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

Application of Pacific Gas and Electric
Company for a Limited Capital Structure
Adjustment

(U 39 M)

Application No. 24-08-004
(Filed August 5, 2024)

**RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY TO
DECEMBER 22, 2025 EMAIL RULING DIRECTING THE FILING OF
ADDITIONAL INFORMATION**

GIOVANNI SAARMAN GONZÁLEZ
BRIAN RIVAS BOESSENECKER

WALKER A. MATTHEWS, III
TIM B. WEDLAKE

Munger, Tolles & Olson LLP
560 Mission Street, 27th Floor
San Francisco, CA 94105
Telephone: (415) 512-4014
E-Mail: Giovanni.SaarmanGonzalez@mto.com

Pacific Gas and Electric Company
Law Department 19th Floor
300 Lakeside Drive, Suite 210
Oakland, CA 94612
Telephone: (925) 596-0670
E-mail: tim.wedlake@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC
COMPANY

Dated: December 30, 2025

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Pursuant to the Administrative Law Judge’s December 22, 2025 Email Ruling Directing the Filing of Additional Information (Ruling), Pacific Gas and Electric Company (PG&E) submits this Response addressing each of the two questions specified in the Ruling. Through this Response to the Ruling, PG&E clarifies the legal requirements applicable to PG&E’s request in this Application. As explained further below, PG&E’s Application (A.) 24-08-004 is not an adverse financial event application and therefore is not subject to specific requirements and protections that apply to such applications. Instead, this Application seeks a Commission determination that certain accounting adjustments should be approved for purposes of determining PG&E’s compliance with its authorized capital structure. PG&E hopes that the additional information provided in this Response will facilitate the Commission’s expeditious resolution of PG&E’s Application.

**I. PG&E’S RESPONSE TO QUESTION ONE REGARDING USE OF THE TERM
“LIMITED CAPITAL STRUCTURE ADJUSTMENT”**

The Ruling directs PG&E “to explain the distinction between a ‘limited capital structure adjustment’ and a waiver request, pursuant to Rule IX B.”¹ The Application requests that the

¹ Ruling at p. 2 (“PG&E files A.24-08-004 for a ‘limited capital structure adjustment.’ Rule IX B allows for waiver requests. PG&E is directed to explain the distinction between a ‘limited capital structure adjustment’ and a waiver request, pursuant to Rule IX B. If there is no difference, PG&E is directed to explain why it chooses to refer to this request as a ‘limited capital structure adjustment’ and not present it as a waiver request. If PG&E identifies a distinction, PG&E is directed to provide the authority (statute, decision, or rule) that allows for and governs a ‘limited capital structure adjustment’ request.”).

Commission authorize PG&E to adjust certain accounting entries for purposes of computing PG&E's equity-to-debt ratio. Specifically, PG&E requests authority to remove non-rate base financing when calculating PG&E's compliance with its authorized capital structure ratio used to determine its return on rate base assets. The authority, if granted, would allow PG&E to use those adjustments for demonstrating compliance with its authorized capital structure. The limited adjustment is appropriate because it removes non-rate base financing from the calculation of compliance with the approved capital structure used to determine the return on rate base assets. By contrast, a general waiver request pursuant to Rule IX.B would ask the Commission to permit a utility to deviate from its authorized capital structure due to the occurrence of an adverse financial event, which could include a waiver of both rate base and non-rate base financing. PG&E's Application does not seek such a waiver.

The purpose of the Application is to enable PG&E to comply with Rule IX.B of the Commission's Affiliate Transaction Rules in a cost-efficient and pro-customer manner. Rule IX.B provides: "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. The utility's equity shall be retained such that the Commission's adopted capital structure shall be maintained on average over the period the capital structure is in effect for ratemaking purposes."² As explained in PG&E's Application and supporting testimony, PG&E seeks Commission approval to adjust equity charges related to the Kincade wildfire event, long-term debt related to the Kincade and Dixie wildfire events, and a forgivable loan from the Department of Water Resources (DWR Loan) when determining compliance with its authorized capital structure under Rule IX.B. These loans and charges are for non-rate base financing and thus are not appropriate to include in the calculation of the equity ratio used to determine the return on rate base assets.

