THIRD READING

Bill No: AB 2065
Author: Petrie-Norris (D)
Amended: 6/30/26 in Senate
Vote: 21

SENATE ENERGY, U. & C. COMMITTEE: 14-2, 6/24/26
AYES: Allen, Archuleta, Arreguín, Becker, Caballero, Dahle, Gonzalez, Hurtado, McNerney, Reyes, Richardson, Rubio, Stern, Wahab
NOES: Ochoa Bogh, Strickland
NO VOTE RECORDED: Grove

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 68-0, 5/21/26 (Consent) - See last page for vote

SUBJECT: Rates: inappropriate cost recovery

SOURCE: The Utility Reform Network

DIGEST: This bill requires the California Public Utilities Commission (CPUC) to assess specified penalties on electrical corporations, gas corporations, water corporations, sewer system corporations, or telephone corporations if they record costs in financial accounts that are prohibited from being recovered from ratepayers or the cost is already authorized for recovery through another ratemaking mechanism.

ANALYSIS:

Existing law:

1) Provides, under the Public Utility Regulatory Policies Act, that no electric utility may recover from any person other than the shareholders (or other owners) of the utility any direct or indirect expenditure by such utility for political advertising. This is defined to include advertising intended to influence public opinion with respect to legislative, administrative, or electoral matters, or

with respect to any controversial issue of public importance. (16 U.S. Code §2623(b)(5))

2) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations, gas corporations, water corporations, sewer system corporations, and telephone corporations. (Article 12 of the California Constitution)

3) Authorizes the CPUC to fix the rates and charges for every public utility and requires that those rates and charges be just and reasonable. (Public Utilities Code §451)

4) Prohibits a public utility from including any bill for services or commodities furnished by any customer or subscriber any advertising or literature designed or intended (1) to promote the passage or defeat of a measure appearing on the ballot at an election, (2) promote or defeat of a candidate to any public office, (3) to promote or defeat the appointment of any person to any administrative or executive positions in government, or (4) to promote or defeat any change in legislation or regulations. (Public Utilities Code §453 (d))

5) Provides the CPUC with general, broad authority to regulate every public utility in the state. (Public Utilities Code §701)

6) Prohibits an electrical or gas corporation from recovering expenses for compensation (defined to include annual salary, bonus, benefits, or other consideration paid to an officer of the corporation) from ratepayers and requires compensation is paid solely by shareholders of the electrical or gas corporation. (Public Utilities Code §706)

7) Prohibits a utility from recording to an above-the-line account or otherwise recovering from ratepayers specified costs related to promotional advertisements and political influence activities. Defines "above-the-line-account" to mean an account that contains expenses that a utility recovers from ratepayers, including an account that contains expenses that the utility used to calculate a revenue requirement request in its general rate case. (Public Utilities Code §748.3)

8) Authorizes the CPUC to require a public utility to correct any rates, practices, equipment or behavior that is unjust, unreasonable, unsafe, improper, inadequate, or insufficient. (Public Utilities Code §761)

9) Prohibits the CPUC from prescribing a system of accounts and form of accounts, records, and memoranda for corporations subject to the regulatory authority of the United States that is inconsistent with that established and updated by or under the authority of the United States. (Public Utilities Code §793)

10) Provides the CPUC with authority to levy fines against regulated entities for violation of law. Requires penalties to be deposited in the State's General Fund. (Public Utilities Code §2100 *et seq*.)

11) Provides any public utility that violates or fails to comply with any provision of the Constitution, order, decision, decree, rule, direction, demand, or requirement of the CPUC, is subject to a penalty of not less than $500, and no more than $100,000, for each offense. (Public Utilities Code §2107)

This bill:

1) Defines "utility" to mean an electrical corporation, gas corporation, water corporation, sewer system corporation, or telephone corporation, also known as investor-owned utilities (IOUs).

2) Requires the CPUC to find that a utility has engaged in prohibited cost recovery, if the utility records a costs to a regulator-approved financial account that meets specified criteria, including if the cost is categorically excluded from ratepayer recovery by statute, CPUC decision, or CPUC rule, exceeds the scope of the CPUC's authorization for the specific account or application, or has already been authorized for recovery through another ratemaking mechanism.

3) Requires the CPUC, upon making a determination that such a corporation has recorded prohibited costs to a ratepayer-funded account in violation of CPUC rule, tariff, or statute:

   a) Disallow recovery of the cost from ratepayers.

   b) Impose a financial penalty for inappropriate cost recovery equal to the amount of the prohibited cost recovery or three times that amount if the CPUC determines there have been two or more separate instances of prohibited cost recovery by the same utility with the preceding five years or there has been a sustained practice of prohibited cost recovery extending across multiple reporting periods.

4) Provides that the bill does not limit the CPUC's authority to assess fines and penalties from existing law and CPUC rules.

5) Requires each such utility to submit an annual report to the CPUC identifying all instances in the prior year in which prohibited cost recovery was identified, the actions that were taken in response to the identification, and any actions that were taken by the utility to prevent future occurrences.

