

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-05

**PREPARED REBUTTAL TESTIMONY OF**  
**MARITZA MEKITARIAN**  
**CAPITAL STRUCTURE, EMBEDDED COST OF DEBT, AND**  
**PREFERRED EQUITY**  
**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.	CAPITAL STRUCTURE .....	2
A.	Intervenors Offer No Support for Replacing SDG&E’s Authorized Preferred Equity with Increased Long-Term Debt .....	2
1.	Certain Intervenors Propose Maintaining SDG&E’s Common Equity Ratio while Increasing Long-Term Debt, but Have Not Shown What Has Changed Since the 2023 Cost of Capital Decision .....	2
2.	Other Intervenors’ Proposal to Reduce SDG&E’s Common Equity Ratio Are Even More Extreme And Should be Rejected .....	4
a.	Mr. Woolridge Makes Basic Errors in Calculating SDG&E’s Actual Common Equity Ratio so His Testimony Should be Discarded.....	4
b.	Intervenors Understate the Impact Their Proposals Would Have on Borrowing Costs to Ratepayers Through Lowered Credit Ratings .....	7
B.	Intervenors Incorrectly Assert that SDG&E Has Not Supported its Capital Structure Proposal .....	9
1.	SDG&E’s Proposed Capital Structure is Consistent with SDG&E’s Actual Capital Structure, Credit Supportive, and Helps Lower Costs for Ratepayers.....	10
2.	TURN’s Testimony Explains Why SDG&E’s Actual Common Equity Ratio Should be Adopted .....	11
III.	LATE-FILED EXHIBIT: EMBEDDED COST OF DEBT.....	15
IV.	CONCLUSION.....	15

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**I. INTRODUCTION**

SDG&E's 54% common equity, 46% long-term debt capital structure proposal is more consistent with the Company's longstanding capital structure, appropriately rewards SDG&E's equity holders for putting capital into the business to the benefit of ratepayers, and has been explicitly identified by Moody's as being credit supportive. In contrast, intervenors<sup>1</sup> do not propose maintaining SDG&E's current authorized capital structure. Instead, some suggest replacing SDG&E's preferred equity layer with an increase to SDG&E's long-term debt.

Worse, others suggest reducing SDG&E's authorized common equity ratio—which would move the Company further away from its actual capital structure—effectively punishing SDG&E and its equity holders for the benefit it has provided ratepayers by maintaining a higher actual common equity ratio with no return. Moreover, a reduction would harm SDG&E's credit ratings, and result in higher costs passed on to ratepayers. Intervenors have not shown why SDG&E's authorized leverage should be increased relative to what was authorized in the 2020 and 2023 Cost of Capital Decisions. These intervenor proposals should be rejected.

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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"); Matthew Bandyk and Richard Pavlovic for Utility Consumers' Action Network ("UCAN"); Jennifer Dowdell for the Utility Reform Network ("TURN"); and Aaron Rothschild for Wild Tree Foundation ("WTF").

## II. CAPITAL STRUCTURE

### A. Intervenor Offer No Support for Replacing SDG&E's Authorized Preferred Equity with Increased Long-Term Debt

No intervenor proposes maintaining SDG&E's authorized capital structure. Instead, all propose increasing SDG&E's authorized leverage. And some intervenors go even farther by proposing to reduce SDG&E's authorized common equity ratio—further from the actual one that SDG&E has long maintained to the benefit of ratepayers. But no intervenor has shown what has changed since the Commission in the 2023 Cost of Capital Decision found that it would harm ratepayers to increase SDG&E's financial leverage.

#### 1. Certain Intervenor Propose Maintaining SDG&E's Common Equity Ratio while Increasing Long-Term Debt, but Have Not Shown What Has Changed Since the 2023 Cost of Capital Decision

Mr. Gorman, Mr. Bandyk, and Mr. Pavlovic propose a capital structure for SDG&E of 52% common equity, 48% long-term debt, and 0% preferred equity. In so doing, these intervenors *do not* propose maintaining SDG&E's currently authorized capital structure. Instead, they propose increasing SDG&E's long-term debt—and hence the Company's financial leverage—without any justification for this change.

