

California Public Utilities Commission

The seal of the California Public Utilities Commission is a circular emblem. It features a central figure of a woman in a classical style, holding a spear and a shield. The background of the seal includes a landscape with mountains, a ship, and a plow. The text "PUBLIC UTILITIES COMMISSION" is arched across the top, "EUREKA" is in the center, and "STATE OF CALIFORNIA" is arched across the bottom. The seal is rendered in a light gray color.

Annual Report

July 2004 - June 2005

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Letter to the Governor and Legislature

Honorable Arnold Schwarzenegger, Governor of the State of California, and distinguished members of the California State Legislature:

This report highlights activities of the California Public Utilities Commission (CPUC) for the fiscal year July 1, 2004, through June 30, 2005, and includes an overview of the CPUC's structure and major accomplishments, as well as plans for the future in certain areas.

It was a successful and rewarding year for us. We held 406 days of hearings and issued 654 decisions on issues ranging from ensuring the lights stay on in the state to telecommunications competition to developing programs to improve the economy.

Forty-six of our decisions addressed intervenor compensation and awarded approximately \$6.5 million for contributions to our proceedings. A breakdown of decisions and hearing days are shown at the end of this report.

Also this fiscal year, we welcomed two new Commissioners, Dian M. Grueneich and John Bohn, and a new Executive Director, Steve Larson.

Please feel free to contact us if you have any questions or need assistance with any of the areas we regulate.

Sincerely,

Michael R. Peevey
CPUC President

Meet the Commissioners



Michael R. Peevey, President

Michael R. Peevey was appointed President of the California Public Utilities Commission by Governor Gray Davis on December 31, 2002. Mr. Peevey was originally appointed to the CPUC on March 5, 2002. His term expires Dec. 31, 2008.

Mr. Peevey is dedicated to establishing the CPUC as a leader among state regulatory agencies and making the CPUC a strong and effective regulator on behalf of the citizens and businesses of California.

As President of the CPUC, Mr. Peevey works to protect the public interest by promoting ratepayer and consumer needs, while challenging utilities to embrace new technologies and provide safe, high-quality services.

Mr. Peevey is committed to maximizing energy efficiency and demand response opportunities and ensuring that California's environment is protected. He is a strong supporter of renewable energy and renewable procurement requirements for utilities.

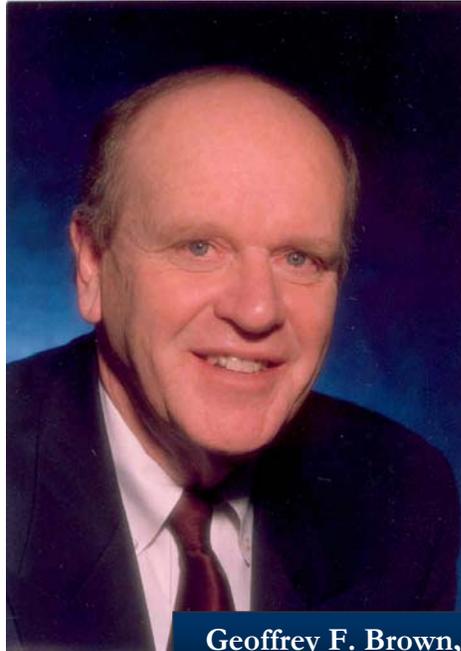
Mr. Peevey has made it a priority to work closely with sister agencies, such as the Independent System Operator and the California Energy Commission, to assure that California has adequate energy resources and transmission facilities to support its growing population and improving economy.

From 1995 until 2000, Mr. Peevey was President of NewEnergy Inc., the nation's largest energy service provider. Prior to that, Mr. Peevey was President of Edison International and Southern California Edison Company from August 1990 through March 1993 and a senior executive there beginning in 1984. In addition, Mr. Peevey has served on the boards of several corporations and non-profit organizations.

Mr. Peevey was awarded the Pat Brown Legacy Award in 2003, named "Man of the Year" by the Power Association of Northern California, and recognized with the Climate Action Champion Award by the California Climate Action Registry in 2004. He was awarded the Charles H. Percy Award for Public Service by the Alliance to Save Energy in 2005 for his leadership in development and implementation of sustainable programming that promotes energy efficiency and improvement of the environment

Mr. Peevey holds both a Bachelor and Master of Arts degree in economics from the University of California, Berkeley. He is married to Assemblymember Carol J. Liu (D-La Cañada Flintridge). They have three children.

Meet the Commissioners



Geoffrey F. Brown, Commissioner

Geoffrey F. Brown was appointed to the CPUC by Governor Gray Davis in January 2001 and confirmed in March 2001 by the State Senate. His term expires in January 2007.

Born in San Francisco on May 20, 1943, Mr. Brown attended schools both in San Francisco and Marin Counties. He graduated from the University of California at Berkeley in 1964 and San Francisco Law School in 1970. He served two stints in the U.S. Air Force (1965 and 1968-1969) as an enlisted man.

Mr. Brown was admitted to the State Bar of California in January 1971 and practiced with his father until joining the San Francisco Public Defender's Office in October 1971. In 1978 he was elected Public Defender of San Francisco and was re-elected five times. During Mr. Brown's tenure, the Public Defender's Office grew to a staff of 83 attorneys and 40 support personnel.

A widower, he has three grown daughters, Miranda, Simone, and Olivia.

Meet the Commissioners



Susan P. Kennedy, Commissioner

Susan P. Kennedy was nominated by Governor Gray Davis to serve on the California Public Utilities Commission on January 10, 2003, and was confirmed by the California Senate on April 14, 2003. Focusing heavily on telecommunications issues, Ms. Kennedy has taken on some of the most important cases before the Commission, including implementation of the FCC's Triennial Review Order and review of the New Regulatory Framework.

As a CPUC Commissioner, Ms. Kennedy has become a leading voice for regulatory consistency, infrastructure investment, and promoting economic development. She is a strong advocate for competition and regulatory restraint, particularly as it relates to emerging technologies in the area of telecommunications. She was among the first utility commissioners in the nation to speak out against regulation of Internet telephony, and has proposed that competition in the telecommunications industry be allowed to drive the development of new technologies and services without regulatory constraint.

Ms. Kennedy has also taken on a leadership role in the area of advanced services, including broadband, Internet telephony, and wireless services. She is the Assigned Commissioner on Broadband Deployment, and was appointed by Federal Communications Commission (FCC) Chairman Powell to serve on the FCC's Federal-State Joint Conference on Advanced Telecommunications Services. She also serves on the Board of Governors of the National Regulatory Research Institute and is a member of the National Association of Regulatory Utility Commissioners.

Prior to joining the CPUC, Ms. Kennedy served as Cabinet Secretary and Deputy Chief of Staff in the administration of Governor Davis. As Cabinet Secretary, she served as the principal liaison for the Governor to his cabinet and over 100 state agencies, departments, boards, and commissions. She coordinated the development and implementation of major policy initiatives for the Governor, including all regulatory oversight, legislation, and development of the \$100 billion State Budget. Among the significant policy initiatives Ms. Kennedy managed for the Governor: strengthening the state child support enforcement system, landmark HMO reform and a Patients Bill of Rights, the historic CalFed Record of Decision on restoration of the San Francisco Bay Delta, and improving health insurance programs for children.

During the California energy crisis, Ms. Kennedy coordinated administration efforts to streamline construction of new power plants and promote energy conservation. Under the Governor's emergency authority, she coordinated the activities of more than a dozen state agencies to simplify the permitting process, reducing the time required to obtain a permit for a power plant from an average of 12 months down to 21 days. She also drafted the Governor's Executive Orders that allowed maximum operation of privately owned and municipal power plants during energy alerts, generating more than 1,300 megawatts of additional power during the energy crisis. Under Ms. Kennedy's direction, California also launched the most aggressive, and most successful, energy conservation campaign ever conducted, California's "Flex Your Power" campaign.

Prior to joining the Davis Administration, Ms. Kennedy served as Communications Director for U.S. Senator Dianne Feinstein. As a senior member of the Senator's Washington, D.C. staff, Ms. Kennedy assisted the Senator with the development of legislation and policy initiatives, media relations, and community outreach.

Ms. Kennedy previously served as Executive Director of the California Democratic Party and as Executive Director of the California Abortion Rights Action League. She managed two of the most successful Get-Out-The-Vote campaigns in recent California history, including the 1992 Coordinated Campaign for Clinton/Gore and the 1998 Coordinated Campaign that elected Governor Davis.

Meet the Commissioners



Dian M. Grueneich, Commissioner

Dian M. Grueneich, a national expert in energy and environmental issues, was appointed to the CPUC by Governor Arnold Schwarzenegger and was sworn in on January 18, 2005. Ms. Grueneich was unanimously confirmed by the State Senate on May 19, 2005, and will serve a full six-year term that ends on January 1, 2011.

With more than 27 years of experience in energy and environmental issues, Ms. Grueneich recognizes the complex issues facing the Commission and the importance of strong public policy. She understands in detail the difficult economic choices facing families and businesses with regard to utility costs and is a strong advocate of ensuring reliable energy service, addressing climate change, implementing energy efficiency and renewable energy programs, and offering customer choice.

Ms. Grueneich is an environmentalist who realizes the importance of forging broad-based agreements that will endure. She has served on the Board of the American Council for an Energy Efficient Economy and was a past President of the Board of the California League of Conservation Voters.

