
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1098 (Pérez) - Public utilities: forecast-based ratemaking

Version: March 24, 2026

Urgency: No

Hearing Date: May 4, 2026

Policy Vote: E., U. & C. 12 - 3

Mandate: Yes

Consultant: Ashley Ames

Bill Summary: This bill would implement policies to reduce the use of memorandum and balancing accounts by electrical and gas corporations.

Fiscal Impact:

- The California Public Utilities Commission (CPUC) estimates ongoing costs of about \$436,000 annually (ratepayer funds) for two positions to review existing accounts for large energy utilities to assess historical data, support a proceeding, research and recommend cost-sharing mechanisms as appropriate, and review and approve advice letters, among other things.

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.

Proposed Law: This bill would:

1. Provide that it is the policy of the state that forecast-based ratemaking through the regularly scheduled GRC process is the preferred and primary method of establishing authorized revenue requirements for electrical corporations and gas corporations.
2. Require 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. Require each memorandum account or balancing account authorized by statute or by the CPUC to include an expiration date.
4. Authorize the CPUC to establish exceptions to those principles and requirements for categories of costs not reviewed in a GRC, as provided.

Related Legislation:

SB 905 (Becker) of 2026, would implement various policies to address electric utility bill affordability, including prohibiting a rate of return on capital costs in balancing accounts.

SB 1233 (Allen) of 2026, would require 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.

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 on Suspense in this 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 on Suspense in this committee.

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