
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 1787 (Schultz) - Electrical corporations: rates: smart meter infrastructure: dynamic rate option

Version: July 2, 2026

Urgency: No

Hearing Date: August 3, 2026

Policy Vote: E., U. & C. 12 - 4

Mandate: Yes

Consultant: Ashley Ames

Bill Summary: This bill would require a large electrical corporation, if the California Public Utilities Commission (CPUC) approves its request to upgrade its smart meter infrastructure, to offer eligible customer segments at least one dynamic rate option no later than 18 months after the upgraded smart meter infrastructure is anticipated to be placed into service.

Fiscal Impact:

- The CPUC estimates ongoing costs of \$694,000 annually (ratepayer funds) to support the Commission's oversight of the optional dynamic rate tariff—including compliance with minimum tariff requirements, periodic evaluation and mitigation of cost shifting, ensuring availability of bill comparison, and developing rules to protect vulnerable customers—and to coordinate with the Federal Energy Regulatory Commission on dynamic tariff implementation as well as exercise oversight of smart meter technology functionality and data sharing with customers.
- To the extent that this bill impacts electricity rates, it could result in costs or savings to the state as an electric utility ratepayer. The State of California is an electricity customer, purchasing roughly one percent of the state's electricity. As such, the state incurs costs when rates increase, and realizes cost savings if rates go down (various funds).

Background: Time-dependent rates are designed to track the marginal cost of electricity more accurately on a daily, hourly, or sub-hourly basis, mirroring wholesale price variability to discourage use when demand is high and encourage it when supply is plentiful. Dynamic, or real-time, rates take this furthest by passing near real-time wholesale supply and demand conditions through to customers at defined intervals. Their effectiveness depends on customers having control over consumption, accurate real-time price visibility, and the ability to respond quickly — increasingly achievable through automation from distributed energy resources (DERs) such as solar, storage, smart thermostats, and EVs, which reduces the need for manual monitoring. California has pursued optional dynamic rates cautiously, weighing grid reliability, overall system costs, impacts on customers and particularly vulnerable customers, and fairness in cost recovery among customers.

Through R.22-07-005, opened in July 2022, the CPUC sought to advance demand flexibility with objectives including improved reliability, more affordable and equitable bills, reduced renewable curtailment and greenhouse gas emissions, support for electrification, lower long-term system costs through more efficient pricing, and

participation by both bundled and unbundled customers. D.23-04-040 (April 2023) adopted updated electric rate design principles — among them that rates be based on marginal cost and cost causation, avoid cross-subsidies not transparently supporting explicit state policy goals, avoid technology-specific design and unintended cost shifts, and that transitions minimize or appropriately consider bill impacts — alongside demand flexibility design principles requiring standardized dynamic price signals integrable with third-party DERs, prices that incorporate the marginal costs of energy and of generation, distribution, and transmission capacity, systems accommodating both bundled and unbundled rate components, and marginal cost-based compensation for exports. The CPUC also directed IOU pilots, with learnings expected in 2027.

Separately, the CEC's revised Load Management Standards, approved by the Office of Administrative Law in January 2023, require all electric IOUs, CCAs, and publicly owned utilities to offer optional hourly marginal cost-based rates to all customer classes by January 1, 2027. In August 2025 the CPUC closed R.22-07-005 and adopted guidelines for PG&E, SCE, and SDG&E to design demand flexibility rates consistent with those standards, directing SDG&E to propose rates for all customer classes by late November 2025 (later extended to February 2026) and PG&E and SCE to share pilot learnings by May 2028. Proposals remain under development and pilot data are still being collected.

