CPUC FACT SHEET

CPUC Cost of Capital Decision

Dec. 18, 2025

A.25-03-010

Energy Utility 2026 Cost of Capital Proceeding

On Dec. 18, 2025, the California Public Utilities Commission (CPUC) established the 2026-2028 Cost of Capital for:

- Pacific Gas and Electric Company (PG&E)
- Southern California Gas Company (SoCalGas)
- Southern California Edison (SCE)
- San Diego Gas & Electric (SDG&E)

The proposal approved is here.

What is Cost of Capital?

Keeping California's energy system safe and reliable requires continuous investment. To pay for this work, utilities must raise significant amounts of money. They typically do this through:

- Borrowing funds through long-term loans
- Receiving money from shareholders who invest in the company
- Issuing preferred stock, a special type of investment that functions somewhat like a long-term loan

The CPUC sets the parameters that determine how utilities balance these funding sources. This is called the Cost of Capital. These rules:

- Enable utilities to reliably secure the money needed for safety and infrastructure projects
- Protect customers from excessive financing costs
- Keep California's electric and natural gas systems safe, reliable, and modern

The Cost of Capital does not directly set customer bills, but it guides utility financial planning and influences future rate-setting proceedings. The Cost of Capital proceeding:

- Establishes financial parameters utilities must operate under
- Supports safe and reliable energy and natural gas service
- Helps utilities maintain healthy credit ratings to borrow at reasonable cost
- Protects ratepayers by ensuring balanced financial structures
- Reflects California's regulatory oversight in a changing financial environment

Authorized Capital Structures Under the Decision

Utility	Long-Term Debt	Preferred Equity	Common Equity
PG&E	47.50%	0.50%	52%
SoCalGas	45.60%	2.40%	52%
SCE	43%	5%	52%
SDG&E	45.25%	2.75%	52%

- **Long-Term Debt:** Money the utility borrows and pays back over many years, similar to a long-term loan.
- **Preferred Equity:** A type of investment similar to a hybrid between debt and stock. Investors receive fixed payments, and it often carries lower risk than common stock.
- **Common Equity:** Money provided by shareholders. Utilities earn a CPUC-set return (profit percentage) on this portion.

How Return on Equity Fits into Energy Costs

- When utilities invest in long-term equipment, such as poles, wires, substations, and wildfire safety upgrades, they fund part of this work through shareholder investment. In return, they are allowed to earn a percentage of profit on that investor-funded portion. This percentage is called the Return on Equity, or ROE.
- ROE is not guaranteed earnings; utilities only receive this full return when they keep projects on budget, manage risks responsibly, and operate efficiently. If costs rise unexpectedly or projects are mismanaged, utilities may earn less than the authorized amount.
- Across the country, most utility ROEs are generally close to 10 percent, and state utility regulators set these values to balance two goals:
    1. Enable utilities to attract the investment needed to maintain a safe and reliable system
    2. Protect customers from paying more than necessary for infrastructure
- Under the CPUC's decision, the authorized ROEs for all four large California energy utilities are reduced by 30 basis points from current levels. As a result, PG&E, SDG&E, and SoCalGas will have authorized ROEs just below 10 percent, while SCE will have authorized ROE slightly above 10 percent in 2026.

How Does This Affect Customer Bills?

- Because the approved rate of return (ROR) is applied to the rate base (i.e., the value of long-term infrastructure approved by the CPUC) small adjustments to this percentage can have meaningful effects. As utilities expand or upgrade equipment to meet safety and reliability needs, the size of the rate base grows. As a result, even a fraction of a percentage change in ROR can influence overall costs through future rate-setting proceedings.

- One component of overall ROR is the cost of common equity (or return on equity, ROE). Lowering the ROE reduces the percentage of profit utilities are allowed to earn on shareholder-funded infrastructure. By lowering the ROE, the overall cost of financing long-term infrastructure can decrease, potentially helping to ease cost pressure on ratepayers over time.
- However, a lower ROE does not automatically lower customer bills. The real impact depends on separate CPUC decisions, including which utility projects are approved, which investments are added to the rate base (the portion that earns ROE), and how much infrastructure spending utilities propose in future rate-setting cases.
- A lower ROE can help reduce upward pressure on costs, but actual bill impacts depend on what investments utilities make and what future infrastructure projects the CPUC approves in separate proceedings.

Authorized Costs of Capital Under the Decision

Utility	Cost of Long-Term Debt	Cost of Preferred Equity	Cost of Common Equity (ROE)	Authorized ROE in 2025 (for Comparison)	Eligible Rate of Return
PG&E	5.04%	5.52%	9.98%	10.28%	7.61%
SoCalGas	5.02%	6%	9.78%	10.08%	7.52%
SCE	4.71%	6.89%	10.03%	10.33%	7.59%
SDG&E	4.59%	6.22%	9.93%	10.23%	7.41%

- **Cost of Long-Term Debt:** The interest rate the utility pays when it borrows money for long-term projects.
- **Cost of Preferred Equity:** The rate the utility pays to investors who hold preferred stock, which typically provides fixed income to the investor.
- **Cost of Common Equity:** The percentage of profit the utility is authorized to earn on shareholder-funded investments.
- **Rate of Return:** An overall blended percentage that reflects the combined cost of long-term debt, preferred equity, and common equity. It represents the utility's total cost of financing.