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California State Assembly

UTILITIES AND ENERGY



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BACKGROUND

Wednesday, October 28, 2026
1:30pm
1021 O Street, Room 1100

OVERSIGHT HEARING

The Tipping Point: Historic Growth, Generational Investment, and Utility Investability

Findings:

- *California is on the verge of a generational build-out in its energy sector. Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E) planned about \$125 billion of capital investment in 2026–2030,¹ double the roughly \$62 billion they spent in 2016–2020.² Customers repay every dollar, with interest and a return, over decades. In exchange they receive new connections for homes and businesses, capacity for electric vehicles and buildings, and a safer grid. SCE expects its sales to grow 30–40% by 2035,³ and LADWP's customers face their own \$30.5 billion power and water plan for 2027–2031.⁴*
- *Capital spending is needed, but it comes with a return that is the biggest piece of its cost. As an illustration, a \$1 billion grid project costs customers about \$2.9 billion over 40 years, of which about \$1 billion is shareholder return.⁵ The CPUC set that*

¹ PG&E Corporation, Q2 2026 Earnings Presentation, p. 9
<https://www.sec.gov/Archives/edgar/data/75488/000100498026000047/q226earningspresentation.htm>; Edison International, July 2026 Investor Presentation, p. 31,
<https://www.sec.gov/Archives/edgar/data/92103/000082705226000061/exhibit99107eixjuly2026b.htm>; Sempra, 2025 Annual Report, p. 102, https://www.sempra.com/sites/default/files/2026-03/Sempra_AR2025_Digital.pdf.
² PG&E, Data Request Response to the Assembly Utilities and Energy Committee (Oct. 23, 2026), Q2a; Edison International and Southern California Edison, combined Annual Reports on Form 10-K, 2016–2025, SCE Consolidated Statements of Cash Flows; SDG&E, CapEx and Earnings Legislative Data Request Response (Oct. 23, 2026), Q1.

³ Edison International, July 2026 Investor Presentation, p. 20.

⁴ LADWP response to CPUC/CEC (Sept. 30, 2026), in response to Governor Newsom's September 2026 letter to the CPUC on utility financial health, Q4.

⁵ Staff calculation. Assumes 52% equity at a 10% ROE, 48% debt at 5%, 40-year straight-line depreciation, no salvage value, and a combined federal and state income tax rate of about 28.8%.

return at 9.93-10.03% on a 52% equity share for 2026-2028.⁶ What shareholders actually keep can be far lower, because wildfire costs and disallowances come out of earnings: in 2025, SCE reports a –5.1% return on its timing-adjusted basis, after recognizing more than \$4 billion of disallowed wildfire costs, and SDG&E reports 4.46%.⁷

- *Financing risk is an affordability issue. When utility credit weakens, customers pay the higher interest. California investor-owned utility (IOU) long-dated bonds yield about 0.42 percentage points more than the national utility benchmark.⁸ The California Earthquake Authority's (CEA) SB 254 study estimates each percentage point added to financing costs adds about \$5 a month to a residential bill.⁹*
- *Risky financing undercuts economic growth. In September, PG&E deferred about \$2 billion of 2027 capital, including new customer connections and clean-energy interconnection, and withdrew its 2028–2030 capital forecast, pending a strategic review.¹⁰ It is possible that without access to equity markets IOUs may lose access to debt markets too, and therefore be unable to finance capital projects writ large.¹¹ This means customers waiting for service are likely to wait even longer.*
- *Customers are already paying more than they can sustain. Since 2021, average rates at PG&E, SCE, and SDG&E have risen significantly faster than inflation. The California Public Utilities Commission (CPUC) calls wildfire costs “the single largest reason” and concludes that “further increases are likely not sustainable.”¹² The CEA's SB 254 study puts wildfire costs at about \$41 a month on the average PG&E residential bill, \$27 at SCE and \$21 at SDG&E: 19%, 17% and 14%, respectively, of the bill.¹³ Because rates are regressive, low-income households feel these increases most.¹⁴*
- *A cap on shareholder wildfire liability would move risk, but customers and survivors are among those who could absorb it. S&P says California's elevated risk is unsustainable unless offset by “a permanent liability cap and source of liquidity to fund third-party claims.”¹⁵ Losses above any cap fall to ratepayers, insurers, or*

⁶ CPUC, 2026–2028 Cost of Capital fact sheet (Dec. 18, 2025; A.25-03-010); <https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/electric-energy/electric-costs/cost-of-capital-fact-sheet.pdf>.

⁷ SCE, Response to Assembly Utilities and Energy Committee Data Request (Oct. 23, 2026), Q3; company-wide value, SDG&E data request response (Oct. 23, 2026), Q3.

⁸ LADWP response to CPUC/CEC (Sept. 30, 2026), in response to Governor Newsom's September 2026 letter to the CPUC on utility financial health, Q5.

⁹ CEA's study cites this Committee's SB 254 (Becker) committee analysis (Sept. 10, 2025), <https://autl.assembly.ca.gov/system/files/2025-09/sb-254-becker-r1.pdf>; CEA, *SB 254 Study Report* (Apr. 7, 2026), p. 36; which cites a figure shared by the Governor's office.

¹⁰ PG&E Corporation, "PG&E Launches Strategic Review to Build a Better, More Affordable Energy Future for California Customers" (Sept. 2, 2026), <https://investor.pgecorp.com/news-events/press-releases/press-release-details/2026/PGE-Launches-Strategic-Review-to-Build-a-Better-More-Affordable-Energy-Future-for-California-Customers/default.aspx>; PG&E data request response (Oct. 23, 2026), Q2b, Q7.

¹¹ SCE data request response (Oct. 23, 2026), Q7

¹² CPUC, *Senate Bill 254 Information and Recommendations* (Jan. 30, 2026), p. 26. <https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/wildfire/wildfire-2026/cpuc-sb-254-study-information-and-recommendations.pdf>

¹³ California Earthquake Authority (Wildfire Fund Administrator), *Enhancing California's Resiliency to Natural Catastrophes: Senate Bill 254 (2025) Study Report* (Apr. 7, 2026), p. 24; <https://www.cawildfirefund.com/sites/wildfire/files/documents/2026/sb-254-natcatresiliencyreport4-7-26.pdf>; CPUC, SB 254 Information and Recommendations, pp. 22-24.

¹⁴ CPUC, SB 254 Information and Recommendations, p. 26.

¹⁵ S&P Global Ratings, *Recent Legislation Does Little To Reduce California Investor-Owned Utilities' Significant Exposure To Wildfire Liabilities* (Sept. 1, 2026), p. 2

survivors unless the state decides otherwise, and the safety incentive must then come from regulators.

- *Public ownership could lower customers' financing costs but would not shield them from wildfire risk. Tax-exempt debt could cut the lifetime cost of a project by more than a third in present-value terms,¹⁶ but POUs face the same inverse condemnation exposure with no Wildfire Fund behind them, and with no shareholders, their losses fall directly on customers. S&P cut LADWP's power bonds two notches after the January 2025 fires, and LADWP estimates a further two-notch downgrade would add about \$927 million to the cost of its five-year plan.¹⁷*

I. Introduction

For nearly ninety years, the company kept the lights on in one of the world's largest cities. Its customers had nowhere else to go. In exchange for that monopoly, regulators set its rates. The goal was a fair price for customers and a company healthy enough to raise money for the grid.¹⁸ For generations, the arrangement held. The company even paid a dividend every quarter.¹⁹

Then the world changed. The company relied on one fuel to make much of its power. With little warning, the price of that fuel quadrupled.²⁰ Sales slid, and cash ran short.²¹ The company had leaned too hard on borrowed money to fund its operations.²² Now it needed large outside financing, and investors were losing faith.²³ A utility that can't raise money can't maintain its system.

This led the company to skip its dividend for the first time. The panic spread, and utilities across the country found it harder to borrow.²⁴ The real damage landed on the grid. Cash was so tight that aging plants stayed in service. In the end, the public stepped in. The state Power Authority bought an unfinished power plant from the company.²⁵ Over a year later, the state took over a nuclear unit too.²⁶

The company was Consolidated Edison of New York. The date of the dividend suspension was April 23, 1974. The fuel shock was the OAPEC²⁷ oil embargo that began in late 1973.

