SENATE THIRD READING
SB 1098 (Pérez)
As Amended August 28, 2026
Majority vote

SUMMARY

Establishes the *general rate case (GRC)* process 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 *anticipated* in the GRC process. 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 requires CPUC review of existing accounts and *closure of accounts that are no longer necessary***.**

Major Provisions

1) *Deletes* the requirement that forecast-based ratemaking be the preferred and primary method for establishing revenue requirements, and instead provides that the *regularly scheduled GRC process is* the preferred and primary method, as it promotes greater oversight, transparency, and ratepayer protection.

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

    a) Authorize and maintain memorandum or balancing accounts only when necessary to address costs that cannot reasonably be *anticipated* in the GRC process, and require the CPUC to make a written finding explaining why the account is necessary, why the relevant costs *are outside the IOU's control, and why the relevant costs* cannot be adequately *anticipated.*

    b) Transition any activity or program tracked through a memorandum or balancing account to forecast-*based as sufficient historical data becomes available to support that approach.*

3) Requires the CPUC, when authorizing the creation or continuation of a memorandum or balancing account, to consider as appropriate:

    a) **Consider** cost-sharing mechanisms for costs recovered through a memorandum account, and for costs above authorized amounts recovered through a balancing account.

    b) A rate of return lower than the IOU's authorized rate of return on capital costs recovered through a memorandum account, and on capital costs above authorized amounts recovered through a balancing account, to encourage the utility to rely less on the account.

    c) Assign an expiration date to the account.

    d) 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 cycle, or at a similar cyclical review interval to the GRC* *proceeding. Requires the CPUC, as part of that review, to close any memorandum or balancing account it determines is no longer necessary including, but not limited to, accounts established to track costs related to wildfire mitigation, system hardening, undergrounding, or emergency response where the tracked costs can be adequately addressed through the GRC process.*

4) *Requires the CPUC, as part of its cyclical review process, to prepare a report to post on its public website about the process and outcome of its review of each utility's memorandum and balancing accounts.*

COMMENTS

The general rate case (GRC) is the primary proceeding for determining an IOU's revenue requirement and allocating costs among customers. Each IOU files a GRC application every four years, identifying its anticipated costs of doing business. Parties may challenge the utility's proposed costs, and the CPUC ultimately determines the amount the IOU may collect from ratepayers to cover its just and reasonable costs, including a reasonable return on investment. In addition to the GRC, IOUs may also recover costs through balancing and memorandum accounts. Generally, balancing accounts track costs that are expected but cannot be estimated accurately. When actual costs are higher or lower than the amount authorized by the CPUC, rates may be adjusted to account for the difference.

Similarly, IOUs may incur costs that were not anticipated during the GRC, such as costs associated with restoring service after a catastrophic event or implementing new legislation. These costs may be tracked in memorandum accounts for later CPUC review. To recover the costs, a utility may file a cost recovery application, which gives interested parties an opportunity to challenge the request before the CPUC determines whether recovery is reasonable.

Therefore, SB 1098 raises the policy question of how to balance the use of memorandum and balancing accounts with the oversight provided through the GRC process. These accounts allow utilities to address costs that cannot reasonably be *anticipated in a GRC*, but the proliferation of these accounts can fragment oversight and make it more difficult to assess overall utility spending. This bill seeks to address this concern by limiting when these accounts may be authorized, requiring existing accounts to be reviewed *on a cyclical basis, and requiring the CPUC to close accounts that are no longer necessary because the tracked costs can be adequately addressed through the GRC.*

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 measure 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

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CONSULTANT: Lina V. Malova / U. & E. / (916) 319-2083 FN: 0004454