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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 (U39M).	**Application 25-03-010**
And Related Matters.	**Application 25-03-011** **Application 25-03-012** **Application 25-03-013**

NOTICE OF EX PARTE COMMUNICATION OF INDICATED SHIPPERS, ENERGY PRODUCERS AND USERS COALITION, PUBLIC ADVOCATES OFFICE, THE UTILITY REFORM NETWORK, AND ENVIRONMENTAL DEFENSE FUND

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December 5, 2025

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OF THE
STATE OF CALIFORNIA

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Pursuant to Rule 8.4(a) of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), Energy Producers and Users Coalition (EPUC),[1] the Indicated Shippers,[2] the Public Advocates Office (Cal Advocates) at the California Public Utility Commission, The Utility Reform Network (TURN), and Environmental Defense Fund (EDF) hereby give notice of the following communication:[3]

DATE, TIME, AND LOCATION OF COMMUNICATION: Meeting with Commissioner John Reynolds's office on December 2, 2025, from 2:30 p.m. to 3:00 p.m., via webex.

[1] EPUC represents the electricity end-use interests of the following companies in this proceeding: California Resources Corp., Chevron U.S.A. Inc., PBF Holding Company, Phillips 66 Company, and Tesoro Refining & Marketing Company LLC.
[2] The Indicated Shippers represent the natural gas non-core customer interests of the following companies in this proceeding: California Resources Corp., Chevron U.S.A. Inc., Marathon Petroleum Company LP, PBF Holding Company, and Phillips 66 Company.
[3] Pursuant to Rule 1.8(d) of the Commission's Rules of Practice and Procedure, EPUC and Indicated Shippers have been authorized to submit this notice on behalf of Cal Advocates, TURN, and EDF.

WHO INITIATED COMMUNICATION: Nora Sheriff, counsel for EPUC and the Indicated Shippers.

NAMES AND TITLES OF NON-CPUC PERSONS PRESENT: Nora Sheriff and Samir A. Hafez, counsel for EPUC and the Indicated Shippers; Wayne Parker, Staff Attorney for Cal Advocates; David Cheng, counsel for TURN; and Michael Colvin, Director, California Energy Program, EDF.

NAMES AND TITLES OF CPUC PERSON PRESENT: David Fermino and Andrew Klutney, Advisors to Commissioner Reynolds.

DESCRIPTION OF COMMUNICATION: Mr. Colvin began the meeting by thanking the advisors for their time and attention to this proceeding. He noted the critical importance of the issues at stake, as signified by the joint efforts of the diverse parties in attendance and the cross-section of parties engaged in this proceeding. He then addressed the Proposed Decision's (PD) findings regarding the investor-owned utilities' (IOUs) returns on equity (ROEs). Mr. Colvin explained that, over the past several years, the California IOUs' ROEs have remained elevated even as national averages have gone down. He noted that the ROEs adopted in the PD are well-supported by the record evidence, and represent an important step towards bringing the California IOUs' ROEs closer to the national average authorized ROEs for similarly situated IOUs. Mr. Colvin also explained that the IOUs' risk arguments are unsupported, and undercut the regulatory supportive environment that the legislature and Commission have fostered to ensure that clean energy goals do not impose excessive risks on the IOUs.

He noted that the PD's treatment of the IOUs' ROEs will significantly help mitigate affordability concerns. Specifically, Mr. Colvin explained that the PD's reduction to the IOUs' currently authorized ROEs would result in an approximately $300 million reduction to the IOUs' combined revenue requirements on an annual basis. He added that the PD's reduction to the IOUs' ROEs would result in approximately $1.3 billion in annual ratepayer savings compared to the IOUs' proposals. He also explained that the PD's affordability gains will help further the state's decarbonization goals by freeing up customers' ability to spend on decarbonization measures.

Ms. Sheriff underscored that the $300 million annual reduction to the IOUs' combined revenue requirements is an important step towards affordability; but cautioned that, in light of other aspects of the PD, that progress may be illusory. Specifically, she flagged the PD's authorization of PG&E and SCE's capital structures, PG&E's Yield Spread Adjustment (YSA) proposal, and continuation of the Cost of Capital Mechanism (CCM) without necessary procedural modifications.