Today, similar utility financial constraints are playing out 3,000 miles west, and once again customers are caught in the middle. California utilities are struggling under wildfire liability, and much of the cost lands on customers' bills.²⁸ Wildfire costs now make up between 14-

¹⁶ Staff calculation: see citation 5; POU comparison assumes a 30-year, 4.5% level-payment bond and a 5% discount rate.

¹⁷ LADWP response to CPUC/CEC (Sept. 30, 2026), Q3, Q11

¹⁸ "Con Edison: The Crisis of the Investor-Owned Utility," *Fordham Urban Law Journal*.
<https://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=1640&context=ulj>

¹⁹ Simply Safe Dividends, "Consolidated Edison: 45 Consecutive Years of Dividend Increases."
<https://www.simplysafedividends.com/world-of-dividends/posts/165-consolidated-edison-45-consecutive-years-of-dividend-increases>

²⁰ Con Edison: The Crisis of the Investor-Owned Utility," *Fordham Urban Law Journal*.

²¹ U.S. Nuclear Regulatory Commission, "Consolidated Edison – Financial Review Status," July 31, 1974.
<https://www.nrc.gov/docs/ML0936/ML093630665.pdf>

²² Con Edison: The Crisis of the Investor-Owned Utility," *Fordham Urban Law Journal*.

²³ Citation 19, *Ibid*.

²⁴ Con Edison: The Crisis of the Investor-Owned Utility," *Fordham Urban Law Journal*.

²⁵ Power Technology, "Astoria Power Plant, New York." <https://www.power-technology.com/projects/500mw/>

²⁶ New York Attorney General, filing on Indian Point ownership history.
<https://ag.ny.gov/sites/default/files/58be78ed-9ec8-413e-99f1-0879b9099650.pdf>

²⁷ Organization of Arab Petroleum Exporting Countries

²⁸ CPUC, SB 254 Information and Recommendations, p. 22-24.

19% of the average residential electric bill at the three large IOUs.²⁹ In 2019, PG&E went bankrupt under its wildfire bills.³⁰ This September, a deal to limit utility wildfire liability died.³¹ Fire survivors had fought it. They argued that liability pushes utilities to prevent fires, and that capping it would leave survivors to rebuild on their own.³²

There are no painless answers, but 1974 offers two lessons. When a utility can't raise money, its customers pay for it in aging equipment and higher costs. In 1974 the shock came from abroad. Today's comes partly from rules California wrote, which means California can change them. The goal isn't to protect any one company. It is to ensure power that is safe, reliable, and affordable for the people who pay for it.

California's three large electric IOUs plan to invest roughly \$125 billion in their systems over 2026–2030³³ — about double what they spent a decade earlier³⁴ — at the same moment their access to capital is weakening and their customers are paying rates that have outpaced inflation since 2021.³⁵ This hearing asks what that investment will cost customers, what they will get for it, and whether California's wildfire liability regime is making it more expensive than it needs to be.

The timing is not abstract. On September 1, 2026, the Governor asked the CPUC to report by November 1 on credit downgrades, borrowing costs and “potential limitations on access to capital” for both public and private utilities.³⁶ On September 2, PG&E cut its 2027 capital plan by about \$2 billion, to about \$11.4 billion, and launched a strategic review of “the full range of regulatory, financial, operational and strategic alternatives reasonably available.”³⁷ The hearing seeks to understand the options available and to measure them by what it does for customers: the size of their bills, the safety and reliability of their service, how quickly new homes and businesses can connect, and the fair treatment of people harmed by utility-caused fires. Credit ratings and investor returns matter to that test only to the extent they change what customers pay and receive.

The purpose of this oversight hearing is to develop a shared understanding of how customers pay for utility investment, of the generational investments that customers will be asked to fund over the next decade, and of how financing risk adds cost to customer bills. The hearing also seeks to discuss strategies to reduce financing risk, such as a cap on shareholder wildfire liability, which ratings agencies have indicated is necessary to continue to fund utility projects in California.

This hearing is the second in a series examining the wildfire crisis in the state. The first, on October 20, 2026, examined whether the post-2019 wildfire safety regime has lowered risk and what accountability looks like when a utility still causes a conflagration. This hearing turns from safety to finance: who pays to build the grid California needs and on what terms.

²⁹ CEA SB 254 report, p. 24.

³⁰ CNBC, “US judge orders PG&E to use dividends to pay for efforts to reduce wildfire risks,” April 3, 2019. <https://www.cnbc.com/2019/04/03/us-judge-orders-pge-to-use-dividends-to-pay-for-efforts-to-reduce-wildfire-risks.html>

³¹ CalMatters, “Wildfire liability bill dies without a vote on final day of session,” September 2026. <https://calmatters.org/economy/2026/09/wildfire-liability-bill-dies-without-a-vote-on-final-day-of-session/>

³² Jennifer Gray Thompson and Graham Knaus, “California shouldn't limit wildfire liability for public utilities like PG&E,” *San Francisco Chronicle*, August 26, 2026.

<https://www.sfchronicle.com/opinion/openforum/article/wildfire-liability-pge-california-22396615.php>

³³ PG&E, Q2 2026 Earnings Presentation, p. 9; Edison International, July 2026 Investor Presentation, p. 31; Sempra, 2025 Annual Report, p. 102.

³⁴ PG&E data request response (Oct. 23, 2026), Q2a; Edison International/SCE Form 10-K filings, SCE Consolidated Statements of Cash Flows; SDG&E data request response (Oct. 23, 2026), Q1.

³⁵ CPUC, SB 254 Information and Recommendations, p. 26.

³⁶ Letter from Governor Gavin Newsom to CPUC President John Reynolds (Sept. 1, 2026).

³⁷ PG&E, strategic review release (Sept. 2, 2026).

A third, on insurance subrogation of utility-caused wildfires, will be held tomorrow, October 29, jointly with the Assembly Committee on Insurance.

II. Utility Financing – mechanics, current costs, and the scale ahead.

A. What customers are already paying.

As noted above, since 2021, average rates at PG&E, SCE, and SDG&E have risen significantly faster than inflation. The CPUC names wildfire-related costs as the single largest reason, alongside net energy metering, aging infrastructure, and certain procurement and bill-discount programs.³⁸ The Natural Resources Defense Council (NRDC) calculates that electricity prices rose 40% above inflation between 2018 and 2024.³⁹

The CEA's SB 254 study puts wildfire liability and mitigation costs at about \$41 a month on the average PG&E residential bill, \$27 at SCE and \$21 at SDG&E — 19%, 17% and 14% of the bill.⁴⁰ NRDC, using a different methodology, puts the wildfire share of the average PG&E bill at about one-third, and finds that electricity customers have become the largest source of wildfire prevention funding in the state, providing more than three times what the state budget provides.⁴¹ The IOUs spent more than \$9 billion on wildfire mitigation in 2024–2025, more than CAL FIRE's \$4.1 billion fire protection and resource management budget.⁴²

Collecting costs through rates is regressive: low-income Californians spend a larger share of their income on utility bills than higher-income Californians do.⁴³ The CEA's SB 254 study finds wildfire charges take two to five times as large a share of income from lower-income households as from higher-income ones.⁴⁴ Wildfire charges are not based on a customer's ability to pay or their contribution to wildfire risk. In Los Angeles, about 35% of residents live at or below twice the poverty threshold (27% statewide) and 64% of households rent;⁴⁵ yet LADWP customers have been impacted system-wide by increased borrowing costs from wildfire exposure. Moreover, higher electric rates weaken the case for electric vehicles, heat pumps and electrified industry, which slows the move away from fossil fuels.⁴⁶

B. How customers pay for utility investment.

Customers do not pay for a new substation or underground line all at once, just like buyers rarely pay cash for a house. Rather, they pay for it more like a mortgage: the utility raises the money from investors and builds the asset. Customers then repay cost slowly, over the asset's 30- to 50-year life, plus a return on the portion not yet repaid.^{47,48} Because utilities spend more on the grid each year than their operations bring in, they must keep returning to debt

³⁸ CPUC, SB 254 Information and Recommendations, p. 26.