As PG&E's reply brief explains, the Commission has authority to approve the requested adjustments, and it has done so on numerous past occasions.³ For example, in Decision (D.) 12-12-034, the Commission approved "adjustments" it deemed "reasonable" to "exclude recorded long-term debt balances supporting nuclear fuel inventories" from Southern California Edison's

² D.06-12-029, Appendix A, Affiliate Transaction Rules (ATRs), (Rule IX.B).

³ PG&E Reply Br. at p. 13.

(SCE) authorized capital structure, explaining that they were subject to Energy Resource Recovery Account (ERRA) proceedings and “excluded from ratemaking rate base.”⁴ In D.00-12-064, the Commission “grant[ed] PG&E’s request to exclude from its authorized capital structure any long-term debt” because it financed unexpected operating shortfalls rather than any portion of PG&E’s rate base.⁵ The Commission has also granted “Capital Structure Adjustments” to exclude wildfire mitigation securitized debt⁶ and has approved settlements that include capital structure adjustments.⁷ The Commission’s authority to authorize adjustments to accounting entries for purposes of determining compliance with the utility’s authorized capital structure derives from Public Utilities Code Section 701,⁸ and the Commission’s “vast inherent power”⁹ to grant adjustments or exceptions to the rules it enacts, including the Affiliate Transaction Rules and Rule IX.B specifically, under D.06-12-029 and D.96-11-017.

Consistent with this authority, the Application seeks approval to exclude the categories of long-term debt and net charges to equity associated with the Kincade and Dixie wildfire events and the DWR Loan, which, as in the precedent decisions referenced above, are excluded from rate base and subject to future recovery or forgiveness. As PG&E explained in its testimony and briefing, these adjustments are in the interests of PG&E’s customers because they permit PG&E

⁴ D.12-12-034 at p. 6.

⁵ D.00-12-064, at p. 6, 2000 WL 33128287 (Dec. 21, 2000).

⁶ See D.24-02-011 at p. 71 (approving “Capital Structure Adjustments” that excluded PG&E wildfire mitigation securitized debt for Rule IX.B purposes as “[c]onsistent with the Commission’s past decisions”); D.22-08-004 at p. 69 (same); D.21-06-030 at p. 68 (same); D.25-08-033 at pp. 56-57 (same as to SCE); D.23-02-023 at p. 64 (same as to SCE); D.21-10-025 at p. 54 (same as to SCE); D.20-11-007 at p. 68 (same as to SCE).

⁷ D.25-12-023 at p. 38 (approving settlement regarding Woolsey wildfire event with related debt “excluded from SCE’s ratemaking costs capital structure”); D.25-01-042 at p. 11 (same as to Thomas Fire); D.18-07-037 at pp. 25-26 (approving settlement of SONGS matter including permitting utilities to “exclude from their ratemaking capital structure the after-tax charge to equity” associated with settlement)

⁸ A.24-08-004, Application of Pacific Gas and Electric Company for a Limited Capital Structure Adjustment, (Aug. 5, 2024) (Application), at p. 18.

⁹ *Southern California Edison Co. v. Public Utilities Com.*, (2014) 227 Cal.App.4th 172, 187 (discussing the Commission’s “vast, inherent power to take any action that is cognate and germane to utility regulation, supervision, and ratesetting, unless specifically barred by statute”).

to fully finance these items with less expensive debt, rather than using more expensive equity.¹⁰ As such, the relief sought, if granted, would enable PG&E to demonstrate its compliance with Rule IX.B’s requirement to maintain its actual capital structure in alignment with its authorized capital structure.

