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Decision 22-11-018 November 3, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338-E) for Authority to Establish its Authorized Cost of Capital for Utility Operations for 2022 and Reset the Annual Cost of Capital Adjustment Mechanism.	Application 21-08-013
And Related Matters.	Application 21-08-014 Application 21-08-015

DECISION ON OFF-CYCLE APPLICATIONS OF SOUTHERN CALIFORNIA EDISON COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, AND PACIFIC GAS AND ELECTRIC COMPANY

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DECISION ON OFF-CYCLE APPLICATIONS OF SOUTHERN CALIFORNIA EDISON COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, AND PACIFIC GAS AND ELECTRIC COMPANY

Summary

This decision resolves the narrow issues of whether the extraordinary circumstances requirements of Decision 08-05-035 have been met and whether the Cost of Capital Mechanism adjustment should apply to the return on equity for the year 2022 for Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company (collectively the Utilities). This decision finds that the Utilities experienced the circumstances caused by the COVID-19 pandemic differently as compared to the proxy utilities groups and the overall financial markets. The decision finds that these extraordinary circumstances warrant a departure from the Cost of Capital Mechanism adjustment for 2022. The Cost of Capital Mechanism adjustment fails to result in a fair and reasonable return on equity given the extraordinary circumstances; therefore, it should not apply in 2022. It is reasonable for the Commission to retain the return on equity, and other cost of capital components, at levels as previously approved by Decision 19-12-056. The above-captioned proceedings are closed.

1. Background

1.1. Cost of Capital Mechanism (CCM) and the Adjustment

The above-captioned proceedings involve compliance with the CCM and changes to the return on equity (ROE) outside of the three-year application cycle. Established by the Commission in 2008, the CCM requires utilities to file cost of capital applications with the cost of capital components and the structure every three years.[1] During the three-year cycle, the return on revenue may change in two ways as described in Decision (D.) 08-05-035. One way is the CCM adjustment:

> In any year where the difference between the current 12-month October through September average Moody's utility bond rates and the benchmark exceeds a 100-basis point trigger, an automatic adjustment to the utilities' ROE [return on equity] shall be made by an October 15 advice letter to become effective on January 1 of the next year . . . .[2]

If the CCM adjustment is triggered by the change in Moody's utility bond rates during the measurement period, then the ROE adjusts the next year, without a full cost of capital proceeding. The adjustment mechanism is only useful, and representative of a fair rate of return, if the underlying assumptions hold true: that changes to the cost of equity approximately track increases or decreases in utility bond interest rates. Applied to the above-captioned proceedings, the October 1, 2020 to September 30, 2021 measurement period change should represent a change in ROE for the next year, 2022.

Another way the Utilities' ROE can change during the three-year cycle is:

> [Filing] a cost of capital application outside the CCM process upon an extraordinary or catastrophic event that materially impacts their respective cost of capital and/or capital structure and impacts them differently than the overall financial markets.[3]

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[1] D.08-05-035 at 15 – 16, 20 – 21 (Ordering Paragraph (OP) 1).

[2] D.08-05-035 at 21 (OP 2).

[3] *Id.* at 19 (Conclusion of Law (COL) 6).

1.2. Procedural Background

In 2019, D.19-12-056 set the cost of capital for 2020 through 2022.[4] The next application cycle would begin with the April 20, 2022 applications, to set the cost of capital for 2023 through 2025. Instead, on August 23, 2021, Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Pacific Gas and Electric Company (PG&E) (together, the Utilities), filed off-cycle applications.

The Utilities request relief from the CCM adjustment because in the 12-month period starting on October 1, 2020 until September 30, 2021, the difference between the average Moody's utility bond rates and the benchmark exceeded a 100-basis point trigger. This would result in an automatic adjustment, reducing the ROE, which would then reduce the revenue requirement associated with cost of capital. In their applications, the Utilities request the Commission reject the CCM adjustment due to the COVID-19 pandemic, seek a full review of the authorized cost of capital using test year 2022, and to modify the three-year cost of capital cycle thereafter.[5] Instead of the next cycle beginning with the 2023 test year in the April 20, 2022 applications, the Utilities propose that the August 23, 2021 applications would begin a new cycle with the 2022 test year, which would set the cost of capital for 2022 through 2024. In the alternative, PG&E and SCE request the Commission suspend the operation of the CCM adjustment in 2021, maintain their current ROE for 2022 and proceed in the regular course to submit a full cost of capital application in April 2022.[6]

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[4] D.19-12-056 at 54 – 55.

[5] *See* D.08-05-035.

[6] Application of Pacific Gas and Electric Company (U39M) for Test Year 2022 Cost of Capital or, in the Alternative, for Suspension of Cost of Capital Adjustment Mechanism for 2021,

Footnote continued on next page.

The Utilities claim that they filed the August 23, 2021 applications in lieu of the October 15, 2021 advice letters notifying the Commission of the CCM adjustment, as required by D.08-05-035. The assigned Commissioner and the assigned Administrative Law Judges (ALJs) rejected that argument, emphasizing that D.08-05-035 requires an October 15 advice letter when the difference between the current 12-month average Moody's utility bond rates and the benchmark exceeds a 100-basis point trigger.[7] The parties agree that on September 30, 2021, Moody's Baa utility bond index from October 2020 through September 2021 was more than 100-basis points lower than the applicable benchmark rate.[8] By claiming that their August 23, 2021 applications replaced the October 15, 2021 advice letters meant that the Utilities were out of compliance with D.08-05-035.[9] The assigned Commissioner and the ALJs ordered the Utilities to submit compliance filings in the above-captioned proceedings that included the information the Utilities would have submitted if they had filed the required October 15, 2021 advice letters.[10] The Utilities submitted the compliance filings on November 8, 2021. The Commission affirmed the ruling of the assigned Commissioner and ALJs, emphasizing that

Aug. 23, 2021, at 2 [Hereinafter PG&E Application]; Application of Southern California Edison Company (U338E) for Authority to Establish its Authorized Cost of Capital for Utility Operations for 2022 and Reset the Annual Cost of Capital Adjustment Mechanism, Aug. 23, 2021, at 13 [Hereinafter SCE Application].

[7] Email Ruling of the Assignment Commissioner and Assigned Administrative Law Judges Ordering Compliance with D.08-05-035, Oct. 28, 2021.

[8] Joint List of Stipulated Facts, Jan. 10, 2022, at 3.

[9] Email Ruling of the Assignment Commissioner and Assigned Administrative Law Judges Ordering Compliance with D.08-05-035, Oct. 28, 2021.

[10] *Id.*

the Utilities cannot unilaterally decide to replace the October 15 advice letters with off-cycle applications.[11]

Walmart, Inc. (Walmart), the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), Environmental Defense Fund (EDF), The Utility Reform Network (TURN), Energy Producers and Users Coalition and the Indicated Shippers (EPUC/IS), and Wild Tree Foundation (Wild Tree) filed timely protests. On October 4, 2021, the Utilities filed replies to the protests.