As President of the Board of the California League of Conservation Voters, Ms. Grueneich oversaw development of the League's strategic plan and its evolution into a bipartisan spokesperson for California environmental groups. She has also served on the Board of the Mono Lake Committee.

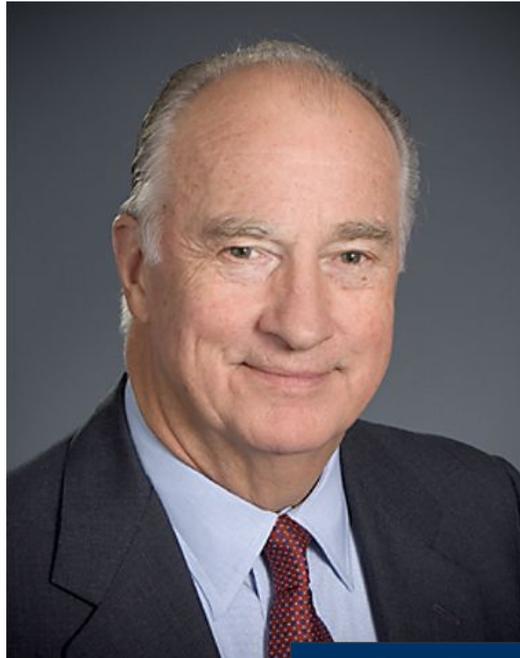
In 1986, Ms. Grueneich founded a law and consulting firm, known as Grueneich Resource Advocates (GRA) since 1993. She was the principal of GRA until her appointment to the Commission. In addition to assisting clients on strategic energy planning, rate analysis, utility negotiations, and energy efficiency opportunities, she has analyzed the State's energy and environmental problems, assisted in the implementation of energy efficiency programs, and is the author of reports on energy efficiency to the California State Legislature and others.

From 1982-1985 Ms. Grueneich was a Senior Associate at Heller, Ehrman, White & McAuliffe, a major San Francisco law firm, specializing in West Coast energy issues, including Pacific Northwest matters. From 1977-1982, she was Staff Counsel at the California Energy Commission.

At the CPUC, Ms. Grueneich is committed to making California not only a national, but international, leader in demonstrating that energy efficiency and demand management, a sound economy, and reliable energy supplies at a reasonable and predictable cost, go hand-in-hand. Ms. Grueneich is also committed to working closely on telecommunication and water issues, particularly with regard to the interplay between competition, support for business growth, and consumer protection.

Ms. Grueneich earned a Juris Doctorate from Georgetown University Law Center in 1977 and a Bachelor of Arts degree in Human Biology from Stanford University in 1974. She is a Democrat, and resides in Berkeley with her husband, Steve Passek, and their two children.

Meet the Commissioners



John Bohn, Commissioner

John Bohn was appointed to the CPUC by Governor Arnold Schwarzenegger in May 2005.

Prior to joining the Commission, Mr. Bohn was chairman of GlobalNet Venture Partners, a global financial advising and consulting firm since 2001. He was previously the co-founder and executive chairman of Chematch (now Chemconnect), an Internet-based petrochemical trading exchange, from 1997 to 2000, and a managing director of the public relations firm Burson-Marsteller from 1997 to 1998.

Mr. Bohn also served for over seven years as President and CEO of Moody's Investors Service, beginning in 1989. Prior to that, he was appointed special assistant to U.S. Treasury Secretary Don Regan in 1981 and was subsequently made U.S. Ambassador and executive director of the Asian Development Bank. In 1984, Mr. Bohn was appointed vice chairman of the Export Import Bank of the U.S. and in 1985 was made chairman, president, and CEO. He was an international banker for Wells Fargo from 1967

to 1981 and practiced law in California, Guam, and the Trust Territory of the Pacific from 1964 to 1967.

Mr. Bohn is chairman of the board of directors of The Center for International Private Enterprise, a non-profit affiliate of the National Endowment of Democracy and the U.S. Chamber of Commerce that funds and assists the development of market-based democratic institutions throughout the developing world. He is a member of the Council on Foreign Relations of New York, a director of the World Affairs Council in San Francisco, and a director and member of the executive committee of the U.S. Chamber of Commerce.

Mr. Bohn, a Republican, is 67 years old, resides in San Francisco, and has a Juris Doctorate degree from Harvard Law School and a Bachelor of Arts degree from Stanford University. He also attended the London School of Economics as a Fulbright Fellow and is a member of the California State Bar and the Bar of the Supreme Court of the U.S.

CPUC Organization

COMMISSION

The California Public Utilities Commission (CPUC), headquartered in San Francisco, regulates privately owned telecommunications, electric, natural gas, water, railroad, rail transit, and passenger transportation companies. We are responsible for ensuring that customers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy.

CPUC

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COMMISSIONERS

The Commission board is comprised of five Commissioners who serve six-year terms, which are staggered to assure experience on the board. The Governor appoints the commissioners, which the California Senate confirms. The Governor chooses one of the five commissioners to serve as the Commission president. The commissioners make all Commission policy decisions, meeting usually twice a month to discuss and vote on issues noticed on an agenda that is distributed 10 days before the meeting and posted on the Commission's website.

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The Executive Office has overall responsibility for assuring that the Commission's decisions and policies are implemented, and works in conjunction with commissioners, directors, and staff to coordinate and facilitate the handling of procedural matters and the internal operations of the Commission. The Office of Governmental Affairs and the Press Office are branches of the Executive Division. Executive Director Steve Larson, and Deputy Executive Directors Paul Clanon and Laura Doll lead the Executive Office.

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The Legal Division advises commissioners and agency staff. Staff attorneys review filings by public utilities, appear in a wide variety of proceedings before the Commission, and represent the Commission and the State of California before state and Federal courts and agencies. The many issues the CPUC's lawyers handle include energy procurement, electricity distribution and transmission, enforcement and safety, telecommunications, transportation, and water. The Commission's General Council, Randy Wu, leads the Division.

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The Division of Strategic Planning (DSP) identifies and analyzes utility industry issues, internal and external procedures, and inter-agency relationships that would not ordinarily be addressed by the industry divisions in their course of operations. DSP provides the Commission with independent analysis and advice focusing on Commission practices, procedures, issues, and policies. Assignments are distinct from those of other CPUC divisions in that the projects are likely to be more comprehensive in scope.

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The Administrative Law Judge (ALJ) Division ensures that the Commission's decision-making process is based on an adequate administrative record developed through evidentiary hearings or briefs and comments, as appropriate. The ALJs' proposed decisions are based on the record for Commission approval. Alternative Dispute Resolution (ADR) approaches have been commonly used at the Commission for many years. Because the Commission endorses the policies behind ADR, the Commission has taken additional steps to encourage its more frequent and systematic application in formal proceedings (and selectively to avoid the filing of formal proceedings). The ALJ Division offers various ADR services, including mediation, early neutral evaluation, and facilitation, in many types of proceedings. The ALJ Division supports the decision-making process by receiving all filings, preparing and updating service lists, maintaining a database of all formal proceedings, ensuring that the Commission's files are complete and accurate, and preparing and coordinating the agendas for the Commission's bi-weekly decision-making meetings. The ALJ Division is also developing electronic filing for formal matters.

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The Energy Division advises the Commission on whether to approve, deny, or modify all electric and natural gas utility requests not assigned for hearing, oversees compliance of orders, provides technical assistance, and advises the Commission about major developments affecting energy utilities. It assists the Commission in developing and monitoring competitive services, economic regulation of remaining monopoly services, and implementing regulatory objectives and programs for California's electricity and natural gas industries. It emphasizes protection for consumers and those with special needs, assurance of safe and reliable service, and consideration of environmental issues.

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The Telecommunications Division assists the Commission in developing and implementing policies and procedures in the interest of consumers in all telecommunications markets, and in addressing regulatory changes required by state and Federal legislation. The division assists the Commission's oversight of a competitive market by ensuring that consumers are protected from fraud and abuse and receive affordable and universal access to necessary services, that the telecommunications networks can accommodate many competitors using different technologies, and that competition rules are clear and allow flexibility without compromising due process.

W
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The Water Division investigates rate increase requests from investor-owned water and sewer service utilities, tracks compliance with Commission orders, and assists the public in resolving technical problems with water and sewer companies. Auditors assigned to the Water Division also perform accounting, auditing, and financial analysis as requested by other industry divisions.

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The Office of Ratepayer Advocates (ORA) independently participates as an advocate for all ratepayers in Commission proceedings, workshops, and other forums that cover issues that have significant dollar impact on consumers or address consumer protection issues. ORA aggressively pursues development of fair rules for competition, good service quality, fair rates, and other significant policy issues. ORA’s mission, as defined by Senate Bill 960 in 1996 and embodied in the California Public Utilities Code, Section 309.5 is to “obtain the lowest possible rate for service consistent with reliable and safe service levels.”

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The Consumer Protection and Safety Division (CSPD) protects consumer interests by ensuring that transportation providers (rail, passenger, and household goods movers) and public utilities operate safely, legally, and are necessary for the public interest. CPSD also enforces consumer protections in all regulated industries and alerts the Commission about consumer problems it needs to prevent or address. CPSD monitors and enforces operation, maintenance and performance standards for electric power plants to ensure safe and reliable electric service.

