

ASSEMBLY THIRD READING

AB 2463 (Petrie-Norris)

As Amended April 13, 2026

Majority vote

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 (IOUs) 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.

Major Provisions

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.

COMMENTS

This bill seeks to increase transparency and accountability in the CPUC's process for setting the authorized return on equity (ROE) for IOUs. 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.

D.25-12-043 (Dec. 18, 2025) is the CPUC's most recent Cost of Capital decision, establishing the 2026-2028 authorized ROE and capital structure for PG&E, SCE, SDG&E, and SoCalGas. The decision reduced authorized ROEs by 30 basis points from 2025 levels, resulting in authorized ROEs of just under 10 % for PG&E, SoCalGas, and SDG&E, and slightly above 10 % for SCE. This decision is illustrative of the 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." Further, 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.

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."

Arguments in Support

The Environmental Defense Fund, writing in support of the bill, asserts "Transparency is the first step to aligning a more stable investment platform for the clean energy transition."

Arguments in Opposition

There is no opposition registered against this bill. However, the Utility Wildfire Survivor Group urges the author to amend the bill to tie authorized ROE with wildfire safety performance, affordable energy rates and full, fair and timely restitution for victims of utility-caused fires.

FISCAL COMMENTS

According to the Assembly Appropriations Committee: On its face, this bill seems to create new work of the CPUC, but of an amount that is moderately substantial. After all, the bill requires only that the CPUC publish information it uses to make its decisions. The CPUC might need additional resources to complete this ongoing work, in the range of one to a few new positions and, possibly, related contracting work.

However, the CPUC contends this bill asks of it something much more expansive and anticipates costs that reflect this view. The CPUC estimates costs of \$1.9 million (Public Utilities Commission Utilities Reimbursement Account) annually, most of which covers the cost of four permanent positions: two regulatory analysts (\$436,000, total) to build and maintain financial models and capital-market risk framework; an administrative law judge (\$257,000) to preside over the expanded rulemaking and ensure an adequate public record; and one legal secretary (\$115,000) to manage complex document production.

The CPUC justifies this cost estimate by contending that the bill requires the CPUC to develop its own capital-market risk framework, build and maintain its own financial models, and explain its analytical basis comprehensively in every ROE decision. This differs from the work of the CPUC in its current proceedings, in which the CPUC examines financial models and estimates market returns based on the record of information submitted to the CPUC by other parties, and not on independent CPUC financial modeling. According to the CPUC, this bill shifts the CPUC from adjudicator of competing expert testimony to an active financial modeler, which is a significant institutional change requiring new expertise and staff capacity.

VOTES

ASM UTILITIES AND ENERGY: 17-0-1

YES: Petrie-Norris, Patterson, Boerner, Calderon, Davies, Mark González, Harabedian, Hart, Irwin, Kalra, Papan, Rogers, Schiavo, Schultz, Ta, Wallis, Zbur

ABS, ABST OR NV: Chen

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

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