

CALIFORNIA PUBLIC UTILITIES COMMISSION

annual report **annual report**
2006



TABLE OF CONTENTS

Letter to the Governor and Legislature.....	3
Commissioners.....	4
CPUC Organization.....	13
Energy.....	17
Communications.....	31
Video.....	41
Water.....	42
Consumer Protection and Safety.....	50
Consumer Service and Information.....	74
Division of Ratepayer Advocates.....	83

Appendix A

Major Proceedings before the CPUC



PUBLIC UTILITIES COMMISSION

STATE OF CALIFORNIA
505 VAN NESS AVENUE
SAN FRANCISCO, CALIFORNIA 94102

MICHAEL R. PEEVEY
PRESIDENT

TEL: (415) 703-3703
FAX: (415) 703-5091

Letter to the Governor and Legislature

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

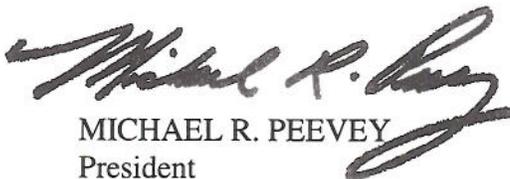
This report highlights major accomplishments and activities of the California Public Utilities Commission for 2006, and includes a description of our activities for 2007 and beyond.

2006 was a highly successful year for the CPUC. We instituted a new Uniform Regulatory Framework for telecommunications companies that will showcase competition in that sector; issued a new Consumer Protection Initiative to protect consumers from fraud, and improve consumer awareness and education; released a comprehensive Water Action Plan to address the future of water regulation; and made tremendous progress in the area of transportation enforcement and regulation. Further, the summer of 2006 provided clear proof on the need for even more energy efficiency progress and additional need for reliable demand response programs.

As we move forward into 2007, we plan to address energy efficiency goals for the 2009-2011 cycle, a full-fledged wholesale electricity market redesign at the California Independent System Operator, implementation of greenhouse gas emission standards as set forth in AB 32, increased transmission lines to connect with renewable generation, as well as continued implementation of the new regulatory structure for telecommunications, increased oversight of the transportation sector and new regulations for water companies.

Please feel free to contact me if you wish to discuss or comment on any area that we regulate.

Sincerely,


MICHAEL R. PEEVEY
President

COMMISSIONERS



Michael R. Peevey, President

Michael R. Peevey was appointed President of the California Public Utilities Commission (CPUC) by Governor Gray Davis on December 31, 2002. Originally appointed to the CPUC by Governor Davis in March 2002, his term expires December 31, 2008.

As President of the CPUC, Mr. Peevey is committed to protecting the public interest by promoting 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 also a strong supporter of renewable energy and renewable procurement requirements for utilities, and is a leader in implementing California's Solar and Greenhouse Gas Initiatives.

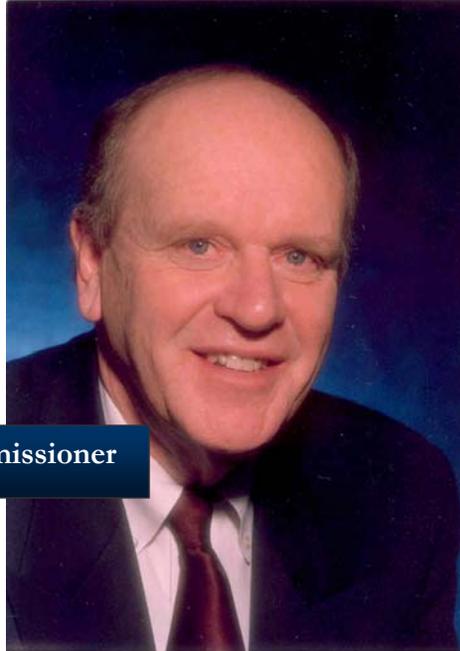
Mr. Peevey has made it a priority to work closely with sister agencies, such as the California Department of Water Resources, the Independent System Operator, the California Energy Commission, and the Air Resources Board-- agencies in which the

CPUC has overlapping or complementary responsibilities, 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. Prior to that, Mr. Peevey was President of Edison International and Southern California Edison Company, and a senior executive there beginning in 1984. Mr. Peevey has served on the boards of numerous corporations and non-profit organizations.

Mr. Peevey has received many awards recognizing his leadership in developing energy policy and promoting recognition of California's diverse population, including the Pat Brown Legacy Award in 2003, being named "Man of the Year" by the Power Association of Northern California, recognized with the Climate Action Champion Award by the California Climate Action Registry in 2004, and leadership recognition from American Council for Energy Efficiency (2005), the Utility Minority Access Program (2006), and the California Solar Energy Industries Association (2006).

Mr. Peevey holds Bachelor and Master of Arts degrees in economics from the University of California, Berkeley. He is married to Carol J. Liu, who served three terms representing the 44th Assembly District (La Canada Flintridge) in the California legislature. They have three children.



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 expired January 1, 2007.

Born May 20, 1943 in San Francisco, Mr. Brown attended schools both in San Francisco and Marin Counties. He graduated from the University of California at Berkeley 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 Bar in January 1971 and practiced with his father until joining the San Francisco Public Defender's Office in October of 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.



Dian M. Grueneich, Commissioner

Dian M. Grueneich, a national expert in energy and environmental issues, was appointed to the California Public Utilities Commission by Governor Arnold Schwarzenegger and was sworn in on January 18, 2005. Commissioner 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 (CLCV), where she oversaw development of CLCV'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 her own 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 energy 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 1977-82, she was Staff Counsel at the California Energy Commission.

While 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.



John Bohn, Commissioner

John Bohn was appointed to the CPUC by Governor Arnold Schwarzenegger in May 2005, and the California State Senate confirmed his appointment in April 2006.

In addition to his duties at the CPUC, Commissioner Bohn was recently elected as a Director of the National Endowment for Democracy in Washington DC and to the Advisory Board of the Yale Institute for Corporate Governance and Performance. He also serves as Trustee of Northern Trust Multi-Advisor Fund, an international multi-advisor investment fund of the Northern Trust Company, and is a member of the Capital Markets Reform Commission, chartered by the U.S. Chamber of Commerce to re-evaluate the operation of U.S. capital markets in light of globalization. Commissioner Bohn is a principal in GlobalNet Partners, N.A., LLC, a global advisory and consulting firm which provides market focus, strategic advisory and active client development services as well as management and capital to U.S and foreign firms. Commissioner Bohn is also a member of The Council on Foreign Relations in New York, and a director of the World Affairs Council in San Francisco. He recently stepped down as Chairman of the Center for International Private Enterprise and as a member of the Executive Committee of the U.S. Chamber of Commerce in Washington, DC.

Prior to his present position, Commissioner Bohn was a co-founder and Executive Chairman of CheMatch.com (now Chemconnect), an Internet based trading exchange for petrochemicals. He spent 1-1/2 years at Burson-Marsteller, the world's largest public relations firm, where he served as Managing Director, focusing on international markets,

and economic resources issues, and was special advisor to the Government of Korea during the Asian financial crisis. From 1989-1996, Commissioner Bohn served as President and Chief Executive Officer of Moody's Investors Service, the world's leading credit rating and financial analysis company, and a major publisher of financial information.

In 1981, Commissioner Bohn was asked to join President Reagan's administration. He served first as special assistant to Treasury Secretary Don Regan and was subsequently appointed by President Reagan as U.S. Ambassador and Executive Director of the Asian Development Bank. In 1984, President Reagan appointed Commissioner Bohn to the post of Vice Chairman of the Export Import Bank of the United States, a U.S. Government corporation that finances and insures the sale abroad of American produced goods, and thereafter to the position of Chairman and President of the Bank, in which capacity he served until 1989.

Commissioner Bohn began his career practicing law in California and the Pacific, and subsequently spent 13 years as an international banker with Wells Fargo, which included 4-1/2 years in Tokyo, with responsibility for the bank's Asian activities. Later he served as Division Manager for Trade Finance, private banking, and multinational banking.

A graduate with honors from Stanford University, Commissioner Bohn attended the London School of Economics as a Fulbright scholar, and received his JD from the Harvard Law School. He is a member of the California State Bar and the Bar of the Supreme Court of the United States. Commissioner Bohn resides in San Francisco.



Rachelle Chong, Commissioner

Rachelle Chong was appointed to the CPUC by Governor Arnold Schwarzenegger on January 11, 2006 to serve as a CPUC Commissioner. Commissioner Chong was unanimously confirmed by the State Senate on January 11, 2007 to fill the remaining term of former Commissioner Susan Kennedy, for a term ending on January 1, 2009.

A native of Stockton, California, Commissioner Rachelle Chong earned dual degrees in Journalism and Political Science from UC Berkeley in 1981. In 1984, she graduated with a law degree from UC Hastings College of the Law in San Francisco, where she served as Editor in Chief of Comm/Ent Law Journal.

The promise of wireless telephony caught her interest, and so she took her first law job with the firm of Kadison, Pfaelzer, Woodard Quinn & Rossi. She represented broadcasters and early cellular applicants before the Federal Communications Commission (FCC) in Washington, D.C. for three years.

In 1987, she returned to California to marry her law school sweetheart. She joined the international law firm of Graham & James, where she represented clients before the California Public Utilities Commission for seven years. She became a partner of Graham & James in 1991.

In 1993, President Bill Clinton nominated Ms. Chong to a Republican seat on the FCC. After Senate confirmation, she took office as the first Asian-American FCC

Commissioner in May 1994, and she served until November 1997. At the federal level, the FCC regulates telephone common carriers, wireless telephone and paging carriers, cable operators, satellite communications carriers, radio and television broadcasters, and amateur radio.

During her tenure at the FCC, Commissioner Chong voted on rules for the first ever auctions of wireless PCS spectrum, voted on service for many new wireless and satellite services, finalized Digital Television rules, and implemented the Telecommunications Act of 1996. She represented the FCC at international communications conferences, including the World Radio Conference and the Asian Pacific Economic Council. She made her mark as a believer in simple pragmatic regulation, an advocate of competition in communications markets, and a passionate protector of First Amendment rights for broadcasters.

After her FCC service, Commissioner Chong returned to private law practice as a partner with the San Francisco and Palo Alto offices of Coudert Brothers, representing Internet and communications clients. In 2000, she became the General Counsel and Vice President, Government Affairs for BroadBand Office, Inc., a start up venture funded by Kleiner Perkins Caufield & Byers and a number of Real Estate Investment Trusts. Later she became a solo entrepreneur herself in August 2001, operating her own retail shop and ecommerce website. She became a trained mediator, and performed mediation, arbitration and expert witness work for communications clients.

She is married and the mother of school age twins.

ORGANIZATION

The 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.

Commissioners

The Commission board is comprised of five commissioners who serve six-year terms, which are staggered to assure experience on the board. The commissioners are appointed by the Governor and confirmed by the California Senate. 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 ten days before the meeting and posted on the Commission's website.

Executive Office

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 Press Office is a branch of the Executive Division. Executive Director Steve Larson, and Deputy Executive Directors Paul Clanon and Laura Doll lead the Executive Office.

Legal Division

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 and cases the CPUC's lawyers handle include energy procurement, electricity and natural gas distribution and transmission, enforcement and safety, telecommunications, transportation, and water. The Commission's General Counsel, Randy Wu, leads the Division.

Division of Strategic Planning (DSP)

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 and more long-term in nature.

Administrative Law Judge (ALJ) Division

The 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.

Energy Division

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.

Telecommunications Division

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 and orders of the Federal Communications Commission (FCC). 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.

Water Division

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. In the Commission's effort to provide improved oversight of the various industries it regulates, the advisory audit functions from three industry divisions (Water, Telecommunications, and Energy) were consolidated in the Water Division as of October 2005. Auditors assigned to the Water Division perform accounting, auditing, and financial analysis as requested.

Division of Ratepayer Advocates

The Division of Ratepayer Advocates (DRA) 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. DRA aggressively pursues development of fair rules for competition, good service quality, fair rates, and other significant policy issues. DRA's mission, as defined by Senate Bill (SB) 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."

Consumer Protection and Safety Division (CPSD)

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.

Consumer Service and Information Division (CSID)

CSID's 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. CSID also monitors the utilities' women-owned, minority-owned, and disabled veteran-owned business enterprise programs.

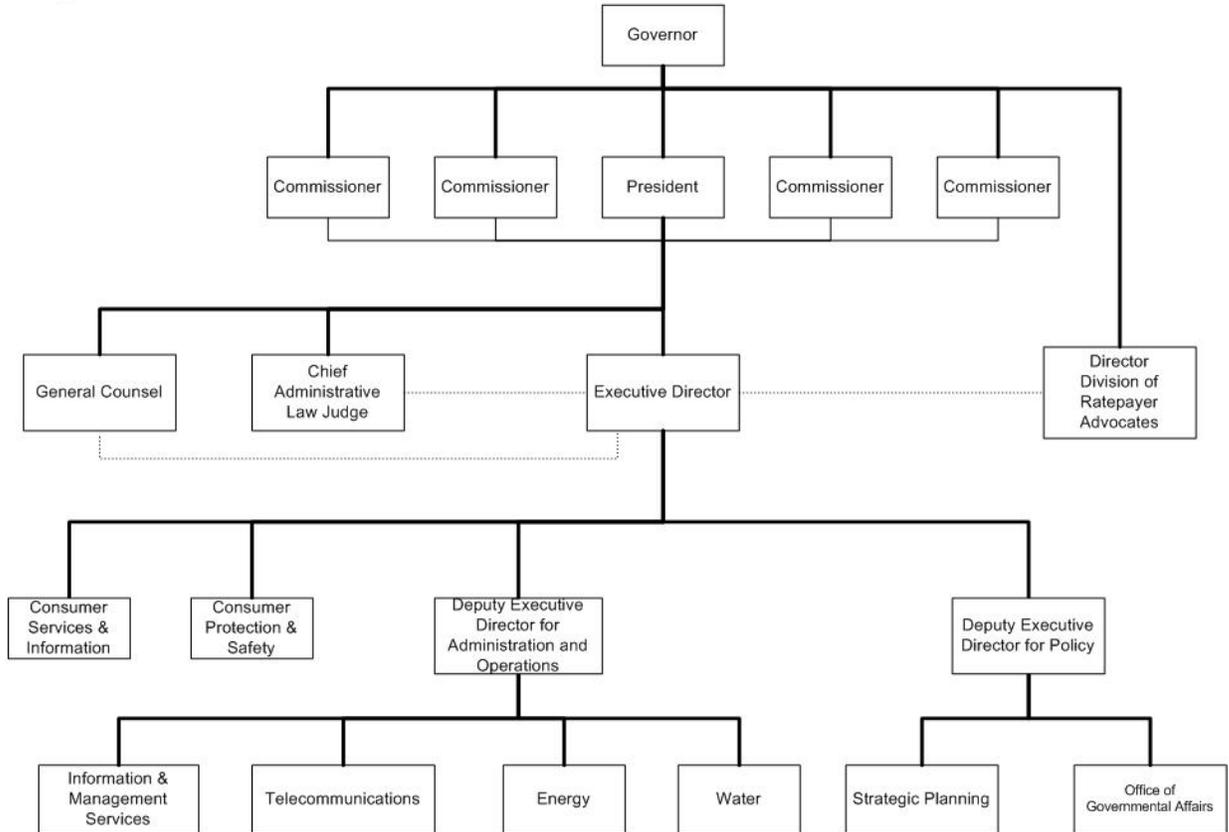
Information and Management Services Division (IMSD)

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.

The following chart depicts the CPUC's organizational structure:

California Public Utilities Commission

January 1, 2006



ENERGY

California's Energy Must be Reliable, Affordable, Environmentally-Sound and Technologically Advanced

During 2007 the CPUC will continue to act to ensure that California's energy is reliable, affordable, environmentally sound and technologically advanced. Energy must be reliable – provided when and where needed to meet the needs of Californians and fuel the state's economy. Energy must be affordable to households, commercial businesses, industry and agriculture – and in particular to disadvantaged customers who rely on the CPUC to ensure that they can afford this fundamental commodity. Energy must be supplied, delivered and used in an environmentally-sound way that addresses local, regional and global environmental threats, especially climate change. Finally, advanced technologies must be developed and tapped to achieve these goals of reliability, affordability and an environmentally-sound energy future.

