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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 24-09-001:

This is the proposed decision of Administrative Law Judge Jeffrey Lee. 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 16, 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:nd3
Attachment

PROPOSED DECISION OF ALJ LEE (Mailed 6/12/2026)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southwest Gas Corporation (U 905 G) for Authority to Increase Rates and Charges for Gas Service in California, Effective January 1, 2026.

Application 24-09-001

**DECISION RESOLVING CONTESTED ISSUES
ON TEST YEAR 2026 GENERAL RATE CASE**

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DECISION RESOLVING CONTESTED ISSUES ON TEST YEAR 2026 GENERAL RATE CASE

Summary

Decision 26-05-013 adopted a Settlement Agreement between Southwest Gas Corporation (Southwest Gas), the Public Advocates Office at the California Public Utilities Commission, and Small Business Utility Advocates and determined that the proceeding did not involve any unresolved health and safety issues. This decision resolves remaining contested issues in this proceeding. It establishes the following:

- Southwest Gas' capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is reasonable, approved, and adopted for Test Year 2026.
- A return on common equity of 10.00 percent is reasonable, approved, and adopted for Test Year 2026.
- The overall rates of return of 7.07 percent for Southern California rate jurisdiction; and 7.17 percent overall for the consolidated Northern California and the South Lake Tahoe rate jurisdiction, are reasonable, approved, and adopted for Test Year 2026.
- Southwest Gas' operating revenues based on estimated sales, customers, and billing factors of \$173,180,220 for the Southern California rate jurisdiction; \$41,257,764 for the (consolidated) Northern California territory; and \$32,714,714 for the (consolidated) South Lake Tahoe territory are reasonable, approved, and adopted for Test Year 2026.
- Southwest Gas' rate increase of 5.17 percent for the (consolidated) Northern California and South Lake Tahoe rate jurisdiction; and a rate increase of 22.36 percent for Southern California rate jurisdiction are reasonable, approved, and adopted for Test Year 2026.

This proceeding is closed.

1. Background

The background and procedural matters in this proceeding were presented in Decision (D.) 26-05-013 and incorporated by reference in this decision. We reiterate and identify below only those aspects of the background necessary to an understanding of our decision today.

1.1. The Parties¹

Applicant Southwest Gas Corporation (Southwest Gas) is a corporation organized and existing under the laws of the state of California with a principal place of business at 8360 South Durango Drive, Las Vegas, Nevada 89113. Southwest Gas is a public utility engaged in the retail distribution, transportation, and sale of natural gas for domestic, commercial, agricultural, and industrial uses. It serves approximately 2.2 million customers in California, Arizona, and Nevada.

The Public Advocates Office at the California Public Utilities Commission (Cal Advocates) serves as representative on behalf of California consumers. Cal Advocates' statutory mandate requires it to "advocate on behalf of the interests of public utility customers and subscribers within the jurisdiction of the commission," and "obtain the lowest possible rate for service consistent with reliable and safe service levels."²

Intervenor Small Business Utility Advocates (SBUA) is a nonprofit organization, founded in 2012, that represents the interests of small business utility customers. SBUA's mission is to protect and promote small businesses in decisions regarding utility rates, policies, and programs.

¹ In this decision, we refer to the parties to this proceeding collectively as the "Parties."

² California Public Utilities (Pub. Util.) Code Section 309.5(a).

1.2. Application 24-09-001

On September 6, 2024, Southwest Gas filed with the California Public Utilities Commission (Commission) its Application (A.) 24-09-001 for Authority to Increase Rates and Charges for Natural Gas Service in California, Effective January 1, 2026 (Application). A.24-09-001 constitutes Southwest Gas' Test Year (TY) 2026 general rate case (GRC), to request authority from the Commission to increase its GRC revenue requirement (*i.e.*, the total amount of money Southwest Gas would be allowed to collect from customers for gas service in California to cover its costs, based on the company's costs over a 12-month period), beginning January 1, 2026.

The Application addressed Southwest Gas' three California rate jurisdictions: (1) Southern California; (2) Northern California; and (3) South Lake Tahoe. The Southern California rate jurisdiction comprises various communities and areas in San Bernardino County. Southwest Gas proposed to consolidate its two remaining California ratepayer jurisdiction into a single rate jurisdiction. The Northern California rate jurisdiction covered communities and areas in Placer, El Dorado, and Nevada Counties. The South Lake Tahoe rate jurisdiction covered El Dorado County. In total, Applicant serves approximately 206,000 California customers.

Southwest Gas claims an annual revenue deficiency for TY 2026 from cost increases of approximately \$38.5 million for its Southern California rate jurisdiction, approximately \$63,000 for its Northern California rate jurisdiction, and approximately \$10.2 million for its South Lake Tahoe rate jurisdiction.³ Southwest Gas contends broadly that approval of the Application, as proposed,

³ Application at 3.

would provide the Company with a realistic and reasonable opportunity to earn its authorized rates of return.⁴

1.3. Procedural Background

Southwest Gas and Cal Advocates filed concurrent opening briefs on August 29, 2025, and concurrent reply briefs on September 12, 2025. Those briefs addressed two January 22, 2025 Scoping Memo Issues (Scoped Issue) Nos. 4 and 5, addressing competing (a) capital structures for common debt and common equity percentages; and (b) return on common equity (ROE).

