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2026 COST OF CAPITAL	§	**CALIFORNIA PUBLIC UTILITIES COMMISSION**
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REBUTTAL TESTIMONY OF
MATTHEW BANDYK
ON BEHALF OF UTILITY CONSUMERS ACTION NETWORK

AUGUST 20, 2025

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1. INTRODUCTION AND PURPOSE OF TESTIMONY

A1 Please state your name and occupation.

A1 My name is Matthew Bandyk. I am a Principal Associate at Synapse Energy Economics Inc., located at 485 Massachusetts Ave, Suite 3, Cambridge, Mass., 02139.

A2 Please describe Synapse Energy Economics.

A2 Synapse is a research and consulting firm specializing in energy and environmental issues, including electric generation, transmission and distribution system reliability, ratemaking and rate design, electric industry restructuring and market power, electricity market prices, stranded costs, efficiency, renewable energy, environmental quality, and nuclear power.

Synapse's clients include state consumer advocates, public utilities commission staff, attorneys general, environmental organizations, federal government agencies, and utilities.

A3 Please summarize your work experience and educational background.

A3 At Synapse, I focus on cost of capital testimony. I was previously a consultant at 5 Lakes Energy, a Michigan-based energy policy consulting firm. My experience is summarized in my resume, attached as Exhibit-MJB-1.

In 2025 I successfully completed a comprehensive written exam to be awarded the Certified Rate of Return Analyst (CRRA) designation from the Society of Utility and Regulatory Financial Analysts (SURFA).

A4 Have you previously testified before state regulatory commissions?

A4 Yes. I have previously testified before the Michigan Public Service Commission in the following cases:

Case No. U-21806 (Consumers Energy gas rate case);

Case No. U-21585 (Consumers Energy electric rate case);

Case No. U-21534 (DTE Electric rate case);

Case No. U-21555 (UPPCO rate case);

Case No. U-21540 (Michigan Gas Utilities rate case);

Case No. U-21490 (Consumers Energy gas rate case);

Case No. U-21389 (Consumers Energy electric rate case);

Case No. U-21048 (Consumers Energy 2022 PSCR Plan case); and

Case No. U-21291 (DTE Energy gas rate case).

A5 On whose behalf are you testifying in this case?

A5 I am testifying on behalf of Utility Consumers Action Network.

A6 What is the purpose of your testimony in this proceeding?

A6 In this proceeding I will give my expert opinion of intervenor testimony regarding the appropriate return on equity, capital structure and overall rate of return for San Diego Gas & Electric (SDG&E, or the Company).

A7 How is your testimony structured?

A7 In Section 2, I summarize my recommendations. In Section 3, I discuss intervenor testimony and differing return on equity recommendations among intervenors.

2. FINDINGS AND RECOMMENDATIONS

A8 Please summarize your recommendations.

A8 Based on my findings, I offer the following recommendations:

1. The Commission should reject any use of the Risk Premium model—whether from a utility or from an intervenor—to inform a recommendation for return on equity.

2. The Commission should reject any use of the Discounted Cash Flow model that lacks a long-term growth rate in line with long-term national economic growth—whether from a utility or from an intervenor—to inform a recommendation for return on equity

3. INTERVENOR TESTIMONY

A9 How do the recommendations of the intervenors for an appropriate return on equity (ROE) and overall rate of return (ROR) for SDG&E compare to each other?

A9 In the figure below I list the comparative recommended ROEs and RORs from the intervenor witnesses for SDG&E.

Fig. 1

Intervenor	**Witness**	**ROE**	**ROR**
UCAN	Bandyk	8.87%	6.83%
EPUC/IS/TURN	Gorman	9.50%	7.16%
Cal Advocates	Woolridge	9.375%	7.00%
Sierra Club/PCF	Ellis	6.15%	5.42%
Wild Tree	Rothschild	8.45%	6.46%
EDF	McCann	6.30%	N/A
SBUA	Reno	N/A	N/A

A10 Why did witness Gorman recommend a higher ROE than you did?

A10 One of the biggest reasons for Mr. Gorman's higher ROE recommendation is his use of the Risk Premium Model to estimate cost of equity. His ROE recommendation of 9.50% is the midpoint of a range where the upper end, 9.70%, was produced by the Risk Premium Model.[1] Mr. Gorman's Risk Premium Model attempts to estimate how much investors are willing to pay for the additional risk that they take on when they invest in equity relative to buying bonds. He estimates this premium by looking at the spread between, on one hand, regulatory commission-authorized returns on equity, and on the other, yields on U.S. Treasury bonds and A-rated utility bonds.

[1] Gorman (EPUC/IS/TURN) Direct, p. 200, Table 4.

A11 What is your assessment of the Risk Premium Model?

I believe the Commission should not consider the Risk Premium Model for the same reasons I argued in my Direct Testimony that the Commission should reject SDG&E Witness Nowak's Bond Yield Plus Risk Premium model. Both Gorman and Nowak's models are based on the spread between, on one hand, ROEs approved by other regulatory commissions, and on the other, bond yields. The use of authorized returns means their methods are not measuring investor expectations for the cost of equity themselves, but rather, regulatory commissions' attempts to gauge investor expectations. As a result, the risk premium method is circular. It uses authorized returns to try to determine the authorized return. This circularity is why, as I pointed out in my direct testimony, the method has been rejected by FERC.[2]

Mr. Gorman appears to try to preempt this criticism by saying that "authorized returns are typically based on expert witnesses' estimates of the investor-required return at the time of the proceeding." Regulatory commissions of course take estimates of the investor-required return into account. But the end product of the authorized return does not necessarily reflect those investor expectations because of the often biased way that utility witnesses present their ROE recommendation. Utilities are incentivized by their shareholders to pursue as high of an ROE as possible. Utility expert witnesses' estimates of the investor-required return should not be mistaken for actual estimates of investor expectations due to this potential for bias, and authorized returns are the result of a process that is colored by utility bias.