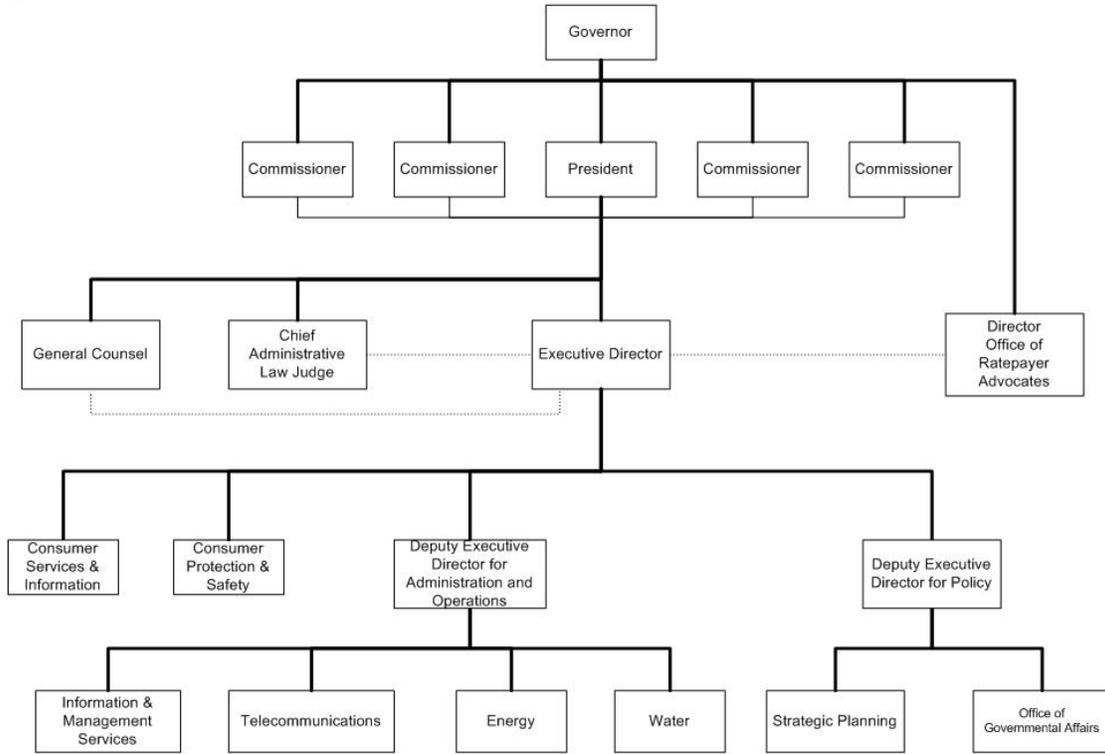
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The Consumer Service and Information Division's (CSID) primary functions are to assist consumers, provide information to the public, and communicate with various communities within California. CSID helps consumers resolve billing and service disputes and identifies patterns of consumer problems, fraud, and other abuses. CSID's Public Advisor's Office advises the public and consumer organizations regarding how to participate in formal proceedings and provides outreach to local government and community groups. The division also monitors the utilities' women-owned, minority-owned, and disabled veteran-owned business enterprise programs.

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The Information and Management Services Division (IMSD) integrates and facilitates Commission employee and external stakeholder access to Commission information and documents, maintains and improves the Commission's technological information resources, and provides administrative, fiscal, and budget services to Commission management.

California Public Utilities Commission
July 1, 2005



Energy

The Commission took a number of significant actions to ensure adequate energy supply for California while promoting renewable power and infrastructure investments. Major developments include:

➤ **Procurement and the Loading Order:**

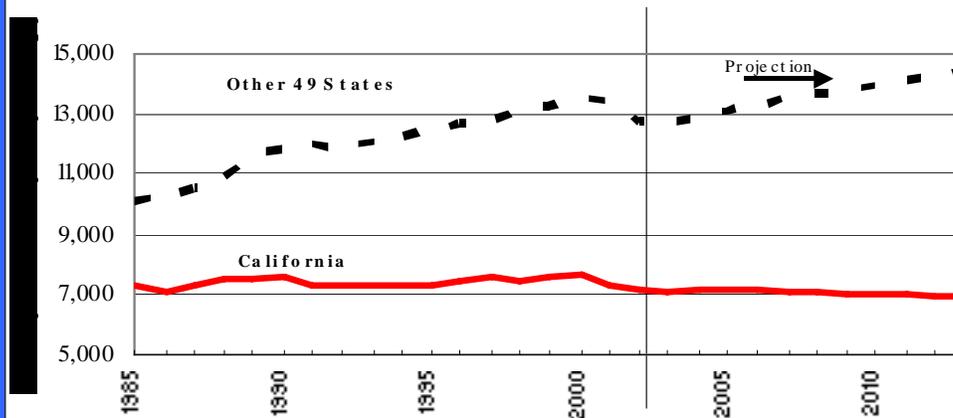
In December 2004 the CPUC adopted Long-Term Procurement Plans for California's three major electric utilities, providing the tools needed to operate in the state's hybrid electric supply and demand market. The Commission also called for full implementation by the state's investor-owned utilities of a 15-17 percent planning reserve margin by June 1, 2006, instead of the deadline of January 1, 2008, which was outlined in the Commission's initial decision on the matter. To ensure the state has enough power to meet demand and a reserve requirement, the Commission authorized the utilities to enter into long- and short-term contracts for electricity following the state's Energy Action Plan loading order.

**Loading Order:
To meet the state's energy demand, first acquire cost-effective energy efficiency and demand response, followed by distributed generation and renewable resources, and finally, clean fossil fuel power plants.**

➤ **Energy Efficiency Savings Goals:** In September 2004, the CPUC adopted aggressive annual and cumulative energy savings goals designed to reduce per capita energy consumption through the year 2013, as mandated in the state's Energy Action Plan. The energy efficiency goals adopted for electricity (D.04-09-060) are projected to meet 55 to 59 percent of the state's three Investor-Owned Utilities' incremental needs between 2004 and 2013. The goals adopted for natural gas energy efficiency represent a 116 percent increase in expected total program savings over the next decade.

California vs. United States

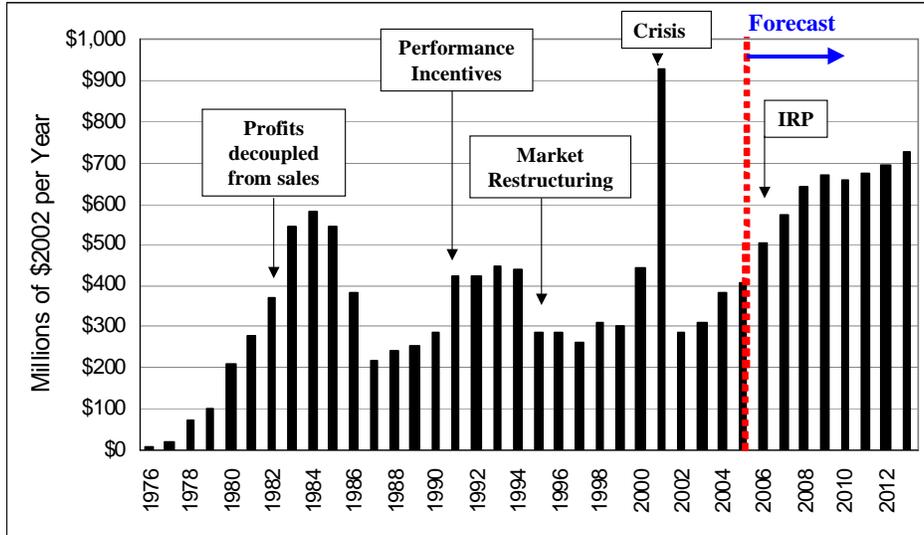
Per Capita Consumption: California vs. Other 49 States



➤ **Improving the Statewide Low-Income Energy Efficiency Program (LIEE):**

The CPUC Coordinates the LIEE Standardization Project to provide an expanding array of energy efficiency discounts to low-income households. Because of the CPUC's efforts, air conditioners and evaporative cooler measures were added to LIEE in certain climate zones. The Commission set standards for post-testing flue carbon monoxide levels, which ensures that gas appliances of low-income customers will not be shut off needlessly. In the future, several new measures may be added to LIEE.

California's Investment in Energy Efficiency



- **Initiating Advanced Metering Infrastructure (AMI):** The Commission is evaluating utility AMI business plans and deployment applications, filed in March 2005. AMI is a system of advanced meters that enable residential customers to participate in demand response programs and may also bring significant operational savings for utilities. Implementation of AMI could potentially further the Commission’s goal of encouraging more demand response, a key component of the state’s Energy Action Plan. It could also provide overall savings for utility ratepayers by reducing utility operational costs.

- **Voluntary Demand Response and Interruptible Programs:** The Commission adopted various Demand Response and Interruptible programs (D.05-01-056), including the expansion of air conditioner cycling in Southern California Edison Company's territory. The program includes those triggered on a day-ahead basis as well as those triggered for emergency situations. To help customers understand the concept of demand response and conservation, the Commission also approved demand response marketing and customer education programs. The state's Energy Action Plan envisions continued development and expansion of demand response programs.

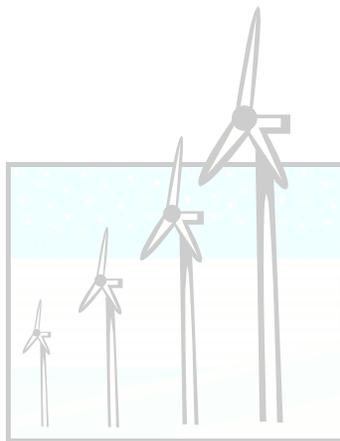
- **Renewable Energy Commitment:** The Commission, in a series of decisions, approved a competitive solicitation process for the utilities to obtain renewable energy.

