), p. 3-11, lines 20-25; *id.*, p. 6-2, lines 1-3; *id.*, p. 6-6, lines 1-11.

⁷¹ This brief refers alternatively to the PG&E Representative Rate as the "Representative Rate."

⁷² Exh. PGE-01 (Amended Prepared Testimony), p. 3-11, lines 3-6; *id.*, p. 3-6, line 11 to p. 3-10, line 11.

⁷³ Exh. PGE-01 (Amended Prepared Testimony), p. 3-10, lines 13-26.

⁷⁴ *Id.*, p. 3-11, lines 20-25.

Representative Rate Model a binding contractual obligation.⁷⁵ The Representative Rate Model is attached as Exhibit B to the form of Entitlements Lease⁷⁶ and is illustratively populated with PG&E’s current FERC-approved parameters at the time of filing of the Application.

Section 4.5 of the DCOA states that each Entitlements Lease “shall limit the cost recovery methodology used by Citizens Pacific Transmission ... at FERC as set forth in Section 4.3.2 of the form of Entitlements Lease...”⁷⁷ The form of Entitlements Lease, in turn, requires that Citizens’ recovery shall be “no higher than the approximate rate PG&E is projected...to recover over the lives of the Projects if PG&E held the Citizens Entitlements,” and that the Parties “agree to use the [Representative Rate Model] attached [to the form of Entitlements Lease] as Exhibit B.”⁷⁸

The Representative Rate Model will be updated to reflect PG&E’s then-current, FERC-authorized cost of capital and capital structure at the time of execution of each Entitlements Lease under the Investment Program.⁷⁹

By embedding the rate cap in the operative contracts, the parties have made it legally enforceable. This ensures that the rate cap is not subject to future negotiation or discretion but is a fixed, objective standard. The form of Entitlements Lease expressly waives Citizens’ right to seek a higher rate at FERC than the PG&E Representative Rate, except in the event of a change in law affecting taxes or similar exogenous costs.⁸⁰

Citizens’ rate witness Ronald Kennedy confirms that, under the Investment Program, “Citizens reduces the return on equity component of its rate methodology to ensure it does not charge more than the [Transmission Revenue Requirement] produced by PG&E’s Representative

⁷⁵ Amended Application, Attachment 1, Exhibit A (Form of Entitlements Lease), § 4.3.2. Exh. PGE-01, p. 3-6, line 11 to p. 3-10, line 26.

⁷⁶ Amended Application, Attachment 1, Exhibit A (Form of Entitlements Lease), Exhibit B.

⁷⁷ Amended Application, Attachment 1 (DCOA), § 4.5.

⁷⁸ Amended Application, Attachment 1, Exhibit A (Entitlements Lease), § 4.3.2.

⁷⁹ Amended Application, Attachment 1, Exhibit A (Form of Entitlements Lease), § 4.3.2(b).

⁸⁰ *Id.*, § 4.3.3.

Rate Model – the PG&E Base Case. This means customers will not pay more than the PG&E Base Case as a result of the Investment Program.”⁸¹

Ultimately, the Investment Program is designed with the primary objective of securing incremental public and customer benefits without the risk of any significant adverse impacts to rates. Under the Investment Program’s design, customers are at least neutral as to whether Citizens Energy were to participate in the financing of the investments or not (and, indeed, may be significantly better off, as further described below). As the Commission has previously found in approving a similarly structured lease of Entitlements, “the proposed transaction poses no ratepayer risk because, regardless of whether or not [a FERC-regulated public utility third-party] invests in the proposed project, ratepayers will pay for the costs of the proposed project through FERC-approved transmission rates.”⁸² On this basis, the Commission has confirmed that the type of transaction proposed here is “ratepayer neutral.”⁸³ Ensuring customer neutrality is a core design objective of the Investment Program and is a result of using the PG&E Representative Rate Model to develop a cap on Citizens’ capital cost component of its FERC rates.⁸⁴

(1) Additional Rate Protections Built into the Investment Program

In addition to the Representative Rate Model, the Investment Program features two other critical ratepayer neutrality protections. First, the DCOA and form of Entitlements Lease require that PG&E exclude from its own transmission rates for cost recovery any capital costs or expense costs paid by Citizens as Prepaid Rent or Additional Rent, ensuring customers do not pay twice for the same investment.⁸⁵ Second, Citizens has also agreed not to recover in rates its

⁸¹ Exh. PGE-01 (Amended Prepared Testimony), p. 6-1, line 28 to p. 6-2, line 3.

⁸² D.16-08-017, p. 40.

⁸³ *Id.*, p. 39.

⁸⁴ See Exh. CA-01 (PG&E Response to Energy Division Data Request-001-Q001), p. 2.

⁸⁵ Exh. PGE-01 (Amended Prepared Testimony), p. 2-20, lines 13-18 (citing Amended Application, Attachment 1 (DCOA), § 4.6; Amended Application, Attachment 1, Exhibit A (Entitlements Lease), § 4.1.2.)

own project, development, transaction, regulatory, operation and maintenance, administrative and general, or administrative costs, further ensuring that customer rates are not increased above the PG&E Representative Rate.⁸⁶ This latter protection is an enhancement compared to prior Citizens transmission investments in California, made possible by scaling the prior model to capture efficiencies.⁸⁷ These provisions provide additional assurance that the rate cap will be effective in protecting customers. By prohibiting double recovery and the recovery of incremental costs, the transaction documents further protect against the possibility that costs recovered from customers would exceed those that would have been expected to be recovered had PG&E financed the projects itself.

To provide transparency and federal review regarding these contractual commitments, each executed Entitlements Lease and the associated modeled Representative Rate will be subject to FERC approval (for just and reasonable rates)⁸⁸ as further described in Section III.F.1.c, below, and reported to this Commission within 30 days of execution.⁸⁹

The record demonstrates that the Investment Program is carefully designed to limit the rates for the transmission investments to no more than customers would have otherwise paid had PG&E financed the projects itself. The binding contractual cap, the detailed modeling, and the regulatory oversight all work together to ensure that customer rates are protected, and that the public interest is served.

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⁸⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 3-15, lines 1–15.

⁸⁷ *Id.*, p. 5-14, lines 1–6.

⁸⁸ Exh. PGE-01 (Amended Prepared Testimony), p. 2-25, line 8 to p. 2-26, line 12.

⁸⁹ Amended Application, p. 34.

(2) No Party Disputes That The Representative Rate Model Reasonably Approximates The Rate That Customers Would Have Otherwise Been Expected to Pay On A Net Present Value Basis. (Scoping Issue 2.A)

No party disputes that the Representative Rate Model functions as intended to approximate the rate that customers would otherwise have been expected to pay on a net present value basis. The two parties who submitted intervenor testimony, TURN and CforAT, do not discuss the inputs or mechanics of the Representative Rate Model in their testimony. No party challenged the modeling of the Representative Rate Model or the revenue requirement calculated using the assumptions set forth in the model.⁹⁰

b. If Fully Implemented, The Investment Program Is Expected To Result In Over \$450 Million In Bill-Paying Assistance To PG&E Customers In Need That Would Otherwise Not Occur, Helping To Address Affordability. (Scoping Issue 3.C)

The record in this proceeding demonstrates that, if fully implemented, the Investment Program is expected to provide over \$450 million in direct bill-paying assistance to PG&E customers in need—assistance that would not otherwise occur—thereby directly addressing the Commission’s and the State’s urgent affordability objectives.⁹¹ This benefit is contractually enforceable, subject to the Commission’s oversight of PG&E’s administration of the commitment, modeled on proven prior transactions, and supported by robust evidence.

(1) No Party Disputes The Potential Amount Of Or Incremental Nature Of Citizens’ Contractual Commitment To Direct Bill-Paying Assistance.

As part of the Investment Program, Citizens has contractually committed to dedicate an escalating percentage of its net after-tax profits from the Investment Program to direct bill-paying assistance for PG&E customers in need. The commitment is memorialized in Section 5.3.1 of the Form of Entitlements Lease and the DCOA and is structured as follows: 50% of

⁹⁰ Exh. PGE-02 (Rebuttal Testimony), p. 3-3, lines 3-5.

⁹¹ Exh. PGE-01 (Amended Prepared Testimony), p. 1-6, line 18 to p. 1-7, line 17; *id.*, p. 5-12, line 32 to p. 5-13, line 2. Exh. Citizens-01 (Smith Rebuttal Testimony), p. 3, lines 16–25.

after-tax cash flow from the first \$200 million invested, 60% from the second \$200 million, 70% from the third, 80% from the fourth, and 90% from the fifth \$200 million.⁹²

Based on the financial modeling and testimony of Citizens’ witness Ronald E. Kennedy, if the full \$1 billion investment is realized, Citizens will contribute more than \$450 million in direct bill-paying assistance over the 30-plus-year duration of the program.⁹³

At full implementation, the Investment Program is expected to provide bill-paying assistance to over 54,000 additional households annually at the assumed benefit level for the Relief for Energy Assistance through Community Help (“REACH”) program (\$300 per household), or more than 25,500 customers at the full CARE-level support, with annual contributions ramping up to over \$16 million per year by year five.⁹⁴ This scale of assistance is extraordinary compared to historical levels of bill-paying assistance in California.⁹⁵

The fixed and levelized rate structure, previously approved by both this Commission and FERC in the context of the prior SDG&E-Citizens transactions, ensures that Citizens’ after-tax cash flow—and thus the charitable contributions—will be stable and predictable over the 30-year lease terms. This will enable long-term planning and sustained support for affordability.⁹⁶ Annual reporting requirements will provide transparency and accountability, mirroring how Citizens and SDG&E currently report to the Commission regarding the previously approved Sycamore transaction.⁹⁷

It is important to recognize that the direct bill-paying assistance Citizens will provide through the Investment Program is incremental in nature. It is not a substitute for existing bill-

⁹² Exh. PGE-01 (Amended Prepared Testimony), p. 2-16, line 21 to p. 2-17, line 4 (citing DCOA § 4.4; Entitlements Lease § 5.3.1 & n.12.); *id.*, p. 5-12, lines 19–32.

⁹³ Exh. PGE-01 (Amended Prepared Testimony), p. 6-13, Table 6-3.

⁹⁴ Exh. PGE-01 (Amended Prepared Testimony), pp. 8-7 to 8-11.

⁹⁵ *Ibid.*

⁹⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 6-11, line 27 to p. 6-12, line 2.

