Date of Hearing: April 8, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
AB 2463 (Petrie-Norris) – As Amended March 26, 2026

SUBJECT: Public Utilities Commission: rates: returns on equity

SUMMARY: Beginning on January 1, 2028, requires the California Public Utilities Commission (CPUC) to disclose the specific financial models, inputs, assumptions, weights, and calculations underlying its determinations of the authorized return on equity for electrical corporations and gas corporations (utilities) in cost of capital proceedings and to maintain methodological consistency across proceedings or explain material departures from prior methodology, regardless of whether the decision results in a decrease or increase in rates or a change to a rate schedule. Specifically, **this bill**:

1) Requires the CPUC to initiate a rulemaking proceeding to update its cost of capital determinations to conform with this new section's requirements. The rulemaking must consider a long-term plan that revises financial models for electrical corporations to accommodate projected large demand growth between 2030 and 2045 in furtherance of the state's climate goals, while enabling sufficient investment and ensuring that rates remain just and reasonable, and that analyzes whether the selection of financial models aligns with new investments made by gas corporations and with changes to customer demand for natural gas.

2) Defines the terms "authorized return on equity," "cost of capital proceeding," and "financial model."

3) Requires that any CPUC decision determining an authorized return on equity reflects the CPUC's independent analytical basis and not consist solely of a selection from positions or analyses submitted by the parties to the proceeding. The decision must include all of the following:

   a. An identification of each financial model relied upon in determining the authorized return on equity.

   b. A specification of the key inputs and assumptions used for each identified financial model.

   c. The data source for each material input to each financial model relied upon by the CPUC.

   d. The relative weight assigned to each financial model in arriving at the authorized return on equity.

   e. A mathematical derivation demonstrating how the authorized return on equity follows from the models, inputs, and weights so that a person with expertise in utility finance could independently reproduce the results.

f. A description of any qualitative adjustments made to the result produced by the financial models.

g. The complete calculations underlying the authorized return on equity, presented to allow for independent verification.

h. If the CPUC relied on a range of results from a financial model, the full range and the basis for selecting a point estimate within that range. If the CPUC relied on a settlement from the parties to adopt an authorized rate of return, the settling parties must furnish sufficient information to enable the CPUC to find that the settled amount is just and reasonable.

i. A comparison of the authorized return on equity to the results produced by each individual financial model before weighting or qualitative adjustment.

j. An identification of the peer group of similarly situated utilities used in the CPUC's analysis, the most recently authorized return on equity for each member of the peer group, and an explanation of where the authorized return on equity for the subject utility falls relative to the range of authorized returns on equity for the peer group.

k. An analysis of the relationship between the credit quality of the utility and the authorized return on equity.

4) Provides that where the CPUC adopts a methodology for determining the authorized return on equity that differs in any material respect from the methodology used in the most recent prior decision for the same utility, the CPUC must, in addition to the requirements above, identify each material departure from the prior methodology and provide a reasoned explanation for each departure.

5) Clarifies that nothing in this new section prescribes or limits the financial models, inputs, or methods the CPUC may use in determining the authorized return on equity, and that the CPUC retains full discretion to select and apply the analytical methods it determines to be appropriate.

6) Requires the CPUC to annually provide to the Legislature an analysis of trends in California utility credit ratings, based on the credit quality analysis required by this new section, as part of the CPUC's existing annual report published pursuant to Section 910 of the Public Utilities Code.

EXISTING LAW:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical and natural gas corporations. (California Constitution, Article XII)

2) Requires that any charge from a public utility must be just and reasonable. (Public Utilities Code § 451)

3) Requires the CPUC develop, publish and annually update a report containing specified information, including a workplan of scheduled proceedings, an evaluation of the executive director's performance, an accounting of the CPUC's prior-year transactions and proceedings, and descriptions of public participation efforts, deenergization event trends, and telecommunications backup electricity compliance, and to submit that report to the Governor and Legislature no later than February 1 of each year. (Public Utilities Code § 910)

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

BACKGROUND:

Cost-of-Service Rate Regulation – Under cost-of-service regulation, the CPUC, as the economic regulator, determines the total amount of revenue that must be collected in rates (revenue requirement) for the utility to recover its costs and earn a reasonable return. The cost-of-service regulatory model is a standard model that is utilized across the country, including by the federal government. At its core, the utility submits an application to the regulator to recover costs from its customers, plus an opportunity for a reasonable return (profit), which, if approved, is then recovered in rates. The regulator can disallow costs. The venue for determining the revenue requirement and the cost functions and customer allocations of cost-of-service ratemaking is the General Rate Case (GRC). Each large electric utility files a GRC application every four years. The CPUC approves a budget for the utility based on detailed cost data (test year), and the resulting GRC decision prescribes how that budget is adjusted in subsequent years to account for inflation and other cost factors.

Cost of Capital (CoC) Proceedings – Separate from a GRC proceeding, but informing the GRC, is the CoC proceeding at the CPUC, which occurs every three years. The CoC does not directly set customer bills, but it guides utility financial planning and influences future rate-setting proceedings. Through the CoC proceeding, the CPUC sets the parameters that determine how utilities balance the funding sources they use to raise money to invest in California's energy system (authorized capital structure). Typically, utilities raise money through: (1) borrowing funds through long-term loans; (2) receiving money from shareholders who invest in the utility; and (3) issuing preferred stock, a special type of investment that functions somewhat like a long-term loan.[1]

Through a CoC proceeding, the CPUC also establishes authorized CoC for each utility. One component of a utility's overall rate of return (ROR) is the cost of common equity (or return on equity, ROE). 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 is the ROE. According to the CPUC it sets this value to balance two goals: "1. Enable utilities to attract the investment needed to maintain a safe and reliable system[; and] 2. Protect customers from

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[1] CPUC Fact Sheet, *CPUC Cost of Capital Decision Dec. 18, 2025*, available at https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/electric-energy/electric-costs/cost-of-capital-fact-sheet.pdf

paying more than necessary for infrastructure."[2] Because the approved rate of return, of which the ROE is one component, is applied to the utility's rate base – 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 the rate of return can influence overall costs through future rate-setting proceedings.

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 reduce 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.[3]

The CPUC established the 2026-2028 authorized CoC for PG&E, SCE, and SDG&E as follows:

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.

Source: CPUC Fact Sheet, *CPUC Cost of Capital Decision Dec. 18, 2025*, available at https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/electric-energy/electric-costs/cost-of-capital-fact-sheet.pdf.

[2] *Id*.
[3] *Id*.

CoC Proceeding Process – At a high level, a CoC proceeding begins when a utility files an application with the CPUC for an authorized ROE. In its application, the utility identifies the issues to be considered and submits a proposed schedule. The CPUC then preliminarily determines the proceeding's category and whether a hearing is needed. Parties wishing to oppose or participate file protests or responses. If the proceeding is likely to go to a hearing, the assigned CPUC Commissioner sets a prehearing conference. Following that conference, the assigned CPUC Commissioner issues a scoping memo that determines the issues to be addressed, the schedule, and designates the principal hearing officer. During the proceeding, parties submit evidence and file briefs. After the close of evidence and filing of briefs, the proceeding is submitted for decision. The presiding officer prepares a proposed decision with findings, conclusions, and recommendations. Parties may then file comments on the proposed decision. The CPUC may adopt, modify, or set aside the proposed decision based on the evidentiary record. In CoC decisions, the CPUC has historically indicated that it will not litigate the specific mechanics of each proposed financial model, inputs, and assumptions.[4]

COMMENTS:

1) *Author's Statement*. According to the author, "As California undertakes historic investments to modernize its electric grid, the decisions that set utility shareholder returns will have an increasingly significant impact on customer bills. AB 2463 ensures that the CPUC's determinations of the authorized return on equity are transparent, analytically grounded, and subject to meaningful public scrutiny – so that ratepayers and policymakers can have confidence that these consequential financial decisions are evidence-based and fair."

2) *Purpose of the Bill.* This bill seeks to increase transparency and accountability in the CPUC's process for setting the authorized return on equity (ROE) for electrical and gas corporations. The bill would require the CPUC to undertake and document its own independent analytical basis for any ROE determination, with enough detail to allow an independent expert to reproduce the result. It would also require the CPUC to explain any material departures from the methodology used in prior proceedings for the same utility.

