

Decision 22-12-031 December 15, 2022

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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).

Application 22-04-008

And Related Matters.

Application 22-04-009

Application 22-04-011

Application 22-04-012

**DECISION ADDRESSING TEST YEAR 2023 COST OF CAPITAL FOR
PACIFIC GAS AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA
EDISON, SOUTHERN CALIFORNIA GAS COMPANY,
AND SAN DIEGO GAS & ELECTRIC COMPANY**

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**TEST YEAR 2023 COST OF CAPITAL FOR PACIFIC GAS
AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA
EDISON, SOUTHERN CALIFORNIA GAS COMPANY,
AND SAN DIEGO GAS & ELECTRIC COMPANY**

Summary

This decision establishes the 2023 ratemaking cost of capital for Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), Southern California Gas Company (SoCalGas), and San Diego Gas & Electric Company (SDG&E).

The test year 2023 authorized capital structures for the four applicants are as follows.

	PG&E	SCE	SoCalGas	SDG&E
Long-term debt	47.50%	43.00%	45.60%	45.25%
Preferred equity	0.50%	5.00%	2.40%	2.75%
Common equity	52.00%	52.00%	52.00%	52.00%
Total	100.00%	100.00%	100.00%	100.00%

The test year 2023 authorized costs of long-term debt, costs of common equity, costs of preferred equity, and authorized rates of return are as follows.

	PG&E	SCE	SoCalGas	SDG&E
Cost of long-term debt	4.31%	4.39%	4.07%	4.05%
Cost of preferred equity	5.52%	6.50%	6.00%	6.22% ¹
Cost of common equity	10.00%	10.05%	9.80%	9.95%
Rate of Return	7.27%	7.44%	7.10%	7.18%

¹ This is a placeholder cost for the purpose of calculation in this decision. Because SDG&E did not seek an authorization of preferred equity, it did not propose a cost to preferred equity. SDG&E is directed to propose a cost of preferred equity in an advice letter filed with the Commission's Energy Division.

This decision also continues the previously authorized cost of capital mechanism through the 2023 test year cycle.

This decision utilizes a placeholder of 6.22% as the cost of preferred equity for SDG&E and directs that applicant to file an advice letter to propose a cost of preferred equity.

This decision also authorizes PG&E to seek the creation of a memorandum account to track the dollar amount that would have been recovered pursuant to its YSA proposal for recovery of short-term debt for the purpose of financing balances in balancing and memorandum accounts beginning January 1, 2023 through a Tier 2 advice letter.

1. Factual Background

The applicants are public utilities subject to the jurisdiction of California Public Utilities Commission (Commission) as defined in Section 218 of the Public Utilities Code. Southern California Edison (SCE), a California corporation and wholly owned subsidiary of Edison International, provides electric service principally in southern California. Pacific Gas and Electric Company (PG&E), a California corporation, provides electric and gas services in northern and central California. San Diego Gas & Electric Company (SDG&E), a California corporation wholly owned by Sempra Energy, provides electric service in a portion of Orange County and electric and gas services in San Diego County. Southern California Gas Company (SoCalGas), a California corporation wholly owned by Sempra Energy, provides gas services throughout Central and Southern California from Visalia to the Mexican border.

All four applicants filed their respective applications with the Commission on April 20, 2022. The following parties filed protests on May 27, 2022: Walmart Inc., Wild Tree Foundation (Wild Tree), Indicated Shippers (IS), Energy

Producers and Users Coalition (EPUC), Public Advocates Office of the California Public Utilities Commission (Cal Advocates), The Utility Reform Network (TURN), Environmental Defense Fund (EDF), Protect Our Communities Foundation (PCF), and Southern California Generation Coalition (SCGC). On June 6, 2022, the applicants all filed replies to the protests.

A prehearing conference (PHC) was held on July 6, 2022 where parties discussed the scope of the proceedings, consolidation, schedule, and the need for hearings. An evidentiary hearing was held in the proceeding on September 12 and 13, 2022.

Opening briefs were filed on September 23, 2022 by the applicants, Wild Tree, TURN, EDF, SCGC, Cal Advocates, EPUC/IS, UCAN, PCF, Federal Executive Agencies (FEA), and WalMart Incorporated. Reply Briefs were filed on September 30, 2022 by the applicants, FEA, Cal Advocates, UCAN, PCF, EPUC/IS, TURN, Wild Tree, and EDF.

2. Issues Before the Commission

This proceeding addresses PG&E's, SCE's, SoCalGas's, and SDG&E's test year 2023 cost of capital. The following issues impacting the four Applicants are in scope before the Commission:

- The appropriate capital structure;
- The appropriate cost of long term debt;
- The appropriate cost of preferred stock;
- The appropriate cost of common equity;
- The appropriate rate of return on the utility rate base;
- Whether it is appropriate to continuing the cost of capital mechanism as established in Decision (D.) 08-05-035 and modified by subsequent Commission Decisions;

- Clarifications of the operation of or modifications to the cost of capital mechanism;
- PG&E's proposal regarding a yield spread adjustment above the three-month commercial paper rate to be applicable to under-and over- collected balances in balancing and memorandum accounts, as well as the broader implications for the other applicants; and
- SCE's proposal regarding accrued carrying costs on memorandum and balancing accounts amortized over more than 12 months, as well as the broader implications for the other applicants.

3. Capital Structure

The capital structure of an investor-owned utility (IOU) is the proportional authorization of shareholders' equity and debt that comprise a company's long-range financing. For the purposes of this proceeding, the capital structures of the applicants are comprised of distributions of long-term debt, preferred equity, and common equity.² Because 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 attract capital while also ensuring there are adequate ratepayer protections regarding the costs of the components of capitalization.

Standard and Poor's (S&P) Global Market Intelligence data through July 8, 2022 indicates that the average electric industry authorized common equity portion in 2022 is 51.53% and the average natural gas industry authorized common equity portion in 2022 is 50.21%.³

² Debt due within one year, short-term debt, is excluded.

³ Exhibit EPUC/IS/TURN-01 at II-4:1-4.

3.1. PG&E

PG&E seeks a test year 2023 ratemaking capital structure that maintains its existing capital structure consisting of 47.50% long-term debt, 0.50% preferred equity, and 52.00% common equity. After the Commission approved PG&E's 2020 test year cost of capital in D.19-12-056, PG&E emerged from Chapter 11 bankruptcy.⁴ S&P's issue/corporate family credit rating for PG&E is BB- and its secured credit rating is BBB-. Moody's issue/corporate family credit rating for PG&E is Ba2 and its secured credit rating is Baa3.⁵ PG&E's secured credit rating is considered investment-grade, and its corporate family credit rating is considered sub-investment-grade.⁶ On July 18, 2022, S&P revised its outlook for PG&E from negative to stable.⁷

Only Wild Tree Foundation contested PG&E's capital structure proposal, seeking to reduce the common equity authorization from 52.00% to 45.45% or even lower.⁸ Wild Tree argues that because PG&E is operating with a lower actual common equity ratio due to its current capital structure waiver in place, the Commission should authorize a lower common equity ratio for cost of capital purposes.

FEA notes its position that although PG&E's request of a 52.00% common equity ratio is above the national average, it accepts the proposal as being

⁴ On July 1, 2020, PG&E emerged from Chapter 11, successfully completing its restructuring process and implementing PG&E's Plan of Reorganization that was confirmed by the United States Bankruptcy Court on June 20, 2020.

⁵ August 31, 2022 Filing of Stipulated Facts at 3.

⁶ S&P has four investment grade levels, the lowest level is medium grade (BBB-, BBB, and BBB+ ratings), upper grade (A-, A, and A+), high grade (AA-, AA, and AA+), and highest grade of AAA.

⁷ August 31, 2022 Filing of Stipulated Facts at 3.

⁸ Exhibit WTF-01 at 8.

reasonable. EPUC/IS/TURN's witness affirmed that he does not contest PG&E's proposed regulatory capital structure.⁹ Cal Advocates also argued to not alter PG&E's capital structure.

PG&E supports its request by indicating that "maintaining PG&E's authorized capital structure supports PG&E's long-term goal of regaining an optimal investment-grade issuer rating, which will benefit customers through lower borrowing costs."¹⁰ PG&E also points to the Commission's indication in the previous authorization of its capital structure that the current "policy is to authorize a capital structure in the public interest of ratepayers, and not simply to match actual recorded capital structure."¹¹

We agree with PG&E that its request to maintain its existing capital structure appropriately balances ratepayer and shareholder interests. It is in the public interest to hold consistent at 47.50% long-term debt, 0.50% preferred equity, and 52.00% common equity. The Commission continues to find that a 52.00% common equity ratio is near the upper threshold of what is considered reasonable.

3.2. SCE

SCE seeks a test year 2023 ratemaking capital structure that maintains its existing capital structure consisting of 43.00% long-term debt, 5.00% preferred equity, and 52.00% common equity. In January 2019, S&P modified SCE's credit rating from BBB+ to BBB and in March 2019 Moody's modified SCE's credit

⁹ Exhibit EPUC/IS/TURN-01 at VII-4.

¹⁰ Exhibit PGE-02 at 1-5 to 1-6.

¹¹ D.19-12-056 at 11.

rating from A3 to Baa2. This has not changed since the 2020 Test Year Cost of Capital Decision.¹² SCE's credit rating is considered investment grade.

SCE indicated that maintaining its currently approved 52.00% common equity level will continue to support SCE's credit ratings and, ultimately, could help restore SCE's credit ratings to levels more typical of U.S. utilities. SCE contends that continued credit supportive action by the Commission, including maintaining SCE's current capital structure, will play a key role in SCE retaining its investment grade ratings, particularly because key credit metrics remain below pre-wildfire levels.¹³

Wild Tree argues for the Commission to authorize a significantly lower common equity ratio due to Edison International's, SCE's holding company, actual common equity ratio being significantly lower than that which is authorized by the Commission. Wild Tree advocates that the Commission should authorize a common equity ratio of no higher than 45.40%.