The prehearing conference was held on October 15, 2021. The assigned Commissioner issued her Scoping Memorandum and Ruling on December 24, 2021.[12] The evidentiary hearings were held on February 24, 2022 and February 25, 2022.

On March 11, 2022, Utility Consumers' Action Network (UCAN), the Protect Our Communities Foundation (PCF), Cal Advocates, EDF, TURN, EPUC/IS, Wild Tree, and the Utilities filed concurrent opening briefs. On March 25, 2022, UCAN, PCF, Cal Advocates, EDF, TURN, EPUC/IS, Wild Tree, Federal Executive Agencies (FEA), and the Utilities filed concurrent reply briefs.

The Utilities filed a motion to establish cost of capital memorandum accounts to track the difference between the current authorized rate of return and the final authorized rate of return resulting from the applications. The Commission granted the motion and permitted the Utilities to establish memorandum accounts effective on January 1, 2022.[13]

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[11] D.21-12-029 at 8.

[12] Assigned Commissioner's Scoping Memorandum and Ruling, Dec. 24, 2021 [Hereinafter Scoping Memo].

[13] *See generally* D.21-12-029.

On March 11, 2022, PCF requested oral argument before the Commission. No responses were filed. The oral argument was held on July 22, 2022.

2. Issues

Although the Utilities propose that the Commission conduct a full review of the cost of capital components and structure for newly authorized rates of return for the three-year cycle 2022 through 2024, the scoping memo narrowly defines the issues to address the 2022 cost of capital only.[14]

The Utilities must satisfy the requirements of D.08-05-035 showing extraordinary circumstances such that the Utilities may file off-cycle applications in the first place. The threshold issue is:

> Do the financial impacts on the Utilities described in the applications, where they are largely attributed to the COVID-19 pandemic, constitute an extraordinary or catastrophic event that materially impacts their respective cost of capital and/or capital structure and impacts them differently than the overall financial markets?[15]

If the answer to the threshold question is no, then the CCM adjustment applies, and we do not need to address the next questions. If the answer is yes, then the Commission would review the off-cycle applications while suspending the CCM adjustment or taking other appropriate actions. There is no prescribed outcome when the Utilities file off-cycle applications.[16]

After the threshold question, the scope of review is as follows:

1) Are there extraordinary circumstances that warrant a departure from the CCM for 2022?
2) If so, should the Commission leave the cost of capital components at pre-2022 levels for the year 2022, or open a

[14] Scoping Memo at 8 – 9.

[15] Scoping Memo at 5; D.08-05-035, at 16, COL 6.

[16] Scoping Memo at 8.

> second phase to consider alternative cost of capital proposals for the year 2022.

The Scoping Memo instructed the parties to refrain from including technical analysis about modifications to the 2022 ROE. The Scoping Memo provided that, if necessary, the Commission could review technical cost of capital issues in a second phase.[17]

3. Discussion

3.1. Extraordinary Circumstances Exist to Warrant Filing Off-cycle Applications

The COVID-19 pandemic is an extraordinary event extending beyond the 12-month measurement period of October 1, 2020 through September 30, 2021. After initial infections in the United States in early 2020, starting on March 4, 2020, Californians sheltered in place, leaving home only for essentials. Even though strict shelter in place eventually eased, by August 2021, the COVID-19 virus caused tens of thousands of deaths and millions of Californians contracted the virus.[18] A variety of U.S. government and State government programs tried to stimulate the economy and assist businesses and individuals.[19] The Federal Reserve reduced interest rates[20] and increased cash flow by purchasing billions of dollars in long-term assets, such as government bonds and debts.[21]

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[17] *Id.* at 7.

[18] SCE Application at 8 – 9; PG&E Application at 12 – 13; Test Year 2022 Cost of Capital Application of San Diego & Electric Company (U902M), Aug. 23, 2021, at 10 [Hereinafter SDG&E Application].

[19] *Id.*; Exhibit SCE-03 at 3 – 4; Exhibit SCE-04 at 5 – 11; Exhibit SDG&E-01 at VAB-6 – VAB-11; Exhibit SDG&E-02 at 3 – 6; Exhibit PG&E-01 at 1-9 – 1-12, 2-4 – 2-9.

[20] Exhibit SCE-03 at 3; Exhibit SCE-04 at 6.

[21] Exhibit PG&E-01 at 1-11 – 1-12; Exhibit SDG&E-01 at VAB-9 – VAB-10.

When evaluating whether there are extraordinary circumstances that warrant a departure from the CCM adjustment for 2022, the key question is whether the COVID-19 pandemic materially impacts the utilities' respective cost of capital and/or capital structure differently than the overall financial markets. During October 1, 2020, through September 30, 2021 (measurement period), the Utilities were materially impacted differently as compared to the overall markets based on their stock prices, stock price to earnings ratios (P/E ratio), and beta measurements.

3.1.1. Stock Prices and Stock to Earnings Ratio

The Utilities present information showing that their stock prices did not recover to pre-pandemic levels as compared to the overall financial markets. This decision discusses stock prices because they are used as inputs for common financial models to estimate the ROE,[22] not because the Utilities are entitled to a return similar to that of the overall financial markets. The P/E ratio measures a company's equity value. A lower P/E ratio relative to a proxy electric industry group and the overall markets indicate a company needs to issue more shares to attract capital and investors require a higher ROE to invest.[23]

SCE explains it has been impacted differently as indicated by the stock performance of SCE's parent company Edison International (EIX).[24] Compared to pre-pandemic stock prices, the Standard and Poor's (S&P) 500 Index increased by 51% through January 2022 and a proxy group of electric utilities index increased by 9% through January 2022. However, EIX was still 8% below

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[22] D.19-12-056 at 22 (describing the Capital Assessment Pricing Model which is based on risk and betas for stocks), 20 – 25 (describing three financial models: the Capital Asset Pricing Model, Risk Premium Model, and Discounted Cash Flow Model); *see also* Exhibit SCE-05 at 14.

[23] Exhibit SCE-04 at 20 – 21.

[24] *Id.* at 15 – 16.

pre-pandemic levels in January 2022.[25] EIX had a P/E ratio that was much lower than its proxy group of electric utilities and S&P 500 Index.[26] As of December 31, 2021, EIX was trading at 12.7 P/E ratio, SCE's proxy group of electric utilities was trading at almost 20.3 P/E ratio, and the S&P 500 Index was trading at 26.2 P/E ratio.[27] The lower P/E ratio relative to an electric utility proxy group and to the overall financial market means that EIX needs to issue more shares than the average electric utility to attract a specific amount of capital, and investors require a higher ROE to invest.

Although SDG&E did not calculate its P/E ratio, SDG&E's parent company, Sempra Energy, had stock prices that did not recover to pre-pandemic levels. At the end of the measurement period on September 30, 2021, while the S&P 500 increased 29.06% compared to pre-pandemic levels, S&P 500 Utilities Index was still 8.74% below pre-pandemic levels, and Sempra Energy stock was more than 20% below its pre-pandemic level.[28] By December 2021, Sempra Energy stock was still 10% below pre-pandemic levels.[29] During the measurement period, Sempra Energy stock underperformed the overall financial markets.[30]

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[25] *Id.*

[26] SCE Application at 9.