Increasing renewable energy production is a key component of the state's Energy Action Plan and also part of meeting the Renewable Portfolio Standards required by Senate Bill 1078 (from the 2001-2002 Legislative session).

This includes the development of a least-cost best-fit methodology for the utilities to employ in ranking the bids, the establishment of standard contract terms and conditions, and the creation of market price benchmarks. The result in fiscal year 2004-2005 of implementing this renewable solicitation process was aggressive utility procurement of renewable resources, as well as efforts to procure additional renewable contracts in fiscal year 2005-2006. In the past

fiscal year, the Commission approved renewable contracts for Southern California Edison Company and Pacific Gas and Electric Company. San Diego Gas and Electric Company also successfully launched its 2004 solicitation for renewable power.

- **Removing Barriers to Wind Power Development:** In March 2005, a Commission-created collaborative study group issued a comprehensive transmission development plan to facilitate development of Tehachapi wind power. Wind power development in the Tehachapi area, considered to be the largest cost-competitive renewable resource potential, appears to be one of the best near-term methods of supporting California's renewable objectives. However, the market is unwilling to commit to building wind generators until transmission to distribute the power exists and the Commission approves a utility power purchase agreement. Conversely, the Commission does not direct the utilities to build transmission to nowhere without a commitment from wind developers and an approved purchase agreement. The March plan helps to resolve this classic chicken and egg situation by developing conceptual plans and cost estimates for major new 500 kV transmission lines in four phases with completion dates from 2008 to 2010 that will support a total of 4,500 MW of potential wind power with new transmission line costs of about \$2.3 billion. The conceptual study includes engineering studies by each of the utilities for transmission lines from the wind power resource region in the Tehachapi Mountains and desert southeast of Bakersfield to utility load centers northward and southward. The conceptual plan represents a significant step towards meeting the state Energy Action Plan objective to achieve 20 percent renewable energy in California by 2010.



➤ **Meeting California's Energy Needs With New Infrastructure:** In its ongoing efforts to ensure reliable and adequate electricity resources, the Commission approved:

- PG&E's 115 kV cable transmission project from Hunters Point to Potrero for a cost of under \$40 million - expected on-line December 2005
- SDG&E Otay Mesa Transmission Project (and certified the project's final Environmental Impact Report) for a cost of under \$210 million – expected on-line June 2007
- SDG&E's Power Plants at Otay Mesa - expected on-line January 2008 and at Palomar - expected on-line March 2006
- Southern California Edison Company's Mountainview project: Units 1&2 expected on-line December 2005; Units 3&4 expected on-line February 2006

In addition, in June 2005 the Commission jointly hosted an energy infrastructure and investment technical conference with the Federal Energy Regulatory Commission, the California Energy Commission, and the California Independent System Operator to discuss with industry representatives the current and future state of infrastructure development and investment in California.

- **Increasing Natural Gas Supplies to California:** In September 2004, as natural gas prices were reaching new highs, the Commission streamlined the contract approval process for utilities so that much needed new natural gas supplies will be delivered to California on a more reliable, efficient basis. This immediately increased California's access to natural gas supplies by as much as 500 million cubic feet per day. In addition, the Commission required utilities to establish nondiscriminatory, open access to their systems to new gas supplies, including liquefied natural gas (LNG); set forth procedures under which the natural gas utilities would obtain a portfolio of interstate pipeline capacity rights for core customers; required SoCalGas to establish a new nomination procedure that allows more natural gas to be received at a certain receipt point on the SoCalGas system; and established Commission policy regarding cost responsibility for utility infrastructure upgrades needed to receive LNG supplies.
- **Community Choice Aggregation:** In December 2004, the Commission addressed implementation and transaction costs, customer information, and the cost responsibility surcharge for Community Choice Aggregation. The Commission has since started addressing transition and implementation issues between the utilities and Community Choice Aggregators. Assembly Bill 117 permits cities and counties to purchase and sell electricity on behalf of utility customers in their jurisdictions after they have registered with the Commission.

The Commission's actions set the stage for cities and counties to develop Community Choice Aggregation plans, as provided in Assembly Bill 117.

- **Extending Energy Rate Discounts to Qualified Californians:** The Commission extended the California Alternative Rates for Energy (CARE) Program to include seasonal farm workers (CARE offers a 20 percent discount on electric and natural gas bills). Assembly Bill 868 permits 26 Office of Migrant Services (OMS) Migrant Farm Centers and an unspecified amount of non-OMS centers, both of which house seasonal farm workers in various agricultural regions of California, to receive the CARE discount. The legislation requires that the discount to qualified farm centers be passed on to the tenants through reduced rents. The centers achieve the pass-through by using the discount to extend the operating season of the center and to improve conditions in the centers.
- **Implementing Swift Rate Decreases:** In May 2005, the Commission allocated a \$230 million rate decrease to PG&E customers by lowering the revenue requirement of the California Department of Water Resources.
- **Bond Issuance Resulting in Over \$1 Billion Savings for PG&E Customers:** The Commission worked with PG&E to expeditiously complete the bond issuance of the entire Regulatory Asset authorized under the utility's bankruptcy settlement. The savings result from the fact that the bonds cost much less than PG&E's weighted average cost of capital. These bonds are now called Energy Recovery Bonds and are issued pursuant to legislation authorizing recovery to PG&E through a dedicated rate component.
- **Protecting the Environment:** On Feb. 23, 2005, the Commission held an En Banc to address climate change and greenhouse gas emissions by identifying best practices for all Commission-regulated companies.

Telecommunications

The Commission develops and implements policies for the telecommunications industry, including ensuring fair, affordable universal access to necessary services; developing clear rules and regulatory tools to allow flexibility without compromising due process; removing barriers that prevent a fully competitive market; and reducing or eliminating burdensome regulation. Here are a few of the issues the Commission worked on in the last fiscal year:

Telco Mergers:
In fiscal year 04-05 the CPUC began investigating the merger proposals of SBC/AT&T and Verizon/MCI. (Approval was given Nov. 18, 2005.)

Implementation of the FCC's Lifeline/Link-Up Order – The CPUC moved swiftly to implement the Federal Communication Commission's (FCC) order requiring all states to document customer income qualification for the income-based Lifeline/Link-Up programs. Complying with the FCC's order preserves \$330 million in annual support from the Federal Lifeline/Link-Up program. Also under consideration is a more comprehensive review of the Universal Lifeline Telephone Service program.

Rural Telecommunications Infrastructure Grant Program –The Commission awarded grant monies to two rural entities that applied for funding under the Rural Telecommunications Infrastructure Grant Program. The Indian Springs School District will receive \$2.5 million in funding to build 10 cell tower sites in rural Northeastern Shasta County. The Tule River Tribal Council in Tulare County will receive \$860,000 in grant money to build a fiber optics passive optical network to serve several areas on its Reservation currently without telephone services. A total of five grants have been awarded in the two years the program has been in existence.

Broadband Report Adopted – On May 5, 2005, the Commission approved a report to the Legislature finding that California leads the nation in Broadband use, both in terms of the total number of broadband lines and the state’s share of the national broadband market. California’s broadband market grew 516 percent during the last four years, and the state now has almost as many broadband lines as the second and third ranked states (New York and Florida) combined. The report is a comprehensive analysis of broadband infrastructure and policies in the state. Recognizing that advanced telecommunications technologies are increasingly central to the needs of families, the state’s economy, and the vitality of local communities, the report identifies several barriers to increased broadband deployment and use and recommends strategies to overcome barriers.

Just 20 years ago rotary phones were common, but just as the universe spins faster on its edges, telecommunications services change faster on its frontiers.

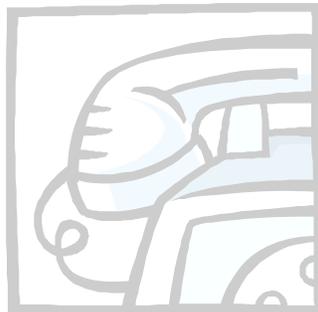
Uniform Regulatory Framework (URF)

Rulemaking – On April 7, 2005, the Commission began looking at new ways to regulate the telecommunications industry that promotes innovation while securing affordable and reliable service for Californians. A decision is expected early in 2006.

Intercarrier Compensation – On June 17, 2005, the Commission issued a proposed decision finding that reductions to access charges should be offset by increases to other rates. In September the Commission reopened the proceeding seeking comments on two broad issues. Currently, the Commission is participating in a FCC rulemaking to develop a unified intercarrier regime. Although the Commission agrees with the FCC’s goals and the framework of the rulemaking, it supports working with the National Association of Regulatory Utility Commissioners (NARUC) Metrics workgroup to complete the model analysis of the NARUC plan and use the model to analyze the other proposals before making any endorsements.

California Teleconnect Fund (CTF) – The Commission updated the state Legislature on the status and impact of the CTF, which provides discounts on telecommunications services to specific institutions. In 2004, the Commission implemented changes that have simplified the application process, decreased the time it takes for applications to be reviewed, and approved and shortened review and claim payment time for carriers' claims.

Electronic Access to Telecommunications Carriers' Tariffs – The CPUC launched a pilot system to store copies of telecommunication utility tariffs on a Commission file server. The new system enables the Commission to look up tariff documents, print part or all of it, or save it to a hard drive. The complete SBC tariff, consisting of 71 files comprising a total of 64 MB, was available electronically in June. The Commission is working on expanding the tariff submittals to include Verizon, AT&T, SureWest, and TGI soon with all remaining carriers required to submit complete tariff copies either semi-annually or annually. The Commission is also exploring ways to make this information securely and seamlessly available for public access.



