

Date of Hearing: April 8, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

AB 2589 (Irwin) – As Introduced February 20, 2026

SUBJECT: Public utilities: rates: changes to federal law.

SUMMARY: Requires the California Public Utilities Commission (CPUC) to evaluate the effect of all federal legislation that becomes law, including federal House Resolution 1 (Public Law 119-21) on the expenses and tax liabilities incurred by public utilities for payment of federal taxes. If the CPUC determines that the projected expenses and tax liabilities for federal taxes are affected, it would require the CPUC to adjust the rates of the utility. Specifically, **this bill:**

- 1) Applies only to revenue requirements of public utilities that were based upon the tax rates at the time rates were fixed for the utility by the CPUC.
- 2) Does not limit the authority of the CPUC to determine the full effects of changes in federal tax law on each utility's cost of service, to use appropriate mechanisms to track changes and adjust rates accordingly, or to allocate the impacts from changes in federal tax law over a period of time that is most reasonable on the particular circumstances of each public utility.

EXISTING LAW:

- 1) Establishes and vests the CPUC with regulatory jurisdiction over public utilities, including electrical and gas corporations. (Article XII of the California Constitution)
- 2) Defines a "public utility" to include every common carrier, toll bridge corporation, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, sewer system corporation, and heat corporation, where the service is performed for, or the commodity is delivered to, the public or any portion thereof. (Public Utilities Code § 216)
- 3) Authorizes the CPUC to fix the rates and charges for public utilities and requires those rates and charges to be just and reasonable. (Public Utilities Code § 451)
- 4) Authorizes the CPUC to inspect the accounts, books, papers, and documents of any public utility, or any affiliate, subsidiary, or holding corporation of that utility; and to examine under oath any officer, agent, or employee of such a utility in relation to its business and affairs. (Public Utilities Code § 314)
- 5) Requires every public utility to furnish to the CPUC all information the CPUC requests, including tabulations, computations, maps, reports, books, and records. (Public Utilities Code §§ 581-582, 585)
- 6) Authorizes the CPUC to require a public utility to correct any rates, practices, equipment, or behavior that is unjust, unreasonable, unsafe, improper, inadequate, or insufficient. (Public Utilities Code § 761)

- 7) Federal House Resolution 1 (Public Law 119-21), as it pertains to this bill, continues the federal corporate income tax rate at 21% and has a number of other provisions related to income tax deductions.

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Assembly Committee on Appropriations for its review. A prior version of this proposal – SB 1028 (Hill, 2018) – was estimated to incur minor costs for the CPUC when heard in the Assembly Committee on Appropriations. However, the CPUC estimated costs around \$800,000 in ongoing personnel and contracting costs. It was noted by the Appropriations Committee that these costs seemed unreasonable given that the CPUC already implemented many of the requirements of the bill. SB 1028 was specific to the Federal House Resolution 1 (Public Law 115-97), unlike this bill, which applies to all federal law.

BACKGROUND:

Tax Act Memorandum Accounts – The CPUC determines, through a general rate case (GRC), the amount a utility can charge customers, invest in infrastructure, and earn a reasonable return. The GRCs are typically conducted every 3-5 years, depending on the utility. As the GRC stretches over multiple years, the CPUC reviews detailed cost data for utility operations and approves a budget for the first year, which is called the “test year”, followed by the remaining GRC years, which are called “post-test years.” GRCs are the primary mechanism for establishing a utility’s revenue requirement, including operating costs, capital investments, and an authorized return, as well as allocating costs to customers.¹

The utility’s income tax burden, including federal income taxes, is incorporated into the revenue requirement. In a GRC, the CPUC calculates an income tax allowance on a pro forma (forecasted) basis by applying applicable federal and state tax rates to the utility’s expected net operating income for the test year. Because GRCs rely on forecasted tax expenses, actual tax liabilities may differ due to changes in federal tax law or realized earnings. These differences are typically tracked in memorandum accounts,² specifically, Tax Act Memorandum Accounts (TAMAs). TAMAs were implemented following the passage of the Tax Relief Act in 2011.³ This federal legislation resulted in large, unexpected decreases in utility tax liabilities.⁴ With GRCs already underway, the CPUC directed some utilities to establish TAMAs for the CPUC to review at the subsequent GRCs. TAMAs are still in use today. Indeed, Southern California Edison (SCE) recently received approval to continue using a TAMA that was approved in 2018.⁵ These accounts remain open, and the balance of the account is reviewed at the subsequent GRC. This may result in utilities seeking cost recovery or returning any excess to ratepayers. However, factoring these savings into future costs for ratepayers money is not mandated in statute and remains subject to CPUC approval.

