SENATE THIRD READING
SB 1098 (Pérez)
As Amended August 20, 2026
Majority vote

SUMMARY

Establishes forecast-based ratemaking as the preferred and primary method for setting authorized revenue requirements for electrical and gas corporations (IOUs), and limits the use of memorandum and balancing accounts to circumstances where costs cannot reasonably be forecasted. Codifies new principles and requirements governing the California Public Utilities Commission's (CPUC) ratemaking authority when authorizing the use of memorandum and balancing accounts, and also requires CPUC review of existing accounts already in effect.

Major Provisions

1) Declares it the policy of California that forecast-based ratemaking through the general rate case (GRC) process is the preferred and primary method for establishing revenue requirements for IOUs, as it promotes greater oversight, transparency, and ratepayer protection.

2) Requires the CPUC, in exercising its ratemaking authority, to adhere to the following principles:

   a) Treat forecast-based ratemaking as the default approach for establishing revenue requirements and cost recovery mechanisms.

   b) Authorize and maintain memorandum or balancing accounts only when necessary to address costs that cannot reasonably be forecasted in the GRC process, and require the CPUC to make a written finding explaining why the account is necessary and why the relevant costs cannot be adequately forecasted.

   c) Transition any activity or program tracked through a memorandum or balancing account to forecast-based ratemaking at the earliest opportunity once sufficient historical data exists.

3) Requires the CPUC, when authorizing the creation or continuation of a memorandum or balancing account, to consider taking the following actions:

   a) Adopt cost-sharing mechanisms for costs recovered through the account,

   b) Adopt a rate of return lower than the IOU's authorized rate of return on capital costs recovered through the account, to discourage reliance on such accounts, or

   c) Assign an expiration date to the account.

4) Requires that every memorandum or balancing account authorized by statute or by the CPUC before January 1, 2027, be included and reviewed in the utility's subsequent GRC proceeding, during which the CPUC shall consider assigning an expiration date to the account.

5) Authorizes the CPUC to establish exceptions to the above principles for categories of costs not reviewed pursuant to the new review requirement described above (e.g., in a GRC), such as low-income rate discounts, or where an account's explicit purpose is to reduce the IOU’s incentive to disconnect customers for nonpayment.

6) Clarifies that these new provisions do not limit the CPUC's existing authority to ensure just and reasonable rates under existing law, or to implement a memorandum or balancing account expressly required by statute.

7) Provides that the ratemaking treatment of any memorandum or balancing account in effect on January 1, 2027, remains unchanged until the CPUC completes the review required by this bill.

COMMENTS

The venue for determining the revenue requirement and the cost functions and customer allocations for cost-of-service ratemaking is the GRC. Each IOU files a GRC application every four years. The GRC is an adversarial proceeding 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 engage and may dispute the IOU’s purported costs. The CPUC, through the administrative law judge, the presiding commissioner, and ultimately the vote by the commissioners, considers the evidence and authorizes an amount of budgeted funds the IOU may collect from its ratepayers that it deems sufficient to cover all of the IOU's just and reasonable costs, plus a reasonable return on investment.

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 that are expected and occur on a regular basis but cannot be estimated accurately. These accounts are subject to audit and adjustment, but do not automatically undergo a reasonableness review. Rather, the CPUC authorizes a scope of the recorded activity, and a maximum level of acceptable expense, before the IOU undertakes the activity. If the CPUC authorizes a forecasted amount and also a balancing account for that activity, then when actual costs are higher or lower than the authorized forecast, rates are adjusted up or down to compensate for the forecasting error.

Although utilities forecast their future costs during the GRC proceeding, the utilities may later incur costs that they did not anticipate – including, for example, restoring service after a catastrophic event, or the costs associated with new legislation enacted after its GRC proceeding. Utilities track these unauthorized costs in memorandum accounts and retain records for further review by the CPUC at a later date. To recover unanticipated costs, a utility may file a cost recovery application with the CPUC. Just as occurs during GRC proceedings, an administrative judge presides over the cost recovery proceeding, and interested parties may protest any part of the utility’s request. If the commissioners find that the costs are reasonable, the commissioners may authorize the utilities to adjust rates to recover the costs.