³⁹ Jo Gardias, NRDC, "Wildfires Are Burning a Hole in Your Pocket. Here's How to Mend It." (Apr. 23, 2026). <https://www.nrdc.org/bio/jo-gardias/wildfires-are-burning-hole-your-pocket-heres-how-mendit>

⁴⁰ CEA, SB 254 Study Report (Apr. 7, 2026), p. 24; CPUC, SB 254 Information and Recommendations, pp. 22–24.

⁴¹ Gardias, NRDC (Apr. 23, 2026).

⁴² CPUC, SB 254 Information and Recommendations, p. 27.

⁴³ *Id.*, p. 26.

⁴⁴ CEA, SB 254 Study Report (Apr. 7, 2026), p. 24.

⁴⁵ LADWP response to CPUC/CEC (Sept. 30, 2026), Q7.

⁴⁶ CPUC, SB 254 Information and Recommendations, p. 27.

⁴⁷ CPUC, Cost of Capital; <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/cost-of-capital>

⁴⁸ Two differences with this analogy: The "interest rate" is the utility's authorized rate of return, about 7.4–7.6% for 2026–2028. It blends interest on debt with a roughly 10% return to shareholders on the equity half. And unlike a mortgage's smooth payments, customers pay the most in the early years, when the unpaid balance is largest.

and equity markets to close the gap. S&P puts the industry's annual cash flow shortfall at about \$100 billion.⁴⁹

Every three years, the CPUC sets the terms of that “mortgage,” the utility's capital structure – the allowed mix of debt, preferred stock, and common equity – and the price of each, including the authorized return on equity (ROE). Each utility proposes terms, intervenors propose alternatives, and the CPUC decides, seeking an equity ratio high enough to maintain reasonable credit ratings and attract capital while limiting financial risk.⁵⁰ To extend the metaphor, think of the shareholders' money (common equity) as the down payment and the utility's bonds (debt) as the loan. The CPUC decides how big the down payment must be (currently 52% for each utility). In other words: a bigger down payment makes the utility safer and keeps its credit rating strong, but shareholder money costs customers more than borrowed money.⁵¹

Every four years, the CPUC reviews the utility's forecast capital and operating budgets and approves a revenue requirement: i.e., the total the utility may collect from customers. This process is called the General Rate Case (GRC). The CPUC also divides that revenue requirement among customer classes.⁵² Transmission is the exception: its revenues are set by the Federal Energy Regulatory Commission (FERC), including its own ROE.⁵³

To pay for approved work, the utility draws on three sources. The first is cash it already collects from customers, mostly the depreciation of assets already in service whose costs are already built into rates. The second is borrowing, by issuing bonds. The third is shareholder money: profits the utility keeps (instead of paying out) or from new investment. Each of the three IOUs is owned by a parent holding company (PG&E Corporation, Edison International and Sempra), so new shareholder money reaches the utility from its parent, which may sell new stock to raise it. As the utility grows, it needs more shareholder money just to hold its equity share at the CPUC's required 52%. PG&E estimates this took roughly \$1.0–3.7 billion of new equity a year in 2016–2025.⁵⁴

Once an asset is in service, its cost is added to the utility's rate base, the value of everything it has built that customers haven't yet paid off. Each year, customers pay a slice of that cost back (depreciation), plus interest on the borrowed share, the authorized ROE on the shareholders' share, and income taxes on that shareholder return. As the asset is paid down, (and all things held equal) rate base shrinks and those charges fall.⁵⁵ However, as mentioned above, California's utilities are undergoing generational investments, leading to ever-growing rate base; meaning, even as existing assets are being paid off, new ones are scheduled to be built or upgraded.

On December 18, 2025, the CPUC cut every utility's authorized ROE by 30 basis points and kept common equity at 52% of the capital structure, as shown in Table 1 below.⁵⁶

⁴⁹ S&P Global Ratings, *Industry Credit Outlook 2026: North America Regulated Utilities* (Jan. 14, 2026), p. 1.

⁵⁰ CPUC Decision 25-12-043, *2026–2028 Cost of Capital*, p. 5.

<https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M591/K833/591833054.PDF>

⁵¹ The analogy breaks down a bit here: on a house, a bigger down payment means you borrow less and pay less interest. Here it works the other way, because the “down payment” money earns about 10% while the “loan” costs about 5%.

⁵² CPUC, “General Rate Case,” <https://www.cpuc.ca.gov/generalratecase>

⁵³ CPUC, “Historical Electric Cost Data: Return on Equity,” <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/historical-electric-cost-data/return-of-equity>

⁵⁴ PG&E Committee data request response (Oct. 23, 2026), Table 1b.

⁵⁵ CPUC, *2024 Senate Bill 695 Report* (July 2024), p. 51; <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2024/2024-sb-695-report.pdf>

⁵⁶ CPUC, Cost of Capital fact sheet; CPUC D.25-12-043, pp. 71-72

Table 1: Summary of CPUC 2025 Cost of Capital decision for CA large IOUs.⁵⁶

Utility	Common equity share	Cost of long-term debt	Authorized ROE 2026 (vs. 2025)	Overall rate of return
PG&E	52%	5.04%	9.98% (10.28%)	7.61%
SCE	52%	4.71%	10.03% (10.33%)	7.59%
SDG&E	52%	4.59%	9.93% (10.23%)	7.41%
SoCalGas	52%	5.02%	9.78% (10.08%)	7.52%

Asked how they use their weighted average cost of capital to prioritize work, PG&E and SDG&E said they do not; both note they rank projects by risk reduction, compliance needs, cost and feasibility.⁵⁷ SCE compares alternatives using cost-benefit ratios and the present value of the revenue each would require from customers over its life.⁵⁸ The cost of capital matters instead through the price of every project: a higher return raises what customers pay for all of them.

Wildfire risk has been argued in every recent cost of capital cycle. In 2019 the CPUC declined a separate wildfire “adder,” reasoning that AB 1054 (Holden, 2019) had addressed the exposure.⁵⁹ In 2022, the CPUC said it would make “no additional specific determinations about asymmetric risks that the electric utility applicants face relative to wildfire risk,” and would instead “consider the totality of the record.”⁶⁰ The 2025 decision acknowledged utility concerns that a lower ROE “could potentially harm their credit profile and increase their cost of capital during a time when they need to spend substantial amounts on capital investment projects above their historic norm.”⁶¹ Nevertheless, the 2025 CPUC decision lowered the ROE.

AB 1054 also barred the IOUs from earning an equity return on their first \$5 billion of wildfire mitigation capital and allowed it to be financed with lower-cost securitized bonds.⁶² The CPUC’s financing orders for PG&E’s and SCE’s resulting securitized bonds estimate about \$2.8 billion of net present value savings to customers.⁶³ SB 254 (Becker, 2025) repeats the approach, barring an equity return on the IOUs’ share of the first \$6 billion of fire-risk mitigation capital approved on or after January 1, 2026.⁶⁴ Securitized “recovery bonds” backed by a dedicated customer charge often rate much higher (investment grade) even when the utility’s own debt is below investment grade.

C. How the IOUs have financed the last decade.

⁵⁷ PG&E data request response (Oct. 23, 2026), Q5; SDG&E data request response (Oct. 23, 2026), Q5.

⁵⁸ SCE data request response (Oct. 23, 2026), Q5.

⁵⁹ CPUC Decision 19-12-056, *Cost of Capital 2020–2022*, p. 37, <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M322/K633/322633896.PDF>

⁶⁰ CPUC Decision 22-12-031, *Cost of Capital 2023–2025*, p. 28, <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M500/K015/500015851.PDF>

⁶¹ CPUC D.25-12-043, p. 42.

⁶² Public Utilities Code § 8386.3 (e)

⁶³ CPUC Decisions 20-11-007, 21-06-030, 21-10-025, 22-08-004, 23-02-023 and 24-02-011 (AB 1054 financing orders), Finding of Fact 2 (estimated net present value savings: \$173 million, \$633 million, \$403 million, \$659 million, \$493 million and \$465 million).

