

THIRD READING

Bill No: SB 1233
Author: Allen (D)
Amended: 4/27/26
Vote: 21

SENATE ENERGY, U. & C. COMMITTEE: 13-4, 4/21/26

AYES: Allen, Archuleta, Arreguín, Becker, Caballero, Gonzalez, Hurtado,
McNerney, Reyes, Richardson, Rubio, Stern, Wahab

NOES: Ochoa Bogh, Dahle, Grove, Strickland

SENATE APPROPRIATIONS COMMITTEE: 5-2, 5/14/26

AYES: Cervantes, Cabaldon, Grayson, Richardson, Wahab

NOES: Seyarto, Dahle

SUBJECT: Public utilities: rates

SOURCE: Author

DIGEST: This bill requires an electrical corporation or gas corporation proposing to change a rate or to alter a classification 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.

ANALYSIS:

Existing law:

- 1) Establishes and vest the California Public Utilities Commission (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) 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. (PUC §454)
- 4) 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.
- 5) 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. (PUC §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.

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.

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

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 of this bill raise concerns that this bill is potentially redundant and has 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 rates. In order to address the concerns raised by the opposition, as this bill proceeds, the author may wish to clarify which findings are required in relation to wildfire expenses.

Related/Prior Legislation

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

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 in the Senate.

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

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

AB 2710 (Bauer Kahan) of 2026, creates limits on ROE in certain circumstances. The bill was held by the Assembly Appropriations 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

According to the Senate Appropriations Committee, unknown, potentially significant one-time costs, possibly in the low hundreds of thousands of dollars (ratepayer funds), for the California Public Utilities Commission (CPUC), in approving a rate change, to take into account and make specific findings related to an electrical corporation's wildfire risk reduction efforts.

SUPPORT: (Verified 5/14/26)

Consumer Watchdog

OPPOSITION: (Verified 5/14/26)

California Chamber of Commerce
Pacific Gas and Electric Company
San Diego Gas and Electric Company
Southern California Edison
Southern California Gas Company
Utility Wildfire Survivor Coalition

ARGUMENTS IN SUPPORT: According to Consumer Watchdog:

SB 1233 is a modest step forward in empowering the Commission with all the information it needs to set an appropriate level of profit on the utilities' investments. In December 2025, the California Public Utilities Commission voted 4–1 to keep utility profit margins near 10%, despite calls from consumer advocates to lower them to about 6%. PG&E's rate of return is now 9.98%, down from 10.28%, San Diego Gas & Electric's is now 9.93%, down from 10.23%, Southern California Gas is down to 9.78% from 10.08%, and Southern California Edison's is now 10.03%, down from 10.33%. California has some of the highest rates in the country, second only to Hawaii. Each additional 1% in rate of return costs utility ratepayers \$1.13 billion annually, according to an analysis by former Sempra executive Mark Ellis. The bill could create the basis for a more reasonable profit level by requiring the utilities to provide information showing the amount of internally generated cash available to self-fund investment, as well as information showing the relationship between capital structure and return on equity that minimizes the overall revenue requirement, including taxes.

ARGUMENTS IN OPPOSITION: Pacific Gas & Electric Company states:

SB 1233 does not address affordability in its duplicative and unnecessary approach to CPUC oversight. The CPUC already rigorously reviews utility rate proposals, including the relationship between investment, risk, and return, through General Rate Cases, Cost of Capital, and other proceedings. For example, the Cost of Capital proceedings are designed to specifically review utility rates of returns, including capital structure and return on equity (ROE). This practice is designed to deliver a balanced ROE and capital structure that accounts for risks and to approve a ROE and capital structure accordingly. PG&E already provides its external funding needed in the CPUC. Under the provisions of SB 1233 (Allen), utilities would bear the burden of proof and must justify the reasonableness of all requested revenue. Requiring additional submissions and findings tied specifically to return on invested capital-based proposals will add complexity, cost, and delay without improving affordability, regulatory streamlining or customer cost protections.

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