

Date of Hearing: April 22, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

AB 2710 (Bauer-Kahan) – As Amended April 16, 2026

SUBJECT: Public utilities: electrical and gas corporations: financial distress: reporting

SUMMARY: Requires investor-owned electrical and gas corporations (IOUs) to submit financial condition reports to the Legislature under specified circumstances. Specifically, **this bill:**

- 1) Finds and declares that the financial stability of IOUs is a matter of public concern, that the Legislature has an interest in receiving timely financial information from IOUs before distress reaches a crisis stage, and that requiring IOUs to present information already disclosed to the U.S. Securities and Exchange Commission (SEC) in a plain language format imposes minimal additional burden while improving legislative oversight.
- 2) Defines “cost-of-capital decision” as a final decision or order issued by the California Public Utilities Commission (CPUC) determining the authorized cost of capital for an IOU, including the authorized return on equity, cost of long-term debt, and capital structure, and including any decision that establishes or modifies an automatic adjustment mechanism applicable to a component of the authorized cost of capital.
- 3) Defines “near-distress rating” as a long-term issuer credit rating of BBB by S&P Global Ratings or Fitch Ratings, or Baa2 by Moody’s, including where a credit rating agency assigns a negative outlook, negative watch, or equivalent designation by the IOU’s long-term issuer credit rating immediately above the near-distress rating level.
- 4) Requires an IOU to submit a financial condition report to the Legislature within 30 days after the end of each calendar quarter in which the IOU holds a near-distress rating, until all credit rating agencies have upgraded the IOU’s rating to at least two notches above the near-distress level with no negative outlook or watch assigned.
- 5) Requires an IOU to submit a financial condition report to the Legislature within 45 days of the CPUC issuing a cost-of-capital decision affecting the IOU, regardless of the IOU’s credit rating at the time of the decision.
- 6) Requires each financial condition report to be based on the IOU’s most recent annual report on Form 10-K, quarterly report on Form 10-Q, or current report on Form 8-K filed with the SEC, and to include specified information including: current credit ratings and any rating changes; total executive and director compensation; dividends paid and share repurchases; board composition and vacancies; wildfire fund participation and insurance coverage; key financial metrics including net income, debt ratios, and available liquidity; pending legal claims and liabilities; material SEC disclosures; going concern assessments; and a plain language executive summary not to exceed two (2) pages.

- 7) Specifies that the reporting requirements in this bill do not create any entitlement to public financial assistance.

EXISTING LAW:

- 1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical and natural gas companies. (California Constitution, Article XII)
- 2) Requires that any charge from a public utility must be just and reasonable. (Public Utilities Code § 451)
- 3) Provides that it is the intent of the Legislature that the CPUC reduce rates for electricity and natural gas to the lowest amount possible. (Public Utilities Code § 747)
- 4) Creates the California Catastrophe Response Council composed of nine members to oversee the California Earthquake Authority (CEA) as the Wildfire Fund Administrator. (Government Code § 8899.70)
- 5) Requires the Council to appoint the Wildfire Fund Administrator and oversee the Administrator's operation, management, and administration of the Wildfire Fund. (Government Code § 8899.72)
- 6) Establishes the Wildfire Fund as a fund separate from the State Treasury. Specifies the Fund is continuously appropriated without regard to fiscal year, and allows the Administrator to establish segregated, dedicated accounts within the Fund. (Public Utilities Code §§ 3281-3284)
- 7) Specifies that the Fund will pay eligible claims and obtain reimbursement from participating IOUs, as specified, arising from wildfires ignited between July 12, 2019 and September 18, 2025. Additionally specifies the Fund shall be continued in existence unless the Administrator winds down the Fund. (Public Utilities Code §§ 3292-3297)
- 8) Creates the Continuation Account within the Wildfire Fund, which is separate and distinct from monies in the Fund, to be administered by the Administrator, and continuously appropriates moneys in the account for purposes of payment of eligible claims arising from wildfires ignited on or after September 19, 2025. (Public Utilities Code §§ 3298-3298.6)
- 9) Requires any person or corporation seeking to merge, acquire, or control a public utility doing business in California to first secure authorization from the CPUC, and provides that any such transaction without prior CPUC authorization is void. Before authorizing a merger, acquisition, or change in control of an electrical or gas corporation with annual California revenues exceeding \$500 million, the CPUC must find that the proposal provides short-term and long-term economic benefits to ratepayers, does not adversely affect competition, and is in the public interest, considering factors including the financial condition of the resulting utility, quality of service to ratepayers, and effects on employees, shareholders, and affected communities. (Public Utilities Code § 854)