Water

The Commission investigates water and sewer system service quality issues and analyzes and processes utility rate change requests. The Commission works directly with utility management to track and certify compliance with Commission requirements.

Revenue Requirement Reviews

The Commission reviewed General Rate Cases for the following Class A (utilities with over 10,000 connections) companies and adopted the following rate changes: Southern California

Commission-Regulated Water and Sewer Companies Quick Facts

- 4.6 million customers
- 143 water utilities
- 13 sewer utilities
- 20% of state's drinking water
- \$970.5 million in revenue

Water Company was granted in D.05-05-025 a \$2.7 million or 7.1 percent rate increase in Region 1 for Test Year 2005; California-American Water Company was granted in D.04-12-055 a \$132,700 or 1.1 percent rate increase in the Coronado District and a \$1.9 million or 9.6 percent rate decrease in the Village District; California-American Water Company was granted in D.04-09-041 a

4.82 percent rate increase in the Los Angeles Division for Test Year 2004; and San Jose Water Company was granted in D.04-08-054 a \$11.8 million or 8 percent rate increase for Test Year 2004. In addition, the Commission completed the investigation, analysis, and resolution process of 13 small water and sewer General Rate Cases in 2004.

Timely Rate Relief for Class B, C, and D Water Companies

On June 16, 2005, the Commission adopted rules for the Class B, C, and D water companies to provide cash flow relief in a timely manner similar to what the Class A water companies were allowed by statute. The rules allow for temporary cash flow relief through a smaller

rate increase than was requested so that the companies can stay in business until the requested rate increase application is processed.

Financial Issue - Rate of Margin

In 2004, the Commission approved a resolution (W-4524) that builds on a prior decision (D.92-03-093) designed, in part, to address the difficult financial situation of the smaller Class C and D water utilities. The Commission will now calculate the return for Class C and D water utilities based on both the Rate of Return and the Rate of Margin methods, utilizing the method that will produce the highest result. This was instituted primarily because some small water utilities have very little rate base on which a Rate of Return could be applied (Rate of Margin is applied to the utility's expenses). The resolution also clarifies how the Rate of Margin will be calculated, requires the development of a standard Rate of Margin each year, and clarifies the instructions and descriptions of the inputs used to determine the Rate of Return and Rate of Margin.

Low-Income Programs

Public Utilities Code Section 739.8 allows the Commission to consider and implement rate assistance programs for low-income water utility ratepayers. On average, 27 percent of the Class A water customers and 29 percent of the customers of the other Commission-regulated water companies are at or below 174 percent of the Federal poverty level. The

The CPUC closed 187 complaint cases against water companies by working with the customer and utility representatives.

Commission's investigation into water utility low-income rate assistance programs includes an assessment of: (1) the reasons and support for low-income programs; (2) existing programs; (3) currently proposed programs; (4) concerns of the Commission regarding proposed programs; (5) investigation into alternative programs that would resolve the

Commission's concerns; and (6) recommendations regarding the next step in the development of water utility low-income programs.

Increased Financial Reporting

Seventy-five percent of Class D water companies have provided year 2004 financial report filings as compared to 60 percent for year 2003 due to the CPUC's Accounting Outreach Program instituted in April 2005.

Auditing: Long-Term Debt Financing Applications

Several water companies filed financing applications for approval to issue long-term debt. Ten water utilities filed 11 applications with a total of \$29.5 million, one application with \$7.8 million was processed for the CPUC's Telecommunications Division, and two energy companies filed three applications with a total of \$3.5 billion.

Looking Forward

- Strengthen CPUC inter-agency relations with Dept. of Health Services
- Strengthen CPUC role in water quality regulations and monitoring
- Implement incentives for utilities to offer Demand Side Mgmt. programs
- Activate a rate program to account for decrease in usage due to conservation and eliminate disincentives associated with conservation
- Facilitate participation in Urban Water Conservation Council
- Work actively with other state agencies and city and county land-use planners to maintain reliable water supplies
- Identify long-term supply projects and potential costs for further review beyond the General Rate Case
- Identify long-term procurement plans and infrastructure review to allow pre-approval of needed infrastructure
- Creation of low-income assistance programs
- Review annual compliance reports
- Monitor companies' compliance with CPUC orders
- Conduct timely investigations on reported complaints and wrong doings by utilities, including anti-competitive activities
- Monitor Commission authorized rates to evaluate whether utility rates are just and reasonable
- Insure that California Department of Water Resources funds are kept separate from utility revenues and determine if the utility has fully remitted Commission user fees

Transportation

RAIL SAFETY

The Commission approved a Railroad Safety Action Plan (RSAP) in May 2005. The Legislature recommended and the Governor approved funds for the Commission to hire additional railroad inspection personnel to implement the RSAP. The RSAP is a multi-faceted approach to improving railroad safety that includes:

- Increased inspections and investigations
- Investigation of every railroad-related fatality
- Recommendation and advocacy for innovative technological improvements
- Revisions to Federal laws that will enable states to share more regulatory control

The CPUC performed comprehensive safety audits on:

- Port of Los Angeles Red Car Line in San Pedro
- Valley Transportation Authority in San Jose
- Sacramento Regional Transit District

Railroad safety inspections completed:

- 4,048 miles of main/branch tracks
- 18,132 pieces of railroad equipment
- 421 HazMat facilities
- 32 formal complaints received from labor organizations

over railroads that operate near areas particularly vulnerable to the hazards of railroads accidents. This includes densely populated areas, environmentally sensitive areas, and locations where accident frequency is higher than usual due to extreme grade and/or track curvature.

Public Outreach-Railroad Safety Forums and Hearings

The Commission coordinated with several state elected officials and governmental agencies to conduct public forums that provided opportunities for elected officials, emergency

Safety Forums

-- May 6, 2005:
City of Commerce,
Senator Escutia

-- May 13, 2005:
Pico Rivera,
Assemblymember
Bermudez

-- June 24, 2005:
San Bernardino,
Senator Soto

responders, regulatory agencies, and the railroads to meet, answer questions, and inform the public on the causes of accidents. All of the forums were translated into Spanish and Mandarin and video-broadcast on local public access networks.

Safety Presentations to U.S. Customs

Commission inspectors made a presentation to the U.S. Customs Agents in Calexico, CA on September 16, 2004, showing examples of the various railroad tank cars, and explaining the basic components of each tank car. In addition, the Commission conducted field exercises at the

Union Pacific Railroad El Centro Terminal, giving customs agents “hands on” demonstrations of various types of railroad equipment and components.

Focused Inspection Activity

Commission and Federal Railroad Administration track inspectors inspected Union Pacific Railroad tracks in the Los Angeles Basin to monitor the railroad’s inspection practices following the October 16, 2004, derailment in Pico Rivera. More than 100 defective track conditions were recorded, including two that resulted in the main track being immediately taken out of service while the tracks were repaired.

The CPUC also conducted the following inspections:

- San Joaquin Valley Railroad tracks to re-inspect the signal and track facilities; Considerable improvements had been made since previous inspections.
- Union Pacific Railroad tracks and signal facilities between Sacramento and Bakersfield; A 47 percent reduction in track defects was found in comparison to findings in 2004.

Major Accidents

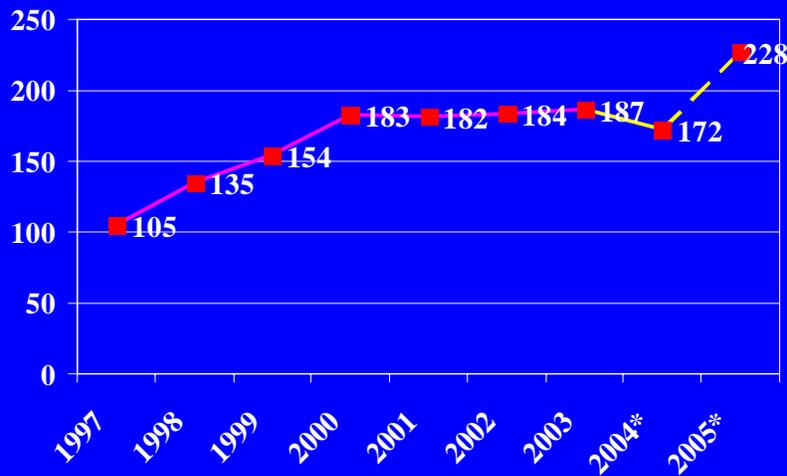
The Commission responded to hundreds of railroad accidents, investigating to determine cause and recommending corrections and changes to railroads to prevent recurrence.

Following are a few of the major accidents that occurred during the 04-05 fiscal year:

- A Union Pacific Railroad (UPRR) train derailed 16 containers in Pico Rivera, destroying one home and releasing hazardous materials that forced the evacuation of 100 residents. Damage estimates exceeded \$3 million.
- UPRR train derailed 20 cars in the City of Industry due to a track defect causing a hazardous materials release and the temporary evacuation of 100 nearby businesses.
- UPRR train derailed 13 cars in Rialto due to a track defect; hazardous materials were released and 500 residents were evacuated.
- Two UPRR trains collided head-on at Niland due to human error, killing one railroad employee and seriously injuring three others.

