Date of Hearing: June 24, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
SB 905 (Becker) – As Amended June 1, 2026

SENATE VOTE: 29-8

SUBJECT: Electricity

SUMMARY: Makes 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 data transparency. Specifically, **this bill**:

1) Requires the California Public Utilities Commission (CPUC), for each electrical corporation, to assign a reduced return on equity (ROE), as a reduction applied each year to the then-current authorized rate of ROE, for the following types of capital costs included in the electrical corporation's rate base:

    a. Capital costs recovered through a balancing account.

    b. Capital costs exempted from a reasonableness review.

    c. Capital costs relating to undergrounding of the electrical system.

2) Requires the CPUC, on or before January 1, 2028, to initiate a proceeding to investigate, develop, and adopt a framework for performance-based metrics for large electrical corporations, as provided. Authorizes the CPUC to establish targets for each of the performance metrics developed in the proceeding and to assess the performance of the electrical corporation against the performance metrics and any targets during a general rate case (GRC), as specified. Requires the CPUC, on or before January 1, 2028, to require each large electrical corporation to have an incentive compensation structure for certain employees for which a minimum of 20% of their total compensation each year is contingent on the average cost of electricity, as specified.

3) Requires the CPUC to initiate a rulemaking to evaluate opportunities for alternative methods of financing capital investments in electrical distribution, electrical generation, and electrical transmission that reduce costs for ratepayers, as specified. Requires each electrical corporation to annually submit a report identifying all opportunities for alternative financing of electrical distribution, electrical generation, and electrical transmission costs as part of the rulemaking. Requires the CPUC, on or before December 31, 2028, to submit a report to the Legislature outlining any findings and recommendations resulting from the rulemaking.

4) Requires the CPUC to require each large electrical corporation to make data available to the public that quantifies the potential for increased utilization of segments of its distribution grid by reducing peak load, as specified.

EXISTING LAW:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)

2) Authorizes the CPUC to fix the rates and charges for public utilities and requires that those rates and charges be just and reasonable. (Public Utilities Code § 451)

3) Establishes it is the policy of the state that each electrical corporation continue to operate its electrical distribution grid in its service territory and to do so in a safe, reliable, efficient, and cost-effective manner. (Public Utilities Code § 399.2)

4) Requires, as one of the factors for the Office of Energy Infrastructure Safety (Energy Safety) to issue a safety certificate to an electrical corporation, that the electrical corporation establish an executive compensation structure approved by Energy Safety and structured to promote safety as a priority and to ensure public safety and utility financial stability, with performance metrics that are measurable and enforceable, for all executive officers. Authorizes the structure to tie 100% of incentive compensation to safety performance and to deny all incentive compensation in the event the electrical corporation causes a catastrophic wildfire that results in one or more fatalities. (Public Utilities Code § 8389(a)(4))

5) Prohibits an electrical corporation from recovering expenses for compensation, defined as any annual salary, bonus, benefits, or other consideration of any value, paid to an officer of an electrical corporation or gas corporation, from ratepayers. Provides that compensation shall be paid solely by shareholders of the electrical corporation or gas corporation. (Public Utilities Code § 706)

6) Requires the CPUC, in consultation with the Energy Commission, the California Infrastructure and Economic Development Bank, and the Independent System Operator, to submit to the Governor and the Legislature, by July 1, 2026, a study identifying proposals to reduce the cost to ratepayers of expanding the state's electrical transmission grid. Requires the study to evaluate, at minimum, public financing of transmission projects, the costs and benefits of different ownership models and public-private arrangements, estimated cost savings of each option, and thresholds for transmission projects to be eligible for public financing. (Public Utilities Code § 913.10)

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 a fiscal impact of: (1) ongoing costs, possibly in the high hundreds of thousands or low millions of dollars annually (ratepayer funds) for the CPUC; and (2) to the extent that the bill impacts electricity rates, it could result in costs or savings to the state, as an electric utility ratepayer. The bill has since been amended to both clarify and to expand the requirements of the CPUC.

