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**Ratesetting**

TO PARTIES OF RECORD IN APPLICATION 24-08-004:

This is the proposed decision of Administrative Law Judge Amin Nojan. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's **July 2, 2026**, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE  
Michelle Cooke  
Chief Administrative Law Judge

MLC: smt

Attachment

Decision PROPOSED DECISION OF ALJ NOJAN (Mailed 5/21/2026)

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

Application of Pacific Gas and Electric  
Company for a Limited Capital  
Structure Adjustment. (U39M)

Application 24-08-004  
(Filed August 5, 2024)

**DECISION DENYING PG&E'S REQUEST FOR A  
LIMITED CAPITAL STRUCTURE ADJUSTMENT**

## TABLE OF CONTENTS

| <b>Title</b>  | <b>Page</b> |
|---|-------------|
| DECISION DENYING PG&E’S REQUEST FOR A LIMITED CAPITAL<br>STRUCTURE ADJUSTMENT .....     | 1           |
| Summary .....   | 1           |
| 1. Procedural Background .....  | 1           |
| 2. Issues Before the Commission .....   | 3           |
| 3. Discussion .....   | 3           |
| 3.1. Request .....  | 3           |
| 3.2. The Affiliate Transaction Rule IX-B – Protecting Utility Financial<br>Health ..... | 5           |
| 3.3. Analysis of Events at Issue .....  | 11          |
| 3.4. Effect on Affordability .....  | 18          |
| 4. Summary of Public Comment .....  | 23          |
| 5. Conclusion .....   | 24          |
| 6. Procedural Matters .....   | 25          |
| 7. Comments on Proposed Decision .....  | 25          |
| 8. Assignment of Proceeding .....   | 25          |
| Findings of Fact .....  | 25          |
| Conclusions of Law .....  | 26          |
| O R D E R .....   | 27          |

## DECISION DENYING PG&E'S REQUEST FOR A LIMITED CAPITAL STRUCTURE ADJUSTMENT

### Summary

In this Application, Pacific Gas and Electric Company (PG&E) requests permission to deviate from its authorized capital rate structure, governed by Affiliate Transaction Rule IX B (referred to as The Affiliate Transaction Rule from this point forward). Specifically, PG&E seeks to exclude \$2.6 billion in expenses related to the Dixie Fire (\$277 million at the time of filing), Kincade Fire (approximately 1.2 billion at time of filing), and the Department of Water Resources loan (approximately \$1.4 billion) when calculating its debt-to-equity ratio.

This decision denies PG&E's requested relief and finds that (1) the request does not qualify for an Affiliate Transaction Rule waiver, and (2) it would not be in the public interest to grant a deviation from PG&E's recently adopted capital rate structure.

Application 24-08-004 is closed.

### 1. Procedural Background

On August 5, 2024, Pacific Gas and Electric Company (PG&E) filed Application (A.) 24-08-004 for a limited capital structure adjustment, requesting permission to deviate from its authorized capital rate structure, governed by Affiliate Transaction Rule IX B (referred to as The Affiliate Transaction Rule from this point forward).<sup>1</sup>

On September 6, 2024, The Utility Reform Network (TURN) and jointly Indicated Shippers and Energy Producers and Users Coalition (together, EPUC)

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<sup>1</sup> See D.06-12-029, Appendix A-3 at 31-32.

filed protests to the application. On September 16, 2024, PG&E filed a reply to the protests.

The Commission held a prehearing conference on October 1, 2024.

On September 27, 2024, TURN and EPUC (collectively to be referred to as “intervenors”) filed a Motion to Dismiss. On October 10, 2024, PG&E filed its response to the Motion to Dismiss.

On December 13, 2024, the assigned Commissioner issued the Scoping Ruling for this proceeding, determining the schedule, need for hearing, and issued to be considered.

On April 15, 2025, the Administrative Law Judge (ALJ) issued a ruling setting evidentiary hearing.

On April 24, 2025, the intervenors filed a Joint Motion to Consolidate the instant application with A.25-03-010. PG&E filed its response to the Joint Motion on April 29, 2025. The intervenors filed their reply to PG&E’s response on May 23, 2025.

On April 29, 2025, PG&E and the intervenors filed a Joint Motion to move exhibits into evidence and waiving cross-examination.

On May 5, 2025, the ALJ issued a ruling removing evidentiary hearing and granting the motion to move exhibits into evidence.

On June 6, 2025, the ALJ issued a ruling denying the intervenors’ Motion to Consolidate.

On June 9, 2025, TURN, EPUC, and PG&E filed Opening Briefs, and on June 23, 2025, the same parties filed reply briefs.

On December 22, 2025, the ALJ Issued a ruling directing the filing of additional information. On December 30, 2025, the Applicant filed its response.

This matter was submitted on December 30, 2025.

## **2. Issues Before the Commission**

The issues before the Commission, as presented in the Commissioner's Scoping Ruling, are as follows:

1. Whether the Commission should grant an adjustment that would permit PG&E to exclude the net charge to equity associated with the settlement of Kincade Fire claims in the amount of long-term debt equivalent to the net costs associated with those claims;
2. Whether the Commission should grant an adjustment that would permit PG&E to exclude an amount of long-term debt equivalent to the net costs associated with the settlement of Dixie Fire claims;
3. Whether the Commission should grant an adjustment that would permit PG&E to exclude the Department of Water Resources loan from its long-term debt for purposes of its regulatory capital structure calculations to determine compliance with Rule IX-B (the Affiliate Transaction Rule);
4. Whether the exemptions sought by PG&E are in the public interest, and, to the extent the adjustments have an impact on rates, whether the exemptions will result in just and reasonable rates; and
5. Whether the proposed exemptions will have a detrimental effect on affordability.

