Application: A.22-04-012
Company: San Diego Gas & Electric Company (U 902 M)
Proceeding: 2023 Cost of Capital
Exhibit No.: SDG&E-07

PREPARED REBUTTAL 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

August 22, 2022

TABLE OF CONTENTS

I. INTRODUCTION 1

II. CAPITAL STRUCTURE 1

A. Intervenors Offer No Support for Replacing SDG&E's Authorized Preferred Equity with Increased Long-Term Debt Rather than Common Equity 1

B. Intervenors Fail to Consider SDG&E's Credit Quality in Their Capital Structure Proposals 3

C. Intervenors Fail to Consider the National Trend Towards Increasing Common Equity Ratios, as Maintaining SDG&E's 52% Common Equity Ratio Would Now Make it Nearly Equal the National Average 7

D. Intervenors Fail to Consider Commission Precedent Supporting the Use of a Utility's Actual Capital Structure in its Authorized One 8

E. Mr. Gorman and Dr. Griffing Incorrectly Argue that SDG&E's Proposed Changes to Its Currently Authorized Capital Structure Are Expensive 9

F. Certain Intervenors Inappropriately Refer to Sempra and/or Utility Holding Companies' Capital Structure 11

G. Cal Advocates Proposal to Alter the Basis of the Capital Structure's Components Should be Disregarded 12

III. EMBEDDED COST OF DEBT AND PREFERRED STOCK 13

IV. CONCLUSION 15

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I. INTRODUCTION

SDG&E's 54% common equity, 46% long-term debt capital structure proposal is more consistent with the Company's longstanding capital structure, reflects the ongoing rise in utility common equity ratios nationwide, and has been explicitly identified by Moody's as being credit supportive. In contrast, intervenors' testimony[1] do not propose to maintain SDG&E's current authorized capital structure. Instead, they suggest increasing SDG&E's long-term debt—which would increase the Company's financial leverage, harm SDG&E's credit ratings, and require a higher ROE to counter that increase in risks.

Although Messrs. Ellis and Rothschild quibble with SDG&E's cost of debt proposals, no intervenor disputes SDG&E's proposed 3.87% embedded cost of debt. Nevertheless, my rebuttal will also address their claims.

II. CAPITAL STRUCTURE

A. Intervenors Offer No Support for Replacing SDG&E's Authorized Preferred Equity with Increased Long-Term Debt Rather than Common Equity

Mr. Rothschild, Mr. Gorman, Mr. O'Donnell, Dr. Woolridge, and Dr. Griffing propose a capital structure for SDG&E of 52% common equity, 48% long-term debt, and 0% preferred equity—apparently largely because it is consistent with SDG&E's currently-authorized equity ratio. Yet, importantly, these intervenors *do not* propose maintaining SDG&E's currently authorized

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[1] Intervenor testimony consists of Dr. Randall Woolridge for the Public Advocates Office of the California Public Utilities Commission ("CA" or "Cal Advocates"), Michael Gorman for the Energy Producers and Users Coalition, Indicated Shippers, and the Utility Reform Network ("EPUC/IS/TURN"); Dr. Richard McCann for the Environmental Defense Fund ("EDF"); Kevin O'Donnell for the Federal Executive Agencies ("FEA"); Mark Ellis for the Protect our Communities Foundation ("PCF"); Dr. Marlon Griffing and Richard Pavlovic for Utility Consumers' Action Network ("UCAN"); Alex Kronauer for Walmart, Inc., and Aaron Rothschild for Wild Tree Foundation ("WT").

1 capital structure. Instead, they propose increasing SDG&E's long-term debt—and hence the

2 Company's financial leverage.

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

	Current Authorized[2]	2023 Proposed	EPUC/IS/TURN	FEA[3]	Cal PA	UCAN	WTF
Common Equity	52.00%	54.00%	52.00%	52.00%	52.00%	52.00%	52.00%
Long-Term Debt	45.25%	46.00%	48.00%	48.00%	48.00%	48.00%	48.00%
Preferred Stock	2.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

4
5 No intervenor disagrees with SDG&E's proposal to eliminate preferred equity from its

6 capital structure. But while intervenors generally propose removing preferred equity, they then

7 advocate adding all of the previously authorized preferred equity percentage to long-term debt

8 rather than to common equity. Intervenors offer no evidence or analysis to support their proposal as

9 to why a capital structure of 52% common equity, 48% debt is currently appropriate for SDG&E.

