



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

**FILED**

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Application of Pacific Gas and Electric Company for  
Authority to Establish Its Authorized Cost of Capital for  
Utility Operations for 2026. (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: December 1, 2025**

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STATE OF CALIFORNIA**

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COMMUNICATION**

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)<sup>1</sup> 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 communications.

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<sup>1</sup> 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.

<b>Date</b>	<b>Time</b>	<b>Location</b>	<b>Commissioner's Office</b>	<b>CPUC Attendee(s)</b>	<b>Non-CPUC Attendees</b>
November 24, 2025	2:30-3:00 p.m.	Via WebEx	President Alice Reynolds	Nick Dahlberg, Energy Advisor to President Reynolds	<p>SCE: Steven Powell, President &amp; CEO; Michael Backstrom, Senior Vice President, Regulatory Affairs; Adam Smith, Director, Regulatory Relations</p> <p>PG&amp;E: Patti Poppe, CEO; Meredith Allen, VP, Regulatory Affairs</p> <p>SDG&amp;E/SoCalGas: Caroline Winn, Sempra Executive VP; Dan Skopec, SDG&amp;E and SoCalGas SVP &amp; Chief Regulatory Officer</p>
			Commissioner Darcie Houck	Amanda Singh Birmingham, Chief of Staff for Commissioner Houck; Caleb Jones, Advisor to Commissioner Houck	

November 25, 2025	1:30-2:00 p.m.	Via WebEx	Commissioner Karen Douglas	Julian Buchwalter, Advisor to Commissioner Douglas	<p>SCE: Steven Powell, President &amp; CEO; Adam Smith, Director, Regulatory Relations</p> <p>PG&amp;E: Patti Poppe, CEO; Meredith Allen, VP, Regulatory Affairs</p> <p>SDG&amp;E/SoCalGas: Caroline Winn, Sempra Executive VP; Dan Skopec, SDG&amp;E and SoCalGas SVP &amp; Chief Regulatory Officer</p>
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**WHO INITIATED COMMUNICATION:** SCE, PG&E, SDG&E, and SoCalGas.

**BRIEF DESCRIPTION OF COMMUNICATION:** The Utilities explained that the Proposed Decision (PD) authorizes returns on equity (ROEs) below the levels necessary to attract investment at reasonable costs given national trends and California’s unique risks. The Utilities discussed the increased risk associated with catastrophic wildfires, as demonstrated by the Palisades Fire and Eaton Fire, as well as the unique risk of inverse condemnation in California, and explained that there is continued uncertainty even after the adoption of Senate Bill (SB) 254. The Utilities also discussed the financial impacts of continued shareholder contributions to the Wildfire Fund and Continuation Account. The Utilities also explained that interest rates and national average ROEs have increased since the last full proceeding and noted that the PD’s reduction to authorized ROEs—as compared to both current authorized and the ROEs authorized in 2023—is contrary to these market trends. The Utilities further discussed how the authorized ROE impacts credit ratings and explained that an authorized ROE below a just and reasonable level could lead to increased borrowing costs that would impact affordability over the life of the

bonds issued at those higher costs. The Utilities stated that at a minimum the PD should be revised to hold ROEs at currently authorized rates.