## **3. Discussion**

### **3.1. Request**

The capital structure of an investor-owned utility is comprised of different proportions of equity and debt, utilized for long-term financing. PG&E's capital structure includes long-term debt, preferred equity, and common equity. A utility's ratio of debt to permanent capital affects the level of financial risk it faces and its credit ratings. For PG&E, the Commission has authorized a common

equity ratio of 52 percent, 47.5 percent long-term debt, and 0.5 percent preferred equity.<sup>2</sup>

PG&E requests to temporarily exclude, for purposes of compliance with the Affiliate Transaction Rule,<sup>3</sup> the following: (1) equity and long-term debt charges related to the 2019 Kincade wildfire;<sup>4</sup> (2) long-term debt related to the 2021 Dixie wildfire; and (3) a forgivable loan from the Department of Water Resources (DWR Loan).<sup>5,6</sup> The three events at issue in this Application are isolated events submitted as part of one Application. Each event is briefly discussed below.

The Kincade wildfire commenced on October 23, 2019, in Sonoma County, California. As a result of the wildfire, PG&E has incurred costs related to litigation and liabilities, in excess of amounts recoverable under its insurance policies.<sup>7</sup> PG&E seeks exclusion of long-term debt and net charge to equity related to Kincade costs. At the time of this filing, PG&E estimated that the long-term debt it seeks to exclude was approximately \$625 million and the adjustment to equity was \$542 million.<sup>8</sup>

The Dixie wildfire commenced on July 13, 2021, in Plumas County, California. PG&E has incurred costs related to litigation and liabilities for the

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<sup>2</sup> See Decision (D.) 25-12-043, Ordering Paragraph 1.

<sup>3</sup> See D.06-12-029, Opinion Adopting Revisions to (1) The Affiliate Transaction Rules and (2) General Order 77-L, As Applicable to California's Major Energy Utilities and their Holding Companies, Appendix A-3 at 32.

<sup>4</sup> See PG&E Opening Brief at 6-8 and 12.

<sup>5</sup> See Application 24-08-004 at 1.

<sup>6</sup> This would amount to approximately 1.2 percent change to its long-term debt to equity ratio (See PG&E Response to ALJ Ruling, December 30, 2025 at 7).

<sup>7</sup> See PG&E Opening Brief at 6.

<sup>8</sup> See PG&E Opening Brief at 6-7.

Dixie wildfire, in excess of amounts recoverable under its insurance policies.<sup>9</sup> For the Dixie Fire, PG&E seeks to exclude amounts covered or expected to be covered by insurance, recovered through FERC transmission formula rates, or reimbursed by the Wildfire Fund.<sup>10</sup> At the time of filing, PG&E estimated a total of approximately \$277 million in long-term debt related to Dixie wildfire costs.

Diablo Canyon Nuclear Power Plant (DCPP) was scheduled for decommissioning prior to the end of the decade, however the State decided to extend operations until 2030.<sup>11</sup> As part of that extension, the State directed the Department of Water Resources (DWR) to make available to PG&E up to \$1.4 billion for the purpose of facilitating the extension of DCPP.<sup>12</sup> The terms of the agreement governing the loan provide conditions for the forgiveness of loaned funds.<sup>13</sup> PG&E characterizes the terms of forgiveness as “performance-based” and notes that PG&E has already recognized some loan forgiveness.<sup>14</sup>

### **3.2. The Affiliate Transaction Rule IX-B – Protecting Utility Financial Health**

The Commission adopted Affiliate Transaction Rule IX in D.06-12-029 to protect utility financial health and balance the interests of ratepayers and shareholders through adherence to the capital rate structure.<sup>15</sup> Affiliate Transaction Rule IX-B, specifically, adopts restrictions on deviations from the

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<sup>9</sup> See PG&E Opening Brief at 7.

<sup>10</sup> See PG&E Opening Brief at 7.

<sup>11</sup> See Senate Bill 846 (Dodd) from 2022.

<sup>12</sup> See Senate Bill 846 (Dodd) from 2022.

<sup>13</sup> See Exhibit PGE-TO-03 at 11.

<sup>14</sup> See Exhibit PGE-MBTO-001 at 1-7 and 1-8.

<sup>15</sup> See D.06-12-029, Appendix A-3 at 31-32.

utility's Commission authorized capital structure. It is reproduced below for ease of reference:

**Restrictions on Deviations from Authorized Capital Structure.**

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. Provided, however, that a utility shall file an application for a waiver, on a case by case basis and in a timely manner, of this Rule if an adverse financial event at the utility reduces the utility's equity ratio by 1% or more. In order to assure [ensure] that regulatory staff has adequate time to review and assess the application and to permit the consideration of all relevant facts, the utility shall not be considered in violation of this Rule during the period the waiver is pending resolution. Nothing in this provision creates a presumption of either reasonableness or unreasonableness of the utility's actions which may have caused the adverse financial event.