The CPUC Will Implement Energy Goals Developed Jointly with the CEC

The CPUC and the California Energy Commission (CEC) have jointly identified specific actions necessary to meet California's future energy needs. These actions are described in the Energy Action Plan II (EAP II), adopted by the CPUC and CEC during 2005. The EAP II represents a continuation of close cooperation between the state's two major energy agencies, following the adoption of the first Energy Action Plan in 2003. Other entities with energy-related responsibilities including the Business, Transportation, and Housing Agency, the Resources Agency, the State and Consumer Services Agency, the California Independent System Operator (CAISO), the California Department of Food and Agriculture and the California Environmental Protection Agency actively participated in the plan's development.

The CPUC's Energy Priorities Are Guided by the Loading Order

The loading order in the EAP describes the priority sequence for actions to address increasing energy needs. The loading order identifies energy efficiency and demand response as the State's preferred means of meeting growing energy needs. After cost-effective efficiency and demand response mechanisms, the loading order next includes renewable sources of power and distributed generation, such as combined heat and power applications. To the extent efficiency, demand response, renewable resources, and distributed generation are unable to satisfy increasing energy and capacity needs, clean and efficient fossil-fired generation is to be used. Concurrently, the bulk electricity transmission grid and distribution facility infrastructure must be improved to support growing demand centers and the interconnection of new generation, both on the utility and customer side of the meter.

The CPUC Will Improve Transparency and Consumer Education

The CPUC will provide open, transparent, and compelling information and education to all stakeholders and consumers in the State. The CPUC is committed to providing more effective information dissemination through increased cooperation among all branches of government, businesses, and energy organizations. A key goal is to increase outreach to

consumers by providing improved education and services regarding energy efficiency, demand response, rates, climate change, and opportunities to reduce the environmental impacts of energy use.

Energy Efficiency Programs

Cost effective energy efficiency is the resource of first choice for meeting California’s energy needs. Energy efficiency is the least cost, most reliable, and most environmentally sensitive resource, and minimizes our contribution to climate change. To that end, the CPUC significantly increased the level of funding for the utilities’ energy efficiency program portfolios to a total of \$2.1 billion for the three-year program cycle beginning in 2006. The four largest investor-owned utilities (IOUs) will continue to implement their 2006-2008 energy efficiency portfolio plans and have been instituting program modification as they deem necessary in order to best achieve the Commission-adopted energy savings goals for these three years. The utilities were given the discretion to make program changes subject to certain fund shifting guidelines set forth by the CPUC when it approved the utilities’ portfolio plans in 2005.

The 2006-2008 programs will cut energy costs for homes and businesses by more than \$5 billion, eliminate the need to build three large power plants over the next three years, reduce global warming pollution by an estimated 3.4 million tons of carbon dioxide by 2008— which is equivalent to taking 650,000 cars off the road, and increase funding for the Governor’s Green Building Initiative to \$230 million per year—which is a 36 percent increase in annual funding for climate change efforts.

2006-2008 Energy Efficiency Budget and Projected Savings				
	Budget	Projected Savings		
	(In Million)	GWH	MW	MTH
PG&E	\$ 936	3,020	562	51,756
SCE	\$ 729	3,292	714	-
SDG&E	\$ 278	1,022	213	9,537
SCG	\$ 182	-	-	60,696
Total	\$ 2,125	7,334	1,489	121,989

In 2007, the CPUC will perform evaluation, measurement and verification (EM&V) studies to assess energy savings impacts and performance of the utilities’ programs in accordance with the EM&V protocols that the CPUC adopted in 2006. The CPUC is in the process of developing an energy efficiency risk and reward incentive mechanism to align utility incentives with customer interests. The Commission will issue a decision on the risk/reward mechanism in early 2007. The mechanism will be the basis for

determining the utilities' performance rewards (or penalties) for the 2006-2008 program cycle and beyond.

In preparation for the 2009-2011 program cycle, the CPUC will update the energy savings goals adopted in D.04-09-060 and consider refinements to the Energy Efficiency Policy Rules as part of its energy efficiency rulemaking proceeding, R.06-04-010. In addition, the CPUC will develop strategies to further improve the program planning process and administrative structure for the utilities' post-2008 energy efficiency programs.

The Commission has identified embedded energy savings associated with water efficiency as an untapped resource. By saving water or developing and treating it more efficiently, it is possible to produce significant energy savings. In 2007, the Commission will evaluate the utilities' proposed one-year pilot projects focusing on water embedded energy savings and explore the potential for future programs.

Deploying Advanced Metering Infrastructure (AMI) Throughout California

AMI is a system of advanced meters and communication infrastructure that gives consumers more information and control over their energy usage and enables customers to take advantage of new rate options to better manage their energy consumption. Implementation of AMI will further the Commission's goal of encouraging more demand response, a key component of the state's Energy Action Plan. It will also provide overall savings for utility ratepayers by reducing utility operational costs. In July 2006, the Commission approved PG&E's \$1.7 billion full-deployment AMI plan. PG&E began installing meters in November 2006 in Bakersfield, and expects to complete deployment in 2011. The Commission is currently reviewing SDG&E's AMI plan and SCE is expected to file its AMI plan in mid-2007.

Expanding Demand Response and Interruptible Programs

As noted above, demand response programs are a key component of the state's Energy Action Plan. In March 2006, the Commission adopted three-year budgets ('06-'08) for various Demand Response and Interruptible programs (D.06-03-024) for PG&E, SCE and SDG&E. The combined budget for the three IOUs was \$262 million. The programs include 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. Following the July 2006 heat wave, the Commission approved several enhancements to the programs, such as an expansion of SCE's air conditioner cycling program, for the purpose of increasing demand response resources for the summers of 2007 and 2008. On January 25, 2007, the Commission issued a new demand response OIR addressing four goals: (1) Establishing a comprehensive set of protocols for estimating the load impacts of demand response programs; (2) Establishing methodologies to determine the cost-effectiveness of demand response programs; (3) Setting demand response goals for 2008 and beyond, and developing rules on goal

attainment; and (4) Considering modification to demand response programs needed to support the CAISO's efforts to incorporate demand response into its Market Redesign and Technology Upgrade (MRTU) market design protocols. Further, Commission staff will be meeting with the CAISO and the CEC to coordinate demand response programs approved by the CPUC as to the CAISO's MRTU plans.

Lower Energy Costs by Deploying Advanced Technology and Demand Response Programs and Tariffs

With well-designed dynamic pricing tariffs and demand response programs for all customer classes, California can lower consumer electricity costs and increase system reliability. To achieve this transformation, in 2007 the CPUC expects to consider authorizing ratepayer funding for SDG&E's and SCE's proposals for deployment of advanced metering and communications infrastructure for their customers, and to continue to monitor PG&E's deployment of its advanced metering system which was approved in 2006. The CPUC will also ensure that the IOUs' demand response programs are operated and designed in the most cost-effective ways by (1) developing a load impact protocol and cost-effectiveness methodology for demand response programs and, (2) coordinating with the CAISO and other stakeholders to ensure that the IOUs' demand response programs are adequately aligned with the CAISO's anticipated redesign of the wholesale energy market (anticipated to be implemented by the end of 2007 or early 2008). The CPUC will also be developing dynamic pricing tariffs via the IOUs' General Rate Case proceedings with the goal of increasing more demand response capability for all customers, especially once advanced metering systems are fully deployed.

Energy Procurement and Resource Adequacy

In December 2004, the CPUC adopted a procurement policy framework under which the IOUs and other load-serving entities (LSEs) procure, plan, and make investments for the energy resources and investments necessary to make sure that California consumers receive reliable service at low and stable prices. These actions are necessary to ensure the LSEs are well prepared to meet the electricity needs of California customers.

In 2007, the CPUC will continue to coordinate and integrate energy procurement with legislative and Commission efforts including energy efficiency, demand response, the Renewable Portfolio Standard, distributed generation, Community Choice Aggregation and transmission siting.

In 2007, the CPUC's procurement efforts will be focused on:

- Implementation of the Resource Adequacy framework established in 2005 and local capacity requirements established in 2006 to ensure that all LSEs continue to meet the state's adopted reserve and resource adequacy requirements of a 15-17 percent planning reserve, consistent with Public Utilities Code §380 (AB 380 (Nunez) Ch. 367, 2005).

- Review and consideration of modifications to resource adequacy requirements to make them more efficient in meeting the states needs, including multi-year capacity requirements, and the structure of the capacity market.
- Review and approval of 2006 long-term procurement plans, filed December 2006, including planning for new generation resources consistent with Public Utilities Code §454.5 (AB 57, Ch. 835, 2001).
- Review of applications for new capacity, including the contracts that result from renewable portfolio standard solicitations and/or long-term Requests for Offers (RFOs) for the IOUs.
- Monitor all IOU procurement activities to ensure compliance with all CPUC policies and procurement rules, including CPUC loading order from Energy Action Plan, portfolio risk, credit policies, gas hedging strategies, and greenhouse gas/carbon adders.
- Complete the review and adopt a long-term policy framework for Qualified Facilities.
- Further develop and monitor implementation of renewable portfolio standard for all LSEs.
- Review and consider all other procurement related filings, including contracts or applications for new or existing generation, procurement related policy or rule changes, and ERRRA (Energy Resource Recovery Account-procurement cost) applications.
- Coordinate the State's procurement policy with related efforts at the CEC and CAISO.

Increase Utility Procurement of Renewable Energy

In 2006, the CPUC continued to implement California's Renewable Portfolio Standard (RPS) program, which requires that 20 percent of retail electric load will be met by eligible renewable generation by 2010. The CPUC approved the IOUs' procurement and solicitation proposals, streamlined the market price benchmark calculation used to evaluate renewable projects, and adopted RPS participation criteria for non-IOU energy service providers, community choice aggregators, and small multi-jurisdictional utilities. The CPUC also refined the rules for IOU reporting and compliance with RPS goals.

In 2007, the CPUC will examine RPS long-term planning as part of its review of utility overall long-term procurement planning, review and act on utility RPS contracts submitted for approval, and address the use of unbundled and/or tradeable renewable energy credits (RECs) for RPS compliance. The CPUC will also consider ways to

increase renewable energy procurement to meet climate change goals, such as an accelerated RPS goal of 33 percent by 2020.

Adequate transmission to deliver renewable energy is essential to meet California's renewable energy procurement targets. The CPUC initiated an investigation in September 2005 to ensure development of adequate transmission infrastructure that can access renewable resources for California. The CPUC used this proceeding in May 2006 to adopt a backstop recovery mechanism for utility transmission expenditures that would not be eligible for recovery through the Federal Energy Regulatory Commission's approved rate components.

California Solar Initiative

In January 2006, the CPUC authorized a ten-year, \$2.16 billion incentive program with the goal to install 3,000 MW of customer-side solar projects (the 3,000 MW goal includes installations in publicly-owned utility territories over which the CPUC does not have jurisdiction; the CPUC portion of the goal is approximately 2,000 MW). In August 2006, the CPUC adopted a performance-based incentive structure to encourage optimal system location, design, and maintenance. In 2007, the CPUC will oversee program implementation, develop strategies to encourage solar installations at affordable housing sites, and identify appropriate areas to invest research, development, and demonstration funds.

Self Generation Incentive Program

The CPUC will continue to oversee the Self Generation Incentive Program (SGIP). Between 2002 and 2006, the CPUC Self Generation Incentive Program has provided rebates for 135 MW of Combined Heat and Power (CHP) projects, 17 MW of fuel cells, and 5 MW of wind projects. Another 38 MW of CHP projects will receive rebates as they become operational. In 2007, the CPUC will restructure the SGIP to conform to the self-generation technology preferences pursuant to AB 2778, and will extend the program through 2012.

Climate Change

Climate change is the most serious threat to our environmental future and demands immediate action. The Governor has set a goal of reducing the state's greenhouse gas emissions to 2000 levels by 2010, to 1990 levels by 2020, and to 80 percent below 1990 levels by 2050. The CPUC coordinates its climate change activities with other state agencies through the Climate Action Team (CAT). The CPUC is implementing the following policies to achieve the state's greenhouse gas reduction goals:

Greenhouse Gas Cap for Jurisdictional Load-Serving Entities

To support the Governor's statewide greenhouse gas (GHG) emission reduction targets, the CPUC issued a policy preference in October 2005 for a GHG emissions performance standard (EPS) for utility energy procurement. In February 2006, the CPUC adopted a load-based GHG cap framework for all LSEs within the CPUC's jurisdiction. In April

2006, the CAT identified a series of strategies to achieve the reduction targets, which anticipate significant reductions from the electric sector via CPUC programs through increased energy efficiency and solar, accelerated RPS, and an electric sector carbon policy. In April 2006, the CPUC began to develop implementation protocols for the load-based GHG emissions cap, and to review options to implement a GHG EPS while a GHG cap is still being designed. Subsequent legislation requires a GHG EPS to be in place by February 1, 2007 (SB 1368) and creates a framework for a statewide market-based GHG regulation (AB 32). Implementation of AB 32 will require the CPUC to closely coordinate CPUC-jurisdictional activities with the state's overall GHG strategies overseen by the California Air Resources Board, including emission tracking, reporting and compliance mechanisms, baseline development and allocation, GHG cap structure design, and cost-effectiveness modeling to support evaluation.

Energy Efficiency Programs

California's long-standing support of and funding for energy efficiency programs is an integral part of meeting the state's climate change goals. These programs are described in more detail in a separate section above.

Accelerated Renewable Portfolio Standard

The CPUC is reviewing the legal, regulatory and infrastructure changes necessary to achieve the Governor's goal of achieving 33 percent renewables in the State's resource mix by 2020. In early 2007, the CPUC expects to complete a work plan that identifies necessary steps and will implement the plan throughout the year.

California Solar Initiative

As described, the CPUC adopted a program to deploy up to 2,000 MW of customer-side solar generation in California by 2017.

Combined Heating and Power Initiative

Combined heating and power (CHP) describes power producing facilities that are used to meet both heat and electricity needs onsite. The CPUC is working closely with the CEC to investigate whether encouraging expansion of CHP could lower greenhouse gas emissions. If CHP is found to be an attractive means to address climate change, the CPUC will investigate policies that would encourage CHP deployment for investor-owned utilities.

Expand the Transmission System and Improve Transmission Planning

As the agency responsible for permitting investor-owned utility (IOU) transmission projects, expansion and reinforcement of California's aging transmission infrastructure is one of the CPUC's top priorities. Encouraging such investment is critical both to reverse the decades-long trend of underinvestment in the transmission system, as well as to facilitate delivery of RPS-eligible resources to market.

In 2006, in order to further support investment in California's transmission infrastructure, the CPUC focused on streamlining its permitting process and providing needed assurances of cost-recovery for transmission investments related to the RPS program. In June 2006, the CPUC issued Decision No. 06-06-034, providing assurance of cost-recovery pursuant to Public Utilities Code § 399.25. In July, the CPUC's Executive Director issued a "Statement Establishing Transmission Project Review Streamlining Directives." The Directives establish a pre-filing procedure for IOUs planning to submit an application for a permit. The pre-filing process facilitates the CPUC's ability to coordinate its permitting work and adhere to established schedules for various milestones.

In 2007, the CPUC, with input from the CEC, the CAISO, the IOUs, and other stakeholders will continue these streamlining efforts, and work to identify any other impediments to RPS-related transmission construction in the RPS transmission docket, I.05-09-005.

