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Decision 25-12-043 December 18, 2025

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 2026. (U 39 M)	Application 25-03-010
And Related Matters.	Application 25-03-011 Application 25-03-012 Application 25-03-013

DECISION ADDRESSING TEST YEAR 2026 COST OF CAPITAL FOR PACIFIC GAS AND ELECTRIC COMPANY, SOUTHERN CALIFORNIA GAS COMPANY, SOUTHERN CALIFORNIA EDISON COMPANY, AND SAN DIEGO GAS & ELECTRIC COMPANY

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This decision establishes the 2026 ratemaking cost of capital for Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCalGas), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E).

The test year 2026 authorized capital structures for the four applicants are as follows:

	PG&E	SoCalGas	SCE	SDG&E
Long-term Debt	47.50%	45.60%	43.00%	45.25%
Preferred Equity	0.5%	2.40%	5.00%	2.75%
Common Equity	52.00%	52.00%	52.00%	52.00%
Total	100.00%	100.00%	100.00%	100.00%

The test year 2026 authorized costs of long-term debt, costs of common equity, costs of preferred equity, and authorized rates of return are as follows:

	PG&E	SoCalGas	SCE	SDG&E
Cost of Long-term Debt	5.04%	5.02%	4.71%	4.59%
Cost of Preferred Equity	5.52%	6.00%	6.89%	6.22%
Cost of Common Equity	9.98%	9.78%	10.03%	9.93%
Rate of Return	7.61%	7.52%	7.59%	7.41%

This proceeding is closed.

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 (Pub. Util.) Code. Pacific Gas and Electric Company (PG&E), a California corporation, provides electric and gas services in central and northern California. 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. Southern California Edison Company (SCE), a California corporation and wholly owned subsidiary of Edison International, provides electric service principally in southern California. San Diego Gas & Electric Company (SDG&E), a California corporation wholly owned by Sempra Energy, provides electric and gas services in San Diego County and electric service in a portion of Orange County.

PG&E, SoCalGas, SCE, and SDG&E (together, Applicants) filed their respective applications with the Commission on March 20, 2025. The following parties filed protests on April 18, 2025: Wild Tree Foundation (Wild Tree) and Southern California Generation Coalition (SCGC). The following parties filed protests on April 24, 2025: 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 Indicated Shippers (EPUC/IS), The Protect Our Communities Foundation (PCF), and Utility Consumers' Action Network (UCAN). On May 5, 2025, the Applicants all filed respective replies to the protests.

A prehearing conference (PHC) was held on June 25, 2025, where parties discussed the scope of the proceedings, consolidation, schedule, and the need for hearings. An evidentiary hearing was held on September 4, 2025.

Opening briefs were filed on September 19, 2025, by the Applicants, respectively, Cal Advocates, EDF, EPUC/IS, PCF, SBUA, SCGC, Sierra Club, TURN, UCAN, and Wild Tree. Reply briefs were filed October 3, 2025, by the Applicants, respectively, Cal Advocates, EDF, TURN, EPUC/IS, SBUA, SCGC, Sierra Club/PCF, TURN, UCAN, San Diego Community Power/Clean Energy Alliance (CCAs), and Wild Tree.

1.1. Submission Date

This matter was submitted on October 3, 2025, upon filing of reply briefs.

2. Issues Before the Commission

This proceeding addresses PG&E's, SoCalGas', SCE's, and SDG&E's test year 2026 cost of capital. The following issues impacting the four applicants are in scope before the Commission:

1. What is the appropriate capital structure?
2. What is the appropriate cost of long-term debt?
3. What is the appropriate cost of preferred stock?
4. What is the appropriate cost of common equity?
5. What is the appropriate rate of return on the utility rate base?
6. What is the appropriateness of continuing the cost of capital mechanism (CCM) as established in Decision 08-05-035 and modified by subsequent Commission decisions?

7. Should the proposal regarding carrying costs on memorandum and balancing accounts amortized over 12-months set forth in SCE's application be adopted?
8. Should PG&E's proposal for a temporary yield spread adjustment over the three-month commercial paper rate applicable to under-collected and over-collected balances in PG&E's balancing and memorandum accounts based on PG&E's actual cost of short-term debt be adopted?
9. Should PG&E's request for a revenue credit associated with the Department of Energy Loan be approved?

All issues are resolved in this decision. It is reasonable to close this proceeding.

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.[1] 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 for the costs of the components of capitalization.

Standard and Poor's (S&P) Global Market Intelligence data through March 31, 2025, indicates that the average electric industry authorized common equity

[1] Debt due within one year (i.e., short-term debt) is excluded.

portion in 2025 is 50.53% and the average natural gas industry authorized common equity portion in 2025 is 50.13%.[2]

3.1. PG&E

PG&E seeks a test year 2026 ratemaking capital structure that maintains 52.00% common equity, increases long-term debt to 47.70%, and decreases preferred stock to 0.30%. PG&E's current authorization is 52.00% common equity, 0.5% preferred equity, and 47.50% long-term debt. PG&E notes that it does not intend to issue more preferred stock and, as such, its actual and projected ratio of preferred stock is expected to decline and it will see a corresponding increase in long-term debt.[3] PG&E supports its request by arguing that is in the interest of PG&E's ratepayers for PG&E to target an investment grade credit rating of "A" because this gives PG&E the ability to attract capital at lower rates. PG&E also notes that credit ratings deteriorate as debt leverage increases.[4] S&P's issue/corporate family credit rating for PG&E is BB[5] and its secured credit rating is BBB.[6] Moody's issue/corporate family credit rating for PG&E is Baa3[7] and its secured credit rating is Baa1.[8] PG&E's credit rating is considered investment grade by Moody's. PG&E's issue/corporate family credit

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[2] Exhibit EIT-01 at 35.

[3] Application 25-03-010 at 13.

[4] PG&E Opening Brief at 60 – 61.

[5] August 29, 2025, Filing of Stipulated Facts at 2.

[6] August 29, 2025, Filing of Stipulated Facts at 2.

[7] *Id.*

[8] *Id.*

rating from S&P is considered speculative grade while its secured credit rating is considered investment grade.

Intervenor parties oppose PG&E’s proposed capital structure. EPUC/IS, TURN, SBUA, Cal Advocates, Wild Tree, EDF, Sierra Club, and PCF recommend lowering PG&E’s common equity ratio to a range between 45% and 50.5% and argue that PG&E’s requested common equity ratio is higher than the average proxy group and national average. Specifically, SBUA argues that PG&E's proposal to maintain a 52% equity ratio is excessive, and its recommendation of a 50% equity ratio for PG&E is consistent with the industry average equity ratio of 49.14%.[9]

Cal Advocates argues that PG&E’s equity ratio exceeds that of comparable utilities.[10] Cal Advocates ultimately supports a capital structure with a 52.00% common equity ratio for the Joint Utilities.[11]

EPUC/IS notes that its recommended equity ratio for PG&E is below PG&E’s proposed 52.00%, but asserts that it is more closely aligned with PG&E's Generally Accepted Accounting Principles (GAAP) equity ratios. EPUC/IS states that PG&E’s GAAP common equity averaged only 43.00%-44.00% from 2020 through 2023, and was 48.30% in 2024.[12] Additionally, EPUC, IS, and TURN contend that utilities fail to establish that their respective ratemaking capital

[9] SBUA Opening Brief at 12 – 13.

[10] Exhibit CADV-02 at 4.

[11] Cal Advocates Opening Brief at 4.

[12] EPUC/IS Opening Brief at 49 – 50.

structure proposals appropriately balance shareholder and ratepayer interests. PG&E's proposal to maintain 52% common equity ratios reflect hypothetical and inflated estimates of the actual common equity capital that will be used to fund TY 2026 rate base investments.[13]

TURN recommends the Commission reject PG&E's request to increase debt due to the financial risks and added costs to ratepayers from PG&E's high leverage. TURN contends that while the debt increase appears minor, PG&E's actual average equity ratio from 2020–2024 has been about 40%, far below its authorized level.[14] TURN further recommends that the commission require PG&E to align its book equity capital structures with the authorized capital structure within 18 months of the effective date of this cost of capital proceeding.[15]

Wild Tree recommends a capital structure of no more than 50% common equity. Wild Tree argues that the utilities carry the burden to demonstrate their capital structures are reasonable, and that the Commission must ascertain that requested capital structures do not overcharge customers by including higher ratios of common equity than appropriate.[16]

Sierra Club and PCF recommend optimizing capital structures with authorized ROE amounts to achieve target cashflow-to-debt ratios. Sierra Club

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[13] *Id.* at 4.

[14] TURN Opening Brief at 24 – 26.

[15] TURN Opening Brief at 35.

[16] Exhibit WTF-01 at 4 – 5.

and PCF explain that net income is a key component of cash flow, and that net income is the product of rate base, equity ratio, and ROE.[17] Sierra Club and PCF recommend an equity ratio of 50.4% for PG&E, though their recommendation of equity ratio is tied to their recommended ROE.[18] Sierra Club and PCF uniformly recommend 0% preferred equity in all recommended capital structures.[19]

EDF argues that the Applicants have failed to substantiate their recommendations for capital structure. EDF recommends that the Commission adopt a capital structure with at least 55% debt for each utility, which would target BBB credit ratings.[20]

PG&E argues that it is in the best interest of its customers to achieve a credit rating in the "A" category.[21] It argues that its proposed 52% equity ratio is "needed to maintain sufficient cash flow to support and solidify its [Funds from Operations]/Debt ratio."[22] PG&E asserts that any increases to debt in its capital structure risks a credit rating downgrade to its already junk status.[23]

We determine that maintaining the existing common equity authorization of 52.00% is reasonably sufficient for PG&E to maintain a reasonable credit rating and attract capital while ensuring adequate consideration of ratepayer

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[17] Exhibit SC/PCF-01 at 28 – 29.

[18] *Id.* at 99.

[19] PCF Opening Brief at 36.