FEA argues that SCE's authorized capital structure should have a lower preferred equity authorization with a commensurate increase in the authorization for long-term debt. FEA argues that SCE's authorized capital structure should be 48.00% long-term debt and 52.00% common equity. FEA notes that preferred equity is an equity investment and not a liability recognized on the books of the company.

SCE responds to Wild Tree's argument regarding the capital structure of Edison International by noting that the Commission has previously indicated that the Commission must "determine the utility's capital structure and return

¹² D.19-12-056.

¹³ Exhibit SCE-01E at 43-53.

on common equity on a stand-alone basis, independent of the operations of the nonutility affiliates.”¹⁴

SCE also notes that rating agencies typically allocate a 50/50 split for preferred equity, recognizing half as equity and half as long-term debt. SCE argues that by authorizing the 5.00% ratio of preferred equity, SCE can take advantage of a lower leverage ratio as viewed by credit rating agencies at a lower cost to ratepayers.

TURN notes that it does not take issue with the ratemaking capital structure proposed by SCE. Cal Advocates argues to not alter SCE’s capital structure. Additionally, EPUC/IS did not contest SCE’s proposal to not alter its capital structure.

We agree that the Commission needs to ensure that the capital structures employed by the investor-owned utilities (IOUs) are balancing the need for a proper level of leverage to ensure credit worthiness while also ensuring that the ratepayers are only exposed to reasonable costs. As the Commission held in D.19-12-056, an authorization of 52.00% common equity is reasonable. SCE’s common equity authorization request of 52.00% is near the upper threshold of what is considered reasonable as compared to national authorizations. Additionally, a capital structure consisting of 43.00% long-term debt and 5.00% preferred equity is reasonable.

3.3. SoCalGas

SoCalGas seeks a test year 2023 ratemaking capital structure of 45.60% long-term debt, 0.40% preferred equity, and 54.00% common equity. SoCalGas’s current authorization is 45.60% long-term debt, 2.40% preferred equity, and

¹⁴ Exhibit SCE-03 at 14.

52.00% common equity. SoCalGas's current credit rating is A from S&P and A1 from Moody's.¹⁵ SoCalGas's credit rating is considered investment grade.

SoCalGas notes that "an authorized long-term debt ratio that is set too high increases the risk of debt repayment to lenders and will result in higher costs over the long term since the company will not be as competitive in issuing new long-term debt at low costs. Conversely, a long-term debt ratio that is set too low is not preferred since it does not take advantage of a tax-deductible (and thus, lower cost) source of financing."¹⁶

SoCalGas argues, as it did in Application 19-04-014 et al., that to sustain its strong single "A" bond rating, it should maintain a debt ratio in the range of 35% – 45% which it indicates is in line with SoCalGas's proposed Long-Term Debt ratio of 45.60%.¹⁷

EPUC, IS, TURN, and Cal Advocates all argue that SoCalGas's authorized capital structure should consist of the following proportions: 47.60% long-term debt, 0.40% preferred equity, and 52.00% common equity. These parties argue that an increase in the common equity proportion of SoCalGas's capital structure would result in marginal additional costs to ratepayers without marginal additional benefit, resulting in unjustified costs for ratepayer. These parties contend that the existing authorized common equity proportion has allowed SoCalGas to support an investment grade bond rating.

Considering a reasonable weighing of the evidence, we conclude that a continued authorization of 52.00% common equity is appropriate. SoCalGas sought to reduce its authorized preferred equity ratio, and we do not grant this

¹⁵ Exhibit SCG-05 at 12.

¹⁶ Exhibit SCG-02 at 2.

¹⁷ Exhibit SCG-02 at 11.

request. Based on our weighting of the evidence, we do not believe it is in the ratepayer interest for SoCalGas to be authorized increased leverage. For this reason, we conclude that SoCalGas's authorized preferred equity ratio is 2.40%, and its authorized long-term debt authorization is 45.60%.

3.4. SDG&E

SDG&E seeks a test year 2023 ratemaking capital structure of 46.00% long-term debt, 0.00% preferred equity, and 54.00% common equity. SDG&E's current authorization is 45.25% long-term debt, 2.75% preferred equity, and 52.00% common equity. SDG&E's credit rating has been modified to A3 by Moody's, upgraded one notch in March 2021, and remains at BBB+ by S&P. SDG&E's credit rating is considered investment grade.

SDG&E argues that it operates with a higher common equity ratio than the allocation that is authorized by the Commission, and this uncompensated increase in SDG&E's common equity is an element of what drives the company's existing credit rating. SDG&E asserts that if it reduced its actual common equity ratio to its current authorized common equity ratio, its credit rating could be harmed, and in turn ratepayers would be burdened with increased costs.

EPUC, IS, and TURN oppose SDG&E's request to increase its common equity proportion above 52.00%, indicating that SDG&E has failed to demonstrate that a 54.00% common equity ratio is a reasonable cost for ratepayers. TURN indicates that an appropriate capital structure is 52.00% common equity and 48.00% long-term debt. EPUC, IS, and TURN notes that this allocation would "reflect the Company's obligation to operate efficiently and economically, and maintain a capital structure that has a reasonable and balanced mix of debt and equity so as to maintain its strong investment grade

bond rating, but do so at the lowest possible cost to customers.”¹⁸ These parties contend that SDG&E has had access to capital with reasonable terms with a historic capital structure involving 50.00%-52.00% common equity, and moreover, this allocation is at the high end of the range for the industry and above the industry average.¹⁹

Wild Tree opposes SDG&E’s request to increase its common equity ratio to 54.00% and advocates that the Commission should authorize a common equity ratio of no more than 52.00% for SDG&E.

FEA argues that an appropriate capital structure for SDG&E is 48.00% long-term debt and 52.00% common equity, arguing that the requested ratio of 54.00% common equity is excessive when compared to national averages.

PCF argues that the Commission has previously rejected instances where the argument was made that the Commission should adopt a proposed capital structure that matches the existing actual capital structure of a regulated utility rather than analyzing what capital structure would be most in the public interest.²⁰

SDG&E’s authorized common equity ratio of 52.00% is above the national average for authorized common equity ratios of electric and gas utilities in 2022. Moreover, SDG&E argues ratepayer savings will ultimately occur if the Commission authorizes an increased common equity ratio due to access to more affordable credit, but it fails to account for the increased costs to ratepayers from paying for more expensive common equity at an authorized ratio significantly above national average.

¹⁸ Exhibit EPUC/IS/TURN-01 at VIII-1.

¹⁹ Exhibit EPUC/IS/TURN-01 at VIII-6.

²⁰ D.19-12-056 at 11.

We determine that maintaining the existing common equity authorization of 52.00% is reasonably sufficient for SDG&E to maintain a reasonable credit rating and attract capital while also ensuring there is adequate consideration for ratepayer protections regarding the costs of the components of capitalization. SDG&E sought to eliminate its preferred equity authorization, and we do not grant this request. Based on our weighting of the evidence, we do not believe it is in the ratepayer interest for SDG&E to be authorized increased leverage. In turn, SDG&E is authorized an allocation of long-term debt of 45.25% and preferred equity of 2.75%.

4. Long-Term Debt and Preferred Equity Costs

Long-term debt and preferred equity costs are based on actual, or embedded, costs. Future interest rates must be anticipated to reflect projected changes in a utility's cost caused by the issuance and retirement of long-term debt and preferred equity during the year.

We recognize that actual interest rates do vary and that our task is to determine "reasonable" debt cost rather than actual cost based on an arbitrary selection of a past figure.²¹ Consistent with past practice, we conclude that the latest available interest rate forecast should be used to determine embedded debt cost in cost of capital proceedings.

4.1. PG&E

PG&E's proposed 2023 cost of long-term debt is 4.30%²² and its 2023 cost of preferred equity is 5.52%.²³ No party contested PG&E's proposed cost of

²¹ 38 CPUC2d (1990) 233 at 242 and 243.

²² Exhibit PGE-03 at 2.

²³ Exhibit PGE-01 at 3-6 to 3-7.

long-term debt and cost of preferred equity; additionally, the active parties stipulated to the cost of preferred equity in the joint filing of stipulated facts filed on August 31, 2022.²⁴

PG&E's proposed 2023 costs of long-term debt and preferred equity are reasonable, and the Commission adopts these proposals.

4.2. SCE

SCE's proposed 2023 cost of long-term debt is 4.39% and its 2023 cost of preferred equity is 6.50%.²⁵ No party contested SCE's proposed cost of long-term debt and cost of preferred equity.

SCE's proposed 2023 costs of long-term debt and preferred equity are reasonable, and the Commission adopts these proposals.

4.3. SoCalGas

SoCalGas's proposed 2023 cost of long-term debt is 4.07%²⁶ and its 2023 cost of preferred equity is 6.00%²⁷. SoCalGas's proposed costs of debt and preferred equity calculations were largely uncontested as no intervenor made specific cost of debt or preferred equity recommendations for SoCalGas. PCF noted some opposition in relation to current and future interest rates, although it did not propose specific costs that should be considered.

SoCalGas's proposed 2023 costs of long-term debt and preferred equity are reasonable, and the Commission adopts these proposals.

²⁴ August 31, 2022 Filing of Stipulated Facts at 3.

²⁵ Exhibit SCE-08.

²⁶ Exhibit SCG-02 at 1.

²⁷ Exhibit SCG-09 at 7.

4.4. SDG&E

SDG&E's proposed 2023 cost of long-term debt is 4.05%.²⁸ SDG&E did not seek an authorization from the Commission for a proportion of preferred equity to be included in its capital structure, and in turn SDG&E did not propose a cost of preferred equity. This decision however authorizes a portion of SDG&E's capital structure to be comprised of preferred equity. No party contested SDG&E's proposed cost of long-term debt.