In addition, on September 18, 2025, the Commission issued D.25-09-017, authorizing the establishment of a new General Rate Case Memorandum Account (GRCMA) to track changes in its revenue requirement from January 1, 2026 through the date of the Commission's final decision in this proceeding. We authorized the GRCMA to offset any financial consequences caused by the Commission's adoption of a final decision in this proceeding after January 1, 2026.

On March 12, 2026, the assigned Administrative Law Judge (ALJ) issued a ruling directing the Parties to file a Joint Supplemental Statement to provide complete information for consideration and inclusion in the proceeding record.

On March 19, 2026, the assigned ALJ issued a ruling adopting procedures and protections for the confidential production of computer model runs using Southwest Gas' Results of Operations (RO) models, including to generate data tables needed to support the decisions in this proceeding.

On March 20, 2026, Southwest Gas, Cal Advocates, and SBUA filed their Joint Supplemental Statement.

⁴ Application at 11.

On May 18, 2026, we issued D.26-05-013, adopting Southwest Gas', Cal Advocates', and SBUA's proposed Settlement Agreement. In D.26-05-013, we resolved uncontested Scoped Issue Nos. 2, 3, 7, 8, 9, 10, 11, 12, 13, 15, 16, and 17. That decision authorized the consolidation of Southwest Gas' Northern California and South Lake Tahoe rate territories into a single Northern California/South Lake Tahoe rate jurisdiction.

1.4. Results of Operations Model

Southwest Gas' RO Model, included with this decision as Attachment 1, represents the revenues and rate design for the twelve months ended December 31, 2026, based on the terms of the Settlement Agreement adopted in D.26-05-013, and our adoption in this decision of a debt to equity ratio of 50.0 percent, and a ROE of 10.0 percent for TY 2026.

2. Issues Before the Commission

The adopted Settlement Agreement did not resolve certain cost of capital issues (capital structure, return on equity) and resulting issues (overall rate of return, and resulting revenue deficiencies/rate base) that we must determine.⁵ The following contested Scoped Issue Nos. 4, 5, 6, 14, and 1 are determined or otherwise considered in the order below:

Scoped Issue No. 4. Whether Southwest Gas' proposed capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is reasonable.

Scoped Issue No. 5. Whether the proposed ROE of 11.35 percent is reasonable.

Scoped Issue No. 6. Whether the proposed overall rate of return of 7.74 for Southern California, and 7.85 percent overall for both Northern California and the South Lake Tahoe jurisdictions, are reasonable.

⁵ See Motion at 4.

Scoped Issue No. 14. Whether Southwest Gas' operating revenues based on estimated sales, customers, and billing factors are reasonable.

Scoped Issue No. 1. Whether Southwest Gas' proposed rate increases for its Northern California, Southern California and South Lake Tahoe jurisdictions are reasonable.

3. Submission Date

This matter was submitted on March 20, 2026, upon Southwest Gas, Cal Advocates, and SBUA filing their Joint Supplemental Statement to provide complete information for consideration and inclusion in the proceeding record.

4. Jurisdiction

The Commission has jurisdiction over the activities of public utilities.⁶ Southwest Gas is a California corporation organized and existing under the laws of the state and is engaged in the retail distribution, transportation, and sale of natural gas for domestic, commercial, agricultural, and industrial uses. The company provides natural gas services to approximately 206,000 California customers in: (1) Southern California; (2) Northern California; and (3) South Lake Tahoe.⁷ Southwest Gas is therefore a public utility subject to the Commission's jurisdiction.

5. Evidentiary Standard and Burden of Proof

Pub. Util. Code Section 454(a) provides that a utility shall not change or alter any rate absent a finding by the Commission that the new rate is justified. The burden of proof in ratemaking proceedings rests with the applicant.⁸ The

⁶ Pub. Util. Code Section 216(a).

⁷ Its Southern California rate jurisdiction comprises various communities and areas in San Bernardino County. Its Northern California rate jurisdiction covers communities and areas in Placer, El Dorado, and Nevada Counties. Its South Lake Tahoe rate jurisdiction is entirely within El Dorado County.

⁸ D.09-03-025 at 22; *see also* D.11-05-018 at 33-34.

evidentiary standard applicable to this burden is proof by a preponderance of the evidence.⁹

6. Discussion

The issues considered below address establishment of just and reasonable rates that provide Southwest Gas a realistic opportunity to earn a reasonable rate of return, while ensuring affordable, safe, and reliable natural gas service to its California customers.

The record in this proceeding includes the written testimony from witnesses on behalf of Southwest Gas and Cal Advocates, as well as their and SBUA's documentary evidence, all received into the evidentiary record at the one-day evidentiary hearing. Southwest Gas and Cal Advocates filed opening and reply briefs that addressed Scoped Issue Nos. 4 and 5, their (a) competing capital structure proposals for common debt and common equity percentages; and (b) ROE. After establishing those two ratesetting parameters, we address the remaining Scoped Issues as they result from Southwest Gas' operations according to the calculations found in the RO Model (Attachment 1): overall rates of return (Scoped Issue No. 6), operating revenues (Scoped Issue No. 14), and rate increases by jurisdiction (Scoped Issue No. 1).

6.1. Capital Structure

We first address Scoped Issue No. 4: "Whether Southwest Gas' proposed capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is reasonable."

Southwest Gas' proposed capital structure consists of 50.0 percent common debt and 50.0 percent common equity. Cal Advocates proposed a

⁹ D.09-03-025 at 22; *see also* D.11-05-018 at 33-34.

