Office of Senate Floor Analyses
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UNFINISHED BUSINESS

Bill No: SB 1098
Author: Pérez (D), et al.
Amended: 8/28/26
Vote: 21

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

SENATE FLOOR: 30-9, 5/27/26
AYES: 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
NOES: Alvarado-Gil, Choi, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland, Valladares
NO VOTE RECORDED: Dahle

ASSEMBLY FLOOR: Passed, 8/31/26

SUBJECT: Public Utilities Commission: memorandum and balancing accounts

SOURCE: The Utility Reform Network

DIGEST: This bill requires specified actions by the California Public Utilities Commission (CPUC) to reduce electrical and gas corporations' use of memorandum and balancing accounts, mechanisms to recover costs that are outside the primary budgets of the utility's general rate case (GRC).

Assembly Amendments require the CPUC to consider specified actions when authorizing a memorandum or balancing account instead of require specified actions, including assigning an expiration date and lower return on equity (ROE); requires the CPUC to review existing memorandum and balancing accounts before January 1, 2027, within the respective utility's GRC or at a similar cyclical review interval and maintains the treatment of those accounts until that time; require the CPUC to prepare a report about the outcome of the review; authorizes the CPUC to close accounts that are no longer necessary; removes references to forecast-based ratemaking.

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) Makes various findings and declarations about the expansion of memorandum and balancing accounts and the CPUC's authority to determine the use of memorandum accounts for wildfire mitigation costs.

2) Provides that it is the policy of the state that regularly scheduled GRC process is the preferred and primary method of establishing authorized revenue requirements for electrical corporations and gas corporations.

3) Requires the CPUC, in exercising its ratemaking authority, to apply specified principles and requirements, including a requirement that memorandum accounts and balancing accounts, as defined, be authorized and maintained only when necessary to address costs that cannot reasonably be anticipated in the GRC, as provided.

4) Requires the CPUC to consider taking specified actions when a memorandum or balancing account is created or continued, including adopting cost-sharing mechanisms, adopting a lower rate of return, and assigning an expiration date.

5) Requires each memorandum account or balancing account authorized by statute, or by the CPUC, before January 1, 2027, to be included and reviewed in the subsequent GRC proceeding cycle or at a similar cyclical review interval to the GRC proceeding, as provided.

6) Requires the CPUC, as part of its review, to close any memorandum account or balancing account if the CPUC determines that the account is no longer necessary, as specified.

7) Authorizes the CPUC to establish exceptions to those principles and requirements for categories of costs not reviewed pursuant to that requirement, including low-income rate discounts.

8) Requires the CPUC to prepare a report to post on its public website about the process and outcome of the review of each utility's memorandum accounts and balancing accounts.

9) Requires that the ratemaking treatment of memorandum accounts or balancing accounts that are in effect on January 1, 2027, remain unchanged until the CPUC reviews the account pursuant to that requirement.

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 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, wildfire-related 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.[1] 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.

Proponents' goal is to limit the use of memorandum and balancing accounts. This bill is intended to reduce utility's reliance on memorandum and balancing accounts. This bill requires the CPUC to review the utility's memorandum and balancing accounts as part of the GRC, or a similar cyclical review interval, and requires the CPUC to report on the outcomes of these reviews. This bill also requires the CPUC to explain why an account is necessary and why the costs must fall outside the utility's control and can not be adequately anticipated. When the CPUC authorizes a new account or the continuation of an account, this bill requires the CPUC to consider establishing 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 costs within memorandum and balancing accounts. This bill also requires the CPUC to consider imposing 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 these accounts should be in the GRC. However, this bill provides the CPUC with authority to make exceptions to these considerations for certain costs or where the CPUC determines these accounts are necessary. This bill also authorizes the CPUC to close accounts that are no longer necessary.

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

Use of memorandum and balancing accounts. The use of memorandum and balancing accounts by utilities can be 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 concerned with the bandwidth necessary to engage in the multiple CPUC proceedings addressing the various IOU applications to recover costs 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 consider 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).

Related/Prior Legislation

AB 2065 (Petrie-Norris, 2026) requires the CPUC to assess specified penalties on electrical corporations, gas corporations, water corporations, sewer system corporations, or telephone corporations if they record costs in financial accounts that are prohibited from being recovered from ratepayers or the cost is already authorized for recovery through another ratemaking mechanism. The bill is pending before the full Senate.

SB 905 (Becker, 2026) includes various provisions to address electric utility bill affordability, including prohibiting a rate of return on capital costs in balancing accounts. The bill is headed to the Governor.

SB 1233 (Allen, 2026) would have required 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 was held by the Assembly Appropriations Committee.

SB 254 (Becker, Chapter 119, Statutes of 2025) among its provisions, aligns the wildfire mitigation plans and the GRC of the electric IOUs.

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

According to the Assembly Appropriations Committee, 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).

SUPPORT: (Verified 8/30/26)

The Utility Reform Network (Source)
California Environmental Voters
California Large Energy Consumers Association
Central Orange County Democratic Club
Citizens' Climate Lobby, Orange County Central Chapter
City of Laguna Beach
City of San Diego
Climate Action California
Climate Action Campaign
College Democrats at UC Irvine
Democrats of Greater Irvine
Irvine Valley College Democrats
Natural Resources Defense Council
Orange County Climate Voter Guide
Orange County Young Democrats
Public Advocates Office
Small Business Utility Advocates
Sunrise Movement Orange County

United Nations Association, Orange County
Women for American Values and Ethics

OPPOSITION: (Verified 8/30/26)

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 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.

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