**Table 1 – Summary of Capital Structure Proposals**

Components	Authorized	SDG&E	EPUC/IS /TURN	CalPA	UCAN	Sierra/ PCF	Wild Tree	EDF
Common Equity	52.00%	54.00%	52.00%	50.00%	52.00%	52.60%	50.00%	n/a
Long-Term Debt	45.25%	46.00%	48.00%	50.00%	48.00%	47.40%	50.00%	55.00%
Preferred Stock	2.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	n/a

In other words, they advocate to add all of SDG&E previously authorized preferred equity percentage to long-term debt rather than common equity. Presumably, their proposals reflect their acceptance of removing SDG&E's existing preferred equity ratio on the basis that SDG&E does not

1 have any preferred equity in its actual recorded capital structure. Yet it ignores matching SDG&E's  
2 actual capital structure to its authorized one. In other words, they cherry pick to suit their goals.

3 But these intervenors offer no evidence or analysis to support why a capital structure of 52%  
4 common equity, 48% debt is currently appropriate for SDG&E. The intervenors propose debt ratios  
5 higher than SDG&E actually possesses. Nor do they offer any basis for why SDG&E's authorized  
6 leverage should be increased relative to the 2020 and 2023 Cost of Capital Decisions or why  
7 SDG&E's currently authorized capital structure is no longer "reasonable."<sup>2</sup>

8 In fact, in the 2023 Cost of Capital Decision, the Commission found it not "in the ratepayer  
9 interest for SDG&E to be authorized increased leverage."<sup>3</sup> Intervenors offer no reason why the  
10 Commission should reach a different result here.

11 If SDG&E managed its business at debt levels as high as the intervenors have proposed,  
12 SDG&E would be at risk of a credit downgrade, which could have detrimental impacts to  
13 ratepayers. For example, as I cite in my direct testimony, "according to a recent third-party study, a  
14 one-notch downgrade of SDG&E by each rating agency could raise borrowing rates by up to 12  
15 basis points, increasing ratepayer burden. This would result in an estimated \$95 million increase in  
16 borrowing costs over the life of the 30-year bonds forecasted in this cost of capital cycle."<sup>4</sup>

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<sup>2</sup> Decision ("D.") 22-12-031 at 12.

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

<sup>4</sup> Exhibit ("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-12 (citing Source: Academy Securities (March 13, 2025)).

1 Ms. Dowdell also inappropriately refers to Sempra's capital structure to support TURN's  
2 proposal, including Sempra's midstream operations.<sup>5</sup> But Sempra's capital structure is not relevant  
3 here. SDG&E possesses its own capital structure. And as Valerie Bille and Josh Nowak  
4 demonstrate, if anything, SDG&E's risk profile and capital market conditions support increasing  
5 SDG&E's common equity ratio.

6 **2. Other Intervenor's Proposal to Reduce SDG&E's Common Equity Ratio**  
7 **Are Even More Extreme And Should be Rejected**

8 Worse, CalPA and Wild Tree Foundation go so far as to advocate for a 50% common equity  
9 ratio, which is lower than currently authorized—and even farther removed from SDG&E's actual  
10 common equity ratio. EDF is even more extreme with a proposed 55% long-term debt.

11 **a. Mr. Woolridge Makes Basic Errors in Calculating SDG&E's**  
12 **Actual Common Equity Ratio so His Testimony Should be**  
13 **Discarded**

14 These intervenors' logic is even more contrary to the Commission's findings in the 2023  
15 Cost of Capital Decision, unsubstantiated, and should be rejected. They seek to even further  
16 increase the amount of financial leverage that SDG&E would bear—despite SDG&E's credit  
17 ratings remaining two notches below where they were in 2018 from all three rating agencies.

18 But again, the Commission in the 2023 Cost of Capital Proceeding found there was no basis  
19 to increase SDG&E's financial leverage. These intervenors do not offer any justification for what  
20 has changed such that their even more extreme proposals should be adopted now. Again, as the  
21 Commission found in the 2023 Cost of Capital Decision, “[a]s a utility's debt ratio increases, a  
22 higher ROE may be needed to compensate for that risk.”<sup>6</sup> Nor do they offer a justification for why

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<sup>5</sup> Ex. TURN-01, *Prepared Testimony of Jennifer Dowdell* (July 30, 2025) (“Ex. TURN-01 (Dowdell Direct)”) at 39.

<sup>6</sup> See D.22-12-031 at 24.