[27] Exhibit SCE-04 at 18 – 19.

[28] Exhibit SDG&E-04 at JMC-3.

[29] Exhibit SDG&E-02 at JMC-10; Exhibit SDG&E-04 at JMC-3.

[30] Exhibit SDG&E-01 at VAB-12; Exhibit SDG&E-02 at JCM-10; Exhibit SDG&E-03 at VAB-4 – VAB-5 (stating that the S&P 500 Utility Index under-performed compared to the S&P 500 Index, and that the California Utilities under-performed the S&P 500 Utility Index); Exhibit SDG&E-4 at JMC-3.

PG&E describes the same trends as SCE and SDG&E. Since March 2020, while S&P 500 Index increased by 54% in December 2021, along with the S&P 500 Utility Index by 11%, PG&E's stock price was still 19% lower than pre-pandemic levels.[31] PG&E states that the P/E ratio for its proxy electric utilities group declined, but even though PG&E's P/E ratio rose in 2020, PG&E's P/E ratio was still below the average for PG&E's proxy group of electric utilities.[32] By December 2021, PG&E was trading at 15 P/E ratio, as compared to approximately 20 for its proxy group of electric utilities, and over 25 for the S&P 500.[33]

We are not persuaded by the Intervenor's arguments that the utility equity market tracked the overall financial markets, or that the utility equity market surpassed the overall financial markets. Federal Executive Agencies (FEA) presented comparisons of the Dow Jones Utilities Average and the Dow Jones Industrial Average in a graph that confounded the larger scale of the Dow Jones Industrial Average (18,000 to 37,000)[34] with the much smaller scale of the Dow Jones Utilities Average (600 to 1,000).[35] When a graph accounts for the scale of each index, it shows that the utility industry underperformed the overall financial markets.[36] EPUC/IS compares the S&P 500 to the S&P Utility Index from June 30, 2021 through mid-January 2022, inappropriately ignoring the

[31] Exhibit PG&E-01 at 2-15 - 2-16; Exhibit PG&E-02 at 1-3 – 1-4, 1-9 – 1-10.

[32] Exhibit PG&E-01 at 2-16.

[33] *Id.* at 2-16 – 2-17.

[34] The scale of the Dow Jones Industrial Average and the Dow Jones Utility Average is measured by points, which represents the market capitalization of the stocks in the index.

[35] Exhibit FEA-01 at 11.

[36] Exhibit SDG&E-04 at JMC-6 – JMC-8; Exhibit PG&E-2 at 1-13 – 1-15.

first nine months of the measurement period.[37] Based on the same data as EPUC/IS, but for the time period of February 2020 to December 2021, SCE shows that utilities lagged behind the overall financial markets.[38]

We are not persuaded by PCF's showing that forward looking P/E ratio based on investor expectations are more helpful than P/E ratio based on historical performance.[39] As pointed out by SCE, whether historical or forward looking, utilities have underperformed the overall markets.[40]

Regardless of the diverse measurement methods, assumptions, inputs, and different time periods, the P/E ratio of the Utilities did not return to pre-pandemic levels compared to proxy groups of utilities and the overall financial markets. It is reasonable for the Commission to find that during the measurement period of October 1, 2020 to September 30, 2021, proxy groups of utilities and the overall markets recovered more quickly, but the Utilities did not.

3.1.2. Beta Measurements

Stock price beta measures systematic risk of an asset. The higher the beta, the greater the systematic risk, leading to a higher cost of equity.[41] Beta is an input for the Capital Asset Pricing Model, one of the models for estimating the cost of equity.[42] Since the beginning of the COVID-19 pandemic, the Utilities' betas increased, meaning investors consider the Utilities riskier investments

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[37] Exhibit EPUCIS-01 at 14 – 15; Exhibit WT-01 at 27, 30 (analysing the last six months of 2021, but failed to include October 2019 to May 2021 of the measurement period).

[38] Exhibit SCE-05 at 9 – 10; *see also* Exhibit SDG&E-03 at VAB-2.

[39] Exhibit PCF-01 at 49.

[40] Exhibit SCE-05 at 11 – 13.

[41] Exhibit SDG&E-02 at JMC-8 – JMC-9; Exhibit PG&E-01 at 2-13.

[42] Exhibit SCE-05 at 14; Exhibit PG&E-02 at 1-19.

compared to the overall financial markets, and thus require a higher cost of equity to invest capital.

In 2019, during the last cost of capital proceedings, the average Value Line beta for SCE's proxy group of electric utilities was 0.57, but by December 31, 2021, the average increased to 0.90.[43] SCE's parent company, EIX, is slightly higher, at 1.00 as of October 22, 2021.[44]

Likewise, SDG&E's parent company, Sempra Energy, had similar increases in beta as compared to SDG&E's proxy group of electric utilities. From January 2020 to December 2021, the Value Line beta for SDG&E's proxy group increased from 0.56 to 0.89 and the Sempra Energy Value Line beta increased from 0.70 to 1.00.[45] The Bloomberg beta showed a slight decrease for SDG&E's proxy group of utilities from June 2021 to December 2021 from 0.891 to 0.884, but both Bloomberg beta and Value Line beta showed increases for Sempra Energy.[46]

PG&E's analysis of beta for its proxy group of electric utilities compared to PG&E shows the same trend as SCE and SDG&E. PG&E estimates that the beta for its proxy group of electric utilities increased from the historical value of approximately 0.60, in the pre-pandemic period, to 0.84 by the end of September 2021.[47] PG&E's beta was 1.02 at the end of September 2021, changing

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[43] Exhibit SCE-04 at 16 – 17 (SCE used Value Line to calculate the beta from 2013 through December 31, 2021).

[44] *Id.* at 17 – 18.

[45] Exhibit SDG&E -02 at JMC-9 (Like SCE, SDG&E also used Value Line to calculate the beta from January to December 2021, but SDG&E's proxy group differs from that of SCE).

[46] Exhibit SDG&E-02 at JMC-9 (showing that Sempra's Value Line beta increased from 0.95 in June 2021 to 1.00 in December 2021, and Sempra's Bloomberg beta increased from 0.924 in June 2021 to 0.926 in December 2021).

[47] Exhibit PG&E-01 at 2-14 (PG&E uses Bloomberg data to calculate the beta estimates from May 2019 through September 2021. PG&E uses a different proxy group than SCE and SDG&E).

even more than its proxy utility group, increasing by 0.31 from 0.71 at the beginning of the pandemic in March 2020.[48] Data through November 2021 does not show the beta decreasing for the proxy electric utilities or PG&E.[49]

We reject the intervenors' critiques and alternative beta analysis. This decision does not discuss the range of diverse inputs, parameters, analysis, or results of the possible variations. The argument that there are alternatives to Value Line or Bloomberg betas,[50] or that the Utilities inaccurately calculated the betas because the Utilities included the period around March 2020,[51] is not persuasive. First, the beginning of the key extraordinary event is appropriately part of the analysis.[52] Second, criticism that the five-year historical beta dampens correlation of current market conditions[53] does not change the conclusion that the Utilities were impacted differently as compared to the proxy groups of utilities and the overall financial markets.[54] Lastly, whether one-year, two-year, five-year, Value Line or Bloomberg, from March 2020 through January 2022, electric utility betas still increased and stayed at elevated levels. This means they were considered riskier than before the COVID-19 pandemic.[55] Although

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[48] Exhibit PG&E-01 at 2-14.