⁹⁷ *Id.*, p. 2-26, lines 27-28; Amended Application, p. 15; *id.*, Attachment 1 (DCOA), Exhibit A (Form of Entitlements Lease), § 5.3.; Exh. Citizens-01 (Smith Rebuttal Testimony), p. 11, lines 19–22.

paying assistance programs, such as Low Income Home Energy Assistance Program (“LIHEAP”) or REACH, or for low-income customer discount programs, such as CARE, but rather an additional, reliable stream of support that would not exist absent this transaction.⁹⁸ The record is clear that, without Citizens’ participation, these funds would not be available to PG&E customers in need.⁹⁹

Further, in contrast to low-income discounts like CARE, the bill-paying assistance offered by the Investment Program will not be funded by PG&E ratepayers, but by Citizens’ after-tax cash flows from the proposed Investment Program.¹⁰⁰ The record shows that existing bill-paying assistance programs have not been able to meet the full need that at-risk customers are confronting. For example, in 2024, REACH funds were fully exhausted before year-end. These experiences highlight the critical gap in ratepayer assistance that Citizens will help to fill if the proposed Investment Program is approved.¹⁰¹

Finally, PG&E’s traditional method of financing transmission investments, which is the only alternative in the absence of the Investment Program, does not result in any similar commitment to direct bill-paying assistance for at-risk PG&E customers. Under traditional utility ratemaking, the costs are recovered through rates, but no portion is dedicated to charitable support for at-risk customers.¹⁰² Simply put, the record confirms that, without the Investment Program, the potential for more than \$450 million in incremental bill-paying assistance would be lost.¹⁰³

⁹⁸ See Exh. Citizens-02 (Tierney Rebuttal Testimony), p. 13, lines 1–9.

⁹⁹ *Id.*, p. 14, lines 4–11.

¹⁰⁰ See Exh. PGE-01 (Amended Prepared Testimony), p. 5–12, lines 19–21.

¹⁰¹ *Id.*, p. 8–9.

¹⁰² Exh. Citizens-02 (Tierney Rebuttal Testimony), p. 13, lines 1–9.

¹⁰³ Exh. Citizens-01 (Smith Rebuttal Testimony), p. 3, lines 21–23.

(2) Direct Bill-Paying Assistance Will Benefit All Customers Through Reduction In The Socialized Costs Of Uncollectable Bills.

Assisting at-risk PG&E customers who are in arrears on their bills will not only help not only those customers who receive the assistance but will also provide a benefit to all PG&E customers, who would otherwise bear the costs of those arrearages. Residential electricity arrearages and residential and non-residential gas arrearages are eventually placed in the Ratepayer Utility Bill Assistance (“RUBA”) account.¹⁰⁴ These RUBA account balances, plus interest, are ultimately collected annually through Public Purpose Program charges,¹⁰⁵ which are paid by all electric and gas customers.¹⁰⁶ Thus, to the extent that Citizens’ direct bill-paying assistance reduces unpaid bills, this will reduce the amount that is collected from all customers, offering all PG&E customers savings compared to a scenario without the Investment Program and the bill-paying assistance that it offers.

(3) Citizens’ Commitment To Direct Bill-Paying Assistance Is Well Aligned With The Goals Of The Affordability Rulemaking 18-07-006. (Scoping Issue 6)

The record demonstrates that Citizens’ contractual commitment to provide direct bill-paying assistance for at-risk PG&E customers (estimated to be over \$450 million), is fully consistent with, and directly advances, the Commission’s objectives in Rulemaking (R.) 18-07-006 (the “Affordability Rulemaking”). The assistance is contractually dedicated to PG&E customers most in need, with a focus on disadvantaged and low-income communities, consistent with the Commission’s statutory and policy mandates under SB 350, the Commission’s ESJ Action Plan, and Governor Newsom’s Executive Order N-5-24.¹⁰⁷

¹⁰⁴ Exh. PGE-02 (Rebuttal Testimony), p. 3-10, lines 24-26.

¹⁰⁵ *Id.*, p. 3-10, lines 26-29.

¹⁰⁶ *Id.*, p. 3-10, lines 29-30.

¹⁰⁷ Exh. PGE-01 (Amended Prepared Testimony), p. 5-2, lines 23-30; *id.*, p. 5-16, line 1 to p. 5-18, line 5; Exh. PGE-02 (Rebuttal Testimony), p. 1-9, line 9 to p. 1-11, line 30.

The Affordability Rulemaking was established to develop a framework and principles to identify and define affordability criteria, and to assess the impact of Commission proceedings on affordability for utility customers.¹⁰⁸ Citizens' commitment is specifically designed to provide material, incremental bill-paying assistance to at-risk and low-income PG&E customers, thereby directly supporting the ability of these households to pay for essential utility service, consistent with the Commission's definition of affordability.¹⁰⁹

The sustained, predictable stream of support provided by a fully implemented Investment Program will target those most in need, and will be incremental to existing programs, providing a high-impact benefit that aligns with the Affordability Rulemaking's focus on assessing the cumulative impact of proceedings on vulnerable households.¹¹⁰

The Investment Program also provides a meaningful response to Governor Newsom's Executive Order N-5-24, which directed the Commission to examine the benefits and costs to electric ratepayers of affordability programs and to seek funding sources other than customer rates.¹¹¹ Citizens' commitment is funded entirely from after-tax cash flow and is designed to ensure against increases in rates for other customers, directly fulfilling the Governor's policy direction and the Affordability Rulemaking's intent to seek innovative, non-ratepayer-funded solutions to the affordability crisis.¹¹²

(4) By Committing to Incremental Bill-Paying Assistance To PG&E Customers In Need, Citizens Will Help Advance The Commission's Environmental And Social Justice Action Plan. (Scoping Issue 7)

The Commission's ESJ Action Plan calls for prioritizing actions that reduce the economic burden of the energy transition on ESJ communities, and for ensuring that mitigating the

¹⁰⁸ Exh. PGE-02 (Rebuttal Testimony), p. 1-10, lines 9-19.

¹⁰⁹ *Id.*, p. 1-10, line 20 to p. 1-11, line 4.

¹¹⁰ *See* Exh. PGE-02 (Rebuttal Testimony), p. 1-10, lines 9-12.

¹¹¹ *Id.*, p. 1-9, line 20 to p. 1-10, line 3.

¹¹² *Id.*, p. 1-10, lines 3-8.

cumulative impacts of rate increases on the most burdened households is a central consideration in all Commission activities.¹¹³ Citizens’ commitment to provide over \$450 million in direct bill-paying assistance—incremental to existing programs and delivered without any expected increase in rates—directly advances these ESJ Action Plan objectives.

Citizens’ charitable commitment is contractually dedicated to providing direct bill-paying assistance to PG&E customers in need and will bring particular benefits to disadvantaged and low-income communities.¹¹⁴ The record confirms that these funds will flow predominantly to communities that are both economically vulnerable and historically marginalized, including those identified as “ESJ communities” by the Commission.¹¹⁵

As detailed further above, the Investment Program is designed so that customers as a whole will pay no more than they would under traditional PG&E financing. As also discussed above, Citizens’ capital cost recovery is contractually capped at the PG&E Representative Rate, and Citizens has agreed to forgo recovery of its own incremental costs in rates. Thus, Citizens’ substantial bill-paying assistance will be achieved without any expected increase in rates for other customers, ensuring that the benefits are not offset by new burdens on customers.

The ESJ Action Plan emphasizes the need to “mitigate and eliminate harms to these communities” and to “focus resources on communities that have been underserved.”¹¹⁶ By providing a large, predictable, and sustainable stream of bill-paying assistance to those most burdened by rising rates, Citizens’ commitment directly supports the ESJ Action Plan’s priority of reducing the cumulative impact of rates on the most burdened households.¹¹⁷

Citizens’ fixed and levelized rate structure ensures that assistance will be stable and predictable over the 30-year lease terms, enabling long-term planning and sustained support for

¹¹³ *Id.*, p. 1-11, lines 5-11; Exh. PGE-01 (Amended Prepared Testimony), p. 8-16 (citing ESJ Action Plan, ver. 2.0, at 9, 22).

¹¹⁴ Exh. PGE-01 (Amended Prepared Testimony), p. 8-17.

¹¹⁵ *See id.*

¹¹⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 8-16 (quoting ESJ Action Plan, ver. 2.0, p. 9).

¹¹⁷ Exh. PGE-01 (Amended Prepared Testimony), p. 8-16 (quoting ESJ Action Plan, ver. 2.0, p. 22).

affordability in ESJ communities.¹¹⁸ Annual reporting and Commission oversight further ensure transparency and accountability in the delivery of these benefits.¹¹⁹

By focusing on incremental assistance to customers in need, without any expected increase in rates, Citizens' commitment to direct bill-paying assistance will actively advance the Commission's ESJ Action Plan. The Investment Program, like those Commission-approved Citizens transactions that preceded it, provides a model for equitable, sustainable, and accountable support for California's most vulnerable utility customers.

(5) The Commission And Stakeholders Will Have Ample Oversight Over Citizens' Commitment To Direct Bill-Paying Assistance. (Scoping Issue 3.C)

The record establishes that the Commission and stakeholders will have robust and effective oversight over Citizens' commitment to provide direct bill-paying assistance to PG&E customers in need. The commitment is a legally enforceable obligation reflected in the form of Entitlements Lease attached to the DCOA. PG&E is obligated to reasonably administer, and, as necessary, to enforce these contractual commitments on behalf of customers. Finally, the Commission has jurisdiction over PG&E's administration of the contract, and the Commission's ability to exercise its oversight, with active stakeholder participation, will be facilitated by required annual reporting on the fulfillment of the charitable giving commitment.

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¹¹⁸ Exh. PGE-01 (Amended Prepared Testimony), p. 6-11, line 27 to p. 6-12, line 2.

¹¹⁹ *Id.*, p. 2-26, lines 27-28; Amended Application, p. 15; *id.*, Attachment 1 (DCOA), Exhibit A (Form of Entitlements Lease), § 5.3.; Exh. Citizens-01 (Smith Rebuttal Testimony), p. 11, lines 19-22.

