

Date of Hearing: April 22, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

AB 2338 (Ransom) – As Amended March 24, 2026

SUBJECT: Electrical corporations and gas corporations: rates: inflation-constrained rate case scenario: standard of review

SUMMARY: Requires the California Public Utilities Commission (CPUC) to require all electrical and gas corporations, as part of every general rate case (GRC) application, to submit an inflation-constrained rate case scenario. Specifically, this bill:

- 1) Requires the CPUC to require all electrical and gas corporations, as part of every GRC application, to submit an inflation-constrained rate case scenario in which cumulative increases in annual expenditures proposed to be authorized in that proceeding do not exceed the projected federal social security beneficiary cost-of-living adjustment (COLA) and to compare the inflation-constrained rate case scenario with the primary rate case proposal submitted by the electrical or gas corporation.
- 2) Authorizes the CPUC to authorize expenditures in excess of the inflation-constrained rate case scenario if it determines that the corporation has provided clear and convincing evidence that a higher level of expenditures is necessary to ensure the safe and reliable operation of its electric or gas system, and would require the CPUC to apply heightened scrutiny to any other request submitted by each electrical corporation and gas corporation that is likely to increase total systemwide expenditures beyond the COLA.

EXISTING LAW:

- 1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations and gas corporations. (Article XII of the California Constitution)
- 2) 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)
- 3) Prohibits a public utility from charging any rate except upon a showing before the CPUC and a finding by the CPUC that the new rate is justified. (Public Utilities Code § 454)
- 4) Requires the CPUC to establish rates using cost allocation principles that fairly and reasonably assign to different customer classes the costs of providing service to those customers, consistent with the policies of affordability and conservation. (Public Utilities Code § 739.6)
- 5) Requires the CPUC to ensure that any errors in estimates of demand elasticity or sales do not result in over or under collections by investor-owned utilities. (Public Utilities Code § 739.10)

- 6) Mandates the CPUC to develop a definition of energy affordability and use the definition to assess the impact of proposed rate increases on different types of residential customers, among other requirements. (Public Utilities Code § 739.13)
- 7) Declares the legislative intent that the CPUC reduce rates for electricity and natural gas to the lowest amount possible. (Public Utilities Code § 747)

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Assembly Committee on Appropriations for its review.

BACKGROUND:

GRC: Cost Recovery Process – Utilities employ a number of accounts to track expenses, both anticipated and unanticipated. Anticipated costs are determined through GRC proceedings, which evaluate both past expenses and utility forecasts of likely future costs, and cover four years of a utility’s anticipated costs. The GRC establishes how much money the utilities are allowed to collect, and a fixed escalation rate is applied to expenses for the subsequent three years captured in the GRC cycle. Once the CPUC authorizes the costs, the costs are allocated to different classes of customers and built into future billing.

Any utility proposing new or increased rates must demonstrate their justification to the CPUC. Two distinct standards of proof have governed how that burden is measured in CPUC GRC decisions.

- Clear and convincing evidence: Requires that the evidence produce in the factfinder a firm belief or conviction that the asserted fact is true.
- Preponderance of the evidence: Requires that the evidence, when weighed against opposing evidence, have more convincing force and a greater probability of truth.

The clear and convincing evidence standard appeared in CPUC decisions as early as 1983 and persisted for decades.¹ More recently, the CPUC has characterized the applicable standard as preponderance of the evidence.² This shift occurred through the CPUC’s own decisional practice rather than through any amendment to the Public Utilities Code.

Federal Social Security Beneficiary COLA – Under federal law, Social Security benefits are subject to annual COLAs intended to ensure that the purchasing power of Social Security benefits is not eroded by inflation.³ The Social Security Act ties the annual COLA to the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), as determined by the Department of Labor’s Bureau of Labor Statistics.⁴ Specifically, the COLA is

¹ D.08-01-020, *Re Golden State Water Co., citing Re Southern California Edison Company* 11 CPUC 2d 474, 475 (D.83-05-036).

² D.21-08-036, Decision on Test Year 2021 General Rate Case for Southern California Edison Co. (Aug. 19, 2021), at 9.

³ Social Security Administration, *Cost-of-Living Adjustment (COLA) Information*, <https://www.ssa.gov/cola>.

⁴ Social Security Administration, *Social Security Announces 2.8 Percent Benefit Increase for 2026* (Oct. 24, 2025), <https://www.ssa.gov/news/en/press/releases/2025-10.24.html>.

based on the percentage increase in the CPI-W from the third quarter of the last year a COLA was determined to the third quarter of the current year, and if there is no increase, there can be no COLA.⁵ For 2026, Social Security beneficiaries are receiving a 2.8 percent COLA, based on the increase in the CPI-W from the third quarter of 2025 through the third quarter of 2025.⁶

COMMENTS:

- 1) *Author's Statement.* According to the Author, “Californians pay the highest electricity rates in the nation, at more than double the national average. Since 2014, residential electricity rates have climbed as much as 101 percent, which is more than 2.5 times the rate of inflation, leaving more than 2.3 million households behind on their energy bills. As the cost of living continues to rise, the Fighting for Affordable Informed Rates (FAIR) Act would require investor-owned utilities to submit an affordability budget, ensuring that rate increase decisions better reflect the realities facing families, workers, and small businesses across California. This bill would bring greater transparency and accountability to the utility rate-setting process.”
- 2) *Purpose of the Bill.* This bill requires electrical and gas corporations to provide the CPUC with an inflation-constrained rate case scenario alongside its standard GRC proposal and establishes heightened evidentiary standards for approving rate increases that exceed the COLA. The inflation-constrained scenario requirement is intended to give the CPUC and parties to the proceeding the opportunity to compare a COLA-constrained proposal against the utility’s primary rate case, thereby facilitating a more transparent assessment of the differences, tradeoffs, and justifications for higher spending. Beyond that comparative framework, the bill also increases the threshold for the CPUC to approve above-COLA expenditures. Within the GRC process, the CPUC may authorize spending above the constrained scenario only upon clear and convincing evidence that the higher level of spending is necessary for safe and reliable operation – a higher standard than the preponderance of the evidence standard the CPUC currently applies. Outside the GRC process, above-COLA requests are subject to “heightened scrutiny.”
- 3) *Impact on investments in safety and the state’s clean energy policies.* In response to prior legislative attempts, some opponents have raised concerns that this approach could undermine necessary investments in safety and efforts to support the state’s clean energy policies. It was noted then, and remains true today, that the language as written does not preclude these investments; however, it does require the electrical and gas corporations to provide clear and convincing evidence that these investments are needed.
- 4) *Evidentiary Standards.* This bill establishes a two-track framework for GRC review: utilities must submit an inflation-constrained rate case scenario at the COLA and compare it against their primary rate case plan. Expenditures above the constrained scenario may be authorized only upon clear and convincing evidence that the higher spending is necessary for safe and reliable operation. The clear and convincing standard

⁵ See Footnote 1.

⁶ Social Security Administration, *2026 Cost-of-Living Adjustment (COLA) Fact Sheet* (Jan. 16, 2026), <https://www.ssa.gov/news/en/cola/factsheets/2026.html>.

has historical roots in CPUC practice. As noted above, the CPUC applied that standard for decades before shifting to a preponderance of the evidence standard.

For requests made outside the GRC framework that are likely to increase total systemwide expenditures beyond the COLA, the bill applies a standard of “heightened scrutiny.” According to the Author, this standard is intended to require utilities to meet a higher burden of proof for above-COLA requests and to direct the CPUC to consider prioritizing utility spending in a manner that would keep total rate impacts at or below the COLA. “Heightened scrutiny” does not appear elsewhere in the Public Utilities Code and is not a term of art with an established meaning in CPUC proceedings. The Author may wish to consider defining this standard in the bill to give the CPUC clearer direction as to the burden of proof required and the weight to be given to rate impact considerations when evaluating such requests.

- 5) *Inflation metric.* This bill uses the COLA as its benchmark for constraining utility rate increases. According to the Author, this metric was selected to reflect the financial realities faced by California customers living on fixed incomes that escalate based on that COLA.

In response to prior legislative attempts, some opponents and this Committee have raised concerns about whether the COLA is the most appropriate metric for utility rate regulation. As a measure designed to preserve the purchasing power of Social Security recipients, it may not track the cost structures of capital-intensive regulated utilities. The COLA is also determined retrospectively, which may create a mismatch with the forward-looking nature of GRC proceedings. Other metrics may be better suited to this context – for example, the CPUC already uses the CPI-U as the basis for rate adjustments in water and sewer utility proceedings⁷ – and California-specific CPI data is available for major metropolitan areas. The Author may wish to consider whether to specify an alternative inflation metric, or to direct the CPUC to determine the appropriate benchmark, in order to ensure the constraint is well-calibrated to utility cost dynamics while still protecting ratepayers on fixed incomes.

- 6) *Prior Legislation.*

AB 99 (Ta, 2025) would have prohibited investor-owned utilities from proposing a consumer rate increase above the rate of inflation unless approved by a majority of customers through election, or if the CPUC deems the increase is directly related to safety enhancements, modernization, or higher commodity or fuel costs. Status: Assembly – Died – Appropriations.

SB 254 (Becker), among other things, included language almost identical to this bill. This language was included in the May 28, 2025, version of the bill but was removed prior to final passage and chaptering. Status: Chapter 119, Statutes of 2025.

⁷ California Public Utilities Commission, *2024 CPI-U Memo*, <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/water-division/reports/wd-memorandum/2024-cpi-u-memo.pdf>.

AB 1710 (Ta, 2024) would have prohibited an electrical corporation from proposing, on a systemwide average basis, a rate increase above the rate of inflation for any given GRC cycle. Notwithstanding this general prohibition, would have allowed an electrical corporation to propose, and the CPUC to approve, a rate increase above the rate of inflation if the CPUC determined that the increase was directly related to safety enhancements and modernization, or to higher commodity or fuel costs. Status: Assembly – Died – Appropriations.

REGISTERED SUPPORT / OPPOSITION:

Support

The Utility Reform Network (TURN)
AARP
California Environmental Voters
California Large Energy Consumers Association
Climate Action Campaign

Opposition

California Chamber of Commerce
Engineers and Scientists of California, Local 20, IFPTE (ESC Local 20)
Pacific Gas and Electric Company
San Diego Gas & Electric Company
Southern California Edison
Southern California Gas Company

Analysis Prepared by: Suman Tatapudy / U. & E. / (916) 319-2083