¹ <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-rates/general-rate-case>

² The Nature of Balancing Account and Memorandum Accounts, https://docs.cpuc.ca.gov/published/Final_decision/26958-03.htm

³ A.16-09-001, 24.1 Tax Memorandum Accounts, <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M293/K008/293008003.PDF>

⁴ Resolution L-411, https://docs.cpuc.ca.gov/word_pdf/COMMENT_RESOLUTION/131448.pdf

⁵ A.23-05-010, 40.3. Taxes, <https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M579/K825/579825897.pdf>

Tax Cuts and Jobs Act – Federal House Resolution 1 (Public Law 115-97), also known as the Tax Cuts and Jobs Act (TCJA), was signed into law on December 22, 2017. TCJA had many provisions, but critically, resulted in a federal corporate income tax rate cut from 35% to 21%.⁶ The Act also made additional tax changes, including the loss of Section 199 deductions (also known as a domestic manufacturing tax deduction), the loss of bonus depreciation for investor-owned utilities (IOUs), and complications to the Accumulated Deferred Federal Income Taxes.⁷ All of these provisions affected the federal tax liabilities of corporations, including utilities regulated by the CPUC, beginning in tax year 2018.

SB 1028 implementation – In 2018, SB 1028 (Hill) was signed into law and requires the CPUC to evaluate the full effect of the federal corporate tax cuts passed in TCJA on the expenses and tax liabilities incurred by utilities.⁸ Critically, the bill required that the CPUC adjust rates of the utilities to reflect any changes. This essentially meant that any of the savings tracked in TAMAs were required to be returned to ratepayers. As a result of SB 1028 implementation, more than one billion dollars were returned to ratepayers. Detailed below are values reflecting the net decreases in revenue requirement, equivalent to funds ratepayers no longer had to pay. These values were reported to the committee by the CPUC.

- **PG&E:** \$505.603 million (2018–2022)
- **SDG&E:** \$112.519 million (2018–2023)
- **SoCalGas:** \$86.187 million (2018–2023)
- **SCE:** \$419.993 million (2018-2021)⁹

As is highlighted above, not all ratepayers experienced the same rate change. This is because each utility was uniquely affected by the taxes. The mechanism by which these savings were passed onto the ratepayers was determined by the CPUC but could have taken the form of savings to pay for future expenses or deductions in rates or requested expenses moving forward, so long as the prohibition on retroactive ratemaking was maintained. It is not clear to the committee the exact mechanism for how these savings were incorporated back to ratepayers.

COMMENTS:

- 1) *Author's Statement.* According to the author, “In recent years, federal tax laws have reduced the federal tax liability of an investor-owned utility, causing the IOU’s overall costs to be lower than what it was authorized by the CPUC to collect through rates. However, there is no ongoing requirement in California law that any money that an IOU saves from reduced federal tax liability be returned to ratepayers. AB 2589 will ensure that any money an IOU saves as a result of the second term Trump tax bill in 2025, or

⁶ Subtitle C-Business-relate provisions, Part I-Corporate provisions, <https://uscode.house.gov/statutes/pl/115/97.pdf>

⁷ p. 22-23 Understanding the Tax Cuts and Jobs Act, Tax Policy Center, https://taxpolicycenter.org/sites/default/files/2024-10/Understanding%20TCJA_Overview%20and%20Issues%20Ahead.pdf

⁸ PUC § 751

⁹ SCE numbers are approximate, based on amounts requested in their 2018 General Rate Case testimony.

any other changes to federal law, is refunded to California ratepayers rather than kept as additional profit for the utility. This mirrors SB 1028 (Hill), which the Legislature passed in response to the first Trump Administration tax cuts in 2017 and which returned more than \$1 billion to ratepayers from the IOUs' reduced federal tax liability.”