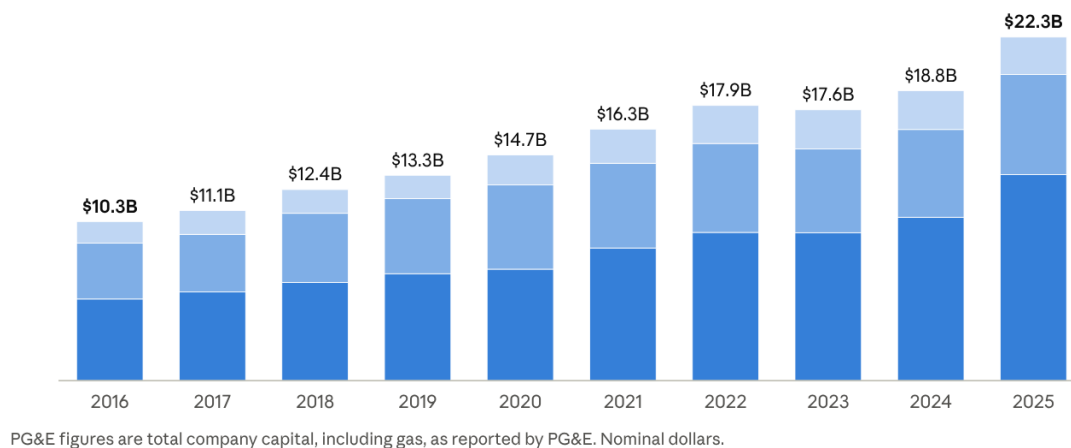
⁶⁴ Public Utilities Code § 8386.10

The three electric IOUs more than doubled their yearly capital spending between 2016 and 2025, from about \$10.3 billion to \$22.3 billion, and most of the new money was borrowed.⁶⁵ Customers repay all of it over time. Depreciation returns the money investors put in, and interest and the authorized return pay them for its use. The chart below shows how much money each utility raised each year.⁶⁶

Electric IOU capital spending more than doubled in a decade

Annual capital expenditures, PG&E + SCE + SDG&E: \$10.3B in 2016 to \$22.3B in 2025

■ PG&E ■ SCE ■ SDG&E



PG&E figures are total company capital, including gas, as reported by PG&E. Nominal dollars.

Debt is the IOU financial workhorse. PG&E raised \$4.3–\$5.5 billion of long-term utility debt in each year from 2021 to 2025, while repaying up to \$4.5 billion a year of maturing debt.⁶⁷ SCE issued \$3.6–\$5.4 billion a year over the same period.⁶⁸ SDG&E, which funds its capital program from operating cash and first-mortgage bonds, issued \$0.6–\$1.6 billion a year from 2020 to 2025.⁶⁹ SCE plans to fund its 2026–2030 program with \$36–\$38 billion of operating cash flow and \$9–\$12 billion of new debt.⁷⁰

New equity arrives in bursts, usually after a crisis. The biggest infusions of shareholder money came after wildfires, not from steady growth. PG&E’s parent company put \$19.7 billion into the utility in 2020, much of it to pay for leaving bankruptcy, and another \$5.4 billion in 2024. After subtracting the dividends the utility paid back to its parent, PG&E received a net \$21.2 billion over 2016–2025.⁷¹ Edison International put \$3.25 billion into SCE in 2019, after the 2017–2018 fires, and \$1.4–\$1.6 billion a year from 2020 to 2022.⁷² Sempra, by contrast, put money into SDG&E only once in the decade: \$322 million in 2019, to cover SDG&E’s initial payment into the state Wildfire Fund.⁷³

Retained earnings are profits a utility keeps instead of paying out to shareholders, and they are its cheapest source of equity. PG&E lost \$14.5 billion of them in 2018 and 2019 and has rebuilt only about \$3.6 billion in the six years since.⁷⁴ SDG&E, which had not had a

⁶⁵ PG&E data request response (Oct. 23, 2026), Q2a; Edison International/SCE Form 10-K filings, SCE Consolidated Statements of Cash Flows; SDG&E data request response (Oct. 23, 2026), Q1

⁶⁶ PG&E and SDG&E data request responses to the Committee (Oct. 23, 2026); SCE from Edison International/SCE Form 10-K filings, Consolidated Statements of Cash Flows · 2016–2025

⁶⁷ PG&E data request response (Oct. 23, 2026), Table 1a.

⁶⁸ Edison International/SCE Form 10-K filings, SCE Consolidated Statements of Cash Flows

⁶⁹ SDG&E data request response (Oct. 23, 2026), Q1

⁷⁰ Edison International, July 2026 Investor Presentation, p. 42

⁷¹ PG&E data request response (Oct. 23, 2026), Tables 1a, 4.

⁷² Edison International/SCE Form 10-K filings, SCE Consolidated Statements of Cash Flows (capital contributions from Edison International)

⁷³ SDG&E data request response (Oct. 23, 2026), Q1.

⁷⁴ PG&E data request response (Oct. 23, 2026), Table 1a.

catastrophic fire since 2007, by contrast added \$0.4–0.8 billion a year in most years.⁷⁵ In dollars, PG&E now adds about what SDG&E does each year, roughly \$0.6 billion, but PG&E's capital program is several times larger. Over 2020–2025, SDG&E's kept profits equaled about a quarter of its capital spending;⁷⁶ PG&E's would cover only about 5% of its roughly \$11.4 billion 2027 plan.⁷⁷ PG&E must therefore raise far more of its equity from outside investors, at whatever price a market wary of wildfire risk demands, and that cost flows into customer rates. It is also why PG&E keeps its dividend low: the profits it doesn't pay out are profits it doesn't have to raise elsewhere.

Securitization has grown into a third option. PG&E issued about \$3.3 billion of AB 1054-authorized securitized bonds for wildfire capital in 2021, 2022, and 2024, separate from \$7.5 billion of SB 901 (Dodd, 2018) bonds that refinanced 2017 wildfire costs.⁷⁸ SCE issued about \$1.6 billion of AB 1054 bonds⁷⁹ and, in July 2026, \$2.0 billion to recover Woolsey Fire costs.⁸⁰ SDG&E has not securitized.⁸¹

D. Payouts to shareholders.

Dividends do not change what customers pay for equity; the CPUC's authorized ROE applies regardless. What payouts change is how much new money the utility must raise from outside investors, which matters when those investors are wary of California utilities. That makes dividend policy a financing choice, especially in this age of generational investment, not just a reward to shareholders. California's three IOUs have chosen different dividend policies. PG&E Corporation, which has paid almost nothing since suspending its dividend after the 2017 fires,⁸² says its low payout avoids up to \$10 billion of outside financing through 2030.⁸³ SDG&E keeps most of its profits and has not needed outside equity since 2019.⁸⁴ In contrast, Edison International more than doubled its common dividend over the decade, from \$544 million to \$1.27 billion,⁸⁵ and targets paying out about half of SCE's earnings,⁸⁶ while SCE has relied on new equity from its parent. For customers, the question is whether today's dividend payouts leave utilities able to fund the investment customers need without depending on investors who may not be there when needed.

Over the last decade, the CPUC authorized returns on equity of roughly 10% to 10.75%,⁸⁷ but what the utilities actually earned swung far more widely, because wildfire charges and recoveries impact earnings. PG&E lost money in 2018 and 2019, earning about –35% and –34%, and has recovered gradually, from 1.4% in 2020 to 9.7% in 2025.⁸⁸ SCE, which counts its Thomas, Koenigstein, Montecito and Woolsey fire costs in the years the CPUC decided them, earned 6.8–8.3% in 2020–2024 and –5.1% in 2025, when it recognized more than \$4

⁷⁵ SDG&E data request response (Oct. 23, 2026), Q1.

⁷⁶ *Ibid.*

⁷⁷ PG&E, strategic review release (Sept. 2, 2026).

⁷⁸ PG&E data request response (Oct. 23, 2026), Table 1a.