(a) Citizens' Contractual Commitment

The form of Entitlements Lease expressly provides that failure by Citizens to make the required charitable contributions constitutes an event of default, triggering dispute resolution procedures, including binding arbitration and the right to seek specific performance.¹²⁰

(b) Annual Reporting and Transparency

The Investment Program includes annual informational filings to the Commission, detailing the amount and recipients of Citizens' annual charitable contributions.¹²¹ Just as they have in the case of Citizens' prior Sycamore investment with SDG&E, these annual reports will provide the Commission and interested stakeholders with timely and complete information about Citizens' performance in carrying out its contractual obligation to fund direct bill-paying assistance.¹²²

(c) Commission Oversight Authority

The Commission will retain full authority to oversee PG&E's administration of the agreements and to investigate or initiate proceedings if any concern were to arise about the reasonableness of PG&E's contract administration.¹²³ Transparency will be assured by the annual filing requirements modeled on the Commission's decision in the Sycamore transaction (D.19-03-024). Stakeholders, including intervenors in this Proceeding, will have the ability to file petitions for modification or complaints at the Commission if they believe Citizens' obligations are not being met.¹²⁴ The Commission has ample authority to hold PG&E

¹²⁰ Exh. PGE-02 (Rebuttal Testimony), p. 2-7, fn. 20.

¹²¹ Exh. PGE-01 (Amended Prepared Testimony), p. 2-26, lines 27-28; Amended Application, p. 15; *id.*, Attachment 1 (DCOA), Exhibit A (Form of Entitlements Lease), § 5.3; Exh. Citizens-01 (Smith Rebuttal Testimony), p. 11, lines 19-22.

¹²² Exh. PGE-01 (Amended Prepared Testimony), p. JPK-8, line 19 to p. JPK-9, line 2.

¹²³ Exh. PGE-02 (PG&E Rebuttal Testimony), p. 2-7, lines 8-10.

¹²⁴ *Id.*, p. 2-7, line 10 to p. 2-8, line 2.

accountable if PG&E fails to reasonably administer and enforce its contractual rights on behalf of customers.¹²⁵

(d) Stakeholder Engagement, Transparency, and Public Scrutiny

The record demonstrates that Citizens has a history of collaborating with stakeholders in local communities in the design and distribution of charitable benefits.¹²⁶ In fact, a major motivating factor in the decision by PG&E and Citizens to amend the Investment Program and re-file this Application was the stakeholder feedback that led Citizens to decide ultimately to commit its charitable giving associated with the Investment Program exclusively to direct bill-paying assistance for at-risk PG&E customers.¹²⁷ The annual reporting process, combined with the Commission's oversight and the ability of stakeholders to participate in proceedings, ensures that the process will remain transparent and responsive to community needs.

(e) Precedent for Oversight of Similar Arrangements

The Commission has previously approved similar arrangements—including power purchase agreements and the prior Citizens/SDG&E transactions—where it has exercised oversight through the regulated utility's administration of the contract, regular reporting, and stakeholder participation.¹²⁸ It is appropriate to follow the same model of oversight in the context of the proposed Investment Program.

The combination of a clear and unambiguous contract commitment, contractual enforceability, annual reporting, Commission jurisdiction over PG&E, stakeholder participation, and established precedent will ensure that the Commission and stakeholders will have adequate and effective oversight over Citizens' commitment to direct bill-paying assistance.

¹²⁵ *Id.*, p. 2-8, lines 2-5.

¹²⁶ Exh. Citizens-01 (Smith Rebuttal Testimony), p. 9, lines 6-21.

¹²⁷ Exh. PGE-01 (Amended Prepared Testimony), p. 5-13, lines 6-14.

¹²⁸ Exh. PGE-02 (Rebuttal Testimony), p. 2-7, line 4 to p. 2-9, line 2.

(6) Any Transfer Of An Entitlements Lease From Citizens To A Third Party Is Expected To Retain The Direct Bill-Paying Assistance And Related Customer Benefits. (Scoping Issue 7)

The record demonstrates that the customer benefits of direct bill-paying assistance are expected to be preserved even if Citizens assigns or transfers its interest in an Entitlements Lease resulting from the Investment Program to a third party.

First, the form of Entitlements Lease contains explicit provisions restricting assignment to protect PG&E's customers' interests. Citizens may not assign its interest in an Entitlements Lease without PG&E's prior written consent (not to be unreasonably withheld), except in limited circumstances such as collateral assignment for financing or certain corporate transactions. Any third-party assignee must assume all of Citizens' obligations under the lease.¹²⁹

Second, the form of Entitlements Lease expressly requires that any third-party assignee continue making the charitable contributions required by Section 5.3.1 of the form of Entitlements Lease.¹³⁰ Even in the event of foreclosure or a transfer in lieu of foreclosure, the Minimum Annual Bill-Paying Assistance Contributions must continue (subject to a floor of 50% of applicable net after-tax cash flow in such cases).¹³¹

Third, to further protect customer benefits, PG&E retains a right of first refusal on any proposed assignment by Citizens of all or any portion of its interest in an Entitlements Lease (other than in connection with certain financing activities or foreclosure).¹³²

Finally, the Commission will continue to receive annual reports on the distribution of bill-paying assistance under the Investment Program, regardless of whether Citizens or a third party holds the lease. As discussed above, the Commission retains oversight through PG&E's

¹²⁹ Exh. PGE-02 (Rebuttal Testimony), p. 2-14, line 16 to 2-15, line 13 (citing Amended Application, Exhibit A to Attachment (Form of Entitlements Lease) Section 11.2).

¹³⁰ Exh. PG&E-02 (Rebuttal Testimony), p. 2-15, lines 1-3 (citing Amended Application, Exhibit A to Attachment 1 (Form of Entitlements Lease) § 11.2).

¹³¹ *Ibid.*

¹³² Exh. PGE-02 (Rebuttal Testimony), p. 2-15, lines 4-5 (citing Amended Application, Exhibit A to Attachment 1 (Form of Entitlements Lease) § 11.4).

administration of the contract and can take action if the charitable commitment is not being fulfilled by any assignee.

In sum, the Investment Program ensures that even in the unlikely event that Citizens' interest were to be transferred to a third party, the obligation to provide direct bill-paying assistance and related customer benefits will continue, preserving a key public interest benefit of the Investment Program.

c. Locking Citizens' Rate Of Return For The Term Of An Entitlements Lease Provides Both Rate Stability And A Valuable Hedge Against The Potential For Future Rate Increases. (Scoping Issue 2.B)

The record in this proceeding demonstrates that locking Citizens' rate of return for the full term of each Entitlements Lease under the Investment Program delivers two principal benefits: (1) it ensures rate stability for customers, and (2) it provides a meaningful hedge against the risk of future rate increases. These benefits are well-supported by the evidence and are consistent with prior decisions by this Commission and FERC and established ratemaking principles.

(1) Locking the Rate of Return Provides Rate Stability

The form of Entitlements Lease requires Citizens' capital cost recovery to be set at a fixed and levelized amount for the entire 30-year lease term, with the rate of return locked at the FERC-approved rate in effect at the time the lease is executed.¹³³ This means that the annual capital cost revenue requirement will remain unchanged throughout the lease, giving customers predictable and stable rates over the long term. The fixed and levelized structure is specifically designed to avoid fluctuations in annual charges that would otherwise occur if Citizens' rate of return were subject to periodic adjustment.

¹³³ Amended Application, Attachment 1, Exhibit A (Form of Entitlements Lease), § 4.3.2. *See also* Exh. PGE-01 (Amended Prepared Testimony), p. 2-20, lines 1-5.

**(a) Prior Commission and FERC Decisions
Approving the Citizens Fixed and Levelized Rate
Structure**

Both this Commission and FERC have recognized the public benefit of rate stability provided by fixed, levelized cost recovery in prior Citizens transactions, including the Sunrise and Sycamore transactions with SDG&E. The Commission has found that this approach protects customers from changes in capital costs caused by market fluctuations and provides tangible benefits by ensuring that rates remain stable and predictable over time.¹³⁴ FERC likewise determined that Citizens' fixed and levelized recovery of its capital costs in a similar transaction "is expected to benefit consumers by providing rate stability and protection against potential capital cost increases over time."¹³⁵ As discussed further in Section III.F.1.c.2, below, FERC also issued a Declaratory Order on the Investment Program during the pendency of this Proceeding and found that a fixed and levelized rate for Citizens to be reasonable.¹³⁶

(b) Intergenerational Equity and Cost Allocation

The fixed and levelized cost recovery method promotes intergenerational equity among ratepayers. By spreading the recovery of cost of the investment evenly over the 30-year lease term, customers who use the asset in different years pay a consistent amount for both the return of and return on the investment. This approach for a portion of PG&E's transmission assets avoids front-loading costs onto early customers (as would arise under traditional rate-of-return financing of utility rate-based capital investment) and provides a fair allocation of costs across generations of customers.¹³⁷

¹³⁴ See Exh. PGE-01 (Amended Prepared Testimony), p. 8-18 (citing D.19-03-024 at 16 and D.11-05-048 at 18-19); pp. 8-24 to 8-25 (citing D.11-05-048 at 18-19).

¹³⁵ Exh. PGE-01 (Amended Prepared Testimony), p. 8-18 (citing *Citizens S-Line Transmission LLC*, 175 FERC ¶ 61,046 at P 25 (2021)).

¹³⁶ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 39.

¹³⁷ See Exh. PGE-01 (Amended Prepared Testimony), p. 8-24.

(2) Locking the Rate of Return Provides a Valuable Hedge Against Future Rate Increases

Locking Citizens' rate of return for the lease term is a financial hedge that shields customers from future increases in the cost of capital. If market interest rates or PG&E's authorized return on equity rise after the lease is executed, customers under the Citizens lease nevertheless will continue to pay the lower, locked-in rate, and they will be protected against the higher costs. This structure effectively acts as a hedge, protecting customers from the risk of future rate increases that could result from changes in financial markets or regulatory decisions.¹³⁸ The record shows that both interest rates and utility returns on equity have fluctuated significantly over time, and that future increases are possible given current economic uncertainty.¹³⁹ In fact, referencing a historic "Index of Economic Policy Uncertainty," Citizens' witness, former Massachusetts Commissioner Susan Tierney, notes that "we are currently in a period of relatively high economic policy uncertainty, comparable to the levels of uncertainty experienced early in the COVID-19 pandemic, and with lower volatility than in the 2011 and 2019 periods when the SDG&E/Citizens' transactions were approved by the Commission."¹⁴⁰ The testimony includes historical charts and analysis showing that interest rates and returns on equity have varied over multi-decadal periods, and that PG&E's current return on equity is among the lowest in decades.¹⁴¹ While it is possible that PG&E's FERC-authorized return on equity could be reduced in the future, in which case the locked-in Citizens rate might be higher than what PG&E would otherwise have recovered, the total impact on transmission rates recovered through the CAISO tariff will be minimal, and the hedge has inherent value in mitigating uncertainty even in that scenario.¹⁴² As Dr. Tierney explains, "[t]he locked-in portion

¹³⁸ See Exh. PGE-01 (Amended Prepared Testimony), pp. 8-22 to 8-23.

