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Decision 26-09-002 September 3, 2026

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for a Limited Capital Structure Adjustment. (U39M)	Application 24-08-004 (Filed August 5, 2024)

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

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

Summary

The decision authorizes Pacific Gas and Electric Company's (PG&E's) request for an adjustment to exclude an interest-free loan of up to an aggregate total of $1.4 billion (minus certain fees) from the California Department of Water Resources, provided in connection with a United States Department of Energy Civil Nuclear Credit Program award, to support PG&E's license extension and continued operation of Diablo Canyon Nuclear Power Plant.

The decision denies PG&E's request for exclusion of an estimated total of $542 million in net after-tax charges to equity for the Kincade wildfire event, and an estimated total of $902 million in long-term debt (inclusive of the accrual for future claims) equivalent to the total amount of current and expected future Kincade and Dixie claims and related costs not covered by insurance, transmission formula rates, or Wildfire Fund recovery.

Application 24-08-004 is closed.

1. Procedural Background

On August 5, 2024, Pacific Gas and Electric Company (PG&E) filed Application (A.) 24-08-004 for a limited capital structure adjustment, requesting permission to deviate from its authorized capital rate structure, governed by Affiliate Transaction Rule IX-B . [1]

On September 6, 2024, The Utility Reform Network (TURN) and jointly Indicated Shippers and Energy Producers and Users Coalition (together, EPUC) filed protests to the application. On September 16, 2024, PG&E filed a reply to the protests.

[1] *See* Decision (D.) 06-12-029, Appendix A-3 at 31-32.

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

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

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

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

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

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

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

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

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

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

This matter was submitted on December 30, 2025.

2. Issues Before the Commission

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

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

3. Discussion

3.1. Request

The capital structure of an investor-owned utility is comprised of different proportions of equity and debt, utilized for long-term financing. PG&E's capital structure includes long-term debt, preferred equity, and common equity. A utility's ratio of debt to permanent capital affects the level of financial risk it faces and its credit ratings. For PG&E, the Commission has authorized a common equity ratio of 52 percent, 47.5 percent long-term debt, and 0.5 percent preferred equity.[2]

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

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

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

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[2] *See* D.25-12-043, Ordering Paragraph 1.

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

[4] *See* PG&E Opening Brief at 6-8 and 12.

[5] *See* A.24-08-004 at 1.

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

[7] *See* PG&E Opening Brief at 6.

[8] *See* PG&E Opening Brief at 6-7.

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

PG&E also seeks an adjustment to exclude an interest-free loan of up to an aggregate total of $1.4 billion from the DWR, provided in connection with a United States Department of Energy (DOE) Civil Nuclear Credit Program award (DOE Award), to support PG&E's license extension and continued operation of Diablo Canyon Nuclear Power Plant (DCPP).[11] [12] The DCPP was scheduled for retirement by 2025, however the State decided to extend operations until 2030.[13] This loan amount is, to the extent not repaid from funds from the DOE Award or excess market revenues from the last year of Diablo Canyon operations, fully forgivable based on PG&E's anticipated future performance, and otherwise contains no general repayment obligation on behalf of PG&E.[14] PG&E cannot seek cost recovery for expenses paid with loan proceeds. Although forgiveness is expected, the DWR Loan is still considered debt on PG&E's books under Generally Accepted Accounting Principles (GAAP).[15] [16] PG&E characterizes the

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[9] *See* PG&E Opening Brief at 7.

[10] *See* PG&E Opening Brief at 7.

[11] *See* PG&E Application at 1-2.

[12] *See* Senate Bill 846 (Dodd) from 2022.

[13] *See* Senate Bill 846 (Dodd) from 2022.

[14] *See* PG&E Application at 1-2.

[15] *See* PG&E Application at 1-2.

[16] *See* Senate Bill 846 (Dodd) from 2022.

terms of forgiveness as "performance-based" and notes that PG&E has already recognized some loan forgiveness.[17]

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

The Commission adopted Affiliate Transaction Rule IX in D.06-12-029 to protect utility financial health and balance the interests of ratepayers and shareholders through adherence to the capital rate structure.[18]Affiliate Transaction Rule IX-B, specifically, adopts restrictions on deviations from the utility's Commission authorized capital structure. It is reproduced below for ease of reference:

> **Restrictions on Deviations from Authorized Capital Structure.** A utility shall maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the utility's capital structure. The utility's equity shall be retained such that the Commission's adopted capital structure shall be maintained on average over the period the capital structure is in effect for ratemaking purposes. Provided, however, that a utility shall file an application for a waiver, on a case by case basis and in a timely manner, of this Rule if an adverse financial event at the utility reduces the utility's equity ratio by 1% or more. In order to assure that regulatory staff has adequate time to review and assess the application and to permit the consideration of all relevant facts, the utility shall not be considered in violation of this Rule during the period the waiver is pending resolution. Nothing in this provision creates a presumption of either reasonableness or unreasonableness of the utility's actions which may have caused the adverse financial event.

The Rule was established to protect utility financial health and to restrict deviations from the authorized capital structure. Protecting utility financial

[17] *See* Exhibit PGE-MBTO-001 at 1-7 and 1-8.

[18] *See* D.06-12-029, Appendix A-3 at 31-32.

health is fundamental to ensuring the utility provides safe and reliable service at a just and reasonable rate to customers. The Commission and stakeholders put significant effort, resources, and deliberation into each cost of capital proceeding for the utilities, which occur once every three years. As the Commission describes in Affiliate Transaction Rule IX-B, the Commission has established an expectation that jurisdictional utilities will adhere to the authorized capital structures and outlined limited circumstances where deviations may be considered. The Affiliate Transaction Rule acknowledges that in specific circumstances, deviations from the established capital structure are necessary. Specifically, the Rule states that "if an adverse financial event at the utility reduces the utility's equity ratio by 1% or more" the utility must file an application for a waiver of the Rule.