SDG&E's proposed 2023 cost of long-term debt is reasonable, and the Commission adopts this proposal.

SDG&E did not propose a 2023 Test Year cost of preferred equity. For a placeholder, this decision inputs an authorization of 6.22%. SDG&E shall submit a Tier 2 advice letter to the Commission's Energy Division no later than 30 days following the effective date of this decision that includes an updated proposal for its cost of preferred equity. SDG&E shall adhere to the same methodology for the development of its proposed cost of preferred equity that the other applicants in this proceeding used. The cost of preferred equity that is adopted through the Tier 2 advice letter process shall be trued up to January 1, 2023.

5. Return on Common Equity

The legal standard for setting the fair rate of return has been established by the United States Supreme Court in the Bluefield and Hope cases.²⁹ The Bluefield decision states that a public utility is entitled to earn a return upon the value of its property employed for the convenience of the public and sets forth

²⁸ Exhibit SDGE-21 at 3.

²⁹ The Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944) and Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia, 262 U.S. 679 (1923).

parameters to assess a reasonable return.³⁰ Such return should be equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings attended by corresponding risks and uncertainties. That return should also be reasonably sufficient to ensure confidence in the financial soundness of the utility, and adequate, under efficient management, to maintain and support its credit and to enable it to raise the money necessary for the proper discharge of its public duties.

The Hope decision reinforces the Bluefield decision and emphasizes that such returns should be sufficient to cover capital costs of the business. The capital cost of business includes debt service and equity dividends. The return should also be commensurate with returns available on alternative investments of comparable risks. However, in applying these parameters, we must not lose sight of our duty to utility ratepayers to protect them from unreasonable risks including risks of imprudent management.

We attempt to set the return on equity (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. To accomplish this objective, we have consistently evaluated analytical financial models as a starting point to arrive at a fair ROE.

5.1. Proxy Groups

In evaluating the ROE for similar companies, the Commission has historically held that three specific screens should be employed when selecting a

³⁰ Hope held that the value of a utility's property could be calculated based on the amount of prudent investment minus depreciation.

comparable proxy group. Those screens are: (1) to exclude companies that do not have investment grade credit ratings; (2) to exclude companies that do not have a history of paying dividends; and (3) to exclude companies undergoing a restructure or merger. Additional screens are acceptable to the extent that adequate justification is provided.

A proxy, by common definition, is a substitute. Hence, companies selected as a proxy group of a utility should have characteristics similar to that utility. In order to ensure comparability and reasonableness of financial modeling results, the utilities and companies selected in the proxy group should be exposed to similar risks. In the record of this proceeding, there tends to be a high level of overlap between the proxy groups proposed by the applicants and the proxy groups put forth by the intervenors.³¹

In analyzing similarly situated companies, SoCalGas's witness employed an analysis of six investment grade gas holding companies. EPUC/IS/TURN and PCF both adopted the proxy group put forth by SoCalGas's witness.³² Cal Advocates' witness developed his own proxy group that consists of nine natural gas utilities with different selection criteria. One included company, Chesapeake Utilities Corporation, failed SoCalGas's witness's criteria because it did not have an investment grade credit or bond rating.³³ Cal Advocates' witness also included South Jersey Industries Incorporated and Southwest Gas Corporation, gas companies engaged in recent acquisition transaction activity.

³¹ There was more divergence in the analysis employed in selecting the proxy groups in the 2020 test year cost of capital cycle, specifically the previous inclusion of capital-intensive network companies like airlines and telecommunications companies. D.19-12-056 at 17.

³² Exhibit SCG-08 at 18; Exhibit PGF-01 at 50; and Exhibit EPUC/IS/TURN-01 at IX-11.

³³ Exhibit SCG-08 at 19.

SCGC note that through the Core Fixed Cost Account and the Noncore Fixed Cost Account, SoCalGas has a reduced risk profile through revenue decoupling as compared to the proxy companies presented by SoCalGas's witness. SCGC argues that even New Jersey Natural Gas, an example of one of witness Coyne's proxy utilities that has revenue decoupling, has reduced throughput risk mitigation relative to SoCalGas's risk profile.

PG&E's witness analyzed regulated electric utilities, regulated gas local distribution companies and water companies, and a combination of all companies in the three industries.³⁴

SCE's witness considered two subgroups composed of companies focused on the provision of electricity to end users and companies focused on the provision of natural gas or water utility services to end customers.³⁵

SDG&E's witness employed an analysis of 20 investment-grade, dividend-paying electric and combination electric/gas utilities' parent companies.³⁶ SDG&E's witness outlines the screening criteria he used to develop this proxy group of companies.³⁷

Cal Advocates' witness put forth a selection of proxy companies, outlining the criteria used to screen companies for inclusion.³⁸ Cal Advocates' electric proxy group includes twenty-three companies. As noted above, the gas proxy group consists of nine companies. Cal Advocates also describes how it attempted to align the risk of the proxy groups with the risk of the applicants. "SCE's S&P

³⁴ Exhibit PGE-01 at 2-2.

³⁵ Exhibit SCE-02 at 31.

³⁶ Exhibit SDGE-04 at JMC-3 and JMC-31.

³⁷ Exhibit SDGE-04 at JMC-29.

³⁸ Exhibit CA-01 at 24.

and Moody's ratings of BBB and Baa2 suggest an investment risk level which is slightly above the proxy groups, while SDG&E's S&P and Moody's ratings of BBB+ and A2 indicate an investment risk level which is slightly less than the proxy groups."³⁹

EPUC/IS/TURN relied on the same electric and gas/water proxy groups as those developed by SCE's witness, with some noted exceptions.⁴⁰

EPUC/IS/TURN's witness indicated that the following utilities were excluded from this witness's analysis, "Chesapeake Utilities Corporation, Artesian Resources Corp., Global Water Resources, York Water Company, American Electric Power Company, Inc., MGE Energy, Inc., PPL Corporation, and Sempra." The reasons for the exclusion ranged from not being rated by S&P and Moody's, limited Value Line data available, and recent acquisition activity.

EDF criticized PG&E's selection of a proxy group, indicating that PG&E's proxy selection does not sufficiently reflect the combination gas/electric nature of PG&E's operations. EDF also criticizes SoCalGas's selection of proxy companies as being an insufficiently small sample of proxy companies.

UCAN's witness advanced a proxy group of utilities that utilize various screens, including the screen that the utilities have an S&P credit rating between BBB and A-, and ultimately UCAN's witness's proxy group consisted of 19 utilities.

5.2. Financial Models

The financial models commonly used in ROE proceedings are the Capital Asset Pricing Model (CAPM), Risk Premium Model (RPM), and

³⁹ Exhibit CA-01 at 26.

⁴⁰ Exhibit EPUC/IS/TURN-01 at VI-6.

Discounted Cash Flow (DCF) Model. Each methodology requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the method and on the reasonableness of the proxies used to validate the results. Detailed descriptions of these financial models are contained in the record and are not repeated here.

The Commission has historically indicated that we will not litigate the specific mechanics of each proposed model, inputs, and assumptions, and this decision continues to take this stance. The financial models are applied to a proxy group of companies comparable to the respective utility. A contributing factor resulting in a wide range of financial modeling results is the parties' difference in the time period and the availability of subjective inputs.

Expected Earnings (EE) analysis is based on the projected returns on book equity for the regulated utility companies.⁴¹ Therefore, EE model measures the book accounting return. EPUC contends the market required return can be vastly different from the accounting return.

5.2.1. Capital Asset Pricing Model

The CAPM is a risk premium approach that gauges an entity's cost of equity based on the sum of an interest rate on a risk-free bond and a risk premium. It is "based upon the theory that the market-required rate of return for a security is equal to the risk-free rate, plus a risk premium associated with the specific security."⁴² Critical inputs to the CAPM formula include (1) an estimate of the market risk-free rate, (2) each utility's beta, and (3) market risk premium.⁴³

⁴¹ Exhibit EPUC/IS/TURN-1 at VIII-53.

⁴² Exhibit EPUC/IS/TURN at VI-28, VII-28, VIII-31, and IX-31.

⁴³ Exhibit EPUC/IS/TURN at IX-45:20.

Two primary variations to the CAPM were used by the parties, traditional and empirical CAPMs. The empirical CAPM (ECAPM) is designed to correct for the empirical observation that traditional CAPM does not properly estimate the cost of capital relative to the beta for stocks. However, the ECAPM tends to produce higher overall cost of capital estimates because adjusting betas for electric utilities, which tend to have low *betas*, upward guarantees a higher ROE.⁴⁴

Each party utilized different subjective inputs into their CAPM. The following tabulation summarizes the simple average result of the CAPM variations calculated by the individual parties using subjective inputs.

	PG&E	SCE	SDG&E	SoCalGas
Utility	10.30%- 11.20%	10.30% - 11.20%	13.99% - 14.13%	13.43% - 13.63%
FEA	8.25% - 9.25%	6.25% - 8.25%	6.25% - 8.25%	
Cal Advocates	7.40% - 7.70%	7.70%	7.40%	7.40% - 7.70%
Wild Tree⁴⁵	7.10% - 8.59%	7.10% - 8.59%	7.10% - 8.59%	
PCF			4.90%	4.90%
EPUC/IS/TURN	9.84%	9.85%	9.80%	9.80%
UCAN			11.30% - 11.45%	

5.2.2. Risk Premium Model

Similar to the CAPM, the RPM measures a company's cost of equity capital by adding a risk premium to a risk-free long-term treasury or utility bond yield. A risk premium is derived by an assessment of historic utility equity and bond returns, a historical RPM. A variation to the historical RPM is an allowed RPM which estimates the common equity allowed by regulatory commissions over a period of time in relationship to the level of long-term Treasury bond yield.

⁴⁴ 1 CPUC3d (1999) 146 at 168-169.

⁴⁵ WTF-01 at 88.

