BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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

SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) COMMENTS ON PROPOSED DECISION

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1. The Commission should not adopt the PD's recommended ROE of 9.88% or ROE range of 9.60%-10.15% for SDG&E. The PD's recommendations are arbitrary, viewed negatively by investors, and contradict the record. The PD applies nearly the exact same ROE range adopted in the 2023 Cost of Capital Decision (D.22-12-019). But using a nearly identical ROE range to that 2023 Decision is in error. It is contrary to the fact that interest rates and the national authorized ROE average for electric utilities are both significantly higher now. The ROE adopted for SDG&E in the 2023 Decision was over 50 basis points higher than the national ROE average considered at that time. By contrast, the PD recommends an ROE for SDG&E that is only 10 basis points higher than that national average. SDG&E continues to face above-average risks. As a result, the PD errs by setting SDG&E's ROE near the national authorized ROE average, contrary to the Commission's longstanding precedent of adopting above-average ROEs. The PD further errs by placing SDG&E's authorized ROE lower within the nearly identical ROE range than the Commission did in the 2023 Decision, putting SDG&E's ROE at the median of the recommended range without justification. Credit rating agencies have long viewed SDG&E receiving an above-average ROE as credit supportive and a counterbalance to SDG&E's above-average risks. Removing that credit supportive feature could result in credit rating downgrades, raising costs for customers.

2. The Commission should instead maintain SDG&E's currently authorized ROE of 10.23. That ROE resulted from the increase in interest rates following the 2023 Decision. Interest rates remain elevated. The resulting 28-basis point increase in ROE from 9.95% in the 2023 Decision to the currently authorized 10.23% also tracks the 30-40 basis point increase in the national authorized ROE average for electric utilities since that Decision. Maintaining SDG&E's currently authorized ROE is thus amply supported by the record, would maintain the Commission's longstanding, credit supportive precedent of setting an above-average ROE, and is warranted by SDG&E's above-average risks.

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I. INTRODUCTION

The Proposed Decision ("PD") is arbitrary, viewed negatively by investors, and could result in credit rating downgrades.[1] The PD largely recites parties' arguments—without providing any analysis or rationale for its recommendations. And to the extent it does make findings, they are contradicted by the record.

Because interest rates have increased by over 70 basis points ("bps"), and the national authorized return on equity ("ROE") average for electric utilities has risen by 30-40 bps since the 2023 Cost of Capital Decision ("2023 Decision"), the PD errors by recommending effectively the same ROE range as the one adopted in that Decision.[2] The PD further errors by recommending an ROE at the median of that recommended range, counter to the Commission's longstanding precedent of setting SDG&E's ROE in the upper half of the adopted range. SDG&E continues to face above-average risks, requiring an above-average ROE. The Commission should instead maintain SDG&E's currently authorized ROE of 10.23%, which is consistent with:

- The increase in interest rates;
- The increase in the national authorized ROE average; and

[1] Pursuant to California Public Utilities Commission ("Commission") Rules of Practice and Procedure 14.3, San Diego Gas & Electric Company ("SDG&E") provides comments on the Proposed Decision ("PD"). Per Rule 14.3, these Comments focus on PD errors, propose modifications to Findings of Fact ("FOF") and Conclusions of Law ("COL"). Failure to address any issue does not indicate agreement or waiver.

[2] Decision ("D.") 22-12-031.

- SDG&E's continuing to face above-average risks compared to utilities nationwide compared to the 2023 Decision.

As noted, rather than relying upon evidence, the PD recommends for SDG&E virtually the same ROE range as adopted in the 2023 Decision (9.60%-10.15% here versus 9.55%-10.15% there). But the PD merely cutting and pasting SDG&E's previously adopted ROE range ignores that interest rates and the national authorized ROE average for electric utilities are both significantly higher than at the time of the 2023 Decision.

Worse, the PD's recommended ROE for SDG&E is not even consistent with the 2023 Decision. There, the Commission set SDG&E's ROE at the "mid-upper end" of the adopted range, 10 points above that range's median.[3] The PD, by contrast, recommends an ROE that is lower—at the median—of that virtually identical range; without any justification as to why that is appropriate.

