PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 22, 2023

**Advice Letters 4813-G/7046-E, 5120-E,
4300- E/3239-G, 6207-G**

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SUBJECT: **Energy Division Disposition of Pacific Gas & Electric Advice Letter 4813-G/7046-E, Southern California Edison Advice Letter 5120-E, San Diego Gas and Electric Advice Letter 4300- E/3239-G and Southern California Gas Company Advice Letter 6207-G, Regarding the 2024 Cost of Capital Formula Adjustment Mechanism.**

Dear Regulatory Affairs Managers:

Pacific Gas & Electric Company (PG&E) Advice Letter (AL) 4813-G/7046-E, Southern California Edison (SCE) AL 5120-E, San Diego Gas and Electric (SDG&E) AL 4300-E/3239-G and Southern California Gas Company (SoCalGas) AL 6207-G (collectively, the Advice Letters), are approved, with an effective date of January 1, 2024, as further described in the attached. Attachment 1 contains a detailed discussion of the Advice Letters, the Joint Protest, the Joint Reply, and Energy Division's determination that the Advice Letters should be approved.

Please contact Michael Conklin of the Energy Division at michael.conklin@cpuc.ca.gov should you have any questions.

Sincerely,

Leuwam Tesfai

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Service List A.22-04-008

December 22, 2023

Attachment 1

Background

Commission Decision (D).08-05-035 adopted a uniform Cost of Capital Formula Adjustment mechanism (CCM) for PG&E, SCE and SDG&E for the purpose of streamlining the major energy utilities' Cost of Capital process and to enable "the utilities, interested parties, and Commission staff to reduce and reallocate their respective workload requirements for litigating annual cost of capital proceedings." [1] D.13-03-015 adopted the CCM for SoCalGas.[2]

Prior to D.08-05-035, PG&E and SCE were required to file annual Cost of Capital applications, while SDG&E was required to file a Cost of Capital application every five years (subject to a Market Indexed Capital Adjustment Mechanism.)[3] Instead of annual Cost of Capital proceedings, the Commission's adoption of the CCM allowed for full Cost of Capital applications to be filed on April 20th of every third year.[4]

For the years in between full Cost of Capital proceedings, D.08-05-035 established initial benchmark interest rates to be compared with the October through September 12-month average Moody's utility bond interest rates. If the difference between the benchmark and the average Moody's interest rate exceeds 100 basis points, an automatic adjustment ratio of half the basis points difference would be applied to either increase or decrease the Return on Equity (ROE) of applicable utilities beginning January 1st of the following year.[5]

Ordering Paragraph 2 of D.08-05-035 sets forth the specific functionality for the CCM:

1. In any year where the difference between the current 12-month October through September average Moody's utility bond rates and the benchmark exceeds a trigger of 100-basis points, an automatic adjustment to the utilities' ROE shall be made as follows:
    a. ROE is adjusted by one-half of the difference between the Aa utility bond average for AA credit- rated utilities or higher and Baa utility bond average for BBB credit-rated utilities or lower and the benchmark.
    b. Long-term debt and preferred stock costs are updated to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.
    c. Authorized capital structure is not adjusted.
    d. On October 15 of such year, a Tier 2 advice letter is filed that updates the ROE and related rate adjustments to become effective on January 1 of the following year.
    e. In any year where the 12-month October through September average Moody's utility bond rates triggers an automatic ROE adjustment, that average becomes the new benchmark.
    f. Workpapers outlining the calculations required as set forth in Ordering Paragraphs 2(a), 2(b), and 2(e) shall be submitted with the advice letter to the Energy Division and active parties to this proceeding, and shall be made available to any party upon request.

On December 15, 2022, the Commission adopted D.22-12-031 which set the Test Year 2023 Cost of Capital, including the ROEs, for PG&E, SCE, SDG&E and SoCalGas (collectively, "the Utilities"). D.22-12-031 also directed the

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[1] D.08-05-035 at 16.
[2] D.13-03-015 Ordering Paragraph 3.
[3] D.08-05-035 at 2.
[4] D.08-05-035 at 15.
[5] The Cost of Capital Mechanism (CCM) is also referred to by parties as the "Formula Adjustment Mechanism".

"continuation of the cost of capital mechanism through the 2023 Test Year Cost of Capital cycle." while further stating that "we will evaluate the cost of capital mechanism, including the proposals put forth by the applicants, in a second phase of this proceeding."[6]

On October 13, 2023, the Utilities submitted Tier 2 advice letters indicating that the average Moody's utility bond index increased 141 basis points during the measurement period from October 1, 2022 through September 30, 2023.[7] As a result, pursuant to D.08-05-035, Ordering Paragraph 2, the Utilities' Tier 2 advice letters requested to increase their respective ROEs by half the 141-basis points difference, which is approximately a 70 basis points increase to the Utilities' ROEs, to be effective January 1, 2024. In addition, the Utilities' advice letters requested updates to increase the cost of debt and preferred equity, pursuant to D.08-05-035 Ordering Paragraph 2.

The Utilities' advice letters requested increases to ROE, cost of debt and preferred equity resulting in the following 2024 overall Rates of Return:

Table 1: Requested 2024 Cost of Capital Components and Rates of Return

	PG&E	SCE	SDG&E	SoCalGas
Cost of long-term debt	4.66%	4.48%	4.34%	4.54%
Cost of preferred equity	5.52%	7.02%	6.22%	6.00%
Cost of common equity	10.70%	10.75%	10.65%	10.50%
Rate of Return	7.80%	7.87%	7.67%	7.67%

The Utilities also indicated that as a result of the requested increases to ROE, cost of debt and preferred equity, 2024 revenue requirements would increase by approximately $256 million for PG&E, $200.7 million for SCE, $53.7 million for SDG&E, and $77 million for SoCalGas.[8]

<u>Joint Protest</u>

On November 2, 2023, PG&E Advice Letter 4813-G/7046-E, SCE Advice Letter 5120-E, SDG&E Advice Letter 4300- E/3239-G and SoCalGas Advice Letter 6207-G were timely protested (the Joint Protest) by Agricultural Energy Consumers Association (AECA), California Large Energy Consumers Association (CLECA), California Farm Bureau (Farm Bureau), California League of Food Producers (CLFP), California Manufacturers and Technology Association (CMTA), Direct Access Customer Coalition (DACC), Energy Producers and Users Coalition (EPUC), Energy Users Forum (EUF), Environmental Defense Fund (EDF), Federal Executive Agencies (FEA), the Indicated Shippers, Small Business Utility Advocates (SBUA), The Utility Reform Network (TURN), the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), Walmart Inc. (Walmart), and Wild Tree Foundation (Wild Tree) (collectively, "the Joint Protestants").

The Joint Protest states that the CCM poses a significant harm to ratepayers and is not operating as intended. The Joint Protest requests the Commission:

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[6] D.22-12-031 at 43.

[7] SoCalGas which uses the Moody's A utility bond index indicated an increase of 139.8 basis points, half of which results in a requested ROE increase of 70 basis points.

[8] PG&E Advice Letter 4813-G/7046-E at 3, SCE Advice Letter 5120-E at 5, SDG&E Advice Letter 4300-E/3239-G at 7 and SoCalGas Advice Letter 6207-G at 6.

1. Suspend the CCM Formula Adjustment Mechanism adjustments for 2024-2025;
2. Direct the Utilities to maintain the current ROEs adopted in D.22-12-031; and
3. Address necessary modifications to the CCM in the second phase of the 2023 Cost of Capital proceeding.