Each party utilized different subjective inputs into their RPMs. The following tabulation summarizes the simple average result of the RPM variations calculated by the individual parties using subjective inputs.

	PG&E	SCE	SDG&E	SoCalGas
Utility	10.10%	10.10%	9.47% - 9.99%	9.50 – 10.00 %
EPUC/IS/TURN	9.30%	9.30%	9.20%	9.30%
UCAN			9.84%	

5.2.3. Discounted Cashflow

The DCF model is used to estimate an equity return from a proxy group by adding estimated dividend yields to investors' expected long-term dividend growth rate. Variations used by the parties include constant growth⁴⁶ and multi-stage growth.⁴⁷

Each party utilized different subjective inputs into their various DCF models. The following tabulation summarizes the simple average result of different versions of the DCF model calculated by the individual parties using subjective inputs.

	PG&E	SCE	SoCalGas	SDG&E
Utility	7.50% - 10.20%	9.30% - 10.80%	8.80%	8.81%
FEA	8.25% – 9.25%	8.50% - 9.50%		8.50% - 9.50%
Cal Advocates	8.75%-8.90%	8.90%	8.75%	8.75%-8.90%
Wild Tree	7.92% - 8.02%	7.92% - 8.02%		7.92% - 8.02%
PCF			5.83%	5.98%
EDF⁴⁸	7.50% - 8.40%	8.40%	8.80%	9.76%
EPUC/IS/TURN	9.20%	9.20%	9.20%	9.20%
UCAN				9.34% - 9.39%

⁴⁶ The growth rate investors expect over the long term.

⁴⁷ Multi-stage growth reflects the possibility of non-constant growth for a company over time.

⁴⁸ EDF's DCF analysis resulted in an ROE of 7.50% for PG&E's gas assets and 8.40% for PG&E's electric assets. This decision does not consider a separate ROE by commodity for combined service utilities.

5.2.4. Summary

From the results of these broad financial models, which are dependent on subjective inputs, the parties advance arguments in support of their respective analyses and in criticism of the input assumptions used by other parties. These arguments will not be addressed extensively in this decision. It should be noted that none of the parties agreed with the financial modeling results of the others.

The Discounted Cash Flow model produces the most consistent results among the parties. For instance, the midpoint of the PG&E DCF results is 8.85 percent while the lowest midpoint for any intervenor DCF result is 7.97 percent, less than a 100 basis point difference. The utility results are higher than the intervenors, in part, because of the after tax weighted average cost of capital (ATWACC) adder. The Commission has considered and rejected the ATWACC adder in multiple proceedings and will reject this adder here.⁴⁹

The DCF model results for the intervenors, SCE, SoCalGas, and SDG&E are also within on hundred basis points of each other, with the exception that the PCF proposed results for SDG&E and SoCal Gas of 5.83 percent and 5.98 percent are extraordinarily lower than all of the other results and not given weight.

The CAPM model produces significantly higher results than the other models, particularly for SDG&E and SoCalGas. The material outlier was offered by SDG&E/SoCalGas witness Coyne, who relied on market risk premium estimates in the range of 12.22% to 13.4%. His market risk premium estimates were based on projected returns on the market of 15.62%. EPUC/IS and Cal Advocates correctly point out that these projected returns are not reflective

⁴⁹ See D.18-03-035: "By way of background, the ATWACC method was first brought before the Commission in an energy 1998 cost of capital proceeding and was represented in several subsequent energy cost of capital proceedings. Each time the ATWACC method was presented to the Commission, the Commission declined to adopt it." See also D.04-12-014; D.09-05-019.

of historical nor projected return on the market of 11.00%. As recognized by all the other witnesses in this proceeding, market returns have generally fallen in the range of around 12.00% historically and economically logical projections⁵⁰

PG&E's and SCE's CAPM results are significantly higher than the intervenors because these utilities use the Empirical CAPM model, rather than the traditional CAPM. Notably, the Commission has recognized that the ECAPM tends to produce inaccurately higher ROEs and has declined to rely on ECAPM results in prior Cost of Capital proceedings.⁵¹

Among the parties using the Risk Premium model, there is also very little difference in the results between the intervenors and IOUs, with the lowest intervenor result and the highest IOU result only 80 basis points apart.

In the final analysis, it is the application of informed judgment, not the precision of financial models, which is the key to selecting a specific ROE estimate. We affirmed this view in D.89-10-031, noting that it is apparent that all these models have flaws and, as we have routinely stated in past decisions, the models should not be used rigidly or as definitive proxies for the determination of the investor-required ROE. Consistent with that skepticism, we found no reason to adopt the financial modeling of any one party. The models are helpful as gauges of the realm of reasonableness.

⁵⁰ EPUC/Indicated Shippers Opening Brief, at 58.

⁵¹ D. 12-12-034 at 25 citing D. 99-06-057: "We are not persuaded that ECAPM produces a result that should be considered. Electric utilities in general have low betas. Adjusting betas upward guarantees a higher ROE." 1 CPUC3d (1999) 146 at 168-169.

5.3. Additional Risk Factors

We also consider additional risk factors not specifically included in the financial models. Those additional risk factors fall into three categories: financial, business and regulatory.

Generally, the applicants argue that there are unique risks due to the overall positioning of their operations that warrant an authorized ROE that is on the higher end of the estimated models. Generally, the intervenors argue that the risks faced by the applicants are similar to the risks faced by other electric and gas investor-owned utilities, and risks that are outside of the scope of the prudent-manager standard should not warrant elevated ROE authorizations.

5.3.1. Financial Risk

Financial risk is tied to the utility's capital structure. The proportion of its debt to permanent capital determines the level of financial risk that a utility faces. As a utility's debt ratio increases, a higher ROE may be needed to compensate for that increased risk. However, in this proceeding, there is minimal change in financial risk because the debt ratios being adopted in this proceeding are not materially changed from the utilities' last authorized debt ratios.

5.3.2. Business Risk

Business risk pertains to *new* uncertainties resulting from competition and the economy. An increase in business risk can be caused by a variety of events that include capital investments, electric procurement, and catastrophic events. Each of these business risks overlap into financial and regulatory risk.

5.3.2.1. Transformation of the Electric Grid and Gas System

The applicants outline significant capital investment that must occur for these companies to execute the decarbonization obligations and priorities that have evolved and developed over the past decade.

PG&E notes the bold and aggressive policies that have developed that are aimed at achieving decarbonization in the electric grid, and PG&E outlines the risk for potential stranded assets.⁵² SCE also outlines its position on the ambitious grid modernization work that presents cost recovery and other risks in the implementation of these programs.⁵³ SDG&E notes its position that California's climate policies lead to substantial changes in business operations that increase complexity and risk.⁵⁴ SoCalGas provides its position that the pending long-term gas planning rulemaking (Rulemaking 20-01-007) creates uncertainty, resulting in increased risk and potential downward pressure on its credit rating.⁵⁵

EDF notes its position that the credit ratings have already considered the risks involved in transforming the electric grid and gas systems, and it asserts that the Commission has already de-risked this activity. EDF points to SoCalGas's exhibit, SCG-03, that discusses this activity.

In a recent credit opinion, Moody's clarifies that its rating outlook for SoCalGas is predicated on the State (and Commission's) support of policies and actions that will not result in stranded assets: the stable outlook incorporates a view that the regulatory environment will remain supportive, and that the state's longer term environmental goals and policies will not result in significant risks of stranded assets.⁵⁶

EPUC/IS assert that these risks identified by the four applicants are not unique to California, and EPUC/IS argues that the credit rating agencies have

⁵² Exhibit PGE-01 at 1-19:15-28.

⁵³ Exhibit SCE-01 at 28.

⁵⁴ Exhibit SDGE-03 at AB-29.

⁵⁵ Exhibit SCG-03 at DMN-23.

⁵⁶ Exhibit SCG-03 at DMN-8.

taken the Commission's credit supportive policies into consideration when evaluating the overall risk of the applicants. EPUC/IS asserts that while there are some risks involved in the activity of modernizing the grid, these risks are not unique to California and are largely borne by ratepayers, not shareholders.

SCGC argues that SoCalGas has lower risk due to its revenue decoupling mechanisms, the Core Fixed Cost Account, and the Noncore Fixed Cost Account. SCGC argues that these mechanisms and accounts are lower risk than the fairly full or partial revenue decoupling that exist for the proxy companies selected by SoCalGas's witness.

5.3.2.2. Wildfire and Severe Weather Risk

The applicants assert that their operations face greater risks than peer utilities due to wildfires and resulting utility liability. The general position is that Assembly Bill (AB) 1054 has not fully mitigated the wildfire risk and there is remaining implementation risk.

The wildfire related risks include:

- Risk that the Wildfire Fund could be depleted,⁵⁷
- Risk that the standard of recovery, or prudence standard to recover funds from the Wildfire Fund is untested,⁵⁸
- Risk of inverse condemnation,⁵⁹ and
- Assertions that credit rating agencies have not fully restored credit ratings from pre-wildfire levels.⁶⁰

PG&E indicated that it did not propose an increased ROE adder for what it calls asymmetric wildfire risks, although PG&E asserts that this asymmetric

⁵⁷ Exhibit SCE-03 at 6.

⁵⁸ Exhibit SDGE-06 at VAB-6.

⁵⁹ Exhibit SCE-03 at 6.

⁶⁰ Exhibit SDGE-06 at VAB-2.

wildfire risks exists. SCE argues that its ROE authorization should be at the higher end of a reasonable range due to the wildfire risks its business faces.

The Commission addressed the impact of wildfire risk on the ROE of the applicants in the 2020 Test Year Cost of Capital Decision, D.19-12-056, a decision that the Commission approved with consideration of the wildfire risk landscape for the applicants after the passage of AB 1054.