⁷⁹ CPUC Decisions 20-11-007, 21-10-025 and 23-02-023 (SCE AB 1054 financing orders, about \$1.575 billion in total)

⁸⁰ Edison International, Form 10-Q for the quarter ended June 30, 2026, <https://www.sec.gov/Archives/edgar/data/0000827052/000082705226000059/eix-20260630.htm>

⁸¹ SDG&E data request response (Oct. 23, 2026), Q1.

⁸² PG&E data request response (Oct. 23, 2026), Table 4.

⁸³ Nasdaq, "Pacific Gas & Electric Q2 Earnings Call Highlights" (2026). <https://www.nasdaq.com/articles/pacific-gas-electric-q2-earnings-call-highlights>

⁸⁴ SDG&E data request response (Oct. 23, 2026), Q4.

⁸⁵ Edison International, Annual Reports on Form 10-K, 2015–2025, Consolidated Statements of Cash Flows (common stock dividends paid).

⁸⁶ Edison International, July 2026 Investor Presentation

⁸⁷ CPUC, Return on Equity data; <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/historical-electric-cost-data/return-of-equity>

⁸⁸ PG&E data request response (Oct. 23, 2026), Table 3.

billion of disallowed costs.⁸⁹ (The CPUC’s posted figures, which record those costs differently, show SCE earning 24.4% that year.)⁹⁰ SDG&E earned above its authorized return in 2020 and 2022, but only 1.71% in 2025.⁹¹ PG&E has fallen short of its authorized return every year since 2017, SCE every year since 2020, and SDG&E every year since 2023. The authorized ROE, in other words, is a ceiling rather than a promise, and investors know it. That cuts both ways for customers. Some of the shortfall is regulation working in their favor: the costs disallowed in SCE’s 2025 return are costs kept off their bills. But investors who expect to earn less than the authorized return will demand more to put money in, and that higher price shows up in the next cost of capital case.

E. The generational investment ahead.

The IOUs’ published 2026–2030 plans totaled about \$125 billion,⁹² double the roughly \$62 billion they spent in 2016–2020.⁹³ The utilities attribute most of the spending to three drivers: new load, aging equipment, and wildfire risk. For customers, that means new service for homes and businesses, capacity for electrified vehicles and buildings, replacement of aging equipment, and lower ignition risk — all paid over time on their bills.

Table 2: Large IOU 2026–2030 Capital Plans; PG&E;⁹⁴ SCE;⁹⁵ SDG&E.⁹⁶ SoCalGas adds \$10.6 billion.⁹⁷

Utility	Capital Plan	What it funds	Status
PG&E (electric and gas)	~\$73 billion (<i>as published before Sept. 2026</i>)	By function: distribution \$38B, transmission \$20B, gas \$8B, technology \$4B, generation \$3B. By purpose: capacity and new business \$23B, safety \$20B, resiliency \$16B, reliability \$14B	2026 forecast \$12.4B; 2027 cut from \$13.4B to \$11.4B; 2028–2030 forecast withdrawn pending strategic review
SCE	\$38–41 billion	Load growth and electrification 22%, infrastructure replacement 22%, inspections and maintenance 14%, wildfire 12%, transmission 11%, other distribution 10%, metering 6%, generation 3%	No equity issuance planned; funded by \$36–38B operating cash and \$9–12B new debt
SDG&E	\$12.9 billion	CPUC electric \$6.7B, FERC electric transmission \$4.1B, CPUC gas \$2.1B. Sempra says most of its utilities’ 2026 investment goes to transmission and	No reliance on public equity; funded by operating cash and long-term debt

⁸⁹ SCE data request response (Oct. 23, 2026), Q3.

⁹⁰ CPUC, Return on Equity data.

⁹¹ SDG&E data request response (Oct. 23, 2026), Q3.

⁹² PG&E, Q2 2026 Earnings Presentation, p. 9; Edison International, July 2026 Investor Presentation, p. 31; Sempra, 2025 Annual Report, p. 102.

⁹³ PG&E data request response (Oct. 23, 2026), Q2a; Edison International/SCE Form 10-K filings, SCE Consolidated Statements of Cash Flows; SDG&E data request response (Oct. 23, 2026), Q1.

⁹⁴ PG&E, Q2 2026 Earnings Presentation, pp. 9, 24; PG&E data request response (Oct. 23, 2026), Q2a-2b;

⁹⁵ Edison International, July 2026 Investor Presentation, pp. 31-32, 42.

⁹⁶ SDG&E data request response (Oct. 23, 2026), Q2, Q7.

⁹⁷ Sempra, 2025 Annual Report, p. 102.

Utility	Capital Plan	What it funds	Status
		distribution safety and reliability. No breakdown by purpose was provided.	

Each IOU's plan grows over the next five years, and most of the growth is in the distribution grid that serves homes and businesses. SCE's capital spending rises from \$7.3 billion in 2026 to \$9.1 billion in 2030, and its rate base from \$50.8 billion to \$66.1 billion, about 7% growth a year; more than 85% goes to distribution.⁹⁸ SDG&E's spending rises from \$2.2 billion in 2026 to \$3.05 billion in 2030, with its CPUC-regulated electric spending up about 60% and its FERC-regulated transmission spending up about half.⁹⁹ PG&E, the largest of the three, plans about \$12.4 billion in 2026 and \$11.4 billion in 2027, after deferring about \$2 billion. It has withdrawn its forecast for 2028–2030 pending its strategic review.¹⁰⁰ The plans continue a decade-long trend: PG&E's electric distribution spending alone quadrupled from \$1.6 billion in 2016 to \$6.7 billion in 2025.¹⁰¹

The plans differ less in what the utilities say they need than in whether they can pay for it. SCE and SDG&E plan steady growth through 2030. PG&E, whose access to capital is the most constrained, has cut its 2027 plan and pulled the years after. It told the Committee the deferral shows what happens “when affordable capital is constrained:”¹⁰² new customer connections, housing developments, renewable-energy interconnections and capacity for growing demand are the projects most likely to wait; though the details of this pull back are unknown to the committee. Financing, not need alone, is starting to set the pace of investment.

F. Tradeoffs and Tensions.

Because utilities earn on capital but not on operating costs, the IOU model incentivizes building over cheaper operational fixes:¹⁰³ the “capital bias” regulators try to police through prudence review and cost-of-capital decisions. The CPUC's 2025 decision lowering ROEs is one check. Wildfire mitigation shows the same tension: Berkeley researchers found fast-trip settings far more cost-effective per avoided ignition than undergrounding, yet undergrounding is capital and earns a return while fast-trip settings mostly do not.¹⁰⁴

The Legislature also plays a strong role in balancing this tension. SB 905 (Becker, 2026), for example, passed in September, and directs the CPUC to consider lower ROEs for undergrounding capital, capital recovered through balancing and memorandum accounts, and investments exempt from reasonableness review.¹⁰⁵ AB 2463 (Petrie-Norris, 2026) requires the CPUC, beginning in 2030, to disclose the models, assumptions and weightings behind its cost-of-capital decisions and to analyze how authorized ROEs relate to credit quality.¹⁰⁶ Moody's recognizes that the legislative effort in 2026 is focused on customer affordability, and that affordability efforts could, over time, build customer acceptance of large investment

⁹⁸ Edison International, July 2026 Investor Presentation.

⁹⁹ SDG&E data request response (Oct. 23, 2026), Q2.

¹⁰⁰ PG&E data request response (Oct. 23, 2026), Q2a

¹⁰¹ *Ibid.*

¹⁰² PG&E data request response (Oct. 23, 2026), Q7.

¹⁰³ J.C. Kibbey, NRDC Blog, "Utility Accountability 101: How Do Utilities Make Money?" January 20, 2021, <https://www.nrdc.org/bio/jc-kibbey/utility-accountability-101-how-do-utilities-make-money>

¹⁰⁴ . Warner, D. Callaway and M. Fowlie, "Risk-Cost Tradeoffs in Power Sector Wildfire Prevention," Energy Institute at Haas Working Paper 347 (Feb. 2024). <https://haas.berkeley.edu/wp-content/uploads/WP347.pdf>

¹⁰⁵ Travis Ritchie, "Electricity Affordability Legislative Rundown," *LegalPlanet*, (Sept. 3, 2026), <https://legal-planet.org/2026/09/03/electricity-affordability-legislative-rundown/>. Pg. 2

¹⁰⁶ Public Utilities Code § 753

programs.¹⁰⁷ However, it also notes the trade-off: if utilities replace shareholder money with more borrowing, the extra debt hurts their credit ratings; and if the CPUC pays lower returns on certain investments, that could make utility stock less attractive to investors.

