

Date of Hearing: June 10, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

SB 1233 (Allen) – As Amended June 3, 2026

SENATE VOTE: 29-8

SUBJECT: Public utilities: rates

SUMMARY: Requires specific actions related to cost of capital for electrical and gas corporation rate changes, and adds new reporting related to electrical and gas corporation expenditures to an existing annual California Public Utilities Commission (CPUC) report to the Governor and Legislature. Specifically, **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 extend 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.
- 3) Requires the CPUC to include in its annual May 1st report to the Governor and Legislature, certain information over a five-year period, related to electrical and gas corporation expenditures, specifically:
 - a) Authorized annual revenue requirements for all expenses subject to forecast ratemaking and not tracked in balancing accounts.
 - b) Recorded spending for all expenses subject to forecast ratemaking and not tracked in balancing accounts.
 - c) Authorized and recorded expense spending tracked in balancing accounts.
 - d) Authorized annual revenue requirements for all capital spending not tracked in balancing accounts, including the underlying forecasts of capital spending in each functional category of operations used to determine the annual revenue requirements.
 - e) Recorded spending for all capital spending subject to forecast ratemaking and not tracked in balancing accounts.

- f) Authorized and recorded capital spending tracked in balancing accounts.

EXISTING LAW:

- 1) Establishes and authorizes the 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 Code § 454)
- 3) Requires the CPUC, by May 1 of each year, to prepare and submit a written report to the Governor and the Legislature that contains the CPUC's recommendations for actions to limit electrical corporations' and gas corporations' utility costs and rate increases or to substantially reduce monthly electricity and natural gas utility bills, and that considers how the adoption of decarbonization policies may impact the total energy costs borne by consumers. (Public Utilities Code § 913.1)

FISCAL EFFECT: Unknown. This bill is keyed fiscal, and will be referred to the Assembly Committee on Appropriations for its review. According to the Senate Committee on Appropriations, a prior version of this bill would result in unknown, potentially significant one-time costs, possibly in the low hundreds of thousands of dollars (ratepayer funds), for the CPUC, in approving a rate change, to take into account and make specific findings related to an electrical corporation's wildfire risk reduction efforts. The bill has since been amended to add additional information to the CPUC's annual May 1st report to the Governor and Legislature.

BACKGROUND:

Cost-of-Service Rate Regulation – Under cost-of-service regulation, the CPUC, as the economic regulator, determines the total amount of revenue that must be collected in rates (revenue requirement) for the utility to recover its costs and earn a reasonable return. The cost-of-service regulatory model is a standard model that is utilized across the country, including by the federal government. At its core, the utility submits an application to the regulator to recover costs from its customers, plus an opportunity for a reasonable return (profit), which, if approved, is then recovered in rates. The regulator can disallow costs. The venue for determining the revenue requirement and the cost functions and customer allocations of cost-of-service ratemaking is the General Rate Case (GRC). Each large electric utility files a GRC application every four years. The CPUC approves a budget for the utility based on detailed cost data (test year), and the resulting GRC decision prescribes how that budget is adjusted in subsequent years to account for inflation and other cost factors.

Cost of Capital (CoC) Proceedings – Separate from a GRC proceeding, but informing the GRC, is the CoC proceeding at the CPUC, which occurs every three years. The CoC does not directly set customer bills, but it guides utility financial planning and influences future rate-setting proceedings. Through the CoC proceeding, the CPUC sets the parameters that determine how utilities balance the funding sources they use to raise money to invest in California's energy system (authorized capital structure). Typically, utilities raise money through: (1) borrowing funds through long-term loans (debt); (2) receiving money from shareholders who invest in the

utility (equity); and (3) issuing preferred stock, a special type of investment that functions somewhat like a long-term loan.¹