¹³⁹ See Exh. Citizens-02 (Tierney Rebuttal Testimony), p. 7, line 3 to p. 10, line 13.

¹⁴⁰ Exh. Citizens-02 (Tierney Rebuttal Testimony), p. 9, lines 7-11.

¹⁴¹ See Exh. PGE-01 (Amended Prepared Testimony), pp. 8-20 to 8-22; Exh. Citizens-02 (Tierney Rebuttal Testimony), p. 8, line 1 to p. 10, line 13.

¹⁴² Exh. PGE-01 (Amended Prepared Testimony), pp. 8-22 to 8-23.

of the revenue requirement is analogous to a small annuity within a diverse investment portfolio. While the ROE for the majority of CAISO transmission assets [in PG&E's portfolio] will fluctuate with the market, the fixed-rate structure of the [Entitlements Leases with Citizens] provides stability and predictability for a small subset. . . This approach reflects a common and prudent risk-mitigation strategy.”¹⁴³

In its decision approving the Sycamore transaction (D.19-03-024), the Commission explicitly recognized that rate stability provisions of the Citizens transmission business model provide tangible customer benefits, because they serve as a form of insurance against future increases in capital costs.¹⁴⁴ The Commission has found that this approach is not adverse to the public or to ratepayers and that only the passage of time will reveal the full extent of the benefit.¹⁴⁵

d. The Investment Program Benefits Customers By Providing A Diverse Source Of Capital To Accelerate Needed Investments Without Negatively Impacting PG&E's Financial Health. (Scoping Issue 2.C)

The record demonstrates that the Investment Program will benefit PG&E's customers by providing a diverse source of capital to accelerate critical infrastructure investments, while ensuring that PG&E's financial health is not negatively impacted.

PG&E's capital needs are substantial, driven by California's decarbonization and risk reduction goals, load growth, and the need to ensure the continued safety, reliability, and health of the existing electricity delivery system.¹⁴⁶ The Investment Program provides PG&E with

¹⁴³ *Id.*, p. 8-23.

¹⁴⁴ D.19-03-024, p. 16 (“Regardless, Citizens’ fixed capital costs provide rate stability to ratepayers. They also protect ratepayers from changes in money costs caused by fluctuations in the market. Furthermore, the rate stability and protection from market fluctuations provide tangible benefits to ratepayers.” *See also* Exh. Citizens-02 (Tierney Rebuttal Testimony), p. 11, line 4 to p. 12, line 6.

¹⁴⁵ Exh. PGE-01 (Amended Prepared Testimony), p. 6-9, lines 10-24 (quoting D.11-05-048 at 16-17).

¹⁴⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 1-8, line 18 to p. 1-9, line 10.

prepaid rent for the leased Entitlements, allowing PG&E to accelerate critical infrastructure investments that support these needs and California's policy objectives.¹⁴⁷ Without this source of capital, PG&E would need to defer work or seek additional capital in ways that could negatively impact its financial health and increase customer rates.¹⁴⁸

The Investment Program will allow PG&E to access capital from Citizens, supplementing traditional sources and enhancing financial flexibility.¹⁴⁹ Expert testimony confirms that financial flexibility and access to diverse capital sources benefit customers by lowering the risk of over-reliance on any one source, reducing the overall cost of funds, and supporting PG&E's ability to meet its obligation to serve safely and reliably.¹⁵⁰

Importantly, the Investment Program will provide this needed capital without impacting PG&E's financial health, credit metrics, or cost of capital.¹⁵¹ The prepaid rent is not recorded as debt or equity, and does not affect PG&E's capital structure or credit profile.¹⁵² Customers are protected from adverse financial impacts, and the program is designed to be neutral to PG&E's balance sheet, cash flow, and earnings.¹⁵³

(1) The Only Viable Alternative To The Investment Program Is Financing Under PG&E's Traditional Debt And Equity Capital Structure.

The only viable alternative to the Investment Program is the status quo, in which PG&E would finance the underlying transmission investments using its required mix of debt and equity, as authorized by FERC.¹⁵⁴ As discussed in Section III.B.1.d, above, Section 851 of the Public

¹⁴⁷ *Id.*, p. 1-10, lines 4-20.

¹⁴⁸ *Id.*, p. 1-11, lines 5-13; Exh. PGE-02 (Rebuttal Testimony), p. 1-3, lines 1-20.

¹⁴⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 1-11, lines 1-13.

¹⁵⁰ *Id.*, Ch. 9, p. 3, line 5 to p. 4, line 3; *id.*, p. 17, line 4 to p. 18, line 9.

¹⁵¹ Exh. PGE-01 (Amended Prepared Testimony), Ch. 9, p. 15, line 14 to p. 16, line 2; *id.*, p. 3, lines 14-16; *id.*, p. 19, lines 5-18; *id.*, p. 1-11, lines 5-8.

¹⁵² Exh. PGE-02 (Rebuttal Testimony), p. 3-4, line 24 to p. 3-5, line 19.

¹⁵³ *Id.*, p. 3-7, lines 20-22.

¹⁵⁴ Exh. PGE-02 (Rebuttal Testimony), p. 1-2, lines 9-14.

Utilities Code requires the Commission to determine whether the proposed transaction is not adverse to the public interest, but does not require a showing that the proposed transaction is superior to speculative or infeasible alternatives.

The record shows that the only reasonably available alternative – the default approach of traditional financing under PG&E’s FERC-authorized capital structure – would not provide the incremental benefits of the Investment Program, in particular the expected \$450 million in bill-paying assistance for at-risk customers. Likewise, the status quo approach would not provide capital on the same timeframe to accelerate needed investments. TURN, through its testimony proposing to limit Citizens’ rate of return, in effect asks this Commission to compare the Investment Program to other alternatives, including debt-only financing.¹⁵⁵ However, the record establishes that a debt-only financing alternative is not available to PG&E for these transmission investments.¹⁵⁶ Securitization, a form of debt-only financing, is reserved for extraordinary circumstances (e.g., wildfire or storm recovery) and is not a standard or available tool for routine transmission investment.¹⁵⁷ The only viable alternatives are (a) traditional debt and equity financing at PG&E’s FERC-authorized cost of capital, or (b) the Investment Program, which is structured to be rate-neutral and to provide additional customer benefits.¹⁵⁸

e. The Investment Program Will Not Impact Whether Or When The Underlying Transmission Investments Are Constructed. (Scoping Issue 2.C)

The record demonstrates that approval or disapproval of the Investment Program will not affect whether or when the underlying transmission projects are constructed. The evidence shows that (1) each transmission project subject to an Entitlements Lease is or will be planned, permitted, and scheduled for development by PG&E in the ordinary course of business,

¹⁵⁵ Exh. TURN-01E (Prepared Testimony of Jennifer Dowdell), p. 4, lines 6-8; *id.* p. 6, lines 7-12.

¹⁵⁶ Exh. PGE-02 (PG&E Rebuttal Testimony), p. 3-3, line 6 to p. 3-4, line 4.

¹⁵⁷ *Id.*, p. 3-3, line 26 to p. 3-4, line 4.

¹⁵⁸ *Id.*, p. 1-2, lines 9-14.

regardless of the Investment Program; (2) the Investment Program is structured so that only fully constructed and operational projects will be eligible to be subject to an Entitlements Lease; and (3) PG&E's obligation or ability to construct the underlying transmission projects is not dependent on the capital provided by Citizens through the Investment Program. Thus, the Investment Program is a financing mechanism that does not alter PG&E's project development plans, timelines, or regulatory obligations with respect to the development of the underlying transmission projects.

(1) Each Of The Transmission Projects That Would Be Subject To An Entitlements Lease Is Expected To Be Developed In The Same Manner And On The Same Timeline Whether Or Not The Investment Program Is Approved and Implemented. (Scoping Issue 3.B)

The transmission projects eligible for Entitlements Leases are projects that PG&E plans to construct and place into service in the ordinary course of business, regardless of whether the Investment Program is approved.¹⁵⁹ The projects must be fully permitted and operational at the time of lease execution, and PG&E retains full ownership, operational responsibility, and control over project development, design, permitting, engineering, procurement, construction, and maintenance.¹⁶⁰ Only projects that have received all necessary regulatory approvals and have achieved commercial operation will be eligible to be subject to an Entitlement Lease.¹⁶¹ The testimony further clarifies that PG&E plans to build these projects in the same way and on the same timeline with or without the proposed Citizens investment.¹⁶² In short, approval or disapproval of the Investment Program will not affect the regulatory approvals, construction, or timing of the underlying transmission projects.

¹⁵⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 1-4, lines 9-12.

¹⁶⁰ *Id.*, p. 1-4, lines 9-12, 18-21.

¹⁶¹ *Id.*, p. 2-8, lines 3-8 (citing DCOA § 3.4(a), § 4.3(a)(iii), § 4.3(b)(iv)).

¹⁶² Exh. PGE-02 (Rebuttal Testimony), p. 1-8, lines 17-19.

2. The Investment Program Is Closely Modeled On Prior Transmission Investments In California That Were Approved By The Commission And By FERC. (Scoping Issue 4)

In the Sunrise and Sycamore transactions approved in D.11-05-048 and D.19-03-024, respectively, the Commission authorized SDG&E to lease entitlements to Citizens in high-voltage transmission projects owned by SDG&E. The proposed Investment Program in this case embeds the same set of customer protections and public benefit commitments approved by the Commission in those two prior cases, and it also expands the protections in a clearly beneficial manner from a customer perspective.¹⁶³ Moreover, the proposed Investment Program is similarly structured to the lease of Entitlements approved by the Commission in D.16-08-017 between SCE and Morongo Transmission LLC (“Morongo”).¹⁶⁴

In both the Sunrise and the Sycamore decisions, the Commission found that the transactions were “not adverse to the public interest” and, in fact, benefitted the public interest.¹⁶⁵ Similarly, the Commission found the SCE-Morongo transaction to be “not adverse to the public interest.”¹⁶⁶ The Commission also found Citizens’ investments in those prior cases would provide significant benefits, including substantial charitable contributions to disadvantaged communities and low-income families in the project areas, rate stability, and the ability of the utility’s customers to continue using the assets after the leases end and the assets

¹⁶³ Exh. PGE-01 (Amended Prepared Testimony), p 1-2, lines 15-30 (citing D.11-05-048 (Sunrise Section 851 Decision and D.19-03-024 (Sycamore Section 851 Decision).

