

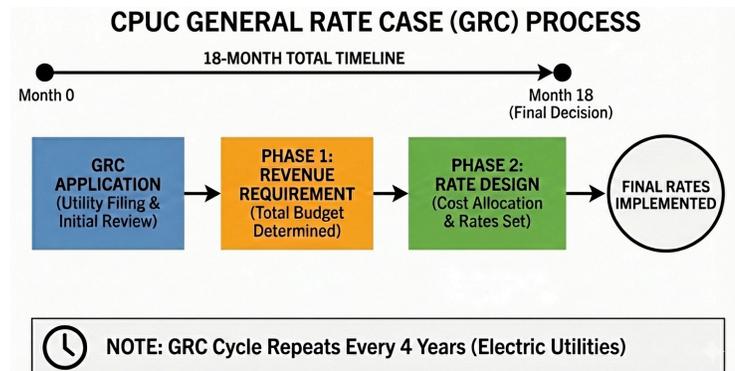
Exploring the Possibility of a New California Public Utilities Commission Investigative Unit

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The Problem: Applications to Increase Rates Bury Regulators in Paper and Deadlines

The California Public Utilities Commission (CPUC) determines whether rates requested by utilities are “just and reasonable.” This determination primarily occurs for each utility every four years in a general rate case (GRC) proceeding that involves an application and supporting written testimony. Subsequent discovery (called “data requests”) and additional written testimony from the state’s ratepayer advocates office (California Public Advocates Office or “Cal Advocates”) and other parties further increases the amount of information exchanged and evaluated during the rate case to **tens of thousands of pages** of documents, much of it highly complex and technical. In addition to the GRC, utilities file numerous other applications and requests. A 2023 report from the California State Auditor estimated that utilities file between **600 and 1,300 advice letters per year** and maintain over **300 balancing accounts**.¹ The CPUC, Cal Advocates and other intervenors prioritize their review of the information supporting these requests, but these parties typically only look closely at a fraction of the information presented by utilities.

The CPUC’s regulations call for an 18 month GRC review timeline. However, from 2017-2024, Phase I GRC proceedings averaged over 26 months.² The magnitude of information and the deadlines in the GRC mean that the CPUC and other parties are unable to carefully review many aspects of utility decision making and spending that goes into rates, especially related to existing costs that a previous rate case approved. Finding overlooked areas of imprudent spending could save customers millions.



¹ Advice Letters are written requests to the CPUC for approval of changes to rates or services, or required reporting of information as directed by the CPUC. Balancing accounts are tracking accounts that match authorized revenue costs to actual costs; overcollection or under collection is typically reconciled through an advice letter or rate setting proceeding. *Electricity and Natural Gas Rates*, California State Auditor, Report 2022-115, Aug. 2023 at p.12-13.

² This first part of the GRC, known as “Phase 1,” establishes the total revenue requirement; that is, the total costs to provide utility service to customers. “Phase 2” of the GRC involves the allocation of the authorized revenue requirement among customers such as residential, commercial and industrial classes. [The High Cost of Electricity in California](#), Little Hoover Commission Report #290, Oct. 2025 at p.15.

The burden of this process is not unique to California. A 2025 report from Harvard Law succinctly described the information asymmetry faced by utility regulators and intervenors: “[P]arties face an uphill battle challenging the utility’s accounting records, engineering studies, and other evidence the utility files to justify its preferred rates. Because it initiates the rate case and generates the information needed for the PUC to approve a rate, the utility is inherently advantaged.”³

- Reacting and responding to the GRC and other utility requests requires considerable resources from staff and intervenors to simply process the requested rate increase within the timeline and evidentiary rules contemplated by the rate case plan. As such, it is often a reactive and partial review of utility spending.

The Policy Solution: An Investigative Spotlight

The CPUC could create a special unit to proactively investigate whether utility decisions and costs are reasonable; the unit would operate outside of the timing and procedural constraints of the GRC.

On its own initiative or at the direction of the Legislature, the CPUC could create a specialized investigative team of regulatory analysts to independently review utility spending outside of the GRC. This approach would allow additional time and depth of investigation to detect areas of utility spending that may have gone unnoticed in the past. Similar to a civil grand jury, these teams would focus on fact-finding, root cause analysis, and reporting.

Importantly, the unit would not have independent rate-setting authority; therefore, the subject utility would retain all of its rights and procedural mechanisms to respond to any critique in a subsequent rate case proceeding. Just as a civil grand jury report typically does not have independent enforcement mechanisms, it would fall to the full CPUC commission during a subsequent GRC or other proceeding to determine whether and to what extent the investigative unit’s report should impact rates.

The CPUC already has the authority for this type of investigative unit. When a utility files an application for a rate increase, it triggers a quasi-judicial ratesetting proceedings with strict procedural requirements. The CPUC must respond to rate increase applications in a timely manner. However, the CPUC is a powerful regulator and is not limited to *only* responding to utility-initiated proceedings. The CPUC holds broad authority to regulate investor-owned utilities and ensure that their rates are just and reasonable.⁴ Several examples exist of regulators exercising this type of authority.

³ Eliza Martin and Ari Peskoe, [Extracting Profits from the Public: How Utility Ratepayers Are Paying for Big Tech’s Power](#), Environmental & Energy Law Program at Harvard Law, March 2025 at p.7.