FISCAL EFFECT: Unknown. This bill is keyed fiscal, and will be referred to the Assembly Committee on Appropriations for its review.

BACKGROUND:

Inverse Condemnation – The California Constitution provides that private property may not be taken or damaged for public use without just compensation.¹ California courts have applied this doctrine, known as inverse condemnation, to privately-owned public utilities, holding them strictly liable for property damage caused by their infrastructure regardless of negligence.²

Chapter 11 Bankruptcy and California IOUs – Chapter 11 of the U.S. Bankruptcy Code allows a corporation to reorganize its finances while continuing to operate, typically by proposing a plan of reorganization that classifies creditor claims and specifies how each will be treated, subject to creditor vote and confirmation by the federal Bankruptcy Court.³ When a California IOU files for Chapter 11, this federal process runs alongside – and does not displace – the CPUC’s regulatory authority. The CPUC opens its own formal proceeding to consider the ratemaking and other regulatory implications of the proposed reorganization plan, with its role focused on ensuring the IOU continues to provide safe and reliable service at reasonable rates. Where a reorganization plan involves a transfer of ownership or control of IOU assets, CPUC approval is also required under Public Utilities Code Section 854. The result is a dual-approval process: the federal Bankruptcy Court must confirm the plan, and the CPUC must separately approve its regulatory dimensions.

Prior California IOU Financial Distress – In 2001, Pacific Gas and Electric Company (PG&E) filed for Chapter 11 bankruptcy after accumulating approximately \$9 billion in unrecovered power-procurement costs during the California energy crisis, ultimately requiring customers to bear an estimated \$6.2 to \$8.2 billion in above-market electricity costs through 2012 as part of its reorganization.⁴ Southern California Edison (SCE) narrowly avoided the same outcome through an October 2001 CPUC settlement establishing a \$3.577 billion recovery account to be collected through customer rates.⁵ PG&E filed for bankruptcy a second time in January 2019, facing an estimated \$30 billion or more in liability arising from the catastrophic 2017 and 2018 wildfires.⁶

Cost of Capital Proceedings – The CPUC periodically conducts cost of capital proceedings in which it sets the authorized return on equity, cost of long-term debt, and overall capital structure

¹ Cal. Const., art. I, § 19.

² *Gay Law Students Assn. v. Pacific Tel. & Tel. Co.* (1979) 23 Cal.3d 458; *Barham v. Southern California Edison Co.* (1997) 74 Cal.App.4th 744.

³ 11 U.S.C. §§ 1101 *et seq.*

⁴ *Pacific Gas and Electric Company Files for Chapter 11 Reorganization*, PG&E Corporation (Apr. 6, 2001), <https://investor.pgecorp.com/news-events/press-releases/press-release-details/2001/Pacific-Gas-And-Electric-Company-Files-For-Chapter-11-Reorganization/default.aspx>; *What Happens if PG&E Goes Bankrupt?*, CalMatters (Nov. 2018), <https://calmatters.org/environment/2018/11/what-happens-if-pge-goes-bankrupt/>.

⁵ *Southern California Edison Company’s Historical Procurement Charge Proposal*, CPUC (2002), https://docs.cpuc.ca.gov/published/comment_decision/17106.htm.