In so doing, the PD abandons the Commission's longstanding policy of setting above-average ROEs for SDG&E to counter SDG&E's heightened risks. In the 2023 Decision, the Commission adopted an authorized ROE for SDG&E over 50 points higher than the national average. Here, the PD recommends one that is merely 10 points higher.

The only justification for such a seismic change would be if SDG&E's risks had decreased. But SDG&E's risks are at least the same—if not increased—since the 2023 Decision. Following the Eaton Fire, credit rating agencies continue to find that SDG&E faces above-average risks from a combination of:

- The above-average physical risk of wildfires in California;
- The significant liability burden from inverse condemnation, which makes a California utility strictly liable for wildfires without any liability limits; and
- The increased risk of wildfires in dense urban areas.

Although Senate Bill ("SB") 254 passed this fall, credit rating agencies—and the California legislature itself—see that legislation as only a temporary solution absent long-term liability reform. And the required ongoing shareholder contributions make it more difficult for SDG&E to earn its authorized ROE going forward. As such, there is no justification for setting SDG&E's ROE closer to the national average—and at the median of the range—relative to past cost of capital decisions.

[3] *Id.* at 38.

It is not surprising then, that equity analysts see the PD as "negative," "totally illogical," and "contradict[ing] the risk premium needed for the CA operating environment."[4] As a result, the PD, if adopted, could result in downgrades to SDG&E's credit ratings. Moody's stated last spring that SDG&E having an above-average authorized ROE was credit supportive and helped counterbalance SDG&E's above-average risks.[5] Moody's added that it was watching this proceeding closely.[6] Yet the PD erases this credit supportive feature. It stands to follow that, if the Commission removes credit supportive above-average ROEs, it could harm SDG&E's credit metrics, may lead to downgrades, and potentially raise costs for customers.

The Commission should thus maintain SDG&E's currently authorized ROE of 10.23%. That ROE resulted from the significant increase in interest rates since the 2023 Decision. And it is consistent with the 30-40 basis point increase in the national electric ROE average since the 2023 Decision. Interest rates remain elevated. Maintaining SDG&E's current ROE thus appropriately maintains a credit supportive above-average ROE for SDG&E compared to utilities nationwide.

II. SDG&E's CURRENT ROE OF 10.23 PERCENT SHOULD BE MAINTAINED

The PD has no basis to recommend a virtually identical ROE range to the one adopted in the 2023 Decision. Nor does it have any justification for recommending a 35-basis point reduction in SDG&E's authorized ROE to 9.88%—below the authorized ROE set in the 2023 Decision, near the national ROE average, and at the median of the PD's recommended range. Interest rates, the national ROE average for electric utilities, and SDG&E's risks are all higher than in the 2023 Decision.

Because interest rates remain elevated, the Commission should instead maintain SDG&E's currently authorized ROE of 10.23%. That ROE resulted from that rise in interest rates, is consistent with the increase in the national authorized ROE average, and aligns with Commission precedent.

A. The PD's ROE Recommendations are Divorced from the Increase in Interest Rates and ROE National Average

The PD's adopted ROE range for SDG&E does not appear to be based upon modeling, SDG&E risks, or other factors. The PD is largely devoted to merely reciting parties' arguments—

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4 *See infra* at 12.

5 Ex. SDG-09C, Moody's Ratings, *Credit Opinion, San Diego Gas & Electric Company Update to Credit Analysis* (April 3, 2025) ("Ex. SDG-09C (Moody's Apr. 2025)") at 5.

6 *Id.* at 8.

without the PD making any determinations or offering any analysis adjudicating between the parties' competing claims.[7] It is thus difficult to determine, what, if any, rationale or basis the PD had for recommending the ROE range or authorized ROE that it did.[8]

Specifically, the PD claims that it set SDG&E's authorized ROE after considering "market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors, and interest coverage," with the goal to "improve and maintain investment grade credit ratings."[9] But the PD contains multiple factual misstatement regarding SDG&E's financial modeling.[10] For example, the PD asserts that SDG&E's expert applied the ECAPM method and the after-tax weighted average cost of capital ("ATWACC") adder.[11] SDG&E's expert did neither, rendering the PD's statement that SDG&E's CAPM model outputs are "inflated" due to using ECAPM factually inaccurate.[12]

Worse, the PD ignores the underlying evidence of market conditions and trends. The PD seemingly just copies the range that the Commission set for SDG&E in the 2023 Decision—9.60% to 10.15% in the former versus 9.55%-10.15% in the latter.[13] But the PD lacks any support for this cut and paste. Interest rates are significantly higher now than in late fall 2022, when the 2023 Decision was adopted. Specifically, the 30-year Treasury yield is 70-basis points higher now than in November 2022.