In plain terms, the Rule was established to protect utility financial health and to restrict deviations from the authorized capital structure. Protecting utility financial health is fundamental to ensuring the utility provides safe and reliable service at a just and reasonable rate to customers. The Commission and stakeholders put significant effort, resources, and deliberation into each cost of capital proceeding for the utilities, which occur once every three years. As the Commission describes in Affiliate Transaction Rule IX-B, the Commission has established an expectation that jurisdictional utilities will adhere to the authorized capital structures and outlined limited circumstances where deviations may be considered. As a general practice, deviations from Commission rules should only be considered in extraordinary circumstances

“with care in keeping with fundamental principles of *res judicata*” so that “settled expectations should be allowed to stand undisturbed.”<sup>16</sup>

The Affiliate Transaction Rule acknowledges that in specific circumstances, deviations from the established capital structure are necessary. Specifically, the Rule states that “if an adverse financial event at the utility reduces the utility’s equity ratio by 1% or more” the utility must file an application for a waiver of the Rule. The Rule makes no mention of exemptions for reasons other than an adverse financial event, nor does it provide an alternative to an application for a waiver. The Rule also sets the criteria that must be met for the utility to qualify for a waiver: (1) the utility must be experiencing an adverse financial event; and (2) the amount of reduction in equity must be 1% or more.

By explicitly providing the circumstances in which a deviation is necessary, the Commission provides guidance on when such a request is appropriate. If adverse financial events resulting in less than a 1% reduction to equity were considered appropriate for a waiver, the threshold would not exist. In other words, the magnitude of the adverse financial event must be sufficient (at least a 1% reduction to equity) for the deviation from the authorized capital structure to be considered by the Commission. This emphasizes the weight the Affiliate Transaction Rule places on adherence to the authorized capital rate structure.

The Applicant makes numerous references to prior instances of the Commission authorizing deviations from the established capital structure. While the Commission can consider prior decisions as a guide, “the Commission is not

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<sup>16</sup> A request to deviate from what the Commission decided should be PG&E’s capital rate structure would be contrary to *res judicata*. See D.92058 (1980) 4 CPUC 2d 139 at 149-150.

bound by its precedent, unlike a court.” (Decision 14-04-022, at 8, citing to *In re Pacific Gas & Electric Co.* (1988) 30 Cal.P.U.C.2d 189, 223-225; and *Postal Telegraph-Cable Company v. Railroad Commission* (1925) 197 Cal. 426, 436.) In *In re Pacific Gas*, the Commission explained that it is a “general rule of law that no legislative body can limit or restrict its own power or that of subsequent legislatures, and that the act of one legislature does not bind its successors.” (30 Cal.P.U.C.2d at 223.) The Commission is both a court and an administrative tribunal that “exercises both judicial and legislative functions.” (*Id.*) “The fixing of rates of public utilities is an example of its legislative powers.” (*Id.*, citing to *People v. Western Air Lines, Inc.* (1954) 42 Cal.2d 621, 630.) Accordingly, since the Commission “exercises legislative powers when it sets rates,” a prior decision setting rates “would not bind successor Commissions.” (30 Cal.P.U.C. 2d at 223.) As such, PG&E’s request will be based on the record developed in this proceeding.

In this proceeding, PG&E must fully justify its request and bears the burden with respect to the contested issues.<sup>17</sup> To meet that burden, PG&E must establish by a preponderance of all the evidence produced in the record that its positions should be adopted by the Commission, independent of what was actions the Commission took in prior proceedings. It would be unreasonable to assume that a decision granting relief at one point in time, based on utility financial health, broader economic and market trends, and other factors specific to that moment in time, would be equally applicable and appropriate for another point in time.

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<sup>17</sup> See Evidence Code Section 115 and Evidence Code Section 500.

PG&E's references to prior decisions are for requests that are factually different from the request made in this proceeding. First, PG&E cites decisions that were for waiver applications or adverse financial events of great magnitude. For example, in D.20-05-005, the Commission approved requests for a *waiver* of the capital structure. In D.20-05-053, the Commission adopted PG&E's reorganization plan and granted PG&E a *waiver*, along with placing specific conditions on the waiver, to ensure, among other things, the Commission retained the ability to closely monitor "PG&E's actual financial metrics." In the same decision, the Commission denied PG&E's alternate request to the waiver, which was for "proposed adjustments to the calculation of its capital structure."<sup>18</sup> In D.23-08-031, the Commission granted an extension of a *waiver*, pursuant to the Affiliate Transaction Rule. The instant application is not for a waiver request, nor, if it were to be presented as one, would it qualify. Furthermore, the financial impact of the events do not equate to an at least 1 percent change to equity, unlike the prior requests.

PG&E also cites to D.00-12-064, a decision authorizing PG&E to issue long-term debt when it was experiencing a "tremendous increase in the price of wholesale electricity" and large under-collections<sup>19</sup> – an adverse financial event of great magnitude.

In its December 30 Response to ALJ Ruling, PG&E states that the instant application is not for a waiver.<sup>20</sup> Indeed, the instant application would not

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<sup>18</sup> See D.20-05-053 at 84.

<sup>19</sup> See D.00-12-64 at 2. For comparison, the \$2.8 billion in under collection that PG&E was experiencing in the year 2000, adjusted for inflation, would amount to approximately \$5.4 billion in 2026 (BLS Inflation Calculator). This does not reflect the difference the amounts would equate to as a total percent of equity.