10 Instead, they propose to change the preferred equity and long-term debt ratios from D.19-12-056

11 ("2019 Decision"), suggesting shifting 275 basis points from preferred equity to long-term debt.

12 Intervenors' logic is seemingly inconsistent and unsubstantiated. Presumably, the

13 intervenors' proposal reflects their acceptance of removing SDG&E's existing preferred equity ratio

14 on the basis that SDG&E does not have any preferred equity in its actual recorded capital structure.

15 Yet the intervenors then ignore SDG&E's actual capital structure regarding common equity and

16 long-term debt. And they seek to increase the amount of financial leverage SDG&E bears compared

2 D.19-12-056 at 11.

3 FEA (O'Donnell) at 11, Table 3, incorrectly states SDG&E's proposed capital structure as 56% common equity, 44% long-term debt.

1 to its currently authorized capital structure—as the intervenors' proposals would increase SDG&E's
2 debt-to-equity ratio—despite SDG&E suffering from downgraded credit ratings in 2019 and still
3 maintaining credit ratings below its previous rating from all rating agencies. This cursory
4 justification is without merit and should be rejected in favor of SDG&E's capital structure proposal
5 for the reasons set forth below.

6 7 **B. Intervenors Fail to Consider SDG&E's Credit Quality in Their Capital Structure Proposals**

8 Mr. Gorman claims SDG&E "has failed to provide any evidence of why an increase in its
9 equity ratio of total capital is necessary to preserve its credit standing, financial integrity and access
10 to capital."[4] Mr. Gorman further points out that "from approximately 2017 through 2022, over 80%
11 of the regulated utility industry have bond ratings of BBB+ or stronger."[5] Yet my direct testimony is
12 replete with such evidence. And Moody's has explicitly stated that adopting SDG&E's capital
13 structure proposal is credit supportive, which could reduce costs for ratepayers.[6]

14 After maintaining an A-credit rating for 15 years, SDG&E has been downgraded by all three
15 credit rating agencies since 2018. Even after Moody's upgraded SDG&E's credit rating one notch
16 in March 2021,[7] the Company's credit rating is still two notches lower from all three agencies
17 compared its prior A-ratings. This is primarily over concerns regarding wildfire and wildfire
18 liability risks in California—despite SDG&E being lauded for its wildfire mitigation programs and
19 not being responsible for a significant wildfire since 2007.

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4 EPUC/IS/TURN Testimony (Gorman) at VIII-5:7-9.

5 *Id.* at II-4.

6 Moody's, Rating Action: *San Diego Gas & Electric Company, Update to credit analysis* (June 23, 2022) ("Moody's June 23 Report") at 8.

7 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.

Credit rating agencies regularly provide company-specific information about the credit ratings they assign, including what is necessary to support the current rating as well as factors that could lead to upgrades or downgrades. It is clear from recent credit rating agency publications that SDG&E's proposal to change its common equity ratio is necessary to support its credit rating and financial integrity. Specifically, in its June 2022 report, Moody's stated, "an increase in the utility's allowed equity layer to 54% (as requested) would be credit supportive because it would contribute to stronger credit metrics."[8]

Moody's reiterated this sentiment in the same report, "[w]e also assume a constructive outcome of the utility's pending regulatory proceedings will further underpin its cash flows and allows the utility's financial profile to remain supportive of its credit quality."[9] Moody's contrasted that, in the "Factors that Could Lead to a Downgrade" section, by stating that "[w]e could also take negative rating action (i) following a deterioration in regulatory support or an increase in regulatory contentiousness."[10]

Similarly, S&P states that, even while calling SDG&E a "global leader" in wildfire mitigation, that the credit rating agency 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 exacerbating the risk of wildfires.[11] 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

[8] Moody's June 23 Report at 8.

[9] *Id.* at 1.

[10] *Id.* at 2.

[11] S&P, *How are California's Wildfire Risks Affecting Utilities' Credit Quality* (Jun. 3, 2021) ("S&P Jun. 3, 2021") at 8 and 10.

1 utilities if their "financial measures are consistently above the upgrade threshold."[12] SDG&E's
2 proposed common equity ratio is thus a prudent measure to counteract its increased business risks
3 and improve its credit ratings, reducing costs for consumers.