Through a CoC proceeding, the CPUC also establishes authorized CoC for each utility. One component of a utility's overall rate of return (ROR) is the cost of common equity (or return on equity, ROE). When utilities invest in long-term equipment, such as poles, wires, substations, and wildfire safety upgrades, they fund part of this work through shareholder investment. In return, they are allowed to earn a percentage of profit on that investor-funded portion – this is the ROE. According to the CPUC it sets this value to balance two goals: “1. Enable utilities to attract the investment needed to maintain a safe and reliable system[; and] 2. Protect customers from paying more than necessary for infrastructure.”² Because the approved rate of return, of which the ROE is one component, is applied to the utility's rate base – the value of long-term infrastructure approved by the CPUC – small adjustments to this percentage can have meaningful effects. As utilities expand or upgrade equipment to meet safety and reliability needs, the size of the rate base grows. As a result, even a fraction of a percentage change in the rate of return can influence overall costs through future rate-setting proceedings.

Lowering the ROE reduces the percentage of profit utilities are allowed to earn on shareholder-funded infrastructure. By lowering the ROE, the overall cost of financing long-term infrastructure can decrease, potentially helping to ease cost pressure on ratepayers over time. However, a lower ROE does not automatically reduce customer bills. The real impact depends on separate CPUC decisions, including which utility projects are approved, which investments are added to the rate base (the portion that earns ROE), and how much infrastructure spending utilities propose in future rate-setting cases. A lower ROE can help reduce upward pressure on costs, but actual bill impacts depend on what investments utilities make and what future infrastructure projects the CPUC approves in separate proceedings.³

COMMENTS:

- 1) *Author's Statement.* 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.”
- 2) *Purpose of Bill.* This bill seeks greater financial transparency from electrical and gas corporations seeking rate changes based on return on invested capital. Specifically, electrical and gas corporations must disclose their capacity for self-funding investments

¹ CPUC Fact Sheet, *CPUC Cost of Capital Decision Dec. 18, 2025*, available at <https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/documents/energy/electric-energy/electric-costs/cost-of-capital-fact-sheet.pdf>

² *Id.*

³ *Id.*

and demonstrate that their proposed capital structure minimizes costs to ratepayers. The bill also directs the CPUC to consider wildfire risk reduction efforts when approving rate changes, and expands one of the CPUC's annual legislative reports to include detailed five-year comparisons of authorized versus actual electrical and gas corporation spending.

- 3) *Opponents Raise Concerns.* Opponents of the bill argue that it is “duplicative and confuses existing [CPUC] cost-of-capital processes,” as the information it requires is already reflected in publicly available financial statements and existing proceedings. They contend that by “introducing new statutory constraints,” the bill “creates uncertainty that can undermine investor confidence and credit quality,” ultimately raising the cost of capital and long-term costs for ratepayers. Opponents further warn that the bill “would likely result in the slowdown of these investments resulting in delays in customer energization, failure to meet clean energy and climate goals and most critically meet safety and reliability requirements.” Finally, they assert that the bill’s “vague, duplicative requirements that expand regulatory workloads and increase regulatory risk” do so “without improving affordability, accountability, or safety.”
- 4) *Adding Memorandum Accounts to Legislative Reporting.* *The Committee may wish to extend the annual legislative report under Section 913.1 to cover both memorandum accounts and balancing accounts.* This is because both memorandum and balancing accounts are CPUC-approved regulatory mechanisms that allow utilities to track spending outside of authorized general rate case forecasts, but serve different functions: balancing accounts recover the difference between forecast and recorded costs, while memorandum accounts record costs subject to later CPUC review and approval. Excluding memorandum accounts would leave a material gap in this legislative reporting.
- 5) *Other Clarifying Amendments.* *The Committee may wish to amend the bill to strike surplusage from Section 454.05(a), specifically, language conditioning the new disclosure requirements on whether a rate change is “based directly or indirectly on” a request for return on capital.* That phrase is overbroad and does not function as a meaningful limiting principle, as virtually any rate change could be characterized as directly or indirectly related to return on capital. Additionally, *the Committee may wish to amend the bill to expressly authorize the CPUC to adopt rules, regulations, or orders to implement, interpret, or clarify the new section’s requirements.*
- 6) *Related Legislation.*

AB 1677 (Boerner) would have required electrical and gas corporations seeking rate changes based on return on invested capital to submit studies demonstrating the amount of internally generated cash available to self-fund needed investment and showing that the proposed capital structure and ROE minimizes the overall revenue requirement from the ratepayer perspective. The bill also would have capped the authorized ROE for electrical and gas corporations at no more than 400 basis points above the federal long-term debt rate. Status: Pending in Committee – Assembly Committee on Utilities and Energy.

