



**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. (U 39 M)

Application 25-03-010

AND RELATED MATTERS

Application 25-03-011

Application 25-03-012

Application 25-03-013

REPLY COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E)
ON PROPOSED DECISION OF ALJ LAKEY

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**REPLY COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON
PROPOSED DECISION OF ALJ LAKEY**

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**REPLY COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON
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Intervenors' comments on the PD seek to (1) maintain or lower the PD's authorized ROE; and (2) lower the common equity portion of SCE's authorized capital structure and/or eliminate (or penalize SCE for) Commission-approved or statutorily required exclusions from its ratemaking capital structure. SCE urges the Commission to reject these proposals and authorize, at a minimum, SCE's current authorized ROE and capital structure.

**I.
THE PD'S AUTHORIZED ROE REMAINS UNJUST AND UNREASONABLE**

Intervenors generally support the PD's authorized ROE or assert that it should be even lower. But Intervenors themselves acknowledge that the PD's outcome lacks support or risks technical error.¹ As set forth in SCE's Opening Comments, the PD is inconsistent with increased interest rates, increased national average ROEs, and steady or increased risk since the 2023 cost of capital proceeding.

Intervenors' assertions that the PD's authorized ROE should be adopted in the purported interest of affordability are also without merit. First, the Commission has recognized that "[t]he issue of affordability as it relates to the cost of capital is subsumed under the *Hope* and *Bluefield* standards," and that "[c]onsiderations of affordability beyond the *Hope* and *Bluefield* standards risk undermining them."² The PD's ROE does not meet the *Hope* and *Bluefield* standards.

Moreover, the immediate revenue impact of the PD's ROE reduction—contrary to elevated interest rates, upwards movement in national average ROEs, and the heightened risk environment—could be outweighed by long-term impacts on borrowing costs due to eroded confidence in the California regulatory environment.³ In any event, the Commission's objective is not to maximize customer savings by setting the authorized ROE as low as possible; it is to set the ROE "commensurate with market returns on investments having corresponding risks and adequate to enable a utility to attract

¹ Wild Tree Comments, p. 5; PCF/Sierra Club Comments, p. 7; Cal Advocates Comments, p. 2.

² D.24-10-008, p. 30.

³ EDF's attempt to quantify these impacts (EDF Comments, pp. 5-7) is overly simplistic and should be given no weight. EDF's calculations do not consider that an elevated cost of debt will continue to impact customers over the life of the bonds obtained at those costs (typically 30 years).

investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation."⁴ Maintaining SCE's current authorized ROE and capital structure achieves that objective.

II.

SCE'S AUTHORIZED CAPITAL STRUCTURE SHOULD NOT BE MODIFIED

Cal Advocates and EPUC/IS both propose to lower the common equity portion of SCE's authorized capital structure to 50 percent. Other Intervenors propose that SCE be required to phase out Commission-approved or statutory capital structure exclusions or that SCE only earn its return on equity on the actual equity portion of its capital structure. These proposals are unsupported, are contrary to prior Commission decisions, and would negatively impact SCE's ability to obtain financing at reasonable costs. They should be rejected.

A. Lowering SCE's Common Equity Layer Would Harm SCE's Credit Metrics and the Perceived Strength of the Regulatory Environment

As set forth in SCE's Opening Brief, lowering the common equity layer in SCE's authorized capital structure would negatively impact SCE's credit metrics. An authorized common equity ratio of 50 percent would lower both S&P's primary measure, Funds From Operations to Total Debt, and Moody's Cash Flow from Operations before changes in Working Capital (CFO pre-W/C) to Debt by approximately 1 percentage point.⁵ Both of these measures are already below pre-2018 levels and at the low end of the investment grade ratings spectrum of their respective scales.⁶

EPUC/IS attempt to minimize this impact by asserting that credit agencies "assess the Utilities' creditworthiness based on their *actual* capital structures, not the authorized ratemaking capital structure."⁷ While credit agencies do consider GAAP accounting in calculating financial metrics, authorized capital structures are also relevant. First, SCE must comply with its authorized capital

⁴ D.22-12-031, p. 15; D.23-08-028, p. 4 (noting PCF's rehearing application failed to identify any "regulation, statute, or caselaw that *requires* this Commission to set the return on equity for any utility at . . . the minimum rate of return necessary to attract capital" (emphasis in original)).

⁵ SCE Opening Brief, p. 48.

⁶ SCE-01E, pp. 60-64.

⁷ EPUC/IS Comments, p. 8 (emphasis in original); *see also* TURN Comments, p. 2.

structure as to the portion of long-term capital not subject to Commission-approved or statutory exclusions.⁸ Thus, if SCE's authorized level of common equity is lowered, the level of common equity in its actual capital structure would also be lowered over this cost of capital cycle, which would be detrimental to SCE's credit metrics as discussed above.

Second, the authorized capital structure impacts the perceived strength of the regulatory environment and the likelihood of investor cost recovery, both of which factor into SCE's credit ratings. As the Commission has recognized, it aims to set the authorized capital structure at a level that will "maintain reasonable credit ratings and attract capital" while also protecting ratepayers.⁹ Maintaining SCE's current authorized capital structure best meets this standard.