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7 *See, e.g.*, PD at 34-37 (citing parties' arguments regarding wildfire risks without reaching any determinations regarding those arguments).

8 *See Ponderosa Tel. Co. v. Cal. Pub. Util. Comm'n*, 36 Cal. App. 5th 999, 1019 (2019) ("If an agency decision is shown to be 'arbitrary' or to 'exceed[ ] the bounds of reason,' an abuse of discretion will be found.") (citation omitted).

9 *Id.* at 48.

10 The PD also inaccurately calculates its recommended weighted cost for SDG&E's common equity in Ordering Paragraph 4. It should be 5.14% (9.88 multiplied by .52=5.1376).

11 *Id.* at 29-30.

12 *Id.* at 30. The PD finding that the "utility DCF results are higher than the intervenors, in part, because of the after-tax weighted average cost of capital (ATWACC) adder" is thus likewise inaccurate. *Id.* at 29.

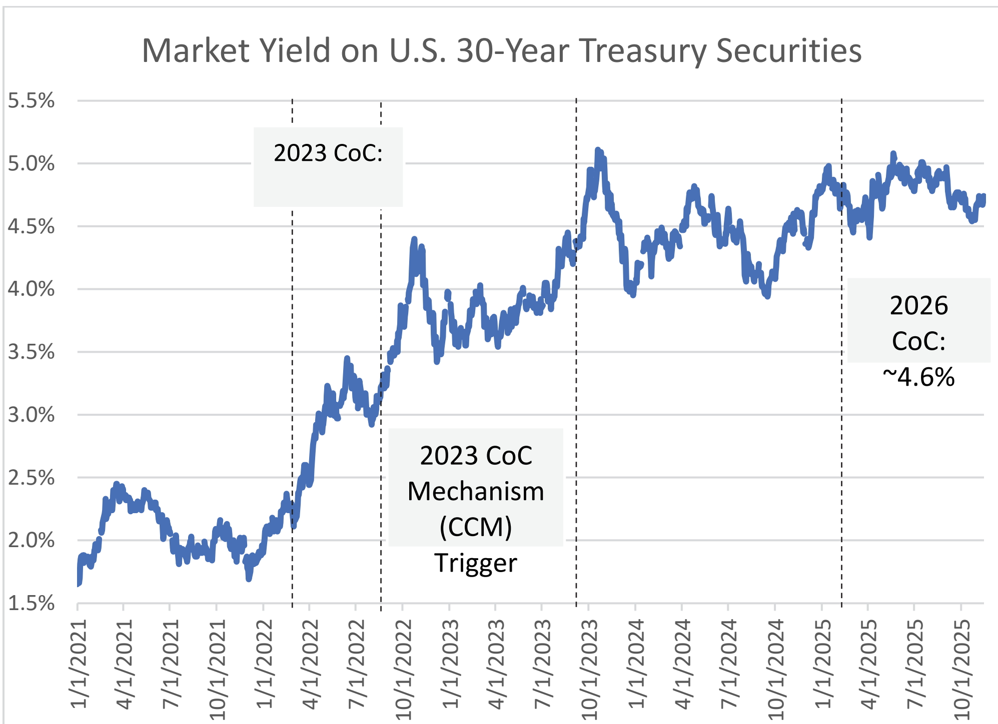
13 *Compare id.* at 48 *with* D.22-12-031 at 38.

Figure 1: 30 U.S. Treasury Yields (Nov. 2022 v. Nov. 2025)

	30-year Treasury Yield
November 2022	4.00%
Nov. 13, 2025	4.70%
Change	**+0.70%**

Thirty-year Treasury rates were even lower during that proceeding, between 2.50-3.50%; meaning interest rates are 100-200 basis points higher now.

