

Company: San Diego Gas & Electric Company (U 902 M)  
Proceeding: 2026 Cost of Capital  
Application: A.25-03-013 et al.  
Exhibit No.: SDG&E-04

**PREPARED REBUTTAL TESTIMONY OF**

**VALERIE A. BILLE**

**POLICY**

**ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION**  
**OF THE STATE OF CALIFORNIA**



**August 20, 2025**

## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	INTERVENORS' TESTIMONY DEMONSTRATES THAT SDG&E'S RISK PROFILE AND CAPITAL MARKET CONDITIONS CONTINUE TO SUPPORT SDG&E RECEIVING AN ABOVE-AVERAGE ROE .....	4
A.	SDG&E's Risk Profile Is Higher Than During the 2023 Cost of Capital Proceeding.....	4
1.	SDG&E and other California Electric Utilities Continue to Face the Same Unique Wildfire Risks .....	5
2.	SDG&E's Wildfire Risks are the Same, if Not Increasing, under AB 1054 as in Prior Cost of Capital Proceedings Due to Concerns about Exhaustion of the Fund .....	9
3.	SDG&E's Other Risks Have Also Increased.....	13
B.	Intervenors' Testimony Demonstrates that Capital Market Conditions Require a Higher ROE than in the 2020 and 2023 Cost of Capital Proceedings .....	14
III.	CERTAIN INTERVENORS HAVE NO BASIS TO PROPOSE TO LOWER SDG&E'S AUTHORIZED COMMON EQUITY RATIO .....	20
IV.	THE COMMISSION JUST LITIGATED THE CCM'S DESIGN AND INTERVENORS OFFER NO BASIS TO REVISIT THE ISSUE.....	23
V.	CONCLUSION.....	23

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**I. INTRODUCTION**

The intervenors' testimony<sup>1</sup> confirms that SDG&E's<sup>2</sup> risks and underlying capital market conditions have increased since the 2020 and 2023 Cost of Capital Proceedings. Intervenors further acknowledge that the Commission has repeatedly set SDG&E's authorized ROE well above the average authorized ROE for electric utilities nationwide<sup>3</sup>—a precedent that Moody's has emphasized is credit supportive and helps counterbalance SDG&E's risks.<sup>4</sup> These facts support maintaining, if not increasing, SDG&E's authorized ROE and common equity layer here.

SDG&E's risk profile, at a minimum, has not changed. SDG&E's credit ratings remain at the same level that they were during the 2023 Cost of Capital Proceeding—at least two notches lower from all three credit rating agencies prior to downgrades in response to 2018 and 2019 wildfires in the state—despite SDG&E not being the cause of a significant wildfire during that time and being repeatedly lauded by credit rating agencies for its wildfire mitigation efforts. If

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<sup>1</sup> Intervenor testimony consists of Dr. Randall Woolridge for the Public Advocates Office of the California Public Utilities Commission ("Cal Advocates"), Michael Gorman for the Energy Producers and Users Coalition, Indicated Shippers, and The Utility Reform Network ("EPUC/IS/TURN"); Dr. Richard McCann for the Environmental Defense Fund ("EDF"); Mark Ellis for the Protect our Communities Foundation ("PCF"); Jennifer Dowdell for TURN ("TURN"); Matthew Bandyk and Richard Pavlovic for Utility Consumers' Action Network ("UCAN"); and Aaron Rothschild for Wild Tree Foundation ("WTF").

<sup>2</sup> All abbreviations from direct testimony are applied to this rebuttal testimony.

<sup>3</sup> See Exhibit ("Ex.") TURN-01, *Prepared Testimony of Jennifer Dowdell* (July 30, 2025) ("Ex. TURN-01 (Dowdell Direct)") at 30-31.

<sup>4</sup> Moody's Ratings, *San Diego Gas & Electric Company Update to Credit Analysis* (April 3, 2025) ("Moody's Apr. 3, 2025"), at 6.

1 anything, SDG&E's wildfire risk has increased with acute concerns about the depletion of the  
2 AB 1054 wildfire fund following the Eaton Fire.

3 And capital market conditions support a higher ROE than in the 2020 and 2023 Cost of  
4 Capital Proceedings. As intervenors acknowledge, interest rates and inflation remain elevated.  
5 As intervenors further demonstrate, the average authorized ROE granted to electric utilities  
6 between July 2024-July 2025 has increased by nearly 40 basis points to 9.74%,<sup>5</sup> compared to the  
7 9.39% cited by the Commission for the first half of 2022 in D.22-12-031.<sup>6</sup> Indeed, the authorized  
8 ROE average is nearly 15 basis points higher than the 9.60% average cited in the 2020 Cost of  
9 Capital Decision, where SDG&E was granted an authorized ROE of 10.20%.<sup>7</sup> Just as the  
10 Commission relied in D.22-12-031 on a downward trend in the national authorized ROE average  
11 to support reducing SDG&E's ROE by 25 basis points,<sup>8</sup> so too here the increase in ROE by  
12 nearly 40 basis points since that Decision supports a higher ROE.

13 Yet despite the recognition of these underlying financial conditions, legal precedents, and  
14 credit rating agency analyses, intervenors propose setting SDG&E's ROE tens to hundreds of  
15 basis points below the nationwide authorized ROE average—to levels much lower than any  
16 authorized ROE has been set nationwide in decades. But as discussed, intervenors do not identify  
17 any underlying conditions that would warrant such a radical change.

18 Instead, the Commission rejected such arguments in the 2023 Cost of Capital Proceeding.  
19 As the Commission found there, setting ROE at what investors require based upon SDG&E's

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<sup>5</sup> RRA Regulatory Focus, Major Energy Rate Case Decisions in the US—January-June 2025 (July 25, 2025) ("RRA July 25, 2025") at 3, Table 1.

<sup>6</sup> D.22-12-031 at 32 (citation omitted).

<sup>7</sup> D.19-12-056 at 43.

<sup>8</sup> D.22-12-031 at 32-34.

