

This bill:

- 1) Provides that it is the policy of the state that forecast-based ratemaking through the regularly scheduled general rate case (GRC) process is the preferred and primary method of establishing authorized revenue requirements for electrical corporations and gas corporations.
- 2) Requires the CPUC, in exercising its ratemaking authority over all public utilities, to adhere to specified principles and requirements, including requirements that forecast-based ratemaking be the default approach for establishing revenue requirements and cost recovery mechanisms and that memorandum accounts and balancing accounts, as defined, be authorized and maintained only under exceptional circumstances.
- 3) Requires each memorandum account or balancing account authorized by statute or by the CPUC to include an expiration date.
- 4) Authorizes the CPUC to establish exceptions to those principles and requirements for categories of costs not reviewed in a GRC, as provided.

Background

General Rate Case. The CPUC addresses the costs of operating and maintaining investor-owned utility (IOU) systems through GRC proceedings. The CPUC evaluates detailed cost data from both past expenses and utility forecasts of likely future costs, and establishes how much money the utilities are allowed to collect for the first year – called a test year. They then prescribe how to adjust the test year budget for inflation and other factors that may affect costs, such as additional capital projects, for the following three years, summing to a total of four years that each GRC cycle encompasses. The GRC is an adversarial proceeding occurring every four years (every three years in some cases) at which the IOU asserts all anticipated costs of doing business, as well as, uncompensated costs the IOU incurred prior to the immediate GRC. Various parties engaged and may dispute the IOU's purported costs, particularly the Public Advocates Office and The Utility Reform Network. The CPUC through the administrative law judge, presiding commissioner, and ultimately vote by the commissioners, considers the evidence, authorizes an amount of budgets funds the IOU may collect from its ratepayers the CPUC deems sufficient to cover all the IOU's just and reasonable costs, plus a reasonable amount of return on investment.

Balancing and memorandum accounts. An IOU may also recover costs beyond those approved by the CPUC in the IOU's GRC. These include through the use of

balancing accounts and memorandum accounts. Generally, the CPUC authorizes an IOU to use a balancing account to track costs for a defined scope of work that are foreseeable but difficult to estimate accurately (fuel costs, for example) and authorizes the IOU to collect those costs from ratepayers. However, if the actual costs the IOU records in the balancing account differs from the amount the CPUC approved the IOU to collect, then the CPUC will adjust the IOU's rates to reflect the difference. It is important to note that the CPUC generally does not review an IOU's balancing account expenditures for reasonableness, though the CPUC may periodically audit such an account. Memorandum accounts are generally used for expenses that are unexpected (for example the catastrophic even memorandum account). The IOU tracks their costs in the memorandum account and ultimately submits those costs to the CPUC for cost recovery. The application proceeding may entail scrutiny to ensure the costs are just and reasonable and the CPUC may disallow some or all of the costs. Any costs that are disallowed must necessarily be paid by shareholders.

Comments

Need for this bill. The supporters of this bill contend additional safeguards, restrictions, and disincentives are needed to limit IOUs' use of balancing and memorandum accounts. They argue that California's current affordability crisis for energy utility rates is in part the product of a shift away from relying on the GRC to establish rates on a forecast basis for a wide array of utility operations over a multi-year period, in favor of greater utility opportunities to recover recorded costs, even where dramatically higher than the adopted forecasts, through memorandum and balancing accounts. They contend that GRCs and other forecast-based rate setting, where the CPUC adopts a reasonable forward-looking forecast and the regulated utility's cost recovery is tied to operating subject to that adopted forecast, is intended to provide utility management with more effective cost control incentives. The supporters state that in the last decade, and particularly since adoption of SB 901 (Dodd, Chapter 626, Statutes of 2018), which dealt with wildfire mitigation and liability costs, the major electric IOUs were permitted to record wildfire risk mitigation costs in a memorandum account and that as a result tens of billions of dollars of costs in addition to GRC-authorized forecasts have become eligible for recording in memorandum or balancing accounts and added to utility rates. They argue for a return to a greater reliance on GRCs and other forecast-based rate setting and limiting use of memorandum and balancing accounts to very limited circumstances in order to help curb the pace of recent rate increases.

Bill imposes limits on the use of memorandum and balancing accounts. This bill permits the CPUC to establish cost-sharing arrangements for memorandum

accounts and for amounts over the authorized amounts in the balancing accounts, where a portion of the costs may be paid by the IOU shareholders and to reduce the IOUs' return on capital investments in these accounts. This bill also requires the CPUC to impose expiration dates on the balancing and memorandum accounts, with the goal of shifting these costs into the GRC. Given the numerous accounts, it is difficult to know whether all costs in these accounts should be in the GRC. This bill does provide the CPUC with authority to make exceptions to the financial costs imposed by this bill on IOUs of using these accounts, but does require expiration dates on all accounts.