The Joint Protest states that it is submitted pursuant to Rule 7.4.2 of General Order 96-B (GO 96-B) on the following grounds:

The relief requested in the advice letter is pending before the Commission in a formal proceeding

The Joint Protest states that in D.22-12-031, the Commission stated that the CCM would be in effect during the current Cost of Capital cycle, "unless modified by subsequent Commission decision."[9] The Joint Protest argues that the Commission recently adopted the scope and schedule for the Phase 2 of the TY 2023 cost of capital proceeding, which includes modifications to the CCM, and thus the Commission should "temporarily suspend the CCM mechanism, reject the Advice Letters, and evaluate the need for CCM modifications in the Cost of Capital proceeding."[10] The Joint Protest asserts that it "would be inappropriate to increase revenue requirements while the Commission is actively considering modifications that could reverse these increases in a year's time."[11]

The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process

The Joint Protest argues that "GO 96-B explains the advice letter process provides a quick and simplified review of the types of utility requests that are expected neither to be controversial nor to raise important policy questions."[12] And asserts that "the Advice Letters' significant ratepayer impacts and important policy questions are highly controversial, as indicated by the sixteen parties joining this protest, several of which have not traditionally engaged in cost of capital cases and are protesting a cost of capital matter for the first time."[13]

The Joint Protest further argues that if implemented, "the CCM Formula Adjustment Mechanism would increase annual revenue requirements by over *half a billion dollars*, an amount that far exceeds the total amount typically requested and litigated in the Utilities' full Cost of Capital applications."[14] and that the "Advice Letters reflect increases that are on par or exceed many of the revenue requirement increases being considered in open Commission proceedings."[15] The Joint Protest states that the Commission should not delegate this controversial matter to staff for ministerial review and that the advice letter process is not the appropriate forum to consider and implement bill impacts of this magnitude.

The relief requested in the advice letter is unjust, unreasonable, or discriminatory

The Joint Protest states that when the CCM would have benefitted ratepayers by decreasing ROEs, it was not implemented; but if implemented now, it would harm ratepayers.[16] The Joint Protest contends that the proposed increases would result in ROEs that exceed the levels necessary to maintain the Utilities' financial integrity and that the ratepayer burden caused by these proposed rate impacts is worsened by the Utilities already planning to implement substantial increases to their respective revenue requirements over the next several years.[17]

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[9] Joint Protest at 15 citing D.22-12-031, Ordering Paragraph 6.
[10] Joint Protest at 15.
[11] Joint Protest at 15-16.
[12] Joint Protest at 15 citing GO 96-B, Rule 5.1.
[13] Joint Protest at 15.
[14] Joint Protest at 15 (Joint Protest emphasis).
[15] Joint Protest at 15.
[16] Joint Protest at 7.
[17] Joint Protest at 8-9.

The Joint Protest maintains that because the Formula Adjustment Mechanism adjustments are not representative of changes in the Utilities' Cost of Capital, the proposed adjustments violate the legal standards established by the *Hope* and *Bluefield* United States Supreme Court decisions that the Commission has recognized require ROEs be "reasonably sufficient to ensure confidence in the financial soundness of the utility and enable it to attract capital". The Joint Protest states that the CCM is founded on the assumption that the change in interest rates correlates with the changes in the Utilities' equity requirements and that the Commission has found that the CCM does not always get adjusted when the trigger is reached, citing: "[the] CCM adjustment is only useful, and representative of a fair rate of return if the underlying assumptions hold true: that changes to the cost of equity approximately track increases or decreases in utility bond interest rates."[18] The Joint Protest advances the following arguments that the Utilities' requested 2024 ROEs would be excessive:

- Current and recent investment analyst ratings indicate consensus recommendations of "OVERWEIGHT" with the majority being "BUY".
- D.22-11-018 states "…the CCM adjustment should be rejected if it fails to reflect utility risk and establishes a level of ROE that is inadequate to attract capital."[19]
    - The Joint Protest asserts this principle applies here: the CCM adjustment should not apply if the change in interest rates does not explain the changes in cost of equity capital.
- The Joint Protest compares changes in interest rates vs. utility dividend yields during the CCM measurement period in order to demonstrate that interest rate changes are not reflective of changes in the cost of equity.[20]

The Joint Protest also argues that the requested increases to ROE unreasonably incentivize natural gas capital investments which is counter to the policies of both the state of California and this Commission which "are directed at achieving decarbonization and avoiding the risk of stranded gas infrastructure" and that the "proposed automatic upward adjustment to ROE would both increase the risk of excessive gas investments and increase the already heavy burden on low-income customers."[21]

<u>Reply to the Joint Protest</u>
On November 9, 2023, the Utilities timely filed a Reply (Joint Reply) to the Joint Protest.
The Joint Reply asserts that the Joint Protest "does not identify any appropriate grounds for suspending timely implementation of the automatic trigger"[22] and that the Joint Protest consists of policy arguments that "are contrary to Section 7.4.2 of GO 96-B and constitute inappropriate collateral attacks on the Commission's prior cost of capital decisions."[23] Moreover, even if Energy Division were to consider the policy arguments, the Joint Reply asserts those arguments are incorrect. The Joint Reply provides further specificity regarding why it disagrees with the Joint Protest:

The Joint Reply contends that the Joint Protest amounts to policy arguments that are inappropriate for an advice letter protest and cites to GO 96-B Sec. 7.4.2 that states "a protest may not rely on policy objections to an advice letter where the relief requested in the advice letter follows rules or directions established by statute or Commission order applicable to the utility." The Joint Reply further asserts that the "Commission already determined in the 2023 Cost of Capital Decision that implementation of the automatic trigger results in just and reasonable rates in these circumstances, and that Joint Protestors acknowledge that the Utilities submitted the Advice Letters in compliance

[18] Joint Protest at 10, citing D.22-11-018 at 2-3, 21-24.
[19] Joint Protest at 11, citing D.22-11-018 at 22
[20] Joint Protest at 12-13 and Table 4.
[21] Joint Protest at 14.
[22] Joint Reply at 1.
[23] Joint Reply at 2.

with the 2008 Cost of Capital Decision and the 2023 Cost of Capital Decision."[24] The Joint Reply addresses each of the grounds for protest put forth by the Joint Protest:

The Joint Reply argues that contrary to the Joint Protest's assertion, the relief requested in the advice letters is not pending before the commission in a formal proceeding because the Commission set the Cost of Capital for 2023-2025 in D.22-12-031, subject to the CCM and only one party filed an application for rehearing which was denied in D.23- 08-028.[25] The Joint Reply states that while the Joint Protest argues the Commission should address necessary modifications to the CCM in Phase 2, D.22-12-031 specified that the CCM as constituted "should be extended through the 2023 Test Year Cost of Capital Cycle."[26]

The Joint Reply asserts that the "pending phase 2 is meant to address possible changes to the CCM for the next cost of capital cycle starting in 2026."[27] while further arguing that according to the Phase 2 "ALJ Ruling Outlining Phase 2 Issues and Schedules," a Phase 2 decision would not be issued until, at the earliest, mid-2024. The Joint Reply contends that the schedule shows the prospective application of Phase 2 "because a decision regarding the CCM for 2024 would be too late to meaningfully address the cost of capital as of January 1, 2024."[28]

Regarding the grounds for protest that the relief requested requires consideration in a formal hearing, the Joint Reply disagrees, noting that by design, the CCM will always lead to a similar rate impact because the change will always be at least 50 basis points if the CCM is triggered. The Joint Reply further notes the Commission recently held, if "the CCM adjustment is triggered by the change in Moody's utility bond rates during the measurement period, then the ROE adjusts the next year, without a full cost of capital proceeding."[29]

The Joint Reply states that the Joint Protest's attempt to exclude certain adjustments due to their size is a policy change not contained in Commission precedent and notes that the Water utilities' similar mechanism has appropriately been implemented via the advice letter process this year based on the current interest rate environment.[30] The Joint Reply provides an example stating that in July 2023, the Water Division accepted San Jose Water, California American Water, Golden State Water, and California Water Service Company's advice letters to implement increases and that Water Division recently accepted Golden State Water and California Water Service Company's advice letters further increasing their cost of capital due to their mechanisms triggering for 2024.[31]