The CPUC's focused efforts on transmission investment have begun to produce results. Twenty three transmission projects reviewed by the CPUC became operational in 2006, adding approximately 5,000 MW of capacity or comparable reliability to the grid. The largest of these projects include:

- **Pacific Gas and Electric Company's (PG&E) 230 kV Jefferson-Martin Line.** This line provides 480 MW of transfer capacity to the San Francisco peninsula area.
- **PG&E's Potrero-Hunters Point 115 kV Underground Cable.** This line provides 300 MW of capacity from the Potrero generation facility to serve Hunters Point retail load. This line improves reliability to the north San Francisco Peninsula in response to the 1998 Peninsula outage.
- **Southern California Edison Corporation's (SCE) Path 26 Upgrade.** This project is a 500 kV line between Vincent and Midway Substations which increases the transfer capacity between Northern and Southern California by 400 MW from 3600 MW to 4000 MW.
- **San Diego Gas & Electric Company's (SDG&E) 230 kV Miguel-Mission Line.** This line adds 560 MW of capacity into the San Diego load area.
- **SCE's Mission-Viejo 230 kV Line and Substation.** This project adds 600 MW of capacity into the Los Angeles load area.
- **PG&E's Final Phase of Tri-Valley.** This line adds approximately 200 MW of capacity to the Livermore, San Ramon, and Pleasanton areas.

The CPUC will consider approval of over \$3 billion in IOU transmission investment in 2007 and 2008 that will go a long way towards repairing the California transmission system and facilitate the delivery of RPS-eligible resources to market.

On January 25, 2007, the Commission unanimously voted to grant a Certificate of Public Convenience and Necessity (CPCN) to Southern California Edison Corporation (SCE) to construct the Devers-Palo Verde No. 2 transmission project (DPV2). DPV2 is a 500 kV transmission line that will extend 230 miles from North Palm Springs, California to about 40 miles west of Phoenix, Arizona. DPV2 will enable 1200 MW of energy imports into the Los Angeles basin, and will address transmission congestion issues identified in the Department of Energy's August 2006 National Electric Transmission Congestion Study, which identified Southern California as one of two critical congestion areas in the nation. DPV2 represents an approximately \$600 million investment in California's transmission infrastructure and is expected to generate significant rate payer savings in the form of lower energy prices and reduced congestion charges.

The CPUC will consider approval of a significant number of additional transmission projects in 2007 and 2008, totaling approximately \$2.6 billion in transmission investment in California. Several of these projects are being proposed specifically to bring RPS-eligible resources to market. The largest of the transmission projects that the CPUC will consider include:

- **SCE's Tehachapi Renewable Transmission Project (TRTP) Segments 1, 2, and 3.** Combined, these initial segments of the TRTP will provide 700 MW of new capacity from the wind-rich Tehachapi area into the Los Angeles basin. Segment 1 is projected to be considered for approval on March 1, 2007 and on-line in early 2009. Segments 2 and 3 are projected to be considered for approval on March 15, 2007 and on-line in early 2010. The combined cost for these projects is estimated to be \$245 million.
- **SDG&E's Sunrise Powerlink Transmission Project (Sunrise).** Sunrise would increase import capacity into the San Diego region by 1,000 MW. It is projected to be considered for approval January 2008 and on-line in 2010. The estimated cost of the line is \$1.265 billion.
- **Remaining Segments of SCE's TRTP.** SCE is projected to file a CPCN application for the remaining segments of the TRTP at the end of June 2007. This CPCN application should request authority to construct all of the remaining TRTP segments needed to deliver approximately 4,500 MW of wind capability in the region.

Through its recent experiences in permitting DPV2, and developing a record in the TRTP proceedings, the CPUC has discovered that one of the primary impediments to siting transmission facilities is federal land use management agencies. Consequently, the CPUC is an active party in the studies required for designation of energy corridors on federal lands, as provided in § 368 of the Energy Policy Act of 2005. Additionally, the Commission, with the CAISO, has engaged in high level meetings with officials from the U.S. Bureau of Land Management, U.S. Department of Interior, U.S. Department of Agriculture, and U.S. Department of Fish and Wildlife to communicate the State's transmission priorities and hopefully discourage future federal agency delays. We will

continue these coordinated efforts with the CAISO and the federal land use agencies in 2007.

Other priorities in 2007 include continuing to collaborate with the CAISO to coordinate transmission planning and permitting priorities, with an emphasis on RPS goals, and working with the CEC as it moves to designate energy corridors on state lands.

Representing California's Electric and Gas Consumers at FERC

The CPUC is extensively involved in representing California ratepayers at the Federal Energy Regulatory Commission (FERC). The CPUC is litigating transmission rate cases filed by PG&E and SDG&E at FERC. The CPUC is contesting PG&E's request for a higher return on equity (ROE) as an incentive for transmission investments and its request related to accumulated depreciation. SDG&E filed its transmission rate case (TO-3) on December 1, 2006. SDG&E requests a 22 percent increase in rates along with an indefinite continuation of formula rates. SDG&E also seeks a new ROE of 13 percent or 14 percent depending on whether a project qualified for rate incentive treatment. The CPUC, along with other intervening parties, protested SDG&E's filing stating that its 22 percent rate increase, proposed ROE and the indefinite length of formulaic rates are unjust and unreasonable. All parties requested that FERC suspend SDG&E's rate request for five months and set the matter for hearing. The CPUC anticipates that FERC will act in early 2007. The CPUC will continue its efforts to intervene in TO rate cases asking for lower and justifiable revenue requirements. Transmission rate cases without CPUC intervention and representation before FERC would likely increase retail electric transmission rates.

In addition, the federal Energy Policy Act of 2005 (EPAAct) has preempted state authority in a number of areas and requires FERC to initiate a number of proceedings that are critical to California's energy future. In addition, the CPUC is participating in multiple proceedings at FERC, including the following new EPAAct-generated proceedings:

- FERC-proposed mandatory transmission standards with penalties for non-compliance. The CPUC is participating in these proceedings to ensure that none of FERC's actions interfere with CPUC authority over safety, reliability and adequacy;
- Participation in FERC rulemaking to ensure federal rules promote transparency in electric and gas markets and are developed to be compatible with existing State law. This is equally important for state retail markets, as the CPUC implements the Legislature's mandates in SB 1488 (Ch. 690, 2004 (Bowen)), to increase public access to information;
- Critically reviewing FERC-proposed market frameworks and additional tools to prevent market manipulative practices that were prevalent during the California Energy Crisis;

- Monitoring developments in rules related to Qualifying Facilities under the Public Utility Regulatory Policies Act resulting from the 2005 EPAct and intervening in FERC proceedings to weigh in on the issue of whether the relevant market is fully competitive; and
- To protect the safety of California citizens who live or work near proposed LNG projects, the CPUC will actively participate in various proceedings involving proposed LNG projects.

Some of these proceedings are past the rulemaking stages and are in the implementation stage. The CPUC will focus on shaping implementation aspects of FERC orders in these cases during 2007. In some cases, petitions for rehearings have been filed. The CPUC will file and/or monitor various petitions for rehearings when appropriate.

The Commission will represent California ratepayers in two major inter-state gas pipeline rate cases at FERC in 2007. In order to assure that interstate pipeline rates and services are reasonable, CPUC staff will be representing California interests in general rate cases at the FERC for two of the major interstate pipelines that deliver gas supplies to California: Transwestern Pipeline Company and Gas Transmission Northwest Corporation. The CPUC will also continue to be active in FERC's LNG proceedings by representing California's safety-related concerns.

Reforming California Wholesale Market Design

After the 2000-01 California energy crisis, the CAISO initiated a comprehensive market re-design effort called MD02. The CPUC has been an active participant in this complex multi-year project, and will continue to be as necessary. The project is now referred to as the MRTU and is in the implementation stage. A primary focus of this project for the CPUC has been to ensure adequate market power mitigation to protect California consumers. Among other things, MRTU will implement locational marginal pricing paid to generators in order to create incentives for more efficient use of the transmission system. Following a FERC Order issued in September 2006, the CPUC will continue to play a consultative role to the CAISO, ensuring that consumer protections remain a significant feature of MRTU, and will collaborate with the CAISO to ensure that MRTU is consistent with the CPUC's Resource Adequacy program. The CPUC will also focus on other elements that FERC emphasized in the MRTU Order including long-term transmission rights, price sensitive demand programs, a more stringent scarcity pricing mechanism, and appropriate readiness criteria. The CPUC will oversee the development of many compliance filings due over the course of the year and will participate in various problem solving technical conferences. Successful achievement of these will ensure a smooth transition to a new market paradigm.

Investing in Electric Distribution Infrastructure

In May 2006, the Commission issued decision D.06-05-016 in Southern California Edison Company's 2006 general rate case. The Commission authorized a modest electric revenue requirement increase in that case; about 2 percent in 2006, and 1 percent in both

2007 and 2008, on a total system revenue basis. The Commission authorized SCE to make improvements to its aging electric distribution system recognizing that there would be increased costs to customers if system components are allowed to run to failure.

Processing Major Utilities' General Rate Cases

In December 2005, PG&E filed application A.05-12-002, its 2007 general rate case. The Commission will issue a decision in that proceeding in early 2007 addressing PG&E's revenue requirements related to owning and operating its electric and gas distribution systems. Later in 2007, the Commission will issue a decision in PG&E's A.06-03-005 addressing electric marginal costs, revenue allocation, and rate design, or "phase 2" of PG&E's 2007 GRC. In December 2006, SDG&E and SoCalGas filed their 2008 general rate cases. In January 2007, SDG&E will file its 2008 "phase 2" GRC addressing electric marginal costs revenue allocation, and rate design. The Commission will review these applications in 2007.

Ensure Long-Term Natural Gas Reliability through Policies that Address Supply, Demand, and Infrastructure

Moving toward more rational gas transmission framework in Southern California

The Commission established a more rational gas transmission regulatory framework in southern California in two 2006 decisions. In April 2006, the CPUC authorized a common gas transmission rate over both the Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) gas transmission networks, once liquefied natural gas (LNG) supplies begin to flow. Then, in December 2006, the Commission established a system of firm tradeable gas transmission capacity rights in southern California, similar to the framework already adopted in the 1990s for northern California, and authorized the delivery of gas out of southern California into northern California.

Assuring adequate gas infrastructure and supplies

To assure adequate gas infrastructure and supplies, the Commission issued a major decision in September 2006. The Commission determined that generally utility natural gas infrastructure is currently adequate, and adopted long-term reliability standards for the gas transmission systems and procedures by which customers could request firm local transmission capacity in southern California. This decision also adopted operational agreements between outside pipeline companies and LNG suppliers and SoCalGas and SDG&E, and new gas quality specifications, a critical consideration for assuring access to LNG supplies.

The Commission moved to further increase gas infrastructure and potential supplies, by approving in March 2006 an expansion of the Lodi Gas Storage capacity, and in June 2006 allowing SoCalGas to search for additional gas supplies near their storage fields.

Encourage Natural Gas Energy Efficiency

The CPUC will identify and adopt additional natural gas efficiency programs and standards to reduce the reliance on natural gas for various end uses through all available natural gas efficiency and demand reduction resources that are cost effective, reliable, and feasible, as required by Public Utilities Code §454.56 (SB 1037 (Kehoe) Ch. 366, 2005). The CPUC is implementing natural gas energy efficiency as a part of the IOU's energy efficiency portfolios described above.

Settlement with Sempra related to 2000-2001 gas curtailments

In September 2006, the CPUC, the California Attorney General, Sempra Energy (Sempra) and SoCalGas and SDG&E agreed to resolve a complaint filed in the courts by the Attorney General and the CPUC against Sempra and the two utilities. The complaint alleged that the two utilities had acted in such a way that resulted in inadequate natural gas resource planning and system capability, and had made improper representations about the adequacy of that planning and capability. The settlement will result in significant benefits to California energy consumers, and has enabled the CPUC to terminate certain long-running proceedings in December 2006.

Myriad natural gas issues entailed in SoCalGas/SDG&E "Omnibus" proceeding

In 2007, the Commission expects to decide whether to adopt two major SoCalGas/SDG&E settlement agreements. In August 2006, SoCalGas and SDG&E requested Commission approval of these settlements in what is referred to as the SoCalGas/SDG&E "omnibus" proceeding, because it involves numerous significant operational, structural and regulatory changes. The two settlements are: the "Continental Forge Settlement" which was reached with various parties involved in a court complaint filed against Sempra, SoCalGas and SDG&E, and a settlement reached with Southern California Edison Company and Edison International.

Firm gas transmission capacity rights implementation

While the CPUC adopted a firm transmission rights framework for southern California in December 2006, significant implementation details need to be resolved. The CPUC expects to determine these implementation details related to the SoCalGas/SDG&E firm gas transmission capacity rights framework in the first half of 2007.

Determination of reasonable natural gas utility operational costs

In December 2006, SoCalGas and SDG&E filed a GRC application at the CPUC requesting approval of their forecasted 2008 costs and expenses of providing electric and natural gas utility service. The CPUC plans to complete the approval of reasonable costs and expenses for these utilities by the end of 2007.

The CPUC expects to determine PG&E's 2007 forecasted costs and expenses of providing electric and gas distribution utility service in a GRC decision in early 2007. It is also expected that PG&E will file an application in early 2007 for Commission approval of the rates charged and service offered by PG&E for its major natural gas transmission pipelines and storage systems, under its "Gas Accord" framework. The CPUC may render a decision on that application by the end of 2007.

Facilitate Prompt and Environmentally Sensitive Siting of Liquefied Natural Gas Facilities

The CPUC will continue its active participation in the State's Liquefied Natural Gas (LNG) Interagency Permitting Working Group, which is intended to facilitate the prompt and environmentally-sensitive evaluation and siting of needed LNG facilities. The CPUC will also continue to be active in FERC's LNG proceedings by representing California's safety-related concerns.

Low Income Oversight Board

The Low Income Oversight Board (LIOB) advises the CPUC on the energy and water low-income assistance programs of utilities under the jurisdiction of the Commission and serves as liaison for the Commission to low-income ratepayers and their representatives. The LIOB will assist in the development of programs for low-income water customers. Also, the LIOB will solicit community input and develop initiatives to enroll more qualified customers in the CARE program. The LIOB will also be given an opportunity to discuss and comment on all important initiatives and decisions of the Commission with regard to Low Income programs.

Low Income Energy Assistance

Continue Assistance for Low-Income Energy Consumers

Each of the energy utilities filed applications in 2006 for approval of low-income programs and funding levels for 2007 and 2008. These applications were approved in December 2006. The low-income programs include the California Alternate Rate for Energy (CARE), which provide an approximately 20 percent discount on energy rate for residential customers with household earnings at or below 20 percent of Federal poverty guidelines levels; and the Low-Income Energy Efficiency program which offers weatherization and energy-efficiency appliances for customers meeting the same income criteria. It is anticipated that all utilities will be on a three-year program cycle to correspond with the broader energy efficiency programs offered by the utilities.

In 2007 there will be an Order Instituting Rulemaking (OIR) to address goal-based planning, the implementation of the Solar Initiative for low-income customers, and development of protocols for evaluating Low-Income programs.

COMMUNICATIONS

The Commission develops and implements policies for the communications 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. The CPUC's priorities in communications include:

Reforming Universal Service Programs

The CPUC administers programs to promote universal service. Two of these programs (California High Cost Funds A & B) provide subsidies to specific telecommunication carriers providing telephone service to higher cost areas of the state. The annual costs for CHCF-A for 2006 was \$28.1 million and is estimated to be \$31.4 million for 2007. The 2005/06 fiscal year costs for the CHCF-B program was \$434.5 million and is estimated to be \$435.1 million for fiscal year 2006/07. In 2007, the Commission may be revising CHCF-B rules to determine the appropriate subsidy level for the four largest carriers in the state that provide basic service in high cost areas. A third program (California Teleconnect Fund) offers telephone service and equipment discounts to qualifying schools, libraries, hospitals and community-based organizations, while a fourth program (California Lifeline) provides basic telephone service to low-income subscribers who may not be able to afford such service. The Commission also administers the Deaf and Disabled Telecommunications Program (DDTP) which provides equipment and relay service (including captioned telephone) to Californians who are deaf and disabled. The Public Payphone Program administered by the Commission includes the Payphone Service Provider Enforcement Program and the Public Policy Payphone Program. The Payphone Enforcement Program ensures that all payphones maintain a minimum standard of service and provide 911 and 711 access without charge. The Public Policy Payphone Program acts on requests for payphones to be placed in locations for public policy reasons, rather than the business determinations of the provider. Besides administering these programs, the CPUC routinely audits carrier compliance with rules covering program claims and remittances, and will continue such activities throughout 2007.