Train Accidents 1997-2005 Excluding Highway-rail Crossings

(Source: Federal Railroad Administration)



*2004 Preliminary Data, 2005 Projected Data

Environmental Reviews Improve the Safety of Rail Crossings and Corridors

The Commission has begun reviewing environmental documents submitted to the State Clearinghouse to identify projects near rail line corridors that could impact rail crossings. This allows the Commission to deal with crossing impacts in the early planning of projects and yields a higher degree of success by the local governments in obtaining grade crossing separations or mitigating crossing impacts created from the developments.

Engineering Safer Rail Crossings and Corridors

Rail Crossings Engineering Section Fiscal Year 04-05 Statistics

Type	Opened FY	Closed FY	Pending 7/1/05
Crossing Applications	32	18	18 (4) *
GO 88-B Requests	65	54	9
Complaints	22	17	12 (7) *

* Parenthetical number is carryover from previous fiscal year

Certifying Rail Transit Safety

The CPUC oversees the safety certification process for new transit lines and extensions. In addition, the Commission and transit agencies met to resolve concerns the Commission had with the transit agencies' requests for deviations from Commission safety rules. After extensive analysis, the

Commission adopted four resolutions that responded to local needs while preserving safety.

Major projects processed included:

- SDTI Mission Valley East line in San Diego
- VTA Vasona Line to Diridon in San Jose
- VTA Vasona Line to Winchester in Campbell
- SRTD Folsom Line between Sacramento and Folsom

Enforcement

Electric Generation Operation and Maintenance Standards Adopted

The CPUC adopted and is implementing General Order 167, the rules by which the Commission will implement and enforce operation and maintenance standards to help ensure reliable electric generation for California. The Operation and Maintenance Standards were developed in cooperation with the California Electricity Generation Facilities Standards Committee and the California Independent System Operator.

Prosecuting Rogue Household Goods and Passenger Carriers

The Commission has successfully prosecuted household goods movers and passenger carriers that have violated Commission rules and regulations for, among other things, operating illegally, overcharging, losing or damaging property, or advertising illegally. The Commission obtained civil and/or administrative sanctions such as temporary restraining orders, telephone disconnections, or forfeiture of authority to operate in many cases, the most egregious included:



- Andy's Ultimate Limousine, Inc. and A.L.S., Inc.
- New Century Transportation
- Galore Enterprises, Inc.
- Nationwide Express Moving and Storage
- Barron's Moving and Storage
- Bay Limousine, Inc
- Most Reliable Moving Service
- Pronto Moving
- Jackson Limousine
- AY Transport

Prosecuting Telco and Energy Utilities

The CPUC successfully prosecuted telecommunications carriers for slamming and cramming. The most egregious cases were Vycera Communications and MCI. Currently the Commission is investigating MCI for its practice of billing non-customers a monthly service charge that MCI refers to as the “Minimum Usage fee”. The Commission is investigating one company for constructing telecommunications facilities without Commission approval or environmental review. In addition, the Commission has initiated an investigation of Pacific Gas and Electric Company’s billing and collection practices regarding estimated and delayed billing and the associated collection activities for delinquent amounts from such bills.

UTILITY SAFETY AND RELIABILITY

Rule Addition for General Orders 95 (R.05-02-023)

The CPUC initiated a proceeding to add rules to General Order 95 relating to the construction of antennas that are placed on poles that contain electric and telecommunication utility systems to ensure that the safety of pole workers and the public is not compromised by antennas that are placed on poles that contain electric and telecommunication lines.

Gas

The CPUC enforces Federal pipeline safety regulations under contract with the U.S. Department of Transportation. Two current initiatives are the Pipeline Integrity Management Program (IMP) and the Operator Qualification (OQ) Program. The Commission is reviewing the IMPs and OQs of gas utilities and mobile home park and propane tank operators as part of audits to ensure compliance with Federal regulations.

Mission Substation Investigation

The Commission concluded its investigation of a power outage affecting more than 100,000 customers, which was caused by a fire in PG&E's Mission Substation in downtown San Francisco on December 20, 2003. The investigation initiated a Commission proceeding in March 2005 to fine PG&E for operating an unsafe substation with prior knowledge that a growing fire in it could continue undetected.

The Commission's investigation found that PG&E did not fully explore or implement recommendations from a similar fire in the substation in 1996, which included installing smoke detectors and immediately investigating breaker operations. If PG&E had fully explored and implemented the 1996 recommendations, PG&E and the San Francisco Fire Department would have responded to the 2003 fire sooner, and the fire and resulting damage would have been less severe. Further, a quick and coordinated response could have avoided shutting down the entire substation, as it did twice during the 2003 fire. The Commission investigation of the 2003 event found that PG&E has installed smoke detectors, improved monitoring, and changed policy to immediately investigate indoor substation problems. PG&E and the San Francisco Fire Department have also detailed coordination and response plans.

These improvements were tested in March 2005 during a third Mission Substation fire involving a 50-year-old circuit breaker. Smoke detectors and immediate personnel response enabled PG&E to quickly alert the fire department and identify the fire source. However, PG&E strayed from its new emergency procedures by failing to have a lead person available to make decisions and coordinate with the fire department. While fighting the fire, firefighters and PG&E employees were exposed to a 12,000-volt flash arc resulting from a short circuit fault in an adjacent breaker that PG&E left energized.

Consumer Services and Outreach

Public Advisor's Office

During fiscal year 2004-2005, the CPUC's Public Advisor's Office expanded its cooperation with major public non-profit organizations such as the League of Women Voters and with state legislators in coordinating public hearings and workshops on major energy and railroad safety issues. In January 2005, the Public Advisor's Office sponsored and coordinated two public forums, one in Los Angeles and the other in San Francisco, which were co-sponsored by the League of Women Voters, on the future of energy policy in California. Nearly 400 people attended the forums.

The Public Advisor's Office also organized and coordinated several key railroad safety forums in Southern California. The forums were co-sponsored by state legislative and local government leaders representing communities in Los Angeles County and the Inland Empire. The Public Advisor's Office worked closely with the Federal Energy Regulatory Commission in organizing workshops and Full Panel Hearings on various issues of importance to consumers across the state.

The Public Advisor's Office also assisted with planning and conducting public participation hearings throughout the state on key issues such as utilities' applications to change rates, utilities' proposed improvements to the state's electric power grid, and telephone area code changes.

-- 69: Hearings/Meetings

-- 45,000: Letters, emails, calls

The Public Advisor's Office will continue to facilitate public forums where Legislators, Commissioners, consumer and business organizations, and members of the public can discuss policy issues critical to the state's infrastructure and economy.

During fiscal year 2004-05, the Public Advisor's Office received thousands of letters, e-mails, and calls from individuals and from community and interest groups on utility general rate cases, the proposed siting of liquefied natural gas terminals in Baja California, various transmission line applications, a number of Class A water company General Rate Cases and consolidation proposals, area code issues, and the proposed merger of SBC with AT&T, among other issues of public interest. All consumer contacts and correspondence were circulated to the Commissioners with summaries forwarded on a regular basis.

Keeping Local Government Informed

The Commission's Local Government electronic newsletter entered its second year of monthly circulation. The newsletter provides an easy-to-read summary of proceedings affecting local jurisdictions to assist them in staying informed on the broad scope of the Commission's ongoing work. The newsletter is also widely circulated to members of the state Legislature, community organizations, chambers of commerce, and posted to the Commission's website.

Assisting Consumer Participation in Proceedings

The Commission administers an Intervenor Compensation program, which provides monetary compensation to parties that intervene in and contribute substantially to Commission decisions. The Public Advisor's Office assists those who wish to apply for compensation. In 2004-2005, the Public Advisor updated its popular "Intervenor Compensation Program Guide" and the "Guide to Public Participation", a complete handbook for understanding Commission procedures. Both guides are available in hard copy from the Public Advisor's Office and on the Commission's website. The Public Advisor's office helped many individuals and community groups intervene as formal parties in Commission proceedings. Water General Rate Cases and transmission line proceedings in particular spurred consumer interest in participation.

Providing Bilingual Services

The Commission's Bilingual Services Program continued to expand the number and types of services for limited English speakers. In addition to translation and publication of the Commission's primary consumer information materials in Spanish and Chinese languages, the Commission undertook and coordinated the review of consumer advisory materials, utility customer notices, telecommunications public purpose program information and marketing materials, and the MAX4 Tariff that spells out the rules for household goods carriers. This review ensured that translations in Spanish and Chinese as well as other languages were accurate.

In addition to providing interpretation for public participation hearings as needed, the Commission assisted individuals and community groups in communicating problems with utilities so that they could be resolved fairly. Equipment for simultaneous interpretation was acquired to meet the needs of all types of public meetings at our facilities.

A pilot program to offer beginning conversational Spanish classes to Commission employees was initiated during fiscal year 2004-05. Preference is given to employees in public contact positions. These courses are part of a five-year language-training program launched by the Commission in order to ensure that all consumers receive the assistance and information they need in the language with which they are most comfortable.

Reaching Out To Communities and Organizations

The Commission’s Outreach Officers met with community-based, service, and business organizations to explain Commission programs and services. They visited local and state elected officials’ offices and public libraries to provide resource materials for further distribution throughout the state. They gave presentations and participated in community events as well as in the increased number of jointly sponsored forums on railway safety and other key issues. Collaboration continued with consumer protection groups, such as the California Consumer Affairs Association and the National Association of Consumer Agency Administrators. In the coming year, the Commission will expand its outreach effort into key regions of the state, particularly in Southern California.