Figure 2: Thirty-Year Treasury Yield



As the Commission has repeatedly recognized, higher interest rates increase the cost of equity.[14] As debt is less risky than equity investments, the higher return an investor can receive on debt, the higher the equity return generally must be. As the Commission observed just last year, an "analysis of utility authorized ROEs against Baa utility bond rates shows that a 100-basis point

[14] *See* D.08-05-035 at 18, FoF 16 ("The purpose of an interest rate benchmark is to gauge changes in interest rates that also indicate changes in the equity costs of utilities.").

change in Baa utility bond rates correlates with an approximate 21-basis point change in utility authorized ROE over the period 2009-2023."[15]

This increase in interest rates since the 2023 Decision is reflected in a corresponding 30-40 basis point increase in the national authorized ROE average for electric utilities.[16] The 2023 Decision relied upon the fact that the national average was 9.38% for 2021 and 9.39% for the first half of 2022.[17] By comparison, here the PD found that "the average ROE granted to United States electric utilities during 2024 is 9.78%" and 9.72% for the first half of 2025.[18]

Figure 3: National Authorized Electric Utility ROE Average[19]

Year	Electric Authorized Average
2021	9.39%
1H 2022	9.33%
2022	9.52%
2023	9.62%
2024	9.78%
1H 2025	9.73%

As such, the PD's assertion that it based its ROE determinations on "evidence of market conditions, trends . . . [and] interest rate forecasts" rings hollow.[20] While the PD tries to obfuscate this national authorized ROE average increase by averaging the data, asserting that "between 2020 and 2025, authorized returns on equity have averaged around 9.60%," it is belied by the straightforward upward trend line in the PD's own chart of yearly authorized ROEs from 2021 through 2025.[21] Since cost of capital decisions are adjudicated in the fall before the test year, the Commission has historically relied upon the authorized national average from the year prior to

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15 D.24-10-008 at 34, FoF 12; *id.* at 26 (finding an "empirical relationship between Baa utility bond yields and authorized ROE," with ROE increasing or decreasing by 20% of the change in interest rates).

16 *See* SDG&E Opening Brief at 15-18.

17 D.22-12-031 at 32 (utilizing authorized ROEs from RRA's "all electric average").

18 PD at 42 (electric authorized ROE averages that "exclude[s] Limited Issue Rider Decisions.").

19 D.22-12-031 at 32 (authorized national average for electric utilities for 2021 and the first half of 2022); PD at 33 (national average for electric utilities excluding limited riders for the first half of 2025).

20 PD at 48.

21 *Id.* at 41-42.

when the Decision is voted out (*i.e.*, two years prior to the test year), in addition to data from the first half of the year when the Decision is issued.

- **2020 Cost of Capital Decision**: "We further observe that [SDG&E's] 10.20% authorized ROE is significantly higher than the 9.60% average ROEs granted to United States electric utilities during 2018."[22]
- **2023 Decision**: "The average ROE granted to United State electric utilities during the first half of 2022 is 9.39%" and "the average ROE granted to United States electric utilities during 2021 is 9.38%."[23]

Using the PD's data compared to the data for the same time frame in the 2023 Decision—2021 and the first half of 2022 compared to 2024 and first half of 2025—shows a 39 and 34 basis point increase, respectively, in the national authorized electric ROE average.

Figure 4: 2023 Decision v. PD Relevant Authorized National Electric ROE Averages

Decision	2023 CoC Decision	2026 PD	Difference
Prior Year	2021—9.38%	2024—9.78%	+39 Bps
First Half of Decision Year	1H 2022—9.39%	1H 2025—9.72%	+34 Bps

B. The PD Undermines the Commission's Longstanding Precedent of Granting SDG&E Above-Average ROEs, Given SDG&E's Above-Average Risk

As a result, the PD's recommendation would effectively erase the Commission's precedent of granting SDG&E above-average ROEs compared to the national ROE average to counterbalance SDG&E's above-average risks.

Figure 5: SDG&E Authorized ROE Compared to Relevant National Average

Decision	2020 CoC Decision	2023 CoC Decision	2026 PD
ROE Granted	10.20%	9.95%	9.88%
Previous Year Nat'l ROE Average Cited	9.60%[24]	9.39%[25]	9.78%
Bps Difference	60 bps	56 bps	10 bps

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

[23] D.22-12-031 at 32 (citing Filing of Stipulated Facts at 4).

[24] D.19-12-056 at 43 (citing 2018 national average).

[25] D.22-12-031 at 32 (citing 2021 national average).