Mr. Cheng, Mr. Parker, and Ms. Sheriff addressed the PD's treatment of PG&E and SCE's capital structures, noting that the PD fails to address concerns with the "phantom equity" associated with the difference between authorized and actual capital structure common equity ratios. Mr. Cheng explained that the ratemaking capital structure is intended to represent the Commission's determination of the appropriate debt-to-equity ratio the IOUs should maintain. He added that, in recent years, the Commission has granted PG&E and SCE several waivers allowing these utilities to operate with capital structures composed of more debt and less equity than authorized. He underscored that markets do not rely on the ratemaking capital structure when assessing the IOUs' creditworthiness; rather, ratings agencies assess creditworthiness based on the IOUs' actual, or GAAP, capital structures. Mr. Cheng then noted that, while short-term deviations from the authorized capital structure may be appropriate in certain circumstances, PG&E and SCE's persistent misalignment exposes ratepayers to excessive costs for equity financing. He expressed the group's concern with the PD's failure to address this ratepayer harm, as well as the PD's mistaken assumption that PG&E and SCE maintain their respective actual, GAAP capital structures in alignment with their respective ratemaking capital structures. He emphasized that the PD should be revised to address this ratepayer harm by authorizing ratemaking capital structure common equity ratios that result in ratepayers being charged according to PG&E and SCE's actual respective equity financing costs. He added that, at a minimum, the PD must include language directing PG&E and SCE to restore alignment between their authorized and actual capital structure ratios.

Ms. Sheriff addressed PG&E's YSA, noting the PD authorizes this proposal without fully explaining the concept. She explained that the YSA would compare PG&E's actual cost of short-term debt to the commercial paper rate, and then adjust PG&E's short-term financing costs for the balances in balancing and memorandum accounts by the difference. She explained that Commercial Paper typically matures in 90 days and has a lower interest rate than longer-term debt; however, she added, because PG&E's balance sheet is still so overleveraged, PG&E does not have access to Commercial Paper rates. Ms. Sheriff pointed out that, had the YSA been in place, PG&E estimated the difference in the carrying charge which ratepayers would pay would have been about $65 million for the period beginning November 2024 through October 2025. She clarified that it is unclear what the ratepayer impact will be going forward, but emphasized that, given the affordability crisis, every million counts. She also emphasized that the PG&E's inability to access the short-term commercial paper rate is entirely of its own making, due to its overleveraged balance sheet which PG&E could – and should - fix. Because PG&E's actual capital structure is still misaligned with its authorized capital structure, which also imposes excess costs on ratepayers, Ms. Sheriff urged revision of the PD to reject the YSA. If the YSA is not rejected, Ms. Sheriff emphasized that this must be a very short-term interim measure that should be terminated as soon as possible, because it burdens ratepayers and erodes some of the affordability benefits from the reduction in ROEs.

Mr. Hafez addressed the PD's continuation of the CCM, noting that the PD should be revised to include a procedural pathway for stakeholders to challenge unjustified ROE adjustments triggered by the CCM. He explained that the CCM was adopted in 2008 to reduce the burden of annual Cost of Capital applications, and that the Commission's intent was to move to a multi-year cycle while still maintaining fair and reasonable returns between applications. He emphasized that the efficiency gain associated with the CCM was the move away from annual proceedings, and not in eliminating oversight of ROE adjustments that can significantly impact rates. He then noted that, in theory, every CCM adjustment can be examined, given the fact that the IOUs have the right to file an Extraordinary Event application if they believe the CCM adjustment does not reflect their actual circumstances. He added that, in practice, the IOUs use that pathway—or decline to use it—when it favors them. Mr. Hafez pointed out that, in contrast, ratepayers do not have the same opportunity to challenge an increase, even when it is excessive. To address this procedural imbalance, Mr. Hafez reiterated that the PD should be revised to level the playing field by providing a streamlined review process allowing ratepayers to challenge an adjustment before it takes effect.

The group thanked the advisors for their time and attention to these important applications and Ms. Sheriff concluded the meeting by urging modification of these three aspects of the PD to ensure that the affordability gains associated with the PD's ROE determinations are not illusory.

WRITTEN MATERIALS PROVIDED: None.

Respectfully submitted,

Buchalter, A Professional Corporation

By:

Nora Sheriff

Nora Sheriff

Counsel for Energy Producers and Users Coalition and the Indicated Shippers, and on behalf of Public Advocates Office, TURN, and Environmental Defense Fund

December 5, 2025