- **Universal Service OIR** - On May 25, 2006, the Commission issued an OIR (R. 06-05-028) to conduct a comprehensive review of its Telecommunications Public Policy Programs – California LifeLine, Payphone Programs, California Teleconnect Fund and the Deaf and Disabled Telecommunications Program. The OIR seeks comment on whether the programs are meeting their statutory obligations and what if any revisions should be made to the programs in light of advancements in technology and increased competition. The OIR also seeks comment on potential changes to the funding mechanism for all of California's universal service programs. Initial Comments were filed July 28, 2006 and reply comments were filed on September 15, 2006. In 2006, the CPUC held three Public Participation Hearings on September 25th in San Diego, October 26th in Oxnard and November 3rd in Sacramento. A scoping memorandum is currently being developed, considering the information filed in comments and in the public participation hearings. This review will continue into 2007.

- **High Cost Fund - B Program** In June 2006, the CPUC opened R.06-06-025 to specifically re-evaluate the High Cost Fund - B Program for non-rural telephone companies. Public Utilities Code § 739.3, which calls for the Commission “to establish a fair and equitable local rate support structure,” is due to sunset in January 2009 absent legislative action. Among the items to be addressed by the CPUC in 2007 are program costs, size, and implementation. The main goals of this review include adjusting universal support payments to reflect updated operating costs, evaluating whether B-Fund support levels can be reduced and made more predictable while still meeting the goals of the program, ensuring it is competitively neutral, reducing rate disparity in residential basic service between urban and rural areas in the state, and finally, making the current administration of the program more efficient. This review will continue into 2007.
- **High Cost Fund - A Program** This program provides support to 17 small local exchange carriers in order to minimize any rate disparity of basic telephone services between rural and metropolitan areas. Public Utilities Code § 739.3, which calls for the Commission “to establish a fair and equitable local rate support structure,” is due to sunset in January 2009 absent legislative action. The Commission may consider opening a rulemaking to evaluate the effectiveness of the High Cost Fund-A Program in 2007.

Providing Programs to Make Telephone Service Affordable

The CPUC’s Universal Lifeline Telephone Service (California LifeLine or formerly known as ULTS) program makes basic telephone service more affordable for low-income residents of California. The CPUC awarded a contract to provide marketing and outreach to hard to reach residents, with limited English proficiency. As of result of this effort, some 32,000 customers were found to be eligible for LifeLine, about 85 percent of which did not have telephone service previously. Outreach activities will continue throughout 2007.

The CPUC is implementing the FCC’s 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 to California’s low income subscribers from the Federal Lifeline/Link-Up program. By February 2006, the Commission revised the California Lifeline program to implement the new verification process (R.04-12-001). The new certification and verification process was implemented in July 2006. However, initial attempts at implementing the federally mandated verification requirements for California Lifeline encountered issues related to customer confusion and lack of response to requests for materials documenting eligibility. The process of verifying eligible and existing participants has been temporarily suspended to address these issues. On the other hand, the process of verifying new participants continues to comply with FCC requirements. Additional industry and staff efforts are currently underway and are expected to continue into the first half of 2007 to enhance the notification effort and gain better responsiveness

In addition, the CPUC oversees the California Teleconnect Fund (CTF) program, which provides a 50 percent discount on monthly recurring costs on certain eligible services to qualified schools, libraries, government-owned hospitals and clinics, and community-based organizations (CBOs). For the period ending December 2006, there are 662 CBOs, 45 government-owned hospitals and clinics, 285 libraries, 1,285 public schools, and 585 private schools participating in the CTF program. Several changes have occurred since the CTF application process was simplified in 2004. In 2006, the Commission further streamlined the CTF application process by notifying applicants by email within 30 days of receipt of their applications whether they are eligible to receive the CTF discount or if further information is needed to complete the review of their application. In January 2006, the Commission implemented Senate Bill 1102, a bill that requires carriers to first apply the E-rate discount prior to applying the CTF discount, to leverage the CTF funding. In February 2006, the Commission simplified the CTF claims process to streamline CTF claims reimbursement to carriers. Also in 2006, the California Teleconnect Fund Administrative Committee developed an outreach marketing strategy to increase participation in the CTF program. The Commission will continue to do outreach to potential CTF participants.

Providing a Uniform Regulatory Framework for Telecommunication Carriers

Consistent with state and federal policy, the Commission granted the state's four largest incumbent local exchange carriers (ILECs) greater regulatory flexibility in an increasingly competitive telecommunications market. The Commission opened Rulemaking (R.) 05-04-005 to assess and revise the regulation of all California-regulated telecommunications carriers and set forth a goal to adopt a uniform regulatory framework (URF) for all telephone carriers. In Phase I of this proceeding, the Commission last year adopted the following major policies for the four largest telecommunications carriers:

- Broad flexibility for pricing and changes to service terms/conditions for competitive telecommunications services;
- A price cap on prices for basic residential services until January 1, 2009. The transition period before the cap is lifted allows the Commission to address the statutorily-mandated link between the LifeLine rate and the basic residential service rates in the Universal Service Public Policy Program Rulemaking;
- Simplified tariff procedures with a 30-day customer notice and 1-day effective date;
- Simplified contract procedures, which allow for contracts to become effective when executed;
- Elimination of many vestiges of rate of return regulation, such as "accounting adjustments";
- Adoption of GAAP as the accounting standard and streamlined audit practices;

- Elimination of prior price cap index and annual price cap filings, earnings sharing, and gain-on-sale distributions; and
- Adoption of FCC reporting standards as the standards used by the Commission.

Phase II of this proceeding, which will take place in 2007, will address implementation issues related to the advice letter process and outstanding issues covering subjects such as detariffing, asymmetric marketing requirements, developing a reporting and monitoring program, and special access retail services.

Establishing Consumer Protections

Commission staff is actively implementing the Consumer Protection Initiative (CPI) adopted on March 2, 2006. The CPI decision, D.06-03-016, revised General Order 168 and established market rules to empower consumers with education and improve the Commission's efforts to prevent fraud. D.06-03-016 directs CPUC staff to undertake 23 initiatives to improve the Commission's response to consumers. These initiatives fall into three broad categories: enhanced enforcement and fraud prevention; consumer complaint resolution; and community action and consumer education.

Led by the Telecommunications Division Director, implementation of the CPI initiatives is a joint effort by the Telecommunications Division, the Consumer Protection and Safety Division, and the Consumer Service and Information Division. The new year, 2007, will see continuing development of these three initiatives (for a full list, see D.06-03-013, Table A):

- Consumer education: On June 29, 2006, the Commission launched the first phase of its public education effort in this program. The CPI education campaign includes a new consumer friendly website (www.calphoneinfo.com), which was created to inform consumers about their options and rights in the wireless marketplace. It also allows filing a complaint online with the CPUC. The Commission also has published several consumer information brochures in a variety of different languages. Staff and outside contractors are implementing a media-based education effort and a CBO consumer outreach education effort, with particular attention to hard-to-reach populations.
- Enforcement: Enforcement coordination with other state and federal enforcement agencies is underway. Other developments included the following: enforcement staffing levels are higher; training is being increased; a streamlined slamming citation process was established; and cramming-related reporting requirements are being developed. A new Telecommunications Fraud Unit has been formed to provide swift enforcement efforts to protect consumers.
- Complaint resolution: A major Consumer Affairs Branch technology upgrade is being developed that will result in a new information management system to

process complaints more efficiently and effectively. Complaint resolution process improvements have been developed and are being implemented. Training programs to enhance and standardize consumer representative's responses and complaint processing are being developed. Additional consumer representatives, which provide enhanced bilingual capacity, have been hired. Enhanced coordination and communication procedures with the telecommunications carriers are being developed so that the Commission can more effectively and quickly resolve consumer complaints.

In order to implement the CPI, the Commission requested and was granted \$9.9 million for 29.5 positions and \$3.0 million for new technology to assist staff in processing and analyzing consumer inquiries and complaints.

The CPI decision raised a question of whether consumers with limited proficiency in English (also referred to as "LEP" or "limited English proficiency") faced disadvantages in the telecommunications market. The Decision ordered Commission staff to perform a study of the special needs of and challenges faced by California telecommunications consumers with limited English proficiency. The Commission contemplated that the report resulting from the study would serve as "both as a short-term action document with respect to potential new rules and education and enforcement programs, as well as a longer-term reference document." This Study Plan included information on the language demographics of California, services currently available to LEP Californians through the Commission and telecommunications carriers, and the challenges faced by LEP telecommunications customers. Sources used in the production of this report include census and other demographic data, records of past and current Commission activities, the Internet and other research into the language accessibility practices of state and federal government agencies, information received from telecommunications carriers, as well as comments and information provided by carriers, community based organizations (CBOs) and consumer groups both in writing and at a series of workshops and public meetings held for this purpose. As a result of the report, on January 11, 2007, the Commission instituted a rulemaking on these issues

Addressing Telephone Numbering Issues

The diminishing availability of new telephone numbers in existing area codes has been an issue of concern for the CPUC since the late 1990s when the number of area codes in the state nearly doubled in just a few years. By becoming more actively involved in the oversight of the industry's use of telephone numbering resources and by promoting number conservation measures for carriers to employ, the CPUC has managed to avoid putting its consumers through unnecessary area code changes in recent years.

Since June 1998, the CPUC has approved two area code changes in California: the 909/951 area code split and the 310/424 area code overlay. On August 25, 2005, the Commission voted unanimously to implement an area code overlay as the appropriate area code change for the 310 area code. The 424 area code was introduced as the second area code available in the 310 area code's geographic region in August, 2006. The Commission required a public education

program (PEP) because of the 1+10 digit dialing requirement for an overlay. The PEP began in September 2005. Service providers with numbering resources in the 310 area code, NANPA and Commission staff are represented on the PEP Task Force. The PEP Task Force disseminated audio news and press releases in English and Spanish to the 310/424 area codes' geographic region. Letters, posters and school educational materials were disseminated to educate the public on the 310/424 overlay.

Pursuant to Public Utilities Code Section 7931(e), efforts are underway by industry and Telecommunications Division staff to obtain and consider public feedback on several Area Code Change alternatives under consideration for Area Codes 714 and 760. Both of these area codes are approaching exhaust status within the next two years. Final approval for each area code change plan will require a Commission vote around the 3rd Quarter of 2007.

Over the past few years, the CPUC also approved several requests to initiate 2-1-1 service. This is an abbreviated dialing code to be used by an authorized information and referral provider in a given area to provide social service information such as housing or food assistance and non-urgent health questions. To date, the CPUC has approved 2-1-1 service in 14 counties of the state and has provided extensions to several other counties. More requests are expected to be submitted and approved in 2007.

Evaluating Telecommunication Carrier Mergers

As a condition of the SBC-AT&T and Verizon-MCI mergers in 2005, the California Emerging Technology Fund (CETF) was established as an independent non-profit entity focused on increasing access and usage of broadband. CETF funds will be used to attract matching funds from other non-profit organizations, corporations, and government entities.

Establishing a Regulatory Framework for Broadband over Power Lines (BPL)

In April 2006, the Commission, in Decision 06-04-070, took action to foster the deployment of broadband over power lines (BPL) to California consumers. BPL uses the electric utilities' power lines to carry broadband signals into a consumer's home. As a "third broadband pipe," BPL may increase competition and consumer choice. It has the potential to bring broadband services to communities that do not have broadband service available today. BPL also can provide benefits to electric customers by enabling valuable smart grid applications that could improve electric system reliability and support money-saving energy management technologies.

The Commission's BPL guidelines protect ratepayers, while spurring further investment in this nascent technology. Key features of the order include the following:

- Third parties or electric utility affiliates afforded flexibility in how they choose to invest in and operate BPL systems;

- Utilities required to follow affiliate transaction rules for transactions between a utility and BPL affiliate so that consumers are protected against unlawful cross subsidies and other anticompetitive concerns;
- Safety and reliability of the electric distribution system is maintained;
- Companies installing BPL equipment on utility infrastructure are required to pay pole attachment fees;
- Investor risks and rewards are aligned, in part by ratepayer/shareholder sharing of any access fees exceeding the pole attachment fees; and
- BPL-related transactions, with conditions, are exempted from the requirements of Public Utilities Code Section 851.

Encouraging Deployment, Access and Adoption of Advanced Communications Services and Technologies

Broadband is critical to California's economic development and financial health. Innovations and technological advancements in high-speed communications support California's national lead in e-commerce as well as in high-tech jobs and exports. Pursuant to Governor Schwarzenegger's Executive Order S-21-06 and Public Utilities Code Section 709, the Commission will continue efforts to promote access to and adoption of advanced communications technologies in California.

This past year, the Commission updated its "Broadband Deployment in California" report, which was submitted to the California Legislature in May 2005. The updated report was presented at a September 2006 CEFT meeting. The revised report examines broadband subscriber data and methods that potentially will increase broadband deployment and usage in California. It additionally highlights a number of California-specific broadband case studies, including Municipal WiFi projects; discusses how community and non-profit groups are addressing Digital Divide issues; and describes how government and non-profit entities in other states are addressing access issues. In 2007, the Commission will build on prior broadband research efforts. Specific tasks include the following:

- Continued collection and analysis of national and state broadband deployment and adoption information.
- Continued monitoring and evaluation of new communication technologies and services developments.
- Identification of disparity in access and adoption of high-speed Internet services within California regions and populations.

- Development of strategies that can help ameliorate the Digital Divides in California.
- Expansion of the Commission staff's geographic information systems (GIS) skill set and collaboration with other state agencies to create a California broadband and telecommunications infrastructure database.
- Support of research, data collection and policy efforts by community organizations and other state agencies, such as the California Business, Transportation and Housing Agency, that share the Governor's goal of bringing new communications technologies to all Californians.

Assuring Disaster/Emergency Preparedness

In coordination with other state/federal agencies, first responder entities and industry groups, staff intends to follow up on the industry preparedness survey to work with California communications providers and the Office of Emergency Preparedness to bridge any gaps/deficiencies. In addition, the CPUC will be investigating emergency preparedness subjects involving reverse 911 and back-up battery power systems in response to new additions to statutes (Public Utilities Code Sections 776, 2872.5 & 2892.1). E-911 service is a component of basic telephone service by Public Utilities Code Section 2883 and CPUC Decision 96-10-066. Staff will continue to cooperate with the California Department of General Services and the 9-1-1 Emergency Communications Office, which has primary state responsibility for ensuring Voice over Internet Protocol (VoIP) consumers have access to E-911 services.

Safeguarding Customer Privacy Practices

Digital communications technology and the open, networked nature of the Internet pose challenges to consumer privacy conventions, even as they drive economic prosperity and consumer benefits. Consistent with Public Utilities Code Sections 2891 and 2894.10 and federal law (47 C.F.R. 222), Telecommunication Division staff plans to monitor emerging issues and will provide support to Commission decision-makers relative to the provision of modern electronic communications.

Processing Traditional General Rate Case Applications

Three small Local Exchange Companies (LECs) filed General Rate Case Advice Letters in December 2006 for a 2008 Test Year: Kerman Telephone Company, Sierra Telephone Company, and Volcano Telephone Company. All three propose increases in High Cost Fund A draws to earn a proposed 10 percent return on rate base. Kerman requests a 154 percent increase in A Fund draw, for a total subsidy of \$4,170,617 or \$785 per customer. Sierra requests a 5.5 percent increase in A Fund draw, for a total subsidy of \$13,886,548 or \$841 per customer. Volcano requests a 44 percent increase in A Fund draw, for a total subsidy of \$3,408,264 or \$403 per customer. Telecommunication Division staff expects

to present final recommendations to the Commission on the Companies' proposals in July 2007.

Evaluating Intercarrier Compensation Plans

On April 27, 2006, the CPUC adopted decision D.06-04-071 which eliminated two non-cost based intercarrier compensation charges, the Network Interconnection Charge (NIC) and the Transport Interconnection Charge (TIC) for SBC (AT&T) and Verizon. The Commission is expected to enter into the next phase of the intrastate carrier access charge rulemaking, R.03-08-018. In this phase, the Commission anticipates concentrating on non-cost based rates for all local exchange carriers, except for AT&T and Verizon. The CPUC also participated in an FCC rulemaking to develop a unified intercarrier compensation regime. In October 2006, the Commission filed comments on the proposed Missoula Plan. CPUC's comments supported the Missoula Plan's phantom traffic proposal but raised concerns regarding other issues such as intercarrier compensation rates that were not cost-based and the failure to allocate funds to intrastate revenues.

