

Date of Hearing: June 24, 2026

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

SB 1098 (Pérez) – As Amended March 24, 2026

SENATE VOTE: 30-9

SUBJECT: Public utilities: forecast-based ratemaking

SUMMARY: Establishes forecast-based ratemaking as the preferred and primary method for setting authorized revenue requirements for electrical and gas corporations (IOUs), and limits the use of memorandum and balancing accounts to exceptional circumstances. Codifies new principles and requirements governing the California Public Utilities Commission's (CPUC) ratemaking authority when authorizing the use of memorandum and balancing accounts. Specifically, **this bill**:

- 1) Makes legislative findings that the proliferation of memorandum and balancing accounts has allowed IOUs to recover tens of billions of dollars above authorized forecasts, weakening cost-containment incentives and driving up rates for ratepayers.
- 2) Declares it the policy of California that forecast-based ratemaking through the general rate case (GRC) process is the preferred and primary method for establishing revenue requirements for IOUs, as it promotes greater oversight, transparency, and ratepayer protection.
- 3) Requires the CPUC, in exercising its ratemaking authority, to adhere to the following principles:
 - a. Treat forecast-based ratemaking as the default approach for establishing revenue requirements and cost recovery mechanisms.
 - b. Authorize and maintain memorandum or balancing accounts only under exceptional circumstances.
 - c. Transition any activity or program tracked through a memorandum or balancing account to forecast-based ratemaking at the earliest opportunity once sufficient historical data exists.
- 4) Requires the CPUC, when authorizing the creation or continuation of a memorandum or balancing account, to do one of the following:
 - a. Adopt cost-sharing mechanisms for costs recovered through the account, or
 - b. Adopt a rate of return lower than the IOU's authorized rate of return on capital costs recovered through the account, to discourage reliance on such accounts.
- 5) Requires that every memorandum or balancing account authorized by statute or by the CPUC include a specified expiration date.

- 6) Authorizes the CPUC to establish exceptions to the above principles for categories of costs not reviewed in a GRC, such as low-income rate discounts, or where an account's explicit purpose is to reduce the IOU's incentive to disconnect customers for nonpayment.

EXISTING LAW:

- 1) Establishes and vests the CPUC with regulatory authority over public utilities, including IOUs. (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 § 451)
- 3) Requires the CPUC, whenever the CPUC authorizes a change in rates reflecting and passing through to customers specific changes in costs, to require a public utility to establish and maintain a balancing account to reflect the balance between the related costs and revenues. (Public Utilities Code § 792.5)
- 4) Directs the CPUC to authorize public utilities to establish catastrophic event memorandum accounts, as provided. (Public Utilities Code § 454.9)
- 5) Authorizes each electrical corporation to establish a memorandum account to track costs incurred for wildfire risk mitigation that are unforeseen and incremental to the wildfire risk mitigation programs and activities authorized in the electrical corporation's revenue requirements, as specified. (Public Utilities Code § 8386.4)

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, this bill would result in a fiscal impact to the CPUC of ongoing costs of about \$436,000 annually (ratepayer funds).

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. The CPUC employs different mechanisms to authorize and adjust the rates that a utility may charge its customers.¹

General Rate Case – The venue for determining the revenue requirement and the cost functions and customer allocations for cost-of-service ratemaking is the GRC. Each IOU files a GRC application every four years. The CPUC approves a budget for the IOU 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. The GRC is an adversarial proceeding at which the IOU asserts all anticipated costs of doing business, as well as

¹ California State Auditor, *The California Public Utilities Commission and Cal Advocates Can Better Ensure That Rate Increases Are Necessary*, Report 2022-115 (August 2023), p. 8, available at <https://information.auditor.ca.gov/pdfs/reports/2022-115.pdf>.

uncompensated costs the IOU incurred prior to the immediate GRC. Various parties engage and may dispute the IOU's purported costs, particularly the Public Advocates Office (Cal Advocates) and The Utility Reform Network (TURN). The CPUC, through the administrative law judge, the presiding commissioner, and ultimately the vote by the commissioners, considers the evidence and authorizes an amount of budgeted funds the IOU may collect from its ratepayers that it deems sufficient to cover all of the IOU's just and reasonable costs, plus a reasonable return on investment.

Balancing and memorandum accounts – An IOU may also recover costs beyond those approved by the CPUC in the IOU's GRC. These include through the use of balancing accounts and memorandum accounts.