4 By contrast, Mr. Gorman's statement that SDG&E's "capital structure in the last case has
5 been adequate to support the Company's financial integrity, credit standing, and access to capital,"[13]
6 is unsupported and incorrect. Credit rating agencies assess the financial risk of SDG&E based on its
7 actual capital structure rather than its authorized capital structure. SDG&E has maintained its
8 investment grade bond rating and preserved its access to capital by managing its *actual* capital
9 structure at a higher than *authorized* common equity ratio of 56%. The credit rating agencies assess
10 the financial risk of SDG&E based on its actual capital structure rather than its authorized capital
11 structure.

12 That is why it is so important to Moody's and other credit rating agencies that SDG&E's
13 authorized structure is changed to better match the Company's actual structure so that SDG&E can
14 continue at its current equity ratio; the one that rating agencies are considering. These higher than
15 authorized equity levels have improved credit metrics (by reducing debt) with capital provided
16 solely by shareholders, directly benefitting customers. SDG&E's shareholders have not earned a
17 return on the difference between the Company's authorized equity ratio of 52% and its historical
18 actual equity ratio of 56%. Therefore, ratepayers have benefitted from a higher credit rating at the
19 expense of the shareholders.

20 By contrast, if SDG&E reduces its actual equity ratio to its currently authorized one, credit
21 rating agencies will assess SDG&E as being in a weakened financial position relative to now.

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[12] *Id.* at 10.

[13] EPUC/IS/TURN Testimony (Gorman) at VIII-4.

1 Intervenors' proposal would exacerbate that, by increasing SDG&E's authorized long-term debt by
2 over 200 basis points more than in SDG&E's currently authorized capital structure. In other words,
3 Mr. Gorman's discussion of how credit rating agencies have reacted to SDG&E's currently
4 authorized capital structure has little relationship to his proposal to increase the Company's
5 financial leverage through increased debt. As the Commission has found, "as long-term debt ratios
6 are increased, credit ratings tend to be downgraded which results in increased financial risks for
7 common equity holders, thereby requiring greater returns on common equity."[14]

8 Dr. Woolridge similarly recognizes that, "as the amount of debt in the capital structure
9 increases, its financial risk increases and the risk of the utility, as perceived by equity investors also
10 increases."[15] Yet intervenors' capital structure proposal would do precisely that, by changing
11 SDG&E's currently authorized capital structure with little support. For example, Mr. O'Donnell
12 states that he "understand[s] and accept[s] the fact that SDGE has a higher level of risk due to
13 inverse condemnation and the ongoing threat of wildfires."[16] But then he perplexingly responds to
14 that by proposing to increase SDG&E's authorized debt ratio from its currently authorized level.[17]
15 In no instance should SDG&E's capital structure be lowered beyond its currently authorized level
16 that credit rating agencies are familiar with (despite, as noted, Moody's finding that SDG&E's
17 proposal would be credit supportive), such that it would increase SDG&E's financial leverage.

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

[15] CA (Woolridge) at 29; *accord* FEA (O'Donnell) at 54 (a lower debt level lowers the risk of default).

[16] FEA (O'Donnell) at 66.

[17] *Id.* at 67.

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C. Intervenors Fail to Consider the National Trend Towards Increasing Common Equity Ratios, as Maintaining SDG&E's 52% Common Equity Ratio Would Now Make it Nearly Equal the National Average

4 Although certain intervenors focus on the nationwide authorized common equity ratio
5 average for electric utilities,[18] as RRA states, authorized "equity ratios have generally increased
6 over the last several years."[19] The average equity ratio authorized in electric utility cases was
7 50.06% for 2021—compared with 49.02% for 2018, the year relied upon by the Commission in its
8 2018 decision.[20]

9 Intervenors' evidence likewise demonstrates this trend. Messrs. O'Donnell and Gorman find
10 that the average for 2021 was even higher, at 51.0%,[21] and 51.53%,[22] respectively. And Mr.
11 Gorman similarly demonstrates that the average common equity ratio granted to an electric utility
12 has also continued to increase, going from 49.43% in 2010 to 51.53% in 2021.[23] Mr. Coyne
13 likewise found that SDG&E's proposed "54.00 percent is well within" the range of "40.25 percent
14 to 58.18 percent" authorized equity ratios since 2016.[24] In that light, the slightly higher common
15 equity ratio of SDG&E is necessary in view of its above-average business risks.[25] As Mr. Coyne
16 noted, lower financial risks should be used to offset higher business risks. [26]

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[18] *See, e.g.*, EPUC/IS/TURN (Gorman) at II-3, Table 2.