48.0 percent common equity percentage with a corresponding 52.0 percent common debt level.¹⁰

On the issue of Southwest Gas' common debt to common equity ratio, a split of 50.0 percent common debt to 50.0 percent common equity is reasonable. The currently established capital structure authorized a common equity level of 52.0 percent. In the settlement agreement that we adopted in D.21-03-052, as part of the Southwest Gas' TY 2021 GRC, the parties agreed upon a target capital structure of 48.0 percent long term debt and 52.0 percent common equity. Here, Southwest Gas proposed reducing its common equity component to 50.0 percent, with a corresponding increase to its common debt level to 50.0 percent.

The reduction to 50.0 percent common equity is reasonable and fulfills Cal Advocates' recommendation that the common equity component should be lower than Southwest Gas has maintained in recent years.¹¹ Southwest Gas states that its common equity level was 49.40 percent, as of March 31, 2025 – the most current data in the record.¹² A move to a 50.0 percent common equity level represents a higher actual level than Southwest Gas reported in the record, but is tailored to both (a) closely reflect real-world facts; and (b) allow for growth. By reducing Southwest Gas' common equity ratio to 50.0 percent from the current 52.0 percent, the Commission strikes a reasonable balance by both (a) reducing the current 52.0 percent common equity level closer to Cal Advocates' proposed 48.0 percent common equity position; and (b) granting Southwest Gas' specific

¹⁰ Cal Advocates Opening Brief at 5.

¹¹ Cal Advocates Reply Brief at 8 (arguing that Southwest Gas' equity ratio dropped in every quarter after June 30, 2021 to a low of 43.3 percent in the first quarter of 2023).

¹² Southwest Gas Reply Brief at 5.

proposal to reduce its common equity level to 50.0 percent, with a corresponding move to a 50.0 percent common debt component.

Accordingly, we find that Southwest Gas' proposed capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is reasonable and adopt that capital structure here.

6.2. Return on Common Equity

We next address, contested Scoped Issue No. 5: "Whether the proposed ROE of 11.35 percent is reasonable."

The Commission has stated that, "[b]ecause the level of financial risk that the utilities face is determined in part by the proportion of their debt to permanent capital, or leverage, we must ensure that the utilities' adopted equity ratios are sufficient to maintain reasonable credit ratings and to attract capital."¹³ The Commission has also found that we must "attempt to set the ROE at a level of return commensurate with market returns on investments having corresponding risks, and adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation" and that "[t]o accomplish this objective, we have consistently evaluated analytical financial models *as a starting point to arrive at a fair ROE.*"¹⁴

In this proceeding, Cal Advocates opposed Southwest Gas' proposed ROE of 11.35 percent, instead proposing a 9.50 percent ROE. After reviewing the

¹³ D.12-12-034 at 5. We note as a general observation larger utilities have higher overall risks, than small utilities like Southwest Gas. Larger utilities risk exposure is typically reflected in their capital structure and ROE established by the Commission. For instance, two larger IOUs, Sempra Energy and PG&E, have offered common equity at 52 percent and common debt at 48 percent, with a ROE lower than 10 percent.

¹⁴ D.12-12-034 at 18 (emphasis added).

documentary evidence and expert testimony, we find that the record evidence supports establishing the ROE within the range proposed by the Parties: 9.5 percent to 11.35 percent.¹⁵ In accord with our stated approach to ROE-setting, we look to additional considerations to pinpoint a ROE within this starting range, including comparators and prior ROEs set for Southwest Gas.

We begin with the evidence in the record that establishes the ROE range, from Cal Advocates' 9.50 percent to Southwest Gas' 11.35 percent. We further acknowledge that the Commission established a 10.00 percent ROE in our previous Southwest Gas GRC, D.21-03-052. Then, in January 2024, the Commission approved Southwest Gas' uncontested Advice Letter 1275-G (submitted November 3, 2023) that increased Southwest Gas' ROE to 11.16 percent, as a result of their Automatic Trigger Mechanism (ATM). Under D.26-05-013, the ATM will continue. With this foundation, we proceed to our considerations below.

First, public policy considerations present ratepayer affordability as a paramount concern. To promote affordability, ROEs should be reduced to a level that avoids risks to, for example, a utility's credit rating. Here, the record does not show that Southwest Gas, a natural gas utility, is exposed to major fire risks that are a primary driver of credit risk for electric Investor-Owned Utilities (IOUs).¹⁶ As a result, the affordability goal weighs toward a lower ROE than Southwest Gas' 11.35 percent proposal. Moreover, with wildfire risk not being a

¹⁵ Cal Advocates proposes a range of based on a comparison group earning between 8.00 and 10.00 percent (Cal Advocates Exhibit JRW-2). Southwest Gas proposes a range of common equity costs between 10.83 and 11.71 percent (Southwest Gas SOUTHWEST GAS-25).

¹⁶ In D.25-12-043, the Commission acknowledged that "[n]atural gas utilities in the United States do not confront the same wildfire risks as electric utilities in the United States" (Ordering Paragraph 19). Wildfire exposure is a significant driver of financial risk to California electric utilities, but not natural gas utilities.

primary concern, we are persuaded by Cal Advocates' argument that "long-term [earnings per share] growth rate forecasts of Wall Street securities analysts are 'overly optimistic and upwardly biased.'"¹⁷ Thus, affordability concerns warrant a lower ROE than Southwest Gas requests.