1 SDG&E should be given a below-average authorized common equity ratio compared to the  
2 nationwide average for electric utilities cited by Mr. Gorman.<sup>7</sup>

3 Mr. Woolridge appears to agree that higher leverage increases a utility's risk profile when he  
4 states that "as the amount of debt in the capital structure increases, its financial risk increases and  
5 the risk of the utility, as perceived by equity investors also increases."<sup>8</sup> Yet Mr. Woolridge's  
6 proposal to increase SDG&E's debt ratio to 50%—a significant departure from the currently  
7 authorized 45.25%—would materially increase the company's financial risk. A higher debt ratio  
8 amplifies fixed obligations and reduces financial flexibility, particularly concerning in California's  
9 high-risk operating environment.

10 As noted, increased leverage typically results in higher debt costs, which are ultimately  
11 borne by customers. Moreover, equity investors would reasonably expect a higher return on equity  
12 to compensate for the elevated risk profile.<sup>9</sup> Yet, Mr. Woolridge fails to propose a corresponding  
13 increase in ROE, creating an imbalance that does not reflect the financial realities of a more  
14 leveraged capital structure.

15 Instead, Mr. Woolridge evaluates the average common equity ratios for three proxy groups,  
16 which include holding companies. As with Ms. Dowdell, comparing SDG&E's capital structure to  
17 that of utility holding companies rather than to that of the operating regulated utility companies

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<sup>7</sup> Ex. EPUC/IS/TURN-001, *Direct Testimony and Exhibits of Michael P. Gorman* (July 30, 2025) ("Ex. EPUC/IS/TURN-001 (Gorman Direct)") at 35.

<sup>8</sup> *Amended Report on California Energy Companies Cost of Capital* (July 31, 2025) ("Ex. Cal Advocates (Woolridge)") at 31.

<sup>9</sup> See D.22-12-031 at 24 ("As a utility's debt ratio increases, a higher ROE may be needed to compensate for that risk.").

1 themselves is not relevant. Operating utilities possess their own capital structure that is generally  
2 significantly higher than that of holding companies, as demonstrated by Mr. Gorman.<sup>10</sup>

3 Worse, in arguing that SDG&E's capital structure should be revised to include a lower  
4 common equity layer and a higher debt ratio, Mr. Woolridge inexplicably claims that SDG&E has  
5 not matched its authorized capital structure. Specifically, he asserts that "[SDG&E has] not  
6 maintained the common equity ratios approved in the 2023 rate case," and that "[SDG&E's]  
7 common equity ratios [has] not approached the 52.0% authorized common equity ratio."<sup>11</sup>

8 These claims are false. In trying to recreate Mr. Woolridge's calculations, it appears that he  
9 incorrectly included financing lease obligations in its capital structure calculation, resulting in an  
10 understated common equity ratio. This approach is inconsistent with established regulatory practice,  
11 which excludes financing leases from the ratemaking capital structure. Including such obligations  
12 distorts the financial profile of the utility and may lead to inappropriate conclusions regarding its  
13 financial risk and cost of capital.

14 As I have stated in my testimony, "since 2015, SDG&E has maintained an actual common  
15 equity ratio above the authorized of 52%."<sup>12</sup> As shown in Table 4 of my testimony, SDG&E has  
16 been operating with an average common equity ratio of 54.9% over the past ten years.<sup>13</sup> In fact,  
17 TURN likewise disagrees with Mr. Woolridge's assessment. As Ms. Dowdell testified, "TURN  
18 notes that SDG&E has maintained an equity ratio of 55.6% on average since 2018,"<sup>14</sup> and "SDG&E

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<sup>10</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 35 (providing RRA's national authorized electric utility authorized common equity ratio average).

<sup>11</sup> Ex. Cal Advocates (Woolridge) at 29.

<sup>12</sup> Ex. SDG&E-02 (Mekitarian Direct) at MM-7.

<sup>13</sup> *Id.*

<sup>14</sup> Ex. TURN-01 (Dowdell Direct) at 38.



1 has maintained a book equity ratio of 54% since its 2020 Cost of Capital Proceeding.”<sup>15</sup> Mr.  
2 Woolridge’s inaccurate calculations should not be given weight.

3 **b. Intervenor Understate the Impact Their Proposals Would Have**  
4 **on Borrowing Costs to Ratepayers Through Lowered Credit**  
5 **Ratings**

6 Mr. Ellis claims that if SDG&E were downgraded from its current A3 to Baa1, its cost of  
7 new debt would increase by 0.06%, from 5.34% to 5.40% – an approximate 1% increase in the  
8 dollar cost of debt to customers.<sup>16</sup> Putting aside the fact that Mr. Ellis is affirmatively making  
9 proposals that he acknowledges would result in credit rating downgrades—in contrast to  
10 longstanding Commission precedent to “maintain and support” a utility’s credit<sup>17</sup>—Mr. Ellis fails to  
11 consider other potential impacts of a credit downgrade, such as revolver commitment fees which  
12 could have a five basis point impact. Additionally, as referenced in my direct testimony, a recent  
13 third-party study<sup>18</sup> found that a one-notch downgrade of SDG&E by each rating agency could raise  
14 borrowing rates by up to 12 basis points, increasing ratepayer burden.

