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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2026. (U 39 M)	Application 25-03-010
And Related Matters.	Application 25-03-011 Application 25-03-012 Application 25-03-013

SOUTHERN CALIFORNIA EDISON COMPANY (U338-E), PACIFIC GAS & ELECTRIC COMPANY (U39M), SAN DIEGO GAS & ELECTRIC COMPANY (U902M) AND SOUTHERN CALIFORNIA GAS COMPANY (U904G) NOTICE OF EX PARTE COMMUNICATION

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Dated: November 18, 2025

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Southern California Edison Company (SCE), Pacific Gas & Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas) (collectively, the Utilities)[1] hereby give notice pursuant to Rule 8.4(a) of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission) of the following communication.

DATE and TIME: November 13, 2025, 11:30 a.m.-12:00 p.m.

LOCATION: Via WebEx.

WHO INITIATED COMMUNICATION: SCE, PG&E, SDG&E, and SoCalGas.

[1] Pursuant to Rule 1.8(d) of the Commission's Rules of Practice and Procedure, SCE has been authorized to submit this notice on behalf of PG&E, SDG&E, and SoCalGas.

NAMES AND TITLES OF NON-CPUC PERSONS PRESENT:

SCE:	PG&E:	SDG&E/SoCalGas:
Adam Smith, Director, Regulatory Relations; Daniel Wood, Vice President Financial Planning & Regulatory Finance; Allison Bahen, Director Capital Asset Analytics, Regulatory Economics & Reporting	Sidney Dietz, Director, Regulatory Relations; Mari Becker, Vice President, Treasurer	Shivani Sidhar, SDG&E Regional Vice President, Regulatory Affairs; Valerie Bille, SDG&E Chief Financial Officer; Sara Mijares, SoCalGas Assistant Controller

NAMES AND TITLES OF CPUC PERSONS PRESENT: Nick Dahlberg, Energy Advisor to President Alice Reynolds, and Caleb Jones, Advisor to Commissioner Darcie Houck.

BRIEF DESCRIPTION OF COMMUNICATION: The Utilities discussed the importance of a timely decision to allow rates to be implemented by January 1, 2026. The Utilities explained the need for a just and reasonable cost of capital and identified the factors that support their requests. The Utilities showed how national average authorized returns on equity (ROEs) have increased since the last full cost of capital proceeding. The Utilities discussed the risk environment for the California utilities, including the liability and cost recovery risks associated with the threat of catastrophic wildfires, elevated undercollections, regulatory lag, increased disallowances, ambitious State energy transition goals, and sentiment regarding natural gas. The Utilities explained that wildfire risk persists even after the adoption of Senate Bill (SB) 254, and that there remains a need for long-term reform. The Utilities also discussed S&P's recent credit downgrade of SCE and S&P's overall commentary regarding the operating, legal, and regulatory risks facing California electric investor-owned utilities. SoCalGas also discussed the increased regulatory and financial risk for gas utilities.

WRITTEN MATERIALS PROVIDED: See **Attachment A**.

Respectfully submitted,

AINSLEY CARRENO

/s/ Ainsley Carreno

By: Ainsley Carreno

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November 18, 2025

Attachment A

Cost of Capital Proceeding

(A.25-03-010 (PG&E); A.25-03-011 (SoCalGas); A.25-03-012 (SCE); A.25-03-013 (SDG&E); (consolidated))

November 13, 2025

Overview

- Risks facing CA IOU investors have increased since the last cost of capital decision and made attracting more capital costly. CA investors face increased uncertainty from exposure to:
  - liability and cost recovery risk associated with the threat of catastrophic wildfires;
  - the California's regulatory environment evidenced by elevated undercollections, timeliness of recovery, and increased disallowances; and
  - achieving state energy transition goals and sentiment regarding natural gas.

