California Public Utilities Commission Public Advisor's Office

505 Van Ness Avenue

San Francisco, CA 94102

Dear President Reynolds and Commissioners,

We are writing to urge rejection or substantial modification of the Administrative Law Judge's November 14, 2025 proposed decision in determining the Authorized Cost of Capital for Utility Operations for Pacific Gas and Electric (PG&E), Southern California Gas Company (SoCalGas), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) in 2026 (the "Proposed Decision").[1] While the Proposed Decision is directionally appropriate compared to the status quo, more can and should be done.

Ratepayers in California already overpay for electricity, in part because of a decades-long pattern of excessive returns on equity (ROE) authorized by the California Public Utility Commission (the Commission). The ALJ's Proposed Decision would perpetuate this problem by offering a guaranteed return on equity of at least 9.73%, with slight variation across each of the four applicant utilities: PG&E, SoCalGas, SCE, and SDG&E (the "Utilities"). Our analysis shows that a reasonable return on equity is 6.1% to 6.2%, reflecting current stock market valuations, investor expectations, and the broad consensus of sophisticated market participants.[2] Adjusted for each applicant's most recent general rate case (GRC) financials, **the excess ROE granted by the Proposed Decision results in an overcharge of $4.4 billion, or roughly $340 per year for each household served by the four California investor-owned utilities.**

The Supreme Court in the *Hope* and *Bluefield* cases determined that the standard for determining a "just and reasonable" return is one that is sufficient to cover costs and induce investment capital, i.e., the market-based cost of capital. The California legislature has further expressed its intent that the Commission "reduce rates for electricity and natural gas to <u>the lowest amount possible</u>" (emphasis added).[3] This standard is overlooked by the Proposed Decision, which instead authorizes an unjust and unreasonable excess return that does not comport with the record evidence. It is well-understood that excess returns on equity both increase immediate costs to ratepayers and distort investment incentives, compounding cost increases over time.

The Proposed Decision is surprising not only because of the selection of unjust and unreasonable return rates, but because of the explicit unwillingness to weigh the evidence in support of a "just and reasonable" rate. Two parts of the Proposed Decision indicate this adjudicatory failure.

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[1] Proposed Decision of ALJ Lakey, Dkt. No. A.25-03-010 et seq., Before the Public Utilities Commission of the State of California, November 14, 2025, accessible online: https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M587/K323/587323962.PDF.

[2] Direct Testimony of Mark E. Ellis, Dkt. No. A.25-03-010 et seq., Before the Public Utilities Commission of the State of California, Exh. No. SC/PCF-01, at 16 and passim, July 30, 2025, accessible online: https://docs.cpuc.ca.gov/PublishedDocs/SupDoc/A2503010/8368/574980310.pdf.

[3] Cal. Pub. Util. Code § 747.

First, the CPUC abdicates its discretion to assess different models and weigh the credibility and sufficiency of the record evidence to determine the most suitable among them. The Proposed Decision describes the various methods for calculating ROE in cost of capital proceedings, but, in a baffling turn, then says that the PUC will not decide among them or find a reasonable model. Instead, the Proposed Decision asserts that "the Commission has historically indicated that it will not litigate the specific mechanics of each proposed model, inputs, and assumptions, and we continue to take this stance here" (emphasis added).[4] If true, this concession indicates that the Commission has declined to perform its designated function for some time – a pattern that the Commission must break in order to avoid perpetuating the four utilities' expectation of excess returns at the expense of their customers.

Second, the Proposed Decision does not appropriately distinguish between the returns authorized to each utility. While the Commission is not obligated to apply a specific methodology or formula when reaching a final determination, the law requires that any decision rendered by the Commission be supported by substantial evidence.[5] Unsupported by any evidence, the Proposed Decision would simply reduce the ROE by the same 0.35% for all four utilities. Why this specific amount? And why the same amount for all four utilities, particularly in light of the divergent trajectories of their risk profiles over the last few years?[6] These questions are unanswered by the Proposed Decision. Instead, the Proposed Decision engages in arbitrary and capricious decision-making that will cost ratepayers hundreds of dollars a year.

For these reasons, we encourage the members of the California Public Utility Commission to reject the Proposed Decision, or to amend it to lower rates consistent with the law and analysis provided herein and over the course of these proceedings. California's ratepayers have overpaid too much for too long.

Sincerely,

American Economic Liberties Project
CALPIRG
California Alliance for Community Energy
Center for Biological Diversity
Institute for Local Self-Reliance
Sustainable Systems Research Foundation, Santa Cruz
Climate Action Campaign
Economic Security CA Action
United Domestic Workers CA

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[4] Proposed Decision, at 24.

[5] Cal. Pub. Util. Code § 1757(a)(4) ("[I]n a ratemaking or licensing decision of specific application … the review by the court shall not extend further than to determine … whether [] the findings in the decision of the commission are not supported by substantial evidence in light of the whole record.").

[6] Compare, say, PG&E's post-bankruptcy financial improvement with SCE's potential wildfire liabilities.