[19] RRA, Major Energy Rate Case Decisions in the US—January-June 2022 (July 27, 2022) at 7.

[20] *Id.*

[21] FEA (O'Donnell) at 65.

[22] EPUC/IS/TURN (Gorman) at II-3, Table 2.

[23] *Id.*

[24] SDG&E-08 (Coyne) at JMC-59 (citation omitted).

[25] *Id.* ("As explained previously, SDG&E has unique business and operating risks that distinguish the Company from the average electric utility and warrant a higher authorized equity ratio than the industry average.").

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

To leave SDG&E's common equity ratio stagnant while the nationwide average increases moves SDG&E's closer to the national average despite SDG&E's higher business risks, meaning that it also increases SDG&E's financial risk relative to utilities nationwide that it must compete against for capital. SDG&E's capital structure proposal is reasonably above the national average to counter SDG&E's above-average wildfire liability and other business risks; largely consistent with the capital structure adopted in the 2019 Decision relative to the national average.

D. Intervenors Fail to Consider Commission Precedent Supporting the Use of a Utility's Actual Capital Structure in its Authorized One

In addition to offering flawed analysis and erroneous conclusions intervenors ignore Commission practice of setting a utility's authorized capital structures to align with actual ratios. As noted in my direct testimony, the Commission's Policy & Planning Division issued a 2017 report stating that, "[i]n California a hypothetical capital structure, which is expected to approximate the actual capital structure of the utility over the long run is used."[27] In 2018, the Commission likewise adopted common equity ratios for regulated water utilities that reflected those utilities' actual ratios.[28] And in its 2012 cost of capital decision, the Commission adopted SDG&E's currently authorized capital structure because it reflected SDG&E's *actual* capital structure at that time.[29]

SDG&E's proposed 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 the 2019 Decision to require any increase in SDG&E's authorized common equity layer to be paired with an increase in the Company's authorized long-term debt

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

[28] *See* D.18-03-035 at 22.

[29] *See* D.12-12-034 at 11 (setting SDG&E's capital structure to reflect its actual capital structure).

ratio.[30] As such, SDG&E's proposal of 54% common equity, 46% debt is a reasonable middle ground that better reflects SDG&E's actual capital structure while also increasing the Company's long-term debt—incrementally moving closer to the Company's capital structure, consistent with this Commission's prior precedent and SDG&E's prudent management.

E. Mr. Gorman and Dr. Griffing Incorrectly Argue that SDG&E's Proposed Changes to Its Currently Authorized Capital Structure Are Expensive

Rather than grapple with prior Commission practice regarding authorized capital structure mirroring a utility's actual one, Mr. Gorman states that SDG&E's "proposal to increase its common equity ratio will increase its overall cost of capital and erode its ability to provide affordable rates."[31] Dr. Griffing similarly argues that "SDG&E's requested capital structure increases its common equity ratio by 2.00 percent, which rewards shareholders . . . [t]his requested change would increase costs for ratepayers."[32] When viewed in isolation, leaving all else unchanged, an increase in a utility's authorized common equity level will increase costs to ratepayers in the short-term. But this ignores the long-term benefits of achieving and maintaining a higher credit rating, which reduces borrowing costs for ratepayers. SDG&E's overall capital structure proposal is consistent with the Commission's desire to adopt capital structures that prudently and proactively support strong credit ratings.[33]

As noted in my direct testimony, Moody's utility company debt ratio benchmark for a single A bond rating is 35% - 45%, which implies a common equity range of 55% - 65%. Mr. Ellis appears to support the notion that a reasonable balance between authorized capital structure and

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[30] D.19-12-056 at 11 ("Because SDG&E is not requesting a significant increase in long-term debt, this decision will authorize no modification.").

[31] EPUC/IS/TURN (Gorman) at VIII-4:3-4.

[32] UCAN (Griffing) at 58:13-15.

[33] *See* D.19-12-056 at 6 and 42-43.

1 ROE is needed in order to maintain a favorable credit rating, "for any given credit rating . . . the
2 level of debt that can be accommodated in the capital structure will vary with ROE."[34] The other
3 intervening parties suggest a 48% debt ratio, which falls under the Baa range of Moody's guidance.
4 Yet SDG&E currently has an A3 rating from Moody's.

5 A lower credit rating would likely lead to higher costs of long-term debt for future issuances
6 which would be passed to customers in future authorized embedded cost of debt requests. As such,
7 the intervenor's proposals would increase long-term debt costs for customers and do not provide
8 compelling arguments that their proposed capital structure would be in the long-term best interests
9 of ratepayers and shareholders.

