
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**

**Senator Benjamin Allen, Chair
2025 - 2026 Regular**

Bill No:	AB 2589	Hearing Date:	6/24/2026
Author:	Irwin		
Version:	2/20/2026	Introduced	
Urgency:	No	Fiscal:	Yes
Consultant:	Nidia Bautista		

SUBJECT: Public utilities: rates: changes to federal law

DIGEST: This bill requires the California Public Utilities Commission (CPUC) to evaluate the full effect on public utilities' tax liabilities of the changes to corporate tax federal law and explicitly includes those changes as enacted by the One Big Beautiful Bill Act, federal House Resolution 1 (Public Law 119-21).

ANALYSIS:

Existing law:

- 1) Authorizes the CPUC to fix rates, establish rules, examine records, issue subpoenas, administer oaths, take testimony, punish for contempt, and prescribe a uniform system of accounts for all public utilities, including electrical, gas, sewer, telephone, and water corporations (also known as investor-owned utilities (IOUs)), subject to its jurisdiction. (Article 12, §6 of the California Constitution)
- 2) Requires that all charges demanded or received by any public utility for any product, commodity or service be just and reasonable, and that every unjust or unreasonable charge is unlawful. (Public Utilities Code §451)
- 3) Provides the CPUC with general, broad authority to regulate every public utility in the state. (Public Utilities Code §701)
- 4) 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)
- 5) Requires the CPUC to evaluate the full effect of the enactment of federal House Resolution 1 (Public Law 115-97) upon the expenses and tax liabilities incurred by public utilities for payment of federal taxes, and, if the CPUC determines that the projected expenses and tax liabilities for federal taxes that the CPUC

has authorized in the rates for a public utility are materially affected by its enactment, to adjust the rates of the public utility to reflect the changes in projected expenses and tax liabilities in light of the changes in federal law. (Public Utilities Code §751)

This bill:

- 1) Requires the CPUC to evaluate the full effect of all federal legislation that becomes law and explicitly includes the recent federal House Resolution 1 (Public Law 119-21), otherwise known as the One Big Beautiful Bill Act, upon the expenses and tax liabilities incurred by public utilities for payment of federal taxes and, if the CPUC determines that the projected expenses and tax liabilities for federal taxes that the CPUC has authorized in the rates for a public utility are materially affected by the enactment, to adjust the rates of the public utility to reflect the changes in projected expenses and tax liabilities in light of the changes in federal law.
- 2) Restates that the section does not limit the discretionary authority of the CPUC to determine the full effect of the changes in federal tax law on each utility's cost of service, to utilize appropriate mechanisms at its disposal to track changes and adjust rates accordingly, and to allocate the benefits from the changes in federal tax law over the period of time that results in the most reasonable allocation based on the particular circumstances of each utility.
- 3) Reapplies the provisions of the section to only those public utilities over which the CPUC exercises its authority to fix rates and only to the extent the revenue requirements of the utility are based upon the tax rates in effect at the time rates were fixed for the utility by the CPUC.
- 4) Restates this section does not limit the discretionary authority of the CPUC to adjust any incentives provided pursuant to any state supervised or administered program, including the state's telecommunications universal service programs administered pursuant to Chapter 1.5 (commencing with Section 270).

Background

CPUC general rate case (GRC). As part of its authority to regulate the rates of a utility, the CPUC reviews and adopts a GRC which is a forecasted budget for the upcoming three-four years, depending on the utility. The GRC is the CPUC's primary opportunity to review utility operations, investments, and associated costs. As part of the GRC, the CPUC adopts a revenue requirement which refers to the annual amount of money that IOUs are authorized by the CPUC to collect in rates

from their customers. The GRC phase 1 decision establishes the revenue requirement for the “test year” and for the following three (or two) “attrition years.” The test year is the year in the future for which costs are estimated. Typically, IOUs file GRCs every four or three years, depending on the type of utility. Tax expenses are among the expenses reviewed during the GRC.

Tax Act Memorandum Accounts (TAMAs). A utility’s income taxes are among the expenses considered a cost of providing service. As the case with other expenses, income taxes are recoverable by the utility in the revenue requirement. In general, any increase or decrease in tax liabilities is accounted for through the GRC forecasting process for each utility based on the expected federal and state tax rates to the utility’s expected net operating income. Given that each utility’s GRC cycle is conducted on a unique schedule, any changes from recent federal tax law would typically not be accounted for until the utility’s next GRC. In the case of some utilities their GRC may not be until three-four years from now and for other utilities, they may currently be in the midst of their GRC. GRCs rely on forecasted tax expenses, therefore, actual tax liabilities may differ due to changes in federal tax law or realized earnings. These differences are typically tracked in memorandum accounts, TAMAs. TAMAs were implemented following the passage of the federal Tax Relief Act in 2011 which resulted in unexpected decreases in utility tax liabilities. The CPUC reviews the tax expenses tracked in the memorandum account as part of the utility’s GRC.