[49] *Id.*

[50] Exhibit CA-01 at 7 – 9.

[51] Exhibit PCF-01 at 68 – 69; EPUCIS-01 at 14 – 15 (discussing data from June 30, 2021 through January 16, 2022, ignoring data from the first nine months of the CCM measurement period), 33; SDG&E-04 at JMC-12 and Figure 2 (Even if the most volatile months of February through April of 2020 were excluded in the beta calculations, cost of equity increased).

[52] Exhibit SDG&E-04 at JMC-11 – JMC-12.

[53] Exhibit PCF-01 at 61-63; Exhibit TURN-01-E at 15 – 16.

[54] Exhibit SDG&E-04 at JMC-11 – JMC-12.

[55] Exhibit SCE-05 at 18 – 19, 22; Exhibit PG&E-02 at 1-19 – 1-29.

Intervenors argue that betas are returning to pre-pandemic levels,[56] this is a more recent development after the end of the measurement period in September 2021. This is less about the whether the Utilities experienced impacts different from the overall markets and more about whether the CCM adjustment is the appropriate measure for the cost of equity in 2022. We discuss whether we should apply the CCM adjustment in Section 3.2. In short, the general trend of the betas for the Utilities is that they are consistently higher than the proxy groups of utilities and increased more than the overall financial markets since March 2020.

3.1.3. Overall Market Response to Low Interest as Compared to the Utilities

In early 2020, the Federal Reserve artificially depressed the federal funds interest rate to a range of 0.00 to 0.25% to increase the availability of cash for lending and borrowing.[57] It purchased government bonds and corporate bonds from banks to support the flow of credit as well.[58] By the end of September 2021, interest rates increased but remained less than 2%.[59] The overall financial markets responded to the low interest rates with a decrease to the overall cost of capital, which resulted in higher stock prices.[60] The overall financial markets behaved consistently with the underlying theory of the CCM adjustment, that if interest rates decrease, then the cost of equity capital is expected to fall as well, leading to more economic activity.[61] In comparison, the Utilities' cost of equity

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[56] Exhibit TURN-01-E at 19, 20; Exhibit PCF-01 at 66 – 67.

[57] Exhibit SDG&E-02 at JMC-20; Exhibit PG&E-01 at 2-6.

[58] Exhibit SCE-04 at 6, Exhibit SDG&E-02 at JMC-3, JMC-5; Exhibit PG&E-01 at 2-9.

[59] Exhibit PG&E-01 at 2-7 – 2-8.

[60] *Id.* at 2-12.

[61] D.08-05-035 at 12, 18 (FOF 16) (stating "The purpose of an interest rate benchmark is to gauge changes in interest rates that also indicate changes in the equity costs of utilities.").

capital did not follow the overall financial markets trend.[62] From the onset of the pandemic until the end of the measurement period on September 30, 2021, even when interest rates were at their lowest point, perceived risk of the Utilities increased, indicating that investors require higher returns.[63] Because the Utilities' cost of equity capital and betas do not follow the general trend of the groups of proxy utilities and the overall financial markets in how they reacted to the lower interest rates, it is reasonable to conclude that the COVID-19 pandemic impacted the Utilities differently than the overall financial markets.

3.1.4. Other Objections by Intervenors

Intervenors argue that the Utilities did not meet the threshold requirement of being affected differently as compared to the overall financial markets for two reasons: 1) the lower stock prices and higher betas were caused by other factors, not the COVID-19 pandemic,[64] and 2) the Utilities failed to show "catastrophic" impacts such as credit downgrades and a lack of access to capital market.[65]

First, other factors such as wildfires and bankruptcy, unrelated to the COVID-19 pandemic, do not overshadow the effects of the COVID-19 pandemic on the Utilities' stock P/E ratios and betas.[66] The Utilities must show that the financial impacts were "largely attributed to the COVID-19 pandemic," not that the COVID-19 pandemic was the one and only cause.[67]

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[62] Exhibit PG&E-01 at 1-9.

[63] Exhibit PG&E-01 at 1-13; Exhibit PG&E-02 at 1-19; PG&E Opening Brief at 10, 12-20.

[64] UCAN Opening Brief at 7 – 10; Wild Tree Brief at 47 – 53.

[65] Cal Advocates Opening Brief at 5, 7; EDF Opening Brief at 5, 11; WT Opening Brief at 10, 34, 42; EPUC/IS Opening Brief at 3 – 4.

[66] FEA-01 at 9.

[67] Scoping Memo at 5.

Parties acknowledge that the COVID-19 pandemic is an extraordinary event, and some parties discuss the dire impacts on human health and California economics. The World Health Organization made a formal pandemic declaration in March 2020.[68] Between October 2020 and March 2021, California peaked at 50,000 daily new cases and nearly 23,000 hospitalizations.[69] Over 76 million people filed for unemployment in the year following March 2020.[70] In April 2020, California lost 2.6 million jobs.[71] In response to the COVID-19 pandemic, the U.S. Congress passed approximately $4.5 trillion in fiscal programs and $1.9 trillion shortly thereafter.[72] The total economic cost of COVID-19 over the next decade may exceed $16 trillion dollars in the United States.[73] EPUC/IS argue that even though it believes the effects are diminishing in 2021 and 2022, the COVID-19 pandemic disrupted the Gross Domestic Product, labor markets, and capital market costs in 2020.[74] According to FEA, even though the utility sector is resilient, the utility sector was impacted by the COVID-19 pandemic just like the rest of the economy.[75] Cal Advocates state that the COVID-19 pandemic was not the type of "extraordinary or catastrophic" event the Commission envisioned when it created the CCM adjustment, but that

[68] Exhibit SCE-04 at 5; Exhibit SDG&E-01 at VAB-6.

[69] Exhibit SDG&E-01 at VAB-7.

[70] Exhibit SCE-04 at 5 – 6; Exhibit PG&E-01 at 1-10 (stating that In April and May of 2020, the California unemployment rate was 16.4%. By September 2021, unemployment in California was 7.5%).

[71] Exhibit TURN-01 at 6.

[72] Exhibit SDG&E-02 at JMC-5.

[73] Exhibit TURN-01 at 6.

[74] Exhibit EPUCIS-01 at 5.

[75] Exhibit FEA-01 at 9.