The same structure also makes the IOU model sensitive to risk. If investors demand a higher return to hold California utility equity or debt, every future dollar of capital costs customers more. This is why the wildfire liability regime and the generational investment wave are one conversation, not two.

III. Would public financing cost customers less?

POUs such as LADWP and Sacramento Municipal Utility District (SMUD) set rates through their own boards or city councils rather than the CPUC, finance capital almost entirely with municipal revenue bonds, pay no income tax, and earn no equity return. IOUs blend debt and equity at a weighted cost near 7.4–7.6%;¹⁰⁸ POUs typically borrow at about 4–5%.¹⁰⁹ LADWP's long-dated power bonds yield about 4.98%, against 6.08–6.70% for the three IOUs' utility bonds.¹¹⁰ POU rates are generally lower for reasons beyond financing: compact urban territories with little high fire-threat exposure, lighter wildfire mitigation plans, and long-standing fixed monthly charges.¹¹¹

POUs face their own generational investment wave. LADWP plans \$30.5 billion of power and water capital in 2027–2031 and expects to borrow about \$21 billion of it.¹¹² LADWP's *LA100 plan* for 100% carbon-free electricity by 2035 is expected to cost \$102.5 billion and raise average retail rates to 44.1 cents per kilowatt-hour in 2030, 64.2 in 2035 and 71.1 in 2045.¹¹³ Its inflation-adjusted residential rates have already risen sharply since mid-2023, driven by transmission and distribution investment.¹¹⁴

Suppose a utility builds a \$1 billion grid project. An IOU pays for it the way described earlier in this paper: about half borrowed and half from shareholders, repaid by customers over the project's 40-year life. IOU customers would pay about \$2.94 billion in total: \$1 billion to pay back the cost itself, about \$1.04 billion in return to shareholders, about \$0.48 billion in interest, and about \$0.42 billion in income taxes on the shareholders' return. A POU would borrow the full \$1 billion with a 30-year tax-exempt bond at 4.5%, costing POU customers about \$61 million a year, or \$1.84 billion in all. Because money paid later is worth less than money paid now, a fairer comparison discounts both streams to today's dollars. On that basis the POU option costs customers about \$0.94 billion, against about \$1.52 billion for the IOU. Not all of that gap is lost to customers, though: the \$0.42 billion in income taxes goes to federal and state governments, which a public utility would not pay.¹¹⁵

Comparing IOU and POU portfolios also requires a contemplation of scale. If public entities bond-financed \$125 billion over five years, that means roughly \$25 billion of new borrowing

¹⁰⁷ Moody's Ratings, *New California legislation could pressure utility cost recovery and returns* (Sector In-Depth, Oct. 19, 2026), p. 3; https://www.moody's.com/research/Electric-Gas-North-America-New-California-legislation-could-pressure-utility--PBC_1498829

¹⁰⁸ CPUC, Cost of Capital fact sheet.

¹⁰⁹ UCLA School of Law, Emmett Institute on Climate Change and the Environment, *Pritzker brief on public power*, p. 9. [https://law.ucla.edu/sites/default/files/PDFs/Publications/Emmett Institute/PritzkerPaper.pdf](https://law.ucla.edu/sites/default/files/PDFs/Publications/Emmett%20Institute/PritzkerPaper.pdf)

¹¹⁰ LADWP response to CPUC/CEC (Sept. 30, 2026), Q5.

¹¹¹ UCLA Emmett Institute, public power brief.

¹¹² LADWP response to CPUC/CEC (Sept. 30, 2026), Q4.

¹¹³ *Id.*, Q11a.

¹¹⁴ *Id.*, Q4.

¹¹⁵ Rough staff calculation for illustrative purposes, not reflective of actual real-life values. IOU example assumes 52% equity at a 10% ROE, 48% debt at 5%, 40-year straight-line depreciation, no salvage value, and a combined federal and state income tax rate of about 28.8%; POU comparison assumes a 30-year, 4.5% level-payment bond and a 5% discount rate.

a year. All California municipal issuers together sold \$83.6 billion of bonds in 2025, a record, out of \$580 billion nationally.¹¹⁶ The State has \$70.3 billion of general obligation bonds outstanding and \$37.7 billion authorized but unissued.¹¹⁷

Moreover, risk does not disappear under public ownership; it moves. Inverse condemnation applies to public entities too. LADWP's experience shows how. During the January 2025 Los Angeles fires, S&P cut LADWP's power bonds two notches, from AA- to A, citing liability claims "that could eclipse its liquidity and insurance coverage," and put the City of Los Angeles on negative watch.¹¹⁸ The downgrade forced LADWP's variable-rate debt to reset at higher rates, costing about \$17 million before it was refinanced, and LADWP estimates that a two-notch downgrade would add about \$927 million to the cost of its five-year capital plan.¹¹⁹ Its cushion against a major fire is limited: about \$3.15 billion in insurance, catastrophe bonds, cash, and credit. (For comparison, the Eaton Fire in SCE's territory caused more than \$15 billion in losses, though some estimates are even higher.) With no shareholders to absorb losses, whatever insurance doesn't cover falls on LADWP's customers, through reserves, borrowing, or higher rates. LADWP does not participate in the state Wildfire Fund, and Propositions 26 and 218 limit how far it can shield low-income customers. Public ownership lowers the cost of capital, but it does not remove wildfire risk. It moves the portion of risk borne by shareholders onto customers. That is why the Governor's September 1 letter asks the CPUC to report on credit impacts for "public and private utilities" alike.

San Diego's 2026 public power feasibility study estimated a municipal utility would cost more than SDG&E initially – about \$2.2 billion in first-year revenue requirement against SDG&E's \$1.5 billion – because of acquisition debt and one-time transition costs. It projected the municipal utility would become cheaper by year 12, with annual savings above \$230 million by year 15 and above \$840 million by year 25.¹²⁰ Acquisition estimates ranged from \$2.4–7.6 billion (city staff) to at least \$9.3 billion (SDG&E). The City Council discussed the study on June 22, 2026; no vote is scheduled.¹²¹

IV. What wildfire risk costs customers through the capital markets

Credit ratings matter to customers for one reason: customers pay the interest. California's two largest IOUs carry credit ratings at or below the bottom of investment grade, well under the BBB+ industry average,¹²² and the main reason the rating agencies give is wildfire liability that they suggest no amount of mitigation can fully remove.

¹¹⁶ Jessica Lerner, "2025 Volume Sets Record" *The Bond Buyer*; <https://www.bondbuyer.com/news/2025-volume-sets-record>

¹¹⁷ California State Treasurer, *Debt Highlights* (as of Sept. 1, 2026). <https://www.treasurer.ca.gov/debt-highlights>

¹¹⁸ LADWP response to CPUC/CEC (Sept. 30, 2026), Q10 and App. 1.

¹¹⁹ *Id.*, Q3, Q11.

¹²⁰ City of San Diego, *Public Power Feasibility Study* (2026), pp. 9-15. <https://www.sandiego.gov/general-services/energy/muni-energy/public-power>

¹²¹ ABC 10News, "Phase II of Study for a Possible Public Power System Heard by San Diego City Council" (June 2026). <https://www.10news.com/news/local-news/phase-ii-of-study-for-a-possible-public-power-system-heard-by-san-diego-city-council>

¹²² S&P Global Ratings, *Industry Credit Outlook 2026: North America Regulated Utilities* (Jan. 14, 2026), p. 2; see also Connecticut Office of Consumer Counsel, OCC FAQ: Explaining the Impact and Drivers of S&P Downgrades of Connecticut Utilities' Credit Ratings, p. 1 (citing EEI: industry average parent-company rating BBB+ in 2023, for the tenth straight year).