<sup>20</sup> See PG&E Response to ALJ Ruling at 2.

qualify for one because it does not include adverse events of financial impact of at least 1 percent reduction to equity. In essence, PG&E seeks the relief that the Affiliate Transaction Rule limits to waiver applications, but the request is not presented as a waiver request, nor is it eligible for one.

When considering the waiver or suspension of a Rule, the first place to look to for the conditions under which the Rule may be waived or suspended is the Rule itself. In this case, as discussed above, the Affiliate Transaction Rule provides explicit guidance. PG&E seeks to ignore the criteria established for consideration of a waiver by referring to its request as a “limited capital structure adjustment” and appealing to Pub Util. Code Section 701, which reads as follows:

The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction.

Section 701 grants the Commission broad authority to, in essence, do whatever it deems necessary in exercising its regulatory authority. Yet because of the broad and general language, this is a catch-all that can be invoked for any request, that can nullify and negate any Commission decision, rule, or directive, and should therefore only be used as a last resort in the absence of explicit authority that sets forth the Commission’s authority. The Affiliate Transaction Rule was established based on extensive stakeholder input and Commission deliberation. Suspending it on a whim under the powers granted by Section 701 would be to ignore the deliberative process that went into establishing that standard and the conditions that must be met for authorizing a deviation from a utility’s authorized capital rate structure.

As EPUC notes, “the [R]ule is explicitly designed to promote the financial discipline necessary to safeguard the utilities from financial risks” that would hinder their ability to provide reliable service at the lowest rates and that granting the request “would allow PG&E to circumvent this financial discipline.”<sup>21</sup> We agree that granting the request would undermine the protections of the Affiliate Transaction Rule and would not be in the public interest.

### **3.3. Analysis of Events at Issue**

PG&E argues that the Commission should grant its request because it “is narrow, time-limited, and consistent with Commission precedent granting analogous adjustments in similar circumstances, as well as the fundamental principles behind Rule IX.B.”<sup>22</sup>

PG&E seeks to exclude approximately \$625 million of long-term debt and an equity adjustment of \$542 million related to the Kincade Fire.<sup>23</sup> PG&E also seeks to exclude \$277 million in long-term debt related to the Dixie Wildfire.<sup>24</sup> Together, these costs amount to approximately \$1.4 billion, or roughly 0.6 percent change in its debt-to-equity ratio.<sup>25</sup> PG&E argues that “the underlying Kincade- and Dixie-related costs that are the subject of PG&E’s request here are not currently part of PG&E’s rate base.”<sup>26</sup> PG&E contends that “in circumstances such as this” where “a utility has significant wildfire-related liabilities or claims

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<sup>21</sup> See EPUC Opening Brief at 10.

<sup>22</sup> See PG&E Opening Brief at 5.

<sup>23</sup> See PG&E Opening Brief at 6-7.

<sup>24</sup> See PG&E Opening Brief at 7.

<sup>25</sup> PG&E notes in its December 30 Response to ALJ Ruling at 7 that the entire request would amount to a 1.2 percent change. The DWR Loan is for approximately \$1.4 billion, as are the costs related to the wildfires. Therefore, the wildfire requests amount to half of 1.2 percent, or 0.6 percent.

<sup>26</sup> See PG&E Opening Brief at 8.

costs outside of its rate base and subject to tracking in a memorandum account for a future cost recovery request – the Commission has granted a temporary exclusion for purposes of calculating compliance with Rule IX.B.”<sup>27</sup> PG&E argues that “[t]his enables the utility to finance these costs with debt (which is less expensive than equity) and to preserve flexibility by avoiding unnecessarily issuing or dedicating equity to costs outside of rate base before cost recovery matters are resolved.”<sup>28</sup> PG&E states that in the past, the Commission has granted such relief in waiver applications and granted extensions to waiver applications.<sup>29</sup> PG&E further argues that the costs associated with wildfires in the instant application are “precisely the same categories of wildfire-related debt and net charges” and that “[n]either Intervenor has offered a serious challenge that distinguishes PG&E’s request from D.23-08-031.”<sup>30</sup>

PG&E states that its request “advances the public interest and will help PG&E finance critical capital investments in its system over the coming years.”<sup>31</sup> PG&E also argues that “Commission precedent in both D.20-05-005 and D.23-08-031 recognizes that it is in the public interest to allow adjustments that permit utilities to avoid issuing equity solely for temporary costs that are subject to future cost recovery requests.”<sup>32</sup>

EPUC argues that the requested adjustments “would allow PG&E to maintain a hypothetical regulatory capital structure that further understates the

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<sup>27</sup> See PG&E Opening Brief at 8.

<sup>28</sup> See PG&E Opening Brief at 8.

<sup>29</sup> See PG&E Opening Brief at 8-9.

<sup>30</sup> See PG&E Opening Brief at 9. Separately, D.23-08-031 granted SCE an extension to its previously authorized Capital Structure Waiver.

<sup>31</sup> See PG&E Opening Brief at 13.