[20] Exhibit EDF-01 at 13 – 16.

[21] PG&E Reply Brief at 25.

[22] *Id.*

[23] *Id.* at 26.

protections. PG&E's request to reduce its preferred equity and proportionally increase its long-term debt is denied. PG&E's authorized capital structure remains 52.00% common equity, 0.5% preferred equity, and 47.50% long-term debt.

3.2. SoCalGas

SoCalGas seeks a test year 2026 ratemaking capital structure of 52.00% common equity, 2.40% preferred equity, and 45.60% long-term debt, the same as authorized for test year 2023. S&P's current credit rating for SoCalGas is A-.[24] Moody's current credit rating for SoCalGas is A2, and Fitch's rating for SoCalGas is A.[25]

SoCalGas notes that a "high Long-Term Debt ratio increases the debt repayment risk to lenders and, all other things being equal, will result in higher costs of capital over the long-term since the utility will not be as competitive in issuing new Long-Term Debt at low cost. Conversely, too low of a Long-Term Debt ratio is not preferred as it does not take advantage of a tax-deductible source of financing, resulting in lower cost than equity."[26] SoCalGas notes that preferred equity is viewed by credit rating agencies as a hybrid of long-term debt and common equity.[27] SoCalGas' credit rating is considered investment grade.

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[24] August 29, 2025, Filing of Stipulated Facts at 2.

[25] *Id.*

[26] Application 25-03-011 at 6.

[27] Exhibit SCG-05 at 10.

EPUC, IS, and TURN support SoCalGas' proposal to maintain its existing capital structure.[28] Wild Tree and EDF recommend a reduction in SoCalGas' common equity ratio to either 45% (EDF) or 50% (Wild Tree).

Cal Advocates argues that SoCalGas' equity ratio exceeds that of comparable utilities.[29] Cal Advocates ultimately supports a capital structure with a 52.00% common equity ratio for the Joint Utilities.[30]

As with PG&E, Wild Tree recommends a capital structure for SoCalGas of no more than 50% common equity.[31]

Sierra Club and PCF recommend optimizing capital structures with authorized ROE amounts to achieve target cashflow-to-debt ratios. Sierra Club and PCF explain that net income is a key component of cash flow, and that net income is the product of rate base, equity ratio, and ROE.[32] Sierra Club and PCF recommend an equity ratio of 52.9% for SoCalGas though their equity ratio recommendation is tied to their recommended ROE.[33]

EDF argues that the Applicants have failed to substantiate their recommendations for capital structure. EDF recommends that the Commission

[28] Exhibit EIT-01 at 252.

[29] Exhibit CADV-02 at 4.

[30] Cal Advocates Opening Brief at 4.

[31] Exhibit WTF-01 at 4-5.

[32] Exhibit SC/PCF-01 at 28-29.

[33] *Id*. at 94.

adopt a capital structure with at least 55% debt for each utility, which would target BBB credit ratings.[34]

SoCalGas argues that the analyses supporting the intervenors' capital structure recommendations are irrelevant, flawed, or out of the scope of this proceeding.[35] SoCalGas argues that it has consistently maintained an actual capital structure that supports strong credit investment grade credit ratings, resulting in lower borrowing costs for ratepayers.[36] SoCalGas further argues that it should maintain its current capital structure until regulatory under-collections and customer arrearages have been addressed.[37]

We determine that maintaining its existing capital structure is reasonably sufficient for SoCalGas to maintain a reasonable credit rating and attract capital while ensuring adequate consideration of ratepayer protections. SoCalGas' authorized capital structure remains 52.00% common equity, 2.40% preferred equity, and 45.60% long-term debt.

3.3. SCE

SCE seeks a test year 2026 ratemaking capital structure of 52.00% common equity, 5.00% preferred equity, and 43.00% long-term debt, the same as authorized for test year 2023. SCE currently holds a Baa1 rating with a stable outlook from Moody's and a BBB rating from Fitch. However, Fitch revised its outlook to negative, while S&P recently downgraded SCE's corporate credit

[34] Exhibit EDF-01 at 13 – 16.

[35] SoCalGas Opening Brief at 27.

[36] *Id*. at 49.

[37] *Id*. at 50.

rating from BBB to BBB- amid rising liability concerns following the Eaton Fire.[38] SCE's credit rating is considered investment grade.

Several intervenors recommend lowering SCE's equity ratio to 45 - 50%. EPUC, IS, and TURN contend that the utilities fail to establish that their respective ratemaking capital structure proposals appropriately balance shareholder and ratepayer interests. EPUC/IS asserts that SCE's proposal to maintain a 52% common equity ratio reflect hypothetical and inflated estimates of the actual common equity capital that will be used to fund TY 2026 rate base investments.[39] EPUC/IS states that SCE's GAAP common equity declined from 47.50% in 2020 to only 39.50% in 2024.[40] EPUC/IS's recommended equity ratios for SCE are below SCE's proposed 52.00%, but more closely aligned with SCE's respective GAAP equity ratios.[41]

Cal Advocates argues that SCE's equity ratio exceeds that of comparable utilities.[42] Cal Advocates ultimately supports a capital structure with a 52.00% common equity ratio for the Joint Utilities.[43]

TURN notes that, due to specific equity items subject to capital structure waivers and securitizations that are not included in SCE's regulatory capital structure, SCE has had an average book equity capital structure of 42.1% over the

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[38] Exhibit SCE-09 at 2.

[39] EPUC/IS Opening Brief at 4.

[40] *Id.* at 50.

[41] *Id.* at 49.

[42] Exhibit CADV-02 at 4.

[43] Cal Advocates Opening Brief at 4.

period 2020 - 2024, significantly lower than the authorized equity ratios.[44] TURN recommends that the commission require SCE to align its book equity capital structures with the authorized equity ratio within 18 months of the effective date of this cost of capital proceeding.[45]

As with the other applicants, Wild Tree recommends a capital structure of no more than 50% common equity. [46]

Sierra Club and PCF recommend optimizing capital structures with authorized ROE amounts to achieve target cashflow-to-debt ratios. Sierra Club and PCF recommend an equity ratio of 54.7% for SCE though their recommendation of equity ratio is tied to their recommended ROE.[47]

EDF argues that the Applicants have failed to substantiate their recommendations for capital structure. EDF recommends that the Commission adopt a capital structure with at least 55% debt for each utility, which would target BBB credit ratings.[48]

SCE argues that any increase in SCE's leverage would potentially weaken its credit quality and further lower its ratings.[49] SCE asserts that it would be inappropriate to rely on the capital structure of its parent company, EIX, to

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[44] TURN Opening Brief at 29.

[45] *Id.* at 35.

[46] Exhibit WTF-01 at 4 – 5.

[47] *Id.* at 97.

[48] Exhibit EDF-01 at 13 – 16.

[49] SCE Reply Brief at 23.

reduce its common equity layer.[50] SCE asserts that TURN's arguments about phantom equity are unfounded, because it has significantly underearned its authorized ROE since at least 2017, and TURN ignored Commission-approved settlements that allowed SCE to permanently exclude debt used to finance costs related to the Thomas Fire and Montecito debris flows from its capital ratemaking structure.[51]

We determine that maintaining its existing capital structure is reasonably sufficient for SCE to maintain a reasonable credit rating and attract capital while ensuring adequate consideration of ratepayer protections. SCE's authorized capital structure remains 52.00% common equity, 5.00% preferred equity, and 43.00% long-term debt.

3.4. SDG&E

SDG&E seeks a test year 2026 ratemaking capital structure that increases common equity to 54.00%, decreases preferred equity to 0.00%, and increases long-term debt to 46.00%. SDG&E's current authorization is 52.00% common equity, 2.75% preferred equity, and 45.25% long-term debt. S&P's corporate credit rating for SDG&E is BBB+.[52] Moody's corporate credit rating for SDG&E is A3.[53] As noted in SDG&E's September 22, 2025, motion for admission of exhibit into evidence, on September 19, 2025, S&P Global Ratings affirmed its credit rating for SDG&E of BBB+ with a stable outlook while lowering SDG&E's

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50 *Id.* at 24.

51 *Id.* at 25.

52 August 29, 2025, Filing of Stipulated Facts at 2.

53 *Id.*

business risk profile from excellent to strong.[54] SDG&E's credit rating is considered investment grade.

EPUC/IS argues that SDG&E's proposal to increase its common equity ratio to 54% is not cost-justified and that the record evidence demonstrates that SDG&E has been able to maintain strong access to capital under reasonable terms and prices with its current equity ratio of 52%.[55] EPUC/IS also note that average authorized common equity ratios for utilities nationally are between 50.00% and 52.00%[56] and argue that the Commission should maintain SDG&E's currently authorized ratemaking capital structure, which was last approved in the TY 2023 Cost of Capital proceeding.[57] EPUC/IS argues that SDG&E fails to demonstrate that its proposal to maintain its authorized common equity ratio adequately balances the interests of shareholders and ratepayers.[58]

TURN notes that SDG&E has averaged a 55.6% equity ratio since 2018, with SoCalGas averaging a 53% equity ratio over the same period. TURN notes that the Commission has not required these elevated ratios and suggests that SDG&E and SoCalGas likely maintain them to strengthen their balance sheets and reduce financial risk for their parent company, Sempra, which offsets stable utility earnings in California and Texas against riskier midstream operations. TURN also notes that in 2024, Sempra's consolidated equity ratio was 51.3% and

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[54] Exhibit SDG-14C.

[55] EPUC/IS Opening Brief at 53 – 56.

[56] *Id.* at 48.