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 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 decision, 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

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[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*.

costs, but actual bill impacts depend on what investments utilities make and what future infrastructure projects the CPUC approves in separate proceedings.[3]

The CPUC established the 2026-2028 authorized CoC for PG&E, SCE, and SDG&E as follows:

Utility	Cost of Long-Term Debt	Cost of Preferred Equity	Cost of Common Equity (ROE)	Authorized ROE in 2025 (for Comparison)	Eligible Rate of Return
PG&E	5.04%	5.52%	9.98%	10.28%	7.61%
SoCalGas	5.02%	6%	9.78%	10.08%	7.52%
SCE	4.71%	6.89%	10.03%	10.33%	7.59%
SDG&E	4.59%	6.22%	9.93%	10.23%	7.41%

- **Cost of Long-Term Debt:** The interest rate the utility pays when it borrows money for long-term projects.
- **Cost of Preferred Equity:** The rate the utility pays to investors who hold preferred stock, which typically provides fixed income to the investor.
- **Cost of Common Equity:** The percentage of profit the utility is authorized to earn on shareholder-funded investments.
- **Rate of Return:** An overall blended percentage that reflects the combined cost of long-term debt, preferred equity, and common equity. It represents the utility's total cost of financing.

Source: 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.

COMMENTS:

1) *Author's Statement.* According to the author, "We are already facing a real affordability crisis from high electricity bills, and high utility spending is continuing to push rates up. The Public Advocates Office has warned, for example, that PG&E's current cost recovery requests would raise rates by another 30% by 2030. This cannot go on. We need to continue to look for ways to reduce costs and align utility incentives with providing safe, clean, and reliable power at the lowest cost. Fundamentally, we have an incentive problem with the utilities. Utilities earn bigger profits, and utility executives earn bigger bonuses, by spending more money. We shouldn't reward utilities for increasing our energy bills. This bill changes that. It will focus utilities on spending money better, not spending more money. The bill ties executive pay to keeping rates down, sets performance standards so we can grade how good a job the utilities are doing, and makes sure we're getting the most out of the grid we've already paid for before spending more to expand the grid. It also looks at ways to reduce excessive profits and lower financing costs so that we're not overcharging consumers for the investments that really are necessary. The utilities have said a lot about how they are trying to keep rates down; this bill just makes sure they are really incented to do that."

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[3] *Id*.

2) *Purpose of Bill.* California electricity rates have risen significantly in recent years, placing an increasing burden on customers. This bill is aimed at reducing electricity costs for ratepayers through six major provisions:

    a) Directing the CPUC to assign a reduced ROE for certain categories of capital investment that carry lower risk for utility shareholders, such as costs recovered through balancing costs, costs exempted from reasonableness review, and undergrounding investments. The theory is that lower-risk investments should yield lower profits, reducing the amount ratepayers pay to fund utility returns.

    b) Requiring the CPUC to link at least 20% of executive compensation – for vice presidents and above whose compensation is funded through rates – to keeping electricity costs from rising faster than the federal cost-of-living adjustment over a rolling three-year period. The bill aims to align executive incentives with cost control.

    c) Directing the CPUC to establish a performance metrics framework for large electrical corporations covering reliability, system utilization, greenhouse gas intensity, energization timelines, and wildfire prevention, among others. The bill expressly prohibits the CPUC from tying financial incentives to these metrics.

    d) Requiring large electrical corporations to publish data on distribution grid capacity utilization and off-peak load-hosting capacity. The goal is to improve transparency about where existing grid infrastructure is underutilized, potentially reducing the need for costly new investments.

    e) Directing the CPUC to initiate a rulemaking to evaluate alternative financing approaches for electric infrastructure, including options that could substitute lower-cost financing for shareholder equity. The bill requires utilities to annually report opportunities for alternative financing and requires the CPUC to report findings to the Legislature by December 31, 2028.