Smart meters are the enabling infrastructure for these rates, since granular, fast-flowing usage data is what makes dynamic tariffs implementable, and they also generate utility savings — SMUD reported over \$8.6 million in the first 13 months of deployment from reduced manual meter reading and service calls alone. Federal Recovery Act dollars financed much of California's initial buildout, and by the CPUC's last smart grid report fewer than 1% of PG&E, SCE, and SDG&E customers remained on analog meters, mostly by choice. All three IOUs have now filed for upgrades, and the pending requests represent substantial ratepayer-funded costs: PG&E's Electric AMI 2.0 Program at \$194.5 million for roughly 300,000 next-generation meters, PG&E's Gas AMI Program at \$452.6 million, PG&E's Billing Modernization Initiative at \$761.3 million, SDG&E's Smart Meter 2.0 at \$825 million, and SCE's NextGen Enterprise Resource Planning at \$1.162 billion — more than \$3.3 billion in combined requested cost recovery.

Proposed Law: This bill would:

1. Require the CPUC, if it approves a large electrical corporation's request to upgrade its smart meter infrastructure relative to infrastructure in place on January 1, 2026, to require that corporation to offer eligible customer segments at least one dynamic rate option no later than 18 months after the upgraded infrastructure is anticipated to be placed into service, and authorize the CPUC to discontinue the option if it later finds the option does not provide the expected benefits and does not further the policy goals specified.
2. Require the dynamic rate option to include, at minimum:
 - a. A time-varying distribution rate reflecting dynamic distribution grid constraints in the distribution service area, if the CPUC determines it to be feasible, cost effective, and equitable for all customers.
 - b. A time-varying generation rate for bundled customers reflecting day-ahead hourly wholesale market conditions.

- c. Nonbypassable charges.
3. Require the CPUC to consult with the Federal Energy Regulatory Commission to ensure implementation is consistent with that agency's transmission ratemaking authority.
 4. Require the CPUC, in reviewing a large electrical corporation's request to recover the costs of upgrading smart meter infrastructure, to ensure all of the following:
 - a. Where the technology includes wireless communications with near real-time data transmission, the corporation provides customers their own near real-time usage data directly from the meter to a standards-compliant device or service of the customer's choosing at no additional charge, with the CPUC authorized to determine whether charges apply to a qualified third-party provider of that device or service.
 - b. The corporation provides accurate and timely customer usage data to a customer's load-serving entity when authorized by the customer or consistent with CPUC rules under Section 366.2, on a timeline comparable to its own billing and operational processing and no later than 24 hours after meter measurement.
 - c. The corporation gives each customer access to their usage data through a secure, automated method in a standardized machine-readable format, and allows the customer to authorize a qualified third-party service provider to access the data for managing onsite energy demand.
 5. Provide that the CPUC may establish rules for customer data management consistent with the California Consumer Privacy Act of 2018 to ensure fairness and nondiscrimination among onsite energy management service providers, including the corporation's own administrators, to develop cybersecurity and privacy standards applicable to all providers, and to ensure compliance with Section 8380.
 6. Require the CPUC, to protect customers, maintain cost causation, and prevent cost shifts between bundled and unbundled customers and between participating and nonparticipating customers, to ensure all of the following:
 - a. The corporation provides adequate bill comparison information to residential and small business customers interested in the dynamic rate option so they understand the associated price risks.
 - b. Rules or conditions govern participation by vulnerable residential customers, including those served under rates established pursuant to subdivision (c) of Section 739 and Sections 739.1 and 739.12.
 - c. Rules or mechanisms ensure nonparticipating customers do not pay for the wholesale energy resources associated with designing the generation portion of the option.
 - d. The corporation makes the same time-varying distribution rates available to both bundled and unbundled customers in the same geographic area, as delineated and determined feasible by the CPUC.