Next, our analysis recognizes the influence and context of inflationary pressures.¹⁸ During a period of high inflation, which is generally correlated with higher interest rates for utility bonds, the ATM adjusts, thereby protecting the utility. Here, inflation has declined since a 2022 peak. This decline suggests a correction is warranted to return Southwest Gas' ROE to a lower level. Southwest Gas argues that the ATM supports its proposed 11.35 percent ROE because the Moody's Utility Bond Index, to which the ATM is pegged, has not reduced substantially since 2023, when the ATM triggered the Advice Letter 1275-G filing.¹⁹ Cal Advocates counters that ROE growth has not been commensurate with ROE declines in response to changes in interest rates and capital costs, noting as follows:

[A]uthorized ROEs for utilities reached record low levels in 2020 and 2021 due to record low interest rates and capital costs related to the pandemic. However, authorized utility ROEs never declined to the same extent that interest rates declined in those two years.²⁰

In other words, the elasticity of ROEs upward and downward in response to larger macroeconomic conditions are not equal in magnitude. Cal Advocates further asserts that Southwest Gas' authorized ROE was excessively high and

¹⁷ Cal Advocates Opening Brief at 15-16.

¹⁸ Cal Advocates Opening Brief at 10-11.

¹⁹ Southwest Gas Opening Brief at 15-17.

²⁰ Cal Advocates Opening Brief at 10.

reflects long-term national trends in ROEs. To support this assertion, Cal Advocates cites evidence showing long-term trends in ROEs from rate cases over 1980-2021.²¹ Cal Advocates' larger point is that ROEs have been growing progressively to current levels while overstating the actual cost of equity capital premium. We find Cal Advocates' point persuasive to the extent that ROEs have been increasing beyond a level needed to attract capital.

Finally, we typically examine the ROE of a major California energy utility that most resembles Southwest Gas. As established in the Southwest Gas TY 2014 GRC decision, among the four major California energy utilities, Southern California Gas Company was most similar to Southwest Gas. We recognize the results of the recent cost of capital proceeding in D.25-12-043. D.25-12-043 resulted in a 30-basis point downward adjustment on all four of the major IOUs, including reduction of Southern California Gas Company's ROE, to reset it at 9.78 percent from within a reasonable range of 9.45 percent to 10.00 percent.²²

Additionally, a ROE above 10.03 percent (the maximum set in that decision) would be contrary to our recent Commission ROE-setting approach in D.25-12-043 for comparator IOUs.²³ In D.25-12-043, the factors we considered strongly suggest a lower ROE for Southwest Gas here, within the established range. We noted there the balance we seek:

ROE is most effectively set at a level of return commensurate with market returns on investments having corresponding risks and adequate to enable a utility to attract investors to

²¹ Cal Advocates Opening Brief at 13.

²² D.25-12-043 found a range of reasonableness for ROE of 9.45 percent to 10.00 percent for Southern California Gas Company.

²³ D.25-12-043 granted ROEs ranging from 9.78 percent for Southern California Gas Company to 10.03 percent for Southern California Edison Company. Likewise, the decision authorized ROEs that were between 122 and 172 basis points lower than those proposed by the utilities.

finance the replacement and expansion of a utility's facilities to fulfill its public utility obligation while ensuring there is ratepayer protection from unreasonable costs.²⁴

To strike this balance, we will consider ROEs in line with those of the other IOUs in California. We begin by recognizing that Southwest Gas' ROE, currently at 11.35 percent, should be adjusted downward given that electric IOUs with higher exposure to wildfire risk have ROEs lower than 11.35 percent without imposing undue credit or capital risks.

Here, we recognize the similarities between Southern California Gas Company and Southwest Gas as well as our overall balancing of relevant variables and comparison of the Company's proposed ROE to Southern California Gas Company's recently authorized ROE of 9.78 percent.

Ratepayer affordability concerns and other considerations above persuade us that setting a 10.00 percent ROE is appropriate and reasonable in this proceeding. In the event that macroeconomic conditions change substantially, Southwest Gas may rely on its reauthorized ATM to adjust ROE between GRC cycles, which helps mitigate any harmful effects from regulatory lag. Correspondingly, the ATM reduces administrative burdens as well as risk to ratepayers of an unreasonable ROE adjustment between GRC cycles. Our recent decision in D.26-05-013 extended the ATM and we reset the benchmark to the six-month period of April to September for the most recent year. Additionally, by setting the equity ratio at 50.0 percent when Southwest Gas' actual equity ratio is 49.4 percent,²⁵ we balance a lower ROE by providing headroom for Southwest Gas to increase its returns and maintain credit neutrality.

²⁴ D.25-12-043 at Ordering Paragraph 19.

²⁵ Southwest Gas Opening Brief at 4.

Upon those considerations, we find that a ROE of 10.00 percent is reasonable. Accordingly, we adopt a ROE of 10.00 percent for Southwest Gas.

6.3. Results of Operations Model Calculations

The RO Model at Attachment 1 represents the revenues and rate design for the twelve months ended December 31, 2026. The model is calculated based on the terms of the Settlement Agreement adopted in D.26-05-013, a debt to equity ratio of 50.0 percent, and a ROE of 10.00 percent adopted above.

In general practice, we consider and address the remaining Scoped Issues by employing the ratesetting inputs above. The RO Model is the fundamental analytical framework used by the Commission to determine a utility's revenue requirement. It serves as the computational engine for a GRC, ensuring that the total authorized revenue is mathematically aligned with the costs of providing affordable, safe, and reliable service. An RO model integrates a proceeding's data points to produce a utility's summary of earnings.