Table 3. Current Investment Ratings of California’s 3 Large IOUs. *Sources: S&P,¹²³ Moody's,¹²⁴ Fitch.¹²⁵ Moody's lowest investment-grade rating is Baa3, so Moody's places PG&E's utility just inside investment grade while S&P places it just outside.*

Company	S&P	Moody's (utility)	Fitch
PG&E Corp. and Pacific Gas & Electric	BB+ / Stable (below investment grade)	Baa3 / Positive	BBB– / Negative (outlook cut Sept. 16, 2026)
Edison International and SCE	BBB– / Negative	Baa1 / Stable	BBB / Negative (outlook cut Sept. 16, 2026)
SDG&E (Sempra)	BBB+ / Stable	A3 / Stable	BBB+ (Sempra)

S&P’s September 2026 reports make the case plainly. California’s IOUs face “substantially higher wildfire risks than their peers in other states, primarily due to climate change and the legal doctrine of inverse condemnation.”¹²⁶ The agency calls the state’s risks “generally unsustainable over the long term unless they can be offset through additional credit-supportive factors, such as a permanent liability cap and source of liquidity to fund third-party claims.”¹²⁷ Fitch revised the outlooks on PG&E and SCE to negative on September 16, 2026.¹²⁸

Rating agencies judge the regulatory climate as well as the utilities. RRA, S&P's regulatory research group, lowered California from Average/1 to Average/2 on its nine-step scale after the Legislature adjourned this year.¹²⁹ S&P's own map places California in the second-lowest of its five tiers of regulatory support.¹³⁰ S&P downgraded four IOUs nationally in 2025 for insufficient action on wildfire risk, and estimates PG&E and SCE each need about \$20 billion of wildfire fund or insurance capacity, and SDG&E about \$5 billion, to maintain their credit quality.¹³¹

AB 1054 and SB 254 have together given the IOUs access to about \$32 billion (present value) to cover third-party claims, plus places a cap on what a utility¹³² found imprudent must require its shareholders to repay to the Fund/Account: 20% of its transmission and distribution equity rate base. That “shareholder liability cap” amounts to about \$4.5 billion for SCE and \$5.0 billion for PG&E. S&P credits these for its two-notch upgrade of PG&E.¹³³ But the fund has no automatic replenishment, the SB 254 continuation account is worth only about \$10.5 billion in present value, and the cap disappears if the fund runs dry. The CEA's April 2026 study found the Eaton Fire “has likely critically impaired or exhausted” the

¹²³ S&P Global Ratings (Sept. 1, 2026), p. 3; LADWP response to CPUC/CEC (Sept. 30, 2026), Q5.

¹²⁴ Moody's Ratings (Oct. 19, 2026), p. 1.

¹²⁵ Fitch Ratings, "Fitch Revises PG&E Corporation, Pacific Gas & Electric Co. Outlooks to Negative" (Sept. 16, 2026), <https://www.fitchratings.com/research/corporate-finance/fitch-revises-pg-e-corporation-pacific-gas-electric-co-outlooks-to-negative-16-09-2026>; Fitch Ratings, "Fitch Revises Edison International's and Southern California Edison Co.'s Outlooks to Negative" (Sept. 16, 2026), <https://www.fitchratings.com/research/corporate-finance/fitch-revises-edison-international-southern-california-edison-co-outlooks-to-negative-16-09-2026>; Fitch Ratings, Sempra rating actions, <https://www.fitchratings.com/entity/sempra-energy-80464318#rating-actions>.

¹²⁶ S&P Global Ratings (Sept. 1, 2026), p. 2.

¹²⁷ *Id.*

¹²⁸ Fitch Ratings (Sept. 16, 2026); Fitch Ratings, Edison International/SCE outlook revision (Sept. 16, 2026).

¹²⁹ RRA State Regulatory Evaluations (Oct. 2026), p. 3.

¹³⁰ S&P Global Ratings, Industry Credit Outlook 2026, p. 9.

¹³¹ *Id.*, pp. 11, 13.

¹³² If it holds a valid safety certificate from Energy Safety. See this committee’s previous hearing on October 20, 2026, for more detail on that process.

¹³³ S&P Global Ratings (Sept. 1, 2026), p. 2

original fund.¹³⁴ S&P says that if the Fund is exhausted, it would likely cut SCE to below investment grade,¹³⁵ leaving most of California's IOU sector, serving about two-thirds of the state's electric customers, rated at what is colloquially known as "junk bond" status.

Each step down the rating scale costs more. LADWP estimates spreads widen about 0.15 percentage points from AA to A and about 0.40 more from A to BBB, and its own two-notch downgrade in January 2025 added about \$17 million of interest on variable-rate debt before it was refinanced.¹³⁶ SCE told the Committee that without equity-market access it may lose debt-market access as well, because "Debt investors ... rely upon a healthy equity layer and its ability to absorb losses."¹³⁷ SDG&E, which has not needed new public equity, says its current sources remain adequate.¹³⁸ For customers, losing market access means slower connections and upgrades, as PG&E's deferral already shows. It also means more costs. Each percentage point added to financing costs has been estimated to add about \$5 a month to a residential bill.¹³⁹ The CEA SB 254 study applies that to the 1–2 point spread typical between investment-grade and speculative-grade debt, and estimates a fall below investment grade could add \$5 to \$10 a month on top of existing wildfire charges.¹⁴⁰

The Legislature passed measures this year to keep customers from paying for costs that should have been forecast in rate cases or that are improper. The bills the Legislature passed in September¹⁴¹ share, in Moody's words, a "common theme:" "customer affordability."¹⁴² They tighten cost recovery and invite lower returns.¹⁴³ Because none reduces wildfire liability, though, Moody's sees them as potentially less credit-supportive.¹⁴⁴ Moody's concludes that "shifting additional wildfire risk to shareholders without a corresponding reduction in utilities' underlying liability exposure could have unintended consequences, including increasing the cost of capital."¹⁴⁵ The Committee's task is to ensure customers are protected on both fronts: what they pay in returns and what they pay for risk.

V. Capping shareholder exposure: who pays when a utility starts a fire?

One proposal that was not adopted this session was to limit shareholder wildfire liability should the Wildfire Fund or Continuation Account be fully exhausted. For customers and survivors, the question about a liability cap is not whether it helps utility credit – rating agencies say it is the reform that would help most – but who pays above it. Every dollar a cap removes from shareholders lands on someone else: customers, taxpayers, insurers, or survivors.¹⁴⁶

California already has a cap, but a conditional one. Under AB 1054, a utility found imprudent repays the Wildfire Fund only up to 20% of its transmission and distribution equity rate base,

¹³⁴ CEA, SB 254 Study Report (Apr. 7, 2026), p. 26.

¹³⁵ S&P Global Ratings (Sept. 1, 2026), p. 3.

¹³⁶ LADWP response to CPUC/CEC (Sept. 30, 2026), Q3.

¹³⁷ SCE data request response (Oct. 23, 2026), Q7.

¹³⁸ SDG&E data request response (Oct. 23, 2026), Q7.

¹³⁹ AUE SB 254 analysis (Sept. 10, 2025), quoting Governor Newsom's office.

¹⁴⁰ CEA, SB 254 Study Report (Apr. 7, 2026), p. 36.

¹⁴¹ SB 1098 (Pérez), SB 905 (Becker), AB 2700 (Patterson), AB 2065 (Petrie-Norris), and AB 2463 (Petrie-Norris).

¹⁴² Moody's Ratings, *New California legislation could pressure utility cost recovery and returns* (Sector In-Depth, Oct. 19, 2026), p. 3; https://www.moody's.com/research/Electric-Gas-North-America-New-California-legislation-could-pressure-utility--PBC_1498829

¹⁴³ Legal Planet (Sept. 3, 2026); Moody's Ratings (Oct. 19, 2026), p. 2.

¹⁴⁴ Moody's Ratings (Oct. 19, 2026).

¹⁴⁵ Moody's Ratings (Oct. 19, 2026), p. 3.