1 risks benefits both the utility and its customers, ensuring that SDG&E can “attract investors to  
2 finance the replacement and expansion of the utility’s facilities to fulfill its public service  
3 obligation.”<sup>9</sup> The Commission continued that an “unreasonably low ROE may not be in the  
4 public interest because it could cause investors to move to utilities with higher ROEs.”<sup>10</sup>

5 Certain intervenors’ only response is that utility commissions nationwide have been  
6 systematically oversetting authorized ROEs for decades. But even if such a fantastical claim  
7 were true—and it is not—SDG&E must compete against those other utilities for capital. As the  
8 Commission recognized, unilaterally setting SDG&E’s ROE at such a low level would result in  
9 investors moving to utilities with the same (if not lower risks) with higher ROEs. And it would  
10 destabilize the credit supportive aspect that Moody’s and other credit rating agencies have  
11 identified from the Commission in setting above-average ROEs.

12 Likewise, SDG&E’s proposed 54% common equity, 46% long-term debt authorized  
13 capital structure proposal is more consistent with the Company’s longstanding capital structure,  
14 has been identified by Moody’s as being credit supportive, and has maintained SDG&E’s strong  
15 financial metrics. In contrast, intervenors suggest increasing SDG&E’s authorized long-term  
16 debt—which would increase the Company’s financial leverage, harm SDG&E’s credit ratings,  
17 and require higher ROE to counter that increased risks. But such a suggestion has no factual  
18 support when SDG&E shareholders are already investing money that they are not receiving a  
19 return upon to the benefit of ratepayers. Again, intervenors do not show why such a significant  
20 departure from the Commission’s past Cost of Capital Decisions is warranted.

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<sup>9</sup> D.23-08-028 at 5 (citation omitted).

<sup>10</sup> *Id* at 9.

1 **II. INTERVENORS' TESTIMONY DEMONSTRATES THAT SDG&E'S RISK**  
2 **PROFILE AND CAPITAL MARKET CONDITIONS CONTINUE TO SUPPORT**  
3 **SDG&E RECEIVING AN ABOVE-AVERAGE ROE**

4 Under longstanding Supreme Court and Commission precedent, SDG&E's ROE must be  
5 set at a level equal to those of utilities with comparable risks. SDG&E's risk profile remains the  
6 same (if not higher) as during the Commission's 2020 and 2023 Cost of Capital Decisions.  
7 Inflation and interest rates are also higher—reflected in the fact that the average authorized ROE  
8 has increased by nearly 40 basis points since 2022. The Commission should set SDG&E's ROE  
9 consistent with that increase in the national authorized ROE average.

10 **A. SDG&E's Risk Profile Is Higher Than During the 2023 Cost of Capital**  
11 **Proceeding**

12 In the 2023 Cost of Capital Decision, the Commission noted that SDG&E's credit rating  
13 had "been upgraded since the 2020 Test Year Decision," with Moody's upgrading SDG&E one  
14 notch to A3<sup>11</sup> (by contrast, as Karl Pavlovic for UCAN notes, SDG&E's S&P rating has  
15 remained the same since January 2019).<sup>12</sup> Since then, SDG&E's credit ratings from all three  
16 agencies have remained the same—two notches below the rating that SDG&E possessed prior to  
17 downgrades in response to 2018 and 2019 wildfires in the state—despite SDG&E not being the  
18 cause of a significant wildfire during that time and being repeatedly lauded by credit rating  
19 agencies for its wildfire mitigation efforts.  
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<sup>11</sup> D.22-12-031 at 33.

<sup>12</sup> Ex. UCAN-02, *Prepared Direct Testimony of Karl Richard Pavlovic on Behalf of Utility Consumers' Action Network Concerning San Diego Gas and Electric Company 2026 Cost of Capital* (July 30, 2025) ("Ex. UCAN-02 (Pavlovic Direct)") at 6.

Credit Rating Agency	January 1, 2018	January 1, 2023	August 20, 2025
Fitch	A	BBB+	BBB+
Moody's	A1	A3	A3
S&P	A	BBB+	BBB+

**1. SDG&E and other California Electric Utilities Continue to Face the Same Unique Wildfire Risks**

As such, credit rating agencies largely see SDG&E's risks remaining (at a minimum) the same as they were during the 2023 Cost of Capital Proceeding. Some intervenors cherry pick credit rating reports,<sup>13</sup> while ignoring the risks that have led to SDG&E's credit ratings remaining stagnant. Contrary to certain intervenors' claims,<sup>14</sup> credit rating agencies routinely reject the idea that California electric utilities face the same risk from wildfire as other Western states. Instead, as Moody's recently described, California electric utilities face a unique risk from wildfire liability (even after AB 1054's passage) from a combination of:

- "Severe wind events;"
- "Growing housing developments in fire-prone areas;" and
- Inverse condemnation, which renders utilities "strictly liable for damages from fires ignited by their equipment, regardless of fault or how reasonably they acted."<sup>15</sup>

As Michael Gorman quotes on behalf of EPUC/IS, S&P explicitly finds that, for SDG&E, the "threat of wildfires in [SDG&E's] service territory is high relative to that of its

<sup>13</sup> See Ex. EPUC/IS/TURN-001, *Direct Testimony and Exhibits of Michael P. Gorman* (July 30, 2025) ("Ex. EPUC/IS/TURN-001 (Gorman Direct)") at 20-21.

<sup>14</sup> Ex. TURN-01 (Dowdell Direct) at 11, 13; Ex. EDF-01, *Prepared Direct Testimony of Richard McCann, Ph.D. on Authorized Cost of Capital for Utility Operations for 2026 on Behalf of Environmental Defense Fund* (July 30, 2025) ("Ex. EDF-01 (McCann Direct)") at 58.

<sup>15</sup> Moody's Apr. 3, 2025 at 9.