To determine the authorized financial parameters within the RO Model, we adopt specific inputs that balance ratepayer interests (*e.g.*, affordable service) with the utility's need to attract capital. As established above, based on the record and the Settlement Agreement, the Commission finds the following inputs for Southwest Gas' 2026 TY to be reasonable: (1) a capital structure employing a ratio of 50.0 percent debt and 50.0 percent equity; and (2) a ROE at 10.00 percent. These inputs, when weighted against the cost of debt, establish the overall rate of return that Southwest Gas is permitted to earn on its rate base.

In this decision, we rely on the RO Model at Attachment 1 to consider the remaining Scoped Issues: Southwest Gas's authorized operating revenues, overall rate of return, and rate increases by ratepayer jurisdiction. By integrating the terms of the Parties' Settlement Agreement with the 50/50 capital structure

and 10.00 percent ROE, the RO Model serves as the calculated basis for the following determinations:

- **Authorized Operating Revenues:** The RO Model calculates the total revenue necessary for the utility to recover its cost of service.
- **Overall Rate of Return:** The RO Model applies the adopted 10.00 percent ROE and 50/50 debt-to-equity ratio to the rate base to derive the weighted cost of capital.
- **Rate Increases:** The RO Model identifies the specific revenue deficiency and the resulting rate adjustments required for each service territory.

The calculated RO Model outputs demonstrate that these levels provide the utility with the necessary cash flow and interest coverage to maintain its financial integrity and creditworthiness. This ensures Southwest Gas can continue to access capital markets on reasonable terms to fund its critical infrastructure safety and modernization projects. By utilizing the RO Model at Attachment 1, the Commission ensures that the final ratesetting factors are transparent, mathematically sound, and sufficient for the utility to operate effectively in this GRC cycle.

6.3.1. Operating Revenues

Scoped Issue No. 14 asks, “Whether Southwest Gas’ operating revenues based on estimated sales, customers, and billing factors are reasonable.”

Southwest Gas’ operating revenue is the total annual amount the utility has authority to collect from customers to cover its forecasted costs of providing service. By establishing an authorized revenue level, the Commission ensures Southwest Gas has the financial capacity to maintain safe operations. Operating revenue is significant to ratesetting because Southwest Gas identified a revenue deficiency (*i.e.*, a gap between current income and the rising costs of

infrastructure investment and inflation) that prompted a request for a significant revenue increase.²⁶

Southwest Gas initially sought \$43.67 million in total revenue increase as a \$36.61 million increase for its Southern California rate jurisdiction; a \$2.79 million decrease for its Northern California rate jurisdiction; and a \$9.85 million increase for the South Lake Tahoe rate jurisdiction to recover costs for safety upgrades and customer growth.²⁷ This was revised to a \$39.5 million revenue increase as a \$33.4 million revenue requirement increase for Southwest Gas' Southern California rate jurisdiction and a \$6.1 million increase for a consolidated Northern California/South Lake Tahoe rate jurisdiction based on stipulations in the Settlement Agreement adopted in D.26-05-013.²⁸ However, the Commission still has yet to assess the reasonableness of Southwest Gas' revenue request.

To determine the reasonableness of Southwest Gas' TY 2026 operating revenue proposal, we balance the utility's need for infrastructure investment against ratepayer affordability. Those increases will impact low-income customers and whether all requested capital projects are strictly necessary for safe service. We endeavor to maintain a safe and reliable system without imposing excess financial burden on Southwest Gas' California customers.

²⁶ Southwest Gas's "operating revenue" for each of the Southern California, (consolidated) Northern California, and (consolidated) South Lake Tahoe territories is the sum of its projected "gas cost" plus its "operating margin." See Attachment 1 at 5, 6, and 7 (Line Nos. 1, 2, and 3). The operating margin is also known as the "revenue requirement." The Parties did not dispute Scoped Issue No. 14 (operating revenues) in their Settlement Agreement or briefing on contested issues.

²⁷ D.26-05-013 at Attachment 1, paragraph 17.

²⁸ D.26-05-013 at Attachment 1, paragraph 35.

Under the attached RO Model, Southwest Gas' resulting operating revenues for its California ratepaying jurisdictions break down as follow within each of the Southern California and consolidated Northern California/South Lake Tahoe rate jurisdictions:²⁹

Figure 1: Authorized Operating Revenues

Rate Jurisdiction	Test Year 2026	Revenue Deficiency	Authorized Operating Revenue
Southern California	\$144,225,771	\$28,954,449	\$173,180,220
Northern California (consolidated)	\$45,895,586	(\$4,637,823)	\$41,257,764
South Lake Tahoe (consolidated)	\$24,414,138	\$8,300,576	\$32,714,714
<u>Total</u>	<u>\$214,535,495</u>	<u>\$32,617,202</u>	<u>\$247,152,698</u>

As shown in Figure 1 above, the RO Model supports lower adjustments than proposed by Southwest Gas to address the deficiencies within each current rate jurisdiction: a \$28,954,449 increase for the Southern California rate jurisdiction; and for the separate territories in the consolidated Northern California/South Lake Tahoe rate jurisdiction, a \$4,637,823 *decrease* for the Northern California territory; and an \$8,300,576 increase for the South Lake Tahoe territory. This results in authorized operating revenues of \$173,180,220 for Southern California; and \$41,257,764 for (consolidated) Northern California; and \$32,714,714 for (consolidated) South Lake Tahoe. In sum, these operating revenues result in total operating revenues of \$247,152,698. These totals (shown in Figure 1) represent a \$32,617,202 increase to address deficiencies.