Nor is it consistent with the Commission's precedent of placing SDG&E's ROE in the upper half of the adopted range. That is, while the PD's range largely mirrors the 2023 Decision's range, the PD sets SDG&E's authorized ROE below the ROE set there—9.88% compared to 9.95%. The PD does so by recommending an ROE at the median of the range. Again, such a proposal is inconsistent with prior Commission decisions, where the Commission emphasized that it was placing SDG&E's ROE in the upper half of the ROE range and well above the national average authorized ROE for electric utilities.

- **2023 Decision:** SDG&E's ROE should be set at the "mid-upper end of the just and reasonable range," observing that the authorized ROE was "significantly higher" than the national authorized ROE for electric utilities;[26]
- **2020 Decision:** SDG&E's ROE should be set at the "upper end of the just and reasonable range," observing that the authorized ROE was "significantly higher" than the national authorized ROE for electric utilities;[27]

Moreover, the recommendation is inconsistent with the Commission's reasoning in the 2023 Decision. There, Commission relied upon a "continued downward trend for the authorizations of ROE for peer utilities in the United States . . . of 20-30 basis points" to support reducing SDG&E's ROE by 25 basis points.[28] Following that logic here, the increase in the national average by around 30-40 basis points supports an increase—not decrease—in SDG&E's ROE relative to that Decision. And the PD is contrary to the Commission's finding that, "recent Commission Cost of Capital decisions themselves rarely authorize test year changes to ROE exceeding 25 basis points."[29] The PD has no explanation or reasoning for its break from these Commission precedents.

C. SDG&E's Above-Average Risks Do Not Support the PD's Average ROE

The only basis that the PD would have to lower SDG&E's ROE relative to the national average and/or reduce SDG&E's ROE to the median within the adopted range compared to those prior Commission authorizations is if SDG&E's risks had declined compared to the 2023 Decision, such that SDG&E could now be considered an average risk utility. As the PD recognizes, the

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[26] *Id.* at 38.

[27] D.19-12-056 at 42.

[28] D.22-12-031 at 33-34.

[29] D.24-10-008 at 26; *id.* at 25 ("Cal Advocates presents evidence that, from 2010-2022, the most significant change in any 3-year period for the average annual authorized ROE for electric utilities was a 28-basis point change.") (citation omitted).

longstanding precedent under *Bluefield* and *Hope* is that ROE must be set consistent with risks.[30] The higher the risk relative to other utilities, the higher the required ROE. Otherwise, investors will invest in other utilities who have lower risks but provide the same return.[31]

But SDG&E's risks remain the same—if not increased—since the 2023 Decision. Specifically, following the January 2025 wildfires in Southern California, credit rating agencies see increased threats for California electric utilities due to the:

- Increasing duration of wildfire season;
- Increased risk of wildfires occurring in dense urban areas; and
- The ongoing application of inverse condemnation.[32]

S&P explicitly states that SDG&E faces "above average physical risks" from wildfire.[33] As S&P added, "[t]he occurrence of these severe wildfires, occurring slightly more than six years apart, suggests a potential for continued negative impacts on California IOU[s'] credit quality due to escalating wildfire risks."[34] And inverse condemnation strict liability for wildfire remains unique to California utilities, "heighten[ing] a utility's exposure to property damages" compared to wildfire liability limits in other western states.[35]

Although SB 254 passed this fall, as the PD itself quotes, Moody's sees this legislation as only a "temporary fix" and "not sustainable in a world where large fires continue to occur," given the "inherent limits of how much can be raised through company contributions or customer

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[30] PD at 21.

[31] D.23-08-028 at 9 ("an unreasonably low ROE may not be in the public interest because it could cause investors to move to utilities with higher ROEs.").

[32] Ex. SDG-08C, Moody's Ratings*, Sector In-Depth: Regulated Electric and Gas Utilities – California, Wildfire fund depletion will increase credit risk, requiring a replenishment plan or other liability remedies* (August 4, 2025) ("Ex. SDG-08C Moody's, Aug. 2025") at 1.

[33] Ex. SDG-12C, S&P, *Tear Sheet: San Diego Gas & Electric Co. Monitored Due to Risk of Material Draw on Wildfire Fund* (February 11, 2025).