Participating on Federal Communication Issues

The FCC and the Congress are making many decisions that affect California's interests in the communications arena. The Commission will be the voice that represents those interests in an informed and timely way. The Commission will succeed by collaborating closely with the Legislature and the California congressional delegation, as well as many interest groups, to influence the shape of federal legislation. The CPUC also will participate in the FCC's proceedings as it crafts new regulations. During 2007, the CPUC will focus on the following priorities at the federal level:

- Ensure that reform of the federal Universal Service Program promotes competitive and technological neutrality; encourages the deployment of broadband; and does not jeopardize the viability of California's public policy programs;
- Coordinate with federal efforts to prevent fraud and maximize participation in universal service/public purpose programs, such as Lifeline;
- Support federal policies that promote the deployment of broadband services in a competitively and technologically neutral manner;
- Work with the FCC and Congress to ensure California video franchising regulations are in harmony with federal video franchising regulations;
- Promote federal regulations to protect the privacy of telephone subscriber information;
- Participate in the FCC's efforts to reform the intercarrier compensation scheme in a way that protects California's interests and serves national goals;

- Participate in Congressional and regulatory efforts to further define the proper regulatory treatment of VoIP services;
- Monitor forbearance petitions filed with the FCC by dominant carriers and respond when petitions affect the California market;
- Ensure adequate consumer protections through coordinated efforts between federal and state commissions; and
- Engage in other federal telecommunications policy debates as they arise, including changes to numbering regulations, changes to interconnection rules, and special access rate regulation.

Overseeing the Rural Infrastructure Program

Assembly Bill 140 (Ch. 903, 2001 (Strom-Martin, Florez)) set forth a program through January 2008 to fund up to \$10 million annually to build telecommunication infrastructure to unserved service areas of the state. The CPUC has approved five grants since the programs inception. Announcements were sent out in November 2006 seeking proposals to establish telecommunications access for unserved service areas. The CPUC expects to continue to award grants in 2007.

Processing Carrier Filings and Certifications

The CPUC routinely processes advice letter filings submitted by over 1,200 telecommunication carriers seeking to implement changes in service, rates, terms or conditions on an expedited basis. The CPUC expects to handle several thousand advice letters in 2007. In addition, the CPUC requires these carriers to have a valid certificate of service on file and regularly processes certification changes and compliance requirements (*e.g.*, financial reports, surcharge remittances).

VIDEO

Video Franchising

On September 29, 2006, the Governor signed Assembly Bill 2987, the Digital Infrastructure and Video Competition Act of 2006 (DIVCA), which creates a new state video franchise process that replaces the current local franchise process. The Legislature intends for the new state video franchise process to speed new infrastructure investment and to promote competition for broadband and video services in California. DIVCA gives the Commission regulatory authority over state video franchising; anti-discrimination and build-out requirements; reporting; cross-subsidization prohibitions; and regulatory fees. The Commission adopted an OIR implementing DIVCA on October 6, 2006, and will issue a decision in early 2007.

WATER

General Description of the Water Division

The Water Division investigates rate increase requests from the smaller (less than 10,000 service connection) 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. The Water Division provides advisory and technical support to the Administrative Law Judges and the Commissioners. In the Commission's effort to provide improved oversight of the various industries it regulates, the advisory audit functions from three industry divisions (Water, Telecommunications, and Energy) were consolidated in the Water Division as of October 2005. Auditors assigned to the Water Division perform accounting, auditing, and financial analysis as requested.

How Parties Can Access Regulatory Processes Affecting Water Utilities

Access to background information on the CPUC and current information about CPUC formal proceedings, its daily calendar of proceedings, meetings, decisions, programs, and public participation hearings, and how the public can participate in proceedings can be arranged through the CPUC Public Advisor's Office.

Commission Jurisdiction in Water Utility Regulation

In light of increasing statewide concerns about water quality and supply, the Commission explores innovative solutions to water problems and keeps pace with newer approaches the Commission is implementing in the energy and telecommunications sectors, as well as with strategies being used by regulated water companies and water entities not subject to Commission jurisdiction.

The CPUC is responsible for ensuring that water utilities deliver clean, safe, and reliable water to their customers at reasonable rates. There are approximately 140 water utilities and 12 investor-owned sewer utilities under CPUC jurisdiction providing potable and irrigation water service to about 20 percent, or more than 6 million, residents of California. Total annual revenues for CPUC-regulated water utilities in California are approximately \$1 billion. Water quality and water supply issues are governed by various federal and state agencies, and the CPUC works collaboratively and closely with them.

The Power of a Collaborative and Holistic Approach

The CPUC, CEC, Department of Water Resources, and California ISO co-sponsored a symposium, "Improving the Efficiency of California Water and Energy Systems," on March 28, 2006. The proceeding was chaired by CPUC Commissioner John Bohn. Experts from the private and public sectors addressed the key issues in improving water and energy efficiency and conservation. The symposium commenced with a statewide perspective of the relationship between water and energy use, followed by best management practices for water utilities to implement for reducing energy consumption,

including lessons learned by leading private water and energy utilities. The final session identified forward-looking research, and proactive water regulatory policies. Since the symposium, the CPUC has following-up on the constructive recommendations and is implementing many of the proactive policies identified.

On September 12, 2006, the CPUC, Department of Health Services, State Water Resources Control Board, and Department of Water Resources co-sponsored a symposium entitled "Securing Clean and Affordable Water." CPUC Commissioner John Bohn chaired the proceeding. Experts from the private and public sectors identified the current and emerging quality standards for drinking water, which pose extensive challenges for water utilities in California. The alternatives for public partnerships that could improve private water utilities' financial viability were identified, and an interactive discussion summarized several of the optimal means for accessing clean and affordable water for private water utility consumers.

Water and Sewer General Rate Cases and Advice Letters

The Commission investigates water and sewer system service quality issues and analyzes and processes utility rate change requests. The Division works directly with utility management to track and certify compliance with Commission requirements. During 2006, the Commission received 245 water Advice Letters, of which 50 Advice Letters involved a rate increase. During 2006, the Division processed 21 small water and sewer General Rate Cases (GRC). The Division completed the investigation, analysis, and resolution process of 10 small water and sewer (Class B-D water utilities) GRCs in 2006. In addition, the Water Division completed the Great Oaks Water Company (Class A water utility) GRC and two transfer-of-ownership applications. The Water Division provided technical expertise in completing the GRC regulatory tables and appendices in proceedings involving eight different Class A water utilities. The Commission accepted 182 Advice Letters, rejected two Advice Letters and the utilities withdrew three Advice Letters. The Commission issued 40 resolutions regarding the GRCs and Advice Letters. The Commission is currently processing 11 small water and sewer GRCs and 58 Advice Letters.

Promote Low Income Ratepayer Assistance Programs

Low-income customers often struggle with payments for basic monthly water service. Public Utilities Code Section 739.8 allows the Commission to consider and implement rate assistance programs for low-income water utility ratepayers. We are developing options to increase affordability of water service for these customers as well as provide specific emphasis on water conservation programs for low-income water customers. Currently, pursuant to Commission orders, all but one of the Class A water utilities have instituted a low-income water rate assistance program. The Division continues to work with the Low-Income Oversight Board, as well as interested parties, in the development of new and effective programs to assist low-income water ratepayers and more inclusive programs that address not only residents of single family homes but also those living in multi-family housing, where water service is not individually metered.

Strengthen Water Conservation Programs

Water conservation is critical in California to extend limited resources as far as possible and allow for future growth. Water conservation is the least expensive source of water. We continue to research the development of a standard water conservation program that:

- Complies with current laws;
- Incorporates Best Management Practices of the California Urban Water Conservation Council;
- Considers the costs/benefits of each program; and
- Incorporates a rate design that encourages water conservation while preserving revenue stability for the regulated water utility.

As part of its effort to promote water conservation in 2006, the Commission sponsored a Water & Energy Conservation Symposium with the CEC, Department of Water Resources, and the California ISO. Given the Commission's emphasis on water conservation that mirrors a similar high prioritization of conservation in the energy sector, we are working with other members of the Commission in the development of conservation programs that address the combined and complimentary benefits of water and energy conservation.

State Grant Funds – Preservation of Public Interest Integrity

With the passage of Proposition 50-The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, regulated water utilities in California are able to apply for specific state grant funds. The Water Division assisted the Commission in its development and adoption of accounting rules that ensure that the regulated water utilities and their shareholders shall not profit in any way through receipt of public funds, whether Proposition 50 funds or some future state grant funds made available to regulated water utilities.

Increased Financial Reporting

Ninety-nine percent of Class D water companies have provided year 2005 financial report filings (as required by Commission General Order 104A), as compared to seventy-five percent for year 2004, due to the CPUC's Accounting Outreach Program instituted in April 2005.

Long-Term Debt Financing Applications

Several companies filed financing applications for approval to issue long-term debt per Public Utilities Code Section 818. Of the 13 financing applications filed (totaling \$237.4 million), 10 water utilities filed 10 applications for a total of \$62.5 million, one telecommunications utility filed an application for \$24.9 million, and two energy companies filed two applications for a total of \$150 million.

Audits

The Water Division performed four audits of water utilities, three audits of telecommunications utilities, and four audits of energy utilities, per Public Utilities Code Section 314.5. Future compliance audits are going to focus on authorized public programs expenditures in both the telecommunications and energy industries.

Desalination Report that Assessed the Cost of Electricity of Various Water Sources

The Commission issued a report in response to a mandate in Assembly Bill 2918 (Laird, 2004). Major findings of the report include:

- Desalination facilities do not receive preferential treatment in electric rates or policy;
- Possible electric tariffs and existing policies that are applicable to customers of investor-owned electric utilities are outlined;
- Cost of reverse osmosis desalination would be \$860/AF to \$1,300/AF (assuming electricity costs of \$0.08/kWh), while cost of water from the State Water Project is about \$560/AF and the cost of ground water pumped out of a well is about \$80/AF;
- Lowering electricity rates for one customer class leads to cost shifting (assuming the utility is not willing to accept a lower overall revenue requirement), in which other customer classes bear the responsibility for the balance of the un-recovered costs;
- These countervailing policy issues may make it difficult for CPUC to justify electric rates that make desalination plants a cost effective water source; and
- Comments on report were received from numerous State agencies.

Integration of the Water Action Plan and the General Rate Case Plan

The Commission adopted a Water Action Plan (WAP) on December 15, 2005 which laid out specific actions the CPUC undertook in 2006. In the WAP, the Commission identified four key principles that will guide the CPUC's activities in the future:

- Safe, high quality water;
- Highly reliable water supplies;
- Efficient use of water; and
- Reasonable rates and viable utilities.

In July 2006, the Water Division solicited input on how the Rate Case Plan might be modified to support implementation of the WAP, and to address the waiver process

anticipated by D.06-06-037. D.06-06-037 directed that the Commission consider in a rulemaking the process by which utilities seek waivers of Rate Case Plan requirements pursuant to Public Utilities Code § 455.2, and to modify the Rate Case Plan to reflect lessons learned over the course of the last 2.5 years of implementing the existing Rate Case Plan.

The Commission used the WAP's four key principles to guide specific water regulation actions pursued in 2006. On December 14, 2006, the Commission issued an Order Instituting Rulemaking (OIR) to consider revisions to the practices and procedures for processing Class A water companies (utilities with over 10,000 service connections) GRCs. This Water Rate Case Plan (RCP) OIR has defined WAP issues to be dealt with by the Commission in 2007. The RCP OIR (R.06-12-016) will have a second phase to define other WAP issues not covered in the OIR first phase. At this time, the Commission does not anticipate holding formal hearings. This proceeding should require no longer than 18 months to complete.

The major issues to be considered in this proceeding, which are reflected in the proposed General Rate Case Plan, are as follows:

- **Single Rate Case for Multi-District Utilities**

The current practice of having multi-district water utilities file rate cases at different times during the three-year cycle under the existing Rate Case Plan has proved burdensome for the water utilities and the Commission. The OIR proposes a schedule to require multi-district companies to file a comprehensive GRC application for all districts at the same time.

- **Notice of Rate Increases For Utilities With Bimonthly Billing**

The existing Rate Case Plan schedule does not provide sufficient time for the applying utility using bimonthly billing to notify customers of a proposed rate increase in a GRC. It proposes to modify the schedule to hold Public Participation Hearings later than the current Rate Case Plan provides. This change should allow utilities sufficient time to notify customers using a bimonthly bill while still complying with the overall GRC schedule.

- **Addition of Technical Conference**

It proposes to add a technical conference hosted by Water Division in order to ensure that Water Division and all parties have a full understanding of the ratemaking models utilized by the company and other parties and can adequately prepare tables when the Commission requires that they be done.

- **Cost of Capital Proceeding**

It proposes to establish a separate cost of capital proceeding on a schedule parallel to the company's GRC. Under the proposed schedule, if the company has filed a TY 2009 GRC, its cost of capital application would be filed May 1, 2008. The

utility has the option of filing an application annually to adjust its cost of capital, on the same schedule (similar to the cost of capital proceedings in the energy sector). All Class A water utility cost of capital proceedings filed in a given year would be handled on a consolidated basis. In the first cost of capital proceeding, the Commission would consider whether it is appropriate to adopt an indexing mechanism for annual adjustments to water utility cost of capital, in lieu of an application.

- **Minimum Data Requirements**

The OIR proposes a standardized Minimum Data Requirements filing, to be completed by a utility as part of its GRC and cost of capital testimony. The data requirements cover all important rate and water quality issues and provide enough data to the Water Division, Division of Ratepayer Advocates (DRA), and other potential parties so that additional discovery during the formal rate case will be reduced.

- **Water Quality Review**

In *Hartwell Corp. v. Superior Court*, 27 Cal. 4th 256 (2002), the California Supreme Court ruled that the Commission has constitutional and statutory responsibilities to ensure that regulated water utilities provide water that protects the public health and safety. The standardized Minimum Data Requirements, *supra*, provide information to improve Commission determinations on water quality. The OIR proposes to authorize the assigned Commissioner and assigned Administrative Law Judge (ALJ) to appoint, at the utility's expense, an independent expert witness to offer evidence in the GRC concerning the water utility's water quality compliance. Additionally, it proposes to require that the proposed decision in a GRC, whether resulting from an evidentiary hearing, settlement, or both, will make specific findings and recommendations concerning the utility's water quality compliance.

- **Reduction of Unaccounted Water**

Since 1991, many California water utilities have used Best Management Practice 3 (BMP 3), "System Water Audits, Leak Detection and Repair," to determine whether unaccounted water loss in the system exceeds 10 percent. BMP 3, which references the American Water Works Association (AWWA) M36 Manual, has been criticized because it is based on a pre-screening test and, if improperly performed or manipulated, allows the water utility to avoid a full audit—even when the recovery of lost water would be economically beneficial. The OIR proposes that Class A utilities would be required to perform and submit the results of a water loss audit as part of the testimony and other required materials supporting the utility's GRC application.

- **Interim Rate Relief**

Section 455.2, authorizing interim rate relief under certain circumstances during a general rate case, provides little guidance as to procedure and has resulted in separate, time-consuming Commission decisions on each utility request. The OIR proposes a procedure under the deviations process, whereby a utility's basic entitlement to interim rate relief is determined, as a threshold matter, by the assigned ALJ. Once that threshold determination is made, the utility completes the processing of the interim rate relief by filing an advice letter, pursuant to General Order 96-B, with the Water Division.

- **Rate Case Plan Waiver Process**

Section 455.2(c) allows the Commission's Executive Director and a water corporation to waive the requirements § 455.2(c) pertaining to timing and method of filing a GRC. Decision 06-06-037 indicated that notice and opportunity to comment was necessary to implement a waiver procedure under this code section. The OIR proposes to identify permitted deviations and waivers, and specify procedures for implementing such waivers or deviations.

