
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2463 (Petrie-Norris) - Public Utilities Commission: rates: returns on equity

Version: April 13, 2026

Urgency: No

Hearing Date: August 3, 2026

Policy Vote: E., U. & C. 17 - 0

Mandate: Yes

Consultant: Ashley Ames

Bill Summary: This bill would require the California Public Utilities Commission (CPUC), in any decision issued on or after January 1, 2028, determining an authorized return on equity (ROE) for an electrical corporation or gas corporation, to include specified information reflecting the CPUC's analytical basis for making that determination.

Fiscal Impact:

- Unknown but likely significant ongoing costs (ratepayer funds) for the CPUC to publish information used to make decisions, build and maintain financial models and capital-market risk framework, preside over the expanded rulemaking and ensure an adequate public record, and manage complex document production, among other things.

Background:

Cost-of-Service Rate Regulation. Under cost-of-service regulation, the CPUC, as the economic regulator determines the total amount of revenue that can 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 utilized across the country by utilities, including by the federal government in regulating transmission. At its core, the investor-owned utility (IOU) submits an application to the regulator to recover costs from their customers, plus an opportunity for a reasonable return (profit), which if approved are then recovered in rates. The regulator can disallow costs for which the IOU requests recovery.

The General Rate Case (GRC). The CPUC reviews and approves IOU costs and revenues through various applications submitted by the IOUs – most notably the GRC. GRCs are forward-looking, as IOUs forecast and estimate their anticipated costs to operate their respective utility and conducted on four-year cycles (previously three-year cycles). The GRC proceedings at the CPUC can last 18 months to two years, or more, whereby all aspects of the IOUs' costs of operating and maintaining the utility system are reviewed. More recently, per statutory requirements adopted following the 2010 San Bruno pipeline explosion, IOUs must also ensure their forecasted expenses associated with investments on their systems are informed by safety and other risks to the system. The GRC has two main components: Phase I determines the total amount the IOU is authorized to collect, known as the "revenue requirement" (the size of the pie), and Phase II determines the share of the costs attributed to each customer class (e.g. residential, small commercial, industrial, etc.) and the corresponding rate schedules (the slicing of the pie). Importantly, the CPUC provides economic regulation of distribution services, whereas the federal government serves as the economic regulator for

interstate transmission. Stakeholders often complain about delayed CPUC decisions, including IOU GRCs. This regulatory lag is considered by some an important feature of the regulatory model to best reward IOU efficiency and performance by placing the risk on the IOU. However, the regulatory lag can also limit the ability of the IOU to deliver the many demanded services and contribute to utility bill shocks when the new GRC is approved if those rates result in increases.

Cost of Capital proceeding. Separate from the GRC, but informing the GRC, is the cost of capital proceeding at the CPUC. An IOU's rate of return, or cost of capital, is the weighted average cost of debt, preferred equity, and common stock the IOU has issued to finance its capital investments. Cost of debt is determined by weighted average interest rates on long-term debt issuances. The cost of common stock, expressed as the ROE, represents the financial return to shareholders that invest in common stock and is expressed as a percentage. The CPUC says it "attempts to set the authorized ROE at a level that is adequate to enable the IOU to attract investors to finance the replacement and expansion of its facilities so it can fulfill its public utility service obligation." The CPUC determines the ROE through the cost of capital proceeding which they undergo every three years to examine various financial models and estimate market returns on investments for other companies with similar levels of risk.

Cost of capital proceeding methodologies. Since the 1987 CPUC proceeding, R.87-11-012, the CPUC established an annual Cost of Capital proceeding separate from GRCs for the major California utilities beginning January 1, 1990. In a 2008 CPUC Decision (D. 08-05-035) a Cost of Capital Mechanism (CCM) was established for the large energy utilities which enabled applications to be filed triennially in a single consolidated proceeding instead of annually. The CCM provides for an automatic adjustment to a utility's Cost of Capital in between the triennial filings if a certain threshold based on utility bond index rate changes is met.

Proposed Law: This bill would:

1. Make several findings and declarations concerning the significance of the cost of capital on utility rates and the need to require the CPUC to disclose its analytical methodology for calculating cost of capital.
2. Define "authorized return on equity" to mean the return on common equity authorized by the CPUC for an electrical corporation or gas corporation in a cost of capital proceeding or through an automatic adjustment mechanism adopted in connection with the cost of capital proceeding.
3. Define "cost of capital proceeding" to mean a proceeding in which the CPUC considers and determines the authorized cost of capital for an electrical or gas corporation, including the authorized ROE, the cost of long-term debt, and the capital structure, and including a proceeding to establish or modify an automatic adjustment mechanism applicable to any component of the authorized cost of capital.
4. Define "financial model" to mean a quantitative method used to estimate the cost of equity capital, including, but not limited to, a discounted cash flow model,

capital asset pricing model, risk premium analysis, and comparable earnings analysis.

5. Require the CPUC, in any decision issued on or after January 1, 2028, determining an authorized ROE for an electrical corporation or gas corporation, to include specified information reflecting the CPUC's analytical basis for making that determination, including:
 - a. An identification of each financial model the CPUC relied upon in determining the authorized ROE.
 - b. The CPUC's independent analysis, separate and apart from the positions or analyses submitted by the parties.
 - c. An analysis of the relationship between the credit quality of the electrical corporation or gas corporation and the authorized ROE.
6. Require the CPUC to identify and provide a reasoned explanation for each material departure from the prior methodology, if, in any cost of capital proceeding, the CPUC adopts a methodology for determining the authorized ROE that differs in any material respect from the methodology disclosed in the most recent prior decision in which the CPUC determined an authorized ROE for the same electrical corporation or gas corporation.
7. Require the CPUC to initiate a rulemaking proceeding to update its determinations of the cost of capital to conform with the requirements of this bill.
8. Require the proceeding to consider a long-term plan related to these requirements that: (1) revises financial models for electrical corporations to accommodate large demand growth between the years 2030 and 2045 in order to meet the state's climate goals, and (2) analyzes whether the selection of financial models aligns with new investments made by gas corporations and with changes to customer demand for natural gas.
9. Require the CPUC to include in the annual report to the Legislature an analysis of the trends in California corporation credit ratings based on the analysis required by this bill, updated as necessary to reflect current credit rating information.

Related Legislation:

SB 905 (Becker, 2026) among other changes, would remove certain expenditures from the authorized ROE.

SB 1098 (Perez, 2026) would require the CPUC to reduce the rate of return for capital expenses in balancing and memorandum accounts.

SB 1233 (Allen, 2026) would require specific actions related to cost of capital for electrical and gas corporation rate changes, and adds new reporting related to electrical and gas corporation expenditures to an existing annual CPUC report to the Governor and Legislature.

AB 1677 (Boerner, 2026) would enact financial disclosures and also include a cap for ROE.

AB 2463 (Petrie-Norris, 2026) would require the CPUC to identify the models used when determining ROE.

AB 2710 (Bauer Kahan, 2026) would have created limits on ROE in certain circumstances. The bill was held in the Assembly Appropriations Committee.

AB 1017 (Boerner, Chapter 177, Statutes of 2025) required disclosure of the authorized and actual ROE during GRC proceedings

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