The Applicant makes numerous references to prior instances of the Commission authorizing deviations from the established capital structure. While the Commission can consider prior decisions as a guide, "the Commission is not bound by its precedent, unlike a court." (Decision 14-04-022, at 8, citing to *In re Pacific Gas & Electric Co.* (1988) 30 Cal.P.U.C.2d 189, 223-225; and *Postal Telegraph-Cable Company v. Railroad Commission* (1925) 197 Cal. 426, 436.) In *In re Pacific Gas*, the Commission explained that it is a "general rule of law that no legislative body can limit or restrict its own power or that of subsequent legislatures, and that the act of one legislature does not bind its successors." (30 Cal.P.U.C.2d at 223.) The Commission is both a court and an administrative tribunal that "exercises both judicial and legislative functions." (*Id.*) "The fixing of rates of public utilities is an example of its legislative powers." (*Id.*, citing to *People v. Western Air Lines, Inc.* (1954) 42 Cal.2d 621, 630.) Accordingly, since the

Commission "exercises legislative powers when it sets rates," a prior decision setting rates "would not bind successor Commissions." (30 Cal.P.U.C. 2d at 223.) As such, PG&E's request will be based on the record developed in this proceeding.

In this proceeding, PG&E must fully justify its request and bears the burden with respect to the contested issues.[19] To meet that burden, PG&E must establish by a preponderance of all the evidence produced in the record that its positions should be adopted by the Commission. It would be unreasonable to assume that a decision granting relief at one point in time, based on utility financial health, broader economic and market trends, and other factors specific to that moment in time, would be equally applicable and appropriate for another point in time.

PG&E's references to prior decisions are for requests that are factually different from the request made in this proceeding. PG&E cites decisions that were for waiver applications or adverse financial events of great magnitude. For example, in D.20-05-005, the Commission approved requests for a *waiver* of the capital structure. In D.20-05-053, the Commission adopted PG&E's reorganization plan and granted PG&E a *waiver*, along with placing specific conditions on the waiver, to ensure, among other things, the Commission retained the ability to closely monitor "PG&E's actual financial metrics." In the same decision, the Commission denied PG&E's alternate request to the waiver, which was for "proposed adjustments to the calculation of its capital structure."[20] In D.23-08-031, the Commission granted an extension of a *waiver*, pursuant to the Affiliate Transaction Rule. PG&E also cites to D.00-12-064, a decision authorizing

[19] *See* Evidence Code Section 115 and Evidence Code Section 500.

[20] *See* D.20-05-053 at 84.

PG&E to issue long-term debt when it was experiencing a "tremendous increase in the price of wholesale electricity" and large under-collections[21]—an adverse financial event of great magnitude.

In its December 30, 2025 Response to ALJ Ruling, PG&E states that the instant application is not for a waiver.[22] Instead, PG&E states it is seeking the Commission's determination that certain accounting adjustments should be approved for the purpose of determining PG&E's compliance with its authorized capital structure.[23] When considering compliance with Rule IX-B or exemptions from its authorized capital structure, it is reasonable to review the conditions under which the Rule may be waived and whether financial events warrant a change in capital structure. It is reasonable to review the Application under the Affiliate Transaction Rule, as discussed above.

PG&E seeks to ignore the criteria established for compliance or consideration of a waiver by referring to its request as a "limited capital structure adjustment" and appealing to the Public Utilities (Pub. Util.) Code Section 701,[24] which reads as follows:

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

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

[22] *See* PG&E Response to ALJ Ruling at 1-2.

[23] *See* PG&E Response to ALJ Ruling at 1.

[24] Pub. Util. Code Section 701. Unless noted otherwise, all statutory references in this decision are to the Public Utilities Code.

Section 701 grants the Commission broad authority to, in essence, do whatever it deems necessary in exercising its regulatory authority. Yet because of the broad and general language, this is a catch-all that can be invoked for any request, that can nullify and negate any Commission decision, rule, or directive, and should therefore only be used as a last resort in the absence of explicit authority that sets forth the Commission's authority.

The Affiliate Transaction Rule was established based on extensive stakeholder input and Commission deliberation. Close consideration is warranted regarding PG&E's request to exclude, for purposes of Rule IX-B compliance, (1) equity charges related to the Kincade wildfire event, (2) long-term debt related to the Kincade and Dixie wildfire events, and (3) the DWR loan, which PG&E anticipates will be forgiven or repaid via government funds.

3.3. Analysis of Events at Issue

PG&E's Application does not arise from an adverse financial event. Instead, the reasonableness review in this decision addresses whether the requested accounting adjustments are appropriate for exemption when determining PG&E's compliance with its authorized capital structure under Rule IX-B.

The financial events arising from the Kincade and Dixie wildfires are deemed insufficiently substantial to necessitate accounting adjustments, as they are below the 1 percent equity deviation threshold specified by Rule IX-B of the Affiliate Transaction Rules.

The DWR loan component deserves separate treatment from wildfire components and should be granted an exemption. It did not arise from PG&E's operational planning, and its repayment terms are unique and do not resemble conventional utility debt used to finance rate base. Senate Bill (SB) 846 served as a significant policy intervention aimed at keeping Diablo Canyon operational to ensure grid reliability. The loan authorized by the legislature is a mechanism specifically designed to support this legislative goal. The Commission finds that the forgivable DWR Loan does not constitute conventional financial debt and should therefore be excluded from the regulatory capital structure.

PG&E argues that the Commission should grant its request because it "is narrow, time-limited, and consistent with Commission precedent granting analogous adjustments in similar circumstances, as well as the fundamental principles behind Rule IX.B."[25]

PG&E seeks to exclude approximately $625 million of long-term debt and an equity adjustment of $542 million related to the Kincade Fire.[26] PG&E also seeks to exclude $277 million in long-term debt related to the Dixie Wildfire.[27] Together, these costs amount to approximately $1.4 billion, or roughly 0.6 percent change in its debt-to-equity ratio.[28] PG&E argues that "the underlying Kincade- and Dixie-related costs that are the subject of PG&E's request here are not currently part of PG&E's rate base."[29] PG&E contends that "in circumstances such as this" where "a utility has significant wildfire-related liabilities or claims costs outside of its rate base and subject to tracking in a memorandum account for a future cost recovery request—the Commission has granted a temporary

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[25] *See* PG&E Opening Brief at 5.