<sup>32</sup> See PG&E Opening Brief at 14.

actual long-term debt recorded on PG&E's balance sheet."<sup>33</sup> EPUC further contends that granting the request would "reduce PG&E's operational flexibility, hinder its efforts to regain an investment grade credit rating, and inappropriately shift more financial risk and costs from shareholders to ratepayers" and therefore "threaten to undermine the purpose and intent of the Commission's capital structure requirements."<sup>34</sup>

TURN argues that granting the exemptions sought by PG&E would harm ratepayers. TURN contends that "[h]igher financial leverage (higher debt and lower equity capitalization ratios) equates to higher financial risk."<sup>35</sup> TURN notes that utilities "are incentivized to operate with the maximum amount of leverage that investment grade credit quality will allow, since more leverage increases the shareholders' earned return on equity, all else being equal."<sup>36</sup> TURN states that although "[t]he Commission has supported PG&E's post-bankruptcy recoveries with general capital structure waivers... these were intended as temporary recovery programs for two years in 2003, and then five years in 2020 after each of PG&E's bankruptcies."<sup>37</sup> TURN argues that "[t]he Commission could not have intended for PG&E to operate outside its GAAP authorized capital structure over an indefinite or protracted period" when the Commission stated the following in D.20-05-005:

PG&E is granted a waiver from its current authorized capital structure for a period of five years from the date of this decision. The waiver applies only to the financing in place

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<sup>33</sup> See EPUC Opening Brief at 2.

<sup>34</sup> See EPUC Opening Brief at 2.

<sup>35</sup> See TURN Opening Brief at 1.

<sup>36</sup> See TURN Opening Brief at 1.

<sup>37</sup> See TURN Opening Brief at 2.

upon PG&E's exit from bankruptcy. Consistent with PG&E's plan we expect PG&E to expeditiously pay down Temporary Utility debt over the projected five-year period and regain a closer alignment between aggregate utility debt and the amount of recoverable utility debt.

In the event PG&E requires an ongoing capital structure waiver beyond the five years granted in this decision, it is directed to file an application that shall include a deleveraging proposal to reduce non-traditional utility debt over time. The application shall include proposals to offset ratepayer impacts associated with an overleveraged capital structure.<sup>38</sup>

TURN further contends that investors base their decision on PG&E's GAAP capital structure and the requested adjustments would increase the difference between its regulatory capital structure and its GAAP capital structure.<sup>39</sup> TURN states that "[c]ontrary to the Commission's intentions for PG&E post- bankruptcy, PG&E's proposed adjustments enable more leverage, which results in incrementally more risk for ratepayers."<sup>40</sup> TURN argues that financing with higher debt can "make a company less able to absorb extraordinary business risks through its own resources (typically new debt or shareholder's equity)" and that "when additional debt is unavailable (or too expensive due to below investment grade credit ratings) and shareholders equity is insufficient to cover costs, ratepayers can expect to be called upon for a financial backstop as the Stress Test Decision [D.19-05-027 at 46] and SB 901 demonstrate."<sup>41</sup>

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<sup>38</sup> See D.20-05-005 at 83-84.

<sup>39</sup> See TURN Opening Brief at 3.

<sup>40</sup> See TURN Opening Brief at 3.

<sup>41</sup> See TURN Opening Brief at 3.

As TURN notes, the Commission said the following in the Stress Test Decision:

Stress Test Costs are determined at a snapshot in time – a time when the utility is in financial distress – and will not be revised in the future as any cost recovery and securitization allowed will be based on the financial status of the utility at the time the Stress Test application is considered. Utilities may voluntarily seek recovery of costs that have been found to not be just and reasonable. The financial health of a utility is expected to improve as a result of the Commission’s shifting otherwise disallowed costs from the utility onto ratepayers.

Utilities should expect the Commission will condition the authorization to recover Stress Test Costs on utility implementation of meaningful measures or mechanisms to ensure the utility’s shareholders do not obtain a windfall of future upside as the utility recovers its financial health.<sup>42</sup>

TURN notes that the Commission has acknowledged that “as a utility’s debt ratio increases, a higher return on equity may be needed to compensate for that increase risk,”<sup>43</sup> and argues that “higher leverage [higher amounts of debt relative to equity used by the utility] can result in higher return on equity, which results in higher revenue requirements and higher customer bills.”<sup>44</sup> TURN adds that “[c]apital structure waivers granted to SCE and PG&E in the past were associated with substantial charges which would have been difficult for either company’s balance sheet to absorb.”<sup>45</sup> TURN argues that the charges PG&E seeks to exclude as part of this request (a total of approximately \$2.8 billion) is

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<sup>42</sup> See D.19-06-027, Decision Adopting Criteria and Methodology for Wildfire Cost Recovery Pursuant to Public Utilities Code Section 451.2, at 46.

<sup>43</sup> See TURN Opening Brief at 4, citing D.07-12-049 at 49.

<sup>44</sup> See TURN Opening Brief at 4.

<sup>45</sup> See TURN Opening Brief at 12.

significantly less than the \$8.9 billion associated with PG&E's prior waiver, and while this request would amount to a 1.3% total change to the equity ratio, SCE's approved request would have amounted to approximately 10% of equity.<sup>46</sup>

PG&E responds, arguing that this request "will not increase customer costs" as it seeks no change in rates or recalculation of revenue requirement.<sup>47</sup> PG&E further contends that the harm the intervenors argue will befall ratepayers is speculative and hypothetical.<sup>48</sup> PG&E argues that despite intervenor arguments about its regulatory capital structure being in misalignment with its GAAP capital structure, it is in compliance with Affiliate Transaction Rule IX B.<sup>49</sup> PG&E also argues that "nothing in the Commission decisions granting a Rule IX.B adjustment to both PG&E and Southern California Edison Company (SCE) in D.20-05-005, and an extension on that relief to SCE in D.23-08-031 suggests that the Commission's basis for its ruling depending on the specific size of the requested adjustment."<sup>50</sup>

We agree with PG&E that the instant application seeks no change to rates, nor a recalculation of revenue requirement. PG&E argues that the harms to ratepayers articulated by the intervenors are speculative. There is no short-term impact to customers from granting or denying this request. Because any consequences will occur in the long-term and will ultimately be influenced by a number of variables outside the scope of this proceeding, the argument that an

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<sup>46</sup> See TURN Opening Brief at 12.