[34] Ex. SCE-09C, S&P Global Ratings, *Edison International and Subsidiary Downgraded to 'BBB- 'On Smaller-Than-Expected Wildfire Fund; Outlook is Negative* (September 17, 2025) ("Ex. SCE-09C S&P Sep. 2025") at 1, 3.

[35] Ex. SDG-08C, Moody's Aug. 2025 at 3 (contrasting California's lack of liability limits with Utah and Idaho's caps on non-economic damages).

surcharges."[36] The SB 254 contributions are smaller compared to Assembly Bill ("AB") 1054—"about 50% smaller on a net present value basis" according to S&P.[37]

Moreover, Moody's noted that the Continuation Fund's "same 50-50 cost sharing structure" between shareholders and ratepayers itself has "downside implications from a credit perspective."[38] That is, the need for ongoing wildfire contributions "represent direct financial losses, which erode [the utilities'] earnings, and could impact creditworthiness especially if they are financed with debt without corresponding equity."[39] For example, Moody's calculated that "SCE's $2.4 billion contribution to the [AB 1054] fund and its annual $95 million contribution reduced its return on equity by about 73 basis points in 2023 and 49 basis points in 2024."[40]

Figure 6: Impact of AB 1054 Contributions on SCE Earned ROE

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

Those AB 1054 contributions have had a similar impact upon SDG&E.[41]

Figure 7: Impact of AB 1054 Contributions on SDG&E's Earned ROE

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

36 PD at 35; SDG-08C (Moody's Aug. 2025) at 1.

37 Ex. SCE-09C (S&P Sep. 2025)

38 Ex. SDG-08C (Moody's Aug. 2025) at 2.

39 *Id.* at 3.

40 *Id.*

41 *See* Ex. SDG-04, *Prepared Rebuttal Testimony of Valerie A. Bille on Behalf of SDG&E* (August 20, 2025) ("Ex. SDG-04 (Bille Rebuttal)") at 13.

As such, TURN's statement, cited by the PD, that "SDG&E has earned or over-earned its authorized return by an average of 70 basis points (bps) since 2013,"[42] is false. TURN's own data shows that SDG&E underearned its authorized ROE by over 100 basis points in 2023 and 2024.[43] Under SB 254, SDG&E must make contributions to the wildfire fund through 2045. Those contributions come from earnings, making it more difficult for SDG&E to earn its authorized ROE.

Moody's concluded that the only "permanent solution" would "require legislative action to address utility wildfire liability," such as the elimination of inverse condemnation and/or other liability reforms.[44] As a result, following SB 254's passage, as the PD acknowledges, SCE's credit rating was downgraded by S&P, with Fitch putting SCE on negative watch.[45] The PD similarly acknowledges that S&P downgraded SDG&E's business risk profile following that legislation's passage.[46] As S&P stated in making that downgrade to SDG&E's business risk rating, "[w]hile SDG&E has a long track record of not causing a severe wildfire and has invested billions on system hardening and situational awareness aimed at mitigating wildfire risk, SDG&E cannot eliminate the possibility of a catastrophic event." S&P continued that, a "single, devastating wildfire could significantly impair SDG&E's financial performance and trigger a multi-notch downgrade."[47]

The PD attempts to elude these recent credit rating downgrades by asserting that PG&E had a credit rating increase since the 2023 Decision and that SDG&E and the other California utilities "remain investment grade."[48] But that focus simply on retaining investment grades is contrary to what the PD itself says its goal is in setting authorized ROEs, which is to "improve and maintain" investment grade credit ratings.[49] According to EPUC/IS, over 80% of regulated utilities have credit

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42 PD at 15 (citing TURN Opening Brief at 20-21).

43 TURN Opening Brief at 22.

44 Ex. SDG-08C (Moody's Aug. 2025) at 3; *see also* SB 254, Stats. 2025-2026, Ch. 254 (Cal. 2025) ("As longer term solutions are developed, it is necessary to establish an interim framework to provide the Wildfire Fund with access to additional assets, if needed.").

45 PD at 35

46 *Id.* at 14 (citing Ex. SDG-14C).

47 Ex.SDG-14C, S&P Global Ratings, *San Diego Gas & Electric Co. Ratings Affirmed on California Senate Bill 254 Passage, Outlook Stable* (September 2025) ("Ex. SDG-14C (S&P Sept. 2025)") at 2.

