**SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS**
**Senator Josh Becker, Chair**
**2025 - 2026 Regular**

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| **Bill No:** | SB 500 | **Hearing Date:** | 4/29/2025 |
| **Author:** | Stern | | |
| **Version:** | 3/26/2025 Amended | | |
| **Urgency:** | No | **Fiscal:** | Yes |
| **Consultant:** | Nidia Bautista | | |

**SUBJECT:** Electrical corporations: performance metrics and incentives

**DIGEST:** This bill requires the California Public Utilities Commission (CPUC) to evaluate performance metrics and financial performance-based incentives to identify mechanisms that may serve to better align an electrical corporation's expenditures with achieving public policy goals, among other objectives.

**ANALYSIS:**

Existing law:

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

2) The California Constitution authorizes the CPUC, among other things, to establish its own procedures, subject to statute and due process, and to fix rates and establish rules for all public utilities, subject to control by the Legislature. (California Constitution, Article XII, §§2,3, 5, and 6)

3) Establishes it is the policy of the state that each electrical corporation continue to operate its electric 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 that all charges demanded and received by a public utility must be just and reasonable. (Public Utilities Code §451)

This bill:

1) Requires the CPUC to evaluate performance metrics and financial performance-based incentives to identify mechanisms that may serve to better align electrical corporation operations, expenditures, and investments with delivering safe and

reliable electrical service and achieving public policy goals, while minimizing costs for ratepayers.

2) Requires the CPUC to prioritize performance metrics and financial performance-based incentives that can reduce electrical corporations' preference for investments that can be added to their ratebase and instead encourage electrical corporations to propose the most cost-effective solutions for providing safe and reliable electrical service, as provided.

3) Requires the CPUC, on or before January 1, 2028, to begin tracking one or more of the performance metrics identified, and to subsequently consider whether financial performance-based incentives linked to those performance metrics would be effective and beneficial for minimizing costs for ratepayers.

**Background**

*Performance-based ratemaking (PBR)*. PBR is a term used to describe a wide variety of tools that regulators can use to incentivize utility actions of desired outcomes. PBR is offered as an alternative to the utility cost of service regulation (also called a rate of return regulation). Cost of service has been the dominant model through which regulators seek to maximize social welfare in natural monopoly markets. Under the cost of service model, the price level that maximizes societal welfare, while allowing firms to stay viable, is where the price equals the average cost of producing a good. The model requires: (1) identifying the fair-rate of return on capital expenditures for utilities in order to attract the investment needed to fund high fixed-cost projects and (2) to ensure that utilities investments are prudent. On the other hand, PBR relies on incentives to induce a natural monopoly to act more like a competitive firm. Per much of the literature, PBR is used to address asymmetry of information between the regulator and the regulated firm. While PBR frameworks can vary, they often include incentives for various actions by the regulated utility, as an alternative to the perceived bias for capital expenditures. These can include incentives for deploying distributed energy resources, meeting safety performance metrics, and others.

**Comments**

*Need for the bill.* The author states:

> The current utility energy regulatory paradigm (cost-of-service model) creates systemic misalignments between utility financial interests, rate-payer interests, and broader environmental goals. The models incentivize over-investment. This problem means the activities taken by the legislature (or even by the PUC) are

not as effective in implementation as they ought to be. This bill changes the paradigm to the performance-based incentives and metrics paradigm.

*PBR shows promise, but may not be a magic bullet*. This bill appropriately requires the CPUC to evaluate performance metrics and incentives to identify mechanisms that may serve to better align an electrical corporation's operations, expenditures, and investments with delivering safe and reliable electrical service and achieving public policy goals. The intent is to help realize savings through this new paradigm, specifically by reducing the utility's preference for investments that can be added to their rate-base. Many of the supporters of this bill view PBR as an opportunity to advance distributed energy resources, which they argue the utilities oppose as diluting their opportunity for capital investments. Several jurisdictions have adopted PBR, or variations thereof, as an alternative to the traditional cost of service model, most notably these include Hawaii and the United Kingdom, which has the longest running program. Though in each case, there is much by way of learnings about how these programs may, or may not work, for California. A recent blog post by Andrew Campbell at the Energy Institute at Haas[1] discussed the challenges of why PBR may not help with California's immediate electric utility affordability concerns. Specifically, the author cited the need to forecast the future to ensure PBR achieves its goals is the biggest drawback given the uncertainty around the state's climate and policy environment. The author argues that much is outside the control of the utility so PBRs may have limited usefulness in the state. However, the author did note some advantages of the PBR relative to California's current regulatory approach, including the need to establish holistic goals and provide clear communication on the results. PBR, like a rate-mechanism, rests on the effectiveness of the regulator's oversight.