¹⁶⁴ D.16-08-017, p. 46 (Ordering Paragraph (OP) 5).

¹⁶⁵ See D.19-03-024, pp. 2, 18, 20, 25; D.11-05-048, pp. 1-2, 22-23.

¹⁶⁶ D.16-08-017, p. 39 (“We find that the proposed transaction is not adverse to the public interest and should be approved.” (citing D.11-05-048 (Sunrise Section 851 Decision) at 9; D.09-07-035; and D.09-04-013 for the standard that “that the subject transaction should not be adverse to the public interest and that transactions that are in the public interest are to be encouraged.”) See also, *id.*, p. 45 (COL 8).

are fully depreciated.¹⁶⁷ The proposed Investment Program in this case is closely modeled on these prior, Commission-approved transactions.¹⁶⁸

a. The Investment Program Has Substantially Similar Features To The Previously Approved Transactions.

The proposed Investment Program between PG&E and Citizens is structured on the same core business model and legal framework as the previously approved Sunrise and Sycamore transactions, including the following aspects:

- **Lease Structure:** Like the Sunrise and Sycamore transactions, the Investment Program involves PG&E leasing Entitlements under the Internal Revenue Code Section 467¹⁶⁹ to transmission projects to Citizens for 30-year terms, with PG&E retaining full ownership and operational responsibility for the assets. The Entitlements revert to PG&E at lease end, free and clear of encumbrances.¹⁷⁰ Each of the prior transactions, like the Investment Program, features a fixed and levelized rate structure.¹⁷¹
- **Ratepayer Protections:** The capital cost component of Citizens' FERC-jurisdictional rates is capped at the Representative Rate, which is calculated using the same modeling methodology as in the prior SDG&E transactions.¹⁷² This is designed to ensure that customers pay no more than they would have if PG&E financed the projects itself.¹⁷³
- **Charitable Commitment:** Citizens is contractually obligated to dedicate a substantial and escalating portion of its after-tax profits from the Investment Program to direct bill-

¹⁶⁷ See, e.g., D.11-05-048, p. 12 (noting charitable contributions are a significant public benefit); D.19-03-024, p. 16 (noting benefits associated with rate stability); *id.* pp. 19-20 (noting net benefit to customers of continued use of assets following leases).

¹⁶⁸ Exh. PGE-01 (Amended Prepared Testimony), p. 1-12, lines 8-9.

¹⁶⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 2-24, lines 15-20.

¹⁷⁰ *Id.*, p. 2-24, lines 27-29; *id.*, p. 5-7, line 25 to 5-10, line 3.

¹⁷¹ *Id.*, p. 5-12, lines 1-4.

¹⁷² Exh. PGE-01 (Amended Prepared Testimony), p. 1-13, lines 21-26; *id.*, p. 1-14, lines 6-10; *id.*, p. 2-17, lines 20-23; p. 2-19, lines 3-5; *id.*, p. 3-5, lines 15-20.

¹⁷³ *Id.*, p. 1-14, lines 1-6; *id.*, p. 6-6, lines 3-11.

paying assistance for PG&E customers in need. This is similar to the 50% commitment by Citizens in the Sunrise and Sycamore transactions, but at substantially higher levels because of the scaled-up scope of the investment in the present case.¹⁷⁴

- **FERC Approval:** As with the prior transactions, Citizens' rates and cost recovery are subject to FERC review and approval, and Citizens' subsidiary (in this case, Citizens Pacific Transmission LLC) will be a FERC-jurisdictional public utility and a Participating Transmission Owner in CAISO.¹⁷⁵
- **Project Eligibility:** Any transmission project subject to an Entitlements Lease must be fully permitted, operational, and eligible for cost recovery through the CAISO high-voltage TAC, just as in the prior transactions.¹⁷⁶

Additionally, the Investment Program is similar to the prior Entitlements lease between SCE and Morongo under Section 851. The SCE-Morongo transaction involved Entitlements for up to \$400 million in a single transaction,¹⁷⁷ so involved substantially higher amounts of Entitlements for a single transaction than the anticipated average of \$200 million for each Investment Tranche that is part of this Investment Program. The size of the SCE-Morongo transaction is closer to the total amount of the proposed Investment Program, assuming each Investment Tranche is fully implemented, demonstrating that the relatively smaller size of the SDG&E-Citizens transactions was neither a requirement for the Commission's use of the normal Section 851 standard of review nor for approval of the Entitlements lease business model more generally. The SCE-Morongo transaction also involved a 30-year lease of the Entitlements,¹⁷⁸ the same duration of the proposed Entitlements Leases in this Investment Program. As with the SDG&E-Citizens transactions, FERC determined that fixing and levelizing Morongo

¹⁷⁴ Exh. PGE-01 (Amended Prepared Testimony), p. 2-16, line 16 to p. 2-17, line 4.

¹⁷⁵ Exh. PGE-01 (Amended Prepared Testimony), p. 5-7, line 29 to p. 5-8, line 2; *id.*, p. 5-9, lines 6-9

¹⁷⁶ Exh. PGE-01 (Amended Prepared Testimony), p. 5-7, line 25 to p. 5-10, line 3.

¹⁷⁷ D.16-08-017, p. 46 (OP 5).

¹⁷⁸ *Id.*

Transmission LLC’s revenue requirement over the 30-year duration of the lease was reasonable.¹⁷⁹ Also like the Investment Program at issue in this case, the SCE-Morongo transaction “caps the capital cost rate that Morongo Transmission LLC can recover from ratepayers in transmission rates to the capital cost recovery rate that SCE would charge ratepayers for Morongo Transmission LLC’s capital investment.”¹⁸⁰ The Commission found there that this structure made the SCE-Morongo lease “ratepayer neutral.”¹⁸¹ Like the other leases of Entitlements the Commission has approved, the Commission recognized the SCE-Morongo transaction offered benefits that were in the public interest – specifically, in that case, SCE entered into the lease “in consideration of the right-of-way agreement” that SCE needed from the Morongo Tribe in order to construct the underlying transmission line project.¹⁸²

b. The Differences Between The Investment Program And The Previously Approved Citizens Transactions Provide Even Stronger Protections For Customers, Thanks To The Scaling Of The Previous Model.

While the Investment Program is closely modeled on the prior Sunrise and Sycamore transactions with SDG&E, the proposal in this case also incorporates several enhancements that provide yet additional, material benefits to customers, made possible by the scaling of the model:

- **Escalating Charitable Commitment:** Citizens’ commitment to dedicate after-tax cash flows to bill-paying assistance increases with each tranche of investment—from 50% for the first \$200 million up to 90% for the fifth \$200 million—resulting in an expected total of over \$450 million in direct bill-paying assistance for at-risk PG&E customers, a substantially greater level of public benefit compared to approximately \$20 million total contributions through the end of 2024 as a result of the prior SDG&E transactions.¹⁸³

¹⁷⁹ *Morongo Transmission LLC*, 148 FERC ¶ 61,139, P 20.

¹⁸⁰ D.16-08-017, p. 38.

¹⁸¹ *Id.*, p. 39.

¹⁸² *Id.*, p. 40.

¹⁸³ Exh. PGE-01 (Amended Prepared Testimony), p. JPK-7, lines 7-11; *id.*, JPK-8, lines 11-14.

- **Waiver of Incremental Cost Recovery:** Unlike the prior transactions, Citizens has agreed to forgo recovery in rates of its upfront and ongoing incremental costs (including administrative, development, and regulatory costs), further reducing the cost to customers.¹⁸⁴
- **Multi-Project, Multi-Lease Structure:** The Investment Program is designed to accommodate a larger scale of investment by allowing for multiple Investment Tranches and projects, providing greater flexibility and efficiency.¹⁸⁵ This multi-lease enhancement includes a new tiered approval process, including the use of both Tier 3 Advice Letters and annual informational filings, to ensure ongoing Commission oversight and stakeholder visibility into both project selection and the distribution of charitable benefits.¹⁸⁶

These enhancements are not only beneficial to customers but are a direct result of scaling the proven Citizens model to a larger, multi-year, multi-project investment program.

D. THE COMMISSION SHOULD GRANT PG&E’S REQUEST TO ENTER INTO THE FIRST ENTITLEMENTS LEASE WITH CITIZENS PURSUANT TO THE INVESTMENT PROGRAM. (SCOPING ISSUE 5)

The Commission should authorize PG&E to enter into the First Entitlements Lease with Citizens because the record of this Proceeding provides all information necessary to determine that such an authorization is not adverse to the public interest and will provide substantial, affirmative public benefits for the reasons described in Section III.C, above.

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¹⁸⁴ Exh. PGE-01 (Amended Prepared Testimony), p. 8-6.

¹⁸⁵ Exh. PGE-01 (Amended Prepared Testimony), p. 1-5, line 32 to p. 1-6, line 4.

¹⁸⁶ *Id.*, p. 2-26, line 13 to p. 2-27, line 19.

1. PG&E Has Identified A Definitive List Of Projects Meeting A Definitive Set Of Criteria From Which It Would Draw For Purposes Of The First Entitlements Lease.

The Amended Application includes a Master Project List¹⁸⁷ and a Proposed Project List for Option Period 1,¹⁸⁸ which together provide a comprehensive and definitive set of projects from which the First Entitlements Lease will be drawn. If the Commission issues a final decision approving the Amended Application by December 31, 2025, only projects on the Proposed Project List for Option Period 1 will be included in the First Entitlements Lease; if approval is after 2025, only projects on the Master Project List will be eligible.¹⁸⁹ This approach ensures that the Commission and stakeholders have full visibility into the specific projects under consideration and that all projects meet the established eligibility criteria described in Section II.A, above. Following each Entitlements Lease executed, including the first, PG&E has committed to making an informational submission to the Commission to inform the Commission and stakeholders.¹⁹⁰

E. THE COMMISSION SHOULD AUTHORIZE PG&E TO SUBMIT TIER 3 ADVICE LETTERS, FOLLOWING KEY STAKEHOLDER CONSULTATION, IN ADVANCE OF EXECUTION OF THE SECOND THROUGH FIFTH ENTITLEMENTS LEASES. (SCOPING ISSUES 3.A AND 3.C)

For Investment Tranches 2-5, PG&E proposes to use a Tier 3 Advice Letter process for obtaining further Commission review and approval of each specific Investment Tranche. The Tier 3 Advice Letter process will require PG&E to submit for Commission approval the specific projects to be included in each lease, along with confirmation that each project meets the

¹⁸⁷ See Amended Application, Attachment 2.

