Date of Hearing: August 5, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 1098 (Pérez) – As Amended June 29, 2026

Policy Committee: Utilities and Energy Vote: 11 - 3

Urgency: No State Mandated Local Program: Yes Reimbursable: No

SUMMARY:

This bill directs the California Public Utilities Commission (CPUC) to take a number of actions in furtherance of the following state policy, which this bill declares: 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 (IOUs) because it promotes greater oversight, transparency and protection for ratepayers.

Specifically, this bill directs the CPUC to:

1) Adhere to the following principals or requirements, with specified exceptions: (a) forecast-based ratemaking shall be the default approach for establishing revenue requirements and cost recovery mechanisms, (b) the CPUC shall authorize a memorandum account or balancing account only when necessary to address costs that cannot reasonably be forecasted in the GRC process and (c) if the CPUC authorizes a memorandum account or balancing account for a specific activity or program, the activity or program shall be transitioned to forecast-based ratemaking at the earliest opportunity once sufficient historical data exists to support forecast-based ratemaking.

2) Whenever CPUC authorizes creation of a memorandum account of balancing account, make a written finding explaining why such an account is necessary and why the relevant costs cannot be adequately forecasted and consider taking specified actions when the CPUC authorizes the creation of such an account, summarized here as (a) adopting mechanisms for sharing of costs between the IOU and its ratepayers, (b) adopting a rate of return that is lower than the IOU's authorized rate of return on capital costs and (c) assigning an expiration date to the memorandum account or balancing account.

3) Include in the subsequent relevant GRC proceeding each memorandum account or balancing account authorized by statute or by the CPUC before January 1, 2027, to consider assigning an expiration date to each memorandum account or balancing account.

The bill also provides that the ratemaking treatment of a memorandum account or balancing account that is in effect on January 1, 2027, shall remain unchanged until the CPUC reviews the memorandum account or balancing account during the next relevant GRC proceeding.

FISCAL EFFECT:

The main workload this bill creates for the CPUC is to (1) make written findings and specified considerations whenever it authorizes creation of a memorandum or balancing account, (2) increased review and consideration of existing memorandum or balancing accounts as part of each IOU's GRC. The CPUC estimates this work to equate to $436,000 annually, which includes the cost of an additional staff attorney and other personnel (Public Utilities Commission Utilities Reimbursement Account).

COMMENTS:

State law charges the CPUC with setting the rates that may be charged by IOUs, with the overarching requirement being that such rates be "just and reasonable." This means the CPUC authorizes an IOU to charge rates that enable the IOU to collect from its ratepayers (customers) an amount sufficient to cover the IOU's cost of providing service, plus a reasonable profit. The primary venue for determining an IOU's cost of service, and the rates that will allow the IOU to recover those costs, is the general rate case (GRC), an adversarial, multi-party proceeding through which the CPUC determines, based on IOU cost data, an IOU's cost of service and corresponding rates for the coming years (typically four).

However, it is regularly the case that an IOU encounters costs outside of the costs the CPUC considered in the IOU's GRC. The CPUC often authorizes the IOU to record such costs in what are known as "balancing accounts" and "memorandum accounts." Very generally, a balancing account tracks an IOU's actual expenditures for an approved cost category against forecast expenditures for cost the IOU anticipates but does not precisely know in advance. One typical type of expense an IOU records in a balancing account is spending on fuel. If the IOU expenditures remain with some bound of forecast expenditures, the CPUC, as a matter of course, allows the IOU to recover those costs in rates; otherwise, the IOU must petition the CPUC to allow it to recover those costs in rates. The venue for the IOU's petition is the "advice letter" process, which is typically less thorough than the GRC process.

In contrast, a memorandum account tracks expenditures for expenses the IOU did not anticipate, such as the cost to restore service after a disaster, and which the CPUC did not approve in advance. The IOU must petition the CPUC to recover in rates costs it recorded in memorandum account, and the CPUC's review of such a petition is more akin to the GRC process that is the CPUC's review a balancing account petition.

The author objects to the use of balancing accounts and memorandum accounts, or, at least, what the author views as their too-frequent use, which, the author contends, has "allowed utilities to pass through tens of billions of dollars in unexpected costs outside of the traditional regulatory review process." The author's contention is echoed by bill sponsor The Utility Reform Network (TURN), which similarly objects to the use of such accounts:

> California's affordability crisis is driven in part by utility overspending, passed through to customers via memorandum and balancing accounts. There are currently 38 pending rate increase requests from the major investor-owned utilities at the CPUC, each of which will be considered in a separate silo with no consideration of the cumulative effect on ratepayers. SB 1098 sets important limitations on the use of balancing and memorandum accounts to require, or at least encourage, the utilities to

> forecast their spending and include it in their GRC, rather than seek cost recovery in separate requests.

The IOU's disagree, describing the balancing and memorandum accounts as useful and the current oversight process as adequate and fair. For example, Pacific Gas and Electric and Southern California Edison argue:

> 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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