*Proceed with caution – unintended consequences.* In some literature aspects of California's economic regulation is cited as containing characteristics of PBR, including the multi-year rate cases, decoupling of sales of electricity and rate of return, and others. California has also had unfortunate experiences with performance incentives, including the 1990s, where a PBR price-cap mechanism that include performance incentives for safety and reliability. Unfortunately, a utility gamed the customer service and safety incentives, including under reporting injuries. The CPUC ultimately found that incentives led to a culture that discouraged reporting of safety violations. Given California's history with performance-based incentives and metrics specifically, a need to proceed with caution is warranted.

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[1] https://energyathaas.wordpress.com/2025/03/17/getting-utility-profits-to-align-with-public-benefits/#:~:text=California%20has%20tried%20performance%2Dbased,outside%20of%20the%20IOUs%20control
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*Need for amendments. Given the existing framework for wildfire mitigation and the numerous bills related to expanding on the existing framework, the author and committee may wish to add provisions to identify intended consequences that should also be evaluated.*

**Prior/Related Legislation**

SB 254 (Becker) of the current legislative session, includes various proposals to address electric utility affordability, including those related to wildfire mitigation.

SB 947 (Dodd) of 2020, would have required the CPUC to evaluate financial performance-based incentives and performance-based metric tracking to identify mechanisms that may serve to better align electrical corporation operations, expenditures, and investments with public benefit goals, including safety, reliability, cost efficiency, and other state energy policies the commission believes may benefit from performance-based ratemaking. The bill was held by the author.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: Yes

**SUPPORT:**

301 Organics
350 Bay Area
350 Humboldt
350 Southland Legislative Alliance
California Environmental Voters
California Solar & Storage Association
CARES Coalition
Center for Community Energy
Chun -McGill Group
Citizen's Climate Lobby Santa Cruz Chapter
CleanEarth4Kids.org
Climate Action California
Climate Action Petaluma
Climate Health Now
Elders Climate Action NorCal
Environmental Committee of the Valley Women’s Club of San Lorenzo Valley
FACT - Fires Aren't Started by Trees Coalition
Fractracker Alliance
Glendale Environmental Coalition
Hang Out Do Good

Indivisible Alta Pasadena
Indivisible Green Team
NELA Climate Collective
NRG Energy
Pink Panthers
Resilient Palisades
SanDiego 350
Silver Lake Couch Collective
Stand.Earth
Sustainable Rossmoor
The Climate Center
The Climate Reality Project, California State Coalition
The Climate Reality Project, Los Angeles Chapter
The Climate Reality Project, Monterey Bay
The Climate Reality Project, Orange County Chapter
The Climate Reality Project, San Diego Chapter
The Climate Reality Project, San Fernando Valley CA Chapter
The Phoenix Group
Transformative Wealth Management LLC
Transition South Pasadena
Urban Ecology Project
Vector Green Power, LLC
Voting 4 Climate & Health

**OPPOSITION:**

Pacific Gas and Electric Company
San Diego Gas and Electric Company
Southern California Edison

**ARGUMENTS IN SUPPORT:** A coalition of environmental organizations, including the 350 Southland Legislative Alliance and others state:

> As our grid evolves, electricity rate models must adapt to support reliability and the transition to electrification. Performance-based ratemaking (PBR) frameworks incentivize utilities to align their work with the interests of ratepayers and penalize utilities for not meeting important milestones. PBR promotes efficient grid investment in local distributed resources, hardens the grid against disruption during peak demand and increases resiliency during outage scenarios. This framework also incentivizes utilization of abundant renewable resources to help meet California’s clean energy goals and reduce rates. Similar legislation in Hawaii resulted in lower residential rates, customer

> dividends and faster Internet connection of small scale, solar projects. SB 500 is a critical solution to provide affordability for consumers using legislative oversight to minimize rate increases by pursuing least-cost alternatives to deliver reliable clean energy to residents.

**ARGUMENTS IN OPPOSITION:** Pacific Gas and Electric Company, San Diego Gas and Electric Company, and Southern California Edison state:

> SB 500's implicit assumption that utilities prioritize capital projects rejects and misrepresents the reality of the thorough processes in place that inform decision making. Each mitigation tool is rigorously evaluated — from advanced technology such as "fast trip", to covered conductors, to undergrounding — and chosen based on location-specific needs, risk level, and community impact. These decisions are already subject to CPUC oversight and often incorporate feedback from stakeholder input. The notion that utilities would prefer rate base investments for their own sake ignores the detailed, transparent, and safety-driven process that underpins every project proposal. We appreciate the bill's intent to ensure cost-effective delivery of safe and reliable electric service, but as currently drafted, SB 500 would limit utility flexibility, undermine wildfire safety strategies, and complicate infrastructure development at a time when California needs bold, coordinated investment to electrify and decarbonize its economy.

**-- END --**