

Company: Southern California Gas Company (U 904 G)
Proceeding: Test Year 2026 Cost of Capital
Application: A.25-03-011, et al.
Exhibit: SCG-04

PREPARED REBUTTAL TESTIMONY OF
SARA P. MIJARES
ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY
(POLICY OVERVIEW AND COMPANY RISK)

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

August 20, 2025

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1 **PREPARED REBUTTAL TESTIMONY OF SARA P. MIJARES**
2 **ON BEHALF OF SOUTHERN CALIFORNIA GAS COMPANY**

3 **I. INTRODUCTION**

4 My prepared direct testimony provided an overview and policy and risk considerations
5 with respect to Southern California Gas Company's (SoCalGas or the Company) Test Year 2026
6 Cost of Capital proposal. As explained in my direct testimony,¹ the regulatory and political
7 environment has become increasingly uncertain, creating unique risks for SoCalGas relative to
8 other California investor-owned utilities (IOUs) and utilities in other jurisdictions. Furthermore,
9 with the current relative instability of capital markets, utilities, their investors, and their
10 customers face risks related to market fluctuations, regulatory changes, increasing climate
11 events, and needs for infrastructure development. Setting an appropriate authorized rate of return
12 for SoCalGas is critical to reflect the actual cost of capital that utilities face here in California.
13 Viewed as a whole, SoCalGas's Cost of Capital proposal considers current market conditions,
14 qualitative and quantitative risk, as well as investor and credit agency considerations to help
15 obtain adequate funding to support its significant capital investment program focused on safety,
16 reliability, and to maintain its "A" credit rating, which benefits both ratepayers and shareholders
17 over the long term.

18 SoCalGas has reviewed intervenor testimony served on July 30, 2025 in SoCalGas's
19 instant cost of capital proceeding. The return on equity (ROE) and rate of return (ROR) figures
20 proposed by intervenors, however, are far from adequate compared to SoCalGas's current and
21 requested ROE and ROR proposals. As set forth in the table below, intervenors' proposals are

¹ Direct Testimony of Sara P. Mijares (Exhibit (Ex.) SCG-01) at 1-3.

significant reductions, not only to SoCalGas’s proposal of 11.00% ROE and 8.15%² ROR but to SoCalGas’s currently authorized ROE and ROR of 10.08% and 7.49%, respectively.

Table 1 – Comparison of Proposed ROE / ROR

Party	ROE	ROR
SoCalGas Requested (3/2025)	11.00%	8.15%
SoCalGas Currently Authorized	10.08%	7.49%
Cal Advocates	9.25% ³	6.62%
EPUC/IS/TURN ⁴	9.50% ⁵	7.37%
EDF	7.39% ⁶	6.98%
Sierra Club / PCF	6.21% ⁷	5.64%
WTF	8.01% ⁸	6.54%

Notably, and with respect to these very low proposed ROEs, the Commission has recently stated that “an unreasonably low ROE may not be in the public interest because it could cause investors to move to utilities with higher ROEs.”⁹ In line with this Commission guidance, intervenors’ ROE proposals should be rejected.

In the Company’s rebuttal testimony, Joshua Nowak provides his analysis of the intervenors’ proposals (including an evaluation of their ROE proposals). SoCalGas’s witness, Ricardo Gonzalez – who recommended in his direct testimony that SoCalGas maintain its current capital structure of 45.6% Long-Term Debt, 2.40% Preferred Equity, and 52% Common Equity (which was the result in the most recent Cost of Capital Proceeding) – provides rebuttal

² Direct Testimony of Sara P. Mijares (Ex. SCG-01) at 6.

³ Direct Testimony of J. Randall Woolridge (Ex. Cal Adv-01) at 6.

⁴ Energy Producers & Users Coalition (EPUC), Indicated Shippers (IS), and The Utility Reform Network (TURN), jointly EPUC/IS/TURN.

⁵ Direct Testimony of Michael P. Gorman (Ex. EPUC/IS/TURN-01) at 250.

⁶ Direct Testimony of Richard McCann (Ex. EDF-01) at 16, 68.

⁷ Direct Testimony of Mark E. Ellis (Ex. SC/PCF-01) at 95.

⁸ Direct Testimony of Aaron L. Rothschild, Revised August 12, 2025 (Ex. WTF-01E) at 8, 10, 16.

⁹ D.23-08-028 at 9.

1 testimony in which he addresses the capital structure and cost of debt proposals of certain
2 intervenors.

3 In addition, certain parties appear to argue that rather than determine the company's cost
4 of capital under the longstanding principles established in *Bluefield* and *Hope*,¹⁰ that the
5 Commission should evaluate it through the lens of affordability. Yet this is contradicted by
6 language from this Commission in the Test Year (TY) 2023 Phase 2 Decision on this issue:

7 On the question of affordability, the Commission agrees that
8 affordability is of paramount importance. Cost of capital proceedings address
9 affordability in that they set an allowed – but not guaranteed – rate of return
10 for public utilities, in exchange for exclusive rights to serve ratepayers in a
11 defined geographic area. **However, cost of capital proceedings do not set**
12 **the utilities' approved rate base; they set overall rates of return to the rate**
13 **base approved in the General Rate Case and other applications. As such,**
14 **they are ill suited to more targeted consideration of the affordability of**
15 **specific expenditures and investments. The legal standard for setting the**
16 **fair rate of return has been established by the United States Supreme**
17 **Court in the *Bluefield* and *Hope* cases.** The *Bluefield* decision states that a
18 public utility is entitled to earn a return on the value of its property employed
19 for the convenience of the public and sets forth parameters to assess a
20 reasonable return. Such a return should be equal to that generally being made
21 at the same time and in the same general part of the country on investments in
22 other business undertakings attended by corresponding risks and uncertainties.
23 That return should be reasonably sufficient to ensure confidence in the
24 financial soundness of the utility and adequate, under efficient management,
25 to maintain and support its credit and enable it to raise the money necessary
26 for the proper discharge of its public duties. The *Hope* decision emphasizes
27 that such returns should be sufficient to cover capital costs of the business. The
28 return should also be commensurate with returns available on alternatives
29 investments of comparable risk. In approving a cost of capital, the
30 Commission has a duty to utility ratepayers to protect them from unreasonable
31 risks, including risks of imprudent management. **The issue of affordability as**
32 **it relates to the cost of capital is subsumed under the *Hope* and *Bluefield***
33 **standards. Considerations of affordability beyond the *Hope* and *Bluefield***
34 **standards risk undermining them.**¹¹

¹⁰ *Bluefield Waterworks and Improvement Co. v. Pub. Serv. Comm'n. of W. Va.*, 262 U.S. 679 (1923) (*Bluefield*); *Fed. Power Comm'n. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) (*Hope*).

¹¹ D.24-10-008 at 29-30 (emphasis added) (citations omitted).

1 Accordingly, discussion of affordability as an independent variable is irrelevant inasmuch
2 as the issue of affordability – under well-settled law – is subsumed under the *Hope* and *Bluefield*
3 standards.

4 My rebuttal testimony will (1) briefly address recommendations contained in the direct
5 testimony from EDF¹² which are out of scope of this proceeding, (2) address concerns with Cal
6 Advocates’ capital structure analyses, and (3) address testimony on the cost of capital
7 mechanism (CCM).

8 **II. EDF’S IRRELEVANT POLICY ISSUES SHOULD BE DISREGARDED**

9 EDF’s testimony from Dr. McCann appears to provide a more cursory analysis of
10 SoCalGas’s cost of capital proposal than the testimonies submitted by some other intervenors. In
11 this context, it is noteworthy that EDF recognizes that the move to decarbonize and electrify
12 energy use is an increased risk factor for California’s gas utilities. According to Dr. McCann,
13 “This means that the natural gas utilities are likely to face decreasing demand over the next
14 couple of decades and increased likelihood of stranded assets. This could be interpreted as an
15 increased risk factor.”¹³ Given Dr. McCann’s recognition of this uniquely gas utility-focused
16 risk, one which disproportionally impacts SoCalGas relative to other gas utilities in the nation
17 and other electric and combined energy utilities in California, SoCalGas’s adopted ratemaking
18 cost of capital should adequately account for this risk and provide for returns commensurate with
19 this increased risk.

20 However, Dr. McCann does not raise this heightened risk factor to acknowledge that gas
21 utility ROEs should sufficiently compensate for this risk. Instead, Dr. McCann’s analysis

¹² Direct Testimony of Richard McCann (Ex. EDF-01).

¹³ *Id.* at 59.

engages in a discussion of compensating shareholders for stranded costs and disincentivizing investment.¹⁴ Here, EDF goes beyond the relevant and permissible scope of this proceeding and argues against longstanding principles established in the *Bluefield* and *Hope* cases that set forth the standard for measuring just and reasonable rates, specifically that allow a public utility's return to be reasonably sufficient to assure confidence in the financial soundness of the utility and to maintain its credit rating.¹⁵ EDF urges the Commission to effectively use a utility's cost of capital to effectuate environmental policy outcomes by adopting an authorized ROE for SoCalGas that would *disincentivize* investment. Notably, EDF made similar arguments in the TY 2023 Cost of Capital proceeding that ultimately were not adopted by the Commission. The Commission should again reject such arguments. Undeterred, EDF nevertheless devotes a substantial portion of its testimony to argue this point. A few examples – though not an exhaustive list –include the following excerpts:

- “Only by giving gas utilities the appropriate incentives to ramp down their infrastructure investments and allowing sufficient headroom for the gas utilities to pursue measures which reduce future rates can these bill impacts be mitigated while achieving the state’s environmental goals.”¹⁶
- “The Commission should determine an overall strategy to manage the decarbonization transition for each of these customer categories[.]”¹⁷

¹⁴ *Id.* at 59-62.

¹⁵ *Bluefield Water Works Co. v. Pub. Serv. Comm’n*, 262 U.S. 679, 692 (1923); *see also*, Direct Testimony of Sara P. Mijares (Ex. SCG-01) at 3-9.

¹⁶ Direct Testimony of Richard McCann (Ex. EDF-01) at 6 (citation omitted).

¹⁷ *Id.* at 61.

- 1 • “[A]djusting the overall ROE can provide incentives that affect many other utility
2 decisions that are not germane to the specific risk at hand.”¹⁸

3 While the State’s legislative and regulatory policies and proclamations impacting natural
4 gas are relevant in the context of assessing SoCalGas’s risk relative to other utilities, EDF’s
5 suggestion that the Commission should somehow advance or accelerate statewide
6 decarbonization or electrification through adoption of a cost of capital that disincentivizes
7 investment is in clear and direct conflict with the applicable law set forth in *Hope* and *Bluefield*
8 and the purpose of this proceeding.

9 These issues, however, were not included by the Commission in its Scoping Memo for
10 this proceeding.¹⁹ The Commission gave due consideration to the issues that parties wanted
11 addressed in this proceeding, through its review of the filed protests and replies, and its
12 solicitation of comments on scope at the prehearing conference. EDF’s decarbonization policy
13 issues were not included. Because these issues are not part of the scope of the proceeding,
14 EDF’s testimony and proposal on this front should be afforded no weight.

15 Regardless, the Commission should not be driven to disincentivize one utility’s
16 investments over another, but instead should determine a return that is reasonably sufficient to
17 instill confidence in the financial soundness of the utility; commensurate with returns available
18 on alternate investments of comparable risks; and adequate, under efficient management, to
19 maintain and support its credit and enable it to raise the funds necessary for the proper discharge
20 of its public duties. Put simply, the Commission should determine a fair and reasonable
21 authorized cost of capital which satisfies the legal standard set forth in *Bluefield* and *Hope*.

¹⁸ *Id.* at 56.

¹⁹ Assigned Commissioner’s Ruling Consolidating Four Applications and Scoping Memo and Ruling (July 16, 2025) (Scoping Memo) at 3.

1 Therefore, SoCalGas asks the Commission to hold parties to the adopted scope in this
2 proceeding, which would exclude litigation of EDF's out-of-scope policy agenda.

3 **III. CAL ADVOCATES' ARGUMENT REGARDING USING THE COMMON**
4 **EQUITY RATIO OF HOLDING COMPANIES IS MISGUIDED**

5 Cal Advocates' witness J. Randall Woolridge provides a comparatively traditional review
6 of the utilities' cost of capital proposals. In rebuttal testimony, Mr. Nowak provides an in-depth
7 analysis of Dr. Woolridge's analysis of ROE and Mr. Gonzalez provides an analysis of Cal
8 Advocates' testimony regarding proposed capital structure.

9 However, I identified an issue observed in Dr. Woolridge's analysis of authorized capital
10 structure which stood out as misguided, irrelevant, and in which a similar proposal was raised in
11 Cal Advocates' 2020 Cost of Capital testimony²⁰ and its 2023 Cost of Capital Testimony²¹ but
12 was not ultimately adopted by the Commission in either proceeding.²² Dr. Woolridge opines that
13 the holding company's consolidated capital structure should inform the authorized capital
14 structure of the regulated utility in this proceeding.²³

15 Determining SoCalGas's capital structure based on that of its holding company rather
16 than based on its own operations, is inaccurate. Operating regulated utilities possess their own
17 capital structure. Moreover, the Commission neither regulates nor authorizes the capital structure
18 of Sempra (SoCalGas is a regulated utility subsidiary of Sempra) and is not examining the
19 decisions or the financial drivers of Sempra or any of its non-regulated, out-of-state, or

²⁰ See A.19-04-018, (2020 Cost of Capital) Direct Testimony of Aaron L. Rothschild at 31-32, 37-41.

²¹ See A.22-04-011, (2023 Cost of Capital) Direct Testimony of J. Randall Woolridge at 28.

²² D.19-12-056 (TY 2020 Cost of Capital Decision); D.22-12-031 (TY 2023 Cost of Capital Phase 1 Decision).

²³ Direct Testimony of J. Randall Woolridge (Ex. Cal Adv-01) at 28.

1 international subsidiaries in this proceeding. Furthermore, Sempra and those subsidiary entities
2 are (appropriately) not parties to this proceeding.

3 The various subsidiaries owned by Sempra each have their own distinguished risk
4 profiles, and as such, Sempra's consolidated risk profile is distinguished from any one of its
5 subsidiaries. Credit rating agencies' view of Sempra's risk profile is apparent in its "BBB+"
6 credit rating range compared to SoCalGas's "A" rating. SoCalGas's higher credit rating in
7 comparison with Sempra could be attributed, in part, to SoCalGas's higher common equity ratio.
8 The risks and capital structures of Sempra and those of its subsidiaries (except SoCalGas and
9 SDG&E) are not being reviewed in this proceeding.

10 Because a consolidated capital structure is by its very definition a reflection of a diversity
11 of different business enterprises, one cannot make any meaningful extensions of a holding
12 company's consolidated structure to a regulated utility subsidiary's authorized capital structure
13 in the context of adopting an authorized ratemaking cost of capital. As described in
14 Mr. Gonzalez's direct and rebuttal testimony, SoCalGas's proposal is supported by the utility's
15 actual capital structure levels over the past ten years,²⁴ as well as comparisons to authorized
16 capital structures of other comparable regulated local distribution gas utilities,²⁵ and the resulting
17 ability to support a strong credit profile for efficient access to capital markets. SoCalGas's
18 proposed capital structure is evaluated based on utility-specific planned capital investments,
19 utility-specific credit ratings, utility-specific risks, and utility-specific operational and financing
20 needs. This is the type of probative data and analysis that the Commission has given weight to in
21 prior cost of capital decisions and should be applied again in this proceeding.

²⁴ Direct Testimony of Ricardo Gonzalez (Ex. SCG-02) at 5, 12-14.

²⁵ *Id.* at 12.

1 Accordingly, consistent with the Commission's decisions in D.19-12-056 and D.22-12-
2 031, Cal Advocates' argument that the common equity ratio of SoCalGas's holding company
3 should be used in determining SoCalGas's capital structure is inappropriate and should not be
4 considered.

5 **IV. THE COST OF CAPITAL MECHANISM SHOULD BE CONTINUED**

6 Phase 2 of the TY 2023 Cost of Capital Proceeding evaluated the Cost of Capital
7 Mechanism (CCM) and specifically, whether it should be adjusted. Following testimony from
8 each of the IOUs and intervenors in Phase 2, the CCM was updated less than a year ago in D.24-
9 10-008. In our Application, SoCalGas supports continuation of the CCM.²⁶

10 There are a few parties who advocate changes to the CCM in intervenor testimony. But
11 given that the CCM was just modified less than a year ago in a Phase 2 specifically devoted to
12 consideration of the CCM, there is no credible evidence to support modifying the CCM at this
13 point.

14 **V. CONCLUSION**

15 For the reasons stated herein, the Commission should disregard the above-discussed
16 portions of intervenor testimony that do not advance the issues that are in scope in this
17 proceeding. SoCalGas respectfully asks the Commission to adopt its proposed Test Year 2026
18 Cost of Capital, as it represents a fair Rate of Return, supported by sound data and financial
19 modeling, consideration of qualitative and quantitative analysis from witnesses, is credit
20 supportive, and is commensurate with SoCalGas's risks.

21 This concludes my prepared rebuttal testimony.

²⁶ SoCalGas Cost of Capital Application for TY 2026 at 10.