"is not to say that the COVID-19 [p]andemic and the related governmental response are not extraordinary."[76] PCF argues that the Utilities made profits, "[a]s the country struggled with the hardships of COVID-19, profit margins for the market as a whole and nearly every other sector tracked by S&P sagged sharply in 2020."[77] UCAN and EDF argue that COVID-19 was an extraordinary, but temporary circumstance, and it did not have long-lasting material impact on the Utilities.[78] Wild Tree states that the "COVID-19 pandemic is an ongoing global catastrophe" but the impact on capital markets and U.S. corporations are far from being catastrophic.[79] Based on the record, it is reasonable to conclude that even if the COVID-19 pandemic was not the only contributing factor, it was the main contributing factor to low P/E ratios and high betas during the measurement period.

Second, the threshold for filing off-cycle applications does not require events such as a credit downgrade or lack of access to capital. The key language is whether the COVID-19 pandemic "constitute[s] an extraordinary or catastrophic event that materially impacts their [the Utilities] respective cost of capital and/or capital structure . . . . "[80] A credit downgrade or lack of access to capital would materially impact the Utilities cost of capital, but comparatively low P/E ratios and high betas demonstrated by the Utilities during the measurement period qualify as well. The extreme end of the spectrum where entire companies face imminent collapse does not eliminate other possible

[76] Cal Advocates Opening Brief at 6.

[77] PCF Opening Brief at 13.

[78] UCAN Opening Brief at 6; Exhibit EDF-01 at 9.

[79] Exhibit WT-01 at 4.

[80] Scoping Memo at 5.

qualifying scenarios. Here, the focus is on the CCM adjustment and impacts associated with the CCM. With commonly used economic tools in cost of capital cases, the Utilities describe how their respective costs of capital were materially impacted differently from the proxy groups of utilities and the overall financial markets.

Although this decision discusses stock prices, it is only to establish context as to whether the Utilities experienced different impacts compared to the overall financial markets. In no way does the discussion imply that the Utilities are entitled to similar stock prices as the overall financial markets. It is reasonable to find that the Utilities' off-cycle applications are permitted because the financial impacts due to the COVID-19 pandemic materially affected the Utilities differently compared to the proxy utility groups and the overall financial markets. Even though the Utilities meet the requirement to file cost of capital applications outside of the CCM process, the Commission must now decide whether to suspend the CCM adjustment or take other appropriate action.

3.2. Extraordinary Circumstances Warrant a Departure from the CCM for 2022

After deciding the threshold question that the off-cycle applications are justified and permitted, the Commission must decide the following questions:

1) Are there extraordinary circumstances that warrant a departure from the CCM for 2022?
2) If so, should the Commission leave the cost of capital components at pre-2022 levels for the year 2022, or open a second phase to consider alternative cost of capital proposals for the year 2022.[81]

[81] Scoping Memo at 8.

3.2.1. Current Authorized ROE Compared to the Cost of Capital Mechanism Adjustment

To provide context to the question of whether circumstances exist to warrant a departure from the CCM adjustment for 2022, we compare the authorized ROE level and the CCM adjustment level in the table below.

Table 1

	ROE for 2022, Approved by D.19-12-056	Adjusted ROE for 2022 based on the CCM
SCE	10.30%	9.72%
SDG&E	10.20%	9.62%
PG&E	10.25%	9.67%

To calculate the adjusted ROE for 2022, the Utilities reviewed the year change of Moody's utility bond rate. During the 12-month measurement period from October 1, 2020 to September 30, 2021, on September 30, 2021, Moody's utility bond rate was more than 100-basis points lower than the average for the prior year (October 1, 2018 through September 30, 2019).[82] The Utilities then adjusted their ROE by one-half the difference from the Aa utility bond average for AA credit-rated utilities or higher and Baa utility bond average for BBB credit-rated utilities or lower and the benchmark.[83] As a result, the CCM adjustment would lower the combined revenue requirement for the three Utilities by approximately $400 million dollars.[84]

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[82] Joint List of Stipulated Facts, Jan. 10, 2022 at 3.

[83] D.08-05-035 at 16.

[84] Southern California Edison Company (U338E) Amended Informational Filing in Compliance with October 28, 2021 Email Ruling of the Assigned Commissioner and the Administrative Law Judges, Apr. 14, 2022, at 5, 7 – 8 (stating that the return on equity would be 9.72% for 2022, lowering the revenue requirement by $178.820 million); San Diego Gas & Electric Company

Footnote continued on next page.

3.2.2. The CCM Adjustment does not Represent a Fair and Reasonable ROE

The Utilities argue that the CCM adjustment should not apply because economic indicators discussed in Section 3.1 show that their cost of capital is increasing, not decreasing. Intervenors argue the CCM adjustment should apply because the Utilities did not experience financial impacts from the COVID-19 pandemic differently than the overall financial markets and the CCM adjustment represents a fair and reasonable ROE.

Setting a fair and reasonable ROE requires balancing ratepayer burden with a cost of capital that reflects utility risk and a ROE to attract investors, adequate to maintain and support its credit, and to enable it to raise the money necessary to meet their responsibilities.[85] When the Commission adopted the CCM adjustment, the question was "whether a mechanism could be adopted to maintain fair and reasonable capital structures and ROEs [return on equity] for the major energy utilities while reducing ROE proceedings and simplifying workload requirements and regulatory costs."[86] The CCM adjustment is a tool to update the cost of equity between the cost of capital proceedings, based on the assumption that a change in interest rates correlates with the equity

(U902M) Compliance Filing, Nov. 8, 2021, at 7 (stating that the return on equity would be 9.62% for 2022, lowering the revenue requirement by $62.7 million); Pacific Gas and Electric Company's Compliance Filing in Response to October 28, 2021 E-Mail Ruling of Assigned Commissioner and Administrative Law Judges Ordering Compliance with Decision 08-05-035, Nov. 8, 2021, at 2, Exhibit 1 at 3 (stating that the return on equity would be 9.67% and revenue would decrease by $163 million).

[85] Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591, 601 (1994); Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia, 262 U.S. 679, 692 (1923); D.19-12-56 at 15 – 16.

[86] D.08-05-035 at 3, 16.

requirements.[87] This is why the CCM adjustment changes the ROE up or down by half of the change in long-term interest rates.[88] To assess the ROE, the CCM adjustment assumes that the direction of the change of interest rates reflects the change of the ROE. In other words, if interest rates decrease then the ROE that is necessary to attract capital, decreases as well. And if interest rates increase, then the ROE necessary to attract capital should increase. Although a decrease in the ROE would reduce customer bills via corresponding reduction in revenue requirements, the CCM adjustment should be rejected if it fails to reflect utility risk and establishes a level of ROE that is inadequate to attract capital.