Generally, the CPUC authorizes an IOU to use a *balancing account* to track costs that are expected and occur on a regular basis but cannot be estimated accurately. These accounts are subject to audit and adjustment, but do not automatically undergo a reasonableness review. Rather, the CPUC authorizes a scope of the recorded activity, and a maximum level of acceptable expense, before the IOU undertakes the activity. But forecasts are imperfect. If the CPUC authorizes a forecasted amount and also a balancing account for that activity, then when actual costs are higher or lower than the authorized forecast, rates are adjusted up or down to compensate for the forecasting error. For example, the CPUC may authorize a utility to track the actual cost of its employee pension contributions. If the actual contribution cost exceeds the amount that the utility projected it needed to charge customers, the utility can file an advice letter in accordance with the CPUC's instructions to recover the additional costs from customers by increasing rates.² Utilities record billions of dollars – more than a third of their authorized revenue – in balancing accounts.³

Although utilities forecast their future costs during the GRC proceeding, the utilities may later incur costs that they did not anticipate. For example, a utility cannot always estimate the cost of restoring service after a catastrophic event, such as a wildfire, or the costs associated with new legislation enacted after its GRC proceeding. Although the CPUC did not authorize these costs, they may be necessary expenditures to enable the utility to ensure safe and reliable service.⁴ Utilities track these unauthorized costs in *memorandum accounts* and retain records for further review by the CPUC at a later date.⁵ To recover unanticipated costs, a utility may file a cost recovery application with the CPUC. In such an application, the utility must demonstrate that the costs are justified by providing testimony, supporting documentation, or other means. Just as occurs during GRC proceedings, an administrative judge presides over the cost recovery proceeding, and interested parties may protest any part of the utility's request. After hearing all arguments, the administrative judge approves or denies recovery of all or some of the costs by issuing a draft decision. After reviewing this decision, the commissioners may adopt it, modify it, or set it aside. If the commissioners find that the costs are reasonable, the commissioners may authorize the utilities to adjust rates to recover the costs. Such adjustments typically occur through an advice letter.⁶

² *Id.* at 12.

³ *Id.* at 49.

⁴ *Id.* at 10.

⁵ *Id.* at 12.

⁶ *Id.*

The differences in the account types lie in the timing and certainty of cost recovery. Memorandum accounts require a review of reasonableness before cost recovery is approved. Balancing accounts pre-approve the scope of activities and their associated costs because they are believed to be both certain and reasonable. This allows IOUs to incorporate the costs incurred in balancing accounts into rates as soon as it is practicable for them to do so, and provides more certainty that recorded costs will be borne by ratepayers.

Before the regular use of memorandum and balancing accounts, utilities were at risk of absorbing the cost of unforeseen activities until the next GRC is authorized, a process years in the making.

COMMENTS:

- 1) *Author's Statement.* According to the author, "SB 1098 is a critical step in addressing California's broader affordability crisis. Families across the state are feeling the pressure of rising costs in every aspect of their daily lives, and energy bills are no exception. At a time when Californians are stretching every dollar, we must ensure that utility costs are fair, transparent, and justified. This bill brings much-needed accountability to investor-owned utilities (IOUs) by placing guardrails on how costs are recovered from ratepayers. For too long, so-called "memorandum and balancing accounts" have allowed utilities to pass through tens of billions of dollars in unexpected costs outside of the traditional regulatory review process. SB 1098 restores balance by establishing clear and responsible standards for these accounts. Specifically, the bill requires expiration dates, ensures that any rate of return applied to these costs is lower than the utility's authorized rate of return, and introduces cost-sharing mechanisms so that ratepayers are not bearing the full burden. SB 1098 strikes the right balance by protecting consumers from unchecked cost increases while still allowing utilities the ability to manage their expenses responsibly. It is a measured, thoughtful approach that puts Californians first."
- 2) *Purpose of the Bill.* Although the CPUC currently possesses broad ratemaking authority under existing law, including the discretion to authorize memorandum and balancing accounts as mechanisms for utilities to recover costs above previously authorized levels, this bill establishes forecast-based ratemaking through the GRC process as the preferred and primary method for setting utility revenue requirements and limits the use of memorandum and balancing accounts to exceptional circumstances. To that end, the bill requires that any activity tracked through a memorandum or balancing account be transitioned to forecast-based ratemaking at the earliest opportunity once sufficient historical data is available, and – where such accounts are authorized – adopt either cost-sharing mechanisms or a reduced rate of return on capital costs recovered through the account to discourage utility reliance on retrospective cost recovery. The bill further requires that all authorized accounts include a specified expiration date, while preserving the CPUC's existing authority to ensure just and reasonable rates and to implement accounts expressly required by statute.
- 3) *Balance in the Use of Memorandum and Balancing Accounts.* This bill raises the policy question of how to calibrate the use of memorandum and balancing accounts – preserving their availability where justified while preventing their proliferation to a degree that undermines ratepayer and regulatory oversight. Where costs are genuinely difficult to forecast or arise from unexpected circumstances outside a utility's control, tracking costs

in these accounts for subsequent CPUC review serves a legitimate ratemaking purpose. However, an excessive number of active accounts fragments oversight, delays reasonableness review, and obscures the true cost of utility operations – making it difficult for ratepayer advocates to meaningfully scrutinize utility spending and participate effectively in the ratemaking process.