Background

Cost recovery of expenses by IOUs. CPUC-regulated utilities routinely submit requests for cost recovery related to their operations to the CPUC, including expanding their infrastructure, paying for operation expenses, etc. As required by statute in Public Utilities Code §451, the CPUC may only approve a utility's request for cost recovery that is deemed just and reasonable. Review of utility expenses to ensure they are just and reasonable is the principal purpose of the CPUC's existence and the primary task of the agency as an economic regulator. Statutory authority also authorizes the CPUC to disallow expenses that are not deemed just and reasonable or prudent. The review of a utility's expenses is largely, although not exclusively, conducted through the utility's general rate case (GRC). Most utilities regulated by the CPUC are required to undergo a GRC whereby the utility requests funding for distribution, generation and operation costs associated with their service for the coming years (3-4 years depending on the utility). Usually performed every three (now four) years and conducted over roughly 18+ months, the GRCs are major regulatory proceedings which allow the CPUC and stakeholders to conduct a broad, exhaustive, and detailed review of a utility's revenues, expenses, and investments in plant and equipment to establish an approved revenue requirement – essentially the amount the utility is authorized to recover from customers in utility rates.

Statute disallows recovery of certain expenses. Statute prohibits IOUs from recovering from ratepayers certain expenses, including activities related to elections of candidates, legislation, bonuses paid to executives of the IOU under specified conditions, activities marketing against community choice aggregators, as well as, any situation where the IOU has failed to sufficiently maintain records to enable the CPUC to completely evaluate any relevant issues related to the prudence of any expense relating to the planning, construction, or operation of the IOU's plant. Under the requirements of the Federal Public Utility Regulatory

Policies Act of 1978 and subsequent state statute, IOUs are also prohibited from recovering from any person other than shareholders direct and indirect expenditures for promotional or political advertising. Additionally, IOUs must abide by CPUC orders.

Federal Energy Regulatory Commission (FERC) accounting and financial reporting. FERC jurisdiction Account 426.4 of the Uniform System of Accounts (USofA) requires that utility shareholders pay for expenditures for the purpose of influencing public opinion or the decisions of public offices. FERC has established regulatory accounting and financial reporting requirements for its jurisdictional entities in the electric, natural gas, and oil pipeline industries. These requirements play a role in FERC's strategy of setting just and reasonable cost-of-service rates. The foundation of the FERC's accounting program is the USofA codified in the agency's regulations. In addition, FERC issues accounting rulings relating to specific transactions and applications through orders and Chief Accountant guidance letters. This body of accounting regulations, orders, and guidance letters comprises the FERC's accounting and financial reporting requirements which promote consistent, transparent, and decision-useful accounting information for the FERC and other stakeholders. These accounting and financial reporting requirements take into consideration the FERC's ratemaking policies, past FERC actions, industry trends, and external factors (e.g., economic, environmental, and technological changes, and mandates from other regulatory bodies) that impact the industries under the agency's jurisdiction. Electric Public Utilities & Licensees, Natural Gas, and Oil Pipeline companies within FERC jurisdiction are required to maintain their books and records in accordance with the USofA. The USofA provides basic account descriptions, instructions, and accounting definitions that are useful in understanding the information reported in the Annual Report.

Comments

Need for this bill. According to the author:

> Utility companies have a documented history of charging ratepayers for costs that should have been disallowed. Under current law, this usually means that the utility just gives the money back. That's not accountability. As a deterrent, AB 2065 establishes mandatory automatic penalties, with bigger consequences for repeat offenders. Californians paying some of the most expensive utility bills in the country deserve to know that at least their bills are accurate and fair.

Desire for more consequences. The proponents for this bill contend the existing penalty framework under Public Utilities Code §2107 and 2108, and the CPUC's Penalty Assessment Methodology adopted in Resolution M-4846, generally treats inappropriate utility cost recovery as a matter for correction rather than deterrence. They allege that when the CPUC or other parties identify costs that should not have been recorded to ratepayer-funded accounts, the typical consequence is disallowance which means the utility simply returns the money or is denied recovery. They point to the California State Auditor's August 2023 report, *Electricity and Natural Gas Rates (Report 2022-115)*[1], which documented that this corrective-only enforcement framework is insufficient. The Auditor identified significant risk that utilities seek recovery of costs that are ineligible, including costs already authorized through another mechanism, and that the CPUC and Public Advocates Office (PAO) have limited capacity to scrutinize the large volume of utility cost recovery requests. The PAO shared recent examples that were IOUs included the recording of lobbying and advocacy expenses in energy efficiency balancing accounts, personal entertainment expenses in ratepayer-funded accounts, and other prohibited expenses. They argue that with the prospect of disallowance and not a meaningful financial penalty, the IOUs' calculus too often encourages careless or improper accounting. The PAO contends that if the inappropriate cost is detected, the utility simply gives the money back; if is not detected, ratepayers pay.