15 Mr. McCann for EDF similarly understates the financial impact of a credit downgrade by  
16 omitting its effect on short-term debt costs. SDG&E’s credit rating directly influences fees on its  
17 revolving credit facility and commercial paper rates, with downgrades leading to higher financing  
18 costs. Additionally, increasing debt levels risk violating existing financial covenants. These  
19 covenants are contractual limits on leverage and coverage ratios and breaching them could trigger  
20 technical defaults, penalties, or accelerated repayment obligations, ultimately increasing costs borne

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<sup>15</sup> *Id.* at 40.

<sup>16</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 31.

<sup>17</sup> D.22-12-031 at 15.

<sup>18</sup> Ex. SDG&E-02 (Mekitarian Direct)”) at MM-12 (citation omitted).

1 by ratepayers. And, again, it would be a massive shift in Commission policy to set a capital  
2 structure that the proposing party themselves admits would lead to credit rating downgrades.

3 Mr. McCann likewise presents an unsupported claim that “PG&E’s long term debt rate only  
4 increased 41 basis points (i.e., 0.41%)”<sup>19</sup> after its 2019 bankruptcy as evidence that “the risk of  
5 rising debt cost may be even less than depicted in these scenarios.”<sup>20</sup> But an analysis of PG&E’s  
6 actual credit spreads show a significantly larger impact to the cost of debt than the 41 basis points  
7 that Mr. McCann alleges. Actual credit spreads—the incremental amount above the Treasury rate  
8 paid by investors to compensate for the risk the investors are taking by purchasing the bond—at  
9 issuance is considered a key indicator of the impact of a credit ratings change and shows a much  
10 larger change. Table 2 below compares the average credit spread for 30-year issuances from the  
11 pre-bankruptcy years of 2013-2016 to the average credit spread for 30-year issuances from the post-  
12 bankruptcy years of 2020-2023, a 220% increase of approximately 147 basis points.

13 Moreover, it should be noted that PG&E switched from issuing senior notes pre-bankruptcy  
14 to issuing first mortgage bonds post-bankruptcy. This change likely helped to prevent spreads from  
15 climbing even higher post-bankruptcy, as first mortgage bonds are “secured” instruments that are  
16 viewed as less risky and therefore issued at lower spreads compared to senior unsecured notes. EDF  
17 provides no explanation or support for their claim that credit downgrades have a minimal impact on  
18 the cost of debt.

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<sup>19</sup> 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 16.

<sup>20</sup> *Id.*

**TABLE 2 – PG&E CREDIT SPREADS ON 30-YEAR ISSUANCES<sup>21</sup>**

<b>Settlement Date</b>	<b>Tenor</b>	<b>Moody's Rating</b>	<b>Type<sup>22</sup></b>	<b>Spread</b>
3/30/2023	30	Baa3	FMB	295
1/6/2023	30	Baa3	FMB	295
2/18/2022	30	Baa3	FMB	290
6/19/2020	30	Baa3	FMB	200
<b>2020-2023 Average</b>				<b>270</b>
12/1/2016	30	A3	Senior Note	110
11/5/2015	30	A3	Senior Note	140
11/6/2014	30	A3	Senior Note	130
2/21/2014	30	A3	Senior Note	110
6/14/2013	30	A3	Senior Note	125
<b>2013-2016 Average</b>				<b>123</b>

This disconnect undermines the financial integrity of intervenors' proposals and ignores the fundamental principle of risk-adjusted returns. A capital structure with higher debt must be paired with a higher ROE to maintain fairness and ensure the utility can attract capital on reasonable terms. Intervenors have not shown any basis as to why SDG&E's authorized leverage should be increased compared to what was authorized in the 2020 and 2023 Cost of Capital Decisions.

**B. Intervenors Incorrectly Assert that SDG&E Has Not Supported its Capital Structure Proposal**

In arguing for their extreme departures, intervenors also claim there is no observable evidence to support an increase to SDG&E's authorized common equity ratio.<sup>23</sup> Yet my direct testimony is replete with such evidence.