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

Respectfully submitted,

AINSLEY CARRENO

*/s/ Ainsley Carreno*

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**December 1, 2025**

# **Attachment A**

# 2026 Cost of Capital Proceeding

November 2025

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



# Overview

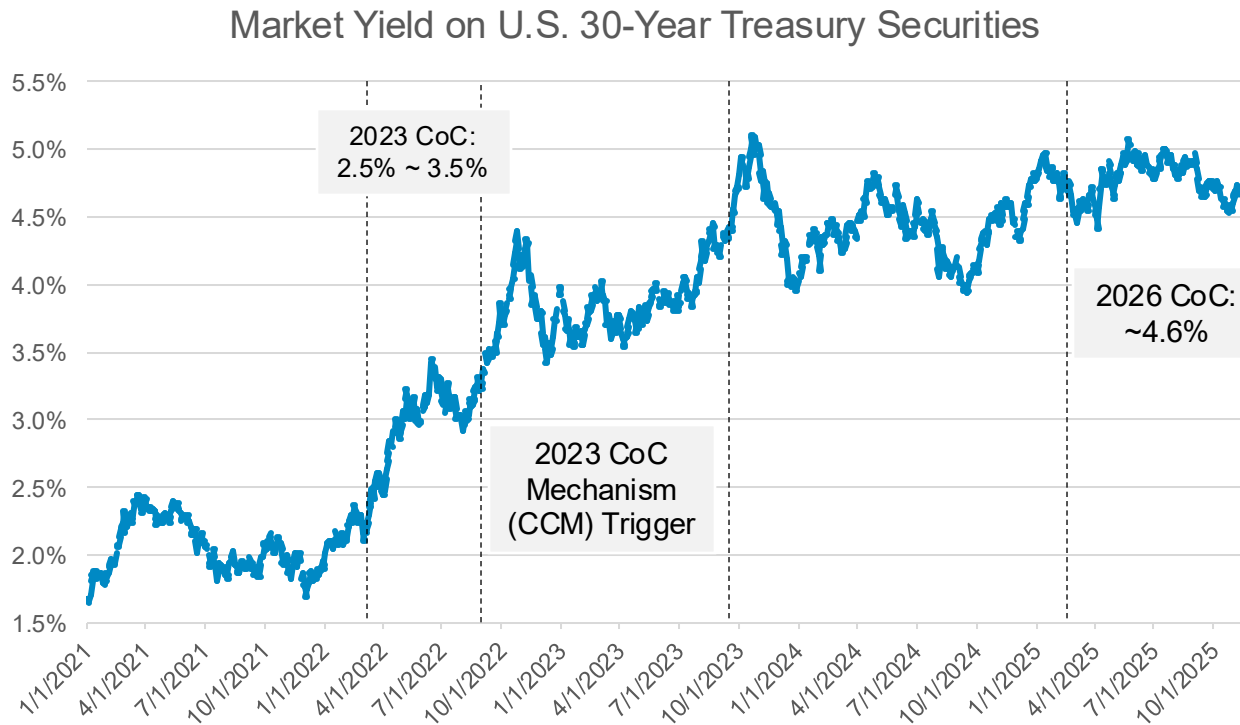
- The PD risks undermining **affordability** because setting ROE at a level that is not commensurate with risk may increase rates in the short term and especially in the long run through higher financing costs, which are passed on to customers. PD is being perceived as adverse regulatory environment and likely to deteriorate credit worthiness.
- **Risks** Utility customers are worse off, physically and financially, if IOUs cannot attract investment to address the increased wildfire risks the state is facing. The risks facing CA IOU customers and investors have increased since the last cost of capital decision and make attracting more capital costly. CA investors face increased uncertainty from exposure to liability and cost recovery risk associated with the threat of catastrophic wildfires. Wildfire Fund depletion is a real risk, which SB 254 did not completely fix. The IOU filings were clear that without a full fix in SB254, the cost of capital is higher. The state's effort in SB254 Phase 2 clearly demonstrates that more fixes are needed to ensure a sustainable wildfire regulatory and financial framework.
- Moreover, **interest rate increases** demonstrate that the cost of capital has increased since the last cost of capital proceeding. The average ROE nationally has also increased.
- The PD states that the proposed ROEs are the “minimum” needed to attract investment. Although we disagree with the position to have “minimally” viable utilities given California’s energy agenda, we clarify that minimum support is to maintain ROEs at least at the current authorized levels

**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.**



# Cost of Equity is Higher Since 2023 Cost of Capital (CoC)

**Key Takeaway:** Authorized ROE should reflect the impact of rising interest rates and increased risk



Long-term interest rates have **increased** by 120 to 220 basis points since the 2023 cost of capital case.