Participants in the Water Division workshops identified other potential changes to the Rate Case Plan which are of lower priority and will not be addressed in the first phase of the Rate Case Plan OIR. In 2007, parties may identify other changes to the Rate Case Plan they believe the Commission should consider as high priority changes.

2007 Workplan Principles

Building off the four key WAP principles, the Commission has developed the following six objectives of future water regulatory activities.

- **Maintain Highest Standards of Water Quality**

Water quality is vital to the health of consumers. Delivering safe water requires a reliable infrastructure. We will bolster our current collaborative relationship with the enforcers of water quality standards, the Department of Health Services and the Federal Environmental Protection Agency, so that problems are identified and acted upon as quickly as possible.

- **Strengthen Water Conservation Programs to a Level Comparable to those of Energy Utilities**

Water conservation is critical in California to extend limited resources as far as possible and allow for future growth. Indeed, water conservation is the least expensive source of water. The Commission will use existing tools to strengthen utility conservation programs, and will provide the necessary direction to do so by initiating formal proceedings where appropriate. Emphasis on water conservation mirrors the Commission's similar high priority for conservation in the energy sector.

- **Promote Water Infrastructure Investment**

The water infrastructure in California needs significant improvement. We will provide financial incentives and direction to encourage investment in infrastructure needed to improve water quality.

- **Assist Low Income Ratepayers**

Low income customers often struggle with payments for basic monthly water service. Similar to our practices in the telecommunications and energy industries, we will develop options to increase affordability of water service for these customers as well as provide specific emphasis on water conservation programs for low income water customers.

- **Streamline CPUC Regulatory Decision-Making**

The CPUC's decision-making process will be streamlined to the benefit of both the utilities and their ratepayers. We will seek public input as we develop new procedures to ensure meaningful consumer input into our decision-making is maintained.

- **Set Rates Balancing Investment, Conservation, and Affordability Concerns**

When establishing rates, we will ensure that rates provide for recovery of reasonable and prudently incurred costs plus provide a fair and equitable return to shareholders. We will develop rates and ratemaking mechanisms to further the above goals of affordability, conservation, and investment in necessary infrastructure.

Other 2007 Workplan Activities

In 2007, the Water Division will be developing ways to streamline the process for review of cost of service and rate of return for all classes of water utilities. In addition, the Water Division will be using existing tools to strengthen utility conservation programs, and will provide the necessary direction to do so as the WAP has identified water conservation as a high priority. During 2007, the Water Division will be processing small water and sewer GRCs (for fewer than 10,000 customers) and Advice Letters submitted by all water utilities. In addition, the Water Division will be providing advisory and technical support to the Commission as needed on all requests regarding water utilities.

CONSUMER PROTECTION AND SAFETY

The Consumer Protection and Safety Division (CPSD) 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.

Transportation

The CPUC oversees the safety of rail transit systems, common carrier railroads, and over 11,000 public and 5,000 private highway-rail crossings. This includes safety inspections and accident investigations by specially trained and federally certified inspectors and engineering staff. The CPUC is also responsible for licensing and registering motor carriers of passengers and household goods and acts to prevent any unlawful business practices of these entities. Transportation responsibilities of the CPUC include:

- Inspect railroads for compliance with, and enforcement of, state and federal railroad safety regulations;
- Improve rail crossing safety through elimination of hazards, engineering, education, and enforcement;
- Investigate rail accidents and safety-related complaints;
- Recommend improved safety requirements to the CPUC or federal government; and
- Ensure consumer protection through effective and efficient enforcement of protection and safety requirements.

Railroad Safety Operations

Implementation of the CPUC's Railroad Safety Action Plan began in early 2006 and is on-going in the following key areas:

- Inspection of common carrier railroad tracks, equipment, repair facilities and operations throughout the State for compliance with state and federal safety regulations, and to pursue enforcement action when warranted. Staff also conducted a number of focused safety assessments of rail operations and safety practices.
- Investigations of major rail accidents and every rail crossing and trespasser related fatality to determine cause, formulate recommendations, and ensure corrective actions by the carriers.

- Advocate and seek further support for a resolution to amend to the Federal Railroad Safety Act (FRSA) to delegate more authority to states to regulate railroad safety locally. The California legislature, NARUC and the Association of State Railroad Safety Program Managers have all endorsed the CPUC's efforts with resolutions to the United States Congress.
- Pursue CPUC rail safety inspector pay-parity with that of federally employed rail safety inspectors who perform the same duties. Currently, CPUC inspectors are paid on average 20 percent less than their federal counterpart, which has resulted in a high rate of attrition from state employees who resign from state service in order to receive the higher federal pay.
- Develop a citation process to expedite the enforcement of CPUC rail safety rules and regulations and better encourage carrier compliance with Commission orders.
- Investigate all rail-related fatalities and significant crossing accidents, including engineering diagnostic reviews and apply the lessons learned to safety enhancements that advance the cause of rail safety.
- Publish reports of all rail accidents, collisions, and derailments investigated, including root cause and significant contributing factors.
- Convene quarterly meetings with the Federal Railroad Administration's Regional Management team to discuss on-going safety alerts and advisories.
- Proactive involvement to reduce grade crossing and pedestrian/trespasser related accidents through partnership and support of the education, engineering and enforcement activities of Operation Lifesaver, Inc.
- Expand the CPUC's commitment to the Operation LifeSaver Program on a statewide basis to assist local cities, schools, law enforcement, and fire departments in creating a safer environment around railroads.
- Publicly advocate for new safety technologies such as positive train control, positive train stop, and locomotive-mounted video cameras.

Inspections and Assessments

Federal Railroad Safety Act of 1970 (U.S.C. Sections 421m *et seq.*).

As authorized by the Federal Railroad Safety Act of 1970, the Commission works in partnership with the Federal Railroad Administration (FRA) to ensure rail safety in California. Commission rail inspectors are federally certified to enforce state and federal laws, regulations, orders, and directives pertaining to rail transportation.

The Commission's Rail Safety and Operations Branch currently has 30 certified inspectors in five recognized industry disciplines:

- 8 Track Inspectors
- 8 Motive Power and Equipment Inspectors
- 9 Operating Practices Inspectors
- 2 Signal and Train Control Inspectors
- 3 Hazardous Materials Inspectors

Additional positions consist of three analysts and two support staff necessary to implement the Commission's RSA Plan, to fulfill safety mandates for track and equipment inspections required by PU Code § 309.7(b), and investigate accidents pursuant to PU Code § 315.

During the calendar year 2006, staff inspected 15,666 units of equipment and 4,776 miles of track. In addition, staff examined 442 facilities that handle hazardous materials (15,180 Hazardous Materials inspection units), made 481 operating practice inspections (2331 units), and inspected 7,169 units of signal and train control systems. Staff also responded to 64 informal complaints from railroad employees and/or the general public during the same time period.

Compliance with State Railroad Inspection Plan

The State Railroad Inspection Plan (Plan), adopted by the Commission in Public Utilities Code Sections 309.7(b) and 765.5(d) establishes a minimum inspection standard designed to ensure that railroad locomotives, equipment and facilities in Class I railroad yards in California are inspected not less frequently than every 180 days, and all branch and main line track are inspected at least once every 12 months. The Plan follows a schedule of monthly inspection points for each railroad ensuring all main and branch line track, and Class I railroad yards are annually inspected, and that major mechanical facilities are inspected every six months. State inspectors last fulfilled this mandate in 2002.

The Plan requirements for 2003, 2004 and 2005 have been unfilled due to the inspection and supervisory personnel attritional vacancies. Staff expects this trend to continue through 2006 as vacant inspector and supervisory positions are filled and personnel trained. The unusually high rate of attrition in Rail Safety Operations Branch personnel (25 percent over five years) is due primarily to the disparity in pay that exists between CPUC Railroad Safety inspectors and their FRA counterparts. FRA inspectors based in California earn on average 20 percent more in higher wages for performing essentially the same duties. Consequently, in the past two years, the Rail Safety Operation Branch received resignations from seven fully trained safety inspectors who then accepted employment offers from the FRA in California. CPUC management submitted a pay-parity justification to the State Department of Personnel Administration in early 2006 and is awaiting a response.

Hazardous Material Transportation Uniform Safety Act of 1990

Section 765.5 (d) requires the Commission to dedicate sufficient resources to implement the State Participation Program to regulate the rail transportation of hazardous materials as authorized by the Hazardous Materials Uniform Safety Act of 1990 (P. L. 101-615). According to the U.S. Department of Transportation's Bureau of Transportation Statistics figures (year 2000), more than 50 million rail shipments originate or terminate in California annually. Approximately 25 percent of these shipments are estimated to involve hazardous materials.

The Commission employs three federally certified Railroad Safety Inspectors in the State Participation Program to fulfill this mission. Inspectors conduct a variety of activities including the investigation of accidents and incidents involving the actual and/or threatened release of hazardous materials as reported by the Office of Emergency Services (OES) 24-hour Warning Center. Inspectors also conduct unannounced inspections at shippers, consignees, freight forwarders, inter-modal marketing companies and railroads.

Assessments and Focused Inspections

Commission staff conducts assessments of railroad practices, facilities and operations in order to address problem areas before an accident or incident occurs. Some assessments consist of follow-up activities to determine systemic causes of accidents. Others are focused team inspections at locations with high accident incidences or poor records of regulatory compliance. Assessment teams are often comprised of both CPUC and FRA personnel working cooperatively. The following synopses provide a sampling of these exercises.

- Automated Track Inspection Program (ATIP) Assessment- FRA "T-17" On-Track Geometry Detector Car. FRA funds the design and operation of this specialized piece of equipment which resembles a large motor-home on the tracks. It is manned by a full-time crew of specialists and travels a circuit around the entire United States providing an objective evaluation of track geometry conditions to the various railroads over which it travels. CPUC and FRA track inspectors will survey several thousand miles of track in California aboard the "T-17" vehicle in December 2006.
- Commission staff and FRA Track inspection teams covered the Los Angeles Basin and several Industrial Leads (Tracks branching off main rail lines to serve industries) on the Union Pacific Railroad (UP).
- Commission staff was invited to make an Operation Lifesaver presentation to new team members of the Placer County Sheriff's Search and Rescue organization, based in Auburn, as part of their *Fundamentals of Search and Rescue* course.
- CPUC – FRA staff conducted a focused track inspection on the San Joaquin Valley Railroad (SJVR) to assess the railroads compliance level with the Federal

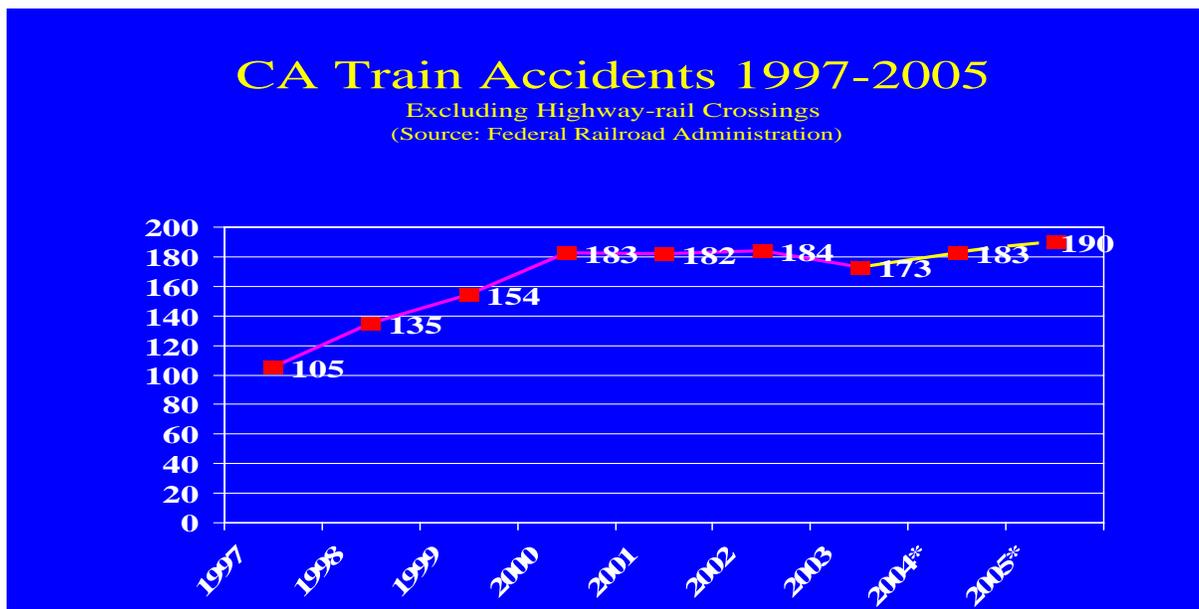
Track Safety Standards and Roadway Worker Safety.

- Commission staff Track Inspectors and FRA inspectors performed a Track/Signal (team) focused inspection on the UP Railroad between Sacramento and Bakersfield, CA, on the Fresno Subdivision.
- CPUC Operating Practices, Motive Power & Equipment, Track and Hazardous Materials inspectors conducted a focused multi-discipline inspection on the Carrizo Gorge Railway (CZRY) between San Diego and El Centro, CA.
- CPUC and FRA inspectors conducted an Operating Practices assessment on the UP Railroad between Thousand Palms and West Colton, CA.
- CPUC and FRA inspectors conducted a focused track inspection of the UP Railroad Yard at Fresno, CA, to evaluate compliance with Federal Track Safety Standards, Roadway Worker Protection and workplace safety.

Major Accident Investigations

CPUC investigates accidents and assesses the safety of railroad operations in California Pursuant to PU Code Section 315. Independent investigations may involve interaction with the railroads, railroad employee unions, and other regulatory and safety agencies, such as the FRA and the National Transportation Safety Board (NTSB).

From November 1, 2005 through November 1, 2006, the Governor's Office of Emergency Services (OES) reported to the Commission a total of 372 heavy rail accidents in California, continuing a downward trend in the overall reports of accidents of all kinds. The reported accidents ranged in magnitude and severity from minor yard derailments and the threatened or actual release of small amounts of hazardous materials, to serious grade crossing accidents or train impact accidents involving millions of dollars of property damage, evacuations, injuries or loss of life.



For the reported 12-month period, there were 50 main track derailments, 19 yard track derailments, 1 railroad employee fatality and 8 railroad employee injuries. Additionally, there were 22 highway-rail grade crossing fatalities, and 88 trespasser fatalities. Highway crossing and trespasser incidents continue to be the largest source of railroad related casualties.

Rail Crossings Safety

The Commission has exclusive jurisdiction over the safety of crossings of highways and railroad tracks, including the power to determine their design, location, terms of installation, operation, maintenance, use, and warning devices (Public Utilities Code §§1201-1202). The Commission's responsibilities are carried out by its Rail Crossings Engineering Section (RCES), part of its Rail Transit and Crossings Branch. Responsibilities involved in this legislative mandate include:

- Performing safety inspections of crossings;
- Preparing recommendations to enhance safety at specific crossings;
- Developing Commission policies to enhance safety of all crossings in the State;
- Participating in state and national committees that recommend rule changes to improve crossing safety;
- Analyzing new crossing safety technology;
- Reviewing and processing applications for Commission authority to construct new, or to alter existing, crossings;
- Reviewing and responding to public complaints (rough or unsafe crossings, noise issues, *etc.*);
- Assisting Caltrans to administer Section 130¹ federal funds intended for eliminating hazards at existing public crossings;
- Administering the State's Grade-Separation Fund program²;
- Administering the State's Automatic Railroad Crossing Warning Device Maintenance Fund program³;
- Administering and maintaining the Commission's crossing inventory database;
- Performing field reviews of crossings to update crossing inventory database;

¹ See United States Code Title 23 - Section 130

² See California Streets & Highways Code §190.

³ See California Public Utilities Code §§1231.1 *et seq.*

- Administering and maintaining the Commission’s crossing accident database;
- Investigating train-involved collisions at crossings; and
- Reviewing environmental impact documents for effects on the safety of crossings in or near the project area.