<sup>21</sup> Derived from EDGAR filings of term sheets from <https://www.sec.gov/edgar>.

<sup>22</sup> FMB represents "First Mortgage Bond." Senior Notes are unsecured debt instruments.

<sup>23</sup> See, e.g., Ex. EPUC/IS/TURN-001 (Gorman Direct) at 194.

1                   **1.     SDG&E’s Proposed Capital Structure is Consistent with SDG&E’s**  
2                   **Actual Capital Structure, Credit Supportive, and Helps Lower Costs for**  
3                   **Ratepayers**

4                   As noted, SDG&E has maintained an actual common equity ratio consistent with SDG&E’s  
5 requested authorized one; reflecting the fact that investors have put money into SDG&E to support  
6 SDG&E’s credit metrics—thus lowering costs for ratepayers—without any return on that  
7 investment. If SDG&E reduced its actual equity layer to reflect its authorized one, it could raise  
8 costs for ratepayers.

9                   Mr. Nowak likewise found that SDG&E’s proposed “54.00 percent is within” the range of  
10 “43.57 percent to 60.29 percent” actual common equity ratios of the proxy group.<sup>24</sup> Moreover, after  
11 maintaining an A-credit rating for 15 years, SDG&E has been downgraded by all three credit rating  
12 agencies since 2018. Even after Moody’s upgraded SDG&E’s credit rating one notch in March  
13 2021,<sup>25</sup> the Company’s credit rating is still two notches lower from all three agencies compared to  
14 its prior A-ratings. In other words, SDG&E’s credit remains the same as what the Commission  
15 considered during the 2023 Cost of Capital Proceeding.

16                  This is primarily over concerns regarding wildfire and wildfire liability risks in California—  
17 despite SDG&E being lauded for its wildfire mitigation programs and not being responsible for a  
18 significant wildfire since 2007. But it is also regarding, as Moody’s recently stated, an increased  
19 concern over regulatory uncertainty and regulatory lag following SDG&E’s 2024 GRC Decision  
20 and the decrease in use of balancing accounts.<sup>26</sup>

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<sup>24</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-58.

<sup>25</sup> Moody’s, *Rating Action: Moody’s upgrades San Diego Gas & Electric to A3 from Baa1; outlook stable* 1 (Mar. 30, 2021) at 1.

<sup>26</sup> Moody’s Ratings, *San Diego Gas & Electric Company Update to Credit Analysis* (April 3, 2025) (“Moody’s Apr. 3, 2025”), at 1, 2, 5-6 (“Moody’s Apr. 3, 2025”).

1 Credit rating agencies regularly provide company-specific information about the ratings they  
2 assign, including what is necessary to support the current rating as well as factors that could lead to  
3 upgrades or downgrades. It is clear from recent credit rating agency publications that SDG&E's  
4 proposal to change its common equity ratio supports SDG&E's credit rating and financial integrity.

5 Moody's stated that its stable outlook for SDG&E "reflects our view that there will be credit  
6 supportive outcomes of the pending regulatory proceedings including CoC for the test year 2026"<sup>27</sup>  
7 and "the CPUC's decision will provide another point of reference to assess SDG&E's relationship  
8 with the CPUC and the constructiveness of the regulatory environment."<sup>28</sup> Moody's then asserted  
9 that, in the "Factors that Could Lead to a Downgrade" section, that "we could also take negative  
10 rating action if there is a further decrease in the level of regulatory support for the utility, including  
11 credit negative outcomes of any pending regulatory proceedings."<sup>29</sup>

## 12 **2. TURN's Testimony Explains Why SDG&E's Actual Common Equity** 13 **Ratio Should be Adopted**

14 SDG&E's proposed common equity ratio is thus a prudent measure to counteract its  
15 increased business risks and improve its credit ratings, reducing costs for consumers. Mr. Gorman's  
16 statement that SDG&E has "strong financial metrics"<sup>30</sup> is because SDG&E's shareholders are  
17 putting capital into SDG&E that they are not receiving a return on to bolster those credit metrics—  
18 to the benefit of ratepayers. A reduction in SDG&E's actual common equity ratio to its authorized  
19 one would put pressure on SDG&E's credit metrics.

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<sup>27</sup> *Id.* at 3.

<sup>28</sup> *Id.* at 8.

<sup>29</sup> *Id.* at 3.

<sup>30</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 196.