- 4) *Support for Legislative Findings.* *The Committee recommends striking some and revising other legislative findings for accuracy and supportability.*
- 5) *Authorization of Memorandum and Balancing Accounts.* The bill limits the CPUC to authorizing memorandum and balancing accounts only in “exceptional circumstances” – a term that is undefined and could create uncertainty in interpretation and application. *To support transparency while allowing the CPUC to retain its discretion to establish these types of accounts when warranted, the Committee recommends revising this provision to remove the “exceptional circumstances” limitation and to require a written finding explaining why the account is necessary and why the relevant costs cannot be adequately forecasted through the GRC process.*
- 6) *Cost-Sharing and Rate of Return for Memorandum and Balancing Accounts.* Requiring the CPUC to adopt specific-cost-sharing mechanisms and rate of return adjustments for every authorized memorandum or balancing account could constitute legislative ratemaking and would improperly constrain the CPUC’s constitutional obligation to set “just and reasonable” rates based on the specific facts and circumstances of each proceeding. *The Committee recommends making these considerations permissive, rather than mandatory. This would preserve the CPUC’s flexibility while expressly requiring the CPUC to consider whether adopting cost-sharing and a reduced rate of return is appropriate.*
- 7) *Transition to Forecast-Based Ratemaking – Addressing Implementation Issues.* The bill does not address how memorandum and balancing accounts established prior to the effective date of this bill should be treated, potentially raising retroactive ratemaking concerns. *To address this issue, the Committee recommends adopting amendments so that accounts existing on the effective date of this bill shall not be changed for ratemaking treatment purposes until the CPUC reviews the account, and to require accounts be reviewed in the subsequent GRC for the relevant IOU, during which the CPUC must consider assigning an expiration date.*
- 8) *Supporters’ Arguments.* Supporters argue that the proliferation of memorandum and balancing accounts has enabled investor-owned utilities (IOUs) to bypass the budget discipline of the GRC process by passing through tens of billions of dollars in retrospective cost recovery. They argue that the GRC process only works as a cost-containment mechanism if IOUs cannot simply recover overspending retrospectively through separate account applications, and that this bill restores that discipline. Supporters also note that under existing law, if an IOU spends less than its GRC-authorized amount, shareholders profit – but if costs exceed the forecast, shareholder risk is currently mitigated by passing costs through to ratepayers via memorandum and balancing accounts. They argue that this bill would partially rebalance this risk allocation.
- 9) *Opponents’ Arguments.* Opponents raise four primary concerns. First, they argue that memorandum and balancing accounts do not create costs – they are accounting tools that

track costs already incurred, largely pursuant to legislative mandates. They contend that restricting these accounting tools does not reduce the underlying expenditures; it simply obscures them. Second, opponents argue the bill pre-determines which ratemaking tools should be used rather than allowing the CPUC to match tools to the specific characteristics of each cost category. They further note that intervenors rely on these tools as well. Third, opponents argue that mandatory cost-sharing or reduced returns applied to prudent, CPUC-authorized, or legally mandated costs could constitute confiscatory ratemaking in violation of the Fifth Amendment and Article I, Section 19 of the California Constitution. They also argue that reducing access to balancing mechanisms would force utilities to build larger contingency buffers into GRC forecasts, potentially increasing upfront rates, and would increase perceived investment risk, raising the cost of capital passed on to ratepayers. Fourth, opponents contend that legislative findings appear to rely on conclusions from the Crowe Report, which they argue misapplied CPUC ratemaking principles by evaluating incrementality at a companywide rather than activity-by-activity level, and ignored refunds already returned to customers through approved mechanisms. They note that the 2023 State Auditor report did not adopt the Crowe Report's methodology or findings.

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 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 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.

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

11) *Prior Legislation.*

AB 2054 (Bauer-Kahan, 2024) would have authorized the CPUC to further review any costs recorded in a balancing account above an authorized forecast as provided, require all proposed investor owned utility wildfire mitigation capital costs to include a cost-benefit analysis with at least one alternative, and prohibit leadership at the CPUC and the Ratepayer Advocates from receiving gifts or employment, for at least one year, from any entity subject to regulation by their body. Status: Senate-Died – Appropriations.

AB 3256 (Irwin, 2024) would have required the CPUC to conduct a comprehensive audit, with specified criteria, of each wildfire- or emergency-related memorandum accounts and balancing accounts of each electrical corporation on or before July 1, 2025, or, on or before January 1, 2027, if the CPUC is unable to review all those accounts by July 1, 2025, as provided. Status: Senate-Died – Appropriations.

REGISTERED SUPPORT / OPPOSITION:

Support

The Utility Reform Network (TURN) (sponsor)
 California Coalition of Large Energy Users (CLEU)
 California Environmental Voters
 California Environmental Voters
 California Large Energy Consumers Association (CLECA)
 Central Orange County Democratic Club
 Citizens' Climate Lobby, Orange County Central Chapter
 City of Laguna Beach
 Climate Action Campaign
 College Democrats at UCI
 Democrats of Greater Irvine
 Irvine Valley College Democrats
 Orange County Climate Voter Guide
 Orange County Young Democrats
 Public Advocates Office
 Small Business Utility Advocates (SBUA)
 Sunrise Movement Orange County
 United Nations Association, Orange County
 WAVE – Women for American Values and Ethics

Oppose

California Chamber of Commerce
Coalition of California Utility Employees
Edison International and Affiliates, Including Southern California Edison
Pacific Gas and Electric Company
San Diego Gas and Electric Company
Southern California Gas Company

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