Comments

Tax Cuts and Jobs Act” federal House Resolution 1 (Public Law 115-97). The “Tax Cuts and Jobs Act” federal House Resolution 1 (Public Law 115-97) was signed into law on December 22, 2017, during President Trump’s first term with portions of the law taking effect January 1, 2018. The Act resulted in a federal corporate income tax rate cut from 35% to 21%. The Act also made additional tax changes including loss of Section 199 deduction (also known as a domestic manufacturing tax deduction), the loss of bonus depreciation for IOUs, and complications to the Accumulated Deferred Federal Income Taxes (AdFit). These provisions affected the federal tax liabilities of corporations, including utilities regulated by the CPUC beginning in tax year 2018. The effect of the changes from the Act vary by utility, depending on how the utility accounts for its taxes, depreciation expenses, and other factors. Further complicating the effect of the tax law on regulated utilities, as noted by a report by the Brattle Group, the changes to the federal tax law could result in an increase in credit costs for utilities, namely due to reduced cash flow of the tax changes and the loss of bonus depreciation. In fact, credit ratings agencies reduced the credit ratings for a number of utilities across the nation due to the tax changes.

In anticipation of the sizeable tax changes made from the Act, the CPUC informed all rate-regulated utilities (energy, water, telecommunications) of the CPUC's goal to implement expeditious and efficient rate relief to the extent the new tax laws contain flow-through benefits for utility customers. As such, the CPUC instituted a number of tax memorandum accounts in order to account for the tax expenses and adjustments. This process requires a tailored approach for each utility, as much depends on how the utility accounts for depreciation, the point of their GRC cycle and other factors. Additionally, SB 1028 (Hill, Chapter 411, Statutes of 2018) was proposed during the 2018 state legislative session and ultimately signed into law that year. SB 1028 established identical provisions as this bill to make explicit the requirement on the CPUC to account for changes to federal law that impact IOUs' tax liabilities, with specific mention of changes from the "Tax Cuts and Jobs Act" federal House Resolution 1 (Public Law 115-97). As reported by the CPUC, the changes from the federal law resulted in nearly \$1 billion dollars among the large energy utilities. These savings were accounted for within the GRCs, resulting in reducing collections from ratepayers for this purpose.

One Big Beautiful Bill Act. Federal House Resolution 1 (Public Law 119-21), commonly known as the One Big Beautiful Bill Act was signed into law on July 4, 2025. The Act makes several changes to federal tax law for residents and companies. Specific to corporate taxes, the bill cements the corporate statutory tax rate at 21%. The Act also rescinds or sunsets a number of previously approved federal clean energy and water tax credits and other incentives from the Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA). The Act also implements stricter foreign-entity manufacturing restrictions to access federal subsidies and accelerates the deadline for solar and wind energy projects to access tax credits. The Act also provides for a permanent reinstatement of 100% bonus depreciation for capital projects placed in service after January 19, 2025.

Ratepayer impacts. This bill would state the requirements in Section 751 of the Public Utilities Code to require the CPUC to account for all changes in federal tax law with rate adjustments, to the extent they are warranted, due to the adopted changes in the federal corporate tax changes and explicitly mentions the One Big Beautiful Bill Act. With each utility being uniquely affected by the tax changes, not all ratepayers may experience rate changes. However, to the extent a utility's federal tax obligations have reduced overall, the utility's ratepayers are likely to have a reduction in the rates associated with the tax expenses that would have been collected for federal taxes. Since overall rates may be affected by numerous other factors and expenses, it's unclear whether the reduction in tax liabilities will guarantee reduced rate recovery overall.

Amendments. As noted above, the CPUC does review IOUs' tax liability changes from federal tax law. However, this bill would make it explicit that CPUC must evaluate the changes from the One Big Beautiful Bill Act and all federal legislation. To clarify the language in the code, *the author and committee may wish to amend this bill to delete the new section proposed to be added by the bill and instead amend Section 751 of the Public Utilities Code by adding a reference to the One Big Beautiful Bill Act and all federal legislation changes taxes for electric utilities among the federal legislation the CPUC must evaluate upon the expenses and tax liabilities incurred by public utilities for payment of federal taxes.*

Prior/Related Legislation

AB 1715 (Schiavo, 2026) requires specified quarterly and annual reporting by electrical and natural gas corporations regarding federal funding received from federal legislation adopted under the Biden administration and other non-ratepayer sources. The bill also requires the CPUC to develop a searchable database for utility advice letters. The bill is pending in the Senate Appropriations Committee.

SB 1028 (Hill, Chapter 411, Statutes of 2018) required the CPUC to evaluate the full effect of the recently adopted federal corporate tax cuts 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.

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

SUPPORT:

None received

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: 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 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.”

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