That decision determined the following:

We find that the passage of AB 1054 and other investor supportive policies in California have mitigated wildfire exposure faced by California's utilities. Accordingly, the Commission will not authorize a specific wildfire risk premium in the adopted ROE. In addition to the reasons summarized above, this is further supported by the August 15, 2019 S&P Global RRA Regulatory Focus that acknowledges that any residual factors of risk that may exist for IOU in California post the adoption of AB 1054 are more or less offset by the more constructive aspects of the California regulatory framework, which accounts for California's placement within a balanced category.⁶¹

EPUC/IS notes that AB 1054 established a prudency shift that significantly de-risked the electric investor-owned utilities shareholders of disallowance. EPUC/IS also notes that PG&E executives have publicly indicated that 90% of the wildfire risk has been mitigated in public communications in reporting quarter 2 earnings.⁶²

EPUC/IS argues that catastrophic wildfires are not the only large-scale catastrophic weather events that utilities in the nation are confronting and asserts that catastrophic weather is already considered in the financial models. EPUC/IS

⁶¹ D.19-12-056 at 36.

⁶² Exhibit EPUC/IS-4.

notes that utilities throughout the United States are facing large-scale events that include flooding, hurricanes, tornados, hail, and winter freezing events.

EDF argues that the applicants did not provide evidence that the California utilities are exposed to a unique high level of risk associated with wildfires.⁶³

Intervenors argue that the wildfire risks confronted by electric utilities in the United States are unique to electric utilities and gas utilities do not confront the same risks.

In this decision, we make no additional specific determinations about asymmetric risks that the electric utility applicants face relative to wildfire risk, and we consider the totality of the record in setting the ROE.

5.3.2.3. Cashflow risk

SCE and SDG&E discuss free cash flow risks related to COVID arrearages. Following the State of Emergency issued in response to the COVID-19 pandemic, various authorities directed utilities in California to establish a moratorium on disconnections. SCE notes that even with various actions that have occurred to alleviate the issues related to the existing arrearages, SCE's arrearages outstanding remained at more than 700% of pre-COVID levels as of February 2022.

TURN responds by noting that COVID-19 is not a risk that was unique to California utilities and ratepayers. TURN presses that the cashflow arguments overlook the two-way balancing account for residential uncollectibles adopted by the Commission in D.20-06-003 and asserts that ratepayers already bear the risk associated with residential delinquent accounts.

⁶³ Exhibit EDF-01 at 27.

5.3.2.4. Macroeconomic Environment

The applicants suggest that increased interest rates, increased betas, and general market volatility necessitate further increases in the utility ROE authorizations. PG&E and SCE both note that interest rates, utility credit spreads, and market volatility are all higher than during the 2020 cost of capital cycle. SoCalGas notes that due to uncertainties and volatility in the macroeconomic environment, establishing a rate of return commensurate with the risks utilities face would promote stability and attract needed investment in California energy infrastructure.

EPUC, IS, and TURN respond by noting that its witness forecasted increased treasury rates, and it indicated that its analysis anticipated a period of a higher interest rate environment. This group of intervenors also noted that continued adoption of the cost of capital mechanism should support ratepayer protections for downside interest rate risk and the shareholders from upside interest rate risk.

We take note that there has been a downward trend in ROE authorizations for similarly situated electric and gas utilities in the United States for the past decade including authorizations in the first half of 2022.⁶⁴ These similarly situated utilities are exposed to a nearly identical macroeconomic environment. In setting the final ROE, we will consider the evidence related to the macroeconomic environment for which the utilities are operating in.

5.3.2.5. Other Business Risks

WalMart notes that with the expansion of community choice aggregation and direct access, the risk profiles of the electric utilities place them in between

⁶⁴ Exhibit EPUC/IS/TURN-01 at II-2.

the profile of fully vertically integrated electric utilities and distribution only electric utilities.

5.3.3. Regulatory Risk

Regulatory risk pertains to *new* risks that investors may face from future regulatory actions that we, and other regulatory agencies, might take. Regulatory risk assessment is also used by rating agencies to set utility bond ratings. The Applicants once again put forth arguments that the regulatory environment in California poses new risks that should be factored into the Commission determining the appropriate ROE following the established standards. SCE, for instance, asserts that it confronts regulatory risk in the form of cost recovery risk and delay in the evaluation of memorandum and balancing accounts and regulatory lag.

EPUC, IS, and TURN argue that the IOUs present unpersuasive and unsupported claims that they face increased cost recovery and regulatory lag risks that would warrant an increased ROE. While there are risks involved in the regulatory environment, there are also certainties granted by the regulatory environment.

5.3.3.1. Authorized ROE Risk

An authorized ROE has risk when it does not adequately compensate a utility for the risk that investors must assume. California is generally perceived as having a constructive regulatory environment. However, the utilities are concerned that a lower ROE could potentially harm their credit profile and increase their cost of capital during a time when they need to spend substantial amounts on capital investment projects, above their historic norm.

California utilities are not the only utilities experiencing an increase of capital investment projects. Therefore, the parties' financial modeling results

derived from various proxy groups already include the impact of increasing capital investment by utilities outside of California. Further, the utilities' authorized ROE risk concern is without merit because we consistently set the rate of return at a level that meets the test of reasonableness as set forth in the Bluefield and Hope cases and we will continue to do so.

5.3.3.2. Cost Recovery Risk

Cost recovery risk occurs when a utility is precluded from having the ability to recover its cost fairly and consistently in a timely manner. Identified cost recovery issues included: (1) power procurement commitments; (2) balancing and memorandum accounts; and (3) revenue decoupling.

EDF argues that there is low risk for power purchase agreement (PPA) cost recovery, noting that in PG&E's recent bankruptcy, above market PPAs remained unmodified. EDF also argues about numerous laws that have been adopted in California over the year that reduce the risk of stranded PPAs and ensure cost recovery for prudently negotiated contracts, even in the event of departing load to third party power providers.

5.3.3.3. Regulatory Lag

Regulatory Lag is commonly defined to be a delay in a utility's ability to recover costs in a timely manner. The utilities contend that they need to be compensated for increased regulatory lag because of extended periods of uncertain outcomes from Commission proceedings which extend beyond the statutory 18-month period.

5.3.3.4. Other Regulatory Risks

Other regulatory risks identified by the parties include changes in government laws and regulations and municipalization of regulated utilities. These changes have occurred and are expected to continue. To the extent that

investors expect government laws and regulations to change and municipalization of regulated utilities to occur, such expectations should already be captured in the financial modeling results.

5.3.3 Summary

The utilities are being increasingly driven by financial, business and regulatory factors that include energy availability, ability to attract capital to raise money for the proper discharge of their public utility duties and to maintain investment-grade creditworthiness, all of which are important components of the Hope and Bluefield decisions. Based on the above financial, business and regulatory risks discussion, we conclude that the ROE ranges adopted in this proceeding from the various financial models adequately compensate the utilities for these risks.

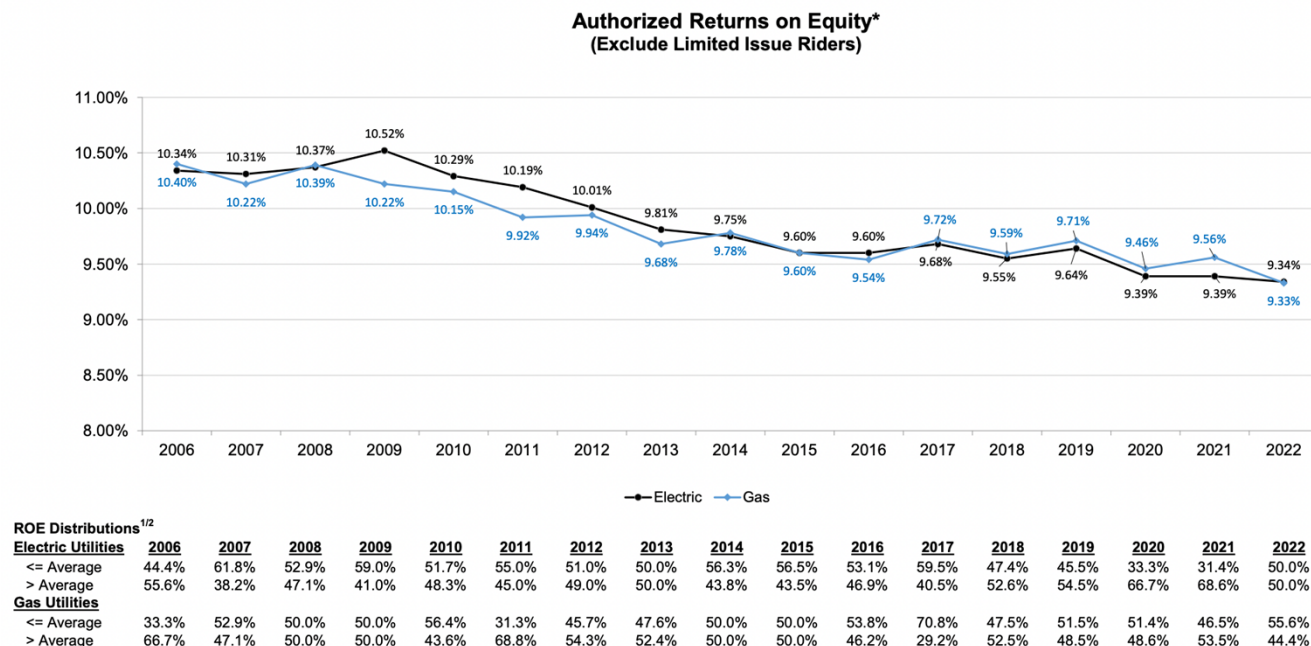
5.4. Authorized Return on Equity National Trends

Parties stipulated to figures that represent the national trends of authorized ROE for 2021 and the first half of 2022 for electric and gas utilities. The average ROE granted to United States electric utilities during the first half of 2022 is 9.39% and the average ROE granted gas utilities during the first half of 2022 is 9.33%.⁶⁵ Further, the average ROE granted to United States gas utilities during 2021 is 9.56% the average ROE granted to United States electric utilities during 2021 is 9.38%.⁶⁶

⁶⁵ August 31, 2022 Filing of Stipulated Facts at 4.