3) *Average Cost of Electricity and Executive Compensation.* The bill would tie a portion of executive compensation to keeping average electricity costs from rising faster than the federal cost-of-living adjustment. Opposition has raised concerns that tying executive compensation to a cost metric that includes charges beyond management's control creates perverse incentives and penalizes executives for costs that are state-mandated and nonbypassable. The Committee also notes a potential conflict with Public Utilities Code Section 706, which requires officer compensation to be paid for solely by shareholders. *The Committee recommends amending the bill to rename "average cost of electricity" to "adjusted average cost of electricity" and to exclude from that definition costs recovered through public purpose program surcharges, charges for the Wildfire Fund or the Continuation Account, and other nonbypassable charges required by statute over which the electrical corporation has no control. To address the conflict with Public Utilities Code Section 706, the Committee also recommends amendments to clarify that the incentive compensation requirements of this bill apply only to employees that the CPUC determines are not officers subject to Section 706, who are already prohibited from receiving any of their compensation from ratepayers.*

4) *ROE and Preserving the CPUC's Ratemaking Authority.* The bill would mandate that the CPUC assign reduced ROEs for specified categories of capital costs – including costs recovered through balancing accounts, costs exempted from reasonableness review, and undergrounding investments – without preserving the CPUC's authority to depart from that directive where circumstances warrant. Opponents have argued that the CPUC currently determines authorized ROE through an open, enterprise-wide CoC proceeding that already considers the risk profile of regulatory mechanisms such as balancing accounts and wildfire mitigation investments, and that a rigid statutory mandate to reduce returns asset-by-asset could double-count risk reductions already reflected in authorized returns and potentially increasing financing costs for ratepayers over time. The CPUC has a constitutional obligation to set just and reasonable rates, and a rigid statutory mandate without any safety valve risks constraining that authority in ways that could produce unjust outcomes or invite legal challenge. *To address some of these concerns, the Committee recommends amending the bill so that rather than imposing a mandate, the CPUC is required to consider assigning a reduced ROE for the named cost categories, and is required to issue a written explanation of its reasoning. The Committee also recommends amending the bill to expand this provision to include memorandum accounts alongside balancing accounts. Finally, the Committee recommends amending the bill to clarify that nothing in this new section prevents the CPUC from setting just and reasonable rates, including declining to apply a reduced ROE to any cost category upon a written finding that applying a reduced ROE would not be just and reasonable. Together, these amendments preserve the CPUC's core ratemaking discretion while still directing it to consider whether lower-risk investments warrant lower returns.*

5) *Alternative Financing – Focusing Utility Reporting on Feasible Opportunities.* The bill would require each electrical corporation to identify "all opportunities" for alternative financing of distribution, generation, and transmission costs. The open-ended "all opportunities" reporting obligation risks producing significant administrative burden for both utilities and the CPUC without a clear commensurate ratepayer benefit. *The Committee recommends amending the bill to address some implementation concerns by requiring the CPUC to first establish categories of alternative financing mechanisms, with utilities evaluating and reporting on opportunities within those categories at intervals determined by the CPUC, and to expand the CPUC's required legislative report to include recommendations for any legislative or administrative actions necessary to implement identified financing opportunities.*

6) *Addition of a Peak Utilization Metric. The Committee recommends adding a peak utilization metric, measuring a distribution segment's peak load divided by that segment's maximum electrical capacity, in addition to the existing capacity utilization and off-peak load-hosting capacity metrics already in the bill.*

7) *Additional Clarifying Amendments. The Committee also recommends amending the bill to specify that any recommendations from the CPUC's 2030 performance metrics evaluation be delivered to the Assembly Committee on Utilities & Energy, and the Senate Committee on Energy, Utilities & Communications.*

8) *Opponents Raise Concerns – Performance-Based Ratemaking.* Opponents argue that performance-based ratemaking has a poor track record in California. Opponents further contend that reducing complex utility operations to simplified metrics distorts incentives,

diverts attention from long-term investment, and could be used to justify suppressing worker wages at the bargaining table. While the bill does require the CPUC to establish a performance metrics framework, it expressly prohibits tying financial incentives to that framework and requires the CPUC to return to the Legislature before any such incentives could be authorized – though opponents and proponents alike may fairly characterize this as a step toward broader performance-based ratemaking.

9) *Opponents Raise Concerns – Distribution Grid Utilization Metrics.* Opponents argue that much of the grid utilization data required by the bill is already publicly available through existing CPUC-mandated distribution planning processes, making the new reporting requirements duplicative and unnecessarily burdensome. They contend that utilization metrics are imperfect proxies for affordability and cannot substitute for sound engineering judgment, as mandating utilization targets without regard to system conditions risks delaying customer energization and compromising reliability and safety.