[26] *See* PG&E Opening Brief at 6-7.

[27] *See* PG&E Opening Brief at 7.

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

0.6 percent.

[29] *See* PG&E Opening Brief at 8.

exclusion for purposes of calculating compliance with Rule IX.B."[30] PG&E argues that "[t]his enables the utility to finance these costs with debt (which is less expensive than equity) and to preserve flexibility by avoiding unnecessarily issuing or dedicating equity to costs outside of rate base before cost recovery matters are resolved."[31] PG&E states that in the past, the Commission has granted such relief in waiver applications and granted extensions to waiver applications.[32] PG&E further argues that the costs associated with wildfires in the instant application are "precisely the same categories of wildfire-related debt and net charges" and that "[n]either Intervenor has offered a serious challenge that distinguishes PG&E's request from D.23-08-031."[33]

PG&E states that its request "advances the public interest and will help PG&E finance critical capital investments in its system over the coming years."[34] PG&E also argues that "Commission precedent in both D.20-05-005 and D.23-08-031 recognizes that it is in the public interest to allow adjustments that permit utilities to avoid issuing equity solely for temporary costs that are subject to future cost recovery requests."[35]

EPUC argues that the requested adjustments "would allow PG&E to maintain a hypothetical regulatory capital structure that further understates the actual long-term debt recorded on PG&E's balance sheet."[36] EPUC further

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[30] *See* PG&E Opening Brief at 8.

[31] *See* PG&E Opening Brief at 8.

[32] *See* PG&E Opening Brief at 8-9.

[33] *See* PG&E Opening Brief at 9. Separately, D.23-08-031 granted SCE an extension to its previously authorized Capital Structure Waiver.

[34] *See* PG&E Opening Brief at 13.

[35] *See* PG&E Opening Brief at 14.

[36] *See* EPUC Opening Brief at 2.

contends that granting the request would "reduce PG&E's operational flexibility, hinder its efforts to regain an investment grade credit rating, and inappropriately shift more financial risk and costs from shareholders to ratepayers" and therefore "threaten to undermine the purpose and intent of the Commission's capital structure requirements."[37]

TURN argues that granting the exemptions sought by PG&E would harm ratepayers. TURN contends that "[h]igher financial leverage (higher debt and lower equity capitalization ratios) equates to higher financial risk."[38] TURN notes that utilities "are incentivized to operate with the maximum amount of leverage that investment grade credit quality will allow, since more leverage increases the shareholders' earned return on equity, all else being equal."[39] TURN states that although "[t]he Commission has supported PG&E's post-bankruptcy recoveries with general capital structure waivers… these were intended as temporary recovery programs for two years in 2003, and then five years in 2020 after each of PG&E's bankruptcies."[40] TURN argues that "[t]he Commission could not have intended for PG&E to operate outside its GAAP authorized capital structure over an indefinite or protracted period" when the Commission stated the following in D.20-05-005:

> PG&E is granted a waiver from its current authorized capital structure for a period of five years from the date of this decision. The waiver applies only to the financing in place upon PG&E's exit from bankruptcy. Consistent with PG&E's plan we expect PG&E to expeditiously pay down Temporary Utility debt over the projected five-year period and regain a

[37] *See* EPUC Opening Brief at 2.

[38] *See* TURN Opening Brief at 1.

[39] *See* TURN Opening Brief at 1.

[40] *See* TURN Opening Brief at 2.

> closer alignment between aggregate utility debt and the amount of recoverable utility debt.
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> In the event PG&E requires an ongoing capital structure waiver beyond the five years granted in this decision, it is directed to file an application that shall include a deleveraging proposal to reduce non-traditional utility debt over time. The application shall include proposals to offset ratepayer impacts associated with an overleveraged capital structure.[41]

TURN further contends that investors base their decision on PG&E's GAAP capital structure and the requested adjustments would increase the difference between its regulatory capital structure and its GAAP capital structure.[42] TURN states that "[c]ontrary to the Commission's intentions for PG&E post- bankruptcy, PG&E's proposed adjustments enable more leverage, which results in incrementally more risk for ratepayers."[43] TURN argues that financing with higher debt can "make a company less able to absorb extraordinary business risks through its own resources (typically new debt or shareholder's equity)" and that "when additional debt is unavailable (or too expensive due to below investment grade credit ratings) and shareholders equity is insufficient to cover costs, ratepayers can expect to be called upon for a financial backstop as the Stress Test Decision [D.19-05-027 at 46] and SB 901 demonstrate."[44]

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

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[41] *See* D.20-05-005 at 83-84.

[42] *See* TURN Opening Brief at 3.

[43] *See* TURN Opening Brief at 3.

[44] *See* TURN Opening Brief at 3.

Stress Test Costs are determined at a snapshot in time – a time when the utility is in financial distress – and will not be

41 *See* D.20-05-005 at 83-84.

42 *See* TURN Opening Brief at 3.

43 *See* TURN Opening Brief at 3.

44 *See* TURN Opening Brief at 3.