Use of memorandum and balancing accounts. The use of memorandum and balancing accounts is common and can be required by legislation, CPUC direction, recommendations from IOUs and other stakeholders. An advantage of the use of balancing accounts is they allow an IOU to undertake work with uncertain costs without waiting for approval through the GRC. A disadvantage of the use of such accounts is the CPUC may scrutinize costs recorded in them less closely than it does costs asserted in the IOUs' GRCs. In the case of memorandum accounts, in theory an IOU is tracking costs for which it is not guaranteed to receive CPUC approval to be recovered in rates. Even with these risks to IOUs and advantages to address uncertain costs, supporters of this bill are likely just as concerned about the bandwidth necessary to engage in the multiple CPUC proceedings in order to ensure a thorough review of the costs in these accounts, as there are hundreds across the large IOUs.

Opponents argue against the limitations imposed by this bill. The utilities opposed to this bill argue that the limitations of this bill could impede their ability to provide safety and address unforeseen circumstances, including storms and other catastrophic events. In conversations, they note that the wildfire-related accounts are likely to be reduced with the recent passage of SB 254 (Becker, Chapter 19, Statutes of 2025) which, among its provisions, aligns the electric IOUs wildfire mitigation plans with their GRC cycles, thereby affording the opportunity to include forecasted costs for these expenses in the GRC.

Prior/Related Legislation

SB 905 (Becker) of 2026, includes various provisions to address electric utility bill affordability, including prohibiting a rate of return on capital costs in balancing accounts. The bill is pending in this committee.

SB 1233 (Allen) of 2026, requires the CPUC in approving certain rate changes proposed by electrical and gas corporations regarding cost of capital to take into account, and make specific findings, including related to wildfire risk reduction

efforts taken by the electrical corporation or gas corporation. The bill is pending in this committee.

SB 254 (Becker, Chapter 119, Statutes of 2025) among its provisions, aligns the wildfire mitigation plans and the GRC of the electric IOUs.

AB 2054 (Bauer-Kahan) of 2024, among its provisions, would have authorized the CPUC to allocate between ratepayers and shareholders any costs recorded in a balancing account above an authorized forecast. The bill was held in the Senate Appropriations Committee.

AB 2847 (Addis, Chapter 578, Statutes of 2024) required electric and gas IOUs to provide in their request for capital expenditures their best estimation, alongside supporting documents, of the impact of the proposed expenditures on the utility's authorized revenue for each year of the life of the capital asset, as well as the asset's net present value.

AB 3256 (Irwin) of 2024, would have required the CPUC, before July 1, 2025, to conduct a comprehensive audit of each wildfire- or emergency-related memorandum or balancing account of each electrical corporation. The bill was held in the Senate Appropriations Committee.

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

SUPPORT:

The Utility Reform Network (Sponsor)
California Environmental Voters
Climate Action Campaign
Public Advocates Office

OPPOSITION:

California Chamber of Commerce
Pacific Gas and Electric Company
San Diego Gas and Electric Company
Southern California Edison
Southern California Gas Company

ARGUMENTS IN SUPPORT: According to The Utility Reform Network:

The CPUC authorizes the rates that an investor-owned electrical or gas utility corporation (IOU) may charge customers forecasted costs to provide safe,

reliable, and affordable utility services, as determined through the General Rate Case (GRC) process, which takes place every four years. The GRC approach to commission can wholistically determine what a reasonable rate is. However, this only works if the utilities are motivated to stick to their authorized budgets and cannot simply raise rates to cover overspending. Over the last decade or so, there have been an increasing number of rate applications being filed outside the GRC process. These additional requests often stem from the creation of some kind of memorandum account or balancing account that provides opportunities for utilities to recover costs that exceed the budgets approved by the CPUC when authorizing current rates in the General Rate Case. ...The CPUC needs clear legislative direction to not just consider saying no, but to set a higher standard of proof of reasonableness to have a balancing or memorandum account created or renewed.

ARGUMENTS IN OPPOSITION: Southern California Edison and Pacific Gas and Electric Company state:

SB 1098 constrains regulatory flexibility needed for Investor-Owned Utilities (IOUs), ratepayer advocates, and the California Public Utilities Commission (CPUC). Memorandum and balancing accounts support tracking of incremental costs that, in some cases, are difficult to forecast in advance and, in other cases, may be mandated or important for safety and reliability. Existing law already imposes a high legal standard for authorizing memorandum and balancing accounts. Generally, the costs must be incremental to costs authorized in the GRC and reasonable. Moreover, these tracking mechanisms are not only sought by IOUs, but are relied upon by intervenors¹ and used by the Commission to set a lower forecast than would otherwise be needed to encourage spending on safety and reliability in the face of forecast uncertainty. SB 1098 ignores this and, instead, risks constraining the CPUC's ability to respond to legitimate, cost drivers unnecessarily. Many utility costs, particularly those related to wildfire mitigation, emergency response, and safety requirements, are appropriate for memorandum accounts because they allow for prudent spending on necessary risk and safety mitigation activities regardless of initial upfront cost authorization. Limiting memorandum and balancing accounts to "exceptional circumstances" undermines the current, proven standard that allows utilities to act promptly in response to unforeseen cost drivers while preserving CPUC oversight and reasonableness review over the spending.