PG&E described the relief it seeks in this proceeding as a “limited capital structure adjustment”¹¹ because, in PG&E’s view, that best captures the specific, narrow, and time-limited nature of the request. Indeed, PG&E’s Application seeks adjustments with respect only to limited categories of long-term debt and charges to equity for which PG&E expects future cost recovery through resolution of the recently filed A.25-11-001¹² or gradual and complete forgiveness, as in the case of the DWR Loan. Describing the relief as a “limited capital structure adjustment” also helped clarify that PG&E does not seek a general waiver from Rule IX.B compliance or an extension to the broad waiver granted by D.20-05-053 in connection with PG&E’s reorganization (Plan of Reorganization (POR) Waiver), which expired in June 2025.¹³ The Commission has used the phrase “capital structure adjustment” in prior decisions granting

¹⁰ PGE-MB/TO-002 at p. 4 (“Absent the requested relief, PG&E would be required to finance its Wildfire Expense Memorandum Account (WEMA) costs related to the Dixie and Kincade wildfire events consistent with its authorized capital structure—i.e., using a mix of both debt and equity. This would significantly increase PG&E’s actual carrying costs on the total amount paid for wildfire claims related to Dixie and Kincade—by at least \$60 million per year”); PG&E Reply Br. at pp. 3-6 (explaining that Intervenor fails to show any adverse customer impact and ignore the increased financing costs articulated by PG&E).

¹¹ A.24-08-004, Application of Pacific Gas and Electric Company for a Limited Capital Structure Adjustment, (Aug. 5, 2024), at p. 22 (requesting “that the Commission issue an appropriate order:

1. Granting PG&E a limited capital structure adjustment, with respect to the charge to equity associated with Kincade claims and the long-term debt associated with Dixie and Kincade claims identified in this application until year-end 2028.
2. Granting PG&E a limited capital structure adjustment, with respect to the long-term debt associated with the DWR Loan for the duration of that loan. [and]
3. Granting PG&E such other relief as the Commission finds to be just and reasonable.”).

¹² See A.25-11-001, Application of Pacific Gas and Electric Company for Review and Recovery of Costs Associated with the 2019 Kincade Fire and 2021 Dixie Fire under AB 1054, (Nov. 14, 2025).

¹³ Application at p. 20.

similar relief.¹⁴ The Commission remains free to use other terminology to describe the relief sought.¹⁵

Rule IX.B specifies requirements that apply in the context of “an adverse financial event at the utility [that] reduces the utility’s equity ratio by 1% or more.”¹⁶ In such circumstances, “a utility *shall file* an application for a waiver” and the utility is “not . . . considered in violation of th[e] Rule during the period the waiver is pending resolution.”¹⁷ This ensures that such adverse financial events do not automatically result in a near-term Rule IX.B compliance issue and that Commission staff “has adequate time to review and assess the application.”¹⁸ This aspect of Rule IX.B was implicated in D.20-05-005, where both PG&E and SCE had submitted adverse financial event applications because non-cash charges had resulted in deviations from the utilities’ authorized equity ratios of more than one percent and thereby triggered the adverse financial event language in Rule IX.B.¹⁹

The requirements and protections that apply in the context of an adverse financial event application do not apply to applications, like this one, that seek approval for accounting adjustments outside the context of any adverse financial event. None of the precedents discussed above that approved similar accounting adjustments involved a Rule IX.B adverse financial event application or waiver request. For example, neither this Application nor any of the precedent applications sought an immediate suspension of the requirement to comply with the authorized capital structure requirement, as would apply to an adverse financial event waiver application under Rule IX.B. Instead, PG&E filed A.24-08-004 in August, 2024 and sought resolution of its request *in advance* of the expiration of the then-current POR Waiver granted by

¹⁴ See D.24-02-011 at p. 71.

¹⁵ *E.g.*, D.20-05-053 at p. 84 (granting PG&E “a temporary waiver from its authorized capital structure” as an alternative to PG&E’s specific “proposed adjustments to the calculation of its capital structure”); D.12-12-034, at p. 6 (approving “adjustments” to “exclude recorded long-term debt balances supporting [SCE’s] nuclear fuel inventories”); D.00-12-064, at p. 6; 2000 WL 33128287 (granting “PG&E’s request to exclude from its authorized capital structure any long-term debt” used to finance unexpected operating shortfalls).

