SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2589 (Irwin) - Public utilities: rates: changes to federal law

Version: June 29, 2026
Urgency: No
Hearing Date: August 3, 2026

Policy Vote: E., U. & C. 17 - 0
Mandate: No
Consultant: Ashley Ames

Bill Summary: This bill would require the California Public Utilities Commission (CPUC) to evaluate the full effect on public utilities' expenses and tax liabilities of all federal legislation that becomes law, and would explicitly include the changes enacted by the One Big Beautiful Bill Act, federal House Resolution 1 (Public Law 119-21).

Fiscal Impact:

- The CPUC estimates ongoing costs of about $1 million annually and one-time costs of about $257,000 over a period of two years (ratepayer funds) to retain a specialized tax consultant to monitor the effect of all federal legislation on utility expenses and tax liabilities, and to re-open prior General Rate Case proceedings to evaluate whether approved revenue requirements should be adjusted in light of Public Law 119-21 or other federal laws — among other things.
- To the extent that this bill impacts electricity rates, it could result in costs or savings to the state as an electric utility ratepayer. The State of California is an electricity customer, purchasing roughly one percent of the state’s electricity. As such, the state incurs costs when rates increase, and realizes cost savings if rates go down (various funds).

Background:

CPUC general rate case (GRC). As part of its authority to regulate the rates of a utility, the CPUC reviews and adopts a GRC which is a forecasted budget for the upcoming three-four years, depending on the utility. The GRC is the CPUC’s primary opportunity to review utility operations, investments, and associated costs. As part of the GRC, the CPUC adopts a revenue requirement which refers to the annual amount of money that IOUs are authorized by the CPUC to collect in rates from their customers. The GRC phase 1 decision establishes the revenue requirement for the “test year” and for the following three (or two) “attrition years.” The test year is the year in the future for which costs are estimated. Typically, IOUs file GRCs every four or three years, depending on the type of utility. Tax expenses are among the expenses reviewed during the GRC.

Tax Act Memorandum Accounts (TAMAs). A utility’s income taxes are among the expenses considered a cost of providing service. As the case with other expenses, income taxes are recoverable by the utility in the revenue requirement. In general, any increase or decrease in tax liabilities is accounted for through the GRC forecasting process for each utility based on the expected federal and state tax rates to the utility’s expected net operating income. Given that each utility’s GRC cycle is conducted on a unique schedule, any changes from recent federal tax law would typically not be accounted for until the utility’s next GRC. In the case of some utilities their GRC may not be until three-four years from now and for other utilities, they may currently be in the midst of their GRC. GRCs rely on forecasted tax expenses, therefore, actual tax liabilities may differ due to changes in federal tax law or realized earnings. These differences are typically tracked in memorandum accounts, TAMAs. TAMAs were implemented following the passage of the federal Tax Relief Act in 2011 which resulted in unexpected decreases in utility tax liabilities. The CPUC reviews the tax expenses tracked in the memorandum account as part of the utility's GRC.

Proposed Law: This bill would:

1. Require the CPUC to evaluate the full effect of all federal legislation that becomes law, including the enactment of federal House Resolution 1 (Public Law 115-97) and federal House Resolution 1 (Public Law 119-21), otherwise known as the One Big Beautiful Bill Act, on the expenses and tax liabilities incurred by public utilities for the payment of federal taxes, and, if the CPUC determines that the projected expenses and tax liabilities for federal taxes that the CPUC has authorized in the rates for a public utility are materially affected by the enactment of Public Law 115-97, Public Law 119-21, or any other federal law, to adjust the rates of the public utility to reflect the changes in projected expenses and tax liabilities in light of the changes in federal law.

2. Restate that the section does not limit the discretionary authority of the CPUC to determine the full effect of the changes in federal tax law on each public utility's cost of service, to utilize appropriate mechanisms at its disposal to track changes and adjust rates accordingly, and to allocate the impacts from changes in federal tax law over the period of time that results in the most reasonable allocation based on the particular circumstances of each public utility.

3. Retain the application of the section to only those public utilities over which the CPUC exercises its authority to fix rates and only to the extent the revenue requirements of the public utility were based upon the tax rates in effect at the time rates were fixed for the public utility by the CPUC.

4. Restate that the section does not limit the discretionary authority of the CPUC to adjust any incentives provided pursuant to any state supervised or administered program, including the state's telecommunications universal service programs administered pursuant to Chapter 1.5 (commencing with Section 270).

Related Legislation:

AB 1715 (Schiavo, 2026) would require specified quarterly and annual reporting by electrical and natural gas corporations regarding federal funding received from federal legislation adopted under the Biden administration and other non-ratepayer sources. The bill would also require the CPUC to develop a searchable database for utility advice letters.

SB 1028 (Hill, 2018) required the CPUC to evaluate the full effect of the recently adopted federal corporate tax cuts on the expenses and tax liabilities incurred by public utilities for payment of federal taxes and adjust the rates of the utilities to reflect any changes.

Staff Comments:

Ratepayer impacts. This bill would amend Section 751 of the Public Utilities Code to require the CPUC to account for all changes in federal tax law with rate adjustments, to the extent they are warranted, and would explicitly mention the One Big Beautiful Bill Act. With each utility being uniquely affected by the tax changes, not all ratepayers may experience rate changes. However, to the extent a utility's federal tax obligations have reduced overall, the utility's ratepayers are likely to have a reduction in the rates associated with the tax expenses that would have been collected for federal taxes. Since overall rates may be affected by numerous other factors and expenses, it's unclear whether the reduction in tax liabilities will guarantee reduced rate recovery overall.

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