1 utility peers across North America.”<sup>16</sup> As S&P later added, SDG&E faces “*above-average*  
2 physical risk compared with peers because of wildfires in California.”<sup>17</sup> As such, while Mr.  
3 Pavlovic cites S&P’s “excellent” business rating for SDG&E,<sup>18</sup> as Mr. Gorman quotes, S&P  
4 qualifies that SDG&E’s rating is at the “lower end” of S&P’s excellent range due to this higher  
5 wildfire risk threat relative to other utilities in North America.<sup>19</sup>

6 Jennifer Dowdell for TURN likewise mischaracterizes S&P’s statement regarding  
7 wildfire risks.<sup>20</sup> While S&P acknowledges that utilities in other states face wildfire threats, S&P  
8 first focuses on the specific risk in California:

9 In January 2025, California again experienced severe wildfires that may test the long-  
10 term viability of the state’s wildfire fund. Currently, the fund does not have an  
11 automatic replenishing mechanism, and the credit quality of the state’s investor-  
12 owned utilities could materially weaken should the wildfire fund fully deplete.”<sup>21</sup>

13 This concern about the funding available to cover wildfires arises from a factor unique to  
14 California—inverse condemnation.<sup>22</sup> None of the other intervenors demonstrate that electric  
15 utilities in any other state are held to strict liability for a utility-caused wildfire. As Moody’s

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<sup>16</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 191 (quoting S&P, *San Diego Gas & Electric* at 2 (Jun. 26, 2024)) (“S&P Jun. 26, 2024”).

<sup>17</sup> S&P, *Tear Sheet: San Diego Gas & Electric Co. Monitored Due to Risk of Material Draw on Wildfire Fund* (Feb 11, 2025) at 4 (emphasis added) (“S&P Feb. 11, 2025”).

<sup>18</sup> Ex. UCAN-02 (Pavlovic Direct) at 6.

<sup>19</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 191 (quoting S&P Jun. 26, 2024 at 2).

<sup>20</sup> Ex. TURN-01 (Dowdell Direct) at 24 (citing note 86) and Attachment at 239-243 (quoting S&P Global” SLIDES PUBLISHED: North American Regulated Utilities Industry Highlights, May 30, 2025).

<sup>21</sup> *Id.*, Attachment at 241.

<sup>22</sup> See Moody’s Ratings, *Rating Action: Moody’s downgrades San Diego Gas & Electric to A2 from A1; outlook stable* (September 6, 2018) (downgrading SDG&E to A2 from A1 due to California not repealing or changing inverse condemnation, which is a “unique risk” for California).



1 states, inverse condemnation “heightens the utilities’ risk exposure to property damage.”<sup>23</sup> By  
2 contrast, as Moody’s recently noted, other Western states—such as Utah and Idaho—have “caps  
3 on noneconomic [wildfire-related] damages that contain liability exposure.”<sup>24</sup>

4 Richard McCann’s argument that California courts’ application of inverse condemnation  
5 to a utility-cause wildfire arose from a decision in 1999 is irrelevant.<sup>25</sup> Credit rating agencies and  
6 investors are self-evidently concerned with this doctrine’s application<sup>26</sup>—which remains the  
7 same as it was in the 2020 and 2023 Cost of Capital Proceedings.

8 Similarly, Aaron Rothschild’s statement that “only risks that result from regulatory  
9 failure—such as lack of clarity, inconsistency, or delay—may be compensable through an  
10 increased ROE”<sup>27</sup> ignores that the very issue that credit rating agencies and investors are worried  
11 about regarding utility-caused wildfires—the potential lack of cost recovery for massive  
12 liabilities. As Moody’s states, one of the credit supportive elements of AB 1054 is the “revised  
13 prudence standard”—due to the concern resulting from the fact that, “in the case of SDG&E’s  
14 2007 wildfires, while the CPUC denied recovery, the FERC ruled that SDG&E acted prudently  
15 and allowed the recovery of wildfire costs.”<sup>28</sup>

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<sup>23</sup> Moody’s Apr. 3, 2025 at 9.

<sup>24</sup> Moody’s Ratings, *Sector In-Depth: Regulated Electric and Gas Utilities – California, Wildfire fund depletion will increase credit risk, requiring a replenishment plan or other liability remedies*, at 3 (Aug. 4, 2025) (“Moody’s Aug. 4, 2025”); *see also id.* at 1 (noting that the issue in California is that wildfires are occurring in densely populated metropolitan areas).

<sup>25</sup> Ex. EDF-01 (McCann Direct) at 58.

<sup>26</sup> Ex. SDG&E-01, *Prepared Direct Testimony of Valerie A. Bille Policy Overview on Behalf of San Diego Gas & Electric Company* (March 20, 2025) (“Ex. SDG&E-01 (Bille Direct)”) at VAB-9, VAB-12-13.

<sup>27</sup> Ex. WTF-01E, *Direct Testimony of Aaron L. Rothschild on Behalf of Wild Tree Foundation* (Revised August 12, 2025) (“Ex. WTF-01E (Rothschild Direct)”) at 24.

<sup>28</sup> Moody’s Apr. 3, 2025 at 10.

1 As a result, contrary to Mr. McCann’s suggestion,<sup>29</sup> investor analysts explicitly apply a  
2 discount to Sempra’s stock price due to SDG&E’s wildfire risk.<sup>30</sup> Mr. Nowak quantified this  
3 risk, demonstrating the impact on all three California electric utilities’ stock prices following the  
4 January 2025 wildfires in Southern California.<sup>31</sup>

5 It is thus not accurate to claim, as Mr. McCann does, that the risk only arises from a  
6 utility causing a wildfire.<sup>32</sup> Putting aside the fact that, again, utilities in California are subject to  
7 strict liability—which means that they could do everything right and still be liable—SDG&E’s  
8 experience is proof of the inaccuracy of Mr. McCann’s statement. As intervenors cite, credit  
9 rating agencies routinely laud SDG&E’s wildfire mitigation efforts.<sup>33</sup> And SDG&E has not had a  
10 utility-caused wildfire since 2007. Yet during that time, SDG&E’s credit ratings fell multiple  
11 notches, Sempra’s stock declined following the January 2025 wildfires, and, as discussed further  
12 below, Fitch is threatening to downgrade SDG&E’s credit rating if the wildfire fund is  
13 diminished through no fault of its own.<sup>34</sup>

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<sup>29</sup> Ex. EDF-01 (McCann Direct) at 30.

<sup>30</sup> Ex. SDG&E-01 (Bille Direct) at VAB-12-13.

<sup>31</sup> Ex. SDG&E-03, *Prepared Direct Testimony of Joshua C. Nowak Return on Equity on Behalf of San Diego Gas & Electric Company* (March 20, 2025) (“Ex. SDG&E-03 (Nowak Direct)”) at JCN-49; Ex. SDG&E-06, *Prepared Rebuttal Testimony of Joshua C. Nowak – Return on Equity on Behalf of San Diego Gas & Electric Company* (August 20, 2025) (Nowak) at JCN-21.

