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THIRD READING

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Bill No: SB 1098  
Author: Pérez (D)  
Amended: 3/24/26  
Vote: 21

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SENATE ENERGY, U. & C. COMMITTEE: 12-3, 4/21/26

AYES: Allen, Archuleta, Arreguín, Becker, Caballero, Gonzalez, Hurtado,  
McNerney, Reyes, Richardson, Stern, Wahab

NOES: Ochoa Bogh, Dahle, Strickland

NO VOTE RECORDED: Grove, Rubio

SENATE APPROPRIATIONS COMMITTEE: 5-2, 5/14/26

AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab

NOES: Seyarto, Dahle

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**SUBJECT:** Public utilities: forecast-based ratemaking

**SOURCE:** The Utility Reform Network

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**DIGEST:** This bill requires specified actions by the California Public Utilities Commission (CPUC) to reduce the use of memorandum and balancing accounts by electrical and gas corporations.

**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 (PUC) §451)

- 3) Requires the CPUC, whenever the CPUC authorizes a change in rates reflecting and passing through to customers specific changes in costs, to require a public utility to establish and maintain a balancing account to reflect the balance between the related costs and revenues. (PUC §792.5)
- 4) Directs the CPUC to authorize public utilities to establish catastrophic event memorandum accounts, as provided. (PUC §454.9)
- 5) Authorizes each electrical corporation to establish a memorandum account to track costs incurred for wildfire risk mitigation that are unforeseen and incremental to the wildfire risk mitigation programs and activities authorized in the electrical corporation's revenue requirements, as specified. (PUC §8386.4)

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 memorandum accounts and balancing accounts, as defined, be authorized and maintained only under exceptional circumstances.
- 3) Requires the CPUC to take specific action if it authorizes the creation or continuation of a memorandum or balancing accounts, specifically:
  - a) Adopt cost-sharing mechanisms for costs recovered through the memorandum account, and costs above authorized amounts recovered through the balancing account, as applicable.
  - b) Adopt a rate of return that is lower than the utility's authorized rate of return on capital costs recovered through the memorandum account, and on capital costs above authorized amounts recovered through the balancing account, as applicable, to encourage the utility to rely less on the account and more on forecast-based ratemaking.

- 4) Requires each memorandum account or balancing account authorized by statute or by the CPUC to include an expiration date.
- 5) 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 (GRC).* 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 for some IOUs) 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 (PAO) and The Utility Reform Network (TURN). The CPUC through the administrative law judge, presiding commissioner, and ultimately vote by the commissioners, considers the evidence, authorizes an amount of budget 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 costs approved 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 (e.g. fuel costs) 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 event 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 the costs. Any costs that are disallowed must necessarily be borne by shareholders.

## Comments

*Need for this bill.* The supporters of this bill contend additional safeguards, restrictions, and incentives 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 costs 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 and explicitly authorized the major electric IOUs to record wildfire risk mitigation costs in a memorandum account has resulted in tens of billions of dollars of costs in addition to GRC-authorized forecasts that have added to customer's utility bills. According to PAO, the three largest electric IOUs have more than \$2 billion in costs that have not yet been requested for recovery and are thereby not reflected in rates.<sup>1</sup> Supporters of this bill argue for a return to a greater reliance on GRCs and other forecast-based rate setting, and limits on the use of memorandum and balancing accounts to help curb the pace of recent utility 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 within memorandum and balancing 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

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<sup>1</sup> <https://www.publicadvocates.cpuc.ca.gov/press-room/commentary/260409-understanding-memorandum-and-balancing-accounts>

these accounts should be in the GRC. This bill does provide the CPUC with authority to make exceptions to the financial costs imposed on IOUs by this bill. This bill requires expiration dates on all memorandum and balancing accounts, including those authorized by statute.

*Use of memorandum and balancing accounts.* The use of memorandum and balancing accounts is common and can be required by legislation and CPUC direction, sometimes at the recommendation of IOUs and other intervenors, including PAO or TURN. 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 and where the CPUC could disallow these costs if they are found to not be prudent (just and reasonable). However, supporters of this bill contend the expenses recorded in these accounts often receive limited scrutiny. In this regard, the supporters of this bill are likely to be just as concerned about the bandwidth necessary to engage in the multiple CPUC proceedings addressing the various IOU applications to recover costs in these accounts that fall outside the GRC, which can be hundreds across large IOUs.

*Opponents argue against the limitations imposed by this bill.* The IOUs opposed to this bill argue that the limitations of this bill could impede their ability to provide safe service and address unforeseen circumstances, including storms and other catastrophic events. They note that the wildfire-related accounts are likely to be reduced with the recent passage of SB 254 (Becker, Chapter 119, 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. They also take issue with the broad approach to this bill to require expiration dates for all memoranda and balancing accounts, as they note there are many that are necessary for ongoing utility operations (e.g. fuel costs). While this bill affords the CPUC discretion to make exceptions to the incentives (or disincentives) on the use of these accounts, as this bill proceeds, the author and Legislature may wish to ensure this bill affords the CPUC with sufficient discretion to ensure safe, reliable, and affordable utility service.

## **Related/Prior Legislation**

SB 905 of the current legislative session 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 the Senate.

SB 1233 of the current legislative session 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 electric IOUs. The bill is pending in the Senate.

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 by 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 by the Senate Appropriations Committee.

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

According to the Senate Appropriations Committee, 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.

**SUPPORT:** (Verified 5/14/26)

The Utility Reform Network (source)  
California Environmental Voters  
California Large Energy Consumers Association  
Climate Action Campaign  
Public Advocates Office  
Small Business Utility Advocates

**OPPOSITION:** (Verified 5/14/26)

California Chamber of Commerce  
Coalition of California Utility Employees  
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 intervenors 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.

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