¹⁸⁸ *Id.*, Attachment 1 (DCOA), Exhibit B.

¹⁸⁹ Exh. PGE-01 (Amended Prepared Testimony), p. 2-9, lines 18-26.

¹⁹⁰ Amended Application, p. 34.

eligibility criteria and is consistent with the terms of the DCOA and the Commission's decision in this Proceeding.¹⁹¹

PG&E has also proposed several additional steps before it submits any of these Tier 3 Advice Letters. At least 30 days before filing a Tier 3 Advice Letter, PG&E will meet with interested stakeholders to inform them about the proposed Entitlements Lease, including the projects to be included.¹⁹² Notice will be sent to all parties to this proceeding.¹⁹³ PG&E then proposes to submit the Tier 3 Advice Letter at least 120 days before it anticipates executing each relevant Entitlements Lease.¹⁹⁴ This process ensures that the Commission retains full oversight and that stakeholders have the opportunity to review and comment on each Advice Letter before approval. Given these protections and the ability of interested parties to submit protests or responses to the filed Advice Letter, it is appropriate to limit the scope of each Tier 3 Advice Letter to evaluating whether the proposed Entitlements Lease is consistent with the terms of the DCOA, including the project eligibility criteria, and the Commission's decision in this Proceeding.¹⁹⁵ It is also appropriate for the Commission to dispose of each such Tier 3 Advice Letters within 120 days of it being submitted, given that period is consistent with or exceeds the time period for advice letters addressing similar transactions.¹⁹⁶

1. Advice Letters Are Appropriate Where, As Here, The Commission Would Have Approved The Investment Program As A Whole In A Formal Application Proceeding.

The Commission has long recognized that the Advice Letter process is appropriate for subsequent regulatory approvals where the Commission has already reviewed and approved the

¹⁹¹ Amended Application, p. 36.

¹⁹² *Id.*, p. 32.

¹⁹³ *Ibid.*

¹⁹⁴ *Ibid.*

¹⁹⁵ *Id.*, p. 33.

¹⁹⁶ *Id.*, p. 34.

overall framework of a program or transaction in a formal application proceeding.¹⁹⁷ Here, PG&E is seeking Commission approval of the Investment Program—including the governing DCOA, the form of Entitlements Lease, project eligibility criteria, and customer protections—through the instant Application under Section 851. The Commission will thus have the opportunity to review all material terms, ensure the program is not adverse to the public interest, and impose any necessary conditions.

Once the Commission has approved the Investment Program as a whole, it is both reasonable and efficient to authorize PG&E to seek approval of the specific projects to be included in the second through fifth Entitlements Leases via Tier 3 Advice Letters, following stakeholder consultation. First, the Commission has previously authorized the use of Advice Letters for subsequent approvals under Section 851 where the overall framework was approved in a formal proceeding, including in the telecommunications sector, master agreements for utility facility relocations, and prior utility lease transactions.¹⁹⁸ The Commission also regularly approves complex and high-value energy procurement contracts via Tier 3 Advice Letters.¹⁹⁹ Second, the proposed Advice Letter process conserves Commission and stakeholder resources by avoiding duplicative, resource-intensive application proceedings for each Investment Tranche, while still preserving Commission oversight and stakeholder input.

2. It Is Appropriate To Limit The Scope Of The Advice Letters To Demonstrating Consistency With The Criteria Set Forth In The Approved Investment Program.

If the Commission approves the overall Investment Program as proposed, it is reasonable and appropriate to limit the scope of subsequent Tier 3 Advice Letters to a showing that each proposed Entitlements Lease is consistent with the criteria and Investment Program framework

¹⁹⁷ See Amended Application, pp. 32-33; See also Commission General Order 96-B, General Rule 5.1(1).

¹⁹⁸ Exh. CA-05 (PG&E Response to Energy Division Data Request-001-Q005), pp. 3-4 (citing D.04-10-038, Appendix A at 1; Resolution G-3498 (Oct. 13, 2016); D.04-02-042).

¹⁹⁹ *Id.*, p. 4.

as approved by the Commission. This is a pragmatic approach, used by the Commission in many prior cases, that will ensure regulatory certainty and efficiency. As described in Section II.A., above, the DCOA and Form of Entitlements Lease set forth clear, objective criteria that each project must meet to be eligible for inclusion in an Entitlements Lease, including requirements related to operational status, voltage level, and regulatory approvals. The Advice Letter process would not permit any deviation from the customer protections, ratepayer safeguards, or eligibility criteria approved by the Commission in this Proceeding.

This approach will ensure that the Commission's review of each subsequent Entitlements Lease is focused, efficient, and consistent with the public interest determination made in this Proceeding. It also will provide regulatory certainty to PG&E, Citizens, and stakeholders, while preserving robust Commission oversight and stakeholder input opportunities. PG&E's proposal for a limited and expedited Tier 3 Advice Letter process strikes a careful balance. It will help conserve Commission resources compared to a process requiring future time and resource-intensive formal application proceedings for each tranche of the Investment Program. This tiered approach also reduces the Investment Program's regulatory and administrative costs, which will preserve more after-tax revenues to fund the Citizens' bill-paying assistance for at-risk PG&E customers.²⁰⁰

For the foregoing reasons, the Commission should approve PG&E's proposal to submit Tier 3 Advice Letters, following key stakeholder consultation as proposed in the Application, to provide transparency regarding the projects that would be subject to Entitlements Leases in the second through fifth option periods, in advance of execution of those leases. The Advice Letter process, as proposed, is consistent with Commission precedent, regulatory efficiency, and robust customer protections, and is appropriately limited to confirming consistency with the criteria and framework approved by the Commission in this Proceeding.

²⁰⁰ Exh. PGE-01 (Amended Prepared Testimony), p. 2-26, line 29 to p. 2-27, line 19.

F. FERC HAS JURISDICTION TO ENSURE THAT CITIZENS' TRANSMISSION RATE IS JUST AND REASONABLE UNDER FEDERAL LAW. (SCOPING ISSUE 8)

Section 851 contemplates a wide range of transactions, involving a range of utility facilities, including Commission-jurisdictional facilities and assets as well as facilities and assets that are subject to federal jurisdiction. In the typical Section 851 context, the Commission's public interest review will appropriately consider customer impacts of a proposed transaction, including the impact on a regulated utility's proposed rates.

This Application, however, involves only transmission-level assets. Rates for those transmission assets are within the exclusive jurisdiction of FERC under the FPA. In this context, it is appropriate for the Commission, in its consideration of a Section 851 Application, to defer to FERC to set rates for the transmission assets that are "just and reasonable" as required by the Federal Power Act. The purpose of the Commission's review under an Application seeking Section 851 approval for a transaction involving FERC-jurisdictional transmission assets is to review those aspects of the transaction that are within the Commission's jurisdiction. As applied here, the Commission can appropriately consider the non-rate aspects of the transaction, such as: (1) whether the transaction would impact PG&E's ability to serve retail customers; (2) whether the Investment Program would impact the development, operation, or maintenance of the transmission facilities subject to the lease; (3) whether the proposed benefits of the transaction, including direct bill-paying assistance to PG&E's customers in need estimated at over \$450 million, are in the public interest; and (4) whether providing immediate cost recovery to PG&E for its transmission investments in the form of prepaid rent will provide benefits in the public interest by allowing PG&E to accelerate needed investments to serve California retail customers and to advance California public policy. Each of these issues is addressed in Section III.C, above.

Although the rates to be recovered by Citizens under the Investment Program are subject to FERC's jurisdiction, PG&E and Citizens have provided relevant context in the record of this proceeding to demonstrate that the protections and benefits within this Commission's

jurisdiction, as described above, will be realized without any expected increase in transmission rates. Specifically, PG&E and Citizens have contractually agreed to cap Citizens' rate so that Citizens cannot request FERC to approve a revenue requirement higher than the modeled revenue requirement that PG&E would otherwise expect to recover for the same assets under its FERC-approved formula rate tariff, as further described in Section III.C.1.a, above.

In Scoping Issue 8, the Commission initially determined to review in this Proceeding the following question: "If granted, should Citizens be entitled to the proposed rate of return in PG&E's application?"²⁰¹ To the extent this question assumes that the Commission may review and establish a transmission rate for Citizens, it is premised on an error, since transmission rates are set exclusively by FERC, and not by this Commission. The Commission should recognize that FERC has exclusive jurisdiction to establish the transmission rate to be recovered by Citizens in relation to the Investment Program, and consequently, the Commission need not – indeed, *cannot* – determine Citizens' transmission rate. Rather, the Commission should consider that any rate established by FERC under the FPA will be just and reasonable, and thus in the public interest.

1. FERC Has Exclusive Jurisdiction To Determine And Set Citizens' Transmission Rate At A Level That Is Just And Reasonable.

The FPA grants FERC exclusive jurisdiction over the rates, terms, and conditions of interstate transmission of electric energy in interstate commerce.²⁰² The FPA draws a "bright line" between federal and state jurisdiction,²⁰³ reserving to the states authority over retail sales and local distribution, but not over transmission rates.

²⁰¹ Scoping Memo, p. 6.

²⁰² 16 U.S.C. §§ 824(d), 824(e); *New York v. FERC*, 535 U.S. 1, 18-22 (2002). *See also PUC of California v. FERC*, 900 F.2d 269, 274 (DC Cir. 1990) ("Cases are legion affirming the exclusive character of FERC jurisdiction where it applies.")

