Memo to CA Gubernatorial Candidates

April 22, 2026

To: California Gubernatorial Candidates

RE: Affordable Energy Solutions for California

California is facing a serious energy affordability crisis. Since 2014, electricity rates for the state's investor-owned utilities have skyrocketed — PG&E up 76%, SDG&E up 98%, SCE up 101%. More than one in five utility customers is currently behind on their bills.

The scale and structural nature of this crisis suggest that meaningful progress will require leadership at the highest levels of state government. The Governor of California plays a critical role in shaping the regulatory, legislative, and policy environment that determines how electricity costs are set — and how quickly California can implement reforms needed to meet both its affordability and clean energy goals.

This memo is provided on a nonpartisan basis to all gubernatorial candidates for educational purposes. The Affordable Energy Campaign does not support or oppose any candidate for public office.

A broad coalition of community-based, environmental, environmental justice, and consumer organizations has analyzed the structural causes of rising electricity costs and potential approaches to address them. This memo is shared on a nonpartisan basis, drawing on our collective research and on-the-ground expertise. We welcome the opportunity to serve as a resource on these issues as California's next Governor considers the policy landscape.

Understanding the Root Cause: How Utility Incentives Drive Up Costs

To understand why California's electricity bills keep climbing, it is important to understand one core structural fact: investor-owned utilities earn profits on every dollar they spend on infrastructure. The more they build, the more they make — regardless of whether that spending is efficient, necessary, or the best solution for Californians. As shareholder-owned corporations with a legal obligation to maximize returns for investors, IOUs have every incentive to pursue expensive infrastructure solutions, and limited incentive to pursue cheaper, and often cleaner solutions.

Research and policy discussions among coalition organizations suggest this incentive structure is a significant driver of rising costs across multiple areas of utility spending. The sections below outline where this dynamic shows up most clearly, and what approaches policymakers can consider in response.

Where Rising Costs Are Concentrated

- ***Wildfire Costs***

Wildfire mitigation and insurance is the single largest driver of California's electricity rate increases over the past decade — one out of every six dollars families pay on their bills goes to wildfire mitigation and insurance. While reducing the risk of wildfire ignition caused by utility infrastructure is essential and requires a well-trained, properly resourced workforce, the current regulatory structure and utility business model allows utilities to recover all wildfire mitigation and the majority of liability costs from ratepayers, with profits earned on capital investments and limited incentives to rigorously control operational spending such as tree trimming. In practice, this means that while utilities are investing heavily in wildfire mitigation, investment decisions are often optimized for maximizing profit (e.g., prioritizing capital-intensive undergrounding projects) and reducing utility liability exposure, rather than achieving the greatest overall risk reduction for California communities at the lowest reasonable cost.

- ***Grid Overbuilding and Transmission Costs***

The same incentive dynamic can drive overinvestment in transmission and distribution infrastructure. Because utilities earn guaranteed returns on infrastructure spending, they may have limited incentive to pursue solutions that could meet the same grid needs at lower cost. California can often avoid expensive new transmission lines by investing in community power solutions — such as demand response programs, rooftop and community solar, distributed batteries, smart electric vehicle charging, virtual power plants, and microgrids. Additionally, grid-enhancing technologies, which are advanced hardware and software solutions that increase the capacity, efficiency, and reliability of existing electric transmission lines without building new infrastructure, can be considered to avoid unnecessary overbuilding. Alongside grid-enhancing technologies, advanced reconductoring should be evaluated as a complementary strategy to increase transmission capacity by upgrading existing lines, often at a fraction of the cost and time of new infrastructure while avoiding disturbance to undisturbed or sensitive lands. It is also important to make sure these community power solutions are available in low-income and environmental justice communities.

Where new transmission is genuinely needed to connect clean energy to the grid, how we finance it matters enormously. Investor-owned utility financing for transmission costs 57% more than public financing. Public financing can remove that profit layer and deliver the same infrastructure at dramatically lower cost to Californians if a local or state body has ownership over those transmission lines.