> revised in the future as any cost recovery and securitization allowed will be based on the financial status of the utility at the time the Stress Test application is considered. Utilities may voluntarily seek recovery of costs that have been found to not be just and reasonable. The financial health of a utility is expected to improve as a result of the Commission's shifting otherwise disallowed costs from the utility onto ratepayers.
>
> Utilities should expect the Commission will condition the authorization to recover Stress Test Costs on utility implementation of meaningful measures or mechanisms to ensure the utility's shareholders do not obtain a windfall of future upside as the utility recovers its financial health.[45]

TURN notes that the Commission has acknowledged that "as a utility's debt ratio increases, a higher return on equity may be needed to compensate for that increase risk,"[46] and argues that "higher leverage [higher amounts of debt relative to equity used by the utility] can result in higher return on equity, which results in higher revenue requirements and higher customer bills."[47] TURN adds that "[c]apital structure waivers granted to SCE and PG&E in the past were associated with substantial charges which would have been difficult for either company's balance sheet to absorb."[48] TURN argues that the charges PG&E seeks to exclude as part of this request (a total of approximately $2.8 billion) is significantly less than the $8.9 billion associated with PG&E's prior waiver, and while this request would amount to a 1.3% total change to the equity ratio, SCE's approved request would have amounted to approximately 10% of equity.[49]

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[46] *See* TURN Opening Brief at 4, citing D.07-12-049 at 49.

[47] *See* TURN Opening Brief at 4.

[48] *See* TURN Opening Brief at 12.

[49] *See* TURN Opening Brief at 12.

[45] *See* D.19-06-027, Decision Adopting Criteria and Methodology for Wildfire Cost Recovery Pursuant to Pub. Util. Code Section 451.2, at 46.

[46] *See* TURN Opening Brief at 4, citing D.07-12-049 at 49.

[47] *See* TURN Opening Brief at 4.

[48] *See* TURN Opening Brief at 12.

[49] *See* TURN Opening Brief at 12.

PG&E responds, arguing that this request "will not increase customer costs" as it seeks no change in rates or recalculation of revenue requirement.[50] PG&E further contends that the harm the intervenors argue will befall ratepayers is speculative and hypothetical.[51] PG&E argues that despite intervenor arguments about its regulatory capital structure being in misalignment with its GAAP capital structure, it is in compliance with Affiliate Transaction Rule IX-B.[52] PG&E also argues that "nothing in the Commission decisions granting a Rule IX.B adjustment to both PG&E and Southern California Edison Company (SCE) in D.20-05-005, and an extension on that relief to SCE in D.23-08-031 suggests that the Commission's basis for its ruling depending on the specific size of the requested adjustment."[53]

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

As discussed in greater detail in Section 3.2 of the instant decision, we disagree with PG&E's characterization of this request as analogous to prior

[50] *See* PG&E Reply Brief at 2.

[51] *See* PG&E Reply Brief at 4-5.

[52] *See* PG&E Reply Brief at 7.

[53] *See* PG&E Reply Brief at 11-12.

requests. First, this does not meet the same criteria that prior requests met—

[50] *See* PG&E Reply Brief at 2.

[51] *See* PG&E Reply Brief at 4-5.

[52] *See* PG&E Reply Brief at 7.

[53] *See* PG&E Reply Brief at 11-12.

namely that they were due to an adverse financial event and they resulted in at least a 1 percent change to equity.[54] Second, prior requests were for charges of a significantly greater magnitude than what PG&E is seeking to exclude as part of this request. We agree with TURN that "[c]apital structure waivers granted to SCE and PG&E in the past were associated with substantial charges which would have been difficult for either company's balance sheet to absorb."[55] That is not the case here.

Although PG&E contends that wildfire costs have been excluded in the past, we again emphasize that the excluded costs were of a great magnitude. The Affiliate Transaction Rule allows for deviations due to adverse financial events. The adverse nature of the financial event is underscored by the magnitude of the impact it would have on the utility's financial health. Here, PG&E seeks the exclusion of what would amount to roughly 0.6 percent of equity, or 1.4 billion, compared to $8.9 billion (not adjusted for inflation) for wildfires from 2017 and 2018 covered by prior requests.[56] We are not persuaded that PG&E's financial health will be adversely affected by the denial of the instant application. More importantly, we find that PG&E's request does not meet the criteria for a Rule IX-B waiver with regard to the Kincade and Dixie wildfire events.

Regarding the DWR loan, we find it does not qualify as an adverse financial event, but it is a unique event that does not impose regulatory obligations on PG&E's ratepayers. The DWR loan component deserves separate treatment from the wildfire event exemption in the Application.

[54] *See* D.06-12-029 Appendix A-3 at 32.

[55] *See* TURN Opening Brief at 12.

[56] *See* TURN Opening Brief at 12.

[54] *See* D.06-12-029 Appendix A-3 at 32.

[55] *See* TURN Opening Brief at 12.

[56] *See* TURN Opening Brief at 12.

For regulatory purposes, the DWR loan will not function like conventional long-term debt in the regulatory capital structure because there is no fixed repayment obligation. PG&E states that:

> "PG&E anticipates that the entire loan amount will either be repaid through funds from the DOE Civil Nuclear Credit Program, excess market revenues in the last year of Diablo Canyon operations, or otherwise forgiven, such that PG&E has no general obligation to repay the loan. GAAP requires PG&E to initially account for the DWR Loan as debt, but PG&E anticipates recognizing the full disbursed loan amount as income over time (primarily through DOE funding, and secondarily through forgiveness by the DWR), and is prohibited from seeking cost recovery for any expenses paid with loan proceeds."[57]

Pub. Util. Code Section 712.8 (h)(1) prohibits PG&E from recovering Diablo Canyon operating costs in rate base, so all of these incurred costs to extend operations at Diablo Canyon are recognized as operating expenses or cost of electricity.

Without an exemption from the regulatory capital structure, this loan results in a phantom debt, artificially increasing debt levels and affecting compliance with Commission rules. It is a temporary, forgivable government loan that bears no interest or repayment obligations. It is largely forgivable through Diablo Canyon's operations, and is expected to be retired through a $1.1 billion federal program by 2028.[58]

In its rebuttal, PG&E explains the accounting of the issues raised by intervenors. PG&E states that GAAP does not allow PG&E to offset the

[57] *See* PG&E Opening Testimony at 2-6.

[58] *See* PG&E Application at 10-11.

[57] *See* PG&E Opening Testimony at 2-6.