During the measurement period, the Federal Reserve artificially depressed interest rates to record lows of between 1% and 2% for a 10-year Treasury bond.[89] Without the actions of the Federal Reserve, it is unlikely the interest rates would have dropped low enough to trigger the CCM adjustment.[90] Although the ROE would have decreased based solely on interest rate movements triggering the CCM adjustment, stock P/E ratios and betas discussed in Section 3.1 show that the Utilities' ROE was either static or moving in the opposite direction during the measurement period.[91] SCE, SDG&E, and PG&E were viewed as greater risk investments compared to the overall financial markets, resulting in an unchanging or increase in the cost of equity, even in an environment with low interest rates.[92] Because the ROE calculated during the measurement period

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[87] *Id.* at 14 – 15, 18 (FOF 16), 22 – 23 (OP 2).

[88] *Id.* at 15, n.20, at 18 (FOF 20).

[89] Exhibit SDGE-04 at JMC-2; Exhibit PG&E-01 at 1-12, 2-7, 2-8.

[90] Exhibit SCE-04 at 11.

[91] Exhibit SCE-05 at 4; Exhibit PG&E-01 at 1-12, 2-7; 2-17.

[92] Exhibit SCE-04 at 14 – 15; Exhibit SDG&E-04 at JMC-3; Exhibit PG&E-01 at 1-13, 2-17.

impacted by the COVID-19 pandemic fails to reflect the changes in inputs to the cost of capital assessment, such as a higher beta, the CCM adjustment does not reflect a fair and reasonable ROE for 2022.

It is reasonable to conclude that extraordinary circumstances warrant a departure from the CCM adjustment in 2022.

3.2.3. Other Objections by Intervenors

Intervenors argue there is no requirement that the ROE increase or decrease in the same direction as interest rates; therefore, the CCM adjustment should apply if it is triggered.[93] This argument loses sight of the overarching goal that any tools like the CCM or analysis in opposition to it must help the Commission determine a fair and reasonable ROE balanced with ratepayer burden.

Intervenors provide contradictory arguments. On one hand Intervenors argue that the Utilities did not experience impacts differently from the overall financial markets because of the COVID-19 pandemic, especially that the impacts were temporary, interest rates are increasing, and the Utilities' betas and stock prices are starting to track the overall financial markets.[94] On the other hand, Intervenors argue that the CCM adjustment should apply simply because the trigger occurred. If the low interest rates associated with the pandemic in 2020 and 2021 have subsided,[95] and the environment of the COVID-19 pandemic was atypical and temporary, then the CCM adjustment should not serve as a proxy

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[93] Wild Tree Opening Brief at 46 – 47; TURN Opening Brief at 19.

[94] Exhibit TURN-01-E at 19 – 20; EPUCIS-01 at 33.

[95] Exhibit PG&E-02 at 1-29; Exhibit SDG&E-02 at JMC-7 (Federal Reserve announced it will increase interest rates, forecasting three rate increases in 2022 and two rate increases per year in 2023 and 2024); Exhibit SDG&E-04 at JMC-20.

for the cost of capital in 2022.[96] Also, if the Utilities are now trending towards pre-pandemic levels with lower betas, then it is inappropriate to apply the CCM adjustment in 2022 when the adjustment is based on volatility that does not represent 2022.[97] In essence, if the Intervenors agree that the CCM adjustment is not representative of the ROE for 2022, then it is illogical to apply the CCM adjustment.

3.3. The Cost of Capital Authorized by D.19-12-056 is Appropriate for 2022

In the applications, all three Utilities propose to increase the ROE and SDG&E proposes changes to its capital structure.[98] SCE proposes that the Commission conduct a full assessment of its cost of capital that would reset the three-year cycle, but if the Commission suspends the CCM, then the Commission should adjust SCE's authorized cost of long-term debt and preferred equity effective on January 1, 2022 for the year of 2022 only[99] Similarly, PG&E proposes that the Commission leave the cost of capital largely as it is, effectively suspending the CCM for 2022.[100] PG&E also proposes "to update the cost of long-term debt and preferred stock using the methodology provided in the

[96] Exhibit PG&E-01 at 2-18; Exhibit PG&E-02 at 1-8, 1-29; Exhibit SDG&E-03 at VAB-10 – VAB-11.

[97] Exhibit SCE-05 at 20 – 21; Exhibit SDG&E-02 at 15 (stating that the CCM is not a reasonable approximation of SDG&E's cost of capital when the policies of 2020 and 2021 do not reflect the cost of equity in 2022, given the economic growth inflation and the Federal Reserve's change in monetary policy).

[98] SCE Application at 3 (requesting an increase of the return on equity to 10.53%, but maintaining the existing capital structure); SDG&E Application at 21 (requesting an increase of 10.55% and revising the capital structure); PG&E Application at 20 – 24 (requesting an increase of the return on equity of 11%, a slight decrease for the cost of long-term debt from 4.17% to 4.14%, and maintaining the existing capital structure).

[99] SCE Application at 4.

[100] PG&E Application at 2.

Formula Adjustment Mechanism, which would have the effect of lowering rates for PG&E's customers in 2022."[101] SDG&E proposes a full cost of capital assessment as well, effective on January 1, 2022, which would reset the CCM cycle. SDG&E does not submit a proposal where it would file a new three-year application in April 2022.[102]

In their briefs, Utilities forgo their ROE increases and request holding the cost of capital at pre-2022 levels. This decision finds that it is appropriate to hold the cost of capital for 2022 at the levels already authorized by D.19-12-056. The currently authorized cost of capital meets the policy goals of rate stability, mitigating regulatory uncertainty regarding the cost of capital for 2022, and conserving resources of the Commission and the parties.

The Commission balances many policy considerations including "maintaining fair and reasonable capital structures and ROEs for the major energy utilities while reducing ROE proceedings and simplifying workload requirements and regulatory costs."[103] By balancing ratepayer benefits, shareholder benefits, and a reduction in workload requirements and regulatory costs,[104] the Commission has kept the cost of capital stable, sometimes for more than three years in a row.

For example, the Commission approved the parties' request to maintain the ROE set in 2008, deferring the full cost of capital applications until April 2012 for a test year 2013.[105] In granting the petitions of SCE, PG&E and

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101 *Id.* at 26.

102 SDG&E Application at 1.

103 D.08-05-035 at 3.

104 D.09-10-016 at 4.

105 *Id.* at 2.

Cal Advocates[106] to maintain SCE and PG&E's existing authorized ROE for the year 2010, the Commission noted that SCE, PG&E, and Cal Advocates recognized the CCM adjustment for 2009 was triggered by the dramatic increases in interest rates after the bankruptcy of Lehman Brothers in 2008 and it was appropriate for SCE and PG&E to forgo the transitory increases in authorized cost of capital that could reverse in a year as the financial markets stabilize.[107] In 2015, the parties agreed to continue with the cost of capital set in 2013 and requested no changes to costs of capital for 2017.[108]

In D.16-02-019 the Commission noted the interest rate forecast for 2017 showed a slight increase in interest rates over time. Based on this small change, the Commission agreed with the parties that holding the cost of capital constant is reasonable.

Although both of these examples from 2009 and 2015 involve agreements by the parties to hold ROE steady, our findings in this case that the Utilities experienced the circumstances caused by the COVID-19 pandemic differently as compared to the proxy utilities groups and the overall financial markets, and that the CCM adjustment is not representative of the ROE for 2022, support a similar conclusion that maintaining ROE at the levels adopted in 2019 is appropriate.