⁶⁶ August 31, 2022 Filing of Stipulated Facts at 4.

The following graph⁶⁷ outlines a historical trend line for the authorization of ROE dating back to 2006.



Source and Notes:

¹ S&P Global Market Intelligence, RRA Regulatory Focus, Major Rate Case Decisions -- January - June 2022, July 27, 2022, p. 3.

² Download from S&P Global Market Intelligence, August 1, 2022.

* Electric Returns exclude Limited Issue Rider Decisions.

* RRA excludes the 2017 Alaska ENSTAR decision from its Industry Average.

We assess the current market trends relative to the authorizations that were made in the 2020 Test Year Cost of Capital cycle adopted in D.19-12-056. Since the 2020 Test Year Decision, PG&E has emerged from bankruptcy, and the other three applicants' credit ratings have remained investment grade. Additionally, SDG&E's credit rating has been upgraded since the 2020 Test Year Decision. We recognize that since the 2020 Test Year Decision, there has been a continued downward trend for the authorizations of ROE for peer utilities in the United States, representing a downward trend of 20-30 basis points.

⁶⁷ Exhibit EPUC/IS/TURN-01 at II-2, Figure 1.

Return on equity should be reasonably sufficient to ensure confidence in the financial soundness of the utility and enable it to attract capital to finance the replacement and expansion of facilities. Returns on equity for utilities in California have not been declining over the past couple of decades at the same pace as the national average for various reasons.

The Hope and Bluefield standard for determining fair compensation to the utility also ensure the rates charged to customers for maintaining utilities' financial integrity will be just and reasonable.

Rate affordability is a critical aspect of ensuring the regulatory treatment of California utilities, and California customers, is balanced and reasonable. Authorizing a rate of return which is fair compensation and maintains financial integrity and credit standing for efficient and economic operation of the utilities is fair to the utility companies, but a return that is not in excess of this level will ensure customers' rates are just and reasonable and no higher than necessary.⁶⁸

We believe the ROE adopted in this decision place the four applicants appropriately aligned with national trends with consideration of the risk profile of each individual utility.

Other modifications made to the ROE in the 2023 Test Year cycle as compared to the Commission's findings in the 2020 Test Year Decision are in response to our analysis of the quantitative financial models, other macroeconomic trends, credit worthiness, and our understanding of the risks that are present for the applicants. Ultimately, we reduce the ROE authorization for the four applicants 25 basis points from the authorization provided in the 2020 Test Year Decision.

⁶⁸ Exhibit EPUC/IS/TURN-01 at IV-11.

Having addressed the generic factors used in setting an ROE we now address a fair and reasonable return for the individual utilities.

5.5. PG&E's Return on Equity

The following tabulation summarizes the final ROE proposals by PG&E and the intervenors.

Party	Final Proposed ROE
PG&E	11.00%
EPUC/IS/TURN	9.50%
FEA	9.75%
Cal Advocates	9.40%
Wild Tree	8.08%
EDF	9.30% (electric); 8.40% (gas)

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors including business risk, and interest coverage presented by the parties and applying our informed judgment, we adopt a just and reasonable ROE range of 9.60% to 10.20%. We conclude that the adopted ROE should be set at the mid-upper end of the just and reasonable range. We find that PG&E's authorized test year 2023 ROE should be 10.00%. This ROE is reasonably sufficient to assure confidence in the financial soundness of the utility and to improve and maintain an investment grade credit ratings while balancing the interests between shareholders and ratepayers. We further observe that the 10.00% authorized ROE is significantly higher than the 9.39% average ROE granted to United States electric utilities and the 9.33% average ROE granted to United States gas utilities during the first half of 2022.⁶⁹ Further, the authorized

⁶⁹ August 31, 2022 Filing of Stipulated Facts at 4.

ROE is higher than the 9.56% average ROE granted to United States gas utilities and the 9.38% average ROE granted to United States electric utilities in 2021.⁷⁰

5.6. SCE's Return on Equity

The following tabulation summarizes the final ROE proposals by SCE and the intervenors.

Party	Final Proposed ROE
SCE	10.53%
EPUC/IS/TURN	9.50%
FEA	9.50%
Cal Advocates	9.15%
Wild Tree	8.08%
EDF	8.70%

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors including business risk, and interest coverage presented by the parties and applying our informed judgment, we adopt a just and reasonable ROE range of 9.65% to 10.25%. We conclude that the adopted ROE should be set at the mid-upper end of the just and reasonable range. We find that SCE's authorized test year 2023 ROE should be 10.05%. This ROE is reasonably sufficient to assure confidence in the financial soundness of the utility and to maintain investment grade credit ratings while balancing the interests between shareholders and ratepayers. We further observe that the 10.05% authorized ROE is significantly higher than the 9.39%⁷¹ average ROE granted to United States electric utilities during the first half of 2022. Further, the authorized ROE is

⁷⁰ August 31, 2022 Filing of Stipulated Facts at 4.

⁷¹ August 31, 2022 Filing of Stipulated Facts at 4.

higher than the 9.38% average ROE granted to United States electric utilities in 2021.⁷²

5.7. SoCalGas's Return on Equity

The following tabulation summarizes the final ROE proposals by SoCalGas and the intervenors.

Party	Final Proposed ROE
SoCalGas	10.75%
EPUC/IS/TURN	9.50%
PCF	5.40%
Cal Advocates	8.75%
EDF	8.70%

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors including business risk, and interest coverage presented by the parties and applying our informed judgment, we adopt a just and reasonable ROE range of 9.40% to 10.00%. We conclude that the adopted ROE should be set at the mid-upper end of the just and reasonable range. We find that SoCalGas's authorized test year 2023 ROE should be 9.80%. This ROE is reasonably sufficient to assure confidence in the financial soundness of the utility and to maintain investment grade credit ratings while balancing the interests between shareholders and ratepayers. We further observe that the 9.80% authorized ROE is significantly higher than the 9.33% average ROE granted to United States gas utilities during the first half of 2022.⁷³ Further, the authorized ROE is higher than the 9.56% average ROE granted to United States gas utilities in 2021.⁷⁴

⁷² August 31, 2022 Filing of Stipulated Facts at 4.

⁷³ August 31, 2022 Filing of Stipulated Facts at 4.

⁷⁴ August 31, 2022 Filing of Stipulated Facts at 4.

5.8. SDG&E's Return on Equity

The following tabulation summarizes the final ROE proposals by SDG&E and the intervenors.

Party	Final Proposed ROE
SDG&E	10.55%
EPUC/IS/TURN	9.50%
PCF	5.45%
FEA	9.50%
Cal Advocates	8.90%
Wild Tree	7.81%
EDF	8.90% (electric); 8.70% (gas)
UCAN	9.70%

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors including business risk, and interest coverage presented by the parties and applying our informed judgment, we adopt a just and reasonable ROE range of 9.55% to 10.15%. We conclude that the adopted ROE should be set at the mid-upper end of the just and reasonable range. We find that SDG&E's authorized test year 2023 ROE should be 9.95%. This ROE is reasonably sufficient to assure confidence in the financial soundness of the utility and to maintain investment grade credit ratings while balancing the interests between shareholders and ratepayers. We further observe that the 9.95% authorized ROE is significantly higher than the 9.39% average ROE granted to United States electric utilities and the 9.33% average ROE granted to United States gas utilities during the first half of 2022.⁷⁵ Further, the authorized ROE is higher than the

⁷⁵ August 31, 2022 Filing of Stipulated Facts at 4.

9.56% average ROE granted to United States gas utilities and the 9.38% average ROE granted to United States electric utilities in 2021.⁷⁶

6. Implementation

PG&E, SCE, SoCalGas, and SDG&E shall implement the revenue requirement changes authorized by this decision in their respective end-of-the-year consolidated revenue requirement Tier 1 Advice Letter filings, also referred to as Annual Electric True-Ups or Annual Gas True-Ups, for effective dates no earlier than January 1, 2023.

7. PG&E's Yield Spread Adjustment Proposal

In PG&E's Application, it raised the issue of current short-term interest rate applicable to the under-collected and over-collected balances in PG&E's balancing and memorandum accounts.⁷⁷ PG&E notes that the current rate applied is the Commercial Paper Rate. PG&E argues that "because PG&E's current credit ratings preclude it from issuing commercial paper now or in the near term, the Commercial Paper Rate is not a reasonable approximation of PG&E's cost to finance our balancing and memorandum accounts."⁷⁸

PG&E requests "approval of a temporary [yield spread adjustment] YSA above the Commercial Paper Rate, to become effective as of January 1, 2023, to fairly compensate PG&E for our actual short-term financing cost."⁷⁹ PG&E presents an illustrative calculation of the YSA based on a measurement period of March 2021 to February 2022, resulting in a YSA of 153 basis points

⁷⁶ August 31, 2022 Filing of Stipulated Facts at 4.

⁷⁷ Application 22-04-008 at 15.

⁷⁸ Application 22-04-008 at 15.

⁷⁹ Application 22-04-008 at 15.

(1.53 percent). PG&E proposes to adjust the YSA each year to capture any changes in the Commercial Paper Rate and/or PG&E's actual cost of short-term debt. PG&E proposes to submit a Tier 2 Advice Letter by November 15 of each year to set the YSA to become effective as of January 1 of the following year. For 2023, PG&E proposes to submit the Tier 2 Advice Letter within 30 days of the issuance of a decision in this proceeding approving the YSA, with the YSA to be effective as of January 1, 2023.