[58] *See* PG&E Application at 10-11.

receivable from the DOE and other sources with the payable to DWR.[59] PG&E states that the balances are offset only after cash is received and paid.[60] Economically, PG&E temporarily carries the DWR Loan to comply with GAAP but does not face a repayment burden like its other long-term debt.[61]

No party provided an opposition to PG&E's above position.[62]

Moreover, there is merit in the argument with regard to the exemption for the DWR Loan that the request is not a "deviation[]" from its authorized capital structure.[63] The DWR loan does not and cannot finance PG&E's rate base. Excluding the DWR Loan will allow PG&E to implement the capital structure set by the Commission for financing PG&E's rate base.

We have determined that the Kincade and Dixie wildfire events, considered individually or together, do not meet the 1 percent change threshold for PG&E's long-term debt and common equity ratios. If the DWR Loan is not excludeed, it would result in a 1.2 percent change to PG&E's long-term debt and common equity ratios.[64] Keeping the DWR Loan as part of the regulatory capital structure, along with Kincade and Dixie wildfire events, will artificially inflate PG&E's debt ratio above its authorized 47.5 percent level. To restore its authorized average equity ratio of 52 percent, PG&E would need to issue new common equity to offset the phantom liability. PG&E asserts that, in the current financial climate, equity would be issued at a significant discount relative to

[59] *See* PG&E Rebuttal Testimony (Ted Ockels) at 17.

[60] *See* PG&E Rebuttal Testimony (Ted Ockels) at 17.

[63] *See* PG&E Reply Comments on the Proposed Decision at 5.

[64] *See* Application at 13.

[61] *See* PG&E Rebuttal Testimony (Ted Ockels) at 17.

[62] *See* PG&E's Opening Comments on the Proposed Decision at 2, 10.

[63] *See* PG&E Reply Comments on the Proposed Decision at 5.

[64] *See* Application at 13.

historical levels.[65] To offset these liabilities and bring its regulatory capital structure back into compliance with the authorized 52 percent equity ratio under Rule IX-B, PG&E will have to raise approximately $1.3 billion in equity that would carry permanent authorized return obligations — currently set at 9.98%.[66] After the loan is forgiven, PG&E will be left with costly equity but no assets to match it. Although PG&E is required to carry such additional equity on its balance sheet to remain in compliance with Rule IX.B absent an order granting the requested relief, PG&E does not receive any equity return since these items are not in rate base and therefore do not earn an authorized rate of return. Therefore, it is reasonable to consider capital structure adjustments for the DWR Loan since these costs are (i) not in rate base and (ii) not being financed through the utility's regulatory capital structure. In essence, the DWR Loan is a unique financial arrangement with no precedent under Rule IX-B. It warrants review on its own merit, separate from the Kincade and Dixie wildfire events. As a fact-specific exception, the loan amount will not be part of PG&E's regulatory capital structure and should be specifically treated as a distinctive exception to the Affiliate Transaction Rule IX-B.

It is reasonable to partly deny PG&E's request for capital structure adjustment for the Kincade and Dixie Wildfire costs and partly approve the request to exclude the DWR Loan from its authorized regulatory structure.

3.4. Effect on Affordability

PG&E was granted a five-year waiver from adherence to its authorized capital rate structure in D.20-05-053, Decision Approving Reorganization Plan. That waiver expired in June 2025. PG&E states that it has been in compliance with the Affiliate Transaction Rule since then.[67]

[65] *See* PG&E Application at 16. PG&E states that "In the current financial climate, PG&E would be issuing equity at a significant discount relative to historical levels."

[66] *See* PG&E Opening Testimony at 1-7. (Dixie and Kincade long-term debt= $611 million; and an outstanding balance of $651 million of DWR loan.)

[67] *See* Response to ALJ Ruling at 6.

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

The same decision stated that if PG&E required an ongoing capital structure waiver beyond the five years granted in D.20-05-053, PG&E must "file an application that shall include a deleveraging proposal to reduce non-traditional utility debt over time" and "include proposals to offset ratepayer impacts associated with an overleveraged capital structure."[68] As TURN notes, "[t]he Commission could not have intended for PG&E to operate outside its Generally Accepted Accounting Practices (GAAP) authorized capital structure over an indefinite or protracted period."[69] This brings us to the impact on affordability and whether approval of this request is in the public interest.

PG&E argues that the requested relief is in the public interest because it will allow PG&E to avoid issuing equity for costs that it may recover in the future. PG&E argues that issuing debt is less costly than equity, and that the latter would result in carrying costs that would negatively impact affordability.[70] PG&E estimates these carrying costs would amount to approximately $60 million

[68] *See* D.20-05-053 at 85.

[69] TURN Opening Brief at 3.

[70] *See* PG&E Opening Brief at 14.

per year.[71] PG&E states that the instant application makes no request for a change in rates and that regardless of the outcome of the application, "*it will not change customer rates* in the short term," but argues that granting the request would "benefit customers and lead to lower customer rates" in the longer term.[72] We agree that that the granting or denying of this request will not affect short-term customer rates.

TURN argues that granting the request worsens the affordability crisis and leads to an "overpayment" from ratepayers and a corresponding increase to shareholder profits "based on 52% equity utility when the actual equity percentage of PG&E's capital structure has been much less than the authorized amount since it emerged from bankruptcy."[73] In other words, financing through debt that is not used to calculate its capital structure increases leverage and risk, for which customers are the ultimate backstop, while at the same time allowing PG&E to compensate shareholders based on what becomes an inflated equity percentage due to the debt exclusions.

TURN further states that the difference between PG&E's actual GAAP equity and the Commission authorized 52% since 2021 has ranged from 7 to 10 percent.[74]

PG&E asserts that GAAP recorded capital structures may or may not be used for ratemaking capital structure.[75] While there is merit to the argument, we find that PG&E's argument for affordability fails to consider the risks associated

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[71] *See* PG&E Opening Brief at 17.

[72] *See* PG&E Opening Brief at 15, emphasis in original.