<sup>32</sup> Ex. EDF-01 (McCann Direct) at 48.

<sup>33</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 191 (quoting S&P Jun. 26, 2024 at 4-5).

<sup>34</sup> See Fitch Ratings, *San Diego Gas & Electric Company* (Jun. 30, 2025), at 1 (“Fitch Jun. 30, 2025”).

1                   **2.     SDG&E’s Wildfire Risks are the Same, if Not Increasing, under AB**  
2                   **1054 as in Prior Cost of Capital Proceedings Due to Concerns about**  
3                   **Exhaustion of the Fund**

4               Certain intervenors also claim that AB 1054 and the wildfire fund mitigate SDG&E’s  
5 wildfire risks.<sup>35</sup> But as SDG&E and credit rating agencies recognize, AB 1054 helps mitigate,  
6 but does not eliminate, SDG&E’s above-average wildfire risk; reflected in fact that AB 1054  
7 stopped the slide in SDG&E’s credit ratings but has not resulted in those credit ratings returning  
8 to pre-2019 levels.

9               At a minimum, SDG&E’s risk level is the same as it was during the 2020 and 2023 Cost  
10 of Capital Proceedings when AB 1054 was also in place. In reality, however, SDG&E’s risks are  
11 increasing due to concerns about the durability of AB 1054—specifically the wildfire fund—in  
12 light of the Eaton Fire. As Moody’s recently stated, this “year’s Eaton fire and Palisades fire,  
13 which broke out on the same day northwest of Santa Monica, have upended th[e] optimism” that  
14 the 2017 and 2018 wildfires were outliers.<sup>36</sup> Instead, they appear to “confirm a new normal in  
15 which large-scale wildfires [in California] are threatening to become a recurring phenomenon,  
16 even in densely populated metropolitan areas where damage claims are far higher than in  
17 forested rural areas.”<sup>37</sup>

18              As Mr. Gorman quotes from Moody’s, ““if the fund is depleted, the majority of credit  
19 supportive elements, including the liability cap will terminate.””<sup>38</sup> As Fitch thus recently stated,  
20 “Fitch believes that the recent Eaton Fire in Southern California is a significant adverse

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<sup>35</sup> See Ex. EDF-01 (McCann Direct) at 4.

<sup>36</sup> Moody’s, Aug. 4 at 1.

<sup>37</sup> *Id.*

<sup>38</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 28 (quoting Moody’s, *San Diego Gas & Electric Co.*, 7-9 (Mar. 10, 2025)).

1 development for SDG&E.”<sup>39</sup> Fitch added that, a “diminished AB 1054 fund would meaningfully  
2 increase wildfire risk for the three large investor-owned utilities in California, including  
3 SDG&E, thereby pressuring its credit worthiness.”<sup>40</sup> The ratings agency continued that, in “this  
4 scenario, adverse credit rating actions are likely without meaningful incremental legislative  
5 support.”<sup>41</sup> Moody’s likewise recently stated that failure to “enhance” the wildfire fund funding  
6 would leave the three California electric utilities “with less protection against wildfire liabilities,  
7 putting their credit quality at risk.”<sup>42</sup>

8 Similarly, as TURN acknowledges, Regulatory Research Associates (“RRA”), an arm of  
9 S&P, this summer just **downgraded** California’s regulatory environment ranking to “Average 2  
10 expressly due to immediate concern about the 2025 wildfires and the adequacy of California’s  
11 1054 Wildfire Insurance Fund, and that there is no current mechanism for replenishment.”<sup>43</sup> Ms.  
12 Dowdell tries to ignore that fact by asserting that California “likely will be proactive and  
13 successful in developing solutions for any deficiency in the AB 1054 wildfire fund.”<sup>44</sup> But she  
14 simultaneously cites RRA’s statement that ““RRA is unaware of any pending legislation that  
15 would extend the life of the existing wildfire insurance fund . . . instead of being terminated  
16 when the fund is exhausted.””<sup>45</sup>

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<sup>39</sup> Fitch Jun. 30, 2025 at 1.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> Moody’s Aug. 4, at 1.

<sup>43</sup> Ex. TURN-01 (Dowdell Direct) at 14-15 (citing RRA *State Regulatory Evaluations-Energy July 2025*, S&P *Global Market Intelligence*, p. 4 California Notes (Jul. 2025) (“RRA Jul. 2025”); accord Ex. UCAN-02 (Pavlovic Direct), Attachment KPR-3 (containing the report).

<sup>44</sup> Ex. TURN-01 (Dowdell Direct) at 15.

<sup>45</sup> *Id.* at n.53 (quoting RRA Jul. 2025).

1 Contrary to Mr. Pavlovic's statement then,<sup>46</sup> the concern about the depletion of the  
2 wildfire fund is an acute, immediate one. Mr. McCann is incorrect to say that if SCE is found  
3 liable for the Eaton Fire then it should be able to recover from the wildfire fund.<sup>47</sup> Instead, as the  
4 article that Mr. McCann himself cites, the concern is that the Eaton fire could wipe out the  
5 fund.<sup>48</sup>

6 Even if new legislation is passed, according to publicly available news reports, the  
7 proposed legislation would simply replenish or create a new fund with additional 50-50  
8 contributions from shareholders and ratepayers.<sup>49</sup> At best, this puts SDG&E's risk profile back to  
9 where it was during the 2020 and 2023 Cost of Capital Proceedings by simply maintaining the  
10 status quo. In reality, however, Moody's found that the California electric utilities' risk profile  
11 would remain higher after the Eaton and Palisades fires even with such legislation, as such a  
12 legislative solution would only be a "temporary fix" and is "not sustainable in a world where  
13 large fires continue to occur," given the "inherent limits of how much can be raised through  
14 company contributions or customer surcharges."<sup>50</sup> Instead, the credit rating agency found that the  
15 only "permanent solution" would "require legislative action to address utility wildfire liability,"  
16 such as the elimination of inverse condemnation and/or limits on liabilities.<sup>51</sup>

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<sup>46</sup> Ex. UCAN-02 (Pavlovic Direct) at 8.