Regarding the grounds for protest that the relief requested would be unjust, unreasonable, or discriminatory, the Joint Reply responds that the Commission has specified, where "the Commission has approved a rate change, an advice letter submitting tariff sheets in compliance with the Commission order approving the rate change is not subject to protest on the grounds that the rates are unjust, unreasonable, or discriminatory."[32] The Joint Reply asserts the Commission has already determined that the cost of capital is just and reasonable when the automatic adjustment is triggered, citing to D.22-12-031 Finding of Fact 51 that states "The CCM is a beneficial mechanism for the Commission to employ to protect both ratepayers and shareholders from major market shifts."[33]

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[24] Joint Reply at 2.
[25] Joint Reply at 4.
[26] Joint Reply at 5 citing to D.22-12-031 at 52, Finding of Fact 24.
[27] Joint Reply at 5.
[28] Id.
[29] Joint Reply at 5 citing to D.23-11-036 at 2.
[30] Joint Reply at 5.
[31] Joint Reply at 5-6.
[32] GO 96-B, Rule 7.4.2, Example 1.
[33] Joint Reply at 6.

Regarding the Joint Protest's claims that the ROE increases unreasonably incentivize natural gas capital investments, the Joint Reply asserts the issue is "irrelevant to an evaluation of the Advice Letters because it is yet another policy argument that is not properly raised for consideration in this CCM adjustment process."[34]

Energy Division Disposition

Energy Division (ED) has reviewed PG&E Advice Letter 4813-G/7046-E, SCE Advice Letter 5120-E, SDG&E Advice Letter 4300-E/3239-G, SoCalGas Advice Letter 6207-G, the Joint Protest, the Joint Reply, GO 96-B, and the relevant decisions and finds the Utilities' advice letters should be approved because they meet the clear, specific requirements set forth by the in D.08-05-035 and D.22-12-031 for proper implementation of the Cost of Capital Formula Adjustment Mechanism for 2024.

ED addresses each of the grounds for protest below:

The relief requested is pending before the Commission in a formal proceeding:
It is clear that D.22-12-031 adopted the CCM for the Test Year 2023 Cost of Capital cycle, unless modified by subsequent Commission Decision:

Ordering Paragraph 6 states:

> The Cost of Capital Mechanism shall continue to be in effect through the 2023 Cost of Capital cycle for Pacific Gas and Electric Company, Southern California Edison Company, Southern California Gas Company, and San Diego Gas & Electric Company unless modified by subsequent Commission decision.

D.22-12-031 contains other plain statements indicating the CCM is adopted for the Test Year 2023 cost of capital cycle:

- "We direct the continuation of the cost of capital mechanism through the 2023 Test Year Cost of Capital cycle."[35]
- "This decision also continues the previously authorized cost of capital mechanism through the 2023 test year cycle."[36]
- The CCM should be extended through the 2023 Test Year Cost of Capital Cycle.[37]
- "The CCM is a beneficial mechanism for the Commission to employ to protect both ratepayers and shareholders from major market shifts."[38]

D.22-12-031 notes that parties to the proceeding, some of whom are now members of the Joint Protestants, "generally supported the continuation of the cost of capital mechanism as a buffer against market volatility."[39]

The Joint Protest argues that the Commission should "…temporarily suspend the CCM mechanism, reject the Advice Letters, and evaluate the need for CCM modifications in the Cost of Capital proceeding [Phase 2]."[40]

[34] Joint Reply at 9.
[35] D.22-12-031 at 43.
[36] D.22-12-031 at 2.
[37] D.22-12-031, Conclusion of Law 24, at 52.
[38] D.22-12-031, Finding of Fact 51, at 49.
[39] D.22-12-031 at 42.
[40] Joint Protest at 15.

However, the Administrative Law Judge's Ruling Outlining the Phase 2 Issues and Schedule only identifies "Modifications to the Cost of Capital Mechanism" as an issue to be resolved in the proceeding while citing back to language in D.22-12-031.[41] As mentioned, D.22-12-031 adopted the CCM for the Test Year 2023 Cost of Capital cycle *unless modified by a subsequent Commission decision* and the Joint Protest does not cite to any subsequent Commission decision that modifies the operation of the CCM.

Given the multiple clear statements in D.22-12-031 adopting the CCM for the 2023 Cost of Capital cycle and the absence of any modifying subsequent Commission decision at this time, ED finds that the relief requested in the Utilities' Tier 2 advice letters is not pending before the Commission in a formal proceeding.

<u>The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process Tier 2 Advice Letter Eligibility:</u>
It is clear that Ordering Paragraph 2 of D.08-05-035 requires a Tier 2 Advice Letter to be filed by October 15th in the year in which the difference between the October through September average Moody's utility bond interest rates and the benchmark exceeds 100 basis points:

Ordering Paragraph 2, part (d.) states:

> On October 15 of such year, **a Tier 2 advice letter is filed that updates the ROE** and related rate adjustments to become effective on January 1 of the following year. (Emphasis added).

While the Joint Protest maintains that the "advice letter process is not the appropriate forum to consider and implement bill impacts of this magnitude"[42] it is worth noting that even the *minimum* ROE adjustment contemplated by the design of the CCM is 50 basis points, which ED finds would have a similar financial impact to the 70 basis points change included in the Utilities' advice letters. Therefore, now arguing that the magnitude of the CCM adjustment is too large for a Tier 2 advice letter amounts to a policy argument which, pursuant to GO 96-B Section 7.4.2, is not appropriately addressed in a protest to an advice letter. It is also worth noting, as pointed out by the Joint Reply, the Commission's Water Division recently approved the similar mechanism for water utilities via Tier 2 advice letters.[43]

The Utilities filed Tier 2 advice letters by October 15th to update the ROEs as required by D.08-05-035, and it is not disputed that the difference between the average Moody's utility bond index and the benchmark during the October through September measurement period exceeds 100 basis points. Therefore, ED finds the relief requested in the advice letters does not require consideration in a formal hearing and is appropriate for the advice letter process, consistent with the policy set forth in D.08-05-035.

<u>The relief requested in the advice letter is unjust, unreasonable, or discriminatory</u>
The Joint Protest argues that the relief requested in the advice letter is unjust, unreasonable, or discriminatory because "when implementing the CCM would have benefitted ratepayers by decreasing ROEs, it was not implemented; but if implemented now, it would harm ratepayers."[44] Further asserting that "implementing the proposed increases would result in ROEs that exceed the levels necessary to maintain the Utilities' financial

[41] October 31, 2023 Administrative Law Judge's Ruling Outlining Phase 2 Issues and Schedule at 2 in A.22-04-008, et al.
[42] Joint Protest at 15.
[43] Joint Reply at 5-6.
[44] Joint Protest at 7.

integrity, thus unduly benefitting shareholders."[45]

However, it is clear that GO 96-B Section 7.4.2 (6) only allows for protests on the grounds that the relief requested in the advice letter is unjust, unreasonable, or discriminatory "provided that such a protest may not be made where it would require relitigating a prior order of the Commission." ED finds that the Tier 2 advice letters were filed consistent with Ordering Paragraph 2 of D.08-05-035 that adopted the policy for the CCM's operation, and with Ordering Paragraph 6 of D.22-12-031 that adopted the CCM for the 2023 cycle unless modified by subsequent Commission decision. Thus, allowing a protest on these grounds would be contrary to GO 96-B because it would require relitigating one or more prior orders of the Commission contained in D.08-05-035 and D.22-12-031.