1 Mr. Gorman also argues that SDG&E's proposed ratemaking capital structure with a  
2 54.00% common equity ratio is more expensive than the industry authorized ratemaking capital  
3 structure, asserting that "SDG&E's proposal would allow it to continue recovering rates reflecting  
4 an artificially high cost of service."<sup>31</sup> When viewed in isolation, an increase in a utility's authorized  
5 common equity level will increase costs to ratepayers in the short-term.

6 But this ignores the long-term benefits of achieving and maintaining a higher credit rating  
7 that SDG&E has supported through investments in the Company upon which those investors are not  
8 receiving a return, which reduces borrowing costs for ratepayers. If SDG&E reduces its actual  
9 common equity ratio to reflect its authorized one, it will put pressure on those credit ratings.  
10 SDG&E's overall capital structure proposal is thus consistent with the Commission's desire to  
11 adopt capital structures that prudently and proactively support strong credit ratings.<sup>32</sup>

12 Mr. McCann states that "S&P Global's regulatory assessment of California is that it exceeds  
13 the standard of "credit supportive" and is considered "more credit supportive," lowering the  
14 utilities' regulatory risk." However, this is misleading as "credit supportive" is the lowest  
15 assessment of levels of credit supportive by S&P as follows (highest to lowest):

- 16 • Most credit supportive
- 17 • Highly credit supportive
- 18 • Very credit supportive
- 19 • More credit supportive
- 20 • Credit supportive

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<sup>31</sup> Ex. EPUC/IS/TURN-001 (Gorman Direct) at 195.

<sup>32</sup> See D.19-12-056 at 6; 42-43.

1 Only two states are assigned the lowest “Credit Supportive (New Mexico and Connecticut).  
2 California received the second lowest assessment of “More credit supportive,” while 40 other states  
3 received higher assessments than California of “Very credit supportive” or higher.<sup>33</sup> For example, in  
4 explaining Connecticut’s revised downward assessment to “credit supportive” from “more credit  
5 supportive,” S&P cited regulatory construct and regulatory lag.<sup>34</sup>

6 Mr. McCann also asserts that “S&P Global’s assessment of California’s situation is much  
7 more optimistic and positive than that portrayed by the utilities’ witnesses, who in large part are  
8 relying on the same credit rating agency’s opinions.”<sup>35</sup> However, in their report on North America  
9 Regulated Utilities, S&P said,

10 Wildfire risk is highly negative for credit quality. The scale of potential  
11 liabilities, unpredictable nature of exposures, and frequency of events have  
12 materially increased wildfire risk for many utility stakeholders. From a  
13 credit standpoint, litigation risk is more problematic than risk of damage to  
14 infrastructure because it is difficult to predict or quantify and is so far  
15 without sufficient mitigation or containment.<sup>36</sup>

16 And, in fact, RRA just downgraded their rating of California’s regulatory environment.<sup>37</sup>

17 Mr. Bandyk argues that SDG&E has not considered the public interest with its proposed  
18 capital structure. In fact, my testimony points out that the Commission has recognized that  
19 “maintain[ing] investment-grade creditworthiness” is an “important component[] of the *Hope* and

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<sup>33</sup> S&P *Industry Credit Outlook 2025: North America Regulated Utilities* (January 14, 2025).

<sup>34</sup> *Id.* at 8.

<sup>35</sup> Ex. EDF-01 (McCann Direct) at 45.

<sup>36</sup> S&P *Industry Credit Outlook 2025: North America Regulated Utilities* (January 14, 2025).

<sup>37</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)); accord 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)”), Attachment KPR-3 (containing the report).

1 *Bluefield* decisions.”<sup>38</sup> Moreover, “if a utility’s credit ratings are lowered, it results in higher  
2 borrowing costs, meaning higher costs that ratepayers are responsible for.”<sup>39</sup>

3 Credit rating agencies employ debt-to-total capital in assessing financial risk. A detailed  
4 rating grid, which is replicated in Table 2 of my testimony from Moody’s Rating Methodology for  
5 Regulated Electric and Gas Utilities, shows that SDG&E’s proposal is within one percentage point  
6 of the single A bond rating threshold, which provides high quality creditworthiness and benefits  
7 ratepayers by providing interest savings on borrowing costs.