<sup>47</sup> Ex. EDF-01 (McCann Direct) at 47-48.

<sup>48</sup> *Id.* at 48, n.90 (citing Los Angeles Times, *Eaton fire could wipe out California's \$21-billion wildfire fund, documents show* (Jul. 23, 2025)), and Attachment B-27.

<sup>49</sup> Los Angeles Times, *Newsom's plan to raise \$18 billion for state wildfire fund faces tough opposition* (July 31, 2025), available at: <https://www.latimes.com/environment/story/2025-07-31/governor-wants-another-18-billion-to-shore-up-state-wildfire-fund>.

<sup>50</sup> Moody's Aug. 4, 2025 at 3.

<sup>51</sup> *Id.* ("If the state enacts liability reforms, it would alleviate pressure on investor-owned utility financial profiles and reduce overhang risk for future wildfires.").

1 In addition, Moody's noted that, if a new wildfire fund replenishment follows the "same  
2 50-50 cost sharing structure" between shareholders and ratepayers, that "as vital as it is to  
3 replenish the fund, fun contributions from utilities also have downside implications from a credit  
4 perspective."<sup>52</sup> As Moody's continued:

5 The contributions themselves represent direct financial losses, which  
6 erode their [the utilities'] earnings, and could impact creditworthiness  
7 especially if they are financed with debt without corresponding equity.  
8 When a utility contributes to the fund, it is effectively absorbing a portion  
9 of the cost of wildfire damages in advance, regardless of whether it has  
10 acted prudently. Furthermore, the cost of a fire would be distributed  
11 among SCE, PG&E and SDG&E through the shared fund, regardless of  
12 which utility was responsible for starting the fire.

13  
14 The utilities' ability to recover their prudently incurred costs and earn a  
15 reasonable return—core elements of the regulatory compact—is  
16 fundamental to their business model and a significant credit consideration.  
17 Maintaining a strong and stable stream of recurring income and cash flow  
18 is essential for achieving a sustaining a high credit rating. In particular,  
19 this issue falls under Factor 2 of our methodology for rating regulated  
20 electric and gas utilities—the ability to recover costs and earn returns,  
21 which contributes 25% of the credit scoring.<sup>53</sup>  
22

23 And finally, Moody's determined that "[c]ontributing to the wildfire fund also has a  
24 negative impact on credit quality by reducing the utility's return on its investment,"<sup>54</sup> removing  
25 equity that could otherwise be invested in rate base to help provide safe and reliable service. For  
26 example, Moody's calculated that "SCE's \$2.4 billion contribution to the fund and its annual \$95  
27 million contribution reduced its return on equity by about 73 basis points in 2023 and 49 basis  
28 points in 2024."<sup>55</sup>

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<sup>52</sup> Moody's Aug. 4 at 2.

<sup>53</sup> *Id.* at 2-3.

<sup>54</sup> *Id.* at 3.

<sup>55</sup> *Id.*

	ROE with impact of fund contributions	ROE without impact of fund contributions	Impact
<b>SCE 2023</b>	7.57%	8.30%	-0.73%
<b>SCE 2024</b>	8.31%	8.80%	-0.49%

Those contributions have a similar impact upon SDG&E and would continue to do so if further contributions are required.

### 3. SDG&E's Other Risks Have Also Increased

SDG&E also faces other risks that have increased since the 2023 Cost of Capital proceeding. As Mr. Pavlovic admits, Moody's cites "SDG&E's 2024 general rate case as posing a credit risk."<sup>56</sup> Specifically, Moody's states that SDG&E's 2024 GRC decision has "introduced some regulatory uncertainty. This uncertainty affects the utility's cash flow visibility compared to previous multi-year rate case outcomes and tempers [SDG&E's] A3 credit rating."<sup>57</sup>

Although multiple intervenors cite the use of two-way balancing accounts as credit supportive,<sup>58</sup> Moody's found that one of the risks arising out of that GRC decision was the denial of "two-way balancing account treatment for several regulatory accounts" and the conversion of "some existing two-way accounts to one-way accounts."<sup>59</sup> The credit rating agency determined that this reduced use of two-way balancing accounts could "negatively affect the timeliness of true-ups for recovering under-collected amounts,"<sup>60</sup> heightening SDG&E's "exposure to

<sup>56</sup> Ex. UCAN-02 (Pavlovic Direct) at 11 (citing Moody's Apr. 3, 2025).

<sup>57</sup> Moody's Apr. 3, 2025 at 1.

<sup>58</sup> Ex. TURN-01 (Dowdell Direct) at 21; Ex. UCAN-02 (Pavlovic Direct) at 13.

<sup>59</sup> Moody's Apr. 3, 2025 at 6-7.

<sup>60</sup> *Id.* at 6.

1 regulatory lag.”<sup>61</sup> In addition, several cost caps were implemented without the ability to track  
2 for future recovery any potential costs above the cap.

3 Credit rating agencies thus disagree with Mr. McCann’s assessment that the risks from  
4 California’s regulatory environment are “not borne by shareholders.”<sup>62</sup> Instead, Moody’s only  
5 rates as Baa the “consistency and predictability of regulation” and the “timeliness of recovery of  
6 operating and capital costs.”<sup>63</sup> The rating agency added that a credit challenge faced by SDG&E  
7 is the “[e]levated political risk and public scrutiny in California amid demanding public policy  
8 goals,”<sup>64</sup> noting that the length of the 2024 GRC proceeding is an “example[] of the heightened  
9 regulatory uncertainty and scrutiny that the utility faces.”<sup>65</sup> And Moody’s cites this cost of  
10 capital proceeding as “another point of reference to assess SDG&E’s relationship with the CPUC  
11 and the constructiveness of the regulatory environment.”<sup>66</sup> In sum, SDG&E faces the same—if  
12 not higher—risk environment than during the 2020 and 2023 Cost of Capital Proceedings.

13 **B. Intervenor’s Testimony Demonstrates that Capital Market Conditions**  
14 **Require a Higher ROE than in the 2020 and 2023 Cost of Capital**  
15 **Proceedings**

16 By contrast, as noted, Moody’s has found that one counterbalance to the above-cited risks  
17 is that SDG&E has historically received “above-average returns,” with a ROE that “compares

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<sup>61</sup> *Id.* at 1.