- e. The CPUC evaluates and mitigates any cost shifting from the option at least every four years, potentially through the corporation's general rate case, and adjusts, modifies, or discontinues any option found to shift costs from nonparticipating to participating customers.
7. Require the CPUC to review customer adoption information at least every four years to support cost-shift analysis, covering:
 - a. The total number or percentage of participants across applicable customer segments, including bundled and unbundled.
 - b. The volume of energy sales for participating and nonparticipating customers on a time-differentiated basis.
 - c. Total cost and revenue requirement changes, the corporation's cost reductions associated with load shifts, and estimated rate impacts on participating and nonparticipating customers.
 - d. Any asymmetrical effect on vulnerable residential customers, including those served under subdivision (c) of Section 739, Section 739.1, or Section 739.2.
 - e. Any additional information the CPUC requires to protect against potential cost shifts.
 8. Make a load-serving entity responsible for setting the generation rate portion of the dynamic rate option for its participating customers and for providing adequate bill comparison or similar price-risk information to interested residential and small business customers.
 9. Specify that the section would not authorize the CPUC to regulate the rates or terms and conditions of service offered by a community choice aggregator, consistent with Section 366.2, or an electric service provider, consistent with Section 394.
 10. Allow an eligible customer-generator to elect the dynamic rate option as an alternative to the rate established under Section 2827 or 2827.1, while barring concurrent participation in both.
 11. Define "eligible customer-generator," "large electrical corporation" (more than 100,000 service connections in California), "load-serving entity," and "smart meter" for purposes of the section.
 12. Provide that no state reimbursement is required under Section 6 of Article XIII B of the California Constitution, on the basis that any local agency or school district costs would arise from creating, eliminating, or changing the penalty for a crime or infraction, or changing the definition of a crime.

Related Legislation:

AB 1117 (Schultz, 2025) would have required the CPUC to develop optional dynamic rate tariffs applicable to each large electrical corporation for their customers, specifically by July 1, 2028, for medium and large commercial and industrial customers, and by July 1, 2030 for residential and small commercial customers. The bill died in this committee.

SB 541 (Becker, 2025) would have required the CEC, as part of each integrated energy policy report, to identify incremental load shifting targets to meet the statewide load-shifting goal, including biennial adjustments to the goal. The bill was vetoed.

SB 846 (Dodd, Chapter 239, Statutes of 2022) among its many provisions, required the CEC to adopt a load shifting goal to reduce net peak electrical demand.

AB 327 (Perea, Chapter 611, Statutes of 2013) among its many provisions, restructures the rate design for residential electric IOU customers.

Staff Comments: Dynamic rates create the possibility that participants — likely customers with DERs, storage, EVs, and automation, and disproportionately higher-income — capture savings while fixed system costs are recovered from a smaller nonparticipating base. The bill seeks to address this by requiring the CPUC to bar nonparticipants from paying for the wholesale energy resources used to design the generation portion, to evaluate cost shifting at least every four years and adjust, modify, or discontinue any option found to shift costs, and to review adoption data including any asymmetrical effect on customers served under §739(c), §739.1, and §739.2. Whether that machinery actually prevents shifts depends entirely on CPUC implementation, and the four-year review interval means a shift could persist for some time before correction.

Utilities writing in opposition note that while they support the policy objectives of promoting dynamic pricing and advanced metering infrastructure, AB 1787 would impose rigid statutory mandates that constrain adaptability, threaten to increase customer costs, duplicate certain existing requirements, and address issues for which the CPUC has recently conducted proceedings and which proceedings have resulted in final decisions — which the IOUs are already advancing. In their view, this bill would override the established regulatory process and expose customers to unnecessary costs resulting from these prescriptive requirements.

Conversely, there could potentially be ratepayer savings. At least in theory, better-aligned price signals should shift load off peak, reducing procurement costs, renewable curtailment, and the need for distribution and generation capacity investment — benefits that accrue to all customers, not just participants. Smart meters also produce operational savings independent of rate design; SMUD's \$8.6 million over 13 months from reduced manual reads and service calls is the kind of figure utilities cite. The bill's requirement that the CPUC track the utility's cost reductions associated with load shifts is what would allow the Commission test whether those savings materialize.

The CPUC notes concern that the bill conditions dynamic rate availability on smart meter upgrade approvals. According to the CPUC, existing Advanced Metering Infrastructure is capable of supporting dynamic rates and no IOU has asserted in its pending dynamic rates application that AMI upgrades are a prerequisite. Creating this condition is unnecessary and may narrowly constrain dynamic rate deployment, contrary to the bill's intent.

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