3) *Current CPUC Practice.* D.25-12-043 (Dec. 18, 2025) is the most recent CoC decision, establishing the 2026-2028 authorized ROE and capital structure for PG&E, SCE, SDG&E, and SoCalGas.[5] The decision reduced authorized ROEs by 30 basis points from 2025 levels, resulting in authorized ROEs of just under 10 percent for PG&E, SoCalGas, and SDG&E, and slightly above 10 percent for SCE.[6] This decision is illustrative of the

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[4] California Public Utilities Commission, *Decision on 2026-2028 Cost of Capital for Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company*, Decision (D.) 25-12-043, Application (A.) 25-03-010 et al., at 26 (Dec. 18, 2025), available at https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M591/K833/591833054.PDF.

[5] Cal. Pub. Utilities Comm'n, Decision (D.) 25-12-043, Application (A.) 25-03-010 et al. (Dec. 18, 2025); *see also* CPUC Press Release, *CPUC Sets Cost of Capital for State's Largest Energy Utilities* (Dec. 18, 2025), available at https://www.cpuc.ca.gov/news-and-updates/all-news/news-detail-page.

[6] CPUC Fact Sheet, *CPUC Cost of Capital Decision Dec. 18, 2025*, available at https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/electric-energy/electric-costs/cost-of-capital-fact-sheet.pdf; *California PUC Lowers Utilities' Return on Equity by 0.3 Percentage Points*, Utility Dive (Dec. 19,

transparency gap this bill seeks to address: multiple intervenors, including the Sierra Club and the Protect Our Communities Foundation, publicly criticized the CPUC for failing to explain its analytical rationale or engage with the financial modeling evidence presented by intervenors, with the Sierra Club stating that "the Commission declined to engage or explain how it determines the final rates of return."[7] Further, as noted above, the CPUC's own decision acknowledged it would not "litigate the specific mechanics" of the financial models submitted by the parties. While existing law requires that rates be just and reasonable and authorizes the CPUC to fix those rates after a hearing, current law does not require the CPUC to disclose the specific analytical methodology, financial models, model weighting, or mathematical derivation underlying its determination of the authorized ROE.

4) *Minor clarifications. The Committee recommends minor clarifications for accuracy and clarity, including revising the definition of "cost of capital proceeding" and making other technical changes.*

5) *Related Legislation.*

   AB 1677 (Boerner) would, among other things, require an electrical corporation or gas corporation proposing a rate change based on its request for return on invested capital to submit to the CPUC studies, as specified, and would cap the authorized ROE at no more than 400 basis points above the federal long-term debt rate. Status: Pending in Committee – Assembly Utilities and Energy.

   SB 905 (Becker) is a broad utility reform bill that, among other provisions, requires the CPUC to assign a reduced ROE for specified types of capital costs in each electrical corporation's rate base, establishes the Policy-Oriented and Wildfire Electric Reimbursement (POWER) Program to reimburse utilities for public-policy-driven expenditures – with reimbursed costs excluded from rate base and earning no ROE – directs the CPUC to develop performance-based metrics for large electrical corporations, and requires a rulemaking on alternative financing methods to reduce ratepayer costs. Status: Pending in Committee – Senate Energy, Utilities and Communications

REGISTERED SUPPORT / OPPOSITION:

Support

California Large Energy Consumers Association
Calpirg, California Public Interest Research Group
Environmental Defense Fund, Incorporated
Numerous Individuals (4)

2025), available at https://www.utilitydive.com/news/california-public-utilities-commission-return-equity-wildfires/808346/.
[7] Sierra Club Press Release, *Missed Opportunity: California Regulators Slightly Reduce Utility Profits Instead of Prioritizing Ratepayers* (Dec. 18, 2025), available at https://www.sierraclub.org/press-releases/2025/12/missed-opportunity-california-regulators-slightly-reduce-utility-profits.

Support if Amended

The Utility Wildfire Survivor Coalition

Opposition

None on file.

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