RCES workload has increased significantly in the past several years due to a rise in light rail transit,⁴ heavy rail passenger, and freight rail service in California, as well as recent changes in federal rules regarding the establishment of Quiet Zones.⁵ In addition, recent crossing accidents have increased awareness regarding the need to improve crossing safety among both the public and elected officials--from local, state, and federal levels. The California Assembly formed the Special Committee on Rail Safety, Chaired by Senator Frommer, in response to the Glendale accident, cited below. This and other accidents have also prompted the formation of committees and task forces to examine crossing and other rail safety issues. Examples are the Blue Ribbon Panel on Rail Crossing Safety in Kern County formed by Senator Florez and the Merced Railroad Crossings Task Force, co-chaired by Assemblywoman Matthews which was formed to deal with identified crossing issues in the City of Merced.

Additionally, the Railroad Safety Action Plan requires RCES to:

- Investigate rail-related fatalities and significant accidents, and apply the lessons learned to rail crossing diagnostic reviews, to rail corridor safety enhancements, and to operational safety enhancements that advance the cause of rail safety;
- Issue public reports regarding the root causes and significant contributing factors of all accidents investigated;
- Identify new construction projects that adversely impact rail safety, and then initiate informational and other actions to ensure that rail safety is addressed before the project is built; and
- Collect and analyze “near miss data”⁶ relative to rail crossings and along the rail right of way.

⁴ Light rail transit is a mode of metropolitan transportation that employs light rail transit vehicles (commonly known as light rail vehicles, streetcars, or trolleys) that operate on rails in streets in mixed traffic, in semi-exclusive rights-of-way, or in exclusive rights-of-way, such as the Blue and Gold lines operated by Los Angeles County MTA. Heavy rail passenger service is a mode of transportation that employs heavy rail trains, such as Amtrak trains.

⁵ On June 24, 2005 the FRA adopted new rules titled *Use of Locomotive Horns at Highway-Rail Grade Crossings*. These rules require the sounding of on-board train horns as trains approach at-grade crossings, and also includes provisions for local governments to establish Quiet Zones, which are areas where trains are not required to sound their on-board horn.

⁶ “Near miss data” refers to reports submitted by train crews of situations that could have very easily resulted in an accident—nearly missed accidents, such as a driver speeding through the crossing a split second before the train.

Crossing Inventory

The Commission currently has safety oversight responsibility for approximately 5,000 private at-grade crossings and 11,000 public crossings (of which 8,000 are at-grade). The Commission has established and maintained an electronic database that houses all of the data on railroad crossings in the State. The at-grade crossings must be routinely inspected and inventory recorded. RCES also collects data from outside agencies (train counts and speed from railroad agencies, vehicular traffic count from roadway agencies, etc) to assist in identifying crossings or types of crossing upon which to focus its engineering evaluations.

RCES was able to inspect 1,000 crossings (less than ¼ of the required number) in 2004. About five crossings per day can be fully inventoried. With the current 5-year interval, approximately 2600 inventory inspections are required annually.

Policy Reviews

RCES is working on revisions to policies that enable the Commission to better serve the public, other government agencies, and the industries it regulates. These include revision to Commission General Orders (GO), revisions to Commission procedures, and other related tasks. Staff is researching the policies of other state and federal regulatory agencies, guidelines published by both governmental and non-governmental entities, and other relevant information as part of its initial review. During 2006, RCES revised and updated GO75-D through consensus process that involved all stakeholders.

Also during 2006, the Rail Transit Safety Section undertook a revision and update of its GO 164-D. RCES participated and took the lead in revising Section 10 of that GO, pertaining to transit crossings, to address concerns of Light Rail agencies that the Commission process was costly, onerous and negatively affected their ability to bring transit extensions on-line. As time and staffing permit, RCES will be undertaking updates to other General Orders, such as 26-D and 72-B.

Environmental

RCES is increasingly dealing with crossing applications resulting from development and growth in and around rail lines throughout California. In some communities, such as Bakersfield (Kern County) and the Central San Joaquin Valley, growth and development is particularly acute, as rural areas become urbanized. In order to accommodate growth and development while protecting public safety, RCES will continue to review all environmental documents submitted to the State Clearinghouse that may result in impacts to rail crossings and work with local authorities and developers to ensure that rail crossing impacts are considered early in the process. RCES will also continue to meet with officials of local planning agencies to educate them about the impacts of growth near the rail lines in order to ensure that local planning agencies account for development around rail lines and safety impacts to rail crossings.

RCES outreach efforts also include sponsoring and participating in grade crossing educational programs and/or conferences to educate local agencies about crossing safety, developing and maintaining web pages to provide public agencies links to reference documents and other relevant information, and participating in safety education programs such as Operation Lifesaver. This activity is very labor intensive and is believed to be one of the most beneficial to ultimately result in safer crossings. RCES intends to devote additional resources to these efforts in the coming year.

Accident Investigations

RCES needs to be proactively involved in preventing accidents at crossings. 135 crossing incidents (which resulted in 30 fatalities and 29 injuries) were reported to the Commission in 2006. Review of accidents helps engineers determine their root cause, and lessons learned from these investigations can then be used to develop policy changes to address common problems, prompt investigation into new technologies, or further develop expertise to mitigate site-specific hazards. RCES also maintains a crossings accident database, which can be used to identify trends for recurring problems. A number of different primary causes exist, some of which may warrant no further investigation (Suicides, crossing violations during police chases, auto accidents fouling the tracks that are subsequently struck, *etc.*) and where no engineering fix would have prevented the incident. However, other incidents should be investigated to determine whether any modifications are appropriate. Staff will continue to investigate incidents as necessary and follow through to require any modifications necessary

Quiet Zones

The FRA Train Horn Rule became effective on June 24, 2005. The rule allows local government agencies to designate crossings meeting certain criteria as Quiet Zones, where train locomotives are not required to sound their horns on approach to a crossing. RCES reviews notices of establishment or continuation of Quiet Zones, and provides written comments to local authorities within 60 days. In the 18 months since the new federal rules were adopted, RCES has received 23 notices to establish or continue existing Quiet Zones, which involve 133 crossings. RCES will continue to work cooperatively with local governmental efforts to establish safe and effective Quiet Zones.

Database Management

RCES administers the crossing inventory and accident reports databases, as well as a database that tracks formal filings, informal complaints, GO88 crossing modification requests, and special projects. Staff is currently working to develop a feasibility study report leading to a Budget Change Proposal to develop and acquire upgraded database capability.

Grade-Separation Fund Program

RCES administers the State's Grade-Separation Fund Program, which provides funds to grade-separate existing at-grade crossings. Any at-grade crossing, no matter how well it is designed, has the probability of having an accident. Therefore, the safest at-grade crossing is one that is not there (either grade-separated or eliminated). The Commission establishes a prioritized listing of crossings most in need of grade separation.

In the 2006 proceeding, the CPUC was requested to consider modifications to the evaluation formula by State Assembly member Barbara Matthews. Staff is currently conducting that process and will continue in that process in advance of the proceeding to be opened in July of 2007.

New Rail-Transit Systems

RCES is responsible for the safety of all new crossings added by the construction of new rail-transit systems and extensions. New transit systems proposed in California include the Los Angeles County Metropolitan Transportation Authority's new Exposition Line through the west side of Los Angeles, the Third Street extension in San Francisco, Santa Clara Valley Transportation Authority's Capitol Expressway extension, and Sacramento Regional Transit District's South Line Phase II extension. These new lines will add approximately 300 new crossings (which is roughly a 30 percent increase to the existing number of light rail crossings).

FRA Inventory Updates

The FRA has asked states to help maintain its highway-rail crossing inventory database. Currently, railroad agencies report changes to highway-rail crossings to the FRA directly. The Commission is considering procedures where the railroad agencies report changes to RCES. RCES staff would investigate the accuracy of the report (which typically would involve a site visit), and then make changes to the RCES and the FRA databases. Thereby, RCES will be taking additional responsibilities for maintaining the federal database, but this process would also help ensure the accuracy of the RCES database. Additional work will be created to process reports to the FRA. Further, federal legislation now pending before Congress may require the states to update highway-rail crossing inventory every three years.

Crossing Closure Program / Sealed Corridors

Last year, the U.S. Department of Transportation published the *Secretary's Action Plan for Highway-Rail Crossing Safety and Trespasser Prevention*, which reaffirms the federal government's goal of closing 25 percent of all crossings. Staff must identify crossings which are good candidates for closure, then take necessary action to get them closed. Generally, local roadway agencies object to eliminating their roadways at the crossings, due to potential negative impacts on traffic circulation in their community and railroad companies object to eliminating their tracks if they have customers served by those

tracks. However, closing crossings saves both money and lives. Alternatives to closing crossings include the “sealed corridor” approach that couples crossing closures with other treatments to reduce interactions between vehicles and pedestrians and trains. In 2007, Metrolink Antelope Valley line and Ventura County line will be evaluated through a sealed corridor approach.

Publication of Exempt Crossings List

California Vehicle Code § 22452 *et seq.* requires certain class of vehicles to stop at all at-grade crossings prior to traversing them. However, there are provisions to declare a crossing exempt from this requirement. Commission GO 145 describes the process for exempting crossings from the Vehicle Code requirements described above. GO 145 states “A list of ‘Exempt’ crossings will be established and a copy of the list will be served by mail upon each public agency” and continues to list other agencies that should receive a copy of the “Exempt” crossing list. RCES has not met this requirement of GO 145 due to staffing shortages.

Rail Crossings Engineering Section Fiscal Year 05-06 Statistics

Type	Carry-over	Opened FY	Closed FY	Pending 7/01/06
Crossing Applications	18	25	24	19
GO 88-B Requests	9	52	56	5
Complaints	12	24	30	6

Rail Transit Safety

The CPUC has regulatory authority over all rail transit agencies in the state and works in cooperation with the Federal Transit Administration (FTA) and the rail transit agencies in order to enhance public safety. Staff resources are strategically focused on verification of the systematic application of safety and security measures built into each system’s safety and security plan and ensuring that all state and federal rules and regulation requirements are met. The Commission’s Rail Transit Safety Section currently has 11 engineers to conduct the state safety oversight program. Additional staff includes one program manager and one program and project supervisor.

Resources are also dedicated to ensuring all rail transit system extensions and new construction projects comply with safety certification. Each rail transit system is audited at a minimum interval of once every three years. This goal is accomplished through the comprehensive triennial audit of all systems operating within the state on a rotating basis.

Since its last report to the Legislature, Commission staff has focused on:

- The safety and security, design, construction, maintenance, and operation of Public Transit Guideway Systems;
- Comprehensive Triennial System Safety and Security Audits of rail transit agencies;
- Verification of Safety Certification of rail transit projects and extensions;
- Participation in Internal Safety and Security Audits;
- Oversight, review, and approve rail transit agency accident investigations and accident investigation reports;
- Filed formal comments in Federal Rulemaking on State Safety Oversight Functions;
- Initial Submission of California State Safety Oversight Plan to FTA in accordance with Title 49 Code of Federal Regulations Part 659 (49 C.F.R. Part 659);
- Drafted revision to General Order 164-C (GO 164-D) and filed OIR, Rulemaking 06-20-004;
- Drafted revision to Rail Transit Safety Section Procedures Manual in accordance with draft General Order 164-D;
- Completed and filed Annual Report with FTA;
- Assisted State Assembly on AB 1010;
- Participated in Government Accountability Audit (GAO);
- Participated in FTA Workshops;
- Participated in Transportation Security Administration (TSA) Workshop;
- Participation in proposed Irvine Great Park-Spectrum Guideway Project;
- Participation in California Operation Lifesaver program;
- Participation in Regional Transportation Improvement Program (SCAG); and
- Participation in Taylor Street Task Force, San Diego Old Town Transit Center.

There are ten rail transit agencies, with one more, North County Transit District Sprinter, scheduled to open for revenue service in the fourth quarter of 2007, regulated by Commission staff. Those agencies include:

- Bay Area Rapid Transit District (BART);
- San Francisco Municipal Railway (MUNI);
- Los Angeles Metropolitan Transportation Authority (LACMTA);
- Sacramento Regional Transit District (SRTD);
- San Diego Trolley Inc (SDTI);
- Santa Clara Valley Transit Authority (VTA);
- San Francisco Airport Peoplemover (Air Tran), connection to BART;
- Angles Flight Railway Company, funicular system in Los Angeles (closed February 2001 due to accident);
- San Pedro Red Cars (POLA); and
- Los Angeles Farmer's Market Trolley.

Comprehensive Triennial Audits

Staff conducted two comprehensive triennial audits during fiscal year 2005-06:

- San Francisco Municipal Transportation Authority (MUNI), Commission Resolution ST-82
- San Diego Trolley, Inc. (SDTI), Commission Resolution ST-84

Safety Certification

Staff verified safety certification of new projects and extensions. Additionally, those projects funded by FTA require staff cooperation with FTA staff to ensure compliance with federal mandates. Projects undergoing staff verification of safety certification included:

- Santa Clara Valley Transit Authority (VTA) Vasona Line;
- Santa Clara Valley Transit Authority (VTA) Silicon Valley Rapid Transit (SVRT) project (BART to San Jose);
- Santa Clara Valley Transit Authority (VTA) Capitol Express way extension (from Alum Rock to Eastridge Mall);

- San Diego Trolley Inc (SDTI): Siemens S70 Low Floor Light Rail Vehicle Procurement;
- Los Angeles Metropolitan Transportation Authority Expo Line;
- Los Angeles Metropolitan Transportation Authority East Side Extension;
- San Francisco Municipal Railway (MUNI) Third Street Extension, scheduled opening January 13, 2007;
- San Francisco Municipal Railway (MUNI) Central Subway;
- Sacramento Regional Transit District (SRTD) South Line Phase 2;
- Sacramento Regional Transit District (SRTD) Amtrak Extension of Folsom Line, anticipated opening December 2006;
- San Diego Trolley (SDTI) Mission Valley East extension opened for revenue service in July 2005;
- Sacramento Regional Transit District (SRTD) Folsom Line opened for revenue service in October 2005;
- North County Transit District (NCTD) Sprinter, scheduled opening December 2006;
- Staff inspected four new transit vehicle models to verify compliance with General Order 143 and participated in commission testing of these vehicles; and
- Staff oversight included Inspection of four new automatic train control systems.

Internal Safety Audits

Rail transit agencies are required to conduct on-going internal safety and security audits and reviews. Staff participated in the following internal safety audits during the past fiscal year:

- Sacramento Regional Transit District (SRTD);
- San Francisco Municipal Railway (MUNI);
- San Diego Trolley, Inc. (SDTI);
- Bay Area Rapid Transit District (BART);
- Los Angeles Metropolitan Transportation Authority (LACMTA); and

- Santa Clara Valley Transit Authority (VTA).

Accident Investigations

Staff participated in accident investigations off 44 rail transit accidents in 2006. This is a slight reduction in the accident rate of 2005, from 48 rail transit accidents in 2005 to 44 in 2006. However, fatalities increased from 12 in 2005 to 13 in 2006.

Three of the 13 fatalities occurred in the period of December 2005 to April 2006, with the first two occurring one week apart in December, at the Taylor Street grade crossing located at the Old Town Transit Station in San Diego County. This crossing is located in a shared corridor with San Diego Trolley, Inc. and Burlington Northern Santa Fe Railroad, North County Transit District Coaster, Amtrak and San Diego Imperial Valley Railroad.

Staff participated in a task force that was organized with members from all railroads and transit agencies operating in this shared corridor, CPUC, FRA, Caltrans, and Operation Lifesaver, and local law enforcement representatives to study and make recommendations to enhance public safety at this at-grade crossing and intermodal transfer station.

Complaints

Commission staff resolved eleven informal complaints, closing out the fiscal year with no open informal complaints. There were no formal complaints relating to rail transit safety filed with the Commission during this fiscal year.

Revision to General Orders

With the FTA's adoption of its final rule, 49 C.F.R. Part 659, staff participated in workshop hosted by FTA to facilitate implementation of additional state safety oversight requirements.

Staff filed its initial submission of its State Safety Oversight Program Plan with the FTA, drafted revision to GO 164-C, and Rail Transit Safety Section Procedures to be compliant with the final rule.