[73] *See* TURN Opening Brief at 4.

[74] *See* Exhibit TURN-01 at 12.

[75] *See* PG&E Reply Brief at 7-9.

with increased financial leverage. The Commission has noted that "[a]s a utility's debt ratio increases, a higher return on equity may be needed to compensate for that increased risk."[76] TURN argues that higher leverage, or more debt relative to equity, can result in higher return on equity, which results in higher revenue requirements and higher customer bills. The negatives associated with more debt and higher leverage include lower credit ratings, higher borrowing costs, and the potential for higher future return on equity to reflect the higher leverage risk—all of which would result in higher customer rates. As EPUC states, "increased financial risk often results in credit rating downgrades, which limit the utility's access to low-cost debt, resulting in higher debt costs that are ultimately recovered through customer rates."[77]

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

> [S]hareholders have been receiving profits based on a 52% equity even though the actual equity percentage is near 38%. If PG&E's rate of return were accurately calculated using the actual equity percentage of 38% instead of 52%, the rate of return would be much lower, hence the *revenue requirement would be much lower*, because PG&E's authorized return on equity (10.28% [at the time of the filing]) is more than two times the authorized return on long-term debt (4.8%).[78]

Neither party is contesting that there is an immediate impact on rates; rather, both contend that there will be a rate impact in the longer-term. TURN's arguments illustrate the impact that operating with a higher amount of debt than

[76] *See* D.07-12-049 at 28.

[77] *See* EPUC Opening Brief at 6.

[78] *See* TURN Opening Brief at 5-6, footnotes excluded, emphasis in original.

what is used to calculate its debt-to-equity ratio (for purposes of its capital structure) has had since 2020.

PG&E argues that it seeks to avoid issuing equity for expenses that may be temporary, as equity is more costly to redeem.[79] PG&E argues that if the request is denied, customers will be negatively affected by the carrying costs and the more expensive to redeem equity.[80] The full impact on ratepayers cannot yet be determined, as the Commission has not yet resolved cost recovery for the Kincade and Dixie wildfire applications.

TURN argues that excessive debt increases risk and the less credit worthy PG&E becomes, the more expensive debt will be, a cost ultimately borne by customers. TURN further contends that granting the request benefits PG&E's shareholders, arguing that "PG&E is already leveraged well beyond its pre-bankruptcy capital structure" and that PG&E's request "is designed to benefit shareholders by avoiding issuing equity (and therefore diluting existing shareholders)."[81]

PG&E characterizes its request, particularly the exclusion of wildfire related expenses, as similar to those approved by the Commission in the past.[82] As TURN points out, "[c]apital structure waivers granted to SCE and PG&E in the past were associated with substantial charges which would have been difficult for either company's balance sheet to absorb," noting that PG&E's waiver related to 2017 and 2018 wildfires that contributed to its bankruptcy amounted to $8.9 billion and SCE's potential charge to equity was approximately

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[79] *See* PG&E Opening Brief at 17-18.

[80] *See* PG&E Opening Brief at 17.

[81] *See* TURN Opening Brief at 11.

[82] *See* PG&E Opening Brief, 5-9.

10% of equity.[83] PG&E's estimated impact of a decrease in equity from the three items it seeks to exclude in the instant application is roughly 1.2%, with the wildfire expenses amounting to approximately half of that.[84] We agree with TURN that the magnitude of what PG&E is seeking to exclude is significantly different from what was granted in the past, due to the extraordinary circumstances and need for relief from the Commission authorized standard. This is in line with our earlier discussion that the Affiliate Transaction Rule set a 1% threshold with the implication that anything below that is not of such a dire nature that it would necessitate suspending a standard the Commission established through lengthy stakeholder input and deliberation.

Further underscoring our concerns with extensive deviation from the authorized capital structure is TURN's argument that PG&E's current request occurs with a significant number of waivers to its capital structure calculation already in place to the value of billions of dollars.[85] When the Commission determined PG&E's capital structure in D.22-12-031, it stated that the capital structure "appropriately balances ratepayer and shareholder interests."[86] As discussed earlier, frequent and unjustified deviations from what the Commission determined most appropriately balanced customer and shareholder interests are not in the public interest, and granting adjustments and waivers would undermine that standard. An authorized capital structure is meant to span the three-year duration until the next filing. Each successive waiver or adjustment undermines that balance. In this instant proceeding, the record does not support

[83] *See* TURN Opening Brief at 12.

[84] *See* Application at 13 and Response to ALJ Ruling at 7.

[85] *See* Ex. TURN-01C, Attachment 5.

[86] *See* D.22-12-031 at 6.

the argument that granting this request will cause no harm to ratepayers. Any potential impacts will be known in the long-term and will be affected by various variables beyond the scope of this proceeding.

Given the evidence before us, we do not know whether granting the relief for the Kincade and Dixie wildfire events, as requested, would be in the public interest at this time.

3.5. Kincade and Dixie Wildfire Financial Impact and DWR Loan - Status reporting requirements in a future proceeding

PG&E argues that denying the exemption request would require it to issue unnecessary equity that would later become expensive to redeem if wildfire cost recovery is approved, imposing unnecessary costs on ratepayers.[87] In other words, ratepayers would end up paying for the wildfire costs via rates upon cost-recovery approval, and separately funding returns on the surplus equity PG&E was required to raise in the interim — a double burden if the wildfire cost recovery is approved. However, PG&E has not provided any analysis or testimony regarding the impact on ratepayers and PG&E's finances if the Commission denies cost recovery for these wildfire costs.

The wildfire exemptions present a fundamentally different policy matter. Unlike the DWR Loan, the Kincade and Dixie liabilities arose directly from PG&E operations.[88] Rule IX-B's equity threshold exists in part to ensure that shareholders bear meaningful financial consequences rather than deferring their responsibility through capital structure adjustments.

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[87] *See* PG&E Application at 6, 9, 16–17.