The Commission, through its Consumer Affairs Branch (CAB), assists consumers with their questions and complaints regarding utility billing and service. The Commission assisted consumers in obtaining more than \$2.6 million in refunds from utilities this past fiscal year. Over the last year, the Commission made significant improvements to CAB in both infrastructure and processing methodologies in order to reach more consumers and gain efficiencies in responding to the public. The Commission installed a new Interactive Voice Response telephone system, with options for automated responses as well

Numbers of Consumer Contacts	
Industry	
Telecommunications	30,162
Electric	7,863
Gas	1,458
Water/Sewer	646
Household Goods/Passengers	460
Non-regulated/Other	1,997
Electric Service Providers	54
Multiple Industries	1,123
Non-Industry Specific	4,642
TOTAL	48,405
Top 5 Complaints	
Billing	27,156
Service	6,486
Rate/Rules	2,859
Abusive Marketing	784
Installation	206
TOTAL	37,491

as representative responses, to better answer consumer calls and concerns. After several years of declining staff levels, CAB hired four permanent Customer Service Representatives in June 2005 and will focus on assessing advanced technology that will assist in increasing operational efficiency, such as an integrated database system that will efficiently track consumer issues.

Utility Supplier Diversity Program

The Commission's expansive effort to increase diversity in various utility operations originated from its Utility Supplier Diversity Program, also known as the women-owned, minority-owned and disabled veteran-owned business enterprise program (WMDVBE).

This program recognizes that diversity benefits utilities, suppliers, ratepayers, the economy, and society in general. Commission-regulated

gas, electric, and telephone utilities with gross annual revenues exceeding \$25 million must submit annual detailed and verifiable plans for increasing women and minority business enterprise procurement. General Order 156 requires each respondent utility to report by March 1st on its WMDVBE program,

summarize its purchases for the prior calendar year, and describe its goals and plans for the following year. The Commission is closely examining the utilities' procurement practices in traditionally underrepresented procurement categories such as legal services and financial services. In fiscal year 2005-06, the Commission will adopt uniform reporting standards, which will lead to more comprehensive and meaningful analyses of the utilities' procurement results in all reporting categories.

In 2004, total utility WMDVBE spending was \$1.89 billion; in 2003 it was \$1.33 billion; and in 2002 it was \$1.37 billion.

Office of Ratepayer Advocates

The Commission’s Office of Ratepayer Advocates (ORA) represents utility ratepayers in Commission proceedings and related activities, as required by statute. Public Utilities Code § 309.5 requires the Commission to provide sufficient resources for ORA to represent consumer interests in all significant proceedings. ORA advocates on the behalf of ratepayers when the Commission considers utility proposals to increase rates, adjust service quality, or undertake major projects.

ORA Staff

ORA currently has a staff of 114 professional engineers, auditors, economists, and financial and policy analysts who are experts in the regulation of electric, natural gas, telecommunications, and water industries. ORA’s advocacy staff is supported by attorneys assigned from the Commission’s Legal Division. The following table summarizes the current staffing on ORA’s activities in key areas.

ORA Activity and PYs Assigned	Admin	Energy	Telco	Water	Total PYs
Advocacy in Proceedings	0.11	42.45	10.46	14.55	67.57
Advice Letter Review	0.00	1.65	0.17	0.06	1.87
Audit	0.00	1.54	0.00	0.00	1.54
Compliance Reviews	0.00	0.53	0.00	1.31	1.84
Advocacy in Other Forums	0.00	4.66	0.83	0.00	5.49
Legislative Analysis	0.77	0.38	0.03	0.02	1.20
Public Purpose/Low-Income Programs	0.00	4.51	0.77	1.37	6.65
Management/Administration	3.73	2.98	0.74	1.05	8.50
Training/Recruitment/Exams	0.18	1.48	0.20	0.32	2.18
Employee Leave	1.28	8.94	2.06	3.55	15.83
Other	0.00	0.60	0.19	0.67	1.45
Total	6.07	69.71	15.45	22.90	114.13

Significant qualitative benefits resulted from ORA's efforts to improve the quality of service provided by California's investor-owned electricity, natural gas, telecommunications, and water companies this fiscal year.

ORA's resources are focused on four distinct objectives:

Pursuing Lower Energy Rates

ORA participated in essentially all Commission proceedings for major energy utilities such as PG&E, Southern California Edison Company, SDG&E, and SoCalGas. ORA's efforts in pursuing lower energy rates resulted in improved service and reliability as well as hundreds of millions in cost savings for ratepayers, including:

- Reduced SoCalGas' proposed rate increase by \$70 million. SoCalGas filed for a \$130 million cost of service increase in 2004. ORA

ORA's advocacy efforts contributed to saving consumers more than \$552 million during fiscal year 2004-2005.

recommended a decrease of \$131 million. In December 2004 the Commission approved a settlement (D.04-12-015), reached between ORA, the utility and other parties, which provides for a \$70 million reduction in the company's request.

- Reduced SDG&E's proposed rate increase by \$48 million. SDG&E filed a cost of service application requesting a \$59 million increase in electric revenues and a \$22 million increase in gas distribution revenues for 2004. ORA's analysis resulted in a proposal to reduce electric revenues by \$53.5 million and gas distribution revenues by \$7 million. In December 2004 the Commission approved a settlement (D.04-12-015) between ORA and SDG&E that lowered the company's request by \$37.8 million for electric and \$9.8 million for gas distribution.

- Reduced incentive payments to PG&E, Southern California Edison Company, and Sempra Utilities by over \$30 million. ORA initiated settlements with these utilities to reduce the amount of incentive payments the utilities would receive regarding historic energy efficiency programs. (These are payments made to utilities in compliance with prior Commission efforts to provide utilities incentives to invest in efforts to reduce energy usage by customers.) Through these settlements, ORA obtained savings for ratepayers of over \$30 million and brought to a close no less than 20 existing proceedings.

- Reduced PG&E financing costs by \$46 million. In December 2004 (D.04-12-047), the Commission agreed with ORA's proposal to retain PG&E's current rate of return on equity at 11.22 percent in contrast to the 11.60 percent requested by PG&E. This resulted in savings to electric customers of approximately \$34 million and \$12 million for gas customers.

- Reduced Edison's proposed Catalina rate increase by more than 50 percent. Edison requested cumulative rate increases totaling \$1.2 million (283 percent total) over four years for its Santa Catalina Island gas operations. ORA proposed a revenue increase of \$440,000 to be phased in over three years (\$147,000 annually) with no interest. In December 2004 the Commission adopted (D.04-12-018) a total increase of \$536,500 to be phased-in over three years utilizing many of ORA's proposals.

- Quadrupled a PG&E proposed rate decrease from \$2 million to \$8 million. ORA recommended a rate decrease of \$12 million in PG&E's gas storage and transmission revenue compared to a decrease of \$2 million proposed by PG&E. In December 2004, the Commission adopted a settlement filed by PG&E, ORA, and intervenors that implemented a rate decrease of \$8 million in 2005 and annual rate increases below 2 percent in 2006 and 2007.

- Conducted an audit of Edison's Catastrophic Events Memorandum Account for the recovery of costs associated with the 2003 firestorms. Based on its audit, ORA proposed adjustments of \$3.8 million to capital and \$250,000 to expense. ORA and Edison filed a settlement that proposes to adopt the majority ORA's adjustments.
- Prevented a rate increase for South Lake Tahoe gas customers. Avista Corporation and Southwest Gas Corporation filed for authority for Avista to sell its South Lake Tahoe district to Southwest. ORA protested the application seeking protection against a rate increase for the current Avista customers. The Commission approved a settlement agreement (D.05-03-010) among ORA, Avista, and Southwest that authorized the acquisition on the conditions that Southwest could not recover the acquisition premium in rates and current South Lake Tahoe customers base rates would continue unchanged for four years through 2009.
- Seeking to reduce Southern California Edison Company's rate increase request by \$750 million. Edison filed for a \$569 million increase in its base rate revenues (excluding adjustments) for 2006 and further increases of \$225 million in 2007 and \$207 million for 2008. ORA conducted extensive analysis and investigation of Edison's request and proposes an increase of \$106 million in 2006, \$67 million in 2007, and \$76 million in 2008. The case has been submitted to the Commission.
- Participated in a number of Commission-adopted (D.04-10-034) improvement initiatives jointly sponsored by ORA and PG&E to improve PG&E's storm response and reliability performance.

ASSURING CONSUMER INTERESTS IN ELECTRICITY AND NATURAL GAS REGULATION

Electric Resources

ORA is participating in the Commission's proceeding on Electric Utility Resource Planning (R.04-04-003) to ensure adequate supplies of energy generation resources at reasonable cost. ORA has argued against policies that would inequitably assign system reliability costs, overstate reliability needs, and prematurely remove market power mitigations prior to the market redesign protections being fully implemented.

Energy Resource Recovery Account (ERRA) Proceedings

ORA has testified before the Commission on ERRA compliance and forecast issues. Based on its review and analysis in the ERRA compliance proceedings ORA recommended rate disallowances (i.e., rate reductions) for PG&E and Edison customers totaling about \$19 million. Decisions are pending on both of those proceedings.

Procurement Review Groups

ORA actively participates in the Procurement Review Groups (PRGs) that oversee the power procurement activities of Southern California Edison Company, PG&E and SDG&E. PRGs provide input on utilities' contracting and Requests For Proposals for various short- and mid-term power products, estimates of net-short, net-long positions, risk management strategies, quarterly reviews, renewable contracts, as well as other procurement activities. ORA's input ensures informal review of utility procurement occurs in a timely manner, thereby improving reliability and regulatory certainty.