¹⁴⁶ Legislative Analyst's Office, *Allocating Utility Wildfire Costs: Options and Issues for Consideration* (June 2019), pp. 1-2. <https://www.lao.ca.gov/reports/2019/4079/allocating-wildfire-costs-062119.pdf>

measured over three years.¹⁴⁷ The cap applies only while the utility holds a safety certificate, only if it did not act with “conscious or willful disregard of the rights and safety of others,” and only while the Fund has money. S&P’s view is that the protection is real but vulnerable.¹⁴⁸

The CPUC’s January 2026 SB 254 report and the CEA’s April 2026 study laid out a menu of potential options for the Legislature to consider:¹⁴⁹

- A permanent, stand-alone cap on shareholder contributions per fire or per year, no longer contingent on the Fund’s existence.
- Compliance-based protection, as in Utah, Wyoming, Idaho and Montana: liability limited, or a presumption of reasonableness, when the utility followed its approved wildfire mitigation plan.¹⁵⁰ Arizona, Texas, North Dakota and South Dakota have similar laws, several of which also cover municipal utilities.¹⁵¹
- Narrowing inverse condemnation so utilities are liable only for negligence.¹⁵²
- Capping categories of damages, such as noneconomic or punitive damages.¹⁵³
- A broader catastrophe fund with contributors beyond IOU customers – state bonds, local governments, POUs, insurers – with utilities repaying on an escalating scale if found imprudent.¹⁵⁴

A cap is not a single policy but a choice about who carries the risk of a catastrophic utility-caused fire, and each option on the menu above draws that line in a different place. Table 4 below sets out the main arguments on both sides across four questions Members may be likely to weigh: whether a cap would lower customers’ bills by reducing what investors charge, whether it would keep needed grid investment on track, whether it would weaken utilities’ incentive to prevent fires, and who would pay for losses above the cap. The arguments are not evenly matched on every row, and the answers depend heavily on design: how high the cap is set, what conditions a utility must meet to keep it, and whether a public fund covers what the cap leaves uncompensated.

Table 4. Selection of arguments for and against a cap on shareholder wildfire liability.

	Pros	Cons
Customer bills (cost of capital)	Lower perceived risk should lower debt and equity costs; each point of financing cost adds about \$5 a month to a residential bill.	Savings are uncertain and may not reach bills. If a large fire exceeds the cap, costs are solely recovered from customers.
Investment	Predictable exposure lets utilities finance long-lived projects and avoid deferrals like PG&E’s.	Investment could proceed through other tools – securitization, state financing – without shifting liability.

¹⁴⁷ Public Utilities Code § 3292 (h)

¹⁴⁸ S&P Global Ratings (Sept. 1, 2026), p. 2.

¹⁴⁹ CPUC, SB 254 Information and Recommendations, pp. 3-6; CEA, SB 254 Study Report (Apr. 7, 2026), p. 3.

¹⁵⁰ CPUC, SB 254 Information and Recommendations, pp. 4-5, 30-31.

¹⁵¹ LADWP response to CPUC/CEC (Sept. 30, 2026), Q8.

¹⁵² CPUC, SB 254 Information and Recommendations, p. 14.

¹⁵³ *Id.*, p. 5.

¹⁵⁴ *Id.*, p. 4-5

	Pros	Cons
Safety incentive	Liability is a blunt tool; regulators already direct mitigation through plans, certificates and penalties.	Weakens the strongest financial motive to prevent ignitions; utilities may underinvest at the margin.
Survivors and fairness	Utility equipment ignites fewer than 10% of California wildfires; climate, fuels, and development drive severity.	Ratepaying survivors absorb losses above the cap unless a public fund fills the gap.

A cap changes the risk of holding utility stock, not the need for it. Equity investors would still supply about half of all capital, absorb the first losses on cost overruns and disallowances, and bear consequences for imprudence up to the cap. The test for customers is whether a cap would lower their bills by more than it shifts onto them or onto survivors; whether a cap set high enough to keep safety incentives intact can still restore investment-grade credit; and whether pairing it with the stronger accountability tools discussed at the October 20 hearing of this committee can square that circle. The CPUC has itself recommended escalating repayment requirements for utilities found imprudent.¹⁵⁵

VI. Public ownership: a question worth exploring or a distraction?

The present headwinds of IOU finance have led proponents of publicly owned utilities to grow more vocal. For customers, public ownership trades a lower cost of capital for a large upfront acquisition they would ultimately finance, a transfer of wildfire and operating risk to public balance sheets, and – most likely – years (or decades) of transition. Given PG&E’s board launching a review of “the full range of regulatory, financial, operational and strategic alternatives reasonably available,”¹⁵⁶ San Diego studying a municipal utility,¹⁵⁷ and PG&E recently submitting its estimates of fair-market value for its assets in San Francisco after years of requests by the City,¹⁵⁸ Members may be wondering if public ownership is an avenue worth exploring or a distraction not worth the cost and years.

Supporters of public ownership point first to cheaper capital: as noted above, a public utility can borrow with tax-exempt debt at 4–5%, compared with a blended IOU return of 7.4–7.6%, and the POU’s rates carry no shareholder return or income tax. Because it has no shareholders, a public utility also has no incentive to favor building new assets over cheaper operational fixes.¹⁵⁹ Its rates and priorities are set by elected boards answerable to the customers they serve. Over time, the savings can be large: San Diego’s feasibility study projects savings beginning around year 12 and exceeding \$840 million a year by year 25.

However, the obstacles with public ownership are large. They start with the purchase itself. A public entity must pay fair market value for the system, a price likely fought over in eminent-domain litigation; San Diego’s estimates alone range from \$2.4 billion to \$9.3 billion.¹⁶⁰ Bills could rise before they fall: San Diego’s study shows a municipal utility costing about \$700 million more than SDG&E in its first year. Moreover, risk does not disappear but moves to customers and the public. Wildfire liability, storm costs and construction overruns would fall

¹⁵⁵ CPUC, SB 254 Information and Recommendations, pp. 4-5.

¹⁵⁶ PG&E, strategic review release (Sept. 2, 2026).

¹⁵⁷ City of San Diego, Public Power Feasibility Study.

¹⁵⁸ <https://investor.pgecorp.com/news-events/press-releases/press-release-details/2026/PGE-Submits-Testimony-to-California-Regulators-Outlining-22-5-Billion-Cost-of-Government-Grid-Takeover-in-San-Francisco/default.aspx>

¹⁵⁹ NRDC, "Utility Accountability 101."

¹⁶⁰ ABC 10News (June 2026).

on public credit, and ultimately on customers, taxpayers, and city or state budgets. LADWP has no shareholders to absorb losses, no access to the Wildfire Fund and no tax deductions for its losses, and its downgrade put the City of Los Angeles on negative credit watch. Scale is a further limit: converting utilities statewide would require borrowing extensively from California's annual municipal bond issuance. The state and local governments would also lose the income and property taxes IOUs pay. And the transition would raise hard questions about workforces, pensions, contracts and separating systems, and would require oversight of a new public entity comparable to the CPUC's.

Short of full municipalization, the state could lower financing costs for specific assets: extending AB 1054-style equity exclusions and securitization, as SB 254 did for \$6 billion of mitigation capital; public or state financing of transmission as was also in SB 254; or using non-ratepayer funds for a share of wildfire mitigation. A state-administered wildfire liability insurance program, which LADWP supports, is another. Each capture some of the public-finance advantage without the acquisition cost, but each also shifts risk or cost to someone other than the utility's investors – often taxpayers, who are largely the same households as customers.

VII. Conclusion.

California's electric customers are being asked to fund the largest build-out in the grid's history while already paying rates that have outpaced inflation since 2021, with wildfire costs the largest driver. How that build-out is financed will decide how much customers can afford. The first deferrals have fallen on customers waiting for service – new connections, housing, clean-energy interconnection – the work the state's housing, economic development, and climate goals depend on. Public ownership is no clean escape: the nation's largest municipal utility has been downgraded on the same wildfire exposure, and its customers carry the cost. Whatever the Legislature decides about liability, the choice is not between a risky regime and a free one: risk removed from shareholders goes somewhere, and risk left with them is priced into every bill. The tipping point to consider for every option on the table is what that option leaves customers paying, and what they get in return.