⁴ PUC Code §314 provides that the CPUC may, “*at any time*, (emphasis added) inspect the accounts, books, papers, and documents of any public utility [and] may examine under oath any officer, agent, or employee of a public utility in relation to its business and affairs.” The CPUC holds general regulatory authority to ensure just and reasonable rates and that public utilities, “shall furnish and maintain such adequate, efficient, just, and reasonable service.” PUC Code § 451. Further, PUC Code §701 provides that the CPUC “may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction.”

Example 1: San Bruno Independent Commission

Following the San Bruno pipeline explosion in 2010, the CPUC relied on its expansive authority to establish an independent commission to investigate the underlying reasons for the San Bruno incident and to make recommendations to the CPUC.⁵ In that case, the CPUC appropriately cited its authority to oversee the health and safety of utility operations.⁶ The same rationale applies to economic enforcement of utility rates that are just and reasonable. In fact, PUC Code §451 expressly states, “[e]very unjust or unreasonable charge demanded or received...is unlawful.” The CPUC therefore has the authority to proactively enforce the law for both safety and economic considerations. Notably, the San Bruno explosion report provided information to the CPUC for future action; the report itself did not impose any regulatory requirements or penalties.

Example 2: FERC Enforcement Division

During the 2000-2001 energy crisis, Enron and other merchant energy companies manipulated California’s deregulated energy market to drive up prices and their own profits. The fallout included rolling blackouts, PG&E’s bankruptcy, and high energy bills for customers for years to come. In response, Congress passed the Energy Policy Act of 2005, which granted the Federal Energy Regulatory Commission (FERC) powerful investigative and enforcement authority. While FERC typically focuses on market manipulation and anti-competitive behavior, its statutory authority and regulations allow enforcement staff to initiate investigations on issues related to any matter subject to FERC’s jurisdiction.⁷ FERC’s enforcement unit conducts investigations based on information it receives from a variety of sources, including agency referrals, an enforcement hotline, whistleblowers, and other investigations.⁸

Similar to the San Bruno commission and FERC Enforcement, the CPUC could establish an investigative unit with broad access to utility records. Rather than investigating safety or market manipulation, the CPUC unit could investigate utility spending decisions and other aspects of the revenue requirement. A unit of seasoned regulatory analysts could affirmatively dig into specific areas that it believes may be unreasonable or imprudent. The unit would have the time and flexibility to investigate issues that previous rate cases may have missed.

The proposed investigative unit would be distinct from the CPUC’s existing utility audits branch (UAB). The UAB performs external audits to confirm that the utilities’ implementation of various programs comply with applicable laws, regulations, and CPUC directives.⁹ The UAB performs a vital role within CPUC’s regulatory responsibilities by ensuring that recorded transactions and program expenditures are accurate and appropriately documented. However, it is typically beyond the scope of the UAB to investigate whether utility costs are reasonable or prudent. The proposed investigative unit, on the other hand, would be tasked with a different mandate to look at the prudence of utility business practices and decisions more broadly to ensure just and reasonable rates.

⁵ *Report of the Independent Review Panel San Bruno Explosion*, Revised June 24, 2011. Available [here](#).

⁶ CPUC Resolution No. L-403, Sept. 24, 2010. Available [here](#).

⁷ <https://www.ferc.gov/investigations>

⁸ See, e.g., [2025 Report on Enforcement](#), FERC Docket No. AD07-13-019, November 20, 2025.

⁹ [Standard Practice Manual](#), Utility Audits, Risk and Compliance Division Utility Audits Branch, January 2026

Policy Proposal Summary:

Regulators, with the support of the Legislature, could create within the CPUC a special investigative unit under its existing authority to address recent rate shock and cost increases.

A specialized investigative team of regulatory analysts could initiate an independent review of utility spending outside of the general rate case (GRC). This approach would allow additional time and depth of investigation to detect areas of utility spending that may have gone unnoticed in the past. Similar to a civil grand jury, these teams would focus on fact-finding, root cause analysis, and reporting.

- **Allows the CPUC to proactively search for waste, fraud and abuse:** The CPUC investigative unit would set the table for the investigation rather than responding to the utility's framing. Issues that may have gone undetected for years could be ripe for review. The unit could assess business policies adopted years ago that may no longer be appropriate under changed conditions. More broadly, the investigation would proceed with the interests of just and reasonable rates as the primary driver.
- **Uses existing CPUC authority in a less restricted process:** The investigative unit would lean into the existing, expansive authority that the CPUC holds. At the same time, limiting the investigative unit to an informational report rather than authorizing any penalties or rate setting would preserve the utility's rights to respond in a subsequent rate making proceeding. Moreover, the mere existence of a critical report could lead the utility to change its practices prior to its next rate case in order to alleviate any potential concerns.
- **Provides opportunity for experienced, motivated staff:** The ideal investigative unit would include a cross-disciplined team of mid to senior level regulatory analysts with past GRC experience. Picking the right personnel to dig into issues they perhaps did not have the time or a mandate to investigate previously could lead to creative and energetic investigation. It could also provide a refreshed work plan that lies outside of the typical routine of processing a GRC.