10 And as discussed in Valerie Bille's direct and rebuttal testimony, SDG&E's overall proposal
11 will not result in a rate increase for most ratepayers. By viewing the impact of increasing the
12 common equity ratio in isolation, Mr. Gorman misses the full picture of SDG&E's proposal. The
13 increase in revenue requirement resulting from increasing SDG&E's return on common equity
14 would be approximately $44.4 million. However, this increase would be offset by a decrease in
15 revenue requirement of $44.8 million attributable to the decrease in preferred equity and long-term
16 debt return, resulting in an overall revenue requirement *decrease* of approximately $0.4 million for
17 SDG&E. While consideration should be given to each individual cost of capital component, the
18 overall compilation of the components together and establishing a fair and reasonable authorized
19 rate of return should be the ultimate goal of the Commission, as established by the *Bluefield* and
20 *Hope* decisions.[35] Setting authorized cost of capital components in isolation from one another can

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[34] PCF (Ellis) at 26; Mr. Ellis' ROE recommendation is addressed in Mr. Coyne's rebuttal testimony (SDG&E-08 (Coyne) at JMC-30 – JMC-31.)

[35] D.19-12-056 at 15-16 (citing *Federal Power Com. v. Hope Natural Gas Co.,* 320 U.S. 591, 601 (1944); *Bluefield Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 692 (1923)).

easily lead to an unreasonable and imbalanced rate of return that favors either ratepayers or shareholders.

F. Certain Intervenors Inappropriately Refer to Sempra and/or Utility Holding Companies' Capital Structure

Both Mr. Rothschild and Mr. O'Donnell inappropriately refer to Sempra's capital structure to support their proposal.[36] For example, Mr. Rothschild recommends "a regulatory capital structure with a common equity ratio of 52% based on the common equity ratio of SRE because that is the capital structure being used to raise capital for SDG&E."[37] But SDG&E is the applicant in this proceeding, not Sempra, and Sempra's capital structure is not relevant here. SDG&E possesses its own capital structure.[38]

Similarly, several intervenors focus instead on the common equity ratio for the utility holding companies in their proxy group.[39] As with comparing to Sempra, comparing SDG&E's capital structure to that of utility holding companies rather than to that of the operating regulated utility companies themselves is not relevant, as operating utilities possess their own capital structure. As Mr. Coyne testifies "[b]ecause capital at the parent holding company level may finance unregulated operations, comparison to the parent company capital structure may lead to flawed and misleading conclusions."[40] Moreover, there is no need for such an inapt comparison because the average capital structure for utility operating companies is available, as discussed above and as intervenors themselves demonstrate.

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[36] *See* FEA (O'Donnell) at 66, Table 22.

[37] WT (Rothschild) at 49:7-9.

[38] *See* SDG&E-08 (Coyne) at JMC-21 and JMC-58.

[39] *See* CA (Woolridge) at 27-28; FEA (O'Donnell) at 65-66.

[40] SDG&E-08 (Coyne) at JMC-58.

1 2 **G. Cal Advocates Proposal to Alter the Basis of the Capital Structure's Components Should be Disregarded**

3 While it does not appear that Cal Advocates' capital structure proposal considers short term 4 debt, Cal Advocates' testimony appears to suggest that short-term debt be considered when 5 calculating total capitalization.[41] Cal Advocates' assertion that short-term debt should be included 6 as part of total capitalization when calculating the authorized capital structure is inappropriate. 7 Historically, the Commission has appropriately excluded short-term debt from the authorized 8 capital structure of the California utilities stating, "[f]or the purposes of this proceeding, the capital 9 structures of the applicants are comprised of distributions of long-term debt, preferred equity, and 10 common equity."[42]

11 Further, the decision clarifies that "[d]ebt due within one year, short-term debt, is 12 excluded."[43] Additionally, the authorized rate of return set by this proceeding is ultimately applied 13 to the utility's rate base (or its in-service capital assets). These capital assets have lives longer than 14 one year, with many having a useful life of 30 years or more. Long-lived assets should be funded 15 with a combination of long-term debt and equity and receive a rate of return. Conversely, short-term 16 expenses, such as operations and maintenance expenses, should be funded primarily with short-term 17 debt to align with the short-term nature of these costs. These costs are not typically part of rate base 18 and thus do not receive a rate of return. As such, it does not make sense to include short-term debt 19 as part of total capitalization when considering the appropriate authorized capital structure.

