
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**

**Senator Benjamin Allen, Chair
2025 - 2026 Regular**

Bill No:	SB 1233	Hearing Date:	4/21/2026
Author:	Allen		
Version:	4/9/2026 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Nidia Bautista		

SUBJECT: Public utilities: rates

DIGEST: This bill requires specific actions related to cost of capital for electrical and gas corporation rate changes.

ANALYSIS:

Existing law:

- 1) Establishes and authorizes the California Public Utilities Commission (CPUC) to fix the rates and charges for every public utility and requires that those rates and charges be just and reasonable. (Article XII of the California Constitution, Public Utilities Code §451)
- 2) Prohibits a public utility from changing a rate or altering a classification, contract, practice, or rule that would result in a new rate, except upon a showing before the CPUC and a finding by the CPUC that the new rate is justified and the public utility notifying its customers of the rate change. (Public Utilities §454)
- 3) Requires at the time fixed for any hearing before the CPUC or a commissioner, or the time to which the hearing has been continued, the complainant and the corporation or person complained of, and such corporations or persons as the CPUC allows to intervene, shall be entitled to be heard and to introduce evidence. Requires the CPUC to issue process to enforce the attendance of all necessary witnesses. After the conclusion of the hearing, requires the CPUC to make and file its order, containing its decision. Except for decisions filed after hearings held under Section 1702.1, the decision shall contain, separately stated, findings of fact and conclusions of law by the CPUC on all issues material to the order or decision. A copy of such order, certified under the seal of the CPUC, shall be served upon the corporation or person complained of, or his or its attorney. The order shall, of its own force, take effect and become operative 20 days after the service thereof except as otherwise provided by the

CPUC, and shall continue in force either for a period designated in it or until changed or abrogated by the CPUC. If the CPUC believes that an order cannot be complied with within 20 days, it may prescribe such additional time as in its judgment is reasonably necessary to comply with the order, and may on application and for good cause shown, extend the time for compliance fixed in its order. Decisions rendered in response to complaints filed and processed pursuant to Section 1702.1 shall not be considered as precedent or binding on the CPUC or the courts of this state. (Public Utilities §1705)

This bill:

- 1) Requires an electrical corporation or gas corporation proposing to change a rate or to alter a classification, contract, practice, or rule that would result in a new rate, based directly or indirectly on its request for return on invested capital, to include in its proposal certain information, specifically:
 - a) Information showing the amount of internally generated cash available to self-fund investment needed to provide safe and reliable public utility services, including deferred taxes, depreciation, and amortization, and the extent of the need to acquire external investment.
 - b) Information showing the relationship between capital structure and return on equity that minimizes the overall revenue requirement, including taxes.
- 2) Requires the CPUC, in approving the rate change, to take into account, and make specific findings related to wildfire risk reduction efforts taken by the electrical corporation or gas corporation.

Background

Cost of Capital proceeding. Separate from the general rate case (GRC), but informing the GRC, is the cost of capital proceeding at the CPUC. An investor-owned utilities' (IOUs') rate of return, or cost of capital, is the weighted average cost of debt, preferred equity, and common stock the IOU has issued to finance its capital investments. Cost of debt is determined by weighted average interest rates on long-term debt issuances. The cost of common stock, expressed as the return on equity (ROE), represents the financial return to shareholders that invest in common stock and is expressed as a percentage. The CPUC says it "attempts to set the authorized ROE at a level that is adequate to enable the IOU to attract investors to finance the replacement and expansion of its facilities so it can fulfill its public utility service obligation." The CPUC determines the ROE through the cost of capital proceeding which they undergo every three years to examine various

financial models and estimate market returns on investments for other companies with similar levels of risk.

Comments

Need for this bill. According to the author:

SB 1233 seeks to address concerns that the authorized ROE, the allowed utility profit, is one of the contributors to rising unaffordable utility bills for California residents and that ratemaking is not more comprehensively considering utility performance in order to protect ratepayers. Californians, particularly in IOU service areas, have seen their bills skyrocket over recent years while at the same time utility profits have grown¹.