²⁹ See Appendix 1 at 5-7.

This total is a roughly \$11.05 million reduction of Southwest Gas' initial request for a revenue increase, or a 25 percent downward adjustment. Moreover, it is an almost \$6.87 million, or a 17.4 percent decrease, below the \$39.5 million revenue request identified in the Settlement Agreement. Therefore, the operating revenue adopted in this decision moves toward greater ratepayer affordability while providing for infrastructure investment.

These adjustments and totals also reasonably support necessary and mandated safety upgrades and reflect inflationary pressures on operating expenses. Accordingly, Southwest Gas operating revenues above (based on estimated sales, customers, and billing factors) are authorized as reasonable and are adopted, as shown in Figure 1.

6.3.2. Overall Rates of Return

We next address, contested Scoped Issue No. 6: "Whether the proposed overall rate of return (ROR) of 7.74 [percent] for Southern California, and 7.85 percent overall for both Northern California and the South Lake Tahoe jurisdictions, are reasonable."

The United States Supreme Court defined the legal principles to be considered by the Commission in determining a utility's rate of return in *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*,³⁰ and *Federal Power Commission v. Hope Natural Gas Company*.³¹ In *Bluefield*, the Court stated that "[t]he return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate... to maintain and support its credit and enable it to raise the money

³⁰ 262 U.S. 679 (1923).

³¹ 320 U.S. 591 (1944).

necessary for the proper discharge of its public duties.”³² The *Hope* decision reinforces the principles established by *Bluefield* and provides additional guidance to assess the reasonableness of a utility’s rate of return, holding that revenues must be sufficient to cover capital costs, and “the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks.”³³ These precedents indicate that Southwest Gas should be authorized to earn a rate of return that is: (1) commensurate with returns on investments in other firms having corresponding risks; (2) sufficient to assure confidence in the Company’s financial integrity; and (3) sufficient to maintain the Company’s creditworthiness and ability to attract capital on reasonable terms.

The current, agreed overall ROR set in D.21-03-052 is 7.11 percent for Southern California and an overall ROR of 7.44 percent for the Northern California and South Lake Tahoe regions.

In the present proceeding, Southwest Gas’ requested capital structure of 50.0 percent long-term debt, 50.0 percent common equity, and a ROE of 11.35 percent would cause the overall rates for Southern California and the consolidated Northern California/South Lake Tahoe jurisdiction to increase to 7.74 percent and 7.85 percent, respectively.³⁴

In contrast, based on a proposed rate of return on equity of 9.50 percent and a capital structure of 52.0 percent long-term debt and common equity at 48.0 percent for both Districts, Cal Advocates recommends that Southwest Gas’ overall rate of return should be lowered to 6.71 percent for the Southern

³² *Bluefield*, 262 U.S. 679 at 693.

³³ *Hope*, 320 U.S. 591 at 603.

³⁴ Southwest Gas Reply Brief at 2.

California rate jurisdiction and 6.82 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction.³⁵

Between these proposals, the RO Model reveals that the Commission authorization of Southwest Gas' requested capital structure of 50.0 percent long-term debt, 50.0 percent common equity, and a ROE of 10.00 percent, the overall RORs for Southern California rate jurisdiction and the consolidated Northern California/South Lake Tahoe rate jurisdiction become 7.07 percent and 7.17 percent, respectively.³⁶ These return rates effect a reduction toward affordability without deviating from the current RORs to either of the diametric extremes proposed by the Parties under very different common equity ratios and ROEs.

This set of return rates mathematically calculated through the RO Model results from the determinations we made above in this decision and reflect a reasonable overall ROR in each rate territory. Consistent with our establishment of the 50 percent debt to equity ratio and 10.00 percent ROE, the results achieve for Southwest Gas RORs that are based on our aims for (1) comparable returns on investments in other firms having corresponding risks; (2) maintenance of confidence in the Company's financial integrity; and (3) protection of the Company's creditworthiness and ability to attract capital on reasonable terms.

Accordingly, we find that an overall ROR of 7.07 percent for Southern California rate jurisdiction and 7.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction are reasonable and are adopted.

³⁵ Cal Advocates Opening Brief at 5.

³⁶ Southwest Gas Reply Brief at 2.

6.3.3. Rate Increases by Jurisdiction

Scoped Issue No. 1 asks, “Whether Southwest Gas’ proposed rate increases for its Northern California, Southern California and South Lake Tahoe jurisdictions are reasonable.”

As stated above, Southwest Gas initially sought \$43.67 million in total revenue increase as a \$36.61 million increase for its Southern California rate jurisdiction; a \$2.79 million decrease for its Northern California rate jurisdiction; and a \$9.85 million increase for the South Lake Tahoe rate jurisdiction to recover costs for safety upgrades and customer growth.³⁷ This was revised to a \$39.5 million revenue increase as a \$33.4 million revenue requirement increase for Southwest Gas’ Southern California rate jurisdiction and a \$6.1 million increase for its consolidated Northern California/South Lake Tahoe rate jurisdiction, based on stipulations in the Settlement Agreement adopted in D.26-05-013.³⁸

Using the Settlement Agreement terms and the capital structure of 50.0 percent long-term debt, 50.0 percent common equity, and 10.00 percent ROE authorized above – and the consolidation of the Northern California and South Lake Tahoe service territories through the Settlement Agreement – the RO Model calculates a resulting Southwest Gas rate increase of 5.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction and an increase of 22.36 percent for the Southern California rate jurisdiction.³⁹ These rate changes are calculated by the RO Model to result in residential rate impacts to

³⁷ Joint Motion for Adoption of Settlement at 5 (Summary of Settlement Agreement).