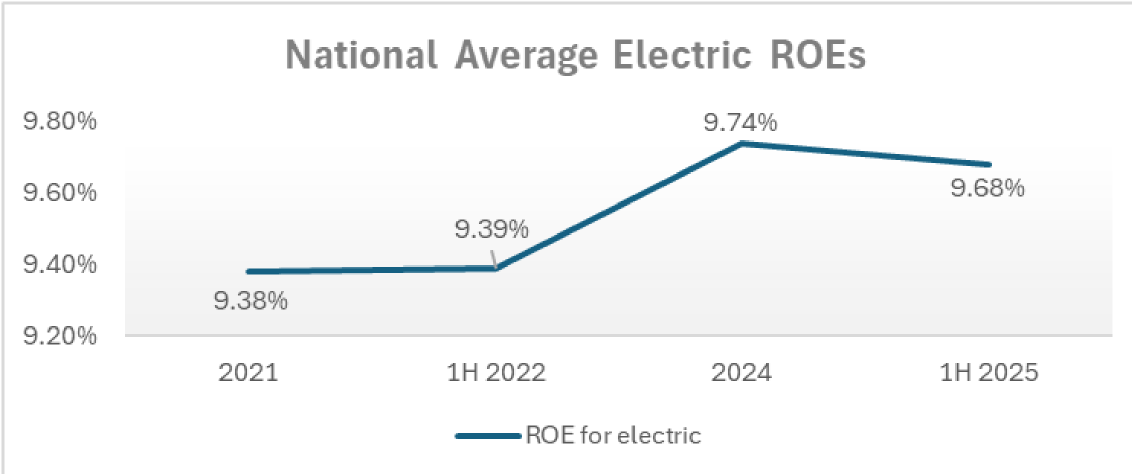
- Moreover, nationwide ROE and interest rate trends show that the cost of capital has increased since the last cost of capital proceeding.

- In Decision (D.) 22-12-031, the Commission recognized that "an authorized ROE has risk when it does not adequately compensate a utility for the risk that investors must assume." (at p. 30)

The Cost of Capital outcome is critical to obtaining affordable debt to fund the significant external capital needed to support necessary investments for safe, resilient, and reliable service.

Nationwide Trends: Nationwide average ROEs and interest rates have increased since the 2023 proceeding

- National average ROEs have *increased* since the 2023 cost of capital decision:



- 30-year Treasury bond rates (used in ROE modeling) have also increased since the last full proceeding and since the CCM operated in 2023
- Near-term anticipated Fed rate actions are already priced into long-term interest rate expectations, which underlie utility CoC requests in this proceeding

Key Takeaway: The Commission must consider broader trends when determining a CoC that will allow the CA utilities to compete for capital given the State's elevated risks as compared to other jurisdictions

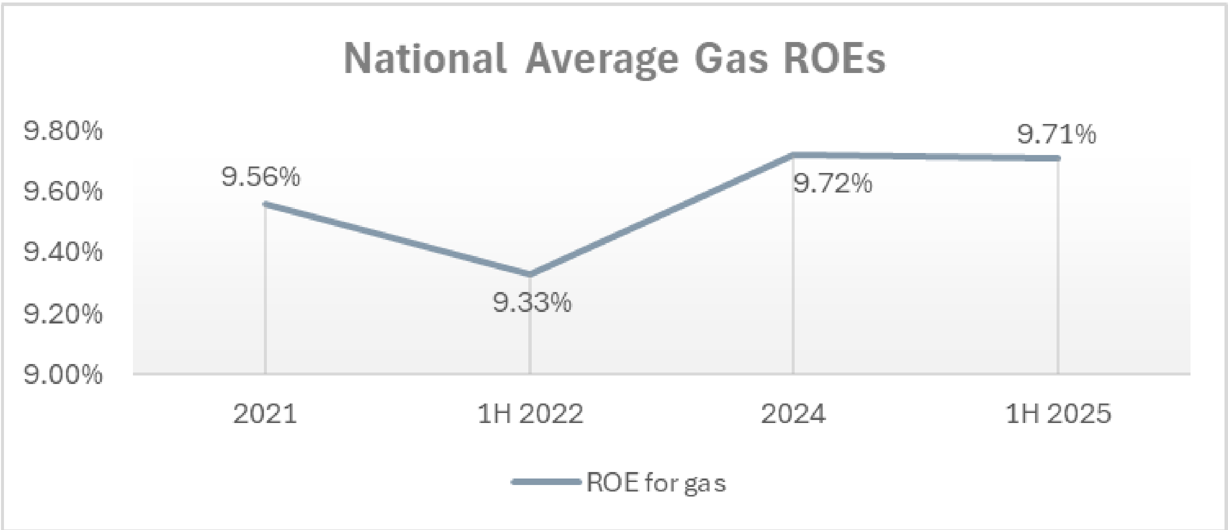
Wildfire Risks: Recent wildfire developments make for a riskier regulatory environment than last year