<sup>62</sup> Ex. EDF-01 (McCann Direct) at 54.

<sup>63</sup> Moody’s Apr. 3, 2025 at 15.

<sup>64</sup> *Id.* at 2.

<sup>65</sup> *Id.* at 7.

<sup>66</sup> *Id.* at 8.



1 favorably to the authorized returns in other jurisdictions.”<sup>67</sup> The credit rating agency thus rates as  
2 ‘A’ SDG&E’s “sufficiency of rates and returns.”<sup>68</sup>

3 Ms. Dowdell for TURN echoes these credit rating agency sentiments, stating that the  
4 “Commission has a long record of setting the authorized ROE significantly higher than the  
5 national average as a means of both encouraging and signaling to the broader financial markets a  
6 commitment to financially healthy California utilities.”<sup>69</sup> Ms. Dowdell cites the Commission’s  
7 finding in the 2020 Cost of Capital Decision that the Commission ““further observe[s] that the  
8 10.30% authorized ROE [granted SCE] is significantly higher than the 9.60% ROE granted to  
9 United States electric utilities during 2018””<sup>70</sup> and concludes that from 2010-2024, “California  
10 utilities have enjoyed authorized ROEs that exceeded the national average among US Utilities by  
11 70 basis points.”<sup>71</sup> Ms. Dowdell adds that “S&P’s notes indicate that what may be most  
12 important for investors and credit is the relationship of the authorized ROE to the industry  
13 average,” citing S&P seeing the recent granting of a 10.30% ROE to Duke Energy Florida as  
14 credit supportive.<sup>72</sup>

15 This precedent supports a higher authorized ROE for SDG&E here than in the 2020 and  
16 2023 Cost of Capital Proceedings. As Ms. Dowdell and other intervenors acknowledge, the  
17 national authorized ROE average for electric utilities for June 2024-June 2025 increased by 35

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<sup>67</sup> *Id.* at 5, 8.

<sup>68</sup> *Id.* at 15.

<sup>69</sup> Ex. TURN-01 (Dowdell Direct) at 30.

<sup>70</sup> *Id.* at 31 (quoting D.19-12-056 at 40-41 and citing *id.* at 41-42, 42-43, and 43).

<sup>71</sup> Ex. TURN-01 (Dowdell Direct) at 30.

<sup>72</sup> *Id.* at 31. (quoting S&P Global, North American Utility Regulatory Jurisdictions Update: *Some Notable Developments*, September 24, 2024).

*basis points* since the figure cited by the Commission in the 2023 Cost of Capital Decision—  
from 9.39 to 9.74%.<sup>73</sup>

Year	Electric Authorized Average
1H 2022	9.39% <sup>74</sup>
2022	9.54% <sup>75</sup>
2023	9.60% <sup>76</sup>
2024	9.74% <sup>77</sup>
1H 2025	9.68% <sup>78</sup>

Multiple intervenors recognize this upward trend.<sup>79</sup>

- UCAN (Pavlovic)—Acknowledging that the authorized electric utility average was 9.74% in 2024;<sup>80</sup>
- Cal Advocates (Woolridge)—Stating that the authorized ROE for electric utilities increased “by 21 basis points” between 2022-2024 (though this understates the increase);<sup>81</sup> and
- EPUC/IS (Gorman)—Showing an increase from 9.39% to 9.72% from 2021 to the first quarter of 2025.<sup>82</sup>

<sup>73</sup> Compare D.22-12-031 at 33 with RRA Jul. 25, 2025 at 3.

<sup>74</sup> D.22-12-031 at 33.

<sup>75</sup> RRA, *Major Energy Rate Case Decisions in the US, January-December 2023*, 3 (Feb. 6, 2024).

<sup>76</sup> RRA, *Major Energy Rate Case Decisions in the US, January-December 2024*, 3 (Feb. 4, 2025).

<sup>77</sup> RRA Jul. 25, 2025 at 3.

<sup>78</sup> *Id.*

<sup>79</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 34; *Amended Report on California Energy Companies Cost of Capital* (July 31, 2025) (“Ex. Cal Advocates (Woolridge)”) at 18.

<sup>80</sup> Ex. UCAN-02 (Pavlovic Direct) at 7.

<sup>81</sup> Cal Advocates (Woolridge) at 20.

<sup>82</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 34, Figure 1.

1           Intervenors likewise acknowledges that interest rates and inflation are higher than during  
2 the 2023 Cost of Capital Proceeding,<sup>83</sup> and that the Federal Reserve has maintained its target  
3 federal funds overnight rate—which remains higher than in 2022.<sup>84</sup> And Mr. Woolridge similarly  
4 testifies that the VIX “fear gauge” has increased.<sup>85</sup>

5           In the 2023 Cost of Capital Decision, the Commission explicitly recognized a “downward  
6 trend of 20-30 basis points” in the RRA national authorized electric average since the 2020 Cost  
7 of Capital decision. It reduced the ROE authorization for each utility by 25 basis points as a  
8 result.<sup>86</sup> Applying the same precedent here supports increasing authorized ROEs, given the 30-40  
9 basis point increase since that 2023 Decision. It likewise supports a higher ROE than authorized  
10 in the 2020 Cost of Capital Decision, as the national authorized electric ROE is currently higher  
11 than the 9.60% average cited in that Decision.

12           Yet intervenors all turn around and propose ROEs that are tens—if not hundreds—of  
13 basis points below the national average. For example, TURN—after its extensive discussion  
14 above about how the Commission has a long precedent of setting above-average authorized  
15 ROEs, the importance of authorized ROE relative to the national average, and how credit rating  
16 agencies see California’s above-average ROEs as credit supportive—proposes an ROE below the  
17 national average. In other words, TURN proposes to negate the very credit supportive feature  
18 that the Commission has long maintained.

19           Similarly, Mr. Woolridge states that “authorized ROEs have not increased or decreased  
20 as much as interest rates in recent years, and so the increases in interest rates in the last two years

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<sup>83</sup> *Id.* at 45 (“inflation is still slightly elevated”); Cal Advocates (Woolridge) at 8.

<sup>84</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 45, 46.

<sup>85</sup> Ex. Cal Advocates (Woolridge) at 16.