48 PD at 43.

49 *Id.* at 48.

ratings of BBB+ or higher.[50] Yet two of the three California electric utilities are already below BBB+. As such, the PD's focus on the fact that the non-PG&E California Utilities "remain investment grade" shows a desire to ignore those downgrades (and potential future ones) to reach an outcome-driven result.

At best then, SDG&E's risk profile is the same as it was in the last two cost of capital decisions, when AB 1054 was in place. The PD does not make any findings that SDG&E's risks have decreased to justify placing SDG&E at the median—rather than upper half—of the adopted ROE, as the Commission has previously done. Nor does the PD demonstrate why SDG&E's risks have decreased such that moving SDG&E closer to the national ROE average is warranted.

D. The PD May Result in Credit Rating Downgrades, Increasing Costs

It is not surprising, then, that equity analysts have reacted negatively to the PD.

- **TD Cowan**: The PD "seems capricious relative to where Treasuries are and the higher level of risks this year in CA . . . [u]nfortunately, this could lead to credit review—whether it be in the form of negative outlooks or delayed upgrades—that ultimately could impact the overall cost of capital."[51]
- **Wells Fargo**: The PD "is at conflict with the reality on the ground . . . we find several inconsistencies with the case record and practical reality of utility operations in CA."[52]
- **Barclays**: "We see the PD as negative . . . [and] contradicts the risk premium needed for the CA operating environment."[53]
- **Mizuho**: "We view the decision as a negative and like us, most investors were expecting an in-line/no change from the current ROE. While it is just a recommendation, and we believe does not adequately reflect the risk borne by shareholders[…][54]
- **Wolfe Research**: "Totally illogical and a negative signal to investors . . . 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

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50 EPUC/IS Opening Brief at 66-67.

51 TD Securities (USA) LLC, *California Cost of Capital PD Disappointing* (November 16, 2025) at 1.

52 Wells Fargo, *CA Cost of Capital PD Strikes Hard; We See Little Room for CPUC Improvement as Affordability Arguments Bite* (November 16, 2025) at 1-2.

53 Barclays, *The Week Ahead* (November 17, 2025) at 5.

54 Mizuho Securities USA LLC, *California Refuses to Adopt Boring; Recommended ROE Cut by 35 bps* (November 17, 2025) at 1.

> higher and interest rates are higher. While manageable, we would be very disappointed if a final decision does not improve upon the PD."[55]

If adopted, this PD could thus lead to credit rating downgrades. Moody's has explicitly found that the Commission's longstanding precedent of authorizing SDG&E "above-average returns,"[56] with an ROE that "compares favorably to the authorized returns in other jurisdictions" is credit supportive and an important balance to SDG&E's above-average risks.[57]

TURN's witness in this proceeding similarly noted that the "Commission has a long record of setting the authorized ROE significantly higher than the national average as a means of both encouraging and signaling to the broader financial markets a commitment to financially healthy California utilities."[58] She continued that, "S&P's notes indicate that what may be most important for investors and credit is the relationship of the authorized ROE to the industry average," citing S&P viewing the recent granting of a 10.30% ROE to Duke Energy Florida as credit supportive.[59]

Moving SDG&E from having a longstanding above-average ROE to an ROE near the industry average would remove this longstanding credit-supportive aspect of the Commission's regulatory framework. For Moody's, the "Ability to Recover Costs and Earn Returns" is 25% of Moody's ratings methodology.[60] And SDG&E currently has an 'A' for "Sufficiency of Rates and Returns;" compared to a 'Baa' for, "Timeliness of Recovery of Operating and Capital Costs."[61] It stands to follow that, if this credit supportive feature is removed, SDG&E's rating on this score could decrease. And a decrease in SDG&E's credit rating would increase costs for customers. As Moody's cautioned, the Commission's decision here "will provide another point of reference to assess SDG&E's relationship with the CPUC and the constructiveness of the regulatory environment."[62]

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55 Wolfe Research, *The Fleishman Daily 11/17/25* (November 17, 2025).

56 Ex. SDG-09C (Moody's Apr. 2025) at 6.

57 *Id.* at 5, 8.

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

59 *Id* at 31. (quotation omitted).