- The recent wildfires in Southern California brought extreme wildfire risk back to the forefront for both credit and equity investors.
- Immediate and persistent market reaction was a sharp drop in IOU stock prices and an increase in bond yields. The medium and longer-term impact will be increased investor uncertainty and a sustained higher cost of capital until a state-level solution is found.
- AB 1054 and SB 254 are constructive, but additional structural reform is needed.
    - SB 254 directed state agencies to collaborate on future reforms to support the financial health of IOUs, citing the clear connection to customer affordability, but uncertainty remains regarding potential reforms and implementation.
- In this climate of uncertainty, investors could decide to curtail or limit their investments in California utilities if the risk of recovering their investments is too great, just as certain home insurance companies pulled back from the California market.

Key Takeaway: Even with the passage of SB 254, the regulatory environment is ***at least as risky, if not more so***, then the environment considered by the CPUC in the 2020 and 2023 CoC Decisions.

Increased Risk for Gas Utilities

- **Financial risk.** Credit rating agencies and investors have recognized additional above-average risks for gas utilities. Moody's stated in 2024 "SoCalGas'[s] business risk profile is higher compared to most other peer LDCs in the US, tempering its credit quality . . ."
- **Regulatory risk.** Rating agencies have taken notice of regulatory delays and its impacts on financial metrics, commenting "The ratings also capture the recent deterioration in the company's financial metrics largely due to some regulatory lag on the recovery of certain expenditures given the considerable delay in the utility's pending general rate case order for the test years 2024-2027."



In addition to rating agency commentary above, evidence of increased risk:

- S&P downgraded SoCalGas's credit rating in January 2025
- 30-year bonds have traded higher than peers with similar ratings or notch below = ~$5.1 million incremental annual borrowing costs
- Regulatory lags = increase costs. ~$11 million in interest expense resulting from SCG GRC decision delay and ~$18 million in interest expense for SCG TIMP

APPENDIX

IOU ROE Proposals

- Last full cost of capital proceeding in 2022 for 2023 test year (D.22-12-031)
- CCM operated in 2023 (for 2024); CCM adjustment ratio subsequently adjusted for 2025 to arrive at current authorized ROEs (D.24-10-008)

Utility	2023 Authorized ROE (D.22-12-031)	2025 Authorized ROE (D.24-10-008)	2026 Requested ROE
PG&E	10.00%	10.28%	11.30%
SCE	10.05%	10.33%	11.75%
SDG&E	9.95%	10.23%	11.25%
SoCalGas	9.80%	10.08%	11.00%

IOU Capital Structure Proposals

Utility	2023 Authorized Capital Structure (D.22-12-031)			2026 Requested Capital Structure		
	Common Equity	Preferred	LTD	Common Equity	Preferred	LTD
PG&E	52.0%	0.5%	47.5%	52.0%	0.3%	47.7%
SCE	52.0%	5.0%	43.0%	52.0%	5.0%	43.0%
SDG&E	52.0%	2.75%	45.25%	54.0%	0.0%	46.0%
SoCalGas	52.0%	2.40%	45.6%	52.0%	2.40%	45.6%