²⁰³ *FPC v. Southern California Edison Co.*, 376 U.S. 205, 215-16 (1964).

a. Preemption of State Regulation

The FPA preempts any state regulation that attempts to directly or indirectly set or review the rates, terms, or conditions of FERC-jurisdictional transmission service. Courts have held that even if state regulation is consistent with FERC policy, it is preempted if it covers the same ground or creates the potential for conflict, duplication, or overlap.²⁰⁴ Put simply, the FPA does not permit states to second-guess FERC's rate determinations or to substitute the state's determination of what would be just and fair in place of FERC's determination.²⁰⁵

The fact that the Commission does not have jurisdiction over the transmission rate does not impinge on the Commission's ability to review the Investment Program pursuant to Section 851,²⁰⁶ but that review is limited to ensuring that the transaction is not adverse to the public interest, as more specifically detailed in the scope of review described in Section III.B.1. Section 851 review does not (and legally cannot) confer authority to the Commission to set or approve FERC-jurisdictional transmission rates. FERC retains exclusive authority over the rates, terms, and conditions of transmission service.²⁰⁷ Any attempt by the Commission to set, cap, or review transmission rates would be preempted by FERC's authority under the FPA. This preemption would extend to any imposition of conditions or caps on the transmission rate, as urged by TURN. The FPA's "bright line" test means that if FERC has jurisdiction, the state cannot have

²⁰⁴ *Appalachian Power Co. v. Public Serv. Comm'n*, 812 F.2d 898, 904-05 (4th Cir. 1987).

²⁰⁵ *Mississippi Power & Light Co. v. Mississippi ex rel. Moore*, 487 U.S. 354, 371-72 (1988); *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953, 970 (1986).

²⁰⁶ See D.99-10-066, 1999 Cal. PUC LEXIS 716, *14, Conclusions of Law 1-4 (holding that "FERC jurisdiction over transmission rates does not deprive states of existing statutory authority" and, on that basis, asserting continuing dual CPUC and FERC jurisdiction over sales or other encumbrances of transmission assets).

²⁰⁷ 16 U.S.C. §§ 824(d), 824(e); see also *New York v. FERC*, 535 U.S. 1, 18-22 (2002). See also D.99-10-066, 1999 Cal. PUC LEXIS 716, *5 (citing FERC Order 888 for the proposition that notwithstanding the jurisdiction a state commission may otherwise have, FERC asserted "exclusive jurisdiction only over the rates, terms, and conditions of such transmission transactions.").

jurisdiction over the same subject.²⁰⁸ FERC’s comprehensive regulation of transmission rates leaves no room for state regulation, even if the state would make a different determination of the rate based on a public interest analysis. However, the FPA provides means for a state commission to participate in proceedings at FERC to help ensure that FERC does not commit legal error by approving rates that are not just and reasonable.²⁰⁹ Importantly, the Commission has taken the opportunity in past Citizens’ proceedings involving California to participate in prior FERC transmission rate proceedings.²¹⁰

b. Application of Preemption Principles to this Proceeding

The record in this Proceeding confirms the following facts relevant to the question of the Commission’s jurisdiction and appropriate scope of review:

- Any asset that is subject to an Entitlements Lease under the Investment Program will be a FERC-jurisdictional transmission asset with cost recovery through a

²⁰⁸ *Nantahala Power & Light Co. v. Thornburg*, 476 U.S. 953, 970 (1986); *Mississippi Power & Light Co. v. Mississippi ex rel. Moore*, 487 U.S. 354, 371–72 (1988). See also *Appalachian Power Co. v. Public Serv. Comm’n*, 812 F.2d 898, 905 (4th Cir. 1987) (finding that given overlapping federal and state standards for approval of a specific transmission investment, “It is possible that FERC and the [state commission] would reach conflicting conclusions regarding the impact of the agreement on their respective publics. Only FERC, as a central regulatory body, can make the comprehensive public interest determination contemplated by the FPA and achieve the coordinated approach to regulation found necessary in *Attleboro*. No single state commission has the jurisdiction, and neither can it be expected to have the competence or inclination, to make this broad determination.”).

²⁰⁹ See *Nantahala Power and Light Company, et al., Appellants, v. Utilities Commission Of North Carolina, et al.*, U.S. Sup. Ct. Docket No. 85-568, Brief for the United States and the Federal Energy Regulatory Commission as Amici Curiae Supporting Appellants, Jan. 23, 1986, 1986 WL 727840, at *11-12 (“The federal regulatory scheme recognizes the legitimacy of state interests in this area, and provides for the consideration of those interests in the Commission regulatory process. States and state commissions may file complaints about activities of licensees and public utilities subject to the Commission’s jurisdiction (16 U.S.C. 825e) and their objections may ultimately result in Commission action declaring rates, practices and contracts unjust and unreasonable and establishing new ones (16 U.S.C. 824e(a), 824d(e)). The states may also seek review of Commission orders in the federal courts (16 U.S.C. 825l(b)). There is no room in this scheme, however, for the states or state commissions to act inconsistently with Commission determinations with which they are dissatisfied.”)

²¹⁰ Exh. Citizens-01 (Smith Rebuttal Testimony), p. 13, lines 20-24.

FERC-jurisdictional rate,²¹¹ just as PG&E's other transmission assets are subject to FERC rate jurisdiction.

- The "Representative Rate Model" contractually caps Citizens' FERC-jurisdictional rate at the rate PG&E would expect to charge for the same assets, but the actual rate is subject to FERC approval.²¹²
- As further described in Section III.F.1.c.2, below, FERC has already issued a Declaratory Order providing preliminary approval of Citizens' proposed rate methodology and has asserted jurisdiction to set the actual rate for any Entitlements Lease pursuant to Section 205 of the FPA.²¹³
- The Application pending before the Commission does not ask the Commission to approve or set the FERC-jurisdictional rate, given that the Commission would not have jurisdiction to do so; rather, the Application requests that the Commission review the Investment Program within the scope of its jurisdiction pursuant to Section 851 and determine that based on the customer protections and substantial benefits to the public and customers it offers, it is not adverse to the public interest.²¹⁴

Given the law and facts presented, the Commission should defer to FERC's jurisdiction to determine the final Citizens' rate under federal law, and the Commission should not therefore set or require constraints on the setting of that rate.

(1) TURN Proposal for Reduction in Citizens' Rate

TURN's request that the Commission set a rate of return on Citizens' transmission Entitlements "to no more than PG&E projected long-term debt rate of 6.3% or the rate adopted

²¹¹ *Id.*, p. 13, lines 15-20; Amended Application, p. 9; *id.*, Attachment 1 (DCOA), § 3.4(a)(ii).

²¹² Exh. PGE-01 (Amended Prepared Testimony), p. 3-5, lines 9-20; Amended Application, p. 28.

²¹³ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 43.

²¹⁴ *See* Amended Application, pp. 20-21.

in PG&E's 2026 Cost of Capital proceeding"²¹⁵ must be rejected under the preemption principles and applicable facts set forth above.²¹⁶ TURN's proposal is an unambiguous request that the Commission issue an order setting a rate for transmission service as a condition of approval, which would unlawfully conflict and interfere with FERC's jurisdiction over the setting of that rate under federal law. Further, TURN's proposal to assume a rate of recovery for Citizens based on 100% debt is directly counter to FERC's recent order on the Investment Program finding it reasonable and prudent for Citizens to use a hypothetical capital structure of 50% equity and 50% debt for ratemaking purposes.²¹⁷

Even if the Commission were not preempted from setting the transmission rate for Citizens, it would have no reasonable basis to adopt TURN's proposal. TURN's proposal is unsupported by the record, inconsistent with established ratemaking principles, and would render the Investment Program unfinanceable, thereby depriving at-risk customers of substantial public benefits.

TURN's rationale is that Citizens' risk profile is similar to that of a securitized debtholder, and thus Citizens should not earn a return higher than PG&E's cost of debt.²¹⁸ TURN further asserts that any return above this level would be excessive and not justified by the risks associated with the transaction.²¹⁹ Neither of these assertions is consistent with established ratemaking principles. TURN's recommendation to limit Citizens' return to the cost of debt is inconsistent with foundational ratemaking principles established in *Hope* and *Bluefield*, which

²¹⁵ Exh. TURN-01E (Prepared Testimony of Jennifer Dowdell), p. 4, lines 6-8.

²¹⁶ Any adoption by the Commission of a limitation on Citizens' rate for transmission service would also conflict with the well-established filed rate doctrine, which is a result of FERC's exclusive jurisdiction over transmission rates. At its most general level, the filed rate doctrine provides that state law may not be used to invalidate a filed rate nor to assume a rate would be charged other than the rate adopted by the federal agency in question. *See County of Stanislaus v. Pacific Gas & Elec. Co.*, 114 F.3d 858, 862–63 (9th Cir.1997). The Supreme Court has extended the doctrine to the Federal Power Act and to electricity rates. *See Montana–Dakota Utilities Co. v. Northwestern Public Service Co.*, 341 U.S. 246, 251 (1951).

²¹⁷ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 34.

²¹⁸ Exh. TURN-01E (Prepared Testimony of Jennifer Dowdell), p. 6, line 7 to p. 8, line 5.

²¹⁹ *See id.*

require that a public utility's return be commensurate with returns available from investments of similar risk.²²⁰ FERC has never authorized a debt-only return for transmission investments, and in fact, has consistently approved a hypothetical 50/50 capital structure and a return on equity well above the cost of debt for similar lease entitlement transactions.²²¹ Limiting Citizens to a debt-only return would not provide a return commensurate with investments of similar risk and would discourage non-traditional transmission investment, contrary to public policy goals.²²²

Furthermore, the record demonstrates that reducing Citizens' rate of return to no more than 6.3%, as TURN proposes, would lower the Debt Service Coverage ("DSC") ratio to 1.15, a level below what lenders require to finance such transactions.²²³ The record establishes that lenders require a DSC ratio of at least 1.25.²²⁴ Citizens' modeling shows that at a 6.3% rate of return, the DSC ratio falls below this threshold, making the transaction unfinanceable.²²⁵ Even a 6.93% rate of return is the mathematical minimum to achieve a 1.25 DSC ratio, but this does not account for real-world lender sensitivities and risk assessments.²²⁶ In practice, lenders and rating agencies would require Citizens to maintain a DSC ratio of 1.25 or higher under multiple scenarios, not just under the base case utilized by TURN.²²⁷

Even if the Commission could adopt TURN's proposal and set Citizens' transmission rate at no more than 6.3%, which it cannot under federal law as described above, the record shows that the cap would very likely cause the Investment Program to terminate, and the substantial public benefits—including the potential for over \$450 million in direct bill-paying assistance to

²²⁰ Exh. PGE-02 (Rebuttal Testimony), p. 9-5, line 10 to p. 9-6, line 18.