60 Ex. SDG-09C (Moody's Apr. 2025) at 15.

61 *Id.*

62 Moody's Apr. 2025 at 8.

E. SDG&E's Currently Authorized ROE Reflects the Recent Increase in Interest Rates and Should Be Maintained

The Commission should instead maintain SDG&E's currently authorized ROE of 10.23%. That ROE appropriately reflects—and directly resulted from—the increase in interest rates following the 2023 Decision. With interest rates remaining elevated, that currently authorized ROE should be continued.

Specifically, as noted, following the 2023 Decision, interest rates increased significantly—with a 141-bps increase in the relevant Moody's utilities bond index between October 1, 2022 through September 30, 2023, resulting in the CCM triggering upward for 2024-2025.[63] In D.24-10-008, the Commission modified SDG&E's resulting ROE to 10.23%, based upon the finding that a 100-basis point increase in interest rates results in about a 21-basis point increase in authorized ROEs.[64] This 20% adjustment applied to the 141-basis point interest rate increase resulted in a 28-basis point increase in SDG&E's ROE, from 9.95% to 10.23%.[65]

The PD would negate the impact of those interest rate increases—contradicting the entire premise of the CCM.[66] Instead, as interest rates remain elevated—and SDG&E's above-average risks remain—SDG&E's currently authorized ROE of 10.23% should be maintained. As noted, the 30-year Treasury remains 70 basis points higher now compared to November 2022.

Moreover, the 28-basis point increase from the 9.95% granted in the 2023 Decision to SDG&E's currently authorized 10.23% is largely consistent with the 30-40 basis point increase in the national authorized ROE average during this period. Maintaining SDG&E's currently authorized ROE would thus follow the Commission's reasoning in the 2023 Decision. Just as the Commission relied there on the reduction in the national ROE average by 20-30 basis points to support a 25-basis point reduction in SDG&E's ROE, so too here the 30-40 basis point increase in the national average since that Decision supports maintaining SDG&E's currently authorized ROE. And it would be consistent with the Commission's longstanding precedent of setting SDG&E's ROE 50-60 basis points above the national authorized ROE average.

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[63] D.24-10-008 at 28.

[64] *Id.* at 26.

[65] *Id.* at 28.

[66] *Id.* at 34, FoF 12.

Figure 8: SDG&E's Currently Authorized ROE Compared to 2024 National Average

SDG&E's Currently Authorized ROE	**10.23%**
2024 National Authorized ROE Average	9.78%
Bps Difference	45 Bps

To set an authorized ROE range, the Commission should increase the 2023 Decision's adopted range for SDG&E by the same 28 basis point increase applied in D.24-10-008, establishing a range of 9.83%-10.43%. An authorized ROE of 10.23% would similarly be at the "middle upper" portion of that range. This ROE and range would thus be consistent with record evidence, Commission precedent, and credit supportive.

III. CONCLUSION

The PD errs in mirroring the 2023 Decision's range for SDG&E. Interest rates and the authorized national ROE average have significantly increased since that Decision. The PD further errs in recommending setting SDG&E's ROE at the median of that range, compared to the Commission's longstanding precedent of setting an authorized ROE in the upper half of the range.

SDG&E continues to face above-average risks. Adopting the PD could result in credit rating downgrades, raising costs for customers. The Commission should instead maintain SDG&E's currently authorized ROE of 10.23%, which resulted from increased interest rates, mirrors the resulting increase in the national authorized electric ROE average, and is consistent with Commission precedent.

Respectfully submitted,

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APPENDIX A

Proposed Redlines to Conclusions of Law

19. A test year 2026 ROE range from ~~9.60%~~ 9.83% to ~~10.15%~~ 10.43% is just and reasonable for SDG&E.

23. A test year 2026 ROE of ~~9.88%~~ 10.23% and ROR of ~~7.39 %~~ 7.57% is just and reasonable for SDG&E.

Proposed Redlines to Ordering Paragraphs

4. San Diego Gas & Electric Company's cost of capital for its test year 2026 operations is as follows:

	Capital Proportion	**Cost Factor**	**Weighted Cost**
Long-term Debt	45.25%	4.59%	2.08%
Preferred Equity	2.75%	6.22%	0.17%
Common Equity	52.00%	~~9.88~~10.23%	5.~~07~~23%
Return on Rate Base			7.~~39~~57%