[57] *Id.* at 53

[58] EPUC/IS Opening Brief at 91 – 97.

that, despite having a higher book equity ratio than authorized since its 2013 Cost of Capital, SDG&E has earned or over-earned its authorized return by an average of 70 basis points (bps) since 2013.[59] However, TURN notes that the Commission has not supported authorized equity capital structures higher than is necessary, and rejected SDG&E's similar request in previous proceeding and TURN argues that the Commission should continue to do so.[60]

Cal Advocates argues that SDG&E's equity ratio exceeds that of comparable utilities.[61] Cal Advocates ultimately supports a capital structure with a 52.00% common equity ratio for the Joint Utilities.[62]

UCAN opposes SDG&E's proposal to align its capital structure with SDG&E's actual five-year average. UCAN notes the Commission has stated that it is "the policy of the Commission for the authorization of an IOU's capital structure to be in the public interest of the ratepayers of California."[63] UCAN argues that SDG&E ratepayers would have to pay more due to a higher cost of capital from more equity in the capital structure compared to the current authorized capital structure.[64] Therefore, UCAN recommends a capital structure of 48% of Long-term debt and 52% common equity for SDG&E.[65]

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[59] TURN Opening Brief at 20-21.

[60] *Id.* at 23.

[61] Exhibit CADV-02 at 4.

[62] Cal Advocates Opening Brief at 4.

[63] UCAN Opening Brief at 15.

[64] *Id.* at 15 – 16.

[65] UCAN Opening Brief at 97.

As with the other applicants, Wild Tree recommends a capital structure of no more than 50% common equity.[66]

Sierra Club and PCF recommend optimizing capital structures with authorized ROE amounts to achieve target cashflow-to-debt ratios. Sierra Club and PCF recommend an equity ratio of 52.6% for SDG&E though their recommendation of equity ratio is tied to their recommended ROE.[67]

The CCAs assert that SDG&E's requested equity ratio is unsupported and contrary to the public interest, and request that the Commission deny SDG&E's equity ratio increase.[68]

EDF argues that the Applicants have failed to substantiate their recommendations for capital structure. EDF recommends that the Commission adopt a capital structure with at least 55% debt for each utility, which would target BBB credit ratings.[69]

SDG&E contends that the intervenors' analysis, based on the capital structures of parent holding companies that may also finance unregulated operations, leads to flawed and misleading conclusions. SDG&E argues that it faces rising financial pressure, with under-collected balances at $1.4 billion in June 2025 compared to a historical average of $300 million. SDG&E argues that its proposed capital structure aligns with actual capital structure at 54%, helping

[66] Exhibit WTF-01 at 4 – 5.

[67] Exhibit SC/PCF-01 at 97.

[68] CCAs Reply Brief at 6.

[69] Exhibit EDF-01 at 13 – 16.

SDG&E manage its risk, buttressing the Company's credit ratings, and providing a benefit to ratepayers through lower borrowing costs.[70]

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 ensuring adequate consideration of ratepayer protections. SDG&E's request to reduce its preferred equity and proportionally increase its common equity and long-term debt is denied. SDG&E's authorized capital structure remains 52.00% common equity, 2.75% preferred equity, and 45.25% long-term debt. The authorized capital structure strikes the appropriate balance of avoiding the credit risk that comes with increased leverage while keeping SDG&E's equity ratio in line with similar utilities. Maintaining the current capital structure is supported by the record and is reasonable.

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.[71] Consistent with past practice, we conclude that the

[70] SDG&E Opening Brief at 33 – 34.

[71] 38 CPUC2d (1990) 233 at 242 and 243.

latest available interest rate forecast should be used to determine embedded debt cost in this proceeding.

4.1. PG&E

PG&E's proposed 2026 cost of long-term debt is 5.04% and its proposed 2026 cost of preferred equity is 5.52%.[72] PG&E's methodology for calculating the cost of long-term debt is uncontested.[73] Sierra Club/PCF propose a 2026 cost of long-term debt for PG&E of 5.01%.[74] Sierra Club/PCF also universally recommended that the Commission retire each applicants' preferred equity.[75] PG&E's cost of preferred equity is otherwise uncontested.

PG&E's proposed 2026 costs of long-term debt and preferred equity are reasonable. The Commission adopts these proposals.

4.2. SoCalGas

SoCalGas' proposed 2026 cost of long-term debt is 5.02% and its proposed 2026 cost of preferred equity is 6.00%.[76] SoCalGas' proposed 2026 cost of preferred equity is uncontested.[77] Cal Advocates and PCF both recommend a lower 2026 cost of long-term debt for SoCalGas based on their respective analyses.[78] Cal Advocates' 2026 cost of long-term debt recommendations for

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[72] Application 25-03-010 at 11.

[73] Exhibit PGE-04 at 1.

[74] Exhibit SC/PCF-01 at 99.

[75] *Id.* at 95, 96, and 98.

[76] SoCalGas Opening Brief at 66.

[77] *Id.* at 67.

[78] Exhibit CADV-02 at 6; Exhibit SC/PCF-01 at 95.

SoCalGas are supported with scant or conflicting analysis, making it challenging to assess their validity and soundness. SoCalGas notes that PCF's recommended 2026 cost of long-term debt recommendation is predicated on a downgrading of SoCalGas' current A2 credit rating to A3, which would be expected to increase the cost of long-term debt.[79] Sierra Club/PCF recommend retiring SoCalGas's preferred equity as it currently only has $21.6 million of preferred equity outstanding, amounting to 0.17% of rate base, and since its sister company, SDG&E, has recommended eliminating preferred equity from its own capital structure.[80]

SoCalGas' proposed 2026 costs of long-term debt and preferred equity are reasonable. The Commission adopts these proposals.

4.3. SCE

SCE's proposed 2026 cost of long-term debt is 4.71% and its proposed 2026 cost of preferred equity is 6.89%.[81] No party contested SCE's proposed cost of long-term debt and cost of preferred equity.

SCE's proposed 2026 costs of long-term debt and preferred equity are reasonable. The Commission adopts these proposals.

4.4. SDG&E

SDG&E's proposed 2026 cost of long-term debt is 4.59% and, though it proposes a 0.00% portion of preferred equity in its capital structure, its proposed

[79] Exhibit SCG-05 at RG-13.

[80] Exhibit SC/PCF-01 at 92.

[81] Application 25-03-012 at 6.

2026 cost of preferred equity is 6.22%.[82] No party contested SDG&E's proposed cost of long-term debt and cost of preferred equity.

SDG&E's proposed 2026 costs of long-term debt and preferred equity are reasonable. The Commission adopts these proposals.

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.[83] 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 parameters to assess a reasonable return.[84] 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

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[82] Application 25-03-013 at 2.

[83] 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).

[84] Hope holds that the value a utility's property could be calculated based on the amount of prudent investment minus depreciation.

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. Accordingly, the ROE established by the Commission offers an opportunity for utilities to earn a certain ROE, not a guarantee.

We aim 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 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.

PG&E's witness analyzes regulated electric utilities and regulated gas utilities.[85] EPUC/IS/TURN use the same proxy group in their analyses, with the exception of excluding one company.[86]

SoCalGas' witness notes that while ROE is a market concept, SoCalGas is not a publicly traded company but is instead a wholly owned subsidiary. As such, SoCalGas' witness selects seven gas companies following screening criteria designed to select publicly traded domestic natural gas distribution companies that have similar business and operating characteristics to SoCalGas.[87] SCGC notes the seven companies provided by SoCalGas have 24 gas utility subsidiaries or divisions between, often spanning multiple states. SCGC further argues that SoCalGas' regulatory risk is not higher than that of the SoCalGas proxy group

[85] Exhibit PGE-01 at 2-14 – 2-16.

[86] Exhibit EIT-01 at 66.

[87] Exhibit SCG-03 at JCN-20 – JCN-23.

companies and that SoCalGas has superior risk mitigation than most of the proxy companies.[88]

SCE's witness considers two proxy groups. The first proxy group is comprised of electric utilities. The second proxy group is comprised of regulated natural gas and water utilities.[89]

SDG&E's witness notes that while ROE is a market concept, SDG&E is not a publicly traded company but is instead a wholly owned subsidiary. As such, SDG&E's witness selects 26 investor-owned domestic electric utility companies following screening criteria designed to select publicly traded domestic electric utility companies that have similar business and operating characteristics to SDG&E.[90] UCAN starts with the same proxy companies as SDG&E's witness in their analysis but screens out 12 companies for owning only electric utilities and not gas utilities.[91]

Wild Tree's witness uses the same proxy groups as PG&E and SDG&E in its analysis.[92]

Cal Advocates' witness uses the same electric utilities that comprise the proxy groups of the witnesses for the electric utilities. For gas companies, Cal Advocates' witness gas proxy group consists of eight natural gas distribution companies. However, Cal Advocates' witness uses a combination proxy group

[88] Exhibit SCC-01 at 16 – 17.

[89] Exhibit SCE-02E at 32.

[90] Exhibit SDG-03 at JCN-20 – JCN-24.

[91] Exhibit UCAN-01 at 9 – 10.

[92] Exhibit WTF-01 at 42.

for gas companies because of the small size of the comparison group of eight gas companies and consequent concerns around the reliability of ROE results for a group of this size.[93]

5.2. Financial Models

The financial models commonly used for assessing ROE in cost of capital proceedings are the Capital Asset Pricing Model (CAPM), Risk Premium Model (RPM), and Discounted Cash Flow Model (DCF). Each model requires the exercise of considerable judgment on the reasonableness of the assumptions underlying the model and 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 it will not litigate the specific mechanics of each proposed model, inputs, and assumptions, and we continue to take this stance here. The financial models are applied to a proxy group of companies comparable to the respective utility. A contributing factor resulting in the wide range of financial modeling results is the parties' differences in assumptions, including differences in the proposed time period of the model as well as the various subjective inputs.

5.2.1. Capital Asset Pricing Model

The CAPM is a risk premium approach "based upon the theory that the market-required rate of return for a security is equal to the risk-free rate, plus a

[93] Exhibit CADV-02 at 24 – 25.

risk premium associated with the specific security."[94] The CAPM estimates an entity's cost of equity as the sum of the interest rate on a risk-free bond and a risk premium, itself the product of market risk premium and *beta*, a measure of an asset's risk. The inputs to the CAPM formula include 1) an estimate of the market risk-free rate, 2) each utility's *beta*, and 3) the market risk premium.[95]

The parties used two variations to the CAPM, 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.[96]

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

	PG&E	**SoCalGas**	**SCE**	**SDG&E**

[94] Exhibit EIT-01 at 153.