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[41] CA (Woolridge) at 28.

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

[43] *Id.* at n.2.

III. EMBEDDED COST OF DEBT AND PREFERRED STOCK

No intervenor made specific cost of debt or preferred equity recommendations for SDG&E.[44] Yet Mr. Ellis nonetheless commented that current interest rate should be used to estimate future interest rates, arguing that historically Global Insight[45] forecasts have exceeded the actual yield.[46] Mr. Rothschild similarly claims that cost of debt should be "based on [] actual cost of debt paid by the utility."[47]

Table 2 – Embedded Cost of Debt and Preferred Stock

Embedded Cost Component	Current Authorized	SDG&E Proposed
Long-Term Debt	4.59%	3.87%
Preferred Equity	6.22%	0.00%

But contrary to the complaints from these few intervenors, SDG&E's embedded cost of debt proposal was made using the same cost of debt calculation that the Commission has repeatedly adopted in previous cost of capital proceedings. That is, SDG&E recommends setting the authorized cost of debt equal to the forecasted embedded cost of debt at the end of test year (2023). The embedded cost of debt calculation includes all the actual historical costs associated with the issuance and services of past long-term debt issuances currently outstanding.

The forecast component only includes expected debt issuance costs for the current year (2022) where issuances may not have yet occurred, and the test year (2023). The makeup of SDG&E's forecasted embedded cost of debt thus mainly consists of actual historical embedded

[44] FEA (O'Donnell) at 11, Table 3, incorrectly states SDG&E's proposed embedded cost of debt calculation as 3.84%.

[45] HIS Markit Global Insight (Global Insight) an economic forecasting service.

[46] PCF (Ellis) at 30-31.

[47] WT (Rothschild) at 4:23-24.

costs with the forecast component only containing the remaining 2022 issuance costs (if all issuances have not yet been made), and costs for the test year. As of the April filing, SDG&E had already issued $7.2 billion, or 84% of the total $8.6 billion portfolio forecasted for year-end 2023. Breaking down SDG&E's requested embedded cost of debt, out of the total 3.87% proposal, approximately 3.83% is related to actual historical embedded cost of debt through March 2022, and only 0.04% is related to the forecasted component for the remainder of 2022 and 2023.

Therefore, the forecasted costs make up a very small proportion of the total. Moreover, consistent with long standing Commission practice, SDG&E used the April 2022 Global Insight forecast for applicable debt instruments, plus a forecast of the SDG&E-specific credit spread. Global Insights has long been recognized as an appropriate source for SDG&E proceedings. In the 2019 Decision, the Commission found that "Global Insight escalation rates are specific to the utility industry and more accurately reflects SDG&E's . . . inflationary cost increases."[48] In SDG&E's 2019 GRC, the Commission similarly concluded that "Global Insight's forecasts have been utilized or served as the basis for utility forecasts in prior and other GRCs. The resulting customer forecast also tracks well and has minimal differences with historical data since 2012."[49]

The Commission further recognized that "[i]t was not shown through evidence that Global Insight's forecasts are frequently incorrect by large margins for other periods or that their methodology is intrinsically flawed. Forecasting is not an exact science and there will be times that a forecast will be incorrect."[50]

And as indicated above and in my prepared direct testimony, SDG&E's forecasted interest rates are based on Global Insight's forecasts as of April 2022. Since April, interest rates have

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[48] D.19-09-051 at 708.

[49] *Id.* at 665.

[50] *Id.* at 667.

already increased. For example, as of Global Insight's August 2022 report, 30-year expected bond yields have increased by 26 basis points (bps) and 7 bps for 2022 and 2023, respectively, when compared to the yields forecasted in April 2022 that were used for SDG&E's filing. Pursuant to the Scoping Memo, SDG&E will update its cost of debt in an exhibit on September 14, 2022.

IV. CONCLUSION

SDG&E maintains that its requested capital structure is appropriate and promotes the long-term best interests of ratepayers and shareholders alike by being credit supportive, consistent with nationwide trends of increasing utility common equity ratios, and better aligning with SDG&E's longstanding actual capital structure. Therefore, SDG&E respectfully requests that the Commission approve its capital structure and embedded cost proposals. In no case should the Commission adopt intervenors' proposals and increase SDG&E's financial leverage with long-term debt beyond SDG&E's currently authorized capital structure.

This concludes my prepared rebuttal testimony.