<sup>47</sup> See PG&E Reply Brief at 2.

<sup>48</sup> See PG&E Reply Brief at 4-5.

<sup>49</sup> See PG&E Reply Brief at 7.

<sup>50</sup> See PG&E Reply Brief at 11-12.

outcome is speculative can be extended to all arguments made in this proceeding.

As discussed in greater detail in Section 3.2 of the instant decision, we disagree with PG&E's characterization of this request as analogous to prior requests. First, this does not meet the same criteria that prior requests met—namely that they were due to an adverse financial event and they resulted in at least a 1 percent change to equity.<sup>51</sup> Second, prior requests were for charges of a significantly greater magnitude than what PG&E is seeking to exclude as part of this request. We agree with TURN that “[c]apital structure waivers granted to SCE and PG&E in the past were associated with substantial charges which would have been difficult for either company's balance sheet to absorb.”<sup>52</sup> That is not the case here.

Although PG&E contends that wildfire costs have been excluded in the past, we again emphasize that the excluded costs were of a great magnitude. The Affiliate Transaction Rule allows for deviations due to adverse financial events. The adverse nature of the financial event is underscored by the magnitude of the impact it would have on the utility's financial health. Here, PG&E seeks the exclusion of what would amount to roughly 0.6 percent of equity, or 1.4 billion, compared to \$8.9 billion (not adjusted for inflation) for wildfires from 2017 and 2018 covered by prior requests.<sup>53</sup> We are not persuaded that PG&E's financial health will be detrimentally impacted by a denial of the instant application. More importantly, we find that PG&E's request does not meet the criteria for a Rule IX

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<sup>51</sup> See D.06-12-029 Appendix A-3 at 32.

<sup>52</sup> See TURN Opening Brief at 12.

<sup>53</sup> See TURN Opening Brief at 12.

B waiver. We therefore find that it would not be in the public interest to approve PG&E's request.

### **3.4. Effect on Affordability**

PG&E was granted a five-year waiver from adherence to its authorized capital rate structure in D.20-05-053, Decision Approving Reorganization Plan. That waiver expired in June 2025. PG&E states that it has been in compliance with the Affiliate Transaction Rule since then.<sup>54</sup>

PG&E states that it is not seeking a waiver, but a "limited capital structure adjustment." There is no difference between the two, except that by calling it the latter, PG&E attempts to make the case that its request in the instant application should not be held to the same criteria as an application for a waiver. The relief requested is the same – namely, permission to deviate from the authorized capital structure. The difference here is semantics; it cannot be reasonably assumed that the Commission, when discussing extensions to PG&E's waiver to deviate from its capital rate structure in prior decisions such as D.20-05-053, would consider a "limited capital structure adjustment" as different in substance.

We find it concerning that the request to deviate from its capital structure is being made so close to the date of expiry for the five-year waiver granted in D.20-05-053, which emphasized the importance of the Commission ensuring "PG&E pursues a path to regain its authorized capital structure and reduce its debt burden over time."<sup>55</sup> The same decision stated that if PG&E required an ongoing capital structure waiver beyond the five years granted in D.20-05-053, PG&E must "file an application that shall include a deleveraging proposal to

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<sup>54</sup> See Response to ALJ Ruling at 6.

<sup>55</sup> See D.20-05-053 at 84.

reduce non-traditional utility debt over time” and “include proposals to offset ratepayer impacts associated with an overleveraged capital structure.”<sup>56</sup> As TURN notes, “[t]he Commission could not have intended for PG&E to operate outside its GAAP authorized capital structure over an indefinite or protracted period.”<sup>57</sup> This brings us to the impact on affordability and whether approval of this request is in the public interest.

PG&E argues that the requested relief is in the public interest because it will allow PG&E to avoid issuing equity for costs that it may recover in the future. PG&E argues that issuing debt is less costly than equity, and that the latter would result in carrying costs that would negatively impact affordability.<sup>58</sup> PG&E estimates these carrying costs would amount to approximately \$60 million per year.<sup>59</sup> PG&E states that the instant application makes no request for a change in rates and that regardless of the outcome of the application, “*it will not change customer rates in the short term,*” but argues that granting the request would “benefit customers and lead to lower customer rates” in the longer term.<sup>60</sup> We agree that that the granting or denying of this request will not affect short-term customer rates.

TURN argues that granting the request worsens the affordability crisis and leads to an “overpayment” from ratepayers and a corresponding increase to shareholder profits “based on 52% equity utility when the actual equity percentage of PG&E’s capital structure has been much less than the authorized

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<sup>56</sup> See D.20-05-053 at 85.

<sup>57</sup> TURN Opening Brief at 3.