[95] *Id*. at 155.

[96] Exhibit SC/PCF-01 at 80.

Utility	10.89%-11.66%[97]	11.32%[98]	9.50-11.75%[99]	11.26%[100]
Cal Advocates[101]	8.90%	9.05%	8.75%	8.90%
EPUC/IS/TURN	9.75%[102]	10.15%[103]	9.75%[104]	9.70%[105]
UCAN				8.94%[106]
Wild Tree[107]	6.69%-7.29%	6.78%-7.18%	6.69%-7.29%	6.69%-7.29%
SC/PCF[108]	5.42%	5.55%	5.42%	5.38%
SBUA[109]	8.15% – 11.07%			

[97] Exhibit PGE-03 at 2-17.

[98] Exhibit SCG-06 at 12.

[99] Exhibit SCE-07 at 62.

[100] Exhibit SDG-06 at 12.

[101] Exhibit CADV-02 at 72.

[102] Exhibit EIT-01 at 98.

[103] *Id.* at 286.

[104] *Id.* at 161.

[105] *Id.* at 232.

[106] Exhibit UCAN-01 at 9.

[107] Exhibit WTF-01 at 13 – 14.

[108] Exhibit SC/PCF-01 at 7.

[109] Exhibit SBA-01 at 56.

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 from an assessment of historic utility equity and bond returns. 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 yields.

Only the Applicants and EPUC/IS/TURN submitted RPM analysis. Each party uses different subjective inputs in their RPM. The following tabulation summarizes the simple average result of the RPM variations calculated by the individual parties using subjective inputs.

	PG&E	**SoCalGas**	**SCE**	**SDG&E**
Utility	10.54%-10.83% (Electric) 10.39%-10.67%[110] (Gas)	10.43%[111]	10.50%-10.75%[112]	10.50%[113]

[110] Exhibit PGE-03 at 2-17.

[111] Exhibit SCG-06 at 12.

[112] Exhibit SCE-07 at 62.

[113] Exhibit SDG-06 at 12.

EPUC/IS/TURN	9.70%[114]	9.60%[115]	9.70%[116]	9.70%[117]

5.2.3. Discounted Cash Flow

The DCF 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 growth and multi-stage growth.

Each party uses different subjective inputs in 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	**SoCalGas**	**SCE**	**SDG&E**
Utility	9.56%-11.14%[118]	10.92%[119]	9.50%-12.25%[120]	10.55%[121]

[114] Exhibit EIT-01 at 91.

[115] *Id.* at 280.

[116] *Id.* at 153.

[117] *Id.* at 225.

[118] Exhibit PGE-03 at 2-17.

[119] Exhibit SCG-06 at 12.

[120] Exhibit SCE-07 at 62.

[121] Exhibit SDG-06 at 12.

Cal Advocates[122]	9.75%	10.15%	9.75%	9.75%
EPUC/IS/TURN	9.45% -9.59%[123]	9.95%-10.04%[124]	9.27%-9.48%[125]	9.27%-9.45%[126]
UCAN[127]				8.80%
Wild Tree[128]	7.92%-8.70%	7.59%-8.83%	7.92%-8.70%	7.92%-8.70%
SC/PCF[129]	6.99%	6.98%	6.90%	7.00%
SBUA[130]	8.73%-10.44%			

5.2.4. Summary

From the results of these broad financial models, which are dependent on subjective inputs and assumptions, the parties advance arguments in support of their respective analyses and in criticism of the input assumptions used by other parties. We note that none of the parties agree with the financial modeling results of the others.

[122] Exhibit CADV-02 at 72.

[123] Exhibit EIT-01 at 84.

[124] *Id.* at 273.

[125] *Id.* at 146.

[126] *Id.* at 218.

[127] Exhibit UCAN-01 at 9.

[128] Exhibit WTF-01 at 13 – 14.

[129] Exhibit SC/PCF-01 at 7.

[130] Exhibit SBA-01 at 50.

The utilities' analyses generally yield higher results than the intervenors' analyses, regardless of the model used. The DCF model produces the most consistent results among the parties. The utility DCF results are higher than the intervenors, in part, because of the after tax weighted average cost of capital (ATWACC) adder used by some of the utilities. The Commission has considered and rejected the ATWACC adder in multiple proceedings[131] and rejects this adder here.

Using the DCF model, utilities present midpoint ROE estimates in the low to upper mid 10% range, while EPUC/IS/TURN, Cal Advocates, and SBUA estimate ROEs in the low to upper mid 9% range.

Wild Tree and Sierra Club/PCF argue that utilities' and other intervenors' use of constant growth DCF models with high growth rates result in economically and mathematically infeasible results. Both Sierra Club and PCF assert that the results of the utilities constant growth DCF models are unrealistic because it is impossible for a stock or an industry to grow faster than GDP into perpetuity.[132] Wild Tree explains that "constant growth DCF requires a growth rate that can reasonably be sustained in perpetuity. [The forecasts used by utility witnesses] are short-term, often overly optimistic, and inconsistent with a

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[131] *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.

[132] PCF Opening Brief at 32, Sierra Club Opening Brief at 32.

perpetual growth assumption."[133] PG&E responds that individual segments of the economy can grow faster than GDP, highlighting that US utility companies grew faster than the US economy from 1972 to 2009.[134]

The CAPM model produced significantly higher results than the other models for utilities, showing PG&E, SDG&E, and SoCalGas ROE in mid-11% compared to intervenors' ROE results in the 9% range or lower. Intervenors, including SBUA,[135] Cal Advocates,[136] EPUC/IS/TURN[137], Wild Tree,[138] and Sierra Club/PCF,[139] assert that the ROE proposed for PG&E, SDG&E, and SoCalGas based on the CAPM model are inflated due to the use of (1) the ECAPM version of the CAPM or (2) the expected market risk premium derived from unrealistic expected market return. The ECAPM is a modification of the traditional CAPM. It is based on an empirical observation in various historical academic studies that low-beta stocks often outperform CAPM predictions, while high-beta stocks underperform. This results in a 'flattened' security market line, altering the expected relationship between beta and return.[140] The Commission has

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[133] Wild Tree Opening Brief at 30.

[134] PG&E Opening Brief at 54.

[135] Exhibit SBA-01 at 54.

[136] Exhibit CADV-02 at 76 – 83.

[137] Exhibit EIT-01 at 103, 236, 290.

[138] Exhibit WTF-01 at 86.

[139] Exhibit SC/PCF at 76.

[140] *Id.* at 80.

previously found that ECAPM tends to produce artificially high ROE estimates and has declined to rely on its results in past Cost of Capital proceedings.[141]

SC/PCF assert that the utilities' CAPM model beta inputs are "cherry-picked" because they include a period of high market volatility in March and April 2020 due to the COVID-19 pandemic and because they all include the Blume adjustment even when their sources had non-Blume adjusted betas.[142] Cal Advocates and TURN/EPUC/IS also note unusual volatility in utility stocks in March and April of 2020, and TURN/EPUC/IS also exclude those periods in their calculation of beta.[143] The Blume adjustment normalizes a beta value towards 1.0 based on the tendency of betas to regress to 1.0, which Sierra Club/PCF assert is inappropriate for analysis of utility risk and as a result overstates utility risk by 35-40%.[144]

The Applicants and EPUC/IS/TURN use the RPM or Bond Yield Plus Risk Premium Model (BYRP) to estimate ROE. This model is based on the principle that investors demand a higher return to compensate for taking on greater risk. It relies on two key estimates (1) projected Treasury Yields and (2) estimated risk premium, calculated as the difference between the authorized ROE and the

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141 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.

142 Exhibit SC/PCF at 72 – 74.

143 Exhibit CADV-01 at 60 – 61, Exhibit EIT-01 at 94 – 95.

144 Exhibit SC/PCF-01 at 73.

Treasury bond yield. UCAN[145], Wild Tree,[146] Cal Advocates,[147] and PCF/SC[148] object to using the BYRP method to estimate ROE because it relies on historical ROE decisions rather than market data, which investors use to form their expectations. As a result, it does not produce a market-based estimate of the cost of equity. PCF asserts that the RPM does not measure the cost of equity, citing a FERC decision stating that the RPM defies general financial logic.[149] PCF also argues that elevated market to book ratios demonstrate that authorized ROEs nationwide exceed investors' expectations.[150] Wild Tree argues that the RPM is not supported by theory, market data, or investor behavior and lacks the analytical rigor to contribute to understanding the Applicants' cost of equity.[151]

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

145 Exhibit UCAN-01 at 20.

146 Exhibit WTF-01 at 90 – 91.

147 Exhibit CADV-02 at 114.

148 Exhibit SC/PCF-01 at 35.

149 PCF Opening Brief at 30, citing FERC Opinion No. 569, p. 61796.

150 *Id.* at 31.

151 Exhibit WTF-01 at 92.

risk faced by the Applicants are similar to the risks faced by other electric and gas investor-owned utilities, and risks that are outside the scope of the prudent-manager standard do not warrant higher 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 here 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.