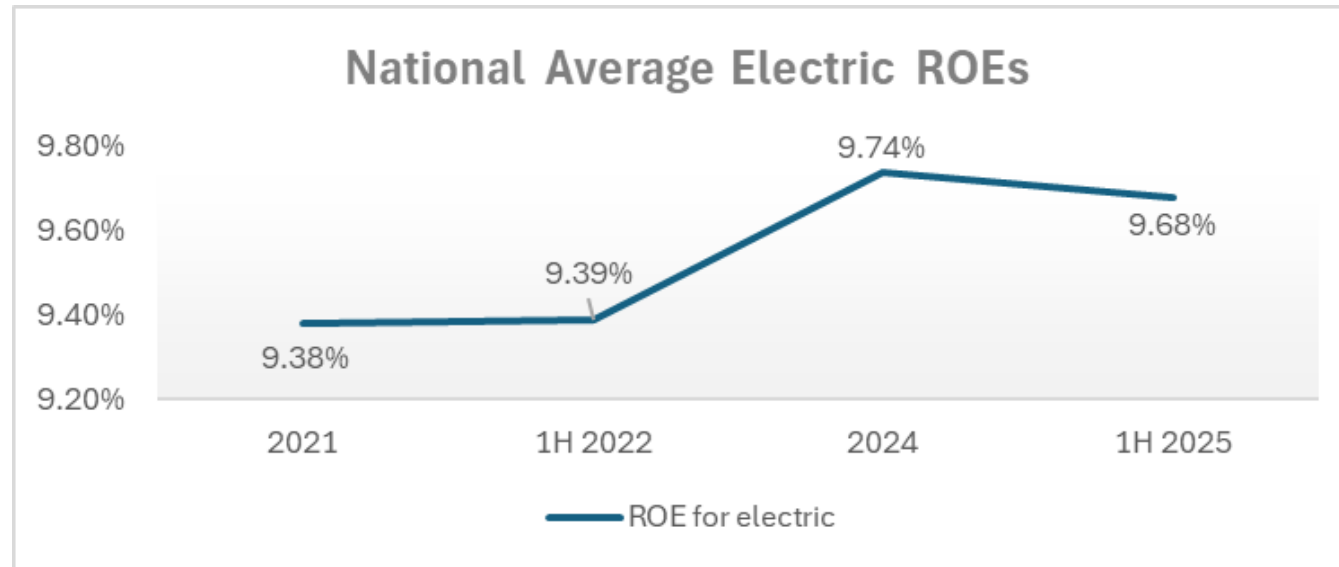
Long-term rates do not always follow short-term Fed cuts. The September and October cuts have not caused lasting drops in long-term rates.

National average ROE is 20 basis points higher since 2022 when Commission approved the last case.

SB254 requires shareholder contributions to the wildfire fund, which further increases required ROE by about 30-40 basis points.

# National Average ROEs have also Increased since the 2023 Proceeding

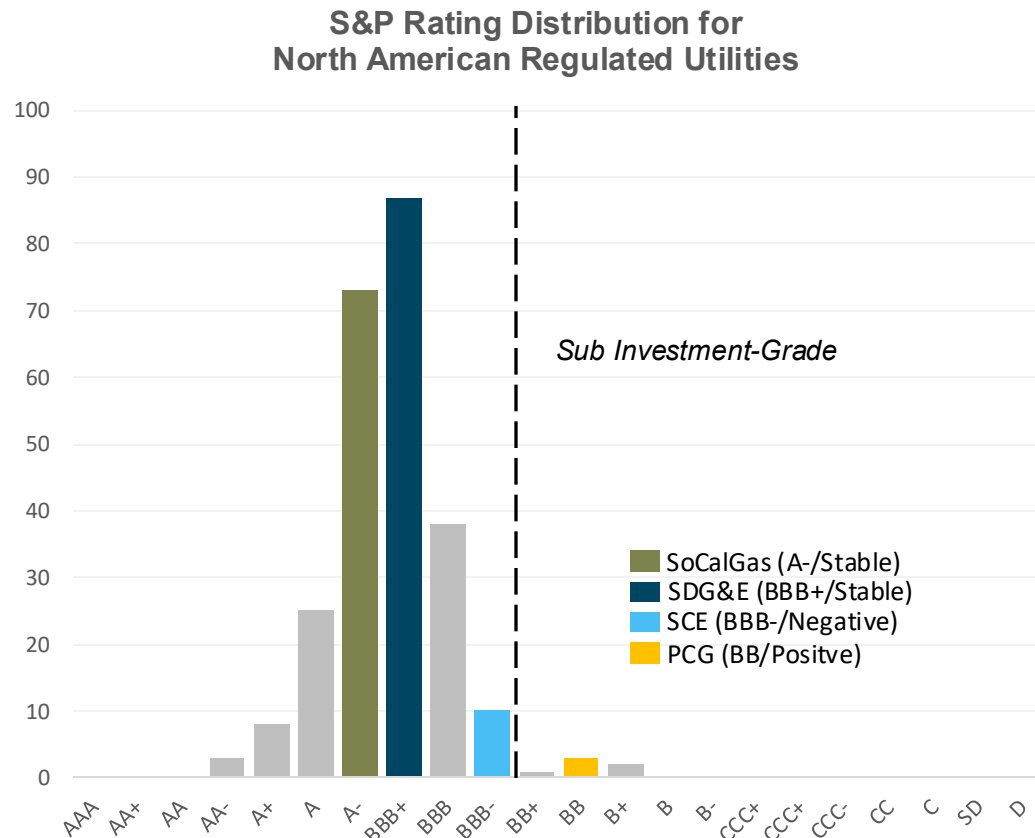
- National average ROEs have *increased* 20-30bps since the 2023 cost of capital decision:



**Key Takeaway:** The Commission should maintain above average ROEs, given CA's risk profile, as they have done in previous Cost of Capital decisions.

# IOU Credit Ratings are Already Precarious

**Key Takeaway:** The PD sends a negative signal about the California regulatory environment, undermining IOU efforts to improve credit ratings in order to reduce financing costs for customers



- SCE was **downgraded** by S&P **after** passage of SB 254, while other agencies flagged concern. The PD would continue downward pressure on SCE's credit rating
- PG&E **below investment grade** and PD makes it even harder to achieve
  - A reduction in ROE in such uncertain times will be perceived as heightened regulatory risk
  - The PD's ROE reduction will also reduce credit metrics
- SDG&E's business risk rating was downgraded by S&P following SB 254
- SoCalGas' credit rating was downgraded by S&P in January 2025
- The negative impact from the PD on credit worthiness will increase borrowing costs and undermine IOUs' and the state's efforts to improve customer affordability long term

# Wildfire Risk

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

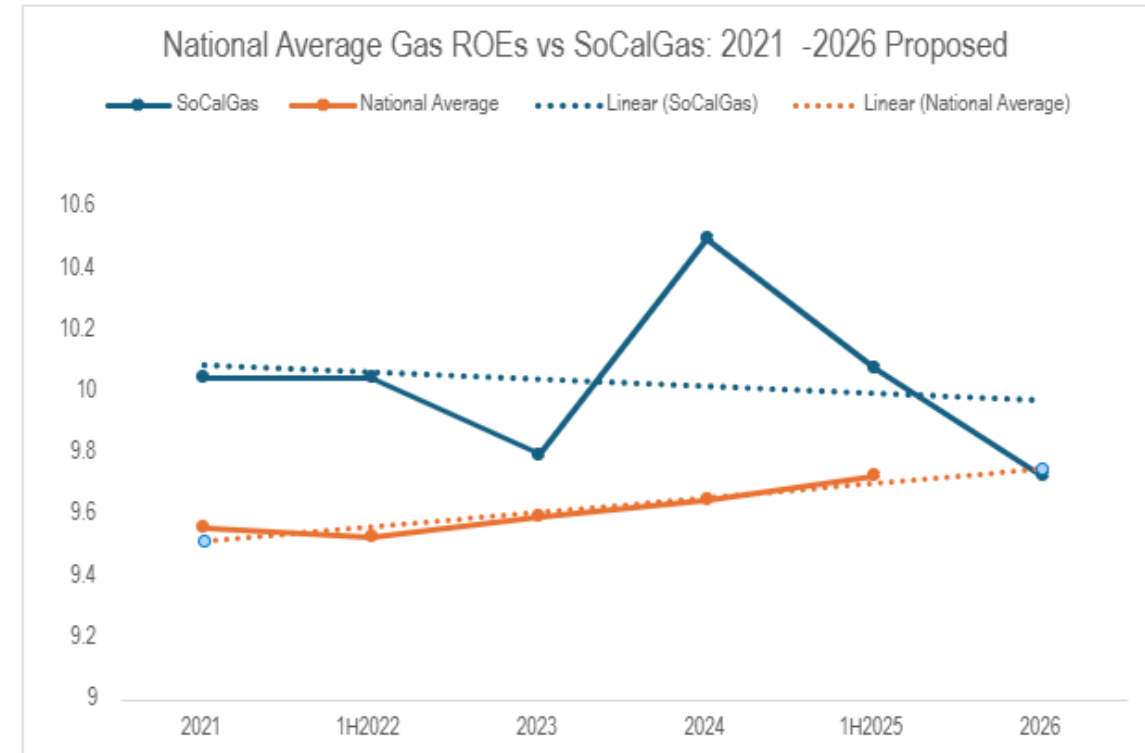
- The recent wildfires in Southern California brought extreme wildfire risk-back to the forefront for customers, and for credit and equity investors.
- Immediate and persistent market reaction was a sharp drop in IOU stock prices and an increase in bond yields. The medium and longer-term impact will 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 June 2025, S&P Global downgraded California from Average/1 to Average/2, citing uncertainty for future wildfire liabilities.
- 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.