10) *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 1975 (Schultz) would have directed the CPUC to develop a distribution grid utilization metric – calculated as average electricity delivered over a distribution segment divided by that segment's maximum capacity – and would have required large electrical corporations to submit public reports on their utilization metric results, program performance data, and opportunities to improve utilization and reduce costs. The bill also would have required the CPUC to establish and periodically update a distribution grid utilization standard for each large electrical corporation, and would have authorized the CPUC to direct utilities to implement programs, rate designs, or incentives to meet that standard, or to establish financial performance-based incentives or disincentives, provided they are cost-effective and produce a net benefit for retail customers. Status: Held under Submission – Assembly Appropriations Committee.

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 Appropriations Committee.

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: Set to be heard in this committee on June 24, 2026.

SB 1233 (Allen) would require electrical and gas corporations proposing rate changes based on return on invested capital to disclose internally generated cash available for self-funding and the capital structure that minimizes overall revenue requirements. It would also direct the CPUC to make specific findings on wildfire risk reduction efforts when approving such rate changes and expand the CPUC's annual cost-and-rate report to the Legislature to include five-year comparisons of authorized versus recorded spending for both forecast and balancing account expenses and capital outlays, and require source data to be published online. Status: Pending in Committee – Assembly Appropriations Committee.

11) *Prior Legislation.*

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.

SB 541 (Becker, 2025) would have required the California Energy Commission, as part of an existing biennial report, to estimate each retail supplier's load-shifting potential, giving consideration to certain factors, including cost-effectiveness; and to publish, on or before July 1, 2028, and biennially thereafter, the amount of load shifting that each retail supplier achieved in the prior calendar year. Status: Vetoed.

SB 901 (Dodd) addressed numerous issues concerning wildfire prevention, response and recovery, including funding for mutual aid, fuel reduction and forestry policies, WMP by electric utilities, and cost recovery of wildfire-related damages by electrical corporations. Status: Chapter 626, Statutes of 2018.

REGISTERED SUPPORT / OPPOSITION:

Support

The Utility Reform Network (TURN) (sponsor)
350 Humboldt
Advancing the Seed
Advanced Energy United
Agricultural Energy Consumers Association
California Environmental Voters
California Environmental Voters
California Large Energy Consumers Association
California Solar & Storage Association
Central Orange County Democratic Club
Ceres, Inc.
Citizens' Climate Lobby, Orange County Central Chapter
Climate Action California
Climate Action Campaign
Climate Reality Project, Los Angeles Chapter
Climate Reality Project, Orange County Chapter
Climate Reality Project, Sacramento Chapter
Climate Reality Project, San Diego Chapter
Climate Reality Project, San Fernando Valley Chapter
Clever Community Development, Inc.
Coalition of Filipino American Chambers of Commerce
College Democrats at UCI
Community Corporation of Santa Monica
Concierge Clinicians
Corporate Energy Buyers Association (CEBA)
Democrats of Greater Irvine
Deploy Action
Diversity Biz Forum Orange County
Filipino American Chamber of Commerce of Greater Los Angeles (FACCGLA)
Irvine Valley College Democrats
Jesse Miranda Center for Hispanic Leadership – Costa Mesa
Local Government Climate Alliance (LGCA)
National Diversity Coalition – Orange County and Los Angeles
Orange County Climate Voter Guide
Orange County Lucky Dogs of Tustin
Orange County Young Democrats
QUANTUM CLINICAL LABORATORY, INC. – Beverly Hills
Regensis Health Solutions West Los Angeles
San José Clean Energy (SJCE)
Santa Ana Chamber of Commerce
Sunrise Movement Orange County
Third Step Ministry
Time In Destiny Church
United Nations Association, Orange County
WAVE – Women for American Values and Ethics

Oppose

California Chamber of Commerce (CalChamber)
Coalition of California Utility Employees
Pacific Gas and Electric Company (PG&E)
Southern California Edison (SCE)

Oppose Unless Amended

Western Wood Preservers Institute (WWPI)
North American Wood Pole Council (NAWPC)
Treated Wood Council (TWC)

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