Although the Joint Protest states that it "…is not attempting to litigate the prior Commission's decision to base the CCM on interest rate changes…"[46] granting the protest based on these grounds would constitute relitigating prior Commission orders and thus ED declines to do so. Moreover, GO 96-B Section 7.4.2 does not provide opportunity for protests on the grounds that the relief requested is unjust, unreasonable, or discriminatory when the Commission has previously approved the rate change.[47] D.22-12-031 clearly adopted the CCM for the TY 2023 Cost of Capital cycle for the Utilities, unless modified by a subsequent Commission decision; therefore, ED finds that the relief requested in the Utilities' Tier 2 advice letters cannot be found to be unjust, unreasonable, or discriminatory.

Finally, ED finds that the Joint Protest's argument that the requested ROE increases unreasonably incentivize natural gas capital investments is a policy argument best suited for a proceeding that reviews the reasonableness of natural gas investments and is therefore neither appropriate, nor permitted, as a grounds for protest to an Advice Letter under GO 96-B, Section 7.4.2.

Summary

In D.22-12-031, the Commission adopted the Test Year 2023 Cost of Capital for the Utilities, and ordered the continuance of the CCM through the 2023 Cost of Capital cycle, unless modified by subsequent Commission decision.[48] D.08-05-035 orders Utilities to file a Tier 2 advice letter to adjust the ROE by half the difference when the difference between the Moody's utility bond rates and the benchmark exceeds 100 basis points.[49] Commission General Order 96-B Section 7.4.2 states that "…a protest may not rely on policy objections to an advice letter where the relief requested in the advice letter follows rules or directions established by statute or Commission order applicable to the utility."

The Joint Protest does not dispute that the relief requested in the Utilities' Tier 2 advice letters are consistent with the Commission orders set forth in D.08-05-035 for operation of the CCM, and at this time there is no subsequent Commission decision modifying D.22-12-031 Ordering Paragraph 6. Therefore, arguments such as the appropriate magnitude of the ROE adjustment, possible incentives for natural gas capital expenditures, and whether Moody's utility bond index changes are representative of changes in the cost of equity are policy arguments that are inappropriate for a protest to an advice letter. For the reasons stated above, ED finds that the Joint Protest does not contain sufficient grounds for protest and is denied. As a result, PG&E Advice Letter 4813-G/7046-E, SCE Advice Letter 5120-E, SDG&E Advice Letter 4300-E/3239-G and SoCalGas Advice Letter 6207-G are approved.

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[45] Id.
[46] Joint Protest at 12, FN 56.
[47] GO 96-B Section 7.4.2. Example 1.
[48] D.08-05-035, Ordering Paragraph 2.
[49] D.22-12-031, Ordering Paragraph 6.

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October 13, 2023

Advice No. 6207-G
(U 904 G)

Public Utilities Commission of the State of California

SUBJECT: Cost of Capital Mechanism (CCM) Trigger Adjustment Effective January 1, 2024 Pursuant to Decision (D.) 22-12-031

PURPOSE

Southern California Gas Company (SoCalGas) hereby submits this Advice Letter (AL) for California Public Utilities Commission (Commission or CPUC) approval for Cost of Capital Mechanism (CCM) automatic trigger adjustment and updated Rate of Return (ROR) effective January 1, 2024. SoCalGas as well revises its Gas Preliminary Statement, Section XIV Cost of Capital Mechanism (CCM), as shown in Attachment A.

BACKGROUND

The CCM was first established for SoCalGas by the Commission in D.13-03-015 and was reaffirmed in D.22-12-031. The CCM consists of a benchmark, established at the start of the CCM period, and a deviation range or "deadband" from the benchmark of one percent (100 basis points), based upon the applicable Moody's utility bond index. The Moody's AA utility bond index applies for AAA credit-rated utilities or higher, and Moody's Ba index for BBB credit-rated utilities or lower.[1] In "any year where the difference between the current 12-month October through September average Moody's utility bond index and the benchmark exceeds a 100-basis point trigger, an automatic adjustment to the utilities' return on equity (ROE) shall be made by an October 15 advice letter to become effective on January 1 of the next year."[2] Upon such a filing, ROE is adjusted by one-half of the difference between the applicable Moody's index and benchmark, and long-term debt and preferred stock costs are updated to reflect actual August month-end costs.[3]

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1 D.08-05-035 at 15-16; D.22-12-031 at 42-43.

2 D.08-05-035 at 15.

3 *Id.* at 16.

On April 20, 2022, concurrent with the other major energy utilities in California,[4] SoCalGas filed its Test Year (TY) 2023 Cost of Capital Application (A.) 22-04-011. The Commission subsequently consolidated the utilities' applications into one proceeding, A.22-04-008 (consolidated). On December 15, 2022, the Commission approved D.22-12-031, adopting a TY 2023 Cost of Capital for each utility, including SoCalGas, to be effective January 1, 2023 through December 31, 2025. D.22-12-031 also ordered continuation of the existing CCM through the 2023 Cost of Capital cycle.[5] The Commission found that the CCM "is a beneficial mechanism for the Commission to employ to protect both ratepayers and shareholders from major market shifts."[6]

On January 13, 2023, SoCalGas submitted AL 6083G to update the CCM tariff and benchmark in accordance with D.22-12-031. The CCM benchmark rate was set to 4.074%, which is the October 2021 through September 2022 monthly average of the Moody's A-rated utility bond index.[7] AL 6083G was approved as filed and became effective February 12, 2023.

Consistent with the applicable decisions, SoCalGas's CCM as approved operates as follows:[8]

- In the year of a Cost of Capital (COC) filing, the CCM is not in effect because the COC proceeding will set new rates for the following year. The CCM applies in the years when SoCalGas does not file a COC application.
- The CCM is triggered when the October through September 12-month average of the monthly averages of the applicable Moody's utility bond index is more than 100 basis points (1.00 percent) higher or lower than the benchmark. The index applicable to each utility is based on each utility's credit rating.
- Pursuant to D.13-03-015, Ordering Paragraph 7, applied in D.22-12-031 SoCalGas shall use Moody's long-term utility bond index in determining whether the CCM's 100-basis point dead band is triggered, based upon SoCalGas's credit rating. The currently established CCM benchmark rate is 4.074%, which is the average of the October 2021 through September 2022 monthly averages of the Moody's A-rated utility bond index.
- When an automatic adjustment is triggered, the costs of capital components are updated and a new rate of return is computed as follows:
    a. The Return on Common Equity (ROE) is adjusted by one-half of the difference between the applicable 12-month average Moody's utility bond index and the benchmark.

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4 Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company also filed respective TY 2023 Cost of Capital Applications with the Commission on April 20, 2022.

5 D.22-12-031 at 42-43, 54 (OP 6).

6 *Id.* at 49 (Finding of Fact (FOF) 51).

7 *See* D.17-07-005 at 4 ("The CCM is based on . . . (2) an index based on the average 12-month October through September period of Moody's A utility bonds (for utilities rated better than BBB+ and lower than AA-) and Moody's Baa utility bonds (for BBB+ credit-rated utilities and lower)").

8 *See* SoCalGas's Cost of Capital Mechanism (CCM) Preliminary Tariff at https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-PRELIM_PS-XIV.pdf.

b. Costs of long-term debt and preferred stock are updated to reflect actual August month-end embedded costs in the trigger year, forecasted interest rates for variable long-term debt, and new long-term debt and preferred stock scheduled to be issued.
c. The currently authorized capital structure is used to calculate an updated rate of return, which is submitted by advice letter on October 15 of the trigger year to be effective January 1 of the following year. There is no change to the authorized capital structure.
d. The CCM benchmark is reestablished.