EPUC/IS/TURN oppose this yield spread adjustment proposal of PG&E. This group of intervenors assert that the "Commission has already approved a capital structure waiver for PG&E in developing its overall rate of return for its cost of capital applied to its long-term infrastructure assets."⁸⁰ This group's witness notes that the "capital structure waiver allows for development of an overall rate of return using an equity component that significantly exceeds PG&E's actual long-term capital weights of debt and equity."⁸¹ This group argues that the capital structure waiver increases cost to customers in an effort to provide PG&E an ability to restore its financial strength. This group argues that PG&E is seeking to inflate customers rates twice: (1) by paying more than PG&E's long-term capital costs on rate base assets, and (2) by paying its actual cost of short-term memorandum assets.

PG&E's response argues the EPUC/IS/TURN position is not supported by evidence, contains inaccuracies, and should not be given weight. PG&E asserts in response to the intervenor position that the utility is simply seeking to address the under-recovery of short-term debt for the purpose of financing balances in

⁸⁰ D.20-05-053 at 84.

⁸¹ Exhibit EPUC/IS/TURN-01 at V-3.

balancing and memorandum accounts. PG&E argues that the Commission previously approved interest rate premiums when SDG&E's and SCE's short-term debt cost exceeded the Commercial Paper Rate.

There may be merit to PG&E's request, but at this time we do not have sufficient evidence and analysis to make a fully formed decision. We will address this issue in a second phase to this proceeding.

In response to comments, and in accordance with PG&E's request to implement its YSA proposal beginning January 1, 2023, PG&E is authorized to seek the creation of a memorandum account to track the dollar amount that would have been recovered pursuant to its YSA proposal for recovery of short-term debt for the purpose of financing balances in balancing and memorandum accounts beginning January 1, 2023 through a Tier 2 advice letter filed with the Commission's Energy Division. We will address the balance of this memorandum account in the second phased of this proceeding when we provide additional consideration to PG&E's YSA proposal.

8. SCE's Accrued Carrying Cost Proposal

SCE's Application proposes that balancing and memorandum accounts amortized over more than 12 months accrue carrying charges at SCE's weighted average cost of capital. SCE's proposal is that "this treatment would apply to balances in existing accounts that the Commission has already ordered to be amortized over more than 12 months as of January 1, 2023 until those balances are fully recovered, as well as any future accounts for which the Commission adopts an amortization period over 12 months."⁸²

⁸² A.22-04-009 at 7.

SCE argues that the short-term debt instruments should not be used for long-term debt.⁸³ EPUC/IS/TURN oppose this proposal.

This group of intervenors argue that the commercial paper rate is more cost-effective for ratepayers while still providing SCE the ability to fully recover reasonable costs. A “utility’s cost of short-term debt is typically far less expensive than its WACC, particularly when adjusted for income tax expense.”⁸⁴

This group of intervenors argues that memorandum accounts that are amortized longer than 12-months are routinely non-recurring short-term assets but still allow the utility full recovery of the deferred cost.

Long-term debt has more risks associated with it than balancing and memorandum accounts amortized over more than 12-months, including default risk. The lower risk profile of balancing and memorandum accounts warrant lower commensurate carrying charges, and the commercial paper rate continues to be appropriate and reasonable.

9. Cost of Capital Mechanism

First established in D.08-05-035, the cost of capital mechanism was created as a way for the Commission adopted cost of capital to reasonably adjust if market conditions change significantly between cost of capital test year cycles. The applicants all request that the Commission continue to affirm the cost of capital mechanism, although there were some modifications and clarifications requested. Further, parties generally supported the continuation of the cost of capital mechanism as a buffer against market volatility.

⁸³ Exhibit SCE-01 at 55.

⁸⁴ Exhibit EPUC/IS/TURN-01 at V-3.

PG&E and SCE request commission determinations related to the cost of capital mechanism off-cycle applications, specifically seeking direction indicating that the utilities need not adjust their revenue requirement until the disposition of the applications.

SDG&E and SoCalGas sought commission direction regarding what cost of capital benchmark rate index applies when a utility has split ratings, how a utility handles credit rating changes during a cost of capital mechanism cycle, and what cost of capital mechanism benchmark index and rate applies when the cost of capital decision does not specify a benchmark rate.

Parties including TURN, EPUC/IS, FEA, PCF, Cal Advocates, and Wild Tree oppose the requests of PG&E and SCE.

As suggested by the applicants and some intervenors, there may be value in reevaluating the cost of capital mechanism, and there are certainly suggestions in the current record. However, there is not sufficient record to make a fully informed decision on the potential modifications and resulting implications. The record supports continuing the existing structure of the cost of capital mechanism at this time.

We direct the continuation of the cost of capital mechanism through the 2023 Test Year Cost of Capital cycle. We do not adopt the proposals and clarifications requested by the applicants. However, we will evaluate the cost of capital mechanism, including the proposals put forth by the applicants, in a second phase of this proceeding.

10. Comments on Proposed Decision

The proposed decision of ALJ Brian Stevens in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice

and Procedure. Comments were filed on November 29, 2022 by Wild Tree, SCGC, EPUC/IS, PG&E, SDG&E, UCAN, EDF, SoCalGas, PCF, TURN, and Cal Advocates. Reply comments were filed on December 5, 2022 by EDF, PG&E, SCE, SoCalGas, SDG&E, UCAN, TURN, PFC, and EPUC/IS.

We reviewed the comments and made various modifications to the proposed decision. Numerous non-substantive modifications were made to clarify the intent of the proposed decision.

Multiple parties noted minor data errors in the proposed decision, including the cost of long-term debt and preferred equity and ultimately the ROR calculation of PG&E and SCE being inverted, the RAR 2021 ROR for electric and gas utilities being inverted, and conclusions of law 21 and 23 reflecting inconsistent figures. These data issues were corrected in the final decision.

In response to comments, and in accordance with PG&E's request to implement its YSA proposal beginning January 1, 2023, PG&E is authorized to seek the creation of a memorandum account to track the dollar amount that would have been recovered pursuant to its YSA proposal for recovery of short-term debt for the purpose of financing balances in balancing and memorandum accounts beginning January 1, 2023 through a Tier 2 Advice Letter filed with the Commission's Energy Division. We will address the balance of this memorandum account in the second phased of this proceeding when we provide additional consideration to PG&E's YSA proposal.

In response to comments, the placeholder for the cost associated with SDG&E's preferred equity is updated from 6.00% to 6.22%. The resulting ROR is updated from 7.17% to 7.18% due to the recalculation and rounding.

11. Assignment of Proceeding

Alice Reynolds is the assigned Commissioner and Brian Stevens is the assigned ALJ in this proceeding.

Findings of Fact

1. The applicants are public utilities subject to the jurisdiction of this Commission.
2. PG&E, SCE, SoCal Gas, and SDG&E's applications were consolidated.
3. SDG&E and SoCalGas requested modifications to their authorized capital structure.
4. PG&E sought a test year 2023 ratemaking capital structure that maintains its existing capital structure consisting of 47.50% long-term debt, 0.50% preferred equity, and 52.00% common equity.
5. SCE sought a test year 2023 ratemaking capital structure that maintains its existing capital structure consisting of 43.00% long-term debt, 5.00% preferred equity, and 52.00% common equity.
6. SoCalGas sought a test year 2023 ratemaking capital structure of 45.60% long-term debt, 0.40% preferred equity, and 54.00% common equity. SoCalGas's current authorization is 45.60% long-term debt, 2.40% preferred equity, and 52.00% common equity.
7. SDG&E sought a test year 2023 ratemaking capital structure of 46.00% long-term debt, 0.00% preferred equity, and 54.00% common equity. SDG&E's current authorization is 45.25% long-term debt, 2.75% preferred equity, and 52.00% common equity.
8. S&P Global Market Intelligence data through July 8, 2022 indicates that the average electric industry authorized common equity portion in 2022 is 51.53%

and the average natural gas industry authorized common equity portion in 2022 is 50.21%

9. An authorization of 52.00% equity for the applicants is near the high end of the range of a reasonable authorization.

10. Preferred equity is viewed by credit rating agencies as a long-range financing mechanism that is a hybrid of long-term debt and common equity.

11. It is not beneficial to ratepayers for SoCalGas and SDG&E to increase its authorized leverage as a result of this proceeding.

12. Parties stipulated to PG&E's proposed cost of preferred equity.

13. Generally, parties did not object to the proposed embedded cost of debt and preferred equity proposed by the applicants.

14. SDG&E did not propose an updated cost of preferred equity nor did it seek authorization for long-range financing with preferred equity.

15. PG&E seeks a Test Year 2023 ROE authorization of 11.00%.

16. SCE seeks a Test Year 2023 ROE authorization of 10.53%.

17. SoCalGas seeks a Test Year 2023 ROE authorization of 10.75%.

18. SDG&E seeks a Test Year 2023 ROE authorization of 10.55%.

19. The intervenors generally sought Test Year 2023 ROE authorizations for the applicants that were lower than the ROE authorizations the utilities proposed.

20. 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 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.

21. The applicants and many intervenors proposed proxy groups of similarly situated companies in an effort to argue what the appropriate commensurate market benchmark is for setting the ROE of the utilities.

22. PG&E, SCE, SoCal Gas, and SDG&E proposed proxy groups of similar companies to be used in their financial models.

23. SCE proposed a proxy group that includes electric utilities and a secondary proxy group that contains water and natural gas utilities.

24. PG&E's witness analyzed regulated electric utilities, regulated gas local distribution companies and water companies, and a combination of all companies in the three industries.

25. SoCalGas's witness employed an analysis of six investment grade gas holding companies.

26. SDG&E's witness employed an analysis of 20 investment-grade, dividend-paying electric and combination electric/gas utilities' parent companies.

27. In some circumstances there was overlap in the proxy groups proposed by the intervenors, on some occasions matching the proxy groups of some utilities or differing only slightly.

28. In some circumstances, intervenors used different companies for their proxy groups and, at times, excluded companies from their proxy group when using the CAPM, RPM, and DCF financial models.