5.3.3. Transformation of the Electric Grid and Gas System /Clean Energy Goals

SDG&E notes that Senate Bills (SB) 100 (De Leon, 2018) and 1020 (Laird, 2022) require California electric utilities, including SDG&E, to meet increasing renewable energy targets—50% by 2026, 60% by 2030, 90% by 2035, and 95% by 2040. They also establish a goal of supplying all retail electricity in California with Renewable Portfolio Standard (RPS)-eligible and zero-carbon resources by

2045. SDG&E argues that compliance with California climate change mitigation requirements create risks for SDG&E relative to the proxy companies.[152]

SoCalGas argues that the energy transition poses a business risk to gas utilities, particularly SoCalGas, as a gas-only utility. While both SoCalGas and EDF recognize this risk, they differ on its impact on the cost of capital. SoCalGas argues the risk justifies a higher ROE, while EDF argues that the Commission should lower ROE to discourage investment in gas infrastructure.[153] SoCalGas argues that similar arguments from EDF were rejected in the 2023 Cost of Capital decision, and the Commission should do so again.[154] SoCalGas notes that it plans to invest $9.7 billion from 2025 to 2029 and argues that this large capital program increases financial risk by raising the potential for under- or delayed recovery of costs and puts pressure on credit metrics if returns are inadequate.[155]

TURN observes that increases in capital spending are a nationwide trend and is neither unique to California, nor new for California. TURN notes that S&P expects electric, gas, and water utilities to grow at a compound annual rate of about 10%, consistent with the rate base growth projections the California utilities have provided to their investors.[156]

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[152] Exhibit SDG-03 at 53.

[153] SoCalGas Opening Brief at 10.

[154] SoCalGas Opening Brief at 10 – 11.

[155] SoCalGas Opening Brief at 52.

[156] TURN Opening Brief at 8.

5.3.4. Wildfire and Severe Weather Risk

SDG&E argues California electric utilities face unique risks related to catastrophic wildfires in California from a combination of the higher risk of wildfires in the state and the threat of massive uninsured and unrecoverable losses for California investor-owned utilities due to California's application of "inverse condemnation," making California electric utilities strictly liable for liability damages if their facilities were a contributing cause to the wildfire, even if the utility was not negligent.[157] SDG&E claims that wildfire risk increased in 2025[158] and argues that, although Assembly Bill (AB) 1054 (Becker, 2019) reduced SDG&E's wildfire risk, it didn't eliminate it.[159] SDG&E claims that the newer SB 254 (Holden, 2025) fund is smaller and could be exhausted within six years. S&P downgraded SCE's credit rating to BBB- on September 17, 2025, citing the fund's smaller size and a potentially more challenging operating environment.[160] Moody's similarly determined that such a legislative solution would only be a "temporary fix" and "not sustainable in a world where large fires continue to occur."[161]

SoCalGas argues its business and financial risks have grown due to severe weather, wildfires, and other disruptive events. SoCalGas states that between 2017 and 2019, the company faced 15 such incidents and sought to recover about

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[157] Application 25-03-013 at 9.

[158] SDG&E Opening Brief at 18 – 19.

[159] *Id.* at 20.

[160] *Id.* at 25.

[161] *Id.* at 27.

$55 million in related costs through a 2023 CEMA application. However, the Commission approved only $18.96 million. SoCalGas argues that this highlights the financial exposure SoCalGas faces from natural disasters in its service area.[162]

TURN argues that these risks are not unique to California and that threats like wildfires and storms are increasing nationwide. TURN cites S&P, which notes that wildfire risk now affects nearly all North American utilities, not just those in California. TURN notes that, despite this, utilities in other states with less comprehensive wildfire protections still have lower ROEs than the Applicants. TURN argues that this suggests California IOUs are not facing uniquely higher risks that would justify the elevated ROE premiums they seek. TURN notes that the California Legislature has taken strong steps to protect utilities' financial health. For instance, after the 2017 and 2018 wildfires, TURN notes ratepayers were expected to provide financial support to maintain utilities' investment-grade credit ratings, regardless of the utilities' performance or fault. Additionally, TURN notes that SB 901 (Dodd, 2018) allowed wildfire-related costs to be securitized—a tool both PG&E and SCE have used to lower costs, which S&P has consistently described as credit supportive.[163]

SBUA also notes that several existing protections reduce these risks. These include the $21 billion Wildfire Fund (AB 1054), liability limits under SB 901, SB 254, and ongoing policy initiatives, demonstrate active state involvement in continuously addressing wildfire-related financial risks. SBUA claims that Public

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[162] SoCalGas Opening Brief at 44 – 45.

[163] TURN Opening Brief at 9.

Safety Power Shutoffs and mandated mitigation plans further lower the risks faced by utilities such as PG&E.[164]

EDF argues that the Applicants present no evidence that California utilities face unique risks, highlighting recent wildfires in Hawaii, Colorado, Texas, and the Pacific Northwest. EDF asserts that California utilities' wildfire risk was in the middle of the range of all states.[165]

CCAs assert that California utilities do not face unique wildfire risk due to climate change and argue that, as such, the Commission should not authorize above-average ROEs.[166] CCAs highlight that utilities in the Western US outside of California have yet to implement the comprehensive wildfire mitigation plans that utilities here have.[167]

5.3.5. Cashflow risk

SoCalGas claims that it faces a regulatory lag and sustained, elevated under-collected regulatory account balances. SoCalGas claims that its under-collected regulatory account balances increased from approximately $318 million in 2019 to $852 million as of December 31, 2024.[168]

SDG&E argues that it faces rising financial pressure, with under-collected balances growing from $300 million to $1.4 billion by June 2025. SDG&E notes

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[164] Exhibit SBA-01 at 33 – 34.

[165] Exhibit EDF-01 at 64.

[166] SDCP/CEA Reply Brief at 3.

[167] *Id.* at 4.

[168] SoCalGas Opening Brief at 39.

that credit agencies like Moody's have flagged concerns about cash flow from 2025–2027.[169]

5.3.6. Macroeconomic Environment

SDG&E notes that interest rates have remained elevated.[170] SDG&E further notes that the Federal Reserve decreased the federal fund overnight rate by 25 bps to 4.0-4.25% on September 17, 2025. SDG&E claims this decrease is only expected to affect short-term rates while long-term rates are expected to remain near current levels.[171]

SoCalGas states that it faces sustained financial risk including higher interest costs due to increased interest rates and extended regulatory lag.[172]

PG&E names several market risks, including supply chain disruptions, financial market volatility, and policies like substantial tariffs from a new presidential administration.[173]

SBUA notes that California utilities, specifically PG&E, face the same business and inflation risk as utilities in the proxy group. However, SBUA argues, the risks associated with current inflation trends, which have decreased from a CPI of 8.0% in 2022 to 2.4% in Q1 2025, are shared by all regulated utilities

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[169] SDG&E Opening Brief at 33 – 34.

[170] *Id.* at 13.

[171] *Id.* at 14.

[172] SoCalGas Opening Brief at 4.

[173]Exhibit PGE-01 at 1-9.

and, as a result, are reflected in the utility proxy group's calculated costs of equity.[174]

5.3.7. 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 a consideration used by rating agencies when developing 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. The intervenors generally disagree with the Applicants' arguments around regulatory risk.

5.3.8. Authorized ROE Risk

An authorized ROE carries 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.

5.3.9. Cost Recovery Risk

SoCalGas notes that it plans to invest $12.7 billion from 2025 to 2029. SoCalGas argues that this large capital program increases financial risk by

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[174] Exhibit SBA-01 at 31 – 32.

raising the potential for under- or delayed recovery of costs and putting pressure on credit metrics if returns are inadequate. [175]

SCE states it faces risk in recovering costs related to the electric grid transformation. SCE states that vehicle electrification is the primary driver of load growth in its service area, but, in D.25-09-030, the Commission recently reduced SCE's transportation electrification revenue request by 50%, which, SCE claims, increases uncertainty about whether SCE will be able to recover the costs of its load growth investments.[176] SCE also states that the Commission's processes related to SB 410 (Becker, 2023) create uncertainty. SCE claims its costs for customer energization allowed under SB 410 may only apply to projects that close before the end of 2026, and that the costs it incurs under SB 410 may be disallowed if found unreasonable.[177] SCE also claims it faces regulatory risk because of the widespread and increasing deployment of distributed energy resources in its service territory. While SCE is allowed to track costs associated with DERs, it says it faces risk due to potential future disallowances.[178]

5.3.10. Regulatory Lag

SoCalGas states that regulatory delays and uncertainty also increase the utilities' investment risk and resulting financing costs and project viability. SoCalGas asserts that the delay in recovery of costs tracked in regulatory

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[175] Exhibit SDG-03 at 50.

[176] SCE Opening Brief at 39.

[177] *Id*. at 39 – 40.

[178] *Id.* at 40.

accounts increases the risk of SoCalGas's cash flows, credit metrics, and capital structure being negatively impacted.[179]

PG&E states that it has regulatory risk related to delays in approval of revenues in its balancing and memorandum accounts. At the end of 2024, PG&E claims it had a net under-collected balance of $5.6 billion in its balancing and memorandum accounts. PG&E also asserts that not all of these costs are eventually recovered, citing D.24-12-075, which disallowed $160 million in recovery in a Wildfire Mitigation and Catastrophic Event proceeding.[180] PG&E also states that it has risk from of its planned capital program. PG&E states that it projects capital expenditures of approximately $52.5 billion from 2025 through 2028, which represents nearly 63% of its current net utility plant.[181] PG&E asserts this capital program increases its risk by increasing the risk of under-recovery, and that an inadequate return would put downward pressure on its credit metrics.[182]

TURN notes that the Commission has long employed multiple constructive regulatory mechanisms including a forecast test year which reduces the impacts of regulatory lag, regular rate cases, which do not require that a utility be under-earning to warrant a formal rate case review by the Commission, and adjustment mechanisms that reduce the utilities' risks relative to

[179] SoCalGas Opening Testimony at 37.

[180] PG&E Opening Brief at 30.

[181] PG&E Opening Brief at 31.

[182] PG&E Opening Brief at 31.

comparators, such as decoupling, fuel adjustments, and balancing accounts that recognized credit rating agencies.[183]

SBUA argues that investors recognize that California's regulatory framework, notably mechanisms such as AB 1054, the CCM, revenue decoupling, and securitization options, provide substantial protections and mitigate business and financial risks significantly. SBUA argues that this position aligns with S&P Global's regulatory evaluation, which characterizes the traditional aspects of California's regulatory framework as "relatively constructive for investors," highlighting these mechanisms as factors that positively influence investor confidence and reduce regulatory risk.[184]

5.3.11. Summary

The utilities are 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

S&P Global market intelligence data show that the average authorized returns on equity for regulated utilities have ranged from 9.39% to 9.72% for the

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[183] TURN Opening Brief at 2 – 4.