⁶ *PG&E Files for Reorganization Under Chapter 11*, PG&E Corporation (Jan. 29, 2019), <https://investor.pgecorp.com/news-events/press-releases/press-release-details/2019/PGE-Files-for-Reorganization-Under-Chapter-11/default.aspx>; *PG&E Bankruptcy*, CPUC, <https://www.cpuc.ca.gov/industries-and-topics/pge/pge-bankruptcy>.

for each IOU. These authorized figures determine the amount of revenue an IOU is permitted to collect from ratepayers to service its capital obligations. The CPUC may also establish automatic adjustment mechanisms that allow certain components of the authorized cost of capital to be updated between formal proceedings based on changes in market interest rate benchmarks.⁷

AB 1054 Wildfire Fund – On July 12, 2019, Governor Newsom signed AB 1054, which enacted a broad set of reforms and programs related to utility-caused wildfires in California, including establishing the Wildfire Fund. The purpose of the Fund is to provide a source of money to reimburse eligible claims arising from covered wildfires caused by a participating utility company. AB 1054 created a capitalization structure establishing multiple revenue streams to provide approximately \$21 billion in claim-paying capacity, split between contributions from the Fund’s participating utility companies and surcharges on non-exempt ratepayers of those utilities.

SB 254 Continuation Account – SB 254 (Becker, Chapter 119, Statutes of 2025), among other things, created a “Continuation Account” within the Wildfire Fund from which eligible claims arising from future covered wildfires (those ignited on or after September 19, 2025) will be paid. The Continuation Account will be capitalized upon notice from the Wildfire Fund Administrator to the participating utility companies, from a combination of \$9 billion in utility capital contributions and approximately \$9 billion from ratepayers.

Credit Rating Agencies and the Investment-Grade Threshold – Credit rating agencies that register with the SEC are designated as Nationally Recognized Statistical Rating Organizations (NRSROs).⁸ The three major agencies referenced in this bill – S&P Global Ratings, Moody’s Ratings, and Fitch Ratings – are all registered NRSROs and together provide credit ratings for the IOUs. Each agency publishes a rating scale that distinguishes between investment-grade and speculative-grade, or “below-investment-grade,” ratings.

- S&P Global Ratings: Lowest investment-grade rating is BBB-⁹
- Fitch Ratings: Lowest investment-grade rating is BBB-¹⁰
- Moody’s Ratings: Lowest investment-grade rating is Baa3¹¹

A rating of BBB (S&P/Fitch) or Baa2 (Moody’s) – the “near-distress” threshold defined in this bill – sits one notch above the investment-grade floor. A downgrade below the investment-grade floor is commonly referred to as a downgrade to speculative or “junk” status, and typically increases borrowing costs and restricts an issuer’s access to capital markets.

⁷ CPUC, Cost of Capital, available at <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/cost-of-capital>.

⁸ 15 U.S.C. § 78o-7; SEC, Office of Credit Ratings, Current NRSROs, available at <https://www.sec.gov/ocr/ocr-current-nrsros.html>.

⁹ S&P Global Ratings, <https://www.spglobal.com/ratings/en/credit-ratings/about/understanding-credit-ratings>.

¹⁰ Fitch Ratings, <https://www.fitchratings.com/products/rating-definitions#about-rating-definitions>.

¹¹ Moody’s, <https://www.moody.com/web/en/us/solutions/ratings/understanding-ratings.html>.