³⁸ D.26-05-013 at Attachment 1, paragraph 35.

³⁹ Appendix 1 at 4 (Summary of Results, Residential Rate Impacts, Weighted Average).

average monthly bills as an increase of \$5.07 for the consolidated Northern California/South Lake Tahoe customers and an increase of \$13.89 for Southern California customers.⁴⁰ These impacts are summarized in Figure 2 as follows:

Figure 2: Summary of Residential Rate and Bill Impacts⁴¹

Rate Jurisdiction	Residential Rate Impacts	Average Bill Impacts
Southern California	22.36%	\$13.89
Northern California/ South Lake Tahoe (consolidated)	5.17%	\$5.07

In light of our adoption of the Settlement Agreement, decisions regarding common debt to equity ratio, and ROE above, the rate impacts calculated through the RO Model, as shown in Figure 2 above, are reasonable.

Accordingly, we find that an average rate increase of 5.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction and a rate increase of 22.36 percent for the Southern California rate jurisdiction are reasonable and are adopted.

In addition, the resulting operating revenues, overall rates of return, and rate increases derived from the RO Model for TY 2026 are just and reasonable under Pub. Util. Code Section 451.

⁴⁰ Appendix 1 at 4 (Summary of Results, Residential Rate Impacts, Weighted Average). The RO Model shows residential rate impacts in each territory. As shown in Figure 2, the Southern California rate jurisdiction will experience a 22.36 percent increase, amounting to an additional \$13.89 per average bill. *See* Attachment 1 at 4 (Summary of Results, Residential Rate Impacts). Apart from a weighted average result, the RO Model shows that within the newly consolidated Northern California/South Lake Tahoe rate jurisdiction, the pre-consolidated Northern California territory will see a decrease of 8.08 percent or -\$9.36 per average bill while the pre-consolidated South Lake Tahoe territory will see a 31.11 percent increase amounting to \$23.46 per average bill. *See* Attachment 1 at 4 (Summary of Results, Residential Rate Impacts).

⁴¹ Appendix 1 at 4 (utilizing RO Model results for a consolidated Northern California and South Lake Tahoe rate territory).

7. Conclusion

In summary, we establish the ratesetting elements below through this decision. First, Southwest Gas' capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is reasonable, approved, and adopted (Scoped Issue No. 4).

Second, a ROE of 10.00 percent is reasonable, approved, and adopted (Scoped Issue No. 5).

Third, an overall rate of return of 7.07 percent for the Southern California rate jurisdiction, and 7.17 percent overall rate of return for the consolidated Northern California/South Lake Tahoe rate jurisdiction are reasonable, approved, and adopted (Scoped Issue No. 6).

Fourth, Southwest Gas' operating revenues (based on estimated sales, customers, and billing factors) of \$173,180,220 for the Southern California rate jurisdiction; \$41,257,764 for the (consolidated) Northern California territory; and \$32,714,714 for the (consolidated) South Lake Tahoe territory are reasonable, approved, and adopted (Scoped Issue No. 14).

Fifth, Southwest Gas' rate increase of 5.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction; and a rate increase of 22.36 percent for Southern California rate jurisdiction are reasonable, approved, and adopted (Scoped Issue No. 1).

Finally, the resulting operating revenues, overall rates of return, and rate increases derived from the RO Model for TY 2026 are just and reasonable under Pub. Util. Code Section 451.

8. Summary of Public Comment

Rule 1.18 of the Commission's Rules of Practice and Procedure (Rules) 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.

Approximately 27 public comments were received on the Commission’s website through the online docket card for this proceeding. A majority of public comments opposed a rate increase in principle in Southwest Gas’ service areas, citing prior and/or currently requested increases as excessive and beyond affordable to commenting customers. Numerous South Lake Tahoe residents cited recent rate increases as outpacing inflation, wages, and/or fixed incomes of the commenters and noted the reliance on natural gas in that service area.

9. Procedural Matters⁴²

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

10. Comments on Proposed Decision

The proposed decision of ALJ Jeffrey Lee in this matter was mailed to the Parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3.

Comments were filed on _____, and reply comments were filed on _____ by _____.

11. Assignment of Proceeding

Matthew Baker is the assigned Commissioner and Jeffrey Lee is the assigned ALJ and presiding officer in this proceeding.

⁴² The procedural matters in this proceeding were presented in D.26-05-013 and are incorporated in this decision.