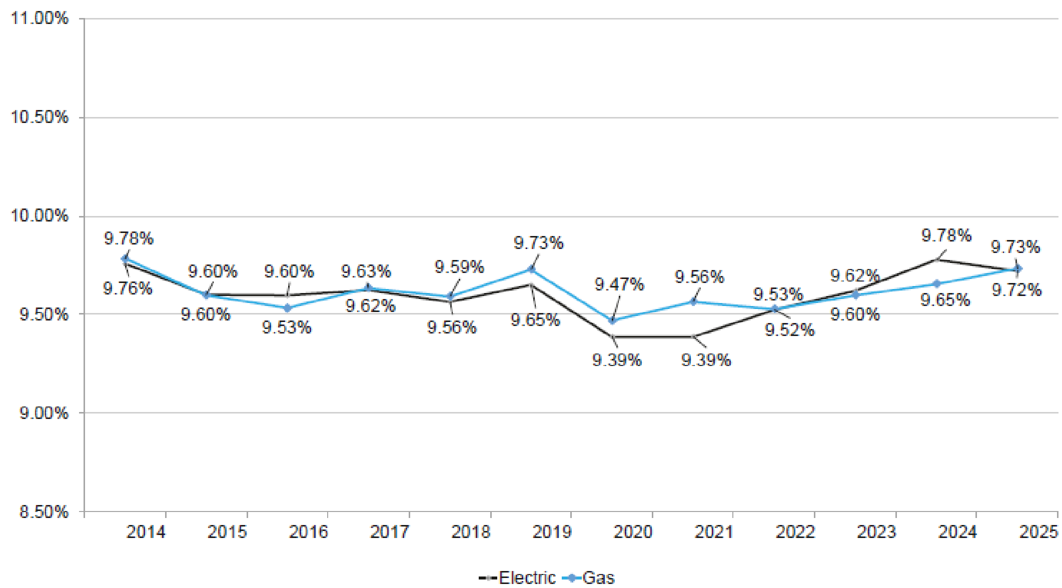
[184] Exhibit SBA-01 at 40.

period from 2014 through the first quarter of 2025, and that between 2020 and 2025, authorized returns on equity have averaged around 9.60%.[185] Additionally, the average ROE granted to United States electric utilities during 2024 is 9.78% and the average ROE to United States gas utilities during 2024 is 9.65%. In the first half of 2025, these values are 9.72% and 9.73%, respectively.

[185] Exhibit EIT-01 at 33 – 34.

CHAPTER 3, FIGURE 1

Authorized Returns on Equity*
(Exclude Limited Issue Riders)



ROE Distributions[1/2]

Electric Utilities	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<= Average	56.3%	52.2%	46.9%	56.1%	50.0%	45.5%	33.3%	31.4%	53.1%	53.2%	48.8%	35.7%
> Average	43.8%	47.8%	53.1%	43.9%	50.0%	54.5%	66.7%	68.6%	46.9%	46.8%	51.2%	64.3%
Gas Utilities												
<= Average	50.0%	43.8%	53.8%	60.9%	47.5%	51.5%	51.4%	46.5%	48.5%	48.8%	44.2%	33.3%
> Average	50.0%	56.3%	46.2%	39.1%	52.5%	48.5%	48.6%	53.5%	51.5%	51.2%	55.8%	66.7%

Sources and Notes:

[1] *S&P Global Market Intelligenc* e, RRA Regulatory Focus, Major Rate Case Decisions -- January - March 2025, April 25, 2025, p. 3.

[2] Download from S&P Global Market Intelligence, March 10, 2025.

* Returns exclude Limited Issue Rider Decisions.

* Excluding Alaska decisions due to the state unique circumstances.

Additionally, SCE[186] and SDG&E[187] note the average authorized "all cases" ROE for electric utilities in the first half of 2025 was 9.68 percent.

[186] SCE Opening Brief at 11.

[187] SDG&E Opening Brief at 16.

Sierra Club and Wild Tree argue that the national average ROE is well above the utilities' cost of equity. In particular, Sierra Club argues that market-to-book values above 1.0 indicate that investors are receiving more than just their investment plus a reasonable return.[188]Wild Tree asserts that authorized ROEs are well above the cost of equity because of elevated market-to-book ratios and that, if regulators were to authorize ROEs at the cost of equity, "market and book values would converge."[189]

We assess credit rating actions relative to the authorizations that were made in the Test Year 2023 Cost of Capital cycle adopted in D.22-12-031. Since the Test Year 2023 Decision, PG&E's credit rating has improved and SoCalGas, SCE, and SDG&E remain investment grade.

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.

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

The ROE adopted in this decision appropriately aligns the Applicants with national trends with consideration of the risk profile of each individual utility. Other modifications made to the ROE in the Test Year 2026 cycle are in response to our analysis of the quantitative financial models, other macroeconomic trends,

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[188] Sierra Club Opening Brief at 11.

[189] Wild Tree Opening Brief at 12.

credit worthiness, and our understanding of the risks that are present for the Applicants. Ultimately, we reduce the ROE authorization for the Applicants 30 basis points from the authorization provided in D.24-10-008.

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[190]	11.30%
EPUC/IS/TURN[191]	9.50%
TURN[192]	9.50%
SBUA[193]	9.60%
Cal Advocates[194]	9.625%
Wild Tree[195]	8.30%
EDF[196]	7.43% - 8.55%
SC/PCF[197]	6.22%

[190] Application 25-03-010 at 12.

[191] Exhibit EIT-01 at 10.

[192] Exhibit TRN-01 at 11.

[193] Exhibit SBA-01 at 10.

[194] Cal Advocates Opening Brief at 4.

[195] Exhibit WTF-01 at 8.

[196] Exhibit EDF-01 at 68.

[197] Exhibit SC/PCF-01 at 7.

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors, and interest coverage presented by the parties and applying our informed judgement, we find that PG&E's ROE should be within the range 9.65% to 10.20% and that the just and reasonable ROE for PG&E's authorized test year 2026 is 9.98%. This ROE is the lowest amount that is reasonably sufficient to assure confidence in the financial soundness of the utility and to improve and maintain investment grade credit ratings and so balances the interests between shareholders and ratepayers.

5.6. SoCalGas' Return on Equity

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

Party	Final Proposed ROE
SoCalGas[198]	11.00%
EPUC/IS/TURN[199]	9.50%
TURN[200]	9.50%
Cal Advocates[201]	9.125%
Wild Tree[202]	8.01%

[198] Application 25-03-011 at 8.

[199] Exhibit EIT-01 at 10.

[200] Exhibit TRN-01 at 11.

[201] Cal Advocates Opening Brief at 4.

[202] Exhibit WTF-01 at 8.

EDF[203]	6.30%-7.39%
SC/PCF[204]	6.21%

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors, and interest coverage presented by the parties and applying our informed judgement, we find that SoCalGas' ROE should be within the range 9.45% to 10.00% and that the just and reasonable ROE for SoCalGas' authorized test year 2026 is 9.78%. This ROE is the lowest amount that is reasonably sufficient to assure confidence in the financial soundness of the utility and to improve and maintain investment grade credit ratings and so balances the interests between shareholders and ratepayers.

5.7. SCE's Return on Equity

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

Party	Final Proposed ROE
SCE[205]	11.75%
EPUC/IS/TURN[206]	9.50%
TURN[207]	9.50%

[203] Exhibit EDF-01 at 68.

[204] Exhibit SC/PCF-01 at 7.

[205] Application 25-03-012 at 6.

[206] Exhibit EIT-01 at 10.

[207] Exhibit TRN-01 at 11.

Cal Advocates[208]	9.25%
Wild Tree[209]	8.30%
EDF[210]	5.09%-6.66%
SC/PCF[211]	6.11%

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors, and interest coverage presented by the parties and applying our informed judgement, we find that SCE's ROE should be within the range 9.70% to 10.25% and that the just and reasonable ROE for SCE's authorized test year 2026 is 10.03%. This ROE is the lowest amount that is reasonably sufficient to assure confidence in the financial soundness of the utility and to improve and maintain investment grade credit ratings and so balances the interests between shareholders and ratepayers.

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[212]	11.25%

[208] Cal Advocates Opening Brief at 4..

[209] Exhibit WTF-01 at 8.

[210] Exhibit EDF-01 at 68.

[211] Exhibit SC/PCF-01 at 7.

[212] Application 25-03-013 at 2.

EPUC/IS/TURN[213]	9.50%
TURN[214]	9.50%
Cal Advocates[215]	9.25%
Wild Tree[216]	8.30%
EDF[217]	6.47%-7.55%
SC/PCF[218]	6.15%
UCAN[219]	8.87%

After considering the evidence on market conditions, trends, creditworthiness, interest rate forecasts, quantitative financial models, additional risk factors, and interest coverage presented by the parties and applying our informed judgement, we find that SDG&E's ROE should be within the range 9.60% to 10.15%and that the just and reasonable ROE for SDG&E's authorized test year 2026 is 9.93%. This ROE is the lowest amount that is reasonably sufficient to assure confidence in the financial soundness of the utility and to improve and maintain investment grade credit ratings and so balances the interests between shareholders and ratepayers.

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[213] Exhibit EIT-01 at 10.

[214] Exhibit TRN-01 at 11.

[215] Cal Advocates Opening Brief at 4.

[216] Exhibit WTF-01 at 8.

[217] Exhibit EDF-01 at 68.

[218] Exhibit SC/PCF-01 at 7.

[219] Exhibit UCAN-01 at 3.

6. Implementation

PG&E, SoCalGas, SCE, and SDG&E shall implement the revenue requirement changes authorized by this decision in their respective end-of-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, 2026.