ADVOCATING TELCO RATEMAKING AND SERVICE QUALITY

Major Mergers

ORA took the lead in advocating for consumers in the merger applications of SBC/AT&T (A.05-02-027) and Verizon/MCI (A.05-04-020), focusing on two critical issues. First, is the statutory requirement that the benefits of the mergers be shared 50/50 with ratepayers. The second issue is protecting ratepayers from the potential negative impact of the mergers on competition. ORA filed extensive testimony addressing merger savings and competition in both merger cases. Eight days of evidentiary hearings were held in the SBC/AT&T merger case. ORA advocated for the need for evidentiary hearings in the Verizon/MCI merger case.

Unbundled Network Element (UNE) Proceedings

As with the earlier SBC UNE proceeding, ORA intervened in the Verizon UNE pricing case regarding the adequacy of the Verizon cost model and its proposed price floors.

Uniform Regulatory Framework (URF)

In the URF rulemaking, the Commission proposes to adopt rules that would apply equally to all telecommunications carriers, regardless of size or type, and that affect rates and services for all California consumers. ORA filed extensive comments on the Commission's proposed regulatory framework for regulating the large incumbent telephone providers. In addition, ORA recommend that the Commission maintain necessary protections for customers of essential basic services. This new framework would replace the existing rules (i.e., New Regulatory Framework) that have been in operation since 1989.

Audits

Under the Commission's review of the New Regulatory Framework, ORA conducted regulatory audits of SBC for 1997-1999 and of Verizon for 1996-1998. The Commission directed ORA to conduct a follow-up regulatory audit of Verizon to cover the years 1999-2001. ORA filed a Petition to Modify, which would extend the audit period for two additional years and allow continued protection for California consumers.

Consumer Protection and Consumer Bill of Rights

ORA filed testimony in the Telecommunications Consumer Bill of Rights proceeding, based on the premise that telecommunications service is vital to all Californians, and that targeted consumer protection rules are necessary to mitigate and prevent abuse of consumers. It is ORA's position that customers of wireless carriers should be afforded the same consumer protections enjoyed by customers of wireline carriers.

Other Proceedings

ORA filed comments on behalf of consumers in the Commission's Broadband Report proceeding, Voice over Internet Protocol (VoIP) investigation, Universal Lifeline Telephone Service rulemaking, and investigations of the Commission's administered universal service high-cost funds and public purpose programs.

Pursuing Lower Rates in Water Rate Cases

Large water companies (10,000 or more service connections) are required under Public Utilities Code § 455.2 to submit a request for revenue changes by application to the Commission every three years. The Commission adopted a new Rate Case Plan (RCP) to implement this requirement (D. 04-06-018). The RCP sets the guidelines, procedures, and schedule for large water utilities' rate applications. ORA participates in all rate case filings to represent ratepayers interest. This included:

- Reduced Southern California Water Company's (SCWC) proposed rate increase from 7.7 percent to 5.9 percent. In August 2004, SCWC filed for a combined revenue increase in 2005 of \$2.3 million, or 7.7 percent for its various Customer Service Areas in Region I. ORA reviewed the company's application and made recommendations regarding the proposed increase. ORA and SCWC reached a joint settlement (D.05-05-025) in which overall increase was reduced to 5.9 percent or \$1.8 million. Ratepayers will save \$393,000 annually.
- Nearly doubled a rate decrease proposed by California American Water (Cal-Am). In March 2004, Cal-Am filed for an increase of \$353,000 or 2.6 percent in its Village service district and a decrease of \$1.3 million or -6.4 percent for its Coronado service district in 2005. ORA's analysis of Cal-Am's request recommended that the Commission not authorize the full increase for the Village district and further reduce rates in the Coronado district. ORA's findings and recommendations led to a settlement agreement with Cal-Am adopted by the Commission (D.04-12-055). The company reduced its request in its Village district to \$132,700 or an increase of 1.7 percent. For the Coronado district, Cal-Am agreed to increase its revenue reduction to \$1.9 million or -9.6 percent. ORA's participation in this case resulted in additional annual savings to Cal-Am's ratepayers of over \$800,000.

- Reduced a proposed Cal-Am rate increase by 40 percent. In March 2003, Cal-Am asked the Commission for increases in revenues of \$1.3 million or 7.6 percent and \$842,100 or 4.7 percent in 2004 and 2005 respectively. ORA opposed the proposed increases, and submitted testimony on Jan. 9, 2004, addressing issues relating to the company's increases in operating expenses and plant additions. During the proceeding, ORA and Cal-Am entered into a joint Commission-approved settlement (D.04-09-041) resolving all disputed issues and resulting in the company reducing its request by over \$800,000 for the 2004 and 2005 test years.

- Reduced a San Jose Water (SJW) rate increase by \$14 million. In May 2003, SJW asked the Commission for a revenue increase of \$25.8 million or 18.2 percent in 2004. With over 300,000 service connections, SJW is one of the largest water utilities regulated by the Commission. On Nov. 17, 2003, ORA issued its testimony addressing SJW's request. Subsequent to the issuance of ORA's report, both ORA and SJW reached a Commission-approved settlement (D.04-08-054) authorizing an increase of \$11.8 million or 8 percent in 2004. The settlement agreement resulted in a favorable outcome to SJW's ratepayers resulting in a reduction of \$14 million from the initial request.

Statistics

Count of Decisions Issued by Industry and Subcategory During 2004-2005:

Communications

AGREEMENT APPROVAL	5
CERTIFICATE	51
COMMISSION INVESTIGATIONS	10
COMPLAINT	46
DISCONTINUANCE	2
EXPANSION OF SERVICE	1
MISCELLANEOUS	12
MORTGAGE/ISSUE NOTES	1
NDI REGISTRATION	44
RATE REQUEST	5
RULEMAKING	20
TRANSFER	20

Total

217

Electric

	1
AGREEMENT APPROVAL	3
CERTIFICATE	5
COMMISSION INVESTIGATIONS	7
COMPLAINT	30
FINANCIAL REVIEW	2
LEASE OF PROPERTY	7
MAJOR RATE REQUEST	1
MISCELLANEOUS	30
MORTGAGE/ISSUE NOTES	4
PM/REHEARING OF RESOLUTION	4
PROJECT	6
RATE REQUEST	34
RULEMAKING	58
TARIFF	1
TRANSFER	17

Total

210

Statistics - Continued

Gas

CERTIFICATE	1
COMMISSION INVESTIGATIONS	3
COMPLAINT	6
MISCELLANEOUS	4
MORTGAGE/ISSUE NOTES	1
RATE REQUEST	9
RULEMAKING	7
TRANSFER	3

Total

34

Miscellaneous

COMPLAINT	4
DISCONTINUANCE	1
LEASE OF PROPERTY	2
MISCELLANEOUS	6
RATE REQUEST	2
RULEMAKING	13
TRANSFER	6

Total

34

Railroad/Grade Crossings

COMPLAINT	3
GRADE CROSSING	32
MISCELLANEOUS	6
PROJECT	1

Total

42

Transportation

CERTIFICATE	1	
COMMISSION INVESTIGATIONS	10	
COMPLAINT	1	
EXPANSION OF SERVICE	4	
MISCELLANEOUS	6	
PASSENGER STAGE	25	
RULEMAKING	2	
TRANSFER	11	
Total		60

Water

COMMISSION INVESTIGATIONS	2	
COMPLAINT	6	
MISCELLANEOUS	6	
MORTGAGE/ISSUE NOTES	5	
PM/REHEARING OF RESOLUTION	1	
PROGRAMS	1	
RATE REQUEST	21	
RULEMAKING	2	
TRANSFER	13	
Total		57

Grand Total 654

Count of Hearing Days by Industry and Subject (FY 04/05)

Communications

AGREEMENT APPROVAL	10	
CERTIFICATE	2	
COMMISSION INVESTIGATIONS	16	
COMPLAINT	12	
MISCELLANEOUS	2	
RATE REQUEST	1	
RULEMAKING	7	
TRANSFER	11	
Communications Total		61

Electric

	2	
CERTIFICATE	2	
COMMISSION INVESTIGATIONS	8	
COMPLAINT	11	
FINANCIAL REVIEW	1	
MISCELLANEOUS	30	
RATE REQUEST	85	
RULEMAKING	64	
TRANSFER	1	
Electric Total		204

Statistics - Continued

Gas

COMMISSION INVESTIGATIONS	9
COMPLAINT	5
MISCELLANEOUS	1
PROGRAMS	1
RATE REQUEST	10
RULEMAKING	3
TRANSFER	2

Gas Total **31**

Miscellaneous

COMPLAINT	1
MISCELLANEOUS	6
RULEMAKING	2

Miscellaneous Total **9**

Multiple Types

RULEMAKING	1
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Multiple Types Total **1**

Statistics - Continued

Railroad/Grade Crossings

COMPLAINT	3	
GRADE CROSSING	5	
Railroad/Grade Crossings Total		8

Transportation

COMMISSION INVESTIGATIONS	9	
EXPANSION OF SERVICE	1	
HOUSEHOLD GOODS CARRIER	1	
PASSENGER STAGE	5	
Transportation Total		16

Water

COMMISSION INVESTIGATIONS	4	
COMPLAINT	5	
MISCELLANEOUS	17	
RATE REQUEST	49	
TRANSFER	1	
Water Total		76

Total Hearing Days 406