AB 2338 (Ransom) would have required electrical and gas corporations to submit an inflation-constrained rate case scenario as part of every GRC application, in which proposed cumulative annual expenditure increases do not exceed the projected federal

Social Security cost-of-living adjustment. It would have also directed the CPUC to compare that scenario against the utility's primary rate case proposal and limit approval of higher spending to instances where the utility demonstrates by clear and convincing evidence that excess expenditures are necessary for safe and reliable service. The bill also would have required the CPUC to apply heightened scrutiny to any other utility request likely to increase systemwide expenditures beyond the COLA threshold. Status: Held under Submission – Assembly Appropriations Committee.

AB 2463 (Petrie-Norris) would require the CPUC to disclose its analytical methodology when determining the authorized ROE for electrical and gas corporations in CoC proceedings. It mandates that CPUC decisions identify each financial model relied upon, specify key inputs and assumptions, assign quantitative weights to each model, and provide sufficient mathematical detail for an independent expert to reproduce the result. It requires the CPUC to explain any qualitative adjustments and compare the authorized ROE against both individual model outputs and a peer group of similarly situated utilities. If the CPUC materially departs from its methodology used in a prior CoC decision for the same utility, it must identify each departure and provide a reasoned justification. It also directs the CPUC to initiate a rulemaking to update its CoC proceedings consistent with this bill's requirements, and to provide annual legislative reports on utility credit rating trends. Status: Pending in Committee – Senate Energy, Utilities and Communications Committee.

SB 905 (Becker) would make several changes to existing law governing electrical corporation performance, cost accountability, and grid utilization, with a particular focus on establishing performance-based metrics, adjusting financial incentives for utility executives, reducing returns on equity for certain capital costs, and improving grid transparency data. Status: Pending in Committee – Assembly Utilities and Energy.

SB 1098 (Pérez) would establish forecast-based ratemaking as the state's preferred and primary method for setting authorized revenue requirements for electrical and gas corporations. It would require the CPUC to treat memorandum and balancing accounts as exceptional mechanisms subject to strict conditions, including mandatory expiration dates, cost-sharing requirements or reduced rates of return when such accounts are authorized. Status: Pending in Committee – Assembly Utilities and Energy.

7) *Prior Legislation.*

AB 1017 (Boerner) requires an electrical corporation or gas corporation, as part of its general rate case, to provide the CPUC certain information, including, among other things: a) the corporation's authorized and actual rate of return and return on equity for the past 10 years; b) for any asset repair, installation, or replacement work, the number of units installed, repaired, or replaced during the past 10 years; and c) projects related to the corporation's distribution capacity that include the forecast submitted in the prior general rate case of the corporation, which projects have been conducted or will be started, canceled, or indefinitely delayed, and which projects that are included in the prior general rate case forecast are included in the forecast for the pending general rate case. Status: Chapter 117, Statutes of 2025.

SB 254 (Becker) included various proposals to address electric utility bill affordability and wildfire mitigation measures, including requiring electrical corporations to consider

the time required to implement a wildfire mitigation measure and the amount of risk reduced for the costs and risks remaining. Status: Chapter 119, Statutes of 2025.

REGISTERED SUPPORT / OPPOSITION:**Support**

None on file.

Opposition

California Chamber of Commerce

Edison International and Affiliates, Including Southern California Edison

Pacific Gas and Electric Company and its Affiliated Entities

San Diego Gas and Electric Company

Southern California Gas Company

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