7. PG&E's Yield Spread Adjustment Proposal

PG&E requests approval for a temporary Yield Spread Adjustment (YSA) above the Commercial Paper Rate. PG&E proposes to track under- and over-collections through balancing and memorandum accounts and to submit a Tier 2 Advice Letter annually by November 15 to establish the YSA effective January 1 of the following year. PG&E renews its request for a YSA because the company continues to lack access to commercial paper markets, resulting in higher short-term borrowing costs. From November 2023 to October 2024, PG&E estimates that it incurred approximately $65 million in financing costs above the commercial paper rate.[220] Additionally, the Commission's decision in the previous cost of capital proceeding, A.22-04-008, et al., expressly permitted PG&E to submit a renewed YSA request once the 5-year capital structure waiver authorized in D.20-05-053 expires if it still lacks access to the Commercial Paper.[221]

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[220] Application 25-03-010 at 15.

[221] D.24-10-008 at 13.

TURN and EPUC/IS/TURN recommend that the Commission reject PG&E’s request for a YSA. TURN argues that the Commission has already acknowledged in D.24-10-008 PG&E’s request is closely tied to the benefits the utility received under its capital structure waiver. Since then, TURN states that PG&E's credit rating has improved to the point where it now has access to Tier 2 commercial paper markets. TURN estimates the cost of the proposed YSA to ratepayers at approximately $57 million annually.[222] EPUC/IS and TURN further note that although PG&E’s capital structure waiver expired in June 2025, the utility has not demonstrated that its current level of compensation is insufficient to justify a YSA. EPUC/IS and TURN argue that, even without the waiver, PG&E’s authorized ratemaking capital structure continues to reflect a hypothetical equity ratio that exceeds its actual equity, inflating the cost to customers and increasing PG&E’s return on common equity.[223] Cal Advocates agrees with EPUC/IS and TURN that PG&E failed to meet its burden of proof for a YSA.[224]

PG&E contends that TURN’s over-recovery claim is based on flawed assumptions about how the rate base is financed and that cost of capital actually declines as leverage increases. PG&E argues there is no credible evidence of over-recovery and pointed out that it has earned materially below its authorized return on equity every year since 2020. PG&E attributes this underperformance

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[222] Exhibit TRN-01 at 46.

[223] Exhibit EIT-01 at 16 – 17.

[224] Cal Advocates Reply Brief at 18.

in part to losses from the under-recovery of short-term debt costs. PG&E emphasizes that no party has shown its short-term borrowing cost proposal to be unreasonable. Furthermore, PG&E argues that EPUC/IS and TURN's recommendation is based on an incorrect principle, namely, that a utility's over-recovery in one area should justify disallowance in another, which it claims contradicts regulatory principles that promote efficiency while allowing for a fair return.[225]

As PG&E notes, the 5-year capital structure waiver expired on June 1, 2025, and PG&E states that it does not intend to seek an extension of that waiver request. Additionally, TURN notes that PG&E has access to Tier 2 Commercial Paper. PG&E notes that it still lacks access to Tier 1 Commercial Paper (i.e., the rate applicable to the under-collected and over-collected balances in PG&E's balancing and memorandum accounts).[226] These conditions persuade us that approval of PG&E's YSA request is reasonable for the TY 2026 Cost of Capital cycle. PG&E's request is granted with modifications. PG&E shall track under- and over-collections through balancing and memorandum accounts and, if a YSA is requested for a given year, PG&E shall submit a Tier 2 advice letter annually by November 15 to establish the YSA effective January 1 of the following year. The YSA is authorized starting January 1, 2026, and will terminate December 31, 2028, or when PG&E gains access to Tier 1 Commercial Paper, whichever occurs first.

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[225] Exhibit PGE-03 at 4-2.

[226] Exhibit PGE-01 at 5-2.

8. PG&E's Request for Revenue Credit Associated with the Department of Energy Loan

On January 17, 2025, PG&E and the DOE entered into a loan agreement with a total program capacity of up to $15 billion, available to be drawn intermittently through 2031. While the DOE loan offers a lower cost of debt, the exact timing of the draws remains at the DOE's discretion. As a result, PG&E's requested long-term debt cost of 5.04% does not reflect the potential benefits of the DOE loan, due to the uncertainty surrounding the draw schedule. Therefore, PG&E has proposed to submit an Advice Letter calculating the resulting interest cost savings once draws occur. These savings will be returned to customers as a revenue credit through the Annual Electric True-Up and Annual Gas True-Up filings submitted each December for the following year.[227] No party contests this request.

PG&E's request is reasonable and in the interest of ratepayers. As such, we approve this request. PG&E shall submit a Tier 2 advice letter calculating the resulting interest cost saving from the DOE loan within 60 days of draws occurring. These savings shall be returned to customers as a revenue credit through PG&E's Annual Electric True-Up and Annual Gas True-Up filings submitted each December for the following year.

9. SCE's Accrued Carrying Cost Proposal

SCE requests that future balancing and memorandum accounts amortized over periods longer than 12 months accrue carrying charges at SCE's weighted

[227] Application 25-03-010 at 14.

average cost of capital (WACC), rather than at the short-term commercial paper rate. SCE argues that this approach is consistent with generally accepted financial principles, which hold that the duration of an asset should be matched with the duration of the liability used to finance it. SCE further explains that it does not have unlimited access to commercial paper, making reliance on short-term financing impractical for longer-term cost recovery. For accounts amortized over more than 12 months, SCE notes that it typically employs longer-term financing aligned with the capital structure previously authorized by the Commission.[228]

TURN and EPUC/IS recommend that the Commission reject SCE's proposal to apply its weighted average cost of capital (WACC) as the carrying cost for memorandum and balancing accounts amortized over more than 12 months. TURN estimates that this change would impose an additional $250 million in costs on ratepayers.[229]

SCE argues that aligning the duration of financing with the life of the asset is important and claims it has limited access to commercial paper markets. However, TURN points out that SCE provides no new evidence that its financial circumstances have changed since the Commission last denied a similar request. As such, TURN recommends the proposal again be rejected.[230]

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[228] Application 25-03-012 at 10 – 11.

[229] Exhibit TRN-01 at 47.

[230] Exhibit TRN-01 at 46 – 47.

EPUC/IS and TURN emphasize that using the short-term debt rate remains appropriate for these accounts as this enables SCE to borrow against short-term facilities when deferring costs and to repay those borrowings as customer collections occur. In contrast, the WACC includes long-term debt and equity, financing instruments that carry longer maturities and often include restrictions or penalties for early repayment.[231] For this reason, EPUC/IS and TURN conclude that applying the long-term WACC to short-term deferral assets is inappropriate and unjustified.[232]

Cal Advocates also agrees with TURN and EPUC/IS that SCE failed to meet its burden of proof when SCE made another request to recover its WACC for balancing and memorandum accounts amortized over more than 12 months.[233]

We are persuaded that the lower risk profile of balancing and memorandum accounts generally warrant lower commensurate carrying charges. Long-term debt is associated with more risks, including default risks, than balancing and memorandum accounts amortized over more than 12 months. As such, the commercial paper rate for balancing and memorandum accounts amortized over more than 12 months continues to be appropriate and reasonable. SCE's accrued carrying cost proposal is denied.

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[231] Exhibit EIT-01 at 17 – 18.

[232] Exhibit EIT-01 at 18.

[233] Cal Advocates Reply Brief at 19.

10. Cost of Capital Mechanism

The Applicants request continuation of the CCM as established in D.08-05-035 and modified in D.24-10-008, and to reset the interest rate benchmark for the TY 2026 rate cycle, using the Moody's Baa index for the 12-month period ending September 30, 2025.[234] Intervenors recommended several changes to the CCM.

EDF asserts that the CCM has never been implemented to lower ROEs, and notes that utilities have never submitted an advice letter to lower ROEs resulting from CCM implementation.[235] EDF recommends adjusting the CCM so that outside parties may propose implementing the CCM to adjust ROEs.[236] Wild Tree offers a similar observation asserting that the CCM has been asymmetrically applied.[237]

EPUC/IS recommends that the Commission investigate any change in authorized ROE before implementation of the CCM. EPUC/IS recommends providing intervenors with a procedural pathway for raising a challenge to the CCM adjustment before implementation.[238]

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[234] PG&E Opening Brief at 76, SCE Opening Brief at 56, SDG&E Opening Brief at 37, SoCalGas Opening Brief at 69.

[235] Exhibit EDF-01 at 66.

[236] Exhibit EDF-01 at 67.

[237] Exhibit WTF-01 at 82

[238] EPUC/IS Opening Brief at 104.

Wild Tree asserts that the CCM does not adequately reflect changes in the cost of capital as markets change.[239] Wild Tree recommends incorporating beta coefficients and market risk premiums into the CCM formula.[240]

No party proposes discontinuing the CCM.

We are persuaded that the CCM should be continued in its current form and the CCM interest rate benchmark should be reset. In D.24-10-008, as noted by several parties, the Commission recognized a structural asymmetry in the implementation of the CCM in that ratepayers have no direct path to challenge an upward CCM adjustment. However, as also noted in D.24-10-008, the CCM is premised on a reduction in regulatory burden.[241] The modifications to the CCM in D.24-10-008, including an alignment of the CCM adjustment factor with the best available empirical evidence that resulted in a more than halving of ROE adjustments arising from the CCM, reduces the risk to ratepayers of an unreasonable adjustment of ROE while ensuring that the CCM achieves the goal of reducing regulatory burden on parties to cost of capital proceedings. As such, changes to the CCM are not needed at this time. The CCM interest rate benchmark is reset to the October through September average of the Moody's utility bond rates for the most recent year.

[239] Exhibit WTF-01 at 81.

[240] EPUC/IS Opening Brief at 104.

[241] A.24-10-008 at 24.

11. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding. There were 69 public comments on A.25-03-010, 101 public comments on A.25-03-011, 142 public comments on A.25-03-012, and 11 public comments on A.25-03-013. The assigned ALJ read all public comments. The public comments are overwhelmingly opposed to rate increases for the respective Applicants and many share the personal struggles many Californians have with affording access to electric and gas service. We thank the public for sharing their thoughts and experiences with the Commission.