- ***Utility Profits***

California's IOUs operate under a regulatory model that authorizes profit — with the Cost of Capital Proceeding setting the return on equity (ROE) — on approved capital investments included in rates. Numerous financial analysts have concluded that current authorized returns are too high relative to actual financial risk, resulting in a structural transfer of wealth from utility customers to investors. In 2025, SCE alone posted over $5 billion in net income, and SoCal Edison customers sent 26 cents of every dollar they paid directly to utility profits. Because these returns accumulate on every infrastructure dollar, year after year for decades, even modest reductions in ROE would translate to billions in savings over time. Ninety-one percent of California voters support ending excessive utility profits to cut consumer costs.

By comparison, publicly-owned utilities operate at cost, with no structural incentive to overspend. Customers of California's publicly-owned utilities pay rates more than 50% lower than IOU customers — a gap that reflects multiple factors, but one in which the absence of a profit motive is widely understood to play a significant role.

Policymakers could consider approaches to ensure utilities respond first and foremost to customers, rather than shareholders. These outcomes may require statutory reform.

Policy Approaches for Consideration

The structural nature of California's affordability crisis suggests that lasting solutions require structural reforms in addition to, rather than relying on incremental adjustments. The following approaches, drawn from policy developments in other states and from coalition research, represent potential pathways for policymakers to consider.

1. Provide Immediate Relief to Vulnerable Households

Structural reforms are essential — but they will take time to implement. Meanwhile, CPUC data shows that more than one in five IOU customers is currently behind on their bills, carrying an average debt of $634 per household. A range of near-term approaches that could provide relief to the most affected households include:

- Enacting stronger protections against utility disconnections for vulnerable customers, including during extreme heat events and reducing the overall cap of disconnections.
- Delivering on the Climate Credit transition established by AB 1207, which directed the shift of the state's Climate Credit from gas bills to electric bills by 2031. Proposed regulatory amendments would delay that timeline to 2036, deferring billions in savings that California families were promised years sooner.
- Expanding and strengthening bill assistance programs — including Arrearage Management Payment Plans and Low Income Home Energy Assistance Program — to provide direct financial relief to low- and moderate-income households.
- Exploring near-term measures to stabilize bills such as inflation caps and limit sudden rate increases, while longer-term structural reforms are implemented.

2. Reform the Regulatory Model

The structure of utility regulation in California shapes incentives across all areas of utility spending — making reform of the regulatory model essential for lasting affordability. Proposed policy approaches include:

- Updating the incentive structure to reward utilities for affordability, efficiency, and meeting state clean energy targets — rather than maximizing capital expenditures, including by tying a portion of utilities' already-approved return on equity and/or executive compensation to transparent performance metrics like rate affordability.
- Reforming the General Rate Case (GRC) process to require a single, comprehensive annual review of all proposed revenue increases, improving transparency and limiting utilities' ability to pursue piecemeal rate hikes, including by consolidating and placing greater limits on memorandum and balancing accounts to ensure more complete and transparent review of utility spending within the GRC.

- Strengthening regulatory independence and accountability — including requiring that CPUC commissioners are free from financial entanglements with the utilities they oversee, and prohibiting commissioners from being hired by IOUs for five years after leaving the Commission.
- Restricting IOUs from using ratepayer funds to lobby for policies or support candidates that increase shareholder profits at ratepayers' expense. California has started to make some progress on this and should continue. Colorado, Connecticut, and Maine have recently enacted laws to this effect.

3. Advance Wildfire Cost Responsibility & Accountability

Wildfire prevention is essential, but the current practice places a disproportionate share of costs on investor-owned utility customers — while giving utilities little incentive to minimize spending or pursue cost-effective solutions and failing to hold them accountable for cost discipline and risk reduction. A more equitable approach would end the use of ratepayers as the default cost backstop, instead placing financial responsibility on utility shareholders and the fossil fuel industry, while the state plays a role in financing and ensuring accountability. Where public financing is used, it should be conditioned on enforceable reductions in utility returns, strict limits on profit recovery, and increased public oversight or financial benefit, and should avoid any California public monies being spent for FERC jurisdictional activities unless it is publicly owned, all to prevent the transfer of risk to the public without commensurate accountability. Policy approaches that have been proposed include:

- Requiring more rigorous independent evaluation of utility wildfire mitigation spending to ensure ratepayer dollars are directed toward the solutions that deliver the greatest safety benefits at the lowest cost.
- Modernizing wildfire financing structures to broaden cost-sharing and align incentives across all beneficiaries and responsible parties — including through public bonding mechanisms, alternative ownership models for high-risk utility circuits, including increased contributions from state and local government, insurers, utility shareholders, the fossil fuel industry, and other responsible parties, as well as public financing and ownership structures such as a public fire-safety infrastructure authority.
- Reforming the Wildfire Fund to reduce ratepayer contributions and increase revenue from other sources, including contributions from the fossil fuel industry and other responsible parties, such as shareholders, while ensuring that wildfire victims are compensated in a timely and equitable manner and that costs are not shifted onto ratepayers who had no role in causing ignition events.
- Expanding community resilience investments through public financing, including bonds to support microgrids and community hardening that improves safety while reducing long-term ratepayer costs.
- Providing funding for wildfire prevention and risk reduction through a structured, shared-responsibility approach, including vegetation management, community-scale mitigation, forest thinning, and home hardening investments across landowners,

insurers, utilities, and other beneficiaries with clear cost-allocation standards that align with risk and benefit, reduce reliance on ratepayers as the primary funding source, and hold utilities accountable for cost discipline and risk reduction, and prevent gold plating.

Public financing referenced above is intended to support structural reforms and public-purpose resilience investments that reduce long-term system costs and risk, and is not intended to serve as a backstop for IOU-caused wildfire liabilities or costs arising from utility negligence.

4. Deploy Lower-Cost Clean Energy Solutions

Proven, lower-cost clean energy and grid solutions remain underutilized, in part because the current incentive structure favors utility development and ownership of expensive new infrastructure. Also, ensuring these are available in low-income and environmental justice communities. Policy approaches that have been proposed include:

- Requiring utilities to prioritize non-wires alternatives — including distributed energy resources, virtual power plants, demand-side management, and grid-enhancing technologies — before approving new transmission and distribution investments.
- Developing new tariffs and other protective requirements for large new electricity loads — including data centers and other energy-intensive facilities — to ensure they contribute a fair share of system costs, do not place undue risk on ratepayers, bring renewable resources online, and meet public interest requirements around water use and grid reliability.
- Clarify and maximize the power of the state government to control in-state facilities and programs vis-à-vis FERC and the Federal Power Act.
- Establishing requirements for utilities to report on and improve grid utilization — setting targets for more efficient use of existing infrastructure — to put downward pressure on rates by prioritizing lower-cost, cleaner solutions that maximize the value of the grid we already have.

5. Explore Alternative Financing and Ownership Models

The evidence from California's publicly-owned utilities — which operate at cost and charge rates more than 50% lower than IOUs in comparable service territories — suggests that the for-profit model is not the only viable approach to electricity service. Policymakers could explore a range of structural reforms that may better align utility incentives with the interests of the communities they serve. These include strengthening oversight of utility capital planning to ensure investment decisions genuinely minimize costs to ratepayers, evaluating public or cooperative ownership models for specific types of grid assets, and requiring the use of public financing and control of wildfire mitigation investments or requiring public ownership for transmission.

Conclusion

California's energy affordability crisis is serious, persistent, and structural — and it will not be resolved through modest adjustments to the existing regulatory framework. The organizations signing this memo represent a broad cross-section of California communities, and we are united in the view that meaningful reform will be important to bring electricity costs in line with what families can afford — while continuing to advance the state's clean energy leadership.

We offer this analysis as an educational resource and stand ready to provide additional data, policy research, or subject matter expertise on any of the issues raised here. Our coalition is committed to working toward solutions that are grounded in equity, data, and the diverse needs of California's communities.

We welcome engagement from all candidates and are happy to provide additional information or briefings upon request.

Sincerely,

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