Additionally, given that the impacts of the pandemic are transitory, leaving the cost of capital at the current level for 2022 will promote rate stability. Parties note that interest rates have rebounded since the CCM measurement

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[106] Division of Ratepayer Advocates (DRA) at the time.

[107] D.09-10-016 at 3.

[108] D.16-02-019 (approved extending the next cost of capital application from April 20, 2017 to 2018 and agreeing that the CCM adjustment would not set the rate of return for 2017); D.12-12-034 (establishing the rate of return for test year 2013); D.13-03-015 at 10 (ordering the next cost of capital application to occur on April 20, 2015 for test year 2016).

period and the effects of the COVID-19 pandemic have been transitory.[109] For instance, TURN observes that the 2021 data shows the effects of the pandemic were transient.[110] SCE describes "the extraordinary circumstances began to dissipate after the CCM measurement period shows that the lower interest rates in 2020 and 2021 were anomalous."[111] SDG&E acknowledges that all parties admit, economic conditions are improving and stabilizing."[112] Reevaluating the cost of capital given the transitionary effects of the pandemic will not promote rate stability. In 2009, the Commission took note that the interest rate increases were transitionary and therefore the impacts could reverse itself as the financial market stabilizes and that would cause ratepayers' bills to fluctuate.[113] Subjecting ratepayers to fluctuating bills based on transitory circumstances is not in the public interest. Therefore, the transitory nature of the pandemic's effects on the Utilities provides further support for maintaining the cost of capital at the current level for 2022.

Keeping the ROE at the same level currently authorized for 2022 mitigates regulatory uncertainty. Furthermore, given that the Commission has already proceeded with the consideration of the cost of capital applications for TY 2023, the Commission and the parties will use their resources most efficiently by

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[109] EDF-01 at 9-10; TURN-01-E at 19-20; PCF-01 at 66-68; and EPUC/IS Opening Brief at 8.

[110] TURN-01-E at 20; TURN Opening Brief at 16 and 19.

[111] SCE Opening Brief at 21; Similarly, SDG&E states, "the conditions that existed during the CCM measurement period at issue were temporary, resulting from the pandemic and the Federal Reserve's actions. Those conditions largely no longer exist as inflation and interest rates increase and economic growth reaches pre-pandemic levels—meaning that the CCM based upon the measurement period would not provide an accurate cost of capital assessment for 2022." SDG&E Opening Brief at 2.

[112] SDG&E Opening Brief at 39.

[113] D.09-10-016 at 3.

leaving the 2022 level in effect rather than re-litigating the cost of capital. The Scoping Memo highlighted the need to come to an efficient solution and avoid two fully litigated cost of capital cases in two consecutive years.[114] After a detailed review, including six days of evidentiary hearing, the Commission determined a fair and reasonable cost of capital for 2022 in D.19-12-056.[115] To consume more administrative resources and the resources of the parties to set the cost of capital a second time for 2022, based on unusual and transitory circumstances, is not in the interest of ratepayers. Maintaining the cost of capital at pre-authorized levels will allow the Commission and the parties to focus on the 2023 test year applications, A.22-04-008, A.22-04-009, and A.22-04-012 currently before the Commission.[116]

Intervenors argue that if the Commission finds the CCM adjustment does not apply to 2022, then a second phase is necessary to determine a fair and reasonable ROE, consistent with Pub. Util. Code § 451.[117] Intervenors argue that if the Commission finds that the CCM adjustment does not apply, then the

[114] Scoping Memo at 7 – 9.

[115] D.19-12-056 at 4.

[116] A.22-04-008, *Application of Pacific Gas and Electric Company for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and to Reset the Cost of Capital Adjustment Mechanism (U39M)*; A.22-04-009, *Application of Southern California Edison Company (U338-E) for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and Reset the Annual Cost of Capital Adjustment Mechanism*; and A.22-04 012, *Application of San Diego Gas & Electric Company (U902M) for Authority to Establish Its Authorized Cost of Capital for Utility Operations for 2023 and to Reset the Annual Cost of Capital Mechanism*.

[117] Cal Advocates Opening Brief at 11 – 12, EDF Opening Brief at 6 – 7, 18 (stating that a rate increase returning cost of capital components at pre-2022 levels would result in rates that are unjust and unreasonable, in violation of Public Utilities Code Section 451), Wild Tree Opening Brief at 53 – 56, EPUC/IS at 38. PU Code Section 451 states "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable."

Utilities will receive a $400 million increase.[118] Intervenors arguments are unpersuasive. As explained in Section 3.2, extraordinary circumstances warrant a departure from the CCM adjustment, and, therefore, there is no increase because the potential decrease was never authorized. With this decision, the cost of capital will not change from the levels already authorized by the Commission in 2019.

It is reasonable to conserve resources by deferring a full cost of capital review to the cost of capital for 2023 through 2025 already underway in a more stable environment.[119] This decision finds that it is reasonable to hold the cost of capital for 2022 at levels already authorized by D.19-12-056.

3.4. The Commission does not Address Whether a Petition to Modify is Necessary if the Utilities Seek to Suspend the CCM Adjustment

Intervenors argue that if there is any suspension of a CCM adjustment, the Commission must require a petition to modify.[120] The Commission already reminded the Utilities that D.08-05-035 requires a Tier 2 Advice Letter, due on October 15, of any year where the difference between the current 12-month October through September average Moody's utility bond rates and the benchmark exceeds a trigger of 100-basis points.[121] The Utilities filed what they would have filed in the October 15 advice letters in this proceeding on November 8, 2021. The Commission reminds the Utilities again that they must comply with all applicable laws, orders, decisions, and regulations of the

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118 TURN Opening Brief at 8, 22; EDF Opening Brief at 19 – 22.

119 SDG&E-03 at VAB-18.

120 EDF Opening Brief at 8; TURN Opening Brief at 7; Wild Tree Opening Brief at 54.

121 D.21-12-029 at 8; Email Ruling of the Assigned Commissioner and the Administrative Law Judges Ordering Compliance with Decision 08-05-035, Oct. 28, 2021.

Commission. Any violations may be subject to an order to show cause. It is unnecessary to require petitions to modify at this time.

4. Procedural Matters

All outstanding motions not expressly ruled upon or addressed by this decision are denied. The record for the above-captioned proceedings is deemed to have been submitted on July 22, 2022, following oral argument.

5. Comments on the Alternate Proposed Decision

The alternate proposed decision of President Alice Reynolds in this matter was mailed to the parties in accordance with Section 311(d) of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. On October 20, 2022, UCAN, TURN, Cal Advocates, Wild Tree Foundation, EPUC/IS, Environmental Defense Fund, and PCF filed opening comments. The Utilities filed joint opening comments as well. On October 25, 2022, PCF filed reply comments. The Utilities filed joint reply comments. The Commission carefully considered the comments made by the parties. Minor clarifications were made, but the outcome remains the same.