[2] Bandyk (UCAN) Direct, p. 21, lines 1-6.

We can see the effects of utility bias for higher ROE empirically. My direct testimony cited[3] an academic study by Rode and Fischbeck (2019) that found that the premium of regulatory commission-awarded ROEs over the rate of return on long-term U.S. Treasury bonds cannot be explained by financial fundamentals such as the change in the cost of equity or the cost of debt, and so concluded that "it would appear that regulators are authorizing excessive returns on equity to utility investors and that these excess returns translate into tangible profits for utility firms."[4]

Because regulator-approved returns tend to be excessive over what would be determined using more objective criteria, we cannot trust that the risk premium over bond yields shown in Mr. Gorman and Mr. Nowak's methods reflect investor expectations of risk. As a result, I recommend that the Commission disregard these methods as a way to calculate ROE.

A12 Do other intervenors agree with your assessment of the Risk Premium model?

A11 Yes. For example, Mr. Ellis calls the model and the expected earnings analysis also employed by Mr. Nowak "conceptually invalid" and notes that they have been rejected by FERC because they "inherently cannot estimate a market-based cost of equity."[5] Similarly, Mr. Rothschild says that Mr. Nowak's Bond Yield Plus Risk Premium model is a "backward-looking and circular approach that

[3] Bandyk (UCAN) Direct, p. 6, lines 5-9.

[4] David Rode and Paul Fischbeck. "Regulated equity returns: A puzzle." Energy Policy, Oct. 2019. Available at https://www.sciencedirect.com/science/article/abs/pii/S0301421519304690?via%3Dihub

[5] Ellis (Sierra Club/PCF) Direct, p. 34, lines 22-23.

assumes prior authorized ROEs were appropriate and uses that assumption to justify current recommendations—without any validation from current capital markets."[6]

A13 Why did witness Woolridge recommend a higher ROE than you did?

A12 One reason for the difference in our ROE recommendation has to do with different methodology used in the Discounted Cash Flow (DCF) model. My DCF model produced an ROE ranging from 8.18% to 9.41%, while Dr. Woolridge's DCF produced results ranging from 9.75% to 10.15%.[7] I believe the biggest reason for the disparity between our DCF results has to do with the long-term growth rate selected. As I explained in my direct testimony, the utility cannot grow in perpetuity at a rate greater than the growth rate for the domestic economy as a whole, because otherwise the implication would be the impossible result that the utility company can grow larger than the economy of which it is a part.[8] Therefore, I selected a long-term growth rate for my DCF model that represents the upper bound for the utility's growth. Specifically, I selected the nominal GDP growth rate from 2028 to 2035 as forecast by the Congressional Budget Office of 3.8%.[9]

Dr. Woolridge's sustainable growth rate, however, is 4.3%, 3.8% or 4.6% for his Electric, Gas or Combination Proxy group, respectively.[10] His 4.6% estimate is above the results of other sources for the long-term GDP growth rate. Dr. Woolridge ultimately uses these sustainable growth rates combined with other

[6] Rothschild (WT) Direct, p. 91, lines 6-10.

[7] Table 11 from Woolridge (Cal Advocates) Direct, p. 57.

[8] Bandyk (UCAN) Direct, p. 18, lines 5-8.

[9] Bandyk (UCAN) Direct, Exhibit MJB-5.

[10] Wooldridge (Cal Advocates) Direct, p. 54, lines 25-27.

growth rates to determine a growth rate to use in his DCF formula. But because his long-term growth rates are higher than the 3.8% I used, the resulting cost of equity from the DCF formula is inflated.

A14 What is your conclusion about Dr. Woolridge's DCF formula?

A13 I believe a more realistic, lower growth rate that reflects the fact that the utility's growth cannot outrun that of the economy as a whole would lead to a lower result than what Dr. Woolridge calculated with his DCF model.

A15 Do other intervenors agree that the DCF model requires a long-term growth rate that is not higher than the long-term growth of the U.S economy?

A14 Yes. My direct testimony called upon the Commission to reject Mr. Nowak's DCF model because of the unrealistically high growth rate he employs, and several intervenor witnesses concur. Mr. Ellis notes that it is "economically impossible" to assume the utility can grow at analysts' forecasted growth rates in perpetuity, as Mr. Nowak does.[11] Mr. Rothschild argues that using five-year earnings per share growth forecasts to represent perpetual growth is "inconsistent with the DCF model's requirement to estimate long-run, sustainable growth in cash flows and dividends."[12] Mr. Gorman describes Mr. Nowak's DCF growth rate as "excessive" and "cannot reasonably be expected to last into perpetuity, the time period which is assumed by the constant growth DCF model."[13]

[11] Ellis (Sierra Club/PCF) Direct, p. 43, lines 7-8.

[12] Rothschild (WT) Direct, p. 86, lines 17-20.

[13] Gorman (EPUC/IS/TURN) Direct, p. 235, lines 18-20.

A16 Does this conclude your testimony?

A15 Yes.