DISCUSSION

As noted above, the CCM provides that SoCalGas's cost of capital is assessed in the interim years between triennially-filed cost of capital applications through the CCM,[9] which uses interest rate changes as a proxy for changes in the cost of capital and consists of a benchmark and a deviation range or "deadband" from the benchmark of one percent (100 basis points).[10] Per Decision 22-11-018, when the applicable Moody's utility bond index averages more than a 100 basis point difference compared to the benchmark between October 1 and September 30, then an "*automatic* adjustment to the utilities' ROE [return on equity] *shall* be made by an October 15 advice letter to become effective on January 1 of the next year."[11] The Commission has also stated that it is a requirement that the major utilities file the advice letter when such a triggering event has occurred.[12]

SoCalGas's CCM is in Effect and Triggered for 2024

As outlined in SoCalGas's CCM, SoCalGas's CCM is in effect and triggered for 2024:

> In the year of a Cost of Capital (COC) filing, the CCM is not in effect because the COC proceeding will set new rates for the following year. The CCM applies in the years when SoCalGas does not file a COC application.

Table 1
Cost of Capital Test Year 2023 Cycle

Test Year 2023	2024	2025
Cost of Capital set in D.22-12-031	Cost of Capital evaluated under CCM Measurement period is October 2022 through September 2023	Cost of Capital evaluated under CCM Measurement period is October 2023 through September 2024

SoCalGas's last COC application was A.22-04-011, filed in April 2022 for test year 2023.

9 D.13-03-015 at 10 (OP 3-5).

10 *Id.* at 2-3.

11 D.22-11-018 at 3 (emphasis added) (*quoting* D.08-05-035 at 15-16).

12 D.21-12-029 at 8.

Therefore, SoCalGas's CCM is in effect for 2024.

As set forth in Table 2 below, SoCalGas's CCM benchmark rate is 4.074%, which is the October 2021 through September 2022 monthly average of the Moody's A-rated utility bond index[13]. The October 2022 through September 2023 monthly average of the Moody's A-rated utility bond index is 5.472%, which is more than 100 basis points (1.00 percent) higher than the benchmark. Therefore, SoCalGas's CCM is triggered for 2024. See Attachment B for workpapers supporting the calculation of the October 2022 through September 2023 monthly average of the Moody's A-rated utility bond index.

Table 2
CCM Trigger Index Comparison

Moody's A-rated Utility Bond Index	%
CCM Benchmark	4.074%
October 2022 through September 2023 monthly average	5.472%
Difference	1.398%
Trigger Threshold	1.00% higher/ lower than benchmark

In addition, when a CCM adjustment is triggered, the cost of capital components are automatically updated through a utility advice letter filing and a new rate of return is computed. The automatic adjustments to ROE, long-term debt, and preferred equity, along with the updated rate of return for 2024 and new benchmark are presented below.

<u>Updated Cost of Capital and CCM Benchmark for 2024</u>

<u>ROE Adjustment</u>
As outlined in the CCM, ROE is adjusted by one-half of the difference between the applicable 12-month average Moody's utility bond index and the benchmark.

Table 3
Calculation of Adjusted ROE for 2024

Line No.	CCM ROE Formula	%
1	CCM Benchmark	4.074%
2	October 2022 through September 2023 monthly average	5.472%
3	Difference (Line 2 – Line 1)	1.398%
4	ROE Adjustment (1/2 of Line 3)	0.699%
5	Authorized 2023 ROE[14]	9.80%
6	Adjusted ROE for 2024 (Line 4 + Line 5)	10.50%

---

13 *See* SoCalGas's Cost of Capital Mechanism (CCM) Preliminary Tariff, *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-PRELIM_PS-XIV.pdf.

14 D.22-12-031 at 53 (OP 3).

SoCalGas's CCM benchmark is 4.074%[15] and the October 2022 through September 2023 monthly average of the Moody's A-rated utility bond index is 5.472%[16]. Under the CCM's automatic adjustment, as shown in Table 3, SoCalGas's adjusted ROE for 2024 is 10.50%.

Long-term Debt and Preferred Stock Adjustment
As outlined in the CCM and applicable Commission decisions, the costs of long-term debt and preferred stock are updated to reflect actual August month-end embedded costs in the trigger year, forecasted interest rates for variable long-term debt, and new long-term debt and preferred stock scheduled to be issued.

Table 4
Adjusted Long-Term Debt for 2024

Long-Term Debt	%
Authorized for 2023[17]	4.07%
Adjusted for 2024	4.54%

SoCalGas updated its cost of long-term debt using actual long-term debt issuances through the end of August 2023 and forecasted issuances for the remainder of 2023 and 2024. SoCalGas's embedded cost of debt calculation is based on the September 2023 IHS Markit Global Insights forecast of the Treasury bond yields. As shown in Table 4, SoCalGas's updated cost of long-term debt for 2024 is 4.54%. See Attachment C for the workpapers supporting the calculation of long-term debt for 2024.

Table 5
Adjusted Preferred Stock for 2024

Preferred Stock	%
Authorized for 2023[18]	6.00%
Adjusted for 2024	6.00%

SoCalGas has not issued any new shares of preferred stock and SoCalGas does not expect to issue any preferred equity in 2023 or 2024. Accordingly, SoCalGas's cost of preferred stock of 6.00% is unchanged for 2024. See Attachment C for the workpapers supporting the calculation of preferred equity for 2024.

Updated Rate of Return
As provided for by the CCM, the currently authorized capital structure is used to calculate an updated rate of return for 2024 based upon the CCM's automatic adjustments to ROE, cost of debt, and cost of equity. There is no change to the authorized capital structure.

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15 *See* SoCalGas's Cost of Capital Mechanism (CCM) Preliminary Tariff, *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-PRELIM_PS-XIV.pdf.

16 *See* Attachment B.

17 D.22-12-031 at 53 (OP 3).

18 *Id.*

Table 6
Calculation of Updated Rate of Return for 2024

Component	Capital Structure Authorized in D.22-12-031[19]	Costs Authorized for 2023 in D.22-12-031[20]	Costs Updated for 2024
Long-Term Debt	45.60%	4.07%	4.54%
Preferred Stock	2.40%	6.00%	6.00%
Common Equity	52.00%	9.80%	10.50%
Total	100%	7.10%	7.67%

SoCalGas's updated rate of return for 2024 is 7.67%. The calculation of the updated rate of return for 2024 is shown in Table 6. See Attachment D for the workpapers supporting the calculation of the updated rate of return for 2024.

Updated CCM Benchmark
When an automatic CCM adjustment is triggered, the CCM benchmark is reestablished. SoCalGas's new benchmark is set to 5.472%, the 12-month (October to September) average index that caused the CCM to trigger. This update is reflected in Attachment A.

Revenue Requirements and Bill Impacts

Revenue requirement and associated rate impacts are not required to be included in automatic adjustment filings under the CCM. However, to facilitate review of the automatic adjustment, SoCalGas has included the changes resulting from the updated rate of return for 2024. The estimated revenue requirement impact is an increase of $77.0 million. See Attachment E for the workpapers supporting the calculation of revenue requirements and bill impacts for 2024.

The system average rate would increase by $0.008/th or 1.8% compared to current, effective rates. The residential average rate would increase by $0.026/th or 2.3% compared to current rates. The typical average residential customer using 36 th/month will see an average bill of $70.69, which is a $0.94 increase compared to the current monthly bill.

PROTESTS

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be submitted electronically and must be received within 20 days after the date of this Advice Letter, which is November 2, 2023. Protests should be submitted to the attention of the Energy Division Tariff Unit at:

E-mail: EDTariffUnit@cpuc.ca.gov

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[19] *Id.*

[20] *Id.*

In addition, protests and all other correspondence regarding this Advice Letter should also be sent electronically to the attention of:

Attn: Gary Lenart
Regulatory Tariff Manager
E-mail: GLenart@socalgas.com
E-mail: Tariffs@socalgas.com

EFFECIVE DATE

SoCalGas asserts this submittal is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to General Order (GO) 96-B. SoCalGas respectfully requests that this submittal become effective November 12, 2023, which is 30 calendar days after the date submitted.

NOTICE

A copy of this Advice Letter is being sent to SoCalGas' General Order (GO) 96-B service list and the Commission's service list in A.22-04-008 (cons). Address change requests to the GO 96-B service list should be directed via e-mail to Tariffs@socalgas.com or call 213-244-2424. For changes to all other service lists, please contact the Commission's Process Office at 415-703-2021 or via e-mail at Process_office@cpuc.ca.gov.

/s/ Joseph Mock
Joseph Mock
Director – Regulatory Affairs

Attachments

California Public Utilities Commission

ADVICE LETTER SUMMARY

ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.:

Utility type:

- ☐ ELC ☐ GAS ☐ WATER
- ☐ PLC ☐ HEAT

Contact Person:
Phone #:
E-mail:
E-mail Disposition Notice to:

EXPLANATION OF UTILITY TYPE

ELC = Electric	GAS = Gas	WATER = Water
PLC = Pipeline	HEAT = Heat	

(Date Submitted / Received Stamp by CPUC)

Advice Letter (AL) #: Tier Designation:

Subject of AL:

Keywords (choose from CPUC listing):

AL Type: ☐ Monthly ☐ Quarterly ☐ Annual ☐ One-Time ☐ Other:

If AL submitted in compliance with a Commission order, indicate relevant Decision/Resolution #:

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL:

Summarize differences between the AL and the prior withdrawn or rejected AL:

Confidential treatment requested? ☐ Yes ☐ No

If yes, specification of confidential information:
Confidential information will be made available to appropriate parties who execute a nondisclosure agreement. Name and contact information to request nondisclosure agreement/ access to confidential information:

Resolution required? ☐ Yes ☐ No

Requested effective date: No. of tariff sheets:

Estimated system annual revenue effect (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed[1]:

Pending advice letters that revise the same tariff sheets:

[1] Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this submittal, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division Attention: Tariff Unit 505 Van Ness Avenue San Francisco, CA 94102 Email: EDTariffUnit@cpuc.ca.gov	Name: Title: Utility Name: Address: City: State: Zip: Telephone (xxx) xxx-xxxx: Facsimile (xxx) xxx-xxxx: Email:
	Name: Title: Utility Name: Address: City: State: Zip: Telephone (xxx) xxx-xxxx: Facsimile (xxx) xxx-xxxx: Email:

ATTACHMENT A
Advice No. 6207-G

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 61218-G	PRELIMINARY STATEMENT, PART XIV, COST OF CAPITAL MECHANISM (CCM), Sheet 1	Revised 60430-G
Revised 61219-G	TABLE OF CONTENTS, Sheet 1	Revised 61211-G
Revised 61220-G	TABLE OF CONTENTS	Revised 60953-G

PRELIMINARY STATEMENT
PART XIV
COST OF CAPITAL MECHANISM (CCM)

A. OVERVIEW

Pursuant to Decision (D.) 22-12-031, the Cost of Capital Mechanism (CCM) if triggered, provides for an adjustment to SoCalGas' authorized cost of long-term debt based on actual costs and an update to SoCalGas' authorized Return on Common Equity (ROE) up or down by one-half of the change in the applicable 12-month average Moody's utility bond index.

B. EFFECTIVE DATE/DURATION

The CCM was established for SoCalGas by the Commission in D.13-03-015, reaffirmed in D.22-12-031, and shall be effective until modified or terminated by further action of the Commission.

C. DESCRIPTION OF MECHANISM

In the year of a Cost of Capital (COC) filing, the CCM is not in effect because the COC proceeding will set new rates for the following year. The CCM applies in the years when SoCalGas does not file a COC application.

The CCM is triggered when the October through September 12-month average of the monthly averages of the applicable Moody's utility bond index is more than 100 basis points (1.00 percent) higher or lower than the benchmark. The index applicable to each utility is based on each utility's credit rating.

Pursuant to D.13-03-015, Ordering Paragraph 7, applied in D.22-12-031 SoCalGas shall use Moody's long-term utility bond index in determining whether the CCM's 100-basis point dead band is triggered, based upon SoCalGas' credit rating. The currently established CCM benchmark rate is 5.472%, which I
is the average of the October 2022 through September 2023 monthly averages of the Moody's A-rated C
utility bond index.

(Continued)

TABLE OF CONTENTS

The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

(Continued)

TABLE OF CONTENTS

(Continued)

PRELIMINARY STATEMENT (Continued)

ATTACHMENT B

WORKPAPERS OF THE OCTOBER 2022 THROUGH SEPTEMBER 2023 MONTHLY AVERAGE OF THE MOODY'S A-RATED UTILITY BOND INDEX

Southern California Gas Company
Attachment B - Monthly Average of Moody's A-Rated Utility Bond Index (MOODUA)
October 2022 - September 2023

Date	Value
10/3/2022	5.56
10/4/2022	5.51
10/5/2022	5.60
10/6/2022	5.62
10/7/2022	5.67
10/10/2022	5.77
10/11/2022	5.78
10/12/2022	5.78
10/13/2022	5.84
10/14/2022	5.89
10/17/2022	5.91
10/18/2022	5.90
10/19/2022	6.01
10/20/2022	6.10
10/21/2022	6.19
10/24/2022	6.22
10/25/2022	6.11
10/26/2022	6.02
10/27/2022	5.93
10/28/2022	5.96
10/31/2022	6.03
11/1/2022	5.94
11/2/2022	5.92
11/3/2022	5.97
11/4/2022	6.05
11/7/2022	6.11
11/8/2022	6.05
11/9/2022	6.11
11/10/2022	5.86
11/14/2022	5.84
11/15/2022	5.74
11/16/2022	5.62
11/17/2022	5.65
11/18/2022	5.66
11/21/2022	5.63
11/22/2022	5.54
11/23/2022	5.44
11/25/2022	5.46
11/28/2022	5.46
11/29/2022	5.51
11/30/2022	5.52
12/1/2022	5.52
12/2/2022	5.26
12/5/2022	5.29
12/6/2022	5.20
12/7/2022	5.08
12/8/2022	5.09
12/9/2022	5.17
12/12/2022	5.19
12/13/2022	5.13
12/14/2022	5.14
12/15/2022	5.11
12/16/2022	5.15
12/19/2022	5.23
12/20/2022	5.34
12/21/2022	5.35
12/22/2022	5.32
12/23/2022	5.42
12/27/2022	5.53
12/28/2022	5.56
12/29/2022	5.51
12/30/2022	5.53

Date	Value
1/3/2023	5.50
1/4/2023	5.42
1/5/2023	5.40
1/6/2023	5.28
1/9/2023	5.23
1/10/2023	5.32
1/11/2023	5.23
1/12/2023	5.11
1/13/2023	5.15
1/17/2023	5.15
1/18/2023	5.05
1/19/2023	5.09
1/20/2023	5.16
1/23/2023	5.19
1/24/2023	5.12
1/25/2023	5.12
1/26/2023	5.11
1/27/2023	5.11
1/30/2023	5.13
1/31/2023	5.14
2/1/2023	5.02
2/2/2023	5.00
2/3/2023	5.08
2/6/2023	5.12
2/7/2023	5.16
2/8/2023	5.16
2/9/2023	5.20
2/10/2023	5.27
2/13/2023	5.23
2/14/2023	5.25
2/15/2023	5.31
2/16/2023	5.39
2/17/2023	5.39
2/21/2023	5.50
2/22/2023	5.46
2/23/2023	5.42
2/24/2023	5.49
2/27/2023	5.47
2/28/2023	5.50
3/1/2023	5.53
3/2/2023	5.59
3/3/2023	5.45
3/6/2023	5.47
3/7/2023	5.46
3/8/2023	5.46
3/9/2023	5.46
3/10/2023	5.34
3/13/2023	5.35
3/14/2023	5.41
3/15/2023	5.38
3/16/2023	5.40
3/17/2023	5.27
3/20/2023	5.34
3/21/2023	5.39
3/22/2023	5.32
3/23/2023	5.31
3/24/2023	5.29
3/27/2023	5.40
3/28/2023	5.43
3/29/2023	5.41
3/30/2023	5.35
3/31/2023	5.26

Date	Value
4/3/2023	5.21
4/4/2023	5.06
4/5/2023	5.03
4/6/2023	5.01
4/10/2023	5.10
4/11/2023	5.07
4/12/2023	5.09
4/13/2023	5.12
4/14/2023	5.16
4/17/2023	5.23
4/18/2023	5.20
4/19/2023	5.20
4/20/2023	5.18
4/21/2023	5.21
4/24/2023	5.16
4/25/2023	5.08
4/26/2023	5.13
4/27/2023	5.18
4/28/2023	5.11
5/1/2023	5.25
5/2/2023	5.20
5/3/2023	5.18
5/4/2023	5.20
5/5/2023	5.24
5/8/2023	5.31
5/9/2023	5.34
5/10/2023	5.29
5/11/2023	5.24
5/12/2023	5.26
5/15/2023	5.35
5/16/2023	5.41
5/17/2023	5.43
5/18/2023	5.44
5/19/2023	5.49
5/22/2023	5.50
5/23/2023	5.49
5/24/2023	5.50
5/25/2023	5.53
5/26/2023	5.50
5/30/2023	5.42
5/31/2023	5.38
6/1/2023	5.36
6/2/2023	5.39
6/5/2023	5.39
6/6/2023	5.38
6/7/2023	5.45
6/8/2023	5.39
6/9/2023	5.40
6/12/2023	5.42
6/13/2023	5.45
6/14/2023	5.39
6/15/2023	5.37
6/16/2023	5.37
6/20/2023	5.33
6/21/2023	5.33
6/22/2023	5.40
6/23/2023	5.36
6/26/2023	5.36
6/27/2023	5.37
6/28/2023	5.33
6/29/2023	5.43
6/30/2023	5.35

Date	Value
7/3/2023	5.38
7/5/2023	5.44
7/6/2023	5.51
7/7/2023	5.53
7/10/2023	5.54
7/11/2023	5.50
7/12/2023	5.42
7/13/2023	5.35
7/14/2023	5.38
7/17/2023	5.38
7/18/2023	5.36
7/19/2023	5.29
7/20/2023	5.37
7/21/2023	5.36
7/24/2023	5.37
7/25/2023	5.39
7/26/2023	5.36
7/27/2023	5.47
7/28/2023	5.44
7/31/2023	5.43
8/1/2023	5.52
8/2/2023	5.59
8/3/2023	5.73
8/4/2023	5.64
8/7/2023	5.68
8/8/2023	5.64
8/9/2023	5.61
8/10/2023	5.68
8/11/2023	5.72
8/14/2023	5.72
8/15/2023	5.75
8/16/2023	5.80
8/17/2023	5.86
8/18/2023	5.84
8/21/2023	5.92
8/22/2023	5.86
8/23/2023	5.73
8/24/2023	5.74
8/25/2023	5.73
8/28/2023	5.73
8/29/2023	5.66
8/30/2023	5.65
8/31/2023	5.63
9/1/2023	5.71
9/5/2023	5.81
9/6/2023	5.79
9/7/2023	5.78
9/8/2023	5.75
9/11/2023	5.79
9/12/2023	5.77
9/13/2023	5.76
9/14/2023	5.80
9/15/2023	5.82
9/18/2023	5.80
9/19/2023	5.83
9/20/2023	5.79
9/21/2023	5.79
9/22/2023	5.89
9/25/2023	6.03
9/26/2023	6.06
9/27/2023	6.09
9/28/2023	6.09
9/29/2023	6.08

Month	Average
Oct-2022	5.876
Nov-2022	5.754
Dec-2022	5.291
Jan-2023	5.201
Feb-2023	5.285
Mar-2023	5.394
Apr-2023	5.133
May-2023	5.361
Jun-2023	5.382
Jul-2023	5.414
Aug-2023	5.714
Sep-2023	5.862
Average	5.472

ATTACHMENT C

WORKPAPERS OF EMBEDDED COST OF DEBT AND PREFERRED EQUITY

Southern California Gas Company

Attachment C1 - Embedded Cost of Debt Summary

		A	B	C	D	E
Line #	Description	Principal	Total Discounts and Expenses	(C = A - B) Net Proceeds	Total Annual Cost	(E = D / C) Effective Rate
1	Series EE		$137,841	-$137,841	$88,340	
2	Swiss Francs	$4,338,770		$4,338,770	$81,352	1.88%
3	Medium Term Note	$5,000,000		$5,000,000	$283,500	5.67%
4	Series KK	$250,000,000	$3,960,222	$246,039,778	$14,507,007	5.90%
5	Series MM	$300,000,000	$3,816,052	$296,183,948	$15,502,202	5.23%
6	Series NN	$350,000,000	$5,478,830	$344,521,170	$13,307,628	3.86%
7	Series OO	$250,000,000	$43,939,736	$206,060,264	$12,425,222	6.03%
8	Series PP	$500,000,000	$5,973,758	$494,026,242	$16,347,376	3.31%
9	Series RR	$350,000,000	$3,456,594	$346,543,406	$11,546,005	3.33%
10	Series TT	$500,000,000	$5,229,164	$494,770,836	$13,525,544	2.73%
11	Series UU	$400,000,000	$4,575,075	$395,424,925	$16,652,502	4.21%
12	Series VV	$550,000,000	$5,820,812	$544,179,188	$23,844,027	4.38%
13	Series WW	$350,000,000	$4,681,730	$345,318,270	$13,981,058	4.05%
14	Series XX	$650,000,000	$7,145,065	$642,854,935	$17,289,507	2.69%
15	SCG 2027 Note	$700,000,000	$8,783,510	$691,216,490	$22,406,702	3.24%
16	Series YY	$600,000,000	$8,670,990	$591,329,010	$38,389,033	6.49%
17	Series ZZ	$500,000,000	$5,212,169	$494,787,831	$26,521,217	5.36%
18	Series AAA	$500,000,000	$7,716,513	$492,283,487	$29,007,217	5.89%
19	Revolving Line of Credit				$695,801	
20	**Total Outstanding (8/31/2023)**	**$6,759,338,770**	**$124,598,060**	**$6,634,740,711**	**$286,401,239**	**4.32%**
21						
22	**No Additional Changes in 2023**					
23						
24	**Changes in 2024**					
25	Issuance 1 (Q2-2024)	$450,000,000	$3,947,521	$446,052,479	$23,782,814	5.33%
26	Issuance 2 (Q3-2024)	$450,000,000	$4,960,021	$445,039,979	$25,725,154	5.78%
27	Series PP Retirement	-$500,000,000	-$5,973,758	-$494,026,242	-$16,347,376	3.31%
28	**Total Outstanding (12/31/2024)**	**$7,159,338,770**	**$127,531,844**	**$7,031,806,926**	**$319,561,831**	**4.54%**

Southern California Gas Company

Attachment C2 - Embedded Cost of Debt Detail

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
										Loss on Reacquisition	Total Discounts	Annual Interest	Interest Expense	Annual Amortization			Total Annual	Net Embedded
Line #	Description	Interest Rate	Issuance Date	Due Date	Term	Principal	Issue Discount	Issue Expense	Swap Lock Termination	(Net of Tax Schedules)	and Expenses	Expense	(Swap Lock Termination)	Discount	Expense	Loss	Cost	Cost
1	SERIES EE[1]		11/1/1993	11/1/2025						$137,841	$137,841	$0				$88,340	$88,340	
2	SWISS FRANCS[2]	1.88%	5/14/2016	5/14/2026	10	$4,338,770					$0	$81,352					$81,352	1.88%
3	MEDIUM TERM NOTE	5.67%	1/15/2003	1/18/2028	25	$5,000,000					$0	$283,500					$283,500	5.67%
4	SERIES KK	5.75%	11/18/2005	11/15/2035	30	$250,000,000	$1,520,000	$2,440,222			$3,960,222	$14,375,000		$50,667	$81,341		$14,507,007	5.90%
5	SERIES MM	5.13%	11/18/2010	11/15/2040	30	$300,000,000	$729,000	$3,087,052			$3,816,052	$15,375,000		$24,300	$102,902		$15,502,202	5.23%
6	SERIES NN	3.75%	9/21/2012	9/15/2042	30	$350,000,000	$1,746,500	$3,732,330			$5,478,830	$13,125,000		$58,217	$124,411		$13,307,628	3.86%
7	SERIES OO	4.45%	3/13/2014	3/15/2044	30	$250,000,000	$1,517,500	$2,668,436	$39,753,800		$43,939,736	$11,125,000	$1,160,690	$50,583	$88,948		$12,425,222	6.03%
8	SERIES PP	3.15%	9/11/2014	9/15/2024	10	$500,000,000	$1,830,000	$4,143,758			$5,973,758	$15,750,000		$183,000	$414,376		$16,347,376	3.31%
9	SERIES RR	3.20%	6/18/2015	6/15/2025	10	$350,000,000	$829,500	$2,627,094			$3,456,594	$11,200,000		$83,033	$262,972		$11,546,005	3.33%
10	SERIES TT	2.60%	6/3/2016	6/15/2026	10	$500,000,000	$970,000	$4,259,164			$5,229,164	$13,000,000		$97,487	$428,057		$13,525,544	2.73%
11	SERIES UU	4.13%	5/15/2018	6/1/2048	30	$400,000,000	$420,000	$4,155,075			$4,575,075	$16,500,000		$14,000	$138,502		$16,652,502	4.21%
12	SERIES VV	4.30%	9/24/2018	1/15/2049	30	$550,000,000	$247,500	$5,573,312			$5,820,812	$23,650,000		$8,250	$185,777		$23,844,027	4.38%
13	SERIES WW	3.95%	6/4/2019	2/15/2050	30	$350,000,000	$850,500	$3,831,230			$4,681,730	$13,825,000		$28,350	$127,708		$13,981,058	4.05%
14	SERIES XX	2.55%	1/9/2020	2/1/2030	10	$650,000,000	$1,495,000	$5,650,065			$7,145,065	$16,575,000		$149,500	$565,007		$17,289,507	2.69%
15	SCG 2027 NOTE	2.95%	3/8/2022	4/15/2027	5	$700,000,000	$3,325,000	$5,458,510			$8,783,510	$20,650,000		$665,000	$1,091,702		$22,406,702	3.24%
16	SERIES YY	6.35%	11/14/2022	11/15/2052	30	$600,000,000	$2,238,000	$6,432,990			$8,670,990	$38,100,000		$74,600	$214,433		$38,389,033	6.49%
17	SERIES ZZ	5.20%	5/23/2023	6/1/2033	10	$500,000,000	$975,000	$4,237,169			$5,212,169	$26,000,000		$97,500	$423,717		$26,521,217	5.36%
18	SERIES AAA	5.75%	5/23/2023	6/1/2053	30	$500,000,000	$2,420,000	$5,296,513			$7,716,513	$28,750,000		$80,667	$176,550		$29,007,217	5.89%
19	REVOLVING LINE OF CREDIT		5/17/2019	4/30/2024								$695,801					$695,801	
20	Total Outstanding (August 31, 2023)					$6,759,338,770	$21,113,500	$63,592,919	$39,753,800	$137,841	$124,598,060	$279,060,653	$1,160,690	$1,665,154	$4,426,402	$88,340	$286,401,239	4.32%
21																		

22	Forecast of New Issuances	Principal	Term	Treasury Yield[3]	Credit Spread[4]	All-in Rate	Underwriting Fee	Underwriting	Issuance Fees	Total Fees	Annual Interest	Annual Fees	Total Annual Expenses
23	Issuance 1 (Q2-2024)	$450,000,000	10	3.687%	1.510%	5.197%	0.650%	$2,925,000	$1,022,521	$3,947,521	$23,388,062	$394,752	$23,782,814
24	Issuance 2 (Q3-2024)	$450,000,000	30	3.935%	1.745%	5.680%	0.875%	$3,937,500	$1,022,521	$4,960,021	$25,559,820	$165,334	$25,725,154

25

26 1. These bond series are being amortized over the remaining life of the original bond issuance at the time of reacquisition.

27 2. Swiss Franc bonds were issued in 1986 and are perpetual. Every 10 years the interest rate resets. These bonds may be called by the company or be put to the company by the investors

28 3. September 2023 IHS Markit Global Insights forecast of 2024 U.S. Treasury bond yields.

29 4. September 2023 indicative bond pricing plus a 5 basis point concession spread.

Southern California Gas Company

Attachment C3 - Expected Debt Issuance Costs

2024	Issuance 1	Issuance 2
Principal	$450,000,000	$450,000,000
Up-Front Costs		
Underwriter	$2,925,000	$3,937,500
Issuance Fees		
Legal	$62,500	$62,500
Rating Agency	$612,450	$612,450
Trustee	$31,850	$31,850
Auditor	$35,000	$35,000
CPUC	$226,561	$226,561
SEC / Other	$54,160	$54,160
Total Up-Front Costs	$3,947,521	$4,960,021

Southern California Gas Company

Attachment C4 - Cost of Preferred Equity

Funding Type	Class/Series	Price	Dividend Rate	Amount Outstanding	Shares Outstanding
Preferred Equity	A	$27.50	6.00%	$19,575,000	783,032
Preferred Equity	-	$30.00	6.00%	$1,975,000	79,011

Note: SoCalGas does not expect to issue any preferred equity in 2023 or 2024.

Cost of Preferred Equity	6.00%

ATTACHMENT D

WORKPAPERS OF RATE OF RETURN

Southern California Gas Company

Attachment D - Updated Rate of Return for 2024

	Authorized in D.22-12-031			Costs Updated for 2024		
Component	Capital Proportion	Cost Factor	Weighted Cost	Capital Proportion	Cost Factor	Weighted Cost
Long-Term Debt	45.60%	4.07%	1.86%	45.60%	4.54%	2.07%
Preferred Stock	2.40%	6.00%	0.14%	2.40%	6.00%	0.14%
Common Equity	52.00%	9.80%	5.10%	52.00%	10.50%	5.46%
Rate of Return			7.10%			7.67%

Line #	CCM ROE Formula	%
1	CCM Benchmark	4.074%
2	October 2022 through September 2023 monthly average	5.472%
3	Difference (Line 2 – Line 1)	1.398%
4	ROE Adjustment (1/2 of Line 3)	0.699%
5	Authorized 2023 ROE	9.80%
6	Adjusted ROE for 2024 (Line 4 + Line 5)	10.50%

ATTACHMENT E

WORKPAPERS OF REVENUE REQUIREMENTS AND RATE IMPACTS

SoCalGas Revenue Requirement and Bill Impact Summary Table
Reflecting Impacts of CCM Adjustment Mechanism

Change in Revenue Requirement
($ in millions)

Impact of CCM Adjustment Mechanism	Revenue Requirement
SoCalGas	$77.03

Change in Typical Residential Customer Bill Reflecting Impacts of CCM Adjustment Mechanism

SoCalGas	Per Month	Change
Current Residential Bill (36 therms)	$69.75	
Proposed Residential Bill	$70.69	$0.94