Opponents raise concern that this bill is too vague, broad, and unnecessary. They believe the existing law and CPUC rules already address the issues regarding prohibited cost recovery by utilities, including penalties. They also contend that accounting entry alone cannot constitute "inappropriate cost recovery" as the real impact on ratepayers is only once the costs are approved for recovery in rates by the CPUC. They further raise concerns that this bill limits the utility's ability to reprioritize within an authorized revenue requirement, including necessary safety, reliability, and customer-service work. They contend this bill's vague language will result in chilling necessary decision-making and would stymy good-faith efforts to address issues by utilities. The small rural telephone corporations, which are the only telephone corporations implicated by this bill, argue that their accounting is unique, as it is governed by Federal Communications Commission requirements, particularly as much of their service costs are funded by federal subsidies. They also contend their lack of reliance on balancing and memorandum accounts means they should not be included in this bill.

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[1] California State Auditor, Electricity and Natural Gas Rates: The California Public Utilities Commission and Cal Advocates Can Better Ensure That Rate Increases Are Necessary, Report 2022-115 (August 2023), available at **https://information.auditor.ca.gov/reports/2022-115/index.html**.

Prior/Related Legislation

SB 327 (McNerney, 2025) prohibits certain political influence activities and expenses by electrical or gas corporations, those related to opposing efforts to municipalize energy utility service, from being recorded in certain accounts and having the costs recovered from ratepayers. The bill is pending in the Assembly Appropriations Committee.

AB 1167 (Berman, Chapter 634, Statutes of 2025) prohibited certain political influence activities and advertising expenses by electrical and gas corporations from being recovered from ratepayers and authorizes the CPUC to assess penalties for violations related to the bill's provisions.

SB 24 (McNerney, 2025) would have included many of the same provisions related to prohibiting recovery of political influence expenses from ratepayers as AB 1167. The bill was vetoed.

SB 938 (Min, 2023) would have expanded the types of activities an electrical or gas corporation is prohibited from recovering in rates by expanding the definitions of political activities and advertising and requires specified reporting of related activities. The bill failed passage in the Senate Energy, Utilities and Communications Committee.

AB 562 (Santiago, Chapter 429, Statutes of 2019) required that any expense incurred by an IOU in assisting or deterring union organizing, as defined, is not recoverable either directly or indirectly in the utility's rates and is required to be borne exclusively by the shareholders of the IOU.

SB 790 (Leno, Chapter 599, Statutes of 2012) revised and expanded the definition of CCA, requires the CPUC to initiate a Code of Conduct rulemaking, and allows CCAs to receive public purpose funds to administer energy efficiency programs.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT: (Verified 8/10/26)

The Utility Reform Network (Source)
Earthjustice
Public Advocates Office

OPPOSITION: (Verified 8/10/26)
California Communications Association
Pacific Gas and Electric Company
Southern California Edison

ARGUMENTS IN SUPPORT: The Public Advocate's Office states:

> Existing law, regulations, and prior CPUC decisions establish clear rules governing which utility expenses ratepayers may be asked to fund. AB 2065 creates meaningful consequences for utilities attempting to recover costs in violation of those rules. One of our Office's core functions is to review utility cost recovery requests to ensure that rates are appropriate and reasonable. In this work, we have uncovered numerous instances of utilities actively attempting to recover inappropriate costs from ratepayers. Utilities have attempted to use ratepayer funds for disallowed political activities, luxury items for employees, and costs they have already been reimbursed for. Current accountability measures are not strong enough to discourage utilities from pursuing inappropriate cost recovery that can unfairly increase rates for customers. California's ratepayers are facing an affordability crisis. AB 2065 will provide the CPUC with the tools it needs to ensure that the state's regulated utilities are not compounding this crisis by shifting inappropriate costs onto ratepayers.

ARGUMENTS IN OPPOSITION: Pacific Gas & Electric and Southern California Edison state the bill is "overly broad and ambiguous in ways that could increase administrative disputes, create operational uncertainty, and ultimately raise costs for customers without providing additional bill relief." They argue this bill conflates accounting with cost recovery, the scope of authorization is unclear, the language is vague regarding authorized recovery through another ratemaking mechanism, and this bill risks sweeping good-faith disputes over interpretations of existing law and CPUC rules. In general, they argue this bill is not needed and could chill necessary operational decision-making by utilities.

The California Communications Association (CalCom) raises concerns that this bill appears to be focused on practices by large energy and water utilities who rely on memorandum and balancing accounts. They argue that their rate cases are focused more on forward-looking forecasts, and their small, rural telephone companies are subject to many accounting and ratemaking determinations governed by the Federal Communications Commission. They contend this bill "risks imposing unjustified penalties and creating regulatory "gotchas" for these small, rural-focused utilities if they improve or adjust their accounting over time."

ASSEMBLY FLOOR: 68-0, 5/21/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gallagher, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Irwin, Jackson, Johnson, Kalra, Krell, Lee, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Zbur, Rivas
NO VOTE RECORDED: Arambula, Chen, Gabriel, Garcia, Hoover, Lackey, Lowenthal, Ramos, Celeste Rodriguez, Schultz, Wicks, Wilson

Prepared by: Nidia Bautista / E., U. & C. / (916) 651-4107
8/12/26 16:18:56

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