SEC Disclosure Forms – Publicly traded companies, including IOUs, are required to file periodic and current reports with the SEC. A Form 10-K is an annual report providing a comprehensive overview of a company’s financial condition, including audited financial statements, management’s discussion of results, and disclosure of material risks and uncertainties.¹² A Form 10-Q is a quarterly report providing financial statements and updates on material developments since the most recent annual or prior quarterly filing.¹³ A Form 8-K is a current report filed to disclose material events or corporate changes as they occur.¹⁴

COMMENTS:

- 1) *Author’s Statement.* According to the author, “Large investor-owned utilities (IOUs) in California regularly report record shareholder profits. Despite this, over the past two decades, major IOUs have repeatedly faced financial distress and at times have even declared bankruptcy. During these periods, the Legislature and regulators have lacked timely, detailed insight into the distressed utility’s financial condition until a crisis is imminent. This information gap limits California’s ability to proactively protect ratepayers from bearing unnecessary recovery costs. AB 2710 requires an IOU that receives a ‘near-distress’ credit rating to provide the Legislature with detailed, ongoing financial disclosures derived from its federal securities filings. By ensuring policymakers are kept fully informed as risks emerge, AB 2710 supports earlier intervention, strengthens oversight of at-risk IOUs, and safeguards ratepayers from downstream consequences of utility bankruptcies.”
- 2) *Purpose of Bill.* This bill establishes a direct, ongoing disclosure channel from at-risk IOUs to the Legislature, triggered by market-based indicators of financial stress. It requires IOUs to translate financial information they are already obligated to disclose to the SEC into a plain-language format accessible to policymakers who may not be securities specialists. The intent is to ensure that the Legislature is positioned to exercise informed oversight – and, where appropriate, to act – before financial distress reaches the stage at which ratepayer-funded relief becomes the only available remedy.
- 3) *Issues for Further Consideration.* The Committee notes several issues raised by opponents that the Author may wish to consider. Including:
 - Potential tension with AB 1167 (Berman, Chapter 634, Statutes of 2025), which requires all investor relations activities to be shareholder-funded. The Committee notes that AB 1167 expressly excludes activities undertaken to comply with a statutory requirement, which would appear to cover reporting obligations created by this bill, but the Author may nonetheless wish to clarify who is intended to bear those costs.
 - That the bill’s reporting timelines may not align with the actual schedule on which the SEC filings and credit rating actions are published.

¹² *Form 10-K*, <https://www.sec.gov/files/form10-k.pdf>.

¹³ *Form 10-Q*, <https://www.sec.gov/files/form10-q.pdf>.

¹⁴ *Form 8-K*, <https://www.sec.gov/files/form8-k.pdf>.

- That directing reports to the Legislature may not be necessary, and that reports should be directed instead to the relevant policy committees.
- That some publicly owned utilities (POUs) have also experienced credit downgrades and negative outlooks in recent years, and that the Author may wish to consider whether those entities should be subject to similar disclosure requirements.

4) *Related Legislation.*

AB 1774 (Boerner) would require the CPUC to conduct independent audits of each electrical corporation's wildfire mitigation expenditures incurred during specified time periods. Status: Assembly Committee on Appropriations.

AB 2463 (Petrie-Norris) would require the CPUC to disclose the specific financial models, inputs, assumptions, weights, and calculations underlying its determinations of the authorized return on equity for electrical corporations and gas corporations in cost of capital proceedings and to maintain methodological consistency across proceedings or explain material departures from prior methodology, regardless of whether the decision results in a decrease or increase in rates or a change to a rate schedule. Includes a definition for "cost of capital" proceeding. Status: Assembly Committee on Appropriations.

5) *Prior Legislation.*

AB 1167 (Berman, Chapter 634, Statutes of 2025) prohibits electrical and gas corporations from recovering from ratepayers the costs of investor relations, political influence activities, promotional advertising, charitable giving, penalties and fines, and certain executive expenses, and requires utilities to annually report covered expenditures to the CPUC.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

Though the bill was substantially amended after the registration deadline, the Committee has confirmed the following organizations remain opposed to the bill, as amended on April 16, though their reasons may differ from those in their filed letters.

California Chamber of Commerce
Pacific Gas and Electric Company and its Affiliated Entities
San Diego Gas and Electric Company
Southern California Edison
Southern California Gas Company

Other

Southwest Gas Corporation

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