8 TURN is likewise inconsistent in stating that the “Commission should require alignment of  
9 Authorized Equity Capital Percentages with Book Equity,”<sup>40</sup> while simultaneously arguing that  
10 SDG&E’s common equity ratio should not match its book equity.<sup>41</sup> Indeed, TURN’s statement that  
11 “absent Commission directives, utility managements are incentivized to operate with the maximum  
12 amount of leverage that investment grade quality will allow since more leverage increases  
13 shareholders’ returns,”<sup>42</sup> augurs all the more in favor of the Commission adopting SDG&E’s actual  
14 common equity ratio as its authorized. For over a decade now, SDG&E has done the opposite of  
15 what TURN implies, maintaining a higher actual common equity ratio than its authorized one—  
16 supporting SDG&E’s financial health to the benefit of ratepayers. SDG&E should be rewarded—  
17 not penalized—for that judicious choice.

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<sup>38</sup> See D.22-12-031 at 32.

<sup>39</sup> Ex. SDG&E-02 (Mekitarian Direct) at MM-3.

<sup>40</sup> Ex. TURN-01 (Dowdell Direct) at 47.

<sup>41</sup> *Id.* at 37.

<sup>42</sup> *Id.* at 53.



### **III. LATE-FILED EXHIBIT: EMBEDDED COST OF DEBT**

As required by the California Public Utilities Commission (Commission or CPUC) in cost-of capital proceedings, and as provided for in the July 16, 2025 Scoping Memo for this proceeding, San Diego Gas & Electric submits this late-filed exhibit (cost of debt), which contains updates to various interest-rate related data associated with the 2026 forecasted cost of long-term debt. Refer to Appendix A for the following tables.

Table A-1 compares the March 2025 forecast of the 30-Year U.S. Treasury Bond Yield and company-specific credit spread to the August 2025 forecast.

Table A-2 contains detailed calculations of SDG&E's updated embedded cost of long-term debt, which include projected 30-year first mortgage bond issuances through 2026. 2025 projections have been updated to reflect actual 2025 financing activity. The updated embedded cost of debt calculation uses the August 2025 forecast of the 30-year Treasury bond yield, plus an updated estimation of an SDG&E-specific credit spread.

Table A-3 updates SDG&E's original weighted average cost of capital proposal with SDG&E's updated proposal. Table A-4 contains estimated revenue requirement and bill impacts reflecting the updated overall requested Rate of Return (ROR).

### **IV. CONCLUSION**

SDG&E maintains that its requested capital structure is appropriate and promotes the long-term best interests of ratepayers and shareholders alike by being credit supportive and aligned with SDG&E's longstanding actual capital structure. In no case should the Commission adopt intervenors' proposals and increase SDG&E's financial leverage with long-term debt beyond SDG&E's currently authorized capital structure. Intervenors have not demonstrated what has changed since the 2023 Cost of Capital Decision, when the Commission found that increasing

1 SDG&E's financial leverage would not be in the interest of ratepayers. The Commission should  
2 adopt SDG&E's embedded cost of debt.

3 This concludes my prepared rebuttal testimony.

**EXHIBIT SDG&E 05 - APPENDIX A**

**LATE-FILED EXHIBIT  
(EMBEDDED COST OF DEBT)**

**Table A-1**

**Interest Rate Projections**  
**(All figures in %)**

	March 2025 Filing <sup>(1)</sup>	August 2025 Updated Filing <sup>(2)</sup>
<b>30-year Treasury</b>		
Credit Spread	1.18	1.22
Benchmark Treasury Yield	4.37	4.53
Total Interest Rate	<b>5.56</b>	<b>5.75</b>

<sup>(1)</sup> Source: © 2025 S&P Global Market Intelligence February 2025 forecast, plus forecasted credit spread.

<sup>(2)</sup> Source: © 2025 S&P Global Market Intelligence August 2025 forecast, plus forecasted credit spread.