[88] See PG&E A.25-11-001 at 2. Pursuant to Section 1701.8(a)(1) - The Kincade and Dixie Fires are "covered wildfires" because they "ignited on or after July 12, 2019" and "[t]he governmental

agency responsible for determining causation . . . determine[d] the wildfire[s]" were caused by PG&E.

Granting wildfire exemptions as a routine response to catastrophic fire events risks normalizing adjustments that the Commission intended to be exceptional, especially when the events do not meet the threshold conditions. As stated earlier in the decision "any consequences will occur in the long-term and will ultimately be influenced by a number of variables outside the scope of this proceeding."

Denying the wildfire-related equity and debt exemptions for Kincade and Dixie helps uphold the equity discipline mandated by Rule IX-B. Given that the prudency of Kincade and Dixie expenditures is still under review by the Commission, the financial impact of denying these exemptions remain uncertain while the Commission evaluates the cost recovery request. It is reasonable to assess how denying the exemption might lead to equity issuance, which could prove unnecessary if cost recovery is granted later. The long-term impacts of surplus equity will be clear eventually and will depend on various factors beyond this proceeding.

PG&E and its shareholders stay responsible until a formal prudence review confirms these costs are reasonable and warrant recovery. Any resulting surplus equity impacts/ risks should be assessed in the next cost-of-capital proceeding.

Therefore, it is reasonable to evaluate PG&E's capital structure, including the effect of surplus equity, in the next cost-of-capital proceeding, in light of the equity and debt exemptions denied for the Kincade and Dixie wildfire costs in this decision. It is also reasonable to require PG&E to show the status of the DWR loan forgiveness. Accordingly, PG&E should be required to demonstrate the following in its next cost-of-capital proceeding:

a. A capital structure true-up analysis to show whether PG&E will hold, or has already raised, excess equity attributable to the Kincade and Dixie wildfire events. PG&E shall file a preliminary analysis if those proceedings have not reached final resolution at the time of filing the cost of capital proceeding.

b. If PG&E determines to retire the surplus equity, it shall provide a specific plan and timeline for doing so. PG&E's requested authorized equity ratio and authorized return on equity shall reflect its regulatory capital structure after retirement of surplus equity. PG&E shall show that it is not seeking an authorized return on equity that includes surplus equity in the rate base.

c. If PG&E determines not to retire that surplus equity, it shall provide its reasons for that determination.

d. PG&E should provide a status update on the DWR Loan forgiveness and its impact on GAAP capital structure.

4. Summary of Public Comment

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

Comments from the public emphasize the cost pressures customers are experiencing, the numerous rate increases PG&E received in 2024, and the need to hold PG&E accountable. The comments urge the Commission to deny any relief that would result in higher customer rates.

5. Conclusion

PG&E requests permission to deviate from its authorized capital rate structure by excluding expenses related to the Dixie Fire, the Kincade Fire, and the DWR Loan when calculating its compliance with the Commission authorized capital rate structure. PG&E's request is not eligible for a waiver under the Affiliate

Transaction Rule, however PG&E seeks the relief a waiver would provide by referring to the request as a limited capital structure adjustment.
There is no rule or statute that distinguishes between the two and there is no substantive difference between granting a waiver or a limited capital structure adjustment. PG&E seeks authority to deviate from the authorized capital rate structure without meeting the conditions for a waiver as set forth in the Affiliate Transaction Rule.

The Affiliate Transaction Rule was established to protect utility financial health. The Commission authorized capital rate structure plays a critical role in balancing the interests of customers and utility shareholders. Deviations from the rule alter the carefully crafted balance. We find that PG&E's request for the Kincade and Dixie wildfire events is ineligible for a waiver under the Affiliate Transaction Rule. Circumventing the Affiliate Transaction Rule's protections undermine the Commission's established capital rate structure and the protections put in place for the utility's financial health. By not excluding the Kincade and Dixie costs from the capital structure, PG&E's equity ratio is not reduced by 1 percent or more and it should be able to maintain its authorized regulatory capital structure "on average over the period the capital structure is in effect for ratemaking purposes."

It is reasonable and in the public interest to partly grant this Application to exempt the forgivable DWR Loan from PG&E's regulatory capital structure that bears no interest or repayment obligations and is expected to be retired through a $1.1 billion federal program by 2028.

6. Procedural Matters

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

7. Comments on Alternate Proposed Decision

Comments on a proposed decision are governed by Rule 14.3, which states that comments must "focus on factual, legal, or technical errors in the proposed or alternative decision and, in citing such errors, shall make specific references to the record or applicable law. Comments which fail to do so will be accorded no weight." Our discussion of the comments is limited to the criteria specified by Rule 14.3.

The alternate proposed decision (APD) of President John Reynolds in this matter was mailed to the parties on July 31, 2026, in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. On August 20, 2026, PG&E and EPUC filed opening comments. On August 25, 2026, PG&E filed reply comments.

PG&E notes that the timeline for resolving this proceeding has eroded the practical significance of PG&E's request regarding Kincade and Dixie debt and net equity charges. PG&E supports the APD's granting of relief with respect to the forgivable loan from the DWR and recommends that the APD be adopted. PG&E requests the Commission to clarify the APD's discussion of surplus equity and capital-structure compliance, confirm that PG&E earns no equity return on non-rate-base assets, ensure future cost-of-capital disclosures reflect Commission or legislative regulatory adjustments, and revise references to the fluctuating DWR loan balance to accurately reflect its changing amount as it is disbursed.

The APD uses "surplus equity" to refer to the same concept PG&E describes in its reply comments on the APD as "excess equity"—equity that

PG&E would have raised and used to maintain compliance with its authorized capital structure.

In its comments on the APD, PG&E states that it issued more than $2.7 billion in new equity early in this proceeding, that it has used retained earnings and other measures to offset the wildfire-related debt and equity charges, and it did so to—because a decision did not issue when requested— maintain compliance with its authorized capital structure. PG&E further states that, if it no longer needs this equity to support the items at issue in this Application (e.g., based on the resolution of A.25-11-001), it will redeploy that equity to finance other utility purposes, such as rate-base investments.