12. Procedural Matters

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

13. Comments on Proposed Decision

The proposed decision of ALJ Jonathan Lakey 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 December 4, 2025 by SCE, EPUC/IS, Sierra Club/PCF, PG&E, SDG&E, UCAN, TURN, SBUA, Wild Tree, Cal Advocates, EDF, and SoCalGas. Reply comments were filed on December 9, 2025, by SoCalGas, EDF, SDG&E, SCE, TURN, Sierra Club/PCF, PG&E, SBUA, Cal Advocates, and EPUC/IS. Changes have been made throughout the decision in response to these comments. After considering opening and reply comments, a slight increase in authorized ROE is appropriate. This modest adjustment duly accounts for prevailing market conditions and the Applicants' risk profiles and is appropriate to support the Applicants' capacity to attract capital on reasonable terms sufficient to finance the prudent discharge of their statutory public utility obligations and to support the maintenance or achievement of investment-grade creditworthiness. The corresponding ROR is adjusted accordingly.

14. Assignment of Proceeding

President Alice Reynolds is the assigned Commissioner and Jonathan Lakey is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. The applicants are public utilities subject to the jurisdiction of this Commission.

2. PG&E, SoCalGas, SCE, and SDG&E's applications were consolidated.

3. PG&E and SDG&E requested modifications to their authorized capital structure.

4. PG&E seeks a test year 2026 ratemaking capital structure of 52.00% common, preferred stock of 0.30%, and long-term-debt of 47.70%. PG&E's current authorization is 52.00% common equity. 0.5% preferred equity, and 47.75% long-term debt.

5. SoCalGas seeks a test year 2026 ratemaking capital structure that maintains its existing capital structure of 52.00% common equity, 2.40% preferred equity, and 45.60% long-term debt.

6. SCE seeks a test year 2026 ratemaking capital structure that maintains its existing capital structure of 52.00% common equity, 5.00% preferred equity, and 43.00% long-term debt.

7. SDG&E seeks a test year 2026 ratemaking capital structure of 54.00% common equity, 0.00% preferred equity, and 46.00% long-term debt. SDG&E's current authorization is 52.00% common equity, 2.75% preferred equity, and 45.25% long-term debt.

8. S&P Global Market Intelligence data through March 31, 2025, indicates that the average electric industry authorized common equity portion in 2025 is 50.53% and the average natural gas industry authorized common equity portion in 2025 is 50.13%.

9. An authorization of 52.00% common equity for the Applicants is higher than the electric and gas industry averages.

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

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

12. It is not beneficial to ratepayers for SDG&E to reduce its preferred equity to 0.00% and increase its long-term debt and common equity.

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

14. PG&E seeks a Test Year 2026 ROE authorization of 11.30%.

15. SoCalGas seeks a Test Year 2026 ROE authorization of 11.00%.

16. SCE seeks a Test Year 2026 ROE authorization of 11.75%.

17. SDG&E seeks a Test Year 2026 ROE authorization of 11.25%.

18. The intervenors sought Test Year 2026 ROE authorizations for the applicants that were lower than the ROE authorizations the utilities proposed.

19. 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.

20. 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.

21. PG&E, SoCalGas, and SDG&E proposed proxy groups of similar companies to be used in their financial models.

22. PG&E's witness analyzed regulated electric utilities and regulated gas utilities.

23. SoCalGas' witness analyzed seven publicly traded domestic natural gas distribution companies.

24. SCE's witness analyzed a proxy group that includes electric utilities and a secondary proxy group that contains water and natural gas utilities.

25. SDG&E's witness analyzed a proxy comprised of 26 investor-owned domestic electric utility companies, some of which owned both electric and gas utilities.

26. 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.

27. 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.

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

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

30. 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.

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

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

33. 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.

34. Natural gas utilities in the United States do not confront the same wildfire risks as electric utilities in the United States.

35. There are regulatory mechanisms in place to mitigate cashflow risks faced by the Applicants.

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

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

38. There were generally no new regulatory risks presented for the Test Year 2026 Cost of Capital cycle that were not previously addressed by the Commission in prior Cost of Capital cycles.

39. S&P's issue/corporate family credit rating for PG&E is BB[242] and its secured credit rating is BBB. PG&E's secured credit rating from S&P is considered investment grade while its issue/corporate family credit rating from S&P is considered sub-investment grade.

40. SoCalGas has an investment grade rating of A-.

41. SCE has an investment grade rating of BBB-.

42. On September 17, 2025, S&P revised its outlook for SCE from stable to negative.

43. SDG&E has an investment grade rating of BBB+.

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[242] August 29, 2025, Filing of Stipulated Facts at 2.

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

45. The average ROE authorized for electric and gas utilities in the United States in the first half of 2025 were 9.72% and 9.73%, respectively.

46. The average ROE authorized for electric and gas utilities in the United States in 2024 were 9.78% and 9.65%, respectively.

47. The United States Supreme Court's Hope and Bluefield decisions set the standard that 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.

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

49. The 5-year capital structure waiver approved in D.20-05-053 expired in June 2025.

50. PG&E lacks access to Tier 1 Commercial Paper.

51. PG&E's request for revenue credit associated with the DOE loan is in the interest of ratepayers.

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

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 Hope and Bluefield cases.

3. The capital structures proposed by SoCalGas and SCE 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 PG&E 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. PG&E should not be authorized to increase the leverage in its capital structure as a result of this proceeding.

6. SDG&E should not be authorized to increase its leverage and common equity as a result of this proceeding.

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

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

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

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 restructuring or merger.

12. Although the relationship between components of quantitative financial models is objective, the results are dependent on subjective inputs.

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

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 2026 ROE range for PG&E of 9.65% to 10.20% is reasonable.

17. A Test Year 2026 ROE range for SoCalGas of 9.45% to 10.00% is reasonable.

18. A Test Year 2026 ROE range for SCE of 9.70% to 10.25% is reasonable.

19. A Test Year 2026 ROE range for SDG&E of 9.60% to 10.15% is reasonable.

20. A Test Year 2026 ROE of 9.98% and ROR of 7.61% is just and reasonable for PG&E.

21. A Test Year 2026 ROE of 9.78% and ROR of 7.52% is just and reasonable for SoCalGas.

22. A Test Year 2026 ROE of 10.03% and ROR of 7.59% is just and reasonable for SCE.

23. A Test Year 2026 ROE of 9.93% and ROR of 7.41% is just and reasonable for SDG&E.

24. PG&E's YSA proposal should be approved with modifications.

25. PG&E's request for revenue credit associated with the DOE loan should be approved.

26. 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 returns of SCE's weighted average cost of capital.

27. The CCM should be extended through the Test Year 2026 Cost of Capital cycle and the CCM interest rate benchmark should be reset.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company's cost of capital for its test year 2026 operations is as follows:

	Capital Proportion	**Cost Factor**	**Weighted Cost**
Long-Term Debt	47.50%	5.04%	2.39%
Preferred Equity	0.5%	5.52%	0.03%
Common Equity	52.00%	9.98%	5.19%
Return on Rate Base			7.61%

2. Southern California Gas Company's cost of capital for its test year 2026 operations is as follows:

	Capital Proportion	**Cost Factor**	**Weighted Cost**
Long-Term Debt	45.60%	5.02%	2.29%
Preferred Equity	2.40%	6.00%	0.14%
Common Equity	52.00%	9.78%	5.09%

Return on Rate Base			7.52%

3. Southern California Edison Company's cost of capital for its test year 2026 operations is as follows:

	Capital Proportion	Cost Factor	Weighted Cost
Long-Term Debt	43.00%	4.71%	2.03%
Preferred Equity	5.00%	6.89%	0.34%
Common Equity	52.00%	10.03%	5.22%
Return on Rate Base			7.59%

4. San Diego Gas & Electric Company's cost of capital for its test year 2026 operations is as follows:

	Capital Proportion	Cost Factor	Weighted Cost
Long-Term Debt	45.25%	4.59%	2.08%
Preferred Equity	2.75%	6.22%	0.17%
Common Equity	52.00%	9.93%	5.16%
Return on Rate Base			7.41%

5. Pacific Gas and Electric Company, Southern California Gas Company, Southern California Edison Company, and San Diego Gas & Electric Company shall implement the revenue requirement changes authorized by this decision in their respective end-of-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, 2026.

6. Pacific Gas and Electric Company is authorized to establish a temporary Yield Spread Adjustment (YSA) beginning January 1, 2026. PG&E shall track under- and over-collections through balancing and memorandum accounts and, if a YSA is requested for a given year, Pacific Gas and Electric Company may submit a Tier 2 advice letter to the Commission's Energy Division annually by November 15 to establish the YSA effective January 1 of the following year. The temporary YSA will terminate December 31, 2028, or when Pacific Gas and Electric Company gains access to Tier 1 Commercial Paper, whichever occurs first.

7. Pacific Gas and Electric Company shall submit a Tier 2 advice letter to the Commission's Energy Division calculating interest cost savings from the United States Department of Energy loan within 60 days of draws occurring. Pacific Gas and Electric Company shall return these savings to ratepayers as a revenue credit through Pacific Gas and Electric Company's Annual Electric True-Up and Annual Gas True-Up filings submitted each December for the following year.

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

9. The Cost of Capital Mechanism shall continue to be in effect through the 2026 Cost of Capital cycle for Pacific Gas and Electric Company, Southern California Gas Company, Southern California Edison Company, and San Diego Gas & Electric Company.

10. Applications (A.) 25-03-010. A.25-03-011, A.25-03-012, and A.25-03-013 are closed.

This order is effective today.

Dated December 18, 2025, at Sacramento, California.

ALICE REYNOLDS
President
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners

I dissent.

/s/ DARCIE L. HOUCK
Darcie L. Houck
Commissioner