29. The parties used variations of the CAPM, DCF and RPM financial models to support their respective ROE recommendations.

30. Each party used different subjective inputs and variations of the CAPM, RPM and DCF financial models as a basis for their recommended ROEs.

31. In setting the ROE, it is beneficial for the Commission to consider new risks that reasonably impact the utilities while ensuring that it is not considering risks that are unreasonable and beyond the prudent-manager standard.

32. Financial risk is tied to the utility's capital structure.

33. Business risk pertains to new uncertainties resulting from competition and the economy.

34. There is significant complexity in the utilities' obligation to transform the electric and gas grids of California, and there are significant statutory and regulatory mechanisms in place to ensure reasonable risk is applied to the applicants in achieving the necessary outcomes.

35. AB 1054 has substantially mitigated wildfire liability exposure as well as liquidity concerns.

36. Natural gas utilities in the United States do not confront the same wildfire risks that are confronted by electric utilities in the United States.

37. There are regulatory mechanisms in place to mitigate cashflow risks that arose in response to disconnection moratoriums that were applied in response to the COVID-19 pandemic.

38. There are macroeconomic uncertainties present that are relatively ubiquitous and generally impact all electric and gas utilities in the United States uniformly.

39. Regulatory risk pertains to new risks that investors may face from future regulatory actions.

40. There were generally no new regulatory risks presented for the Test Year 2023 Cost of Capital cycle that were not previously addressed by the Commission in prior Cost of Capital cycles.

41. S&P's issue/corporate family credit rating for PG&E is BB- and its secured credit rating is BBB-. PG&E's secured credit rating is considered investment-grade, and its corporate family credit rating is considered sub-investment-grade.

42. On July 18, 2022, S&P revised its outlook for PG&E from negative to stable.

43. SCE has an investment grade rating of BBB from S&P.

44. SDG&E has an investment grade rating of BBB+ from S&P.

45. SoCalGas has an investment grade rating of A from S&P.

46. Quantitative financial models are commonly used as a starting point to estimate a fair ROE.

47. The average ROE authorized for electric and gas utilities in the United States in the first half of 2022 were 9.39% and 9.33%, respectively.

48. The average ROE authorized for gas and electric utilities in the United States in 2021 were 9.56% and 9.38%, respectively.

49. There has been a general downward trend in the authorization of ROE for similarly situated electric and gas utilities in the United States for the past decade.

50. The United States Supreme Court Bluefield and Hope decisions set the standard that the utilities should be authorized an ROE at a level for which they can attract capital to raise money for the proper discharge of their public utility duties and maintain creditworthiness.

51. The CCM is a beneficial mechanism for the Commission to employ to protect both ratepayers and shareholders from major market shifts.

52. PG&E's yield spread adjustment proposal may have merit, although more information is necessary to fully understand the implications of the proposal.

53. The creation of a memorandum account for PG&E to track the dollar amount that would have been recovered pursuant to its YSA proposal for

recovery of short-term debt for the purpose of financing balances in balancing and memorandum accounts beginning January 1, 2023 would allow the Commission to conduct additional consideration of this issue in a second phase of this proceeding.

54. Regulatory accounts that are amortized over more than 12 months do not have the same risk profile as long-term debt.

55. SCE proposed that regulatory accounts that are amortized over more than 12 months accrue carrying charges at SCE's weighted average cost of capital, more like long-range financing.

Conclusions of Law

1. The consolidation of these applications does not mean that a uniform ROE should be applied to each of the utilities.

2. The legal standard for setting the fair ROE has been established by the United States Supreme Court in the Bluefield and Hope cases.

3. The capital structures proposed by SCE and PG&E should be adopted because they are balanced, attainable, and intended to support an investment grade rating and attract capital.

4. The capital structures proposed by SoCalGas and SDG&E should not be adopted because they do not sufficiently balance ratepayer interests with the intention to maintain an investment grade rating and attract capital.

5. SoCalGas and SDG&E should not be authorized to increase the leverage in the capital structures of these two companies as a result of this proceeding.

6. SoCalGas and SDG&E should be authorized a common equity allocation of 52.00%, in line with the other applicants and reasonable when compared to national averages. SoCalGas should be authorized a long-term debt allocation of

45.60% and a preferred equity allocation of 2.40%. SDG&E should be authorized a long-term debt allocation of 45.25% and a preferred equity allocation of 2.75%.

7. The applicants' costs of long-term debt and preferred equity are reasonable and should be adopted.

8. SDG&E did not propose a cost of preferred equity and it should be directed to propose a cost of preferred equity in a Tier 2 Advice Letter filed with the Commission's Energy Division.

9. Companies selected for a proxy group should have basic characteristics similar to the utility that the companies are selected to proxy.

10. Companies within a proxy group should not deviate from financial model to financial model.

11. Companies within a proxy group should continue to be screened to ensure that the included companies have investment grade credit ratings, a history of paying dividends and are not undergoing a restructure or merger.

12. Although the quantitative financial models are objective, the results are dependent on subjective inputs.

13. It is the application of informed judgment, not the precision of quantitative financial models, which is the key to selecting a specific ROE.

14. Company-wide factors such as risks, capital structures, debt costs and credit ratings are considered in arriving at a fair ROE.

15. There should be no adjustment to the financial modeling results for other financial, business or regulatory risks because the financial modeling results already include those risks.

16. A test year 2023 ROE range from 9.60% to 10.20% is just and reasonable for PG&E.

17. A test year 2023 ROE range from 9.65% to 10.25% is just and reasonable for SCE.

18. A test year 2023 ROE range from 9.40% to 10.00% is just and reasonable for SoCalGas.

19. A test year 2023 ROE range from 9.55% to 10.15% is just and reasonable for SDG&E.

20. A test year 2023 ROE of 10.00% and ROR of 7.32% is just and reasonable for PG&E.

21. A test year 2023 ROE of 10.05% and rate of return (ROR) of 7.35% is just and reasonable for SCE.

22. A test year 2023 ROE of 9.80% and ROR of 7.10% is just and reasonable for SoCalGas.

23. A test year 2023 ROE of 9.95% and ROR of 7.18% is just and reasonable for SDG&E.

24. The CCM should be extended through the 2023 Test Year Cost of Capital Cycle.

The Commission should consider PG&E's yield spread adjustment proposal in a subsequent phase of this proceeding. Until the Commission further considers the YSA proposal in a second phase, it is reasonable to authorize PG&E to seek the creation of a memorandum account, through a Tier 2 Advice Letter, to track the dollar amount that would have been recovered pursuant to its YSA proposal for recovery of short-term debt for the purpose of financing balances in balancing and memorandum accounts beginning January 1, 2023.

25. SCE's accrued carrying cost proposal should not be authorized due to a mismatch of the risk profile of regulatory accounts amortized over 12 months and the return of SCE's weighted average cost of capital.

O R D E R**IT IS ORDERED** that:

1. Pacific Gas and Electric Company cost of capital for its test year 2023 operations is as follows:

	Capital Proportion	Cost Factor	Weighted Cost
Long-term Debt	47.50%	4.31%	2.05%
Preferred Equity	0.50%	5.52%	0.03%
Common Equity	52.00%	10.00%	5.07%
Return on Rate Base			7.27%

2. Southern California Edison Company's cost of capital for its test year 2023 operations is as follows:

	Capital Proportion	Cost Factor	Weighted Cost
Long-term Debt	43.00%	4.39%	1.85%
Preferred Equity	5.00%	6.50%	0.33%
Common Equity	52.00%	10.05%	5.23%
Return on Rate Base			7.44%

3. Southern California Gas Company's cost of capital for its test year 2023 operations is as follows:

	Capital Proportion	Cost Factor	Weighted Cost
Long-term Debt	45.60%	4.07%	1.86%
Preferred Equity	2.40%	6.00%	0.14%
Common Equity	52.00%	9.80%	5.10%
Return on Rate Base			7.10%

4. San Diego Gas & Electric Company's cost of capital for its test year 2023 operations is as follows:

	Capital Proportion	Cost Factor	Weighted Cost
Long-term Debt	45.25%	4.05%	1.83%
Preferred Equity	2.75%	6.22%	0.17%
Common Equity	52.00%	9.95%	5.17%
Return on Rate Base			7.18%

5. San Diego Gas & Electric Company shall propose an updated cost of preferred equity through a Tier 2 Advice Letter submitted to the Commission's Energy Division no later than 30 days following the effective date of this Decision using the same conventional methodology for the calculating of the cost of preferred equity that the Commission has already approved. The 6.22% cost factor adopted in this decision for San Diego Gas & Electric Company's preferred equity authorization is only a placeholder and the cost of preferred equity that is adopted through the Tier 2 Advice Letter process shall be trued up to January 1, 2023.

6. The Cost of Capital Mechanism shall continue to be in effect through the 2023 Cost of Capital cycle for Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and San Diego Gas & Electric Company unless modified by subsequent Commission decision.

7. Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and San Diego Gas & Electric Company shall implement the revenue requirement changes authorized by this decision in their respective end-of-the-year consolidated revenue requirement Tier 1 Advice Letter filings, also referred to as Annual Electric True-Ups or Annual Gas True-Ups, for effective dates no earlier than January 1, 2023.

8. Pacific Gas and Electric Company is authorized to seek the creation of a memorandum account to track the amount that would have been recovered pursuant to its YSA proposal for recovery of short-term debt for the purpose of financing balances in balancing and memorandum accounts beginning January 1, 2023 through a Tier 2 Advice Letter filed with the Commission's Energy Division.

9. Southern California Edison's accrued carrying cost proposal shall not be authorized.

10. Application (A.) 22-04-008, A.22-04-009, A.22-04-011, and A.22-04-012 shall remain open.

This order is effective today.

Dated December 15, 2022, at San Francisco, California.

ALICE REYNOLDS

President

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

DARCIE L. HOUCK

JOHN REYNOLDS

Commissioners