Before the regular use of memorandum and balancing accounts, utilities were at risk of absorbing the cost of unforeseen activities until the next GRC is authorized, a process years in the making.

SB 1098 raises the policy question of how to calibrate the use of memorandum and balancing accounts – preserving their availability where justified while preventing their proliferation to a degree that undermines ratepayer and regulatory oversight. Where costs are genuinely difficult to forecast or arise from unexpected circumstances outside a utility's control, tracking costs in these accounts for subsequent CPUC review serves a legitimate ratemaking purpose. However, an excessive number of active accounts fragments oversight, delays reasonableness review, and obscures the true cost of utility operations – making it difficult for ratepayer advocates to meaningfully scrutinize utility spending and participate effectively in the ratemaking process

According to the Author
"SB 1098 is a critical step in addressing California's broader affordability crisis. Families across the state are feeling the pressure of rising costs in every aspect of their daily lives, and energy bills are no exception. At a time when Californians are stretching every dollar, we must ensure that utility costs are fair, transparent, and justified. This bill brings much-needed accountability to investor-owned utilities (IOUs) by placing guardrails on how costs are recovered from ratepayers. For too long, so-called "memorandum and balancing accounts" have allowed utilities to pass through tens of billions of dollars in unexpected costs outside of the traditional regulatory review process. SB 1098 restores balance by establishing clear and responsible standards for these accounts. Specifically, the bill requires expiration dates, ensures that any rate of return applied to these costs is lower than the utility's authorized rate of return, and introduces cost-sharing mechanisms so that ratepayers are not bearing the full burden. SB 1098 strikes the right balance by protecting consumers from unchecked cost increases while still allowing utilities the ability to manage their expenses reasonably. It is a measured, thoughtful approach that puts Californians first."

Arguments in Support
Supporters argue that the proliferation of memorandum and balancing accounts has enabled IOUs to bypass the budget discipline of the GRC process by passing through tens of billions of dollars in retrospective cost recovery. They argue that the GRC process only works as a cost-containment mechanism if IOUs cannot simply recover overspending retrospectively through separate account applications, and that this bill restores that discipline. Supporters also note that under existing law, if an IOU spends less than its GRC-authorized amount, shareholders profit – but if costs exceed the forecast, shareholder risk is currently mitigated by passing through to ratepayers via memorandum and balancing accounts. They argue that this bill would partially rebalance this risk allocation.

Arguments in Opposition
Opponents argue that memorandum and balancing accounts do not create costs – they are accounting tools that track costs already incurred, largely pursuant to legislative mandates. They contend that restricting these accounting tools does not reduce the underlying expenditures; it simply obscures them. They also argue that reducing access to balancing mechanisms would force utilities to build larger contingency buggers into GRC forecasts, potentially increasing upfront rates, and would increase perceived investment risk, raising the cost of capital passed on to ratepayers.

FISCAL COMMENTS

According to the Assembly Committee on Appropriations, this bill will result in approximately $436,000 annually in costs for the CPUC to implement.

VOTES

SENATE FLOOR: 30-9-1
YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Reyes, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener
NO: Alvarado-Gil, Choi, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares
ABS, ABST OR NV: Dahle

ASM UTILITIES AND ENERGY: 11-3-4
YES: Petrie-Norris, Boerner, Mark González, Harabedian, Hart, Irwin, Kalra, Papan, Rogers, Schiavo, Schultz
NO: Patterson, Calderon, Davies
ABS, ABST OR NV: Chen, Ta, Wallis, Zbur

ASM APPROPRIATIONS: 11-3-1
YES: Wicks, Arambula, Calderon, Caloza, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache
NO: Hoover, Dixon, Tangipa
ABS, ABST OR NV: Ta

UPDATED

VERSION: August 20, 2026

CONSULTANT: Laura Shybut / U. & E. / (916) 319-2083 FN: 0003950