Findings of Fact

1. On September 6, 2024, Southwest Gas filed A.24-09-001, to request authority to increase its GRC revenue requirement, beginning January 1, 2026.
2. Southwest Gas is a public utility engaged in the retail distribution, transportation and sale of natural gas for domestic, commercial, agricultural and industrial uses with three California rate jurisdictions: (1) Southern California; (2) Northern California; and (3) South Lake Tahoe, serving over 2 million customers in the states of California, Arizona, and Nevada.
3. A protest was filed by Cal Advocates on October 14, 2024, and SBUA was granted party status on January 14, 2025.
4. Uncontested issues in this proceeding were resolved by the Settlement Agreement adopted in separate decision D.26-05-013.
5. D.26-05-013 approved consolidation of Southwest Gas' Northern California and South Lake Tahoe territories into a consolidated Northern California/South Lake Tahoe rate jurisdiction.
6. D.21-03-052 authorized a common equity ratio of 52 percent.
7. As of March 31, 2025, Southwest Gas' equity percentage was 49.40 percent.
8. The record evidence establishes an ROE range of 9.50 percent to 11.35 percent.
9. ROE should be reduced to a level that avoids risks to a utility's credit rating.
10. Southwest Gas is not exposed to major fire risks.
11. ROEs have been increasing beyond a level needed to attract capital.
12. Southern California Gas Company is most similar comparator public utility to Southwest Gas and has an authorized ROE of 9.78 percent.

13. A RO Model is a standard regulatory tool that integrates forecasts for operating and maintenance expenses, capital investments, and financial parameters to determine a utility's revenue requirement.

14. A capital structure of 50 percent debt and 50 percent equity and a 10.00 percent ROE for TY 2026 are reasonable inputs for the RO Model.

15. The RO Model, included with this decision as Attachment 1, accurately integrates the financial inputs and Settlement Agreement terms from this proceeding to calculate the authorized operating revenues and resulting rate increases necessary for TY 2026.

16. The revenue levels determined by the RO Model are sufficient for Southwest Gas to maintain its financial integrity and fulfill its obligation to provide safe and reliable natural gas service.

17. The RO Model reveals that the Commission's authorization of a capital structure that consists of 50.0 percent common debt and 50.0 percent common equity and a ROE of 10.00 percent results in an overall rate of return of 7.07 percent for the Southern California rate jurisdiction, and 7.17 percent overall for the consolidated Northern California/South Lake Tahoe rate jurisdiction, are reasonable for TY 2026 (Scoped Issue No. 6).

18. The RO Model calculates Southwest Gas' operating revenues (based on estimated sales, customers, and billing factors) to be \$173,180,220 for the Southern California rate jurisdiction; \$41,257,764 for (consolidated) Northern California territory; and \$32,714,714 for (consolidated) South Lake Tahoe territory for TY 2026 (Scoped Issue No. 14).

19. The RO Model calculates a rate increase of 5.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction and a rate

increase of 22.36 percent for the Southern California rate jurisdiction for Test Year 2026 (Scoped Issue No. 1).

Conclusions of Law

1. Southwest Gas' capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is reasonable and should be approved and adopted for TY 2026.

2. A ROE of 10.00 percent is reasonable and should be approved and adopted for TY 2026.

3. The RO Model should be used as the definitive basis for establishing the authorized revenue requirement and ratesetting factors in this proceeding for TY 2026.

4. The resulting operating revenues, overall rates of return, and rate increases derived from the RO Model for Test Year 2026 are just and reasonable under Pub. Util. Code Section 451.

5. The overall rate of return of 7.07 percent for the Southern California rate jurisdiction, and 7.17 percent overall for the consolidated Northern California/South Lake Tahoe rate jurisdiction, are reasonable and should be approved and adopted for TY 2026 (Scoped Issue No. 6).

6. Southwest Gas' operating revenues (based on estimated sales, customers, and billing factors) of \$173,180,220 for the Southern California rate jurisdiction; \$41,257,764 for the (consolidated) Northern California territory; and \$32,714,714 for the (consolidated) South Lake Tahoe territory are reasonable (Scoped Issue No. 14) and should be approved and adopted for TY 2026.

7. Southwest Gas' rate increase of 5.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction; and a rate increase of

22.36 percent for the Southern California rate jurisdiction are reasonable and should be approved and adopted for TY 2026 (Scoped Issue No. 1).

8. This decision should affirm all rulings made by the ALJ and assigned Commissioner in this proceeding. All motions not ruled on should be deemed denied.

9. A.24-09-001 should be closed.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation's capital structure that consists of 50.0 percent common debt and 50.0 percent common equity is approved and adopted for Test Year 2026.

2. Southwest Gas Corporation's return on common equity of 10.00 percent is approved and adopted for Test Year 2026.

3. Southwest Gas Corporation's overall rate of return of 7.07 percent for the Southern California rate jurisdiction, and 7.17 percent overall for the consolidated Northern California/South Lake Tahoe rate jurisdiction, are approved and adopted for Test Year 2026.

4. Southwest Gas Corporation's operating revenues (based on estimated sales, customers, and billing factors) of \$173,180,220 for the Southern California rate jurisdiction; \$41,257,764 for the (consolidated) Northern California territory; and \$32,714,714 for the (consolidated) South Lake Tahoe territory are approved and adopted for Test Year 2026.

5. Southwest Gas Corporation's rate increase of 5.17 percent for the consolidated Northern California/South Lake Tahoe rate jurisdiction; and a rate increase of 22.36 percent for the Southern California rate jurisdiction are approved and adopted for Test Year 2026.

6. Southwest Gas Corporation is authorized to implement the revenue requirements and rate increases for Test Year 2026 as determined by the Results of Operations Model at Attachment 1 and the Settlement Agreement adopted in Decision 26-05-013.

7. Within 30 days of the effective date of this decision, Southwest Gas Corporation shall file Tier 1 advice letters with the Commission's Energy Division to implement the revised tariff sheets reflecting the authorized rate changes for Test Year 2026.

8. 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.

9. Application 24-09-001 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT 1