6. Assignment of Proceeding

President Alice Reynolds is the assigned Commissioner and ALJ Jessica Hecht and ALJ Zhen Zhang are the assigned judges for this proceeding.

Findings of Fact

1. D.19-12-056 authorized the cost of capital components and capital structure for SCE, SDG&E, and PG&E for 2022.

2. SCE, SDG&E, and PG&E filed their respective off-cycle applications on August 23, 2021, requesting relief from the CCM established in D.08-05-035, including a full review of the authorized cost of capital for 2022, and for modification of the three-year cost of capital cycle thereafter.

3. In the alternative, PG&E and SCE request in their applications to suspend the operation of the CCM adjustment in 2021 and to maintain their current ROE for 2022.

4. D.08-05-035 sets forth the CCM adjustment to the ROE in any year where the difference between the current 12-month October through September average Moody's utility bond rates and the benchmark exceeds a 100-basis point trigger.

5. D.08-05-035 permits the Utilities to file an application outside of the typical CCM process upon an extraordinary or catastrophic event that materially impacts their respective cost of capital and/or capital structure and impacts them differently than the overall financial markets.

6. On September 30, 2021, Moody's Baa utility bond index from October 2020 through September 2021 was more than 100-basis points lower than the applicable benchmark rate (*i.e.,* the average of the Moody's utility Baa bond index for the period October 1, 2018 through September 30, 2019).

7. Based on the CCM adjustment, SCE's authorized ROE would decrease from 10.3% to 9.72%.

8. Based on the CCM adjustment, SDG&E's authorized ROE would decrease from 10.20% to 9.62%.

9. Based on the CCM adjustment, PG&E's authorized ROE would decrease from 10.25% to 9.67%.

10. The COVID-19 pandemic is an extraordinary event that began in early 2020 and extended beyond September 30, 2021.

11. Lower stock price to earnings ratio relative to electric utility proxy groups and to the overall financial market means that a company needs to issue more shares than the average electric utility to attract capital and investors require a higher ROE to invest.

12. From March 2020, the beginning of the COVID-19 pandemic to September 30, 2021, the end of the measurement period for the CCM adjustment, SCE's parent company, Edison International, experienced lower stock price to earnings ratio as compared to the proxy group of electric utilities and S&P's 500 Index.

13. From March 2020, the beginning of the COVID-19 pandemic to September 30, 2021, the end of the measurement period for the CCM adjustment, SDG&E's parent company, Sempra Energy, experienced stock value that was 20% below its pre-pandemic level and failed to track the improvement of the overall financial markets.

14. From March 2020, the beginning of the COVID-19 pandemic to September 30, 2021, the end of the measurement period for the CCM adjustment, PG&E experienced lower stock price to earnings ratio as compared to the proxy group of electric utilities and S&P 500 Index.

15. Stock price beta measures the risk of an asset. Higher beta equals greater systematic risk. Beta is an input for the Capital Asset Pricing Model, one of the models for estimating the cost of equity.

16. From March 2020, the beginning of the COVID-19 pandemic to September 30, 2021, the end of the measurement period for the CCM adjustment, SCE's parent company, Edison International, experienced higher beta compared to its proxy group of electric utilities.

17. From March 2020, the beginning of the COVID-19 pandemic to September 30, 2021, the end of the measurement period for the CCM adjustment, SDG&E's parent company, Sempra Energy had higher increases in beta as compared to its proxy group of electric utilities.

18. From March 2020, the beginning of the COVID-19 pandemic to September 30, 2021, the end of the measurement period for the CCM adjustment, PG&E had higher betas as compared to its proxy group of electric utilities.

19. The stock prices, stock price to earnings ratios, and beta measurements show that SCE, SDG&E, and PG&E experienced impacts from the COVID-19 pandemic differently from the proxy groups of utilities and the financial markets overall.

20. Through the beginning of the COVID-19 pandemic until September 30, 2021, the economy improved while interest rates were low, which is consistent with the underlying theory of the CCM adjustment, that if interest rates decrease, then the cost of equity should decrease as well.

21. Through the beginning of the COVID-19 pandemic until September 30, 2021, when interest rates were low, the perceived risk of SCE, SDG&E, and PG&E increased, measured by beta, as compared to the overall financial markets.

22. SCE, SDG&E, and PG&E experienced the impacts of the COVID-19 pandemic differently as compared to the overall financial markets because the underlying theory of the CCM adjustment - when interest rates decrease then ROE decreases as well - held true for the market overall, but not for SCE, SDG&E, and PG&E.

23. The CCM adjustment does not represent a fair and reasonable return because the underlying theory of the CCM adjustment – when interest rates decrease then ROE requirements decreases as well – is not consistent with the stock prices, stock price to earnings ratios, and betas for SCE, SDG&E, and PG&E.

24. The CCM adjustment fails to reflect SCE's, SDG&E's, and PG&E's risk, and fail to estimate a level of ROE adequate to attract capital for 2022.

25. Because the CCM adjustment did not represent the elevated risk and a level of ROE adequate to attract capital, then the CCM adjustment as applied to SCE, SDG&E, and PG&E would not be fair and reasonable.

26. Interest rates have rebounded since the CCM measurement period and the effects of the COVID-19 pandemic are transitory.

27. The cost of capital for 2022 was fully litigated in 2019 and the Commission determined the current level to be reasonable. Maintaining the cost of capital for 2022 at levels already authorized by D.19-12-056 mitigate regulatory uncertainty regarding the cost of capital for 2022 and conserve the resources of the Commission and the parties.

28. Maintaining the cost of capital for 2022 at pre-authorized levels will avoid re-litigation of the Commission's prior decision and allow the parties proceed to consideration of the new cost of capital applications with test year 2023, in A.22-04-008, A.22-04-009, and A.22-04-012.

Conclusions of Law

1. SCE, SDG&E, and PG&E met the threshold requirements of D.08-05-035 to justify filing the August 23, 2021 off-cycle cost of capital applications.

2. The extraordinary circumstances of the COVID-19 pandemic, as experienced by SCE, SDG&E, and PG&E warrant a departure from the CCM adjustment.

3. It is reasonable to hold the cost of capital for 2022 at levels already authorized by D.19-12-056.

O R D E R

IT IS ORDERED that:

1. The Cost of Capital Mechanism adjustment originally established in Decision 08-05-035 will not apply to 2022 for Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company.
2. The cost of capital for Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company in 2022 remains as authorized by Decision 19-12-056, as updated for Pacific Gas and Electric Company through Advice Letter 4275-G/5887-E (Cost of Debt Update in Compliance with Ordering Paragraph 6 of Decision 20-05-053).
3. Application 21-08-013, Application 21-08-014, and Application 21-08-015 are closed.

This order is effective today.

Dated November 3, 2022, at Chico, California.

ALICE REYNOLDS
President
CLIFFORD RECHTSCHAFFEN
GENEVIEVE SHIROMA
JOHN REYNOLDS
Commissioners

I dissent.

/s/ DARCIE L. HOUCK
Commissioner