- 2) *Purpose of Bill.* AB 2589 expands on previously passed legislation – SB 1028 – to ensure the CPUC not only monitors the federal expense and tax liabilities of utilities but also makes appropriate adjustments to rates to reflect any changes.

SB 1028, as detailed above, ensured the CPUC adjusted rates after the corporate tax cuts provided by TCJA. The present bill expands the scope of SB 1028 to apply to all federal legislation, including the recently passed Federal House Resolution 1 (Public Law 119-21), also known as the One Big Beautiful Bill Act (OBBBA). By applying to all federal legislation, this bill directs the CPUC to monitor changes in federal tax liability and ensure rates are adjusted to accurately reflect changes in projected expenses and liabilities, therefore codifying that any savings received by utilities are passed along to ratepayers.

- 3) *Unknown impacts.* Federal House Resolution 1 (Public Law 119-21), or OBBBA, was signed into law on July 4, 2025, and included a number of provisions related to corporate tax rates. For the context of this bill, OBBBA extended the corporate income tax rate set in TCJA, maintaining the rate at 21%. It is possible that the other provisions related to corporate tax rates will also impact tax liabilities for utilities, such as changes to the Corporate Alternative Minimum Tax, but this will need to be examined by the CPUC. While the federal corporate income tax rate remains at 21% following the passage of OBBBA, this does not mean that adjustments to rates are not possibly warranted. For example, if a utility submitted a GRC with the assumption that the tax cuts provided under TCJA would sunset (as they were going to before the extension in OBBBA), this may have been reflected in their rates set during that GRC. Additional adjustments to corporate tax rates in the OBBBA may also impact IOU tax liabilities. AB 2589 would give the CPUC authority to examine this possibility and any future changes to federal tax liability for utilities. While the exact impact of OBBBA's passage on the utilities' federal tax liability remains unknown, this bill codifies the mandate for the CPUC to examine these impacts and incorporate realized savings back to the ratepayers.
- 4) *TAMA can stay.* In opposition to the bill, SCE states that AB 2589 “duplicates mechanism already in place” as the CPUC has “approved the TAMA for SCE to track all differences between forecast and recorded income tax expenses.” While true that the CPUC has approved SCE's ongoing TAMA,¹⁰ there is currently no requirement that savings from income tax expenses must result in adjustments for ratepayers. SB 1028 made that explicit mandate for the TCJA, and AB 2589 aims to continue that mandate by codifying the language for all current and future federal legislation. It is likely that the mechanism for tracking these changes will continue in the form of TAMAs. This legislation just makes the critical (not duplicative) directive that savings tracked in the TAMA must manifest as adjustments for ratepayers.

- 5) *Related Legislation.*

¹⁰ A.23-05-010, *Idid*

AB 1715 (Schiavo) requires investor-owned utilities to report quarterly on their use of taxpayer funding, including grants, loans, and bonds from federal and state entities. The bill also requires the CPUC to establish a standardized database for advice letters submitted by public utilities, including any associated protests or public comment. Status: Passed out of this committee on March 18th, 2026, on a 16-0-2 vote, and was referred to the Assembly Committee on Appropriations.

6) *Prior Legislation.*

SB 1028 (Hill) requires the CPUC to evaluate the full effect of the federal corporate tax cuts adopted under TCJA on the expenses and tax liabilities incurred by public utilities for payment of federal taxes and adjust the rates of the utilities to reflect any changes. Status: Chapter 411, Statutes of 2018.

Federal House Resolution 1 (Public Law 115-97) resulted in many changes to tax liabilities, but most notably for this bill, cut the federal corporate income tax rate from 35 to 21% which was set to expire on December 31, 2025. Status: Enrolled as law on December 22, 2017.

AB 2666 (Boerner) requires the CPUC to review forecasted costs by electric and gas utilities on a more frequent basis after the approval of each GRC, and to adjust the authorized revenue requirement in the subsequent GRC, as appropriate, based on actual past costs. Status: Chapter 413, Statutes of 2024.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

Edison International and Affiliates, including Southern California Edison

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