<sup>86</sup> D.22-12-031 at 33-34.

1 does not mean that authorized ROEs need to increase as much.”<sup>87</sup> But Mr. Woolridge is not  
2 proposing any increase—he is proposing to decrease SDG&E’s ROE by nearly 100 basis  
3 points.<sup>88</sup>

4 The best that intervenors can say in response is largely that the Commission should  
5 ignore ROEs set by other utility commissions nationwide.<sup>89</sup> In so doing, Mr. McCann admits that  
6 he is seeking “dramatic reforms to the methods used for determining appropriate ROE.”<sup>90</sup> Mark  
7 Ellis on behalf of PCF goes so far as to propose an ROE that is lower than the cost of debt.<sup>91</sup>

8 But the Commission has already rejected such arguments, giving no weight in the 2023  
9 cost of capital proceeding to PCF’s proposal there.<sup>92</sup> In so doing, the Commission correctly  
10 recognized that it would not serve the public interest to set an unreasonably low ROE because “it  
11 could cause investors to move to utilities with higher ROEs.”<sup>93</sup> That is, it would make no sense  
12 for the Commission to ignore ROEs authorized by Commissions nationwide because the  
13 California utilities must compete against those other utilities for capital. Even if the intervenors  
14 were correct about utility commissions setting too high ROE for decades (and there is no

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<sup>87</sup> Ex. Cal Advocates (Woolridge) at 8.

<sup>88</sup> *Id.* at 7.

<sup>89</sup> *See, e.g.*, Ex. Cal Advocates (Woolridge) at 22 (asserting that the Commission “should not be concerned that my recommended ROE is below other authorized ROEs”); Ex. EDF-01 (McCann Direct) at 25 (“The solution is to determine the ROEs without reference to what other jurisdictions, which may be under political influence, have determined.”); Ex. WTF-01E (Rothschild Direct) at 21 (“the CPUC should be cautious about relying upon authorized ROEs from past proceedings as a benchmark for setting ROEs in this case”).

<sup>90</sup> Ex. EDF-01 (McCann Direct) at 11-12.

<sup>91</sup> Ex. SC/PCF-01, *Direct Testimony of Mark E. Ellis on Behalf of Sierra Club and The Protect Our Communities Foundation* (July 30, 2025) (“Ex. SC/PCF-01 (Ellis Direct)”) at 11.

<sup>92</sup> D.22-12-031 at 22; D.23-08-028 at 9.

<sup>93</sup> D.23-08-028 at 9; *see also* D.22-12-031 at 18-19 (noting that the Risk Premium Model is “commonly used in ROE proceedings.”).

1 evidence they are), unilaterally setting the California utilities' ROEs lower would just result in  
2 investors flocking to utilities outside of California with higher ROEs and lower risk profiles.

3 And again, as TURN acknowledges, investors and credit rating agencies focus on how  
4 authorized ROEs compare to others nationwide to those nationwide. It would thus be foolhardy  
5 to ignore that the California utilities' authorized ROEs will be compared to other jurisdictions.  
6 And it is self-evident how credit rating agencies would react to the Commission going from  
7 setting above to below average ROEs.

8 TURN also raises the issue of affordability.<sup>94</sup> But as the Commission held in the 2023  
9 Cost of Capital Phase 2 Decision, cost of capital proceedings "are ill suited to mere targeted  
10 consideration of the affordability of specific expenditures and investments," because they do not  
11 set a utility's rate base.<sup>95</sup> Instead, the "issue of affordability as it relates to the cost of capital is  
12 subsumed under the *Hope* and *Bluefield* standards."<sup>96</sup> The Commission continued that  
13 "[c]onsiderations of affordability beyond the *Hope* and *Bluefield* standards risk undermining  
14 them."<sup>97</sup>

15 Nor is it true that SDG&E has over-earned its authorized ROE in recent years.<sup>98</sup> Indeed—  
16 putting aside the fact that TURN's figures are inaccurate because it includes SDG&E's FERC  
17 jurisdictional business where SDG&E has a different authorized ROE—as TURN shows,  
18 SDG&E underearned its authorized ROE in 2023 and 2024. In sum, SDG&E's risk profile  
19 remains the same, if not higher. And nationwide authorized ROE averages, interest rates, and

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<sup>94</sup> Ex. TURN-01 (Dowdell Direct) at 3.

<sup>95</sup> D.24-10-008 at 30.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

<sup>98</sup> Ex. TURN-01 (Dowdell Direct) at 32, 39.

inflation are all higher than during the 2020 and 2023 Cost of Capital Proceedings. The intervenors have therefore not provided any evidence that SDG&E's ROE should be reduced.

### **III. CERTAIN INTERVENORS HAVE NO BASIS TO PROPOSE TO LOWER SDG&E'S AUTHORIZED COMMON EQUITY RATIO**

SDG&E proposes matching its authorized capital structure to its longstanding actual capital structure.<sup>99</sup> It is thus wrong to say that SDG&E used a “much less rigorous qualitative evaluation” to reach its proposal.<sup>100</sup> Instead, as Ms. Dowdell acknowledges, in the 2013 Cost of Capital Decision, the Commission granted SDG&E an authorized capital structure that reflected SDG&E's actuals.<sup>101</sup> And as Matthew Bandyk for UCAN agrees, “credit rating agencies rely upon SDG&E's actuals for assessing SDG&E's financial metrics.”<sup>102</sup>

As such, Mr. Gorman's statement that SDG&E's proposal is “not needed” to support SDG&E's credit rating ignores that SDG&E's credit metrics are assessed on SDG&E's actual capital structure.<sup>103</sup> Mr. Gorman states that SDG&E has “strong credit metrics”<sup>104</sup>—but that is because SDG&E's shareholders are putting capital into SDG&E that they are not receiving a return on to bolster those credit metrics—to the benefit of ratepayers.

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<sup>99</sup> Ex. SDG&E-02, *Prepared Direct Testimony of Maritza Mekitarian Capital Structure, Embedded Cost of Debt, and Preferred Equity on Behalf of San Diego Gas & Electric Company* (March 20, 2025) (“Ex. SDG&E-02 (Mekitarian Direct)”) at MM-1.