¹⁶ ATRs, Rule IX.B.

¹⁷ ATRs, Rule IX.B (emphasis added).

¹⁸ ATRs, Rule IX.B.

¹⁹ D.20-05-005 at pp. 12-14 (finding that PG&E and SCE reasonably defined the non-cash charges recorded as a result of 2017 and 2018 wildfires as adverse financial events).

D.20-05-053, which was set to expire, and ultimately expired, in June 2025.²⁰ Since that time, PG&E has maintained compliance with Rule IX.B, including during the pendency of this Application.²¹

II. PG&E’S RESPONSE TO QUESTION TWO REGARDING THE IMPACT TO ITS EQUITY RATIO ASSOCIATED WITH THE ITEMS INCLUDED IN ITS REQUEST

The Ruling also directs PG&E “to identify where in the record of this proceeding it demonstrates that the amounts it seeks to exclude in sum constitute a reduction of 1 percent or more” and “to explain how the DWR Loan constitutes an adverse financial event.”²² As explained above in PG&E’s Response to Question One, “an adverse financial event at the utility [that] reduces the utility’s equity ratio by 1% or more”²³ is not a requirement for PG&E’s request here, which is made outside the context of an adverse financial event application. PG&E has not invoked the requirements and protections of a general waiver pursuant to an adverse financial event application in this proceeding and thus there is no requirement that PG&E make a showing that “an adverse financial event at the utility reduce[d]” its “equity ratio by 1% or more”²⁴ or that, for example, “the DWR Loan constitutes an adverse financial event.”²⁵ In none of the

²⁰ Application at p. 20.

²¹ PGE-MB/TO-002 at 9-10; *see* Advice 5147-G/7767-E (Nov. 25, 2025). By contrast, in the case of an adverse financial event application, the utility is “not . . . considered in violation of th[e] Rule during the period the waiver is pending resolution.” Rule IX.B.

²² Ruling at 2-3 (“If PG&E is requesting a waiver pursuant to Rule IX B or if it states a ‘limited capital structure adjustment’ is no different than a request for a waiver, or if it lists Rule IX B as the governing authority under which it seeks such a request, it is advised of the following: Rule IX B allows for a waiver request if an adverse financial event reduces the utility’s equity ratio by 1 percent or more.

PG&E is directed to respond to the following:

1. PG&E is directed to identify where in the record of this proceeding it demonstrates that the amounts it seeks to exclude in sum constitute a reduction of 1 percent or more. If PG&E has not made such a showing, PG&E is directed to provide the percent reduction to equity ratio for the amounts it seeks to exclude.
2. PG&E is directed to explain how the DWR Loan constitutes an adverse financial event. If it does not constitute an adverse financial event, PG&E must identify the authority under which it seeks such an exclusion or exemption.”).

²³ ATRs Rule IX.B.

²⁴ ATRs Rule IX.B.

²⁵ Ruling at p. 3.

precedent decisions approving similar capital structure adjustment applications did the Commission require a showing that the adjustments changed the equity ratio by 1% or more.

In response to Question 2(a) of the Ruling, however, to the extent the magnitude of the impact on PG&E's capital structure is relevant to the Commission's consideration of A.24-08-004, PG&E notes the following: As explained in PG&E's prepared testimony, "For illustrative purposes, the limited adjustment requested in this application, if applied to PG&E's regulatory capital structure as of June 2024, would result in a 1.2 percent change to its long-term debt and common equity ratios."²⁶

In response to Question 2(b) of the Ruling, PG&E does not contend that the DWR Loan constitutes an adverse financial event. As explained above, the relief sought does not depend on or require the existence of an adverse financial event.

Respectfully Submitted,

By: /s/ Tim Wedlake
TIM B. WEDLAKE

Pacific Gas and Electric Company
Law Department, 19th Floor
300 Lakeside Drive, Suite 210
Oakland, CA 94612
Telephone: (925) 596-0670
E-Mail: tim.wedlake@pge.com

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

²⁶ PGE-MB/TO-001 at p. 2-2, lines 2-4.