# 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
- As evidenced above, there have been consecutive years of increased risk for the gas-only utility in California, thus the gas-only utility ROE should be set at least at the same level as the electric utilities.



# Sell-side analysts nearly uniformly view the PD as negative, surprising, and concerning for long term affordability

Firm Name	Commentary
TD Cowen	<p>While we are not completely surprised by the recommendation given the emphasis on affordability in the state, it still <b>seems capricious relative to where Treasuries are and the higher level of risks this year in CA.</b></p> <p>This does not even take into account that the risk profile for the California investor-owned utilities (IOUs) have taken a turn for the worst. While we did not find that the ~9.9%-10% ROE proposed in 2022 was commensurate with the risks that California utilities endure due the inverse condemnation doctrine that prevails, at least one could have argued at the time that the wildfire landscape had settled down in 2022. That is not the case in 2025, far from it. This year has been a painful reminder that California utilities' exposure to wildfire risks have not been addressed properly, which should lead to outsized allowed returns to compensate for that risk. It is part of the reason why PCG and EIX stocks are trading at material discount to their fellow utilities. Clearly, it seems that the ALJ has not taken that into account and may have been more focused on managing bill affordability rather than considering fair return to risk taken. <b>Unfortunately, this could lead to credit reviews - whether it be in the form of negative outlooks or delayed upgrades - that ultimately could impact overall cost of capital.</b></p>
Wells Fargo	<p>Broadly negative headlines for CA utilities... <b>The PD cites a balance of affordability being included in the proposal, which once again is at conflict with the reality on the ground.</b> There is a disconnect from CAPM models and stock prices as we see the CPUC bound by conflicting mandates.</p> <p>We see a headline negative with <b>a regulatory disconnect from practical reality driven by affordability.</b> The CPUC PD justifies the lower ROEs as a balance of investor returns and affordability, but <b>we find several inconsistencies with the case record and practical reality of utility operations in CA.</b> The PD leaves room for modification by providing reasonable ranges for each company, but even the top of the range represents an 8bp ROE cut.</p>
Barclays	<p>We see [the PD] as negative, primarily as ROEs were cut, surprisingly much more than we would have anticipated. This puts CA ROEs in the 9.8-9.9% range which is at the top of Michigan and only slight above the national average of 9.72%. This we think <b>contradicts the risk premium needed for the CA operating environment</b>, seeing it as a difficult PD for the CA Utilities.</p>
Mizuho	<p>We view the decision as a negative and like us, <b>most investors were expecting an in-line/no change</b> from the current ROE. While it is just a recommendation, and we believe does not adequately reflect the risk borne by shareholders[...]</p>
Wolfe Research	<p><b>Totally illogical and a negative signal to investors</b></p> <p>The PD is a clearly negative signal to utility investors, all of whom can readily see the cost of capital for CA utility stocks has risen dramatically in the real world since the last CoC case (2022) even after SB 254: the risk premium is higher and interest rates are higher. While manageable, <b>we would be very disappointed if a final decision does not improve</b> upon the PD.</p>