Desire to address IOUs' ROE. This bill reflects concerns raised by several stakeholders, including research published by the Energy Institute at Haas School of Business at UC Berkeley which found that, based on national data, regulators tended to authorize a higher ROE than necessary to attract investors. Their study estimated the cost to consumers across the country from excess rates of return averaged around \$7 billion per year over the past three decades. The author raises concerns that an overly high ROE can mean millions more dollars directly put on the backs of ratepayers that is pure profit and unnecessary for improvements to infrastructure and service. This also exacerbates the “capital expenditure bias” wherein a utility may be incentivized to pursue projects that are more expensive than necessary, since expensive projects maximize investor returns.

Recent CPUC decision kept the authorized ROE near 10%. The author points out a recent CPUC decision which kept the authorized ROE near 10% for all three large electric IOUs, with dissent from one CPUC commissioner and opposition from several consumer groups arguing for a lower rate. In particular, critics have contended that utilities remain a low investment risk industry due to the ability to predictably recover costs from ratepayers. The author desires to begin chipping away at these structural biases in order to help consumers experience more affordable electric and gas utility bills.

Opponents to this bill raise concerns about this bill potentially redundant and vague requirements. San Diego Gas & Electric and Southern California Gas Company argue this bill would increase regulatory risk and uncertainty, which investors and credit agencies directly factor into the cost of capital. They argue that unpredictable and inconsistent regulatory environments are viewed as higher risk by investors and credit agencies, which translate into higher costs to customers in

¹ <https://calmatters.org/economy/2025/01/electricity-bills-include-bonuses-for-utility-companies/>

rates. In order to address the concerns raised by the opposition, as the bill proceeds, the author may wish to clarify which findings are required in relation to wildfire expenses.

Amendments. *The author and committee may wish to amend the second reference to gas corporations in the bill when referencing wildfire risks.*

Prior/Related Legislation

SB 905 (Becker) of 2026, among other changes, removes certain expenditures from the authorized ROE. The bill is pending before this committee.

SB 1098 (Perez) of 2026, requires the CPUC to reduce the rate of return for capital expenses in balancing and memorandum accounts. The bill is pending before this committee.

AB 1677 (Boerner) of 2026, contains similar financial disclosures but also includes a cap for ROE. The bill is pending in the Assembly Utilities and Energy Committee.

AB 2463 (Petrie-Norris) of 2026, requires the CPUC to identify the models used when determining ROE. The bill is pending in the Assembly Appropriations Committee.

AB 2710 (Bauer Kahan) of 2026, creates limits on ROE in certain circumstances. The bill is pending in the Assembly Utilities and Energy Committee.

AB 1017 (Boerner, Chapter 177, Statutes of 2025) required disclosure of the authorized and actual ROE during GRC proceedings

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

SUPPORT:

None received

OPPOSITION:

California Chamber of Commerce
Pacific Gas and Electric Company
San Diego Gas and Electric Company

Southern California Edison
Southern California Gas Company

ARGUMENTS IN SUPPORT: According to the author:

Electricity bills are skyrocketing and have become unaffordable for too many Californians. At the same time, we as a state are trying to encourage electrification to reach our climate goals, our communities are facing devastating losses from utility-sparked wildfires, and utility profits are reaching record highs year after year. Over-inflated authorized return on equity may be costing ratepayers across the country billions per year, compounded by the added costs of interest, taxes, and capital expenditure biases. To best protect ratepayers from these unnecessary costs, California needs to be taking a more holistic and comprehensive look at utility performance and behavior and ensure we have all the financial information necessary to make accurate determinations about the appropriate return on equity.

ARGUMENTS IN OPPOSITION: Pacific Gas & Electric Company states:

SB 1233 increases regulatory uncertainty and risks higher long-term costs for customers. By altering established ratemaking standards and introducing new statutory constraints, SB 1233 creates uncertainty that can undermine investor confidence and credit quality. Regulatory risk directly affects the cost of capital, and higher financing costs ultimately flow through to customers. A stable, predictable regulatory framework is essential to supporting the investments needed to maintain safety, reliability, wildfire mitigation, and California's clean energy transition.

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