Because PG&E raised $2.7 billion in new equity early in the proceeding in order to maintain Rule IX-B compliance during the delay in resolving this Application, it is essential that PG&E make a showing identifying whether any portion of that equity constitutes excess equity and how PG&E intends to deploy or re-deploy it going forward.

Regarding DWR loan fluctuations, we note that some calculations in the decision do not fully capture the DWR balance at any particular point in time, and we agree with PG&E that these calculations are material to the resolution of the Application or the APD's conclusions. We also agree with PG&E that for consistency with Rule IX-B, which provides for calculation of compliance "on average over the period the capital structure is in effect for ratemaking purposes", PG&E will calculate its Rule IX-B compliance by excluding the loan balance associated with the DWR Loan across the current Cost of Capital cycle.

EPUC agrees with granting a Rule IX-B adjustment with respect to the forgivable DWR Loan, as reflected in the APD. EPUC recommends adopting the APD with modifications and recommends clarifying various findings of fact and conclusions of law.

Upon reviewing the comments and reply comments, we have revised the proposed decision to clarify the existing language and incorporate party input. To the extent justified, revisions have been incorporated herein to reflect the substance of comments received.

8. Assignment of Proceeding

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

Findings of Fact

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

timely manner if an adverse financial event at the utility reduces the utility's equity ratio by 1% or more.

11. PG&E seeks to exclude the following costs from its capital structure: $542 million in equity for the Kincade event, $611 million in long-term debt for the Dixie and Kincade events, and the current outstanding balance of the DWR loan, which was $651 million as of June 2024.

12. Financial impact related to Kincade and Dixie wildfire events results in a change in equity ratio below the 1 percent equity deviation threshold specified by Rule IX-B of the Affiliate Transaction Rules.

13. The costs associated with the Kincade and Dixie wildfires that PG&E seeks to exclude as part of this application amount to approximately 0.6 equity.

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

15. DWR Loan is a one-of-a-kind financial occurrence that has no prior example for review for capital structure treatment.

16. SB 846, which sets the policy for the DWR Loan, expressly prohibits PG&E from creating a new rate base for Diablo Canyon.

17. The DWR Loan, recorded as debt under GAAP, will not finance assets in the rate base, and ratepayers do not carry the regulatory obligation to repay the loan.

18. PG&E cannot seek rate recovery for costs paid with the DWR Loan, so it finances no rate base assets or earns a return on rate base from this opportunity.

19. If the DWR Loan is not excluded from PG&E's capital structure, it would require PG&E to maintain additional offsetting equity to remain compliant with Rule IX-B, which would become unnecessary after the DWR Loan is fully forgiven.

20. If the Kincade and Dixie wildfire events are not excluded from PG&E's regulatory capital structure, PG&E would be required to raise additional

equity to maintain compliance with Rule IX-B. It is important to monitor PG&E's capital structure because these wildfire-related liabilities were not included in PG&E's cost-of-capital determination, and any such equity issuance would result in excess equity without corresponding rate-base assets.

21. PG&E's request for the Kincade and Dixie wildfire events do not qualify for a waiver under Affiliate Transaction Rule IX B.

22. The prudency of the Kincade and Dixie expenditures is still under review by the Commission, and the long-term financial impact of approving or denying these exemptions remains uncertain while the Commission evaluates the cost recovery request.

Conclusions of Law

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

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

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

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

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

6. The DWR Loan is not an adverse financial event and deserves separate treatment from wildfire components, as it does not resemble conventional utility debt used for ratemaking.

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

Rule IX-B.

8. Exempting the Kincade and Dixie wildfire events from the regulatory capital structure does not comply with the threshold set under Affiliate Transaction Rule IX-B and should be denied.

9. It is reasonable to grant an exemption from the regulatory capital structure for the forgivable DWR Loan because it is financially distinct from the regulatory equity and debt capital structure for ratemaking purposes.

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

11. It is reasonable to monitor and evaluate PG&E's capital structure, including a report on the effect of any surplus equity, in the next cost-of-capital proceeding, in light of the equity and debt exemptions denied for the Kincade and Dixie wildfire costs in this decision.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company's request for a limited capital structure adjustment to temporarily exclude certain equity charges related to the Kincade wildfire event and long-term debt related to both the Kincade and Dixie wildfire events is denied.

2. Pacific Gas and Electric Company's (PG&E's) request for an adjustment to exclude an interest-free loan of up to an aggregate total of $1.4 billion from the California Department of Water Resources, provided in connection with a United States Department of Energy Civil Nuclear Credit Program award, to support PG&E's license extension and continued operation of Diablo Canyon Nuclear Power Plant is granted.

3. Pacific Gas and Electric Company (PG&E) shall file, as part of its next cost of capital application, the following information:

a. A capital structure true-up analysis to show , whether PG&E will hold, or has already raised, excess equity attributable to the Kincade and Dixie wildfire events,. PG&E shall file a preliminary analysis if Kincade and Dixie wildfire-related proceedings have not reached final resolution at the time of filing the cost of capital proceeding.

b. If PG&E determines to retire the surplus equity, it shall provide a specific plan and timeline for doing so. PG&E's requested authorized equity ratio and authorized return on equity shall reflect its regulatory capital structure after retirement of surplus equity. PG&E shall show that it is not seeking an authorized return on equity that includes surplus equity in the rate base.

c. If PG&E determines not to retire that surplus equity, it shall provide its reasons for that determination.

d. PG&E shall provide a status update on the forgivable loan from the Department of Water Resources.

4. Application 24-08-004 is closed.

This order is effective today.

Date September 3, 2026, at Sacramento, California.

JOHN REYNOLDS
President
DARCIE L. HOUCK
KAREN DOUGLAS
MATTHEW BAKER
CHRISTINE HARADA
Commissioners