<sup>58</sup> See PG&E Opening Brief at 14.

<sup>59</sup> See PG&E Opening Brief at 17.

<sup>60</sup> See PG&E Opening Brief at 15, emphasis in original.

amount since it emerged from bankruptcy.”<sup>61</sup> In other words, financing through debt that is not used to calculate its capital structure increases leverage and risk, for which customers are the ultimate backstop, while at the same time allowing PG&E to compensate shareholders based on what becomes an inflated equity percentage due to the debt exclusions.

TURN notes that the difference between PG&E’s actual Generally Accepted Accounting Practices (GAAP) equity and the Commission authorized 52% since 2021 has ranged from 7 to 10 percent.<sup>62</sup> TURN argues that this has resulted in approximately \$2.4 billion in profits to shareholders and that granting the request made in the instant application would result in an additional \$570 million in profits in 2025, with the profits coming from ratepayers.<sup>63</sup>

We find that PG&E’s argument for affordability fails to consider the risks associated with increased financial leverage. The Commission has noted that “[a]s a utility’s debt ratio increases, a higher return on equity may be needed to compensate for that increased risk.”<sup>64</sup> TURN argues that higher leverage, or more debt relative to equity, can result in higher return on equity, which results in higher revenue requirements and higher customer bills. The negatives associated with more debt and higher leverage include lower credit ratings, higher borrowing costs, and the potential for higher future return on equity to reflect the higher leverage risk – all of which would result in higher customer rates. As EPUC states, “increased financial risk often results in credit rating

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<sup>61</sup> See TURN Opening Brief at 4.

<sup>62</sup> See Exhibit TURN-01 at 12.

<sup>63</sup> See TURN Opening Brief at 5.

<sup>64</sup> See D.07-12-049 at 28.

downgrades, which limit the utility's access to low-cost debt, resulting in higher debt costs that are ultimately recovered through customer rates."<sup>65</sup>

TURN effectively highlights how a higher equity to debt ratio results in more profit for the utility and its shareholders:

[S]hareholders have been receiving profits based on a 52% equity even though the actual equity percentage is near 38%. If PG&E's rate of return were accurately calculated using the actual equity percentage of 38% instead of 52%, the rate of return would be much lower, hence the *revenue requirement would be much lower*, because PG&E's authorized return on equity (10.28% [at the time of the filing]) is more than two times the authorized return on long-term debt (4.8%).<sup>66</sup>

Neither party is contesting that there is an immediate impact on rates; rather, both contend that there will be a rate impact in the longer-term. TURN's arguments illustrate the impact that operating with a higher amount of debt than what is used to calculate its debt-to-equity ratio (for purposes of its capital structure) has had since 2020.

PG&E argues that it seeks to avoid issuing equity for expenses that may be temporary, as equity is more costly to redeem.<sup>67</sup> PG&E argues that if the request is denied, customers will be negatively affected by the carrying costs and the more expensive to redeem equity.<sup>68</sup> We are not persuaded that the effect on customers is as PG&E claims. TURN argues that excessive debt increases risk and the less credit worthy PG&E becomes, the more expensive debt will be, a cost ultimately borne by customers. TURN further contends that granting the

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<sup>65</sup> See EPUC Opening Brief at 6.

<sup>66</sup> See TURN Opening Brief at 5-6, footnotes excluded, emphasis in original.

<sup>67</sup> See PG&E Opening Brief at 17-18.

<sup>68</sup> See PG&E Opening Brief at 17.

request benefits PG&E's shareholders, arguing that "PG&E is already leveraged well beyond its pre-bankruptcy capital structure" and that PG&E's request "is designed to benefit shareholders by avoiding issuing equity (and therefore diluting existing shareholders)."<sup>69</sup>

PG&E characterizes its request, particularly the exclusion of wildfire related expenses, as similar to those approved by the Commission in the past.<sup>70</sup> As TURN points out, "[c]apital structure waivers granted to SCE and PG&E in the past were associated with substantial charges which would have been difficult for either company's balance sheet to absorb," noting that PG&E's waiver related to 2017 and 2018 wildfires that contributed to its bankruptcy amounted to \$8.9 billion and SCE's potential charge to equity was approximately 10% of equity.<sup>71</sup> PG&E's estimated impact of a decrease in equity from the three items it seeks to exclude in the instant application is roughly 1.2%, with the wildfire expenses amounting to approximately half of that.<sup>72</sup> We agree with TURN that the magnitude of what PG&E is seeking to exclude is significantly different from what was granted in the past, due to the extraordinary circumstances and need for relief from the Commission authorized standard. This is in line with our earlier discussion that the Affiliate Transaction Rule set a 1% threshold with the implication that anything below that is not of such a dire nature that it would necessitate suspending a standard the Commission established through lengthy stakeholder input and deliberation.

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<sup>69</sup> See TURN Opening Brief at 11.

<sup>70</sup> See PG&E Opening Brief, 5-9.

<sup>71</sup> See TURN Opening Brief at 12.

<sup>72</sup> See Application at 13 and Response to ALJ Ruling at 7.

