
THIRD READING

Bill No: AB 2463
Author: Petrie-Norris (D)
Amended: 8/13/26 in Senate
Vote: 21

SENATE ENERGY, U. & C. COMMITTEE: 17-0, 6/16/26

AYES: Allen, Ochoa Bogh, Archuleta, Arreguín, Becker, Caballero, Gonzalez, Grove, Hurtado, McNerney, Niello, Reyes, Richardson, Rubio, Stern, Strickland, Wahab

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26

AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 78-0, 5/26/26 - See last page for vote

SUBJECT: Public Utilities Commission: rates: cost of capital proceeding:
authorized return on equity

SOURCE: Author

DIGEST: This bill requires the California Public Utilities Commission (CPUC), in any proceeding in which the CPUC considers and determines an authorized return on equity (ROE) for an electrical corporation or gas corporation, to be known as the cost of capital proceeding, that results in a decision issued on or after December 31, 2030, to include its own assessment of the proposals submitted by the parties and specified information, including the financial model the CPUC relied upon in determining the authorized ROE.

ANALYSIS:

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 changing a rate or altering a classification, contract, practice, or rule that would result in a new rate, except upon a showing before the CPUC and a finding by the CPUC that the new rate is justified and the public utility notifying its customers of the rate change. (Public Utilities §454)
- 4) Requires the CPUC to develop, publish, and annually update a report containing specified information, including the CPUC's annual work plan. Requires the CPUC to post the report in a conspicuous area of its internet website. (Public Utilities Code §910)

This bill:

- 1) Makes 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) Defines “authorized return on equity” to mean the return on common equity authorized by the CPUC for an electrical corporation or gas corporation in a costs of capital proceeding or through an automatic adjustment mechanism adopted in connection with the cost of capital proceeding.
- 3) Defines “cost of capital proceeding” to mean a proceeding in which the CPUC considers and determines the authorized ROE for an electrical or gas corporation.
- 4) Defines “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) Requires the CPUC, in any cost of capital proceeding for an electrical corporation or gas corporation that results in a decision issued on or after December 31, 2030 to include:

- a) An identification of each financial model the CPUC relied upon in determining the authorized ROE.
 - b) The CPUC's analysis, based on the record and 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) Requires 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) Requires the CPUC to include in the annual report to the Legislature an analysis of the trends in the California corporation credit ratings based on the analysis required by this bill, updated as necessary to reflect current credit rating information.

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.

Comments

Need for this bill. 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 ROE 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.

Bill attempts to provide greater transparency of CPUC decision-making inputs.

This bill requires the CPUC to provide specific information when it determines the cost of capital, including the ROE, for electrical and gas corporations. In general, this bill proposes to require the CPUC to “show its math” in how it determines the cost of capital, including providing explanations for any material departures from the methodologies used in the most recent prior decision. Additionally, this bill requires the CPUC to initiate a rulemaking proceeding to update its determinations of the cost of capital to conform with the requirements of this bill.

The authorized ROE for utilities is one of the most consequential financial determinations the CPUC makes. Together with the authorized capital structure, it sets the profit that IOUs may earn, and it is applied to the utilities' rate base, so even small changes can significantly affect residential, commercial, and industrial utility rates. The author and proponents note that small adjustments to the rate of return have meaningful effects as the rate base grows. Proponents for this bill express frustrations with the recent CPUC decision (D.25-12-043, Dec. 18, 2025) adopting the authorized ROE for the 2026–2028 period. The CPUC authorized ROE ranging from 9.78% to 10.03% for PG&E, SCE, SDG&E, and SoCalGas. In that decision, intervenors expressed frustrations with the ability to gain greater transparency of the CPUC's methodologies and criticized the CPUC for not disclosing its analytical reasoning or engaging with the financial modeling evidence presented. By requiring greater analytical transparency, this bill aims to ensure that these cost determinations are rigorous and subject to meaningful public scrutiny.

Related/Prior Legislation

SB 905 (Becker, 2026) among other changes, removes certain expenditures from the authorized ROE. The bill is pending in the Assembly.

SB 1098 (Perez, 2026) requires the CPUC to consider reducing the rate of return for capital expenses in balancing and memorandum accounts. The bill is pending in the Assembly.

SB 1233 (Allen, 2026) would have required specific actions related to cost of capital for electrical and gas corporation rate changes. The bill was held by the Assembly Appropriations Committee.

AB 1677 (Boerner, 2026) contains financial disclosures and also included a cap for ROE. The bill is pending in the Assembly Utilities and Energy Committee.

AB 2463 (Petrie-Norris, 2026) requires the CPUC to identify the models used when determining ROE. The bill is before the full Senate.

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

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

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

According to the Senate Appropriations Committee, 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, and manage complex document production, among other things.

SUPPORT: (Verified 8/13/26)

California Large Energy Consumers Association
Environmental Defense Fund
Local Government Climate Alliance
Utility Wildfire Survivor Coalition

OPPOSITION: (Verified 8/13/26)

None received

ARGUMENTS IN SUPPORT: According to the Environmental Defense Fund (EDF):

EDF has been a longstanding participant in the CPUC Cost of Capital (COC) Proceedings. Over the past several cycles, it has become increasingly evident that environmental risks, including wildfires and the capital demands of the clean energy transition, are materially influencing the requests that the investor structures and their respective requested rates of return. EDF has observed in multiple cycles that the energy utilities tell the CPUC one set of facts about their risk profiles and asking for more money and then a different spin on those same facts to federal regulators indicating why they are a good investment. These dynamics have elevated California's utilities at trading above-market book-value ratios, reflecting a California risk premium that ultimately falls on ratepayers. ...Transparency is the first step to aligning a more stable investment platform for the clean energy transition. AB 2463 lays the groundwork for a more stable foundation suited to financing the long-term infrastructure needs of California's energy future. These metrics will help the utilities, intervenors and the market make more accurate and timely decisions about the utility's risk profile and a capital structure that will result in just reasonable rates.

ASSEMBLY FLOOR: 78-0, 5/26/26

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Muratsuchi, Celeste Rodriguez

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