²²¹ *Id.*, p. 9-7, lines 5-22.

²²² *Id.*, p. 9-6, line 19 to p. 9-7, line 4.

²²³ Exh. Citizens-03 (R. Kennedy Rebuttal Testimony), p. 1, lines 8-12.

²²⁴ *Id.*, p. 2, lines 2-4; Exh. TURN-02 (Citizens Response to TURN Data Request #2), p. 2.

²²⁵ Exh. Citizens-03 (R. Kennedy Rebuttal Testimony), p. 4, lines 9-16; Exh. Citizens-03-0Atch03 (Rebuttal Testimony – R. Kennedy, PGE Income Analysis Cash Flow), "Summary".

²²⁶ Exh. TURN-02 (Citizens Response to TURN Data Request #2), pp. 2-3.

²²⁷ Exh. TURN-02 (Citizens Response to TURN Data Request #2), pp. 3-4.

at-risk PG&E customers—would therefore be lost. Further, any reduction in Citizens’ rate of return – assuming it was financeable and that either Citizens or PG&E did not terminate the Investment Program due to the reduction – would reduce the expected public interest benefits of the Investment Program. The record shows that each reduction of 10-basis points in Citizens’ return on equity would reduce direct bill-paying assistance to customers in need by over \$11.2 million over the life of the program.²²⁸

TURN has offered no precedent or evidence supporting its rate reduction proposal. PG&E’s rate expert was unable to identify any instance where FERC or the Commission has set a utility’s return at the cost of debt for a transaction of this type.²²⁹ Even if it had jurisdiction to adopt the proposal, which it does not, the Commission should reject TURN’s proposal on these additional policy and legal grounds.

Finally, it is important to note that by declining to establish transmission rates in this proceeding (and therefore rejecting TURN’s proposal), the Commission does not foreclose the ability of parties to make similar arguments before FERC. Indeed, FERC has already indicated that it intends to conduct a robust review of Citizens’ proposed rate of return pursuant to FERC’s authority under Section 205 of the FPA, including consideration of the relative risks faced by Citizens in making the investment.²³⁰

c. Citizens Must Seek FERC’s Review Of The Proposed Transmission Rate Under The Federal Power Act.

Prior to the execution of any Entitlements Lease pursuant to the Investment Program, Citizens and PG&E must obtain several approvals from the FERC under the FPA:

²²⁸ Exh. Citizens-03 (R. Kennedy Rebuttal Testimony), p. 4, line 18 to p. 6, line 5; Exh. Citizens 03-Atch02; Exh. Citizens-03-Atch03.

²²⁹ Exh. PGE-02 (Rebuttal Testimony), p. 9-7, lines 7-22.

²³⁰ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 43.

- **Section 203 Approval:** For each Entitlements Lease, PG&E and Citizens must obtain FERC authorization under FPA Section 203 to lease the entitlements to Citizens.²³¹
- **Section 204 Approval:** Citizens must obtain FERC authorization under FPA Section 204 to issue securities necessary to finance its payment of prepaid rent for each Entitlements Lease.²³²
- **Section 205 Approvals:** Citizens must obtain FERC approval under FPA Section 205 for its transmission owner tariff, including the annual revenue requirement and rate methodology for cost recovery associated with each Entitlements Lease.²³³ Citizens' Section 205 filing will include examination of the return on equity associated with each Entitlements Lease. PG&E will separately seek FPA Section 205 approval to recover from Citizens (in the form of Additional Rent) its portion of the O&M and other expense costs associated with the applicable projects.²³⁴
- **Declaratory Order:** Citizens sought advance FERC approval of certain rate treatments and incentives for the Investment Program by filing a Petition for Declaratory Order.²³⁵

These FERC approvals are in addition to the further approvals at the Commission by Tier 3 Advice Letter described in Section III.E, above, ensuring that each tranche of the multi-year, multi-project Investment Program is fully vetted by FERC, the Commission, and stakeholders.

(1) Citizens' Petition for Declaratory Order at FERC

On April 11, 2024, and as amended on April 7, 2025, Citizens filed a Petition for Declaratory Order with FERC seeking advance approval of certain rate treatments for its

²³¹ Exh. PGE-01 (Amended Prepared Testimony), p. 2-25, lines 15-21.

²³² Exh. PGE-01 (Amended Prepared Testimony), p. 5-14, lines 26-28.

²³³ Exh. PGE-01 (Amended Prepared Testimony), p. 5-14, line 22 to p. 5-15, line 2.

²³⁴ *Id.*, p. 2-25, lines 15-24.

²³⁵ Citizens' Petition for Declaratory Order, FERC Docket No. EL24-101, April 11, 2024 (as amended on April 7, 2025) ("Petition for Declaratory Order"), p. 1.

participation in the Investment Program with PG&E.²³⁶ The Petition requested that FERC approve the following:

1. **Use of a Hypothetical Capital Structure:** Citizens requested approval to use a hypothetical capital structure of 50% equity and 50% debt for ratemaking purposes, consistent with prior FERC-approved Citizens transactions.²³⁷
2. **Use of a Proxy Return on Equity:** Citizens sought approval to use PG&E's FERC-approved return on equity as a proxy for Citizens' own return on equity, subject to future FPA Section 205 filings.²³⁸
3. **30-Year Levelized Fixed Rate Recovery:** Citizens requested approval to recover its capital costs on a fixed and levelized basis over 30 years, matching the term of each Entitlements Lease.²³⁹
4. **Formula Rate for O&M Costs:** Citizens sought approval to recover its actual operations and maintenance costs through a formula rate.²⁴⁰
5. **Abandoned Plant Incentive (Withdrawn):** Citizens initially requested, but later withdrew, approval for the abandoned plant incentive.²⁴¹

The Petition explained that these incentives and rate treatments were necessary to secure financing for the Investment Program and were modeled on prior FERC-approved Citizens transactions with other California utilities.²⁴²

²³⁶ Petition for Declaratory Order, *supra*, pp. 1-2.

²³⁷ Petition for Declaratory Order, *supra*, p. 2.

²³⁸ Petition for Declaratory Order, *supra*, p. 2.

²³⁹ Petition for Declaratory Order, *supra*, p. 2.

²⁴⁰ Petition for Declaratory Order, *supra*, p. 2.

²⁴¹ Petition for Declaratory Order, *supra*, p. 1.

²⁴² Petition for Declaratory Order, *supra*, pp. 2-3.

(2) FERC's Declaratory Order

On August 14, 2025, during the pendency of this Proceeding before the Commission, FERC issued its Order on Citizens' Petition for Declaratory Order, granting Citizens' requests for advance approval of certain rate treatments for the Investment Program.²⁴³

- **Hypothetical Capital Structure:** FERC approved Citizens' use of a hypothetical capital structure of 50% equity and 50% debt for ratemaking purposes.²⁴⁴
- **30-Year Levelized Fixed Rate Recovery:** FERC approved Citizens' use of a 30-year fixed and levelized rate of recovery of capital requirements, consistent with prior FERC precedent for Citizens' transmission investments.²⁴⁵
- **Proxy Return on Equity:** FERC approved Citizens' use of a proxy return on equity, subject to Citizens making the appropriate future FPA Section 205 filings to demonstrate that the proposed return on equity is just and reasonable.²⁴⁶
- **Formula Rate:** FERC approved Citizens' use of a formula rate to recover actual operations and maintenance costs, subject to Citizens making a subsequent filing under FPA Section 205 to demonstrate the justness and reasonableness of the specific formula rate that Citizens proposes.²⁴⁷

Importantly for purposes of considering the scope of the Commission's review under Section 851 and the preemption issues discussed above, FERC explicitly reserved in its Order its intent to determine the just and reasonable rate for each future Entitlements Lease pursuant to FPA Section 205.²⁴⁸

²⁴³ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 1.

²⁴⁴ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 34.

²⁴⁵ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 39.

²⁴⁶ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 43.

²⁴⁷ *Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, P 47.

²⁴⁸ *See Citizens Pacific Transmission, LLC*, 192 FERC ¶ 61,146, PP 43, 47.

2. The Application Does Not Ask The Commission To Set Citizens' Rate For Transmission.

PG&E's Amended Application seeks Commission authorization under Section 851 to lease entitlements to certain transmission projects. Contrary to the implications of TURN's testimony, the Application does *not* request that the Commission set or establish the rate of return for Citizens. That request would be legally erroneous given FERC's exclusive jurisdiction over transmission rates, as discussed above. Instead, the Application and supporting testimony make clear that Citizens' rate will be determined through a combination of federal regulatory oversight and contractual mechanisms that cap Citizens' recovery, but do not ask or require the Commission to set or approve a specific rate of return for Citizens.

As more fully discussed above, Citizens Pacific Transmission LLC, as a FERC-jurisdictional public utility and Participating Transmission Owner in CAISO, must file its revenue requirement and proposed rate of return with FERC under Section 205 of the FPA. FERC will determine whether Citizens' requested rate of return is just and reasonable, and the Commission and other stakeholders will have the opportunity to participate in that federal proceeding. The Application does not propose that the Commission set Citizens' rate, but rather that the Commission approve an Investment Program in which Citizens' just and reasonable rate is ultimately subject to FERC's independent review.

3. The Commission Should Assume That FERC's Rate For Citizens' Entitlements Will Be Just And Reasonable.

For all of the reasons set forth above, the Commission should not undertake to decide matters within FERC's exclusive jurisdiction. Because FERC has exclusive jurisdiction to set just and reasonable transmission rates for Citizens under the Investment Program, it would not be appropriate for the Commission to attempt, as TURN urges, to set or prescribe conditions for a transmission rate. Although FERC has not yet set a rate for this transaction—it will do so only after Citizens Pacific Transmission LLC submits its required rate filing under FPA Section 205 – that does not change the fact that the Commission may not, through its regulatory authority in a

Section 851 proceeding, attempt to prescribe that rate. The Commission's appropriate role is to assess whether the Investment Program, assuming a just and reasonable transmission rate approved by FERC, and including the customer protections and benefits that PG&E and Citizens assert that it offers to customers and to the public, is not adverse to the public interest.

IV. CONCLUSION

For the reasons set forth above, PG&E respectfully requests that the Commission issue a decision in this Proceeding finding that the Investment Program is not adverse to the public interest and granting the relief requested in the Amended Application without modification.

Respectfully Submitted,

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