Further underscoring our concerns with extensive deviation from the authorized capital structure is TURN's argument that PG&E's current request occurs with a significant number of waivers to its capital structure calculation already in place to the value of billions of dollars.<sup>73</sup> When the Commission determined PG&E's capital structure in D.22-12-031, it stated that the capital structure "appropriately balances ratepayer and shareholder interests."<sup>74</sup> As discussed earlier, frequent and unjustified deviations from what the Commission determined most appropriately balanced customer and shareholder interests are not in the public interest, and granting adjustments and waivers would undermine that standard. An authorized capital structure is meant to span the three-year duration until the next filing. Each successive waiver or adjustment undermines that balance. In the instant proceeding, the record does not support the argument that there will be no harm to ratepayers by granting this request.

For the reasons discussed above, we do not find that granting the relief requested would be in the public interest.

#### **4. Summary of Public Comment**

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

Comments from the public emphasize the cost pressures customers are experiencing, the numerous rate increases PG&E received in 2024, and the need

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<sup>73</sup> See Ex. TURN-01C, Attachment 5.

<sup>74</sup> See D.22-12-031 at 6.

to hold PG&E accountable. The comments urge the Commission to deny any relief that would result in higher customer rates.

## **5. Conclusion**

PG&E requests permission to deviate from its authorized capital rate structure by excluding expenses related to the Dixie Fire, the Kincade Fire, and the DWR Loan when calculating its compliance with the Commission authorized capital rate structure. PG&E's request is not eligible for a waiver under the Affiliate Transaction Rule, however PG&E seeks the relief a waiver would provide by referring to the request as a limited capital structure adjustment. There is no rule or statute that distinguishes between the two and there is no substantive difference between granting a waiver or a limited capital structure adjustment. PG&E seeks authority to deviate from the authorized capital rate structure without meeting the conditions for a waiver as set forth in the Affiliate Transaction Rule.

The Affiliate Transaction Rule was established to protect utility financial health. The Commission authorized capital rate structure plays a critical role in balancing the interests of customers and utility shareholders. Deviations from the rule alter the carefully crafted balance. We find that PG&E's request is ineligible for a waiver under the Affiliate Transaction Rule. Circumventing the Affiliate Transaction Rule's protections undermine the Commission's established capital rate structure and the protections put in place for the utility's financial health. For this reason, we do not find it reasonable or in the public interest to grant this request.

**6. Procedural Matters**

This decision affirms all rulings made by the Administrative Law Judge and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

**7. Comments on Proposed Decision**

The proposed decision of ALJ Amin Nojan in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_ by \_\_\_\_\_.

**8. Assignment of Proceeding**

John Reynolds is the assigned Commissioner and Amin Nojan is the assigned ALJ in this proceeding.

**Findings of Fact**

1. PG&E filed Application 24-08-004 for permission to exclude specified expenses from its Affiliate Transaction Rule IX B capital rate structure calculations.
2. The request has no immediate, short-term impact on rates.
3. A utility's equity to debt ratio affects its perceived financial risk.
4. PG&E earns a higher return on equity than it does on debt.
5. The relief requested is identical in substance to that granted by a waiver, pursuant to Affiliate Transaction Rule IX B.
6. Higher amounts of utility debt increase financial risk and place downward pressure on a utility's credit rating.
7. PG&E's waiver to its capital rate structure, granted in D.20-05-053 as part of its Plan of Reorganization, expired in June 2025.
8. The Dixie Fire, the Kincade Fire, and the DWR loan are not related events.

9. PG&E states that it is in compliance with Affiliate Transaction Rule IX B as of June 2025.

10. The costs associated with wildfires that PG&E seeks to exclude as part of this application amount to approximately 0.6 equity.

11. The DWR loan is not an adverse financial event.

12. PG&E's request does not qualify for a waiver under Affiliate Transaction Rule IX B.

13. The total amount PG&E seeks to exclude is approximately \$2.6 billion.

### **Conclusions of Law**

1. Affiliate Transaction Rule IX B requires utilities to adhere to the Commission authorized capital rate structure.

2. Affiliate Transaction Rule IX B is the appropriate governing authority when deciding whether to grant the request.

3. Affiliate Transaction Rule IX B protects utility financial health by limiting the circumstances in which a utility is permitted to deviate from the Commission authorized capital rate structure.

4. Affiliate Transaction Rule IX B determines that a reduction to equity of 1 percent or greater due to an adverse financial event is the threshold for a utility to file an application for a waiver from its authorized capital rate structure.

5. There is no substantive difference between an application for a waiver or a limited capital structure adjustment for purposes of complying with Affiliate Transaction Rule IX B.

6. A forgivable loan is not an adverse financial event.

7. Disaster-related expenses amounting to less than a 1% reduction in equity do not constitute an adverse financial event, as defined by Affiliate Transaction Rule IX B.

8. Grouping unrelated items that occurred in different years for purposes of meeting a reduction to equity threshold does not satisfy the adverse financial event criteria.

9. The application does not meet the criteria for an Affiliate Transaction Rule IX B waiver application.

10. The Commission may deviate from precedent when the facts are different.

11. In ratesetting proceedings such as this, decisions are based on the unique fact pattern and evidentiary record developed in this proceeding.

12. Granting PG&E's request to deviate from its authorized capital rate structure is not in the public interest.

13. PG&E's request to deviate from its authorized capital rate structure should not be granted.

**O R D E R**

**IT IS ORDERED** that:

1. PG&E's request for a limited capital structure adjustment is denied.
2. Application 24-08-004 is closed.

This order is effective today.

Dated \_\_\_\_\_, at Fort Bragg, California.