A formal workshop was conducted by staff to foster cooperation between CPUC and rail transit agencies in the revision of GO 164-C. Ultimately, staff filed an Order Instituting Rulemaking, Rulemaking 06-20-004, seeking the Commission's decision on the revisions to GO 164-C due to unresolved conflicts between staff and the rail transit agencies in the proposed draft revision.

RTSS Procedures that outline the work processes of staff to fulfill the CFR mandates were revised and remain in draft form, pending resolution of revision to GO 164-C.

Government Office of Accountability Audit of FTA

Staff participated in the audit conducted at the request of Congress by the Government Accountability Office (GAO) regarding the FTA's effectiveness in leading the state safety oversight program of rail fixed guideway systems.

Subsequently, staff presented testimony at the United States House of Representatives, Highways, Transit, and Pipelines Subcommittee, in response to the GAO audit report of Transit Safety: the Federal Transit Administration's State Safety Oversight Program.

Rail Transit Security

A partnership has been forged with the Transportation Safety Administration (TSA) to solidify Commission responsibility as mandated by 49 C.F.R. Part 659 to ensure that rail transit agencies have developed integral system security plans. This partnership is the first step in shoring up compliance with the National Infrastructure Protection Plan (NIPP), as required by the Department of Homeland Security.

Workshops, facilitated by the FTA, were conducted with staff and TSA to develop a work plan for implementation of a joint partnership that seeks to fulfill Commission responsibility in rail transit security matters, as well as Presidential Directives 7 and 8, and begin laying the foundation for the critical infrastructure security of the state transit agencies. Staff will continue these efforts in 2007.

The CPUC oversees safety and security of seven major rail transit agencies in California. The Rail Transit Section will continue through strategic planning to conduct state safety oversight of all rail transit agencies within the state to enhance public safety and comply with state and federal mandates. 2006-2007 will focus on:

- Solidifying strategic planning and development of valuable performance measurements to expand public safety in relations to rail transit operations
- Formalizing revision to GO 164-C in GO 164-D in order to establish compliance with 49 C.F.R. Part 659;
- Adopt revised procedures to fulfill the 49 C.F.R. Part 659 mandate to develop state safety oversight system safety plan;
- Conduct four comprehensive triennial audits to ensure compliance with requirements of 49 C.F.R. Part 659, GO 164, and each agencies own System Safety Program Plan and System Security Plan of the following rail transit agencies:
 - LACMTA
 - POLA
 - SCVTA
 - AirTrain;

- Ensure that all staff recommendations resultant of triennial audits are addressed by rail transit agencies with corrective action plans and that those corrective action plans are implemented;
- Continue participation in each rail transit agency's internal safety audit;
- Continuation of the safety certification process of new rail transit construction and extensions of existing rail transit agencies;
- Improve accident investigation procedures;
- Thorough oversight of accident investigations conducted by rail transit agencies on behalf of CPUC and verification that all contributing factors to the accidents are comprehensively addressed with corrective action plans and that those plans are implemented;
- Staff investigation and resolution of all safety related complaints;
- Expand CPUC's commitment to the Operation Lifesaver Program on a statewide basis to assist local cities, schools, law enforcement, and fire departments in creating a safer environment around rail transit properties;
- Continued random safety inspections of rail transit agencies to ascertain compliance with mandates, rules, and regulations, as well as their individually developed system safety program plans, system security plans, and rules and operating practices;
- Further partnerships with federal agencies:
 - FTA
 - TSA
 - DHS; and
- On-going review and revision of Commission general orders applicable to rail transit safety. Review will specifically target GO 143-B and GO 95.

Enforcement of Household Goods and Passenger Carrier Laws

Many passenger carriers and household goods carriers (movers) operate outside the law by conducting business without a license or by violating the Commission's rules and regulations. The Commission has successfully taken enforcement action against household goods carriers and passenger carriers that have violated the law or Commission rules and regulations, such as operating without a license or insurance, overcharging customers, or advertising illegally. These included criminal and administrative actions, and civil action, such as temporary restraining orders and disconnection of telephone service. Among the most egregious cases were:

- Fan Ding dba Lucky Moving;

- Isaac Nagar and Globe Van Lines of California Inc.;
- Eli Galam and Mr. Move Moving & Storage Inc.;
- Grand Relocation Network, Inc.;
- LA Transport Moving;
- Wine and Roses Limousines;
- Thomas Wetzel dba Exotic Limousine;
- Hollywoodland Tours; and
- Hollywood Fantasy Tour.

In 2006, staff succeeded in improving visibility with major stakeholders. Working in conjunction with airport operation's staff, the California Highway Patrol, police and sheriff departments, the U. S. Forest Service, and other organizations, Staff conducted thirteen surprise carrier inspections. These successful inspections netted numerous illegal operators as well as licensed carriers that were in violation of CPUC regulations. Staff will continue these operations in 2007, expanding the scope of our outreach to county district attorneys, city attorneys and other agencies to provide additional protection to the California consumer.

Staff also implemented new field citation programs and a streamlined citation appeals process in 2006. These new processes nearly doubled the number of administrative citations issued in prior years. Staff will continue to examine enforcement procedures to see if there are any feasible methods to streamline other types of enforcement actions.

Staff will continue its efforts to ensure that household goods and passenger carriers operation in conformance with consumer protection and safety requirements and compete fairly in the marketplace. Staff will act to see that movers operate with a valid license issued by the Commission, maintain all the required insurances, and comply with the Commission's consumer protection rules. It will endeavor to ensure that passenger carriers provide the traveling public with safe and reliable service, and operate in conformance with the law.

Transportation Informal Complaints – 2006

	Passenger Carriers	Household Goods
Open complaints as of 01/01/06	128	374
Complaints opened during 2006	73	248
Complaints closed during 2006	34	72
Pending complaints as of 12/31/06	167	550

Transportation Investigations – 2006

	Total	HHG	PSG	VES	AIR
Open Cases as of 01/01/06	473	224	249	0	0
New Cases Opened	259	85	174	0	0
Cases Closed	274	114	160	0	0
Cases Open as of 12/31/06	458	195	263		
Fine payments received	\$131,393	\$56,185	\$75,208		

Transportation Enforcement Actions – 2006

Citation Forfeiture/ Field Citations	Criminal Civil Actions	Cease & Desist Letters	Overcharge Letters	Telephone Disconnects	TRO	Official Notice
50	4	101	19	2	1	12

Transportation Licensing

CPSD's License Section assists transportation carriers and members of the public by efficiently carrying out the Commission's responsibilities for licensing and registration of passenger and household goods carriers. In 2006, Staff successfully continued its efforts to update and improve its Transportation Management Information System (TMIS), the electronic database and automated system for the issuance, suspension and revocation of operating authorities. As a result, carriers and members of the public may now view numerical and alphabetical listings of all carriers, as well as each carrier's authority status and insurance information, on the Commission's web site. Staff has also significantly improved the information and individual forms available to customers, and has placed these documents on the web site for carriers and applicants to view and download. A call

routing system has been installed in the License Section in order to improve efficiency and service to our customers.

The License Section continues work to develop electronic filing of insurance certificates, cancellations and renewals and anticipates implementing electronic filing of insurance during 2007.

Passenger and Household Goods Authority Issued - 2006

	Passenger Carriers	Household Goods
Pending Applications at beginning of 2006	167	212
Applications Received during 2006	1,698	147
Applications Issued or Denied during 2006	1,318	312
Pending Applications at end of 2006	547	47

Operating Authority Actions Taken - 2006

	Passenger Carriers	Household Goods
Authorities Suspended	2,292	352
Authorities Revoked	860	99
Authorities Reinstated from Suspension	2,862	453

Carrier Registrations Completed - 2006

Private Carriers	1,902
Commercial Air Operators	171
For-hire Vessels	260
FMCSA*, based in CA	393
FMCSA*, based out of CA	3,788

*Federal Motor Carrier Safety Administration, successor to the ICC (Interstate Commerce Commission)

Prosecuting Telecommunications and Energy Utilities

Building on our successes last year, in 2006, the Commission successfully pursued telecommunications carriers for slamming, cramming, and California Environmental Quality Act violations.

- The Commission adopted a settlement agreement between the Commission and MCI that would impose a \$2.3 million fine on MCI and require it to issue Minimum Usage Fee credits to affected customers (Decision 06-04-035);

- Pursuant to Decision 06-10-027, Qwest Communications Corporation paid the Commission \$150,000 for CEQA violations and contributed \$30,000 to various Native American organizations to promote Native American sites, archaeology and history within California; and
- In 2006, as part of the Commission's CPI, the Commission established a Telecommunications Fraud Unit that is responsible for investigations and prosecutions of telecommunications fraud. In addition, the Commission established a toll-free Fraud Hotline that will enable consumers to report telecommunications fraud complaints directly to Commission enforcement analysts. In resolution UEB-001, the Commission adopted a slamming citation program that provides for a \$1,000 fine for each violation of the third-party verification requirements in the Public Utilities Code 2889.5.

The Commission is currently investigating:

- 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; and
- Southern California Edison Company and its administration of certain Performance Based Ratemaking programs.

In the coming year, the Commission will be pursuing a number of initiatives designed to streamline its enforcement activities and build on collaborative enforcement with other law enforcement agencies, both important components of the CPI.

Energy Utility Safety and Reliability

The CPUC is implementing General Order 167, the rules by which the Commission monitors and enforces operation and maintenance standards to help ensure reliable electric generation for California. The Commission developed the standards in cooperation with the California Independent Systems Operator. In 2006, the Commission issued a final report concluding its audit of the Huntington Beach Power Plant, the first audit conducted under GO 167. The Commission staff resolved all issues in the audits of the El Segundo and Potrero plants, and will issue final reports in 2007. Four other audits are in progress. Two additional audits will begin in 2007. Commission staff continues to inspect the bulk of power plant outages greater than 50 mw.

The Utility Safety and Reliability (USRB) branch also prepares special reports. During the spring of 2006, the USRB tested and prepared a procedure for collecting and reporting data on power plants during electrical emergencies. The USRB used that procedure to issue reports on power plant outages during the summer's heat storm. The USRB began informal investigation of the performance of a number of power plants

during the heat storm, requesting data from generators and the state's Independent System Operator. The USRB will complete these investigations in 2007.

The branch monitors changes in power plant status as well as transfers of power plant ownership. In particular, when power plants propose retirement, the branch contacts Energy Division, and if necessary, utilities, to determine whether retirement will adversely affect power plant reliability.

Finally, the branch analyzes power plant availability data, which power plants must submit under the General Order. The branch monitors submission of that data to the North American Electric Reliability Corporation (NERC), and analyzes the data to find trends and potential problems in power plant operation, and in cooperation with Energy Division, to determine the reliability of new power plants. The Branch will expand its use of the data during 2007.

Gas Safety and Reliability

811 One-Call

Anyone planning to excavate is required to call an 800 number to alert utilities with underground facilities in the area of the excavation. The utilities then mark their facilities so they can be avoided. Utilities Safety staff worked with staff from the Commission's Telecommunications Divisions and the California Regional Common Ground Alliance to put the 811-One-call Number in service by April 2007. Staff expects that the general public, as well as contractors, will find it easier to remember the 811 number and will therefore be more likely to call before performing excavation on public or private property. Since failure to notify subsurface utility operators before excavating is a primary cause of damage, the 811 One-Call number will help reduce the number of such incidents and associated injuries.

Pipeline Integrity Audits

The USRB has been implementing the latest initiative to improve the safety of aging infrastructure with Transmission Pipeline Integrity Audits. These are audits of safety related maintenance and operations activities, in High Consequence Areas (HCAs). As the name implies, these are areas where factors such as a high population density and large diameter high pressure pipelines combine to create a high level of consequences from any pipeline failure. USRB expects to extend the Transmission Pipeline Integrity program to gas distribution operators in the coming year due to federal adoption of the Distribution Integrity Management Program (DIMP). The USRB has already begun to analyze the DIMP Rule and has begun evaluating necessary measures for it to enforce the anticipated rule changes.

Public Awareness

Pipeline operators were required to create and implement Public Awareness Programs (PAPs) beginning in year 2006 to educate the general public, first responders, and other public officials, located near areas traversed by gas pipelines, of the risks and benefits of these facilities, their general location, and to provide contacts within the utilities that can

answer questions and provide additional information. In late 2006, gas transmission and distribution operators began submitting their PAPs to a federal clearinghouse for its review. In 2007, the USRB will begin receiving and analyzing the results of these reviews, and will then take necessary actions to have operators address any deficiencies noted.

Electric and Telecommunications Safety and Reliability

Wireless Antenna Settlement

In 2006, CPSD signed a settlement agreement that adopts construction standards for attaching wireless antennas to jointly-used electric utility poles and towers. This settlement agreement was supported by all parties in the proceeding addressing these safety standards. A decision that would approve this settlement agreement currently is pending before the Commission.

Substation Inspection Program

On December 20, 2003, a fire in Pacific Gas and Electric Company's Mission Substation caused an outage to more than 100,000 customers throughout San Francisco. In 2006, USRB initiated the development of a Substation Inspection Program to prevent similar incidents from occurring. As part of its effort, USRB staff attended training courses on the maintenance and operation of substations and met with electric utilities that own and operate substations to review their substation maintenance programs. In 2007, USRB plans to draft proposed rules for its Substation Inspection Program with rulemaking proceedings to follow.

Heat Storm

For two weeks in July 2006, much of California experienced a heat storm. Temperatures reached record highs throughout many parts of the state and persisted through the night. This not only caused an increase in electric air conditioning load, but the sustained evening temperatures did not give distribution transformers time to cool down. The lack of cooling and high demand caused them to fail at unprecedented rates throughout the state. Although the grid performed well and managed to meet the load, customers still experienced outages, and loss of air conditioning, due to failure of their individual transformers. USRB in cooperation with the Energy Division investigated the causes of the failures and is preparing a report with recommendations for changes in utility design and operating practices to minimize transformer failures in future heat storms.

Electric Safety

In 2006, USRB implemented a new safety oversight program for electric utilities. Previously, the Branch had conducted joint field inspections of electric, telephone, and cable TV facilities. The new approach consists of quality audits of electric utilities' own compliance and inspection programs. In 2007, USRB plans to extend this audit program to telephone and cable TV utilities.

Caltrain Electrification

Caltrain is a commuter railroad that serves the San Francisco peninsula. To reduce operating costs it plans to convert from diesel locomotives to electric. It will use an overhead contact conductor energized at 25 thousand volts. This is a higher voltage than previously used by railroads in California and the Commission's General Order 95 does not have applicable safety construction standards. USBR worked with an industry group to draft a new general order for 25 kV electric railroads. It is currently before the Commission for adoption.

CONSUMER SERVICES AND INFORMATION (CSID)

Consumer Protection Initiative Implementation Activities

In March 2006, the Commission issued its landmark Telecommunications Consumer Protections Initiative (CPI), which commits the Commission to improve consumers' awareness of their rights in the telecommunications marketplace and provide protections and enforcement against telecommunications fraud. The decision ordered an initial phase of consumer education using existing Commission, utility and consumer group resources, and an ongoing phase that would provide education and outreach on a larger scale. The decision also ordered improvements in fraud protections, and enhancements to providing



assistance and protection services for consumers who communicate solely or are more confident expressing themselves in languages other than English.

CSID was given responsibility for the implementation of a majority of the initiatives required by the Decision. CSID's CPI-driven accomplishments for 2006 and additional CPI driven goals for 2007 are as follows:

Education and Outreach

CSID launched its initial education program within 90 days of the date of the CPI Decision. This effort, led by the Public Advisor's Office, resulted in the following:

- A new website for consumer information: www.calphoneinfo.com
- Four brochures, produced by a committee consisting of Commission staff, consumer groups and utilities, on slamming and cramming, tips about wireless service, general information and how to understand a telephone bill. The Commission printed these brochures in three languages - English, Spanish and Chinese - and made the text available on its new website in Korean, Vietnamese, Thai, Russian, Tagalog, Farsi, Arabic, Hmong, Khmer, and Armenian.
- A media campaