Application: A.22-04-XXX
Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2023 Cost of Capital
Exhibit No.: SDG&E-02

PREPARED DIRECT TESTIMONY OF

MARITZA MEKITARIAN - AUTHORIZED CAPITAL STRUCTURE

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

April 20, 2022

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PREPARED DIRECT TESTIMONY OF
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I. INTRODUCTION

My testimony presents San Diego Gas & Electric Company's ("SDG&E" or "Company") proposals regarding the adoption of an updated authorized capital structure and embedded cost of debt in support of the Company's California Public Utilities Commission ("CPUC" or "Commission") regulated operations in Test Year 2023. Capital structure refers to the capital ratios of three components: (1) common equity; (2) long-term debt; and (3) preferred stock (if applicable). The capital ratios, in conjunction with the costs associated with the three components, determine the weighted-average cost of capital ("COC") or authorized rate of return. Table 1 below shows SDG&E's proposed capital structure and costs for Test Year 2023.

Table 1 – Proposed Capital Structure and Costs

	Proposed Capital Structure	Proposed Costs
Common Equity	54.00%	10.55%[1]
Long-Term Debt	46.00%	3.87%[2]
Preferred Stock	0.00%	0.00%

II. OVERVIEW OF CAPITAL STRUCTURE AND FINANCIAL RISK

Capital structure consists of common equity, long-term debt, and preferred stock. As the Commission has found, capital structure is one component of determining a fair and reasonable

[1] *See* Prepared Direct Testimony of Valerie A. Bille, Policy Overview (April 20, 2022) ("SDG&E-01 (Bille)") (presenting SDG&E's return on equity recommendations); *see also* Prepared Direct Testimony of James M. Coyne, Return on Equity (April 20, 2022) ("SDG&E-04 (Coyne)") (supporting SDG&E's ROE recommendations).

[2] *See* Appendix A, attached hereto, for the derivation of the embedded cost of debt proposal.

1 return on equity ("ROE") and authorized rate of return ("ROR").[3] The Commission assesses capital
2 structure in conjunction with ROE and the embedded costs of debt and preferred stock, maintaining
3 long-term stability by considering ROE and capital structure together.[4]
4 The Company's authorized ROR is determined by applying the Company's ROE and
5 embedded costs of debt and preferred stock (if applicable) to its authorized capital structure. An
6 optimal capital structure is one that supports a strong credit rating, which lowers borrowing costs
7 for both the utility and ratepayers. The Commission has recognized that "maintain[ing] investment-
8 grade creditworthiness" is an "important component[s] of the *Hope* and *Bluefield* decisions."[5]
9 The equity component of a utility's authorized ratemaking capital structure represents the
10 amount of capital covered by shareholders. The common equity ratio reflects how a company is
11 financing its cash needs. It shows the percentage of assets on which the shareholders have a claim.
12 The higher the common equity ratio, the more that shareholders have at stake.
13 Preferred stock is a source of capital that is issued in shares, like common equity, but comes
14 with preferential treatment for dividends. Due to the preferred treatment on dividends, preferred
15 stock generally has a lower cost than common equity. Credit rating agencies, like Standard & Poor's
16 ("S&P"), generally treat preferred stock as a hybrid of debt and equity, assigning a percentage of
17 equity content in accordance with the security's features.
18 Long-term debt is a measurement of a company's financial leverage. Debt is generally less
19 expensive than equity, due to its tax advantages and lower risk. If a company has a long-term debt
20 ratio that is too low, it is not fully utilizing a tax-deductible source of financing that is lower in cost
21 than equity.

[3] Decision ("D.") 08-05-035 at 7-8.

[4] *Id*.

[5] D.12-12-034 at 37 (alteration in original).

But the higher the debt ratio, the higher the financial risks, because a company has a higher percentage of its revenues committed to fixed debt payments.[6] The larger the revenues committed to fixed debt payments, the higher the risk of default on those payments to lenders. This, in turn, increases the financial risk exposure to common stockholders, as they are entitled only to revenues available after all fixed obligation payments are satisfied.

A company that is highly leveraged with fixed costs thus requires a higher return on both debt and equity for investors—as the earnings available to shareholders become more volatile and secondary to debt payments, causing shareholders to require a higher return for taking on that increased risk.[7] This increases financial risks—potentially resulting in reduced credit ratings—and results in higher costs of capital over the long-term. As the Commission has thus stated, "as long-term debt ratios are increased, credit ratings tend to be downgraded which results in increased financial risks for common equity holders, thereby requiring greater returns on common equity."[8] Moreover, if a utility's credit ratings are lowered, it results in higher borrowing costs, meaning higher costs that ratepayers are responsible for.

The Commission has thus found that, "[b]ecause the level of financial risk that the utilities face is determined in part by the proportion of their debt to permanent capital, or leverage, we must ensure that the utilities' adopted equity ratios are sufficient to maintain reasonable credit ratings and attract capital."[9] Credit metric guidance provided by the credit rating agencies is an important guide to determining the appropriate amount and use of debt. The major credit rating agencies commonly

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[6] *See* D.19-12-056 at 6.

[7] *See* Roger A. Morin, *New Regulatory Finance* (2006) at 455.

[8] D.12-12-034 at 8-9.

[9] D.19-12-056 at 6.

1 employ several key metrics to quantify financial risk, such as funds from operations ("FFO") as a
2 percent of total debt and debt as a percentage of total capital.
3 The FFO-to-Total Debt ratio measures funds from operations as a percent of total debt. It
4 indicates how much of its debt a company could retire with annual cash from operations. A higher
5 figure indicates a stronger ability to retire its debt, and thus lower financial risk. Together with their
6 assessment of business risk and regulatory framework, the major credit rating agencies use these
7 financial metrics to help determine the credit ratings they assign.
8 In addition to FFO-to-Total Debt metric, credit rating agencies also employ Debt-to-Total
9 Capital in assessing financial risk. Moody's Rating Methodology for Regulated Electric and Gas
10 Utilities[10] explains its approach to assessing credit risk for regulated electric and gas utilities
11 globally. The report provides a detailed rating grid which can be used as a reference tool to
12 approximate credit profiles within the regulated electric and gas sector. Table 2 below replicates
13 Moody's Debt Ratio benchmarks presented in the report.
14 **Table 2 – Moody's Debt Ratio Benchmarks**

Bond Rating	Debt / Capital[11]
Aaa	< 25%
Aa	25% - 35%
A	35% - 45%
Baa	45% - 55%
Ba	55% - 65%
B	65% - 75%
Caa	≥75%

[10] Moody's Investors Service, *Rating Methodology for Regulated Electric and Gas Utilities* (June 23, 2017).

[11] Ratios shown are for companies that Moody's has identified to have a standard risk profile.

III. PROPOSED CAPITAL STRUCTURE

SDG&E proposes an authorized capital structure of 54.00% common equity, 46.00% debt, and 0% preferred stock—a change from the Company's currently authorized capital structure of 52.00% common equity, 45.25% debt, and 2.75% preferred stock. This is more consistent with SDG&E's actual capital structure of 56% common equity and 44% debt. Table 3 below compares SDG&E's proposed capital structure with the Company's currently authorized one.

Table 3 – Current Authorized Capital Structure and Proposed Capital Structure

	Current Authorized[12]	2023 Proposed
Common Equity	52.00%	54.00%
Long-Term Debt	45.25%	46.00%
Preferred Stock	2.75%	0.00%

SDG&E's proposed authorized capital structure reflects a balance between the fact that SDG&E has maintained an actual average capital structure of 56 percent common equity, 44 percent long-term debt, and zero percent preferred equity for nine years—while being consistent with the Commission's seeming desire in D.19-12-056 ("2019 Decision") to pair any increase in SDG&E's common equity layer with an increase in the Company's authorized long-term debt ratio.[13]

Specifically, SDG&E proposes the change to its authorized common equity ratio for two primary reasons: (1) to better reflect the Company's more recent actual (recorded) capital structure since 2013; and (2) to help SDG&E manage its increased business and financial risks and improve

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12 D.19-12-056 at 11.

13 *Id.* ("Because SDG&E is not requesting a significant increase in long-term debt, this decision will authorize no modification.").

its credit ratings. The latter is critical, as SDG&E, after maintaining an A-credit rating for 15 years, has been downgraded by all three credit rating agencies since 2018. Even after Moody's upgraded SDG&E's credit rating one notch in March 2021,[14] the Company's credit rating is still at least two notches lower from all three agencies compared its prior A-ratings.

The downgrades were primarily due to a perceived increase in business and regulatory risks—namely due to the risk of catastrophic wildfire liability following the state's 2017 and 2018 wildfires—despite SDG&E not being responsible for a catastrophic wildfire since 2007 and being widely lauded for its wildfire mitigation efforts. If SDG&E's long-term actual capital structure is not better reflected in its authorized capital structure, it increases SDG&E's financial and regulatory risks in the eyes of credit rating agencies—putting further downward pressure on SDG&E's credit rating and making it more difficult for SDG&E to operate at its current actual capital structure. That actual capital structure provides significant benefits to ratepayers by reducing SDG&E's financial leverage, supporting stronger credit ratings that result in lowered borrowing costs for ratepayers.

A. SDG&E's Proposal Tracks the Company's Actual Capital Structure

The Company's recommended change in its authorized capital structure to increase its common equity and long-term debt ratios and remove preferred stock is designed to better reflect SDG&E's actual (recorded) capital structure. The Company's currently authorized capital structure largely reflects the fact that the Commission adopted SDG&E's actual capital structure in the 2012 Cost of Capital decision, D.12-12-034.[15] But SDG&E's actual capital structure has significantly changed since that time.

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[14] Moody's, *Rating Action: Moody's upgrades San Diego Gas & Electric to A3 from Baa1; outlook stable* 1 (Mar. 30, 2021) ("Moody's Mar. 30, 2021") at 1.

[15] *See* D.12-12-034 at 11.

1 Since 2013—nearly a decade now—SDG&E has maintained at least a 56 percent average
2 actual common equity ratio, featuring an actual capital structure of effectively 56% common equity,
3 44% long-term debt, and 0% preferred equity. Table 4 below shows SDG&E's actual recorded
4 capital structure from 2013 through 2021.

5 **Table 4 – SDG&E's Historical Capital Structure**

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Current Authorized
Common Equity	53.39%	54.44%	57.55%	57.21%	55.61%	56.15%	58.26%	56.31%	56.43%	52.00%
Long-Term Debt	46.61%	45.56%	42.45%	42.79%	44.39%	43.85%	41.74%	43.69%	43.57%	45.25%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.75%

6
7 The Company has retained earnings in common equity to balance the capital structure above
8 SDG&E's authorized common equity ratio of 52%. In fact, as shown in Table 4 above, on a
9 rounded basis, SDG&E has been operating at or above a 56% equity percentage since 2015, with a
10 56.6% five-year historical average. These higher than authorized equity levels have improved credit
11 metrics by reducing debt and mitigating higher business and financial risks with capital provided
12 solely by shareholders that shareholders do not receive a return on, directly benefitting customers by
13 buttressing SDG&E's credit ratings to lower borrowing costs.[16]
14 As noted, in D.12-12-034, the Commission approved SDG&E's currently authorized capital
15 structure that has existed since that time—principally because it reflected the Company's actual
16 capital structure in 2012.[17] The Commission has thus previously supported having a utility's

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16 *See, e.g.*, Moody's Investors Service, *San Diego Gas & Electric Company, Update to credit analysis following upgrade to A3* (May 10, 2021) ("Moody's May 10, 2021").

17 *See* D.12-12-034 at 11 ("In this case, SDG&E seeks a common equity ratio for its revenue requirement which is the same as its actual common equity ratio. We concur with SDG&E . . .").

1 authorized capital structure reflect its actual one. As the Commission noted in D.12-12-034, "[t]he
2 Commission has previously reasoned that the utilities should be given some discretion to manage
3 their capitalization with a view towards a balance between shareholders' interest, regulatory
4 requirements, and ratepayers' interest."[18]

5 SDG&E's proposal also reflects a 2017 Report issued by the Commission's Policy &
6 Planning Division that states, "[i]n California a hypothetical capital structure, which is expected to
7 approximate the actual capital structure of the utility over the long run is used."[19] In 2018, the
8 Commission likewise adopted common equity ratios for regulated water utilities that reflected those
9 utilities' actual ratios.[20] And in June 2021 comments filed at the Federal Energy Regulatory
10 Commission ("FERC"), the Commission noted the benefit of FERC generally providing the utility
11 the ability to have its actual capital structure reflected in its authorized one—affording the utility
12 "through its own financial policies, significant[] influence [on] its credit metrics."[21]

13 Having SDG&E's authorized capital structure mirror the recorded capital structure helps
14 limit any divergence between actual and recorded ROR, resulting in a sustainable equilibrium. Yet
15 SDG&E's authorized capital structure is now far removed from SDG&E's longstanding actual
16 capital structure. Since SDG&E's currently authorized capital structure no longer aligns with its
17 actual capital structure, consistent with that 2012 decision, SDG&E's proposal moves closer to
18 SDG&E's current actual capital structure.

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18 *Id.* (citing 33 CPUC2d (1989) 495 at 541 through 545).

19 CPUC, *Utility General Rate Case – A Manual for Regulatory Analysts* (November 13, 2017) at 29.

20 *See* D.18-03-035 at 22.

21 Comments of the California Public Utilities Commission and the California Department of Water Resources State Project, FERC Docket No. RM20-10 (filed June 25, 2021) at 29 ("CPUC FERC Comments").

Although Moody's asserted that had the Commission increased SDG&E's "allowed equity layer to 56% (as requested) [it] would have been more credit supportive because it would have contributed to strong credit metrics,"[22] credit rating agencies assess SDG&E's financial metrics based upon its actual, not authorized, capital structure. So, as noted, under SDG&E's currently authorized capital structure, shareholders have propped up SDG&E's credit ratings—resulting in lower borrowing costs for customers—while not earning a return on the difference between the Company's authorized equity ratio of 52% and its actual equity ratio of 56%.

In other words, shareholders continue to provide additional capital without earning a return, providing a direct benefit to customers that is not being recognized (contrary to the example the Commission cited regarding the benefits of the approach to capital structure at FERC). If SDG&E were to reduce its actual common equity ratio to reflect its currently authorized common equity ratio, then SDGE's financial health would weaken, which could lead to further credit downgrades and potentially higher expenses to ratepayers. SDG&E's prudent management decision of maintaining a 56% actual common equity ratio to support as strong a credit rating as possible should be recognized and supported by the Commission; rather than continuing to ask equity investors to buttress SDG&E's credit ratings and reduce borrowing costs for ratepayers without receiving a return for that investment.

SDG&E similarly recommends reducing its authorized preferred equity from 2.75% to 0% to reflect SDG&E's longstanding actual capital structure. In fact, SDG&E has:

- Not issued preferred stock since 1993;
- Redeemed all issued and outstanding shares of its preferred stock in 2013; and
- Does not plan to issue this type of financing.

[22] Moody's May 10, 2021 at 8.

Preferred stock is rarely used by utility operating companies. Only three have outstanding preferred stock issued in the last decade.[23] In addition, despite a downward trend in bond rates, the relative cost of issuing preferred stock remains significantly higher than debt financing. A California utility operating company's preferred stock investors may require higher coupon rates due to perceived higher wildfire risk and their relative priority in the capital stack. By contrast, SDG&E has been successful at issuing debt at low interest rates and using common equity to fund its large capital investment plan, further arguing against using preferred stock.

As discussed further below, SDG&E's proposal of 54% common equity, 46% debt is thus a reasonable middle ground that better reflects SDG&E's actual capital structure while also increasing the Company's long-term debt. Consistent with D.19-12-056, it does not fully match SDG&E's actual capital structure—despite SDG&E's actual capital structure providing benefits to ratepayers by lowering borrowing costs. Yet it incrementally moves closer to the Company's capital structure, consistent with this Commission's prior precedent and SDG&E's prudent management.

B. The Proposed Capital Structure Helps the Company Manage its Business and Financial Risks and is Credit Supportive

SDG&E's capital structure proposal is also consistent with the goal of keeping the Company's capital costs reasonable—relative to the costs associated with the authorized ratios—to help maintain its credit rating. SDG&E's historically strong credit ratings reflect, in part, the effective and proactive management of its capital structure—of the type that the Commission lauded at the FERC-ratemaking level.[24] As discussed in the testimony of Ari Beer (Exhibit SDG&E-03), and James Coyne (Exhibit SDG&E-04), SDG&E now faces significantly increased business, financial, and regulatory risks. SDG&E's higher actual common equity ratio has helped SDG&E

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[23] Source: Bloomberg Security Search Function as of June 2021 (Search for all active preferred issuances for utilities as classified by Bloomberg Industry Classification Standard).

[24] CPUC FERC Comments at 29.

limit financial risk and access the debt markets at reasonable rates—in response to those increased business and regulatory risks. It has mitigated further credit rating downgrades and has allowed SDG&E to issue $3.15 billion of long-term debt since the 2020 COC proceeding. As discussed below, SDG&E's proposal thus protects the Company and customers from:

- The increased business risk of potentially unrecoverable catastrophic wildfire liability costs;
- Lower credit ratings as a result of increased financial risks from carrying larger amounts of costs in balancing and memorandum accounts for longer periods; and
- Other factors that may increase the Company's cost of debt.

1. SDG&E's Proposed Capital Structure Reflects the Need to Reduce Financial Risks to Respond to Increased Business Risks and Lowered Credit Ratings

A prudent financial manager takes proactive steps to manage and mitigate financial risk. SDG&E's current risks drive the need for its proposed capital structure. As Mr. Coyne and Mr. Beers both note, SDG&E faces unique, ongoing, above-average risks. As Mr. Coyne added, lower financial risks should be used to offset higher business risks.[25]

As noted, SDG&E's credit profile has been downgraded by all three credit rating agencies since 2018—primarily over concerns regarding wildfire and wildfire liability risks in California—despite SDG&E being lauded for its wildfire mitigation programs and not being responsible for a significant wildfire since 2007. As S&P states, even while calling SDG&E a "global leader" in wildfire mitigation, the credit rating agency asserted that it is "unlikely to raise ratings for utilities with meaningful wildfire-related risks in the near term" so long as inverse condemnation exists that can make utilities responsible for wildfire liability regardless of fault and as climate change is

[25] SDG&E-04 (Coyne) at JMC-10.

exacerbating the risk of wildfires.[26] Yet the credit rating agency added that, despite this increased risk that is pushing down SDG&E's credit ratings, it could upgrade SDG&E or other California electric utilities if their "financial measures are consistently above the upgrade threshold."[27] SDG&E's proposed common equity ratio is thus a prudent measure to counteract its increased business risks and improve its credit ratings, reducing costs for consumers.

2. SDG&E Faces Increased Financial Risks

The Company's lower credit ratings as a result of the business risks of potentially unrecovered catastrophic wildfires costs, political risks, and others are also exacerbated by additional financial risks—namely SDG&E's increasing responsibility to carry larger amounts of costs in balancing and memorandum accounts for years without recovery, additional debt to fund its robust capital program, and debt equivalence related to Power Purchase Agreements ("PPA") and Resource Adequacy ("RA") obligations. S&P recently rated SDG&E's financial risk as "significant," which is the fourth highest level on the rating agency's scale.[28]

a. Increased Financial Risks from Carrying Larger Costs for Longer Periods in Balancing and Memorandum Accounts

SDG&E is having to finance costs subject to cost recovery—including those in balancing and memorandum accounts—for longer terms, with more expensive long-term financing. As of the end of February 2022, SDG&E's undercollected balances are $720 million compared to a historical average closer to $300-$400 million. And this risk of carrying large balances for long periods may continue to grow.

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[26] S&P, *How are California's Wildfire Risks Affecting Utilities' Credit Quality* (Jun. 3, 2021) ("S&P Jun. 3, 2021") at 10.

[27] *Id.*

[28] S&P, *San Diego Gas & Electric Co.* (July 9, 2021) ("S&P July 9, 2021") at 6.

1 In Application ("A.") 21-07-017, a proposed decision was issued that would deny SDG&E interim rate relief for critical and necessary wildfire mitigation costs for 2019-2023.[29] That Wildfire Mitigation Plan Memorandum Account contained costs that SDG&E has already carried for three years. And, as of December 31, 2021, the balance was approximately $178 million,[30] with balances expected to grow further. Without interim relief, the growth of these uncollected balances leaves SDG&E carrying extensive debt far beyond typical rate recovery cycles, causing SDG&E to be responsible for hundreds of millions in additional debt for years, with rate recovery potentially occurring as late as 2029.

Moody's upgraded SDG&E's credit rating to A3 based upon its expectation that SDG&E "will continue to generate robust credit metrics," along with "SDG&E's track record of effective wildfire risk mitigation practices and the credit support provided" by AB-1054.[31] In other words, Moody's upgraded SDG&E based both upon its prudent capital structure management and its industry leading wildfire mitigation efforts.

The proposed interim rate relief decision not only fails to recompense SDG&E for those critical wildfire mitigation efforts that the Commission itself recognizes is needed—it also increases SDG&E's financial risks by making it carry significant extra debt for years, undermining the other basis for Moody's upgrading SDG&E's credit rating. In fact, Moody's stated that it could again downgrade SDG&E's credit rating if it did not maintain a ratio above 20 percent. If SDG&E must continue to carry large costs such as these for years, it will harm SDG&E's debt ratio and enshrine a

[29] A.21-07-017, Proposed Decision Proposed Decision Denying SDG&E's Application for Interim Rate Relief (March 15, 2022) at 6. On April 18, 2022, a Revised PD was issued that would likewise deny SDG&E interim rate relief.

[30] SDG&E, *2021 Annual Balancing and Memorandum Account Report as of December 31, 2021* (March 29, 2022).

[31] Moody's Mar. 30, 2021 at 1.

principle that could result in SDG&E having to carry even more debt that would push SDG&E below that 20 percent ratio. This could reduce SDG&E's credit ratings, impacting SDG&E's ability to access capital markets at low rates and further increasing costs for ratepayers. SDG&E's proposed common equity ratio is thus critical to counterbalance this increased financial risk and maintain the robust credit metrics recognized by Moody's.

b. Elevated Levels of Capital Investment

As Moody's recently noted, in addition to the risks cited by Messrs. Beer and Coyne, SDG&E also faces an additional credit risk in that its "[m]aterial capital investment program" will "require incremental debt,"[32] As approved in SDG&E's 2019 General Rate Case ("GRC")[33] and presented in the Wildfire Risk Mitigation Plan,[34] SDG&E will make significant capital investments to support modernizing transmission and distribution infrastructure, along with fire hardening measures to protect against extreme weather events and support public safety. These investments support the State's energy and environmental policies, such as reducing greenhouse gas emissions, enabling access to renewable energy, and reinforcing SDG&E's commitment to provide safe and reliable service to its customers.

This elevated level of capital investment will require substantial funding, both internally and externally. SDG&E may fund its capital investments through a combination of debt issuances, internally generated cash flow, and retained earnings. The elevated level of capital investment will create additional financial risk if funded at the Company's current authorized capital structure.

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[32] Moody's May 10, 2021 at 2.

[33] *See* D.19-09-051.

[34] *See* Rulemaking ("R.") 18-10-007, *San Diego Gas & Electric Company's 2022 Wildfire Mitigation Plan Update* (February 11, 2022).

Therefore, SDG&E recommends that its proposed capital structure be adopted so that SDG&E has ready access to capital at a reasonable cost.

c. Debt Equivalence

Debt equivalence is a concept used by credit rating agencies to describe the financial risk resulting from signing long-term contracts, such as PPAs. Although PPAs (excluding finance leases) are not reported on a utility's balance sheet as debt, S&P treats the utility's commitments under PPAs as debt-like financial obligations in their credit analysis or when assessing a Company's credit rating. The Commission is cognizant of the risks associated with debt equivalence, which are spelled out in detail in a 2017 Report issued by the Commission's Policy & Planning Division.[35]

As the Commission has held, debt equivalence impacts utility credit ratings and must be balanced in both the adopted capital structures and ROEs.[36] Because debt equivalence "does have an impact on the financial risk" and is "reflected in the utilities' credit ratings since at least 1990," it must be "considered in arriving at an overall ROE."[37] SDG&E's proposed capital structure and ROE are intended to comprehensively manage the impact of these circumstances. Since PPAs represent an ongoing component of the Company's overall energy portfolio, these agreements will continue to negatively impact SDG&E's credit profile and must be appropriately factored into the authorized capital structure.

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[35] CPUC, Policy & Planning Division, *An Introduction to Debt Equivalency* (August 4, 2017).

[36] D.12-12-034 at 29 (The Commission's goal in considering debt equivalence is to "provide reasonable confidence in the utilities' financial soundness, to maintain and support investment-grade credit ratings, and provide utilities the ability to raise money necessary for the proper discharge of their public duty.").

[37] D.19-12-056 at 26.

d. Elevated Levels of Delinquent Accounts due to COVID-19 Pandemic

Financial health is not just relevant to infrastructure investment. The extraordinary events that occurred due to the COVID-19 pandemic demonstrate yet another reason why SDGE's financial health is imperative. In March 2020, the Commission required SDG&E and other California utilities to implement several emergency customer protections, including suspended service disconnections and waivers of late fees ("Disconnection Moratorium").[38] The Disconnection Moratorium ended in September 2021[39] and SDG&E is automatically enrolling residential and small business customers with past due account balances into long-term repayment plans (24+ months). Although the Commission has stated that it "appreciate[s] the careful, and tireless efforts of the utilities to protect their employees and customers over this period,"[40] as a result, as Moody's noted, SDG&E's delinquent account balances more than doubled in 2020 and 2021 as compared to 2019 average levels and are expected to continue to grow.[41]

While the deferral mechanisms and external customer delinquent account relief offered by the California Arrearage Payment Program (CAPP) mitigate some of the uncollected past due balances, CAPP only covers a portion of these balances through June 15, 2021.[42] Despite these measures, the debt to fund the incremental delinquent account balances decreases SDG&E's

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[38] Email Letter from Alice Stebbins, Executive Director, CPUC to the utilities (March 17, 2020).

[39] *See* D.21-06-036 at 17.

[40] R.21-02-014, *Order Instituting Rulemaking to Address Energy Utility Customer Bill Debt Accumulated During the COVID-19 Pandemic* (February 11, 2021) at 3.

[41] Moody's May 10, 2021, Ordering Paragraph 1 at 50.

[42] Assembly Bill 135, Sec. 9 (adding Gov. Code § 16429.5(b)(1), which defines "COVID-19 pandemic bill relief period" as the period starting March 4, 2020 and ending June 15, 2021," and (d), which sets forth the amounts allocated for financial assistance to distribution customers of investor-owned utilities.).

1 Moody's FFO-to-Total Debt ratio by approximately 20 basis points.[43] Utilities such as SDG&E
2 need to be financially well-positioned to continue to fund the growing delinquent account balances
3 during this or future emergencies.

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5
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3. SDG&E's Capital Structure Proposal is a Prudent Counter to the Company's Unique Business and Financial Risks and Supports its Credit Ratings

7 SDG&E's capital structure proposal is thus a prudent counter to its unique, above-average
8 business, financial, and regulatory risks to help SDG&E bolster its credit ratings. As noted, S&P
9 asserted that strong financial metrics could result in an upgrade in SDG&E's credit ratings despite
10 the increased risks from wildfire liability and other risks that is otherwise preventing any increase in
11 SDG&E's current rating.[44] Specifically, S&P recently noted that it could "raise [its] rating on
12 SDG&E if its stand-alone FFO to debt remains consistently at 21% or above."[45] As Moody's latest
13 credit rating opinion likewise noted, an "increase in [SDG&E's] allowed equity layer to 56% (as
14 requested) would have been more credit supportive because it would have contributed to stronger
15 credit metrics."[46] Moody's added that SDG&E's credit ratings could be further upgraded if SDG&E
16 can run a "CFO pre-W/C to debt in excess of 24%" on a sustained basis.[47]

17 Moody's statement is consistent with SDG&E regaining its long-held A credit rating.
18 Table 2 above suggests that for SDG&E to maintain its single "A" bond rating at Moody's, it
19 must maintain a debt ratio in the range of 35%-45%; reflective of SDG&E's actual debt ratio of

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[43] Calculated impact of increase in average undercollected past due balances from 2019 to 2021 on Moody's December 2021 FFO-to-Total Debt. 2021 actuals were adjusted to include the CAPP funds received in Q1 2022.

[44] S&P Jun. 3, 2021 at 10.

[45] S&P July 9, 2021 at 4.

[46] Moody's May 10, 2021 at 8.

[47] *Id.* at 3.

44%. The fact that SDG&E has not regained an A rating since the Commission's 2019 Decision indicates that SDG&E's currently authorized capital structure is insufficient to regain that rating.

By contrast, debt utilization beyond the levels indicated by the target credit metrics defined above would put downward pressure on SDG&E's credit rating. In its most recent credit opinion of SDG&E,[48] Moody's calculated an adjusted FFO-to-Total Debt for SDG&E as of December 2020 of 20.2% and specified a lower bound FFO-to-Total Debt ratio of 20% for SDG&E to avoid a downgrade from its current A3 rating.

Moody's likewise stated that SDG&E's actual equity ratio is a factor in determining the current rating and forecasts SDG&E to maintain an equity ratio between 55%-60% during the next 12-18 months.[49] If SDG&E does not maintain this level of equity it may face downward ratings pressure by Moody's. Therefore, for SDG&E to maintain a strong adjusted FFO-to-Total Debt ratio, additional debt issuances to fund the business and to cover the wildfire mitigation efforts where, if the Proposed Decision is adopted, SDG&E will be required to carry additional debt for years, will need to be countered with a higher equity ratio. If SDG&E's authorized capital structure does not better reflect its longstanding actual capital structure—meaning that shareholders continue to provide a benefit without a return—SDG&E may face pressure to lower its actual equity ratio, which could put pressure on its credit ratings and result in higher costs for customers.

C. SDG&E's Proposed Capital Structure Balances SDG&E's Actual Capital Structure with the Commission's Findings in its 2019 Decision

As discussed, the Commission should recognize and reward SDG&E's prudent management of maintaining an actual equity ratio of 56 percent. That said, while SDG&E believes that its actual capital structure reflects best business practices, the Company's proposal of 54 percent common

[48] *Id.* at 1.

[49] *Id.* at 8-9.

1 equity, 46 percent debt is a reasonable response to the Commission's concerns in D.19-12-056.
2 There, the Commission declined to adopt SDG&E's actual capital structure as its authorized
3 structure, suggesting that SDG&E "could maintain its proposed leverage through the authorization
4 of preferred equity,"[50] while indicating that it would not increase SDG&E's common equity ratio
5 without also increasing the Company's long-term debt.[51]

6 Here, SDG&E is not proposing to adopt its actual capital structure as its authorized one.
7 Instead, it is reasonably balancing the reality and benefits of its longstanding actual capital structure
8 to ratepayers with the Commission's findings in its 2019 Decision. Although, as noted, SDG&E has
9 not issued preferred equity since 1993 and it is not realistic for SDG&E to issue preferred equity
10 now, SDG&E's proposal does move SDG&E closer to its actual capital structure—including
11 eliminating its phantom preferred equity ratio—while also increasing SDG&E's authorized long-
12 term debt.[52] By contrast, adopting a common equity ratio that continues to include a preferred
13 equity layer that does not exist is a fictitious exercise that lacks any relationship to SDG&E's actual
14 management.

15 Moreover, SDG&E's 54 percent common equity proposal both responds to the Company's
16 above-average risks, bolsters SDG&E's credit ratings as discussed above, and is well within the
17 range of authorized common equity ratios nationwide. Mr. Coyne calculated the weighted average
18 capital structure for each of SDG&E's proxy group operating companies on a quarterly basis for the
19 eight quarters through Q4 2020. He found that SDG&E's proposed "54 percent is well within the

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[50] D.19-12-056 at 10.

[51] *Id.* at 11.

[52] *See id.*

range of actual common equity ratios of 46.90 percent to 61.73 percent, and just over the mean of 52.65 percent, for the operating companies held by the proxy group over this period."[53]

Although the Commission in its 2019 Decision noted that SDG&E's 56 percent common equity request was "larger than 70.5% of all authorized common-equity ratios"[54] between 2017 through July 2019, SDG&E requires an above-average common equity ratio to counteract its above average risks compared to utilities nationwide. The fact that nearly 30 percent of authorized common equity ratios during that period were 56 percent and larger indicates that SDG&E's request (and actual common equity ratio) is within the mainstream of authorized common equity ratios. And, presumably, an even higher percentage of utilities had an authorized common equity ratio of 54 percent or above during that period.

Moreover, as RRA, an arm of S&P has recently noted, the average authorized equity ratios adopted by utility commissions have steadily increased nearly every year from 2017 through 2021, with the average equity ratio authorized in electric utility cases now over 50 percent.[55] In other words, SDG&E's 54 percent request now is closer to the average authorized common equity ratio now compared to what it would have been in 2019—just as its authorized 52 percent would be even lower relative to the nationwide average today than it was at the time of the Commission's 2019 Decision. The Commission continuing to leave SDG&E's authorized common equity ratio at 52 percent would thus fail to reflect that utility commissions nationwide are increasing common equity authorizations.

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[53] SDG&E-04 (Coyne) at JMC-66 – JMC-67.

[54] D.19-12-056 at 10.

[55] S&P, RRA Regulatory Focus, *Major Rate Case Decisions, Jan.-December 2021* (Feb. 10, 2022) at 7 (noting that the average equity ratio has increased from 48.90% in 2017, to 49.02% in 2018, 49.94% in 2019, 49.66% in 2020, and 50.06% in 2021).

1 In short, a higher equity ratio is necessary to mitigate the increased investment risks that
2 SDG&E faces and prevent downgrades in the Company's credit rating. While SDG&E believes that
3 its actual capital structure reflects a prudent policy to manage long-term debt so that SDG&E
4 remains at investment-grade credit levels, while protecting against short-term fluctuations and
5 disruptions to credit markets and the business environment, SDG&E only recommends that the
6 Commission increase SDG&E's common equity and long-term debt ratios to 54% and 46%,
7 respectively, while removing a fictitious preferred equity layer that SDG&E no longer has. This will
8 realign SDG&E's capital structure to better reflect the Company's actual capital structure and help
9 lower SDG&E's above-average business risks and increasing financial risks—thus mitigating the
10 credit rating agencies' belief that SDG&E is now a riskier investment. It will instead bolster
11 SDG&E's credit ratings, benefitting ratepayers.

12 **IV. EMBEDDED COST OF DEBT AND PREFERRED STOCK RECOMMENDATIONS**

13 The embedded cost of debt represents all the costs associated with the issuance and
14 servicing of debt, expressed as a percentage of the net proceeds received from debt issuances.
15 Table 5 below summarizes the currently authorized and the forecasted embedded costs of long-term
16 debt and preferred stock for SDG&E.

17 **Table 5 – Embedded Cost of Debt and Preferred Stock**

	Current Authorized[56]	2023 Forecast
Long-Term Debt	4.59%	3.87%
Preferred Stock	6.22%	0.00%

18
19 Consistent with previous Commission cost of capital decisions, SDG&E recommends
20 setting the authorized cost of debt equal to the forecasted embedded cost of debt during Test Year

[56] D.19-12-056 at 14.

1 2023.[57] SDG&E's forecasted embedded cost of long-term debt is 3.87%.[58] This forecast accounts
2 for $3.15 billion of low interest long-term debt that SDG&E has issued since the last cost of capital
3 proceeding was conducted in 2019. As a result of the Company's robust capital investment program
4 discussed above, the Company plans to raise $1.4 billion in 2022 and $1.2 billion in 2023 of new
5 long-term debt.

6 The embedded cost of debt calculations includes actual debt issued through March 2022, in
7 addition to forecasted debt issuances for the remainder of 2022 and 2023. Pricing is based on April
8 2022 Global Insights treasury forecast for applicable debt instruments, plus a forecast of the
9 SDG&E-specific credit spread. In Appendix A, I have included a detailed derivation of the
10 embedded cost of debt forecast.

11 The Commission has stated that, "[t]he latest available interest rate forecast should be used
12 to determine embedded long-term debt and preferred stock costs in ROE proceedings."[59] In
13 accordance with that guidance, SDG&E plans to submit an embedded cost update during the course
14 of this proceeding that reflects the latest available forecast as well as any changes to SDG&E's
15 Long-Term Debt forecast that may take place between the preparation of this testimony and the
16 submittal of the update.

17 As explained above, SDG&E no longer uses preferred stock as a source of financing.
18 SDG&E redeemed all issued and outstanding shares of its preferred stock in 2013 and does not
19 anticipate issuing any preferred stock in the foreseeable future, as reflected in its actual capital
20 structure. As such, SDG&E puts forth an embedded cost of preferred stock of 0%.

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[57] D.19-12-056 at 12-13. ("Long-term debt and preferred equity costs are based on actual, or embedded, costs. Future interest rates must be anticipated to reflect projected changes in a utility's cost caused by the issuance and retirement of long-term debt and preferred equity during the year.").

[58] The derivation of this figure is contained in Appendix A, attached hereto.

[59] *See* D.07-12-049, Conclusion of Law 33 at 56.

1 **V. CONCLUSION**

2 SDG&E seeks a Test Year 2023 authorized capital structure of 54% equity, 46% long-term
3 debt, and 0% preferred stock. The proposed capital structure better reflects SDG&E's actual capital
4 structure and increases the equity ratio to mitigate above-average business and financial risk, while
5 satisfying D.19-12-056's desire to combine any increase in SDG&E's common equity ratio with an
6 increase in its long-term debt ratio as well.

7 SDG&E also seeks a Test Year 2023 embedded cost of debt and preferred stock of 3.87%
8 and 0%, respectively. These reflect the forecasted embedded costs for the 2023 test year. SDG&E
9 respectfully requests the Commission adopts these recommendations for 2023.

10 This concludes my prepared direct testimony.

VI. STATEMENT OF QUALIFICATIONS

My name is Maritza Mekitarian. I am employed by SDG&E as the Director of Financial Planning. My business address is 8330 Century Park Court, San Diego, California 92123.

I received a Bachelor of Science in Business Administration with Accounting emphasis from San Diego State University and am a Certified Public Accountant in the state of California. I have been employed by SDG&E and Sempra Energy since 2000. In addition to my current position, I have held various Accounting and Finance positions within the organization, including Financial and Strategic Planning Manager, Financial Accounting Manager, and Capital Planning & Analysis Manager.

In my current role, I am responsible for the development of SDG&E's financial plan and numerous treasury related functions.

I have previously testified before this Commission, including testimony supporting SDG&E's Test Year 2020 Cost of Capital Application (A.19-04-017).

APPENDIX A
SAN DIEGO GAS & ELECTRIC COMPANY
EMBEDDED COST OF DEBT
TEST YEAR 2023
(in Thousands)

Line Number	Description	A Principal	B Total Discount and Expense	C Net Proceeds (A - B)	D Annual Interest Payment	E Total Amortization	F Effective Rate [(D + E) ÷ C]
1	SERIES BBB	250,000	3,005	246,995	13,375	100	
2	SERIES DDD	250,000	3,547	246,454	15,000	177	
3	SERIES FFF	250,000	3,336	246,664	15,313	111	
4	SERIES GGG	300,000	4,438	295,562	18,000	148	
5	SERIES HHH	250,000	2,822	247,178	13,375	94	
6	SERIES III	500,000	10,559	489,441	22,500	352	
7	SERIES LLL	250,000	2,990	247,010	9,875	100	
8	SERIES MMM	250,000	3,867	246,133	10,750	129	
9	SERIES NNN	450,000	3,742	446,258	16,200	376	
10	SERIES PPP	16,319	1,568	14,751	312	228	
11	SERIES QQQ	500,000	5,904	494,096	12,500	590	
12	SERIES RRR	400,000	5,822	394,178	15,000	194	
13	SERIES SSS	400,000	5,840	394,160	16,600	195	
14	SERIES TTT	400,000	4,766	395,234	16,400	159	
15	SERIES UUU	400,000	4,997	395,003	13,280	167	
16	SERIES VVV	800,000	8,080	791,920	13,600	808	
17	SERIES WWW	750,000	12,976	737,024	22,125	433	
18	Amortization of call premiums	-	4,620	(4,620)	-	827	
19	First mortgage bonds	6,416,319	92,879	6,323,440	244,205	5,187	3.94%
20	Amortization of call premiums	-	40	(40)	-	44	
21	Unsecured bonds	-	40	(40)	-	44	
22	Other expense and amortization	-	-	-	747	-	
23	December 31, 2021 total long-term debt	6,416,319	92,919	6,323,400	244,952	5,231	3.96%
24	Change in interest and amortization in 2022	(16,319)	(2,124)	(14,195)	(312)	(347)	
25	Forecasted debt to be issued in 2022:	1,400,000	13,863	1,386,137	39,719	841	
26	December 31, 2022 total long-term debt	7,800,000	104,658	7,695,342	284,359	5,725	3.77%
27	Change in interest and amortization in 2023	(450,000)	(4,238)	(445,762)	(16,200)	(456)	
28	Forecasted debt to be issued in 2023:	1,200,000	12,397	1,187,603	52,713	771	
29	December 31, 2023 total long-term debt	8,550,000	112,817	8,437,183	320,872	6,041	3.87%
30	Forecasted 2023 Embedded Cost of Long-Term Debt						3.87%

SAN DIEGO GAS & ELECTRIC
EMBEDDED COST OF DEBT
DECEMBER 2023 - PROJECTED
(IN DOLLARS UNLESS OTHERWISE STATED)

	(1)			(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
										ANNUAL	ANNUAL AMORTIZATION			ANNUAL	NET
DESCRIPTION FIRST MORTGAGE BONDS	INTEREST RATE	DATE OF ISSUE	DUE DATE	LIFE OF BOND	PRINCIPAL	ISSUE DISCOUNT	ISSUE EXPENSE	REMAINING LOSS ON REACQ.	NET PROCEEDS (3-4-5-6)	INTEREST EXPENSE (1 X 3)	DISCOUNT (4 / 2)	EXPENSE (5 / 2)	REACQUISITION LOSS	TOTAL COST (8+9+10+11)	EMBED COST (12 / 7)
SERIES HH	-	Dec-86	Dec-21	-	-	-	-	0	0	-	-	-	0	0	-
SERIES OO-1	-	Dec-92	Dec-27	35.0	-	-	-	243,405	(243,405)	-	-	-	88,171	88,171	-
SERIES OO-2	5.000%	Dec-92	Dec-27	35.0	-	-	-	331,921	(331,921)	-	-	-	120,235	120,235	-
SERIES OO-3	5.250%	Dec-92	Dec-27	35.0	-	-	-	162,652	(162,652)	-	-	-	57,665	57,665	-
SERIES OO-4	5.000%	Dec-92	Dec-27	35.0	-	-	-	248,940	(248,940)	-	-	-	90,176	90,176	-
SERIES OO-5	-	Dec-92	Dec-27	35.0	-	-	-	18,671	(18,671)	-	-	-	6,619	6,619	-
SERIES VV (CV2004A)	5.875%	Jun-04	Feb-34	29.6	-	-	-	387,037	(387,037)	-	-	-	53,080	53,080	-
SERIES WW (CV2004B)	5.875%	Jun-04	Feb-34	29.6	-	-	-	355,233	(355,233)	-	-	-	48,718	48,718	-
SERIES XX (CV2004C)	5.875%	Jun-04	Feb-34	29.6	-	-	-	311,140	(311,140)	-	-	-	42,671	42,671	-
SERIES YY (CV2004D)	5.875%	Jun-04	Jan-34	29.5	-	-	-	211,743	(211,743)	-	-	-	29,402	29,402	-
SERIES ZZ (CV2004E)	5.875%	Jun-04	Jan-34	29.5	-	-	-	296,591	(296,591)	-	-	-	41,184	41,184	-
SERIES AAA (CV2004F)	4.000%	Jun-04	May-39	34.9	-	-	-	1,040,758	(1,040,758)	-	-	-	94,251	94,251	-
SERIES BBB	5.3500%	May-05	May-35	30.0	250,000,000	295,000	2,709,950		246,995,050	13,375,000	9,833	90,332		13,475,165	5.46%
SERIES DDD	6.0000%	Jun-06	Jun-26	20.0	250,000,000	1,117,500	2,429,000		246,453,500	15,000,000	55,875	121,450		15,177,325	6.16%
SERIES FFF	6.1250%	Sep-07	Sep-37	30.0	250,000,000	780,000	2,556,327		246,663,673	15,312,500	26,000	85,211		15,423,711	6.25%
SERIES GGG	6.0000%	May-09	Jun-39	360.5	300,000,000	1,380,000	3,057,571		295,562,429	18,000,000	45,936	101,778		18,147,714	6.14%
SERIES HHH	5.3500%	May-10	May-40	30.0	250,000,000	335,000	2,486,955		247,178,045	13,375,000	11,167	82,899		13,469,066	5.45%
SERIES III	4.5000%	Aug-10	Aug-40	30.0	500,000,000	5,515,000	5,044,008		489,440,992	22,500,000	183,833	168,134		22,851,967	4.67%
SERIES LLL	3.9500%	Nov-11	Nov-41	30.0	250,000,000	350,000	2,639,787		247,010,213	9,875,000	11,667	87,993		9,974,660	4.04%
SERIES MMM	4.3000%	Mar-12	Apr-42	360.5	250,000,000	1,297,500	2,569,738		246,132,762	10,750,000	43,190	85,539		10,878,729	4.42%
SERIES QQQ	2.5000%	May-16	May-26	10.0	500,000,000	1,625,000	4,279,086		494,095,914	12,500,000	162,500	427,909		13,090,409	2.65%
SERIES RRR	3.7500%	Jun-17	Jun-47	30.0	400,000,000	1,784,000	4,038,478		394,177,522	15,000,000	59,486	134,661		15,194,147	3.85%
SERIES SSS	4.1500%	May-18	May-48	30.0	400,000,000	1,768,000	4,072,043		394,159,957	16,600,000	58,933	135,735		16,794,668	4.26%
SERIES TTT	4.1000%	May-19	Jun-49	30.0	400,000,000	420,000	4,345,931		395,234,069	16,400,000	14,000	144,864		16,558,864	4.19%
SERIES UUU	3.3200%	Apr-20	Apr-50	30.0	400,000,000	532,000	4,464,828		395,003,172	13,280,000	17,733	148,828		13,446,561	3.40%
SERIES VVV	1.7000%	Sep-20	Oct-30	10.0	800,000,000	1,392,000	6,688,168		791,919,832	13,600,000	139,200	668,817		14,408,017	1.82%
SERIES WWW	2.9500%	Aug-21	Aug-51	30.0	750,000,000	4,740,000	8,236,055		737,023,945	22,125,000	158,000	274,535		22,557,535	3.06%
SERIES XXX	3.0000%	Mar-22	Mar-32	10.0	500,000,000	1,415,000	4,268,128		494,316,872	15,000,000	141,500	426,813		15,568,313	3.15%
SERIES YYY	3.7000%	Mar-22	Mar-52	30.0	500,000,000	2,785,000	5,394,492		491,820,508	18,500,000	92,833	179,816		18,772,649	3.82%
2022 Term Loan First Issuance	1.5548%	Feb-22	Feb-24	2.0	200,000,000	0	0		200,000,000	3,109,519	0	0		3,109,519	1.55%
2022 Term Loan Second Issuance	1.5548%	May-22	Feb-24	2.0	200,000,000	0	0		200,000,000	3,109,519	0	0		3,109,519	1.55%
2023 Debt Issuance	3.8706%	2023	2028	5.0	250,000,000	0	2,149,194		247,850,806	9,676,449	0	429,839		10,106,288	4.08%
2023 Debt Issuance	4.5302%	2023	2053	30.0	950,000,000	0	10,248,201		939,751,799	43,036,501	0	341,607		43,378,108	4.62%
TOTAL FIRST MORTGAGE BONDS					**8,550,000,000**	**27,531,000**	**81,677,940**	**3,608,090**	**8,437,182,970**	**320,124,488**	**1,231,686**	**4,136,760**	**672,171**	**326,165,105**	**3.87%**
UNSECURED BONDS															
CV96B	5.500%	11/21/96	12/01/21	25	-	-	-	0	-	-	-	-	-	0	
TOTAL UNSECURED BONDS					**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**	
LOC - BANK LINE-JP MORGAN CHASE BANK		5/17/19	4/30/24		-	-	-	-	-	747,352	-	-	-	747,352	-
LOC - LINE OF CREDIT DRAWDOWN		3/16/20	4/30/24		-	-	-	-	-	-	-	-	-	0	-
TOTAL LT BANK LOANS AND OTHER DEBT					**-**	**-**	**-**	**-**	**-**	**747,352**	**-**	**-**	**-**	**747,352**	
TOTAL LONG-TERM DEBT					**8,550,000,000**	**27,531,000**	**81,677,940**	**3,608,090**	**8,437,182,970**	**320,871,840**	**1,231,686**	**4,136,760**	**672,171**	**326,912,457**	**3.87%**

San Diego Gas & Electric Company
Issuance Cost Summary
(in Dollars)

	Actual [1]			Forecast		
Bond Issuance	2022	2022	2022	2022	2023	2023
	Term Loan [2]	Series YYY	Series XXX	Term Loan [2]	Series TBD	Series TBD
Life	2-Year	30-Year	10-Year	2-Year	5-Year	30-Year
Principal issued	**200,000,000**	**500,000,000**	**500,000,000**	**200,000,000**	**250,000,000**	**950,000,000**
Up-front issuance fees						
Underwriter [3]	-	4,375,000	3,250,000	-	1,500,000	8,312,500
Legal	-	62,500	62,500	-	128,195	128,195
Rating agency [4]	-	671,000	671,000	-	335,500	1,274,900
Auditor	-	30,000	30,000	-	61,533	61,533
CPUC	-	190,759	189,395	-	91,350	347,130
SEC	-	65,233	65,233	-	32,617	123,943
Total up-front cost	-	5,394,492	4,268,128	-	2,149,194	10,248,201

(1) Up-front costs based on actual results through March 2022.
(2) Actual and forecasted Term Loans have no associated up-front costs.
(3) Based on 87.5 basis points of principal issued for 30-year bonds and 60.0 basis points of principle issued for 5-year bonds.
(4) Based on 13.42 basis points of principal issued.

San Diego Gas & Electric Company
Proposed Debt Capital Markets Issuance
2022 & 2023 Projected Activity

	Actual			Forecast		
	2022	2022	2022	2022	2023	2023
	Term Loan	Series YYY	Series XXX	Term Loan	Series TBD	Series TBD
	2-Year	30-Year	10-Year	2-Year	5-Year	30-Year
SDG&E Issued Bond Trading Spread				0.63%	0.85%	1.40%
New Issuance Concession				0.00%	0.05%	0.05%
Indicative New Issuance Credit Spread				**0.63%**	**0.90%**	**1.45%**
Benchmark Treasury Yield				0.93%	2.97%	3.08%
Coupon	**1.55%**	**3.70%**	**3.00%**	**1.55%**	**3.87%**	**4.53%**

Notes:
(1) Coupon for Series XXX and YYY based on actual bond issuances in March 2022.
(2) Coupon for 2-Year Term Loan based on April 2022 Global Insights Treasury Forecast SOFR rate + 62.5 bps credit spread, consistent with agreement executed in February 2022.
(3) Coupon for 5-Year Bond and 30-Year Bond Issuances based on April 2022 Global Insights Treasury Forecast, plus forecasted credit spread.