Third, a lower common equity ratio would compound the negative impacts of an authorized ROE below a just and reasonable level or necessitate a higher ROE. SCE's request for the Commission to authorize an ROE of at least 10.33 percent assumes that its capital structure will be maintained. Because a higher degree of debt in the capital structure increases risk for equity holders and degrades SCE's credit metrics generally, any increase in the debt proportion of SCE's authorized capital structure would require a higher ROE to offset that added risk.

B. SCE's Capital Structure Must Be Determined on a Stand-Alone Basis

Cal Advocates asserts that SCE's common equity layer should be reduced because SCE is "double-levered," meaning the parent company has more debt leverage than SCE.¹⁰ But as set forth in SCE's Opening Brief, the Commission requires that SCE's capital structure be determined "on a stand-alone basis, independent of the operations of the nonutility affiliates."¹¹ The Commission should therefore decline to adopt this argument, as it has in prior proceedings.¹²

⁸ D.06-12-029, Appendix A-1, § IX.B ("A utility shall maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the utility's capital structure.").

⁹ D.22-12-031, p. 4.

¹⁰ Cal Advocates Comments, p. 3.

¹¹ SCE Opening Brief, p. 50 (citing *S. Cal. Edison Co.*, D.88-01-063, 22 CPUC 2d 347, 356 (1988)).

¹² See D.19-12-056, pp. 7-8.

C. **Requiring SCE to Return to Its Authorized Capital Structure Is Contrary to Commission-Approved and Statutory Exclusions**

TURN “generally agrees that a 52% equity ratio would be appropriate,” but would require SCE to restore alignment with its authorized capital structure within 18 months of the decision’s effective date.¹³ The PD appropriately recognizes SCE’s position that “TURN ignore[s] Commission-approved settlements that allowed SCE to permanently exclude debt used to finance costs related to the Thomas Fire and Montecito debris flows from its capital ratemaking structure.”¹⁴ The proposed decision in the Woolsey cost recovery proceeding similarly approves a settlement allowing SCE to permanently exclude debt used to finance costs related to the Woolsey Fire.¹⁵ SCE’s other exclusions are statutorily required or approved by the Commission in other proceedings. TURN’s proposal constitutes an improper collateral attack on these decisions and statutes and is outside the scope of this proceeding.

TURN also repeats its assertion that customers are incurring unreasonable rates associated with “phantom equity” and that capital structure exclusions are “adverse to the public interest.”¹⁶ But the Commission has already determined that the settlement regarding Thomas Fire and Montecito debris flow claims costs, including its permanent capital structure exclusion, was “in the public interest.”¹⁷ Moreover, as acknowledged in the PD,¹⁸ customers have not been overpaying SCE’s ROE; rather, SCE has significantly *underearned* its authorized ROE since at least 2017, with 2024 actual earnings at 6.38 percent as compared to 10.75 percent authorized, in part due to financing of wildfire claims and SCE’s contributions to the Wildfire Fund.¹⁹ The PD therefore correctly rejects this proposal.

¹³ TURN Comments, pp. 2-3 & Attachment A; *see also* EPUC/IS Comments, pp. 2-3.

¹⁴ PD, p. 14.

¹⁵ Proposed Decision of ALJ Regina DeAngelis, A.24-10-002 (Nov. 13, 2025), p. 22, n. 76. No party commented on this proposed decision within the time provided in Rule 14.3.

¹⁶ TURN Comments, p. 3; *see also* EPUC/IS Comments, pp. 2-3.

¹⁷ D.25-01-042, p. 14. The PD approving the settlement regarding costs associated with the Woolsey Fire similarly found the settlement in the public interest. *See* Proposed Decision of ALJ Regina DeAngelis, A.24-10-002 (Nov. 13, 2025), pp. 26, 31.

¹⁸ PD, pp. 13-14.

¹⁹ SCE Opening Brief, p. 52; SCE-05, p. 26 (citing <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/historical-electric-cost-data/return-of-equity>).

D. Allowing SCE to Earn Its Cost of Equity Only on Its Actual Equity Layer Is Unworkable and Unwarranted

EDF suggests the Commission adopt the authorized capital structure but pay the IOUs “ROE only for the actual capital proportion they hold.”²⁰ EDF does not explain how this proposal would work or whether SCE’s rate of return would be adjusted based on its actual capital structure at a particular point in time or through an after-the-fact “equity layer true-up” mechanism. The latter would require a balancing account or other special ratemaking mechanism to adjust authorized rates and would be contrary to the forecast ratemaking model, which Intervenor acknowledges is generally credit supportive.²¹ Moreover, EDF’s proposal would inappropriately penalize SCE for exclusions approved by the Commission or mandated by law. EDF’s proposal must therefore be rejected.

**III.
CONCLUSION**

SCE respectfully requests that the Commission adopt a final decision that maintains, at a minimum, SCE’s current authorized ROE and capital structure.

Respectfully submitted,

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²⁰ EDF Comments, p. 9.

²¹ See, e.g., TURN Opening Brief, p. 4.