<sup>100</sup> Ex. EDF-01 (McCann Direct) at 13.

<sup>101</sup> Ex. TURN-01 (Dowdell Direct) at 40.

<sup>102</sup> Ex. UCAN-01, *Direct Testimony of Matthew Bandyk on Behalf of Utility Consumers' Action Network Concerning San Diego Gas and Electric Company 2026 Cost of Capital* (July 30, 2025) (“Ex. UCAN-01 (Bandyk Direct)”) at 23 (quoting Ex. SDG&E-02 (Mekitarian Direct) at 9).

<sup>103</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 193.

<sup>104</sup> *Id.* at 196.

1 Similarly, Mr. Bandyk’s statement that, from “the standpoint of credit rating agencies,  
2 nothing would change if the CPUC approved Ms. Mekitarian’s proposed capital structure,”<sup>105</sup>  
3 ignores the obvious point that SDG&E cannot likely sustain an actual common equity ratio  
4 higher than authorized indefinitely. As discussed, SDG&E’s actual common equity ratio being  
5 higher than its authorized means that shareholders are investing capital into SDG&E that they are  
6 not receiving a return upon. If SDG&E reduces its actual capital structure to reflect its  
7 authorized, credit rating agencies will surely notice.

8 TURN is likewise inconsistent in stating that the “Commission should require alignment  
9 of Authorized Equity Capital Percentages with Book Equity,”<sup>106</sup> while simultaneously arguing  
10 that SDG&E’s common equity ratio should not match its book equity.<sup>107</sup> Indeed, TURN’s  
11 statement that “absent Commission directives, utility managements are incentivized to operate  
12 with the maximum amount of leverage that investment grade quality will allow since more  
13 leverage increases shareholders’ returns,”<sup>108</sup> augurs all the more in favor of the Commission  
14 adopting SDG&E’s actual common equity ratio as its authorized. For over a decade now,  
15 SDG&E has done the exact opposite of what TURN insinuates, maintaining a higher actual  
16 common equity ratio than its authorized one—supporting SDG&E’s financial health to the  
17 benefit of ratepayers.

18 Yet intervenors do not propose maintaining SDG&E’s authorized capital structure.  
19 Instead, they all argue for increasing SDG&E’s long-term debt ratio. Other intervenors even

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<sup>105</sup> Ex. UCAN-01 (Bandyk Direct) at 23.

<sup>106</sup> Ex. TURN-01 (Dowdell Direct) at 47.

<sup>107</sup> *Id.* at 37.

<sup>108</sup> *Id.* at 53.

1 more amazingly argue to reduce SDG&E's authorized common equity ratio, moving it even  
2 farther away from its actual one.<sup>109</sup>

3 As with ROE, however, those intervenors do not show any basis to reduce SDG&E's  
4 common equity ratio relative to the 2020 and 2023 Cost of Capital Decisions. In fact, in the 2023  
5 Cost of Capital Decision, the Commission found that it was not "in the ratepayer interest for  
6 SDG&E to be authorized increased leverage."<sup>110</sup> Intervenor have not shown why the  
7 Commission should reach a different result here. Nor do they have any rationale as to why  
8 SDG&E's authorized common equity ratio should be below the median authorized common  
9 equity ratio cited by Mr. Gorman.<sup>111</sup>

10 Mr. Woolridge on behalf of Cal Advocates is flatly wrong in asserting that SDG&E has  
11 not maintained an actual common equity ratio at the level of its authorized one since the 2023  
12 Cost of Capital Decision. Instead, as TURN acknowledges, SDG&E has maintained a book  
13 common equity ratio of over 56% since 2018,<sup>112</sup> and over 53% since 2022.<sup>113</sup> And as Ms.  
14 Mekitarian demonstrates in her rebuttal testimony, Mr. Woolridge's calculation suffers from  
15 basis flaws. Mr. Woolridge's testimony should thus be rejected.

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<sup>109</sup> See, e.g., Ex. EDF-01 (McCann Direct) at 16 (arguing for a 55% debt ratio).

<sup>110</sup> D.22-12-031 at 12.

<sup>111</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 35. See D.22-12-031 at 24 ("As a utility's debt ratio increases, a higher ROE may be needed to compensate for that increased risk.").

<sup>112</sup> Ex. TURN-01 (Dowdell Direct) at 32, 34, Table 10.

<sup>113</sup> *Id.*



1 **IV. THE COMMISSION JUST LITIGATED THE CCM'S DESIGN AND**  
2 **INTERVENORS OFFER NO BASIS TO REVISIT THE ISSUE**

3 Certain intervenors also attempt to re-litigate the CCM. But the Commission just  
4 addressed this issue in the 2023 Cost of Capital Phase 2 proceeding. The intervenors' same  
5 arguments that were rejected there should be discarded again.

6 As the Commission held in that Decision, one of the "primary goals of the CCM is to  
7 reduce regulatory burden associated with annual cost of capital proceedings."<sup>114</sup> But proposals  
8 such as incorporating beta and the market risk premium into the CCM trigger measurement,<sup>115</sup> or  
9 requiring that "any change in the authorized ROE should be investigated for reasonableness by  
10 the Commission before a CCM formula adjustment to the authorized ROE is approved,"<sup>116</sup>  
11 would undermine that reduction in regulatory burden. Instead, it would turn the CCM into a new  
12 cost of capital proceeding by other means, leading to extended litigation over the value of inputs  
13 or the "reasonableness" of the adjustment. Moreover, Resolution E-5306 demonstrates that  
14 parties already have the ability to challenge the CCM's implementation. The Commission should  
15 thus continue the CCM as established in D.08-03-035.

16 **V. CONCLUSION**

17 SDG&E's risks remain the same—if not higher—than during the 2020 and 2023 Cost of  
18 Capital Decisions. The nationwide authorized ROE average, by contrast, is higher, reflecting  
19 higher inflation and interest rates. As in the 2020 and 2023 Cost of Capital Proceedings, the  
20 Commission should set an ROE for SDG&E that is commensurate with this increase.

21 This concludes my prepared rebuttal testimony.

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<sup>114</sup> D.24-10-008 at 24.

<sup>115</sup> Ex. WTF-01E (Rothschild Direct) at 81-82.

<sup>116</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 19.