Table A-2

**Updated SDG&E Embedded Cost of Debt**  
**Test Year 2026**  
(in Thousands)

		A	B	C	D	E	F
Line Number	Description	Principal	Total Discount and Expense	Net Proceeds (A - B)	Annual Interest Payment	Total Amortization	Effective Rate [(D + E) ÷ C]
1	SERIES ZZ (CV2004E)	250,000	3,005	246,995	13,375	100	
2	SERIES AAA (CV2004F)	250,000	3,547	246,454	15,000	177	
3	SERIES BBB	250,000	3,336	246,664	15,313	111	
4	SERIES DDD	300,000	4,438	295,562	18,000	148	
5	SERIES FFF	250,000	2,822	247,178	13,375	94	
6	SERIES GGG	500,000	10,559	489,441	22,500	352	
7	SERIES HHH	250,000	2,990	247,010	9,875	100	
8	SERIES III	250,000	3,867	246,133	10,750	129	
9	SERIES LLL	500,000	5,904	494,096	12,500	590	
10	SERIES MMM	400,000	5,822	394,178	15,000	194	
11	SERIES QQQ	400,000	5,840	394,160	16,600	195	
12	SERIES RRR	400,000	4,766	395,234	16,400	159	
13	SERIES SSS	400,000	4,997	395,003	13,280	167	
14	SERIES TTT	800,000	8,080	791,920	13,600	808	
15	SERIES UUU	750,000	13,020	736,980	22,125	434	
16	SERIES VVV	500,000	5,696	494,304	15,000	570	
17	SERIES WWW	500,000	8,193	491,807	18,500	273	
15	SERIES XXX	800,000	17,433	782,567	42,800	581	
16	SERIES YYY	600,000	7,506	592,494	29,700	1,501	
17	SERIES ZZZ	600,000	12,698	587,302	33,300	423	
18	Amortization of call premiums	-	3,124	(3,124)	-	672	
19	First mortgage bonds	8,950,000	137,642	8,812,358	366,993	7,778	4.25%
20	Amortization of call premiums	-	-	-	-	-	
21	Unsecured bonds	-	-	-	-	-	
22	Other expense and amortization	-	-	-	-	-	
23	December 31, 2024 total long-term debt	8,950,000	137,642	8,812,358	366,993	7,778	4.25%
24	Change in interest and amortization in 2025	-	(484)	484	-	-	
25	Forecasted debt to be issued in 2025:	850,000	9,859	840,141	45,900	986	
26	December 31, 2025 total long-term debt	9,800,000	147,017	9,652,983	412,893	8,764	4.37%
27	Change in interest and amortization in 2026	(750,000)	(9,935)	(740,065)	(27,500)	(768)	
28	Forecasted debt to be issued in 2026:	1,250,000	20,695	1,229,305	71,879	690	
29	December 31, 2026 total long-term debt	10,300,000	157,777	10,142,223	457,272	8,686	4.59%
30	Forecasted 2026 Embedded Cost of Long-Term Debt						4.59%

**Table A-3**

**Updated SDG&E Cost of Capital Proposal  
(All figures in %)**

	March 2025 Filing			August 2025 Updated Filing		
	Weighting	Cost	Weighted Cost	Weighting	Cost	Weighted Cost
Debt	46.00	4.62	2.13	46.00	4.59	2.11
Preferred	0.00	6.22	0.00	0.00	6.22	0.00
Equity	54.00	11.25	6.08	54.00	11.25	6.08
<b>Total</b>	<b>100.00</b>		<b>8.21</b>	<b>100.00</b>		<b>8.19</b>

Table A-4

**SDG&E Revenue Requirement and Bill Impact Summary Table**  
**Reflecting Impacts of Late-Filed Exhibit Updates**

**Incremental Change in Revenue Requirement**

(\$ in millions)

	Revenue Requirement
<b>SDG&amp;E Electric</b>	
Filed Cost of Capital Impact - March 20, 2025	\$73.16
Impact of Late-Filed Exhibit - August 20, 2025	(\$1.08)
Combined Cost of Capital Impact	\$72.08

	Revenue Requirement
<b>SDG&amp;E Gas</b>	
Filed Cost of Capital Impact - March 20, 2025	\$23.29
Impact of Late-Filed Exhibit - August 20, 2025	(\$0.33)
Combined Cost of Capital Impact	\$22.96

	Revenue Requirement
<b>SDG&amp;E Combined Electric &amp; Gas</b>	
Filed Cost of Capital Impact - March 20, 2025	\$96.45
Impact of Late-Filed Exhibit - August 20, 2025	(\$1.41)
Combined Cost of Capital Impact	\$95.04

**Change in Typical Residential Customer Bill**

	<u>per month</u>	<u>change</u>
<b>SDG&amp;E Electric</b>		
Current Residential Bill (400 kWh)	\$152.05	
Proposed Residential Bill - March 20, 2025	\$154.09	\$2.04
Proposed Residential Bill - August 20, 2025	\$154.07	\$2.02

	<u>per month</u>	<u>change</u>
<b>SDG&amp;E Gas</b>		
Current Residential Bill (24 therms)	\$66.32	
Proposed Residential Bill - March 20, 2025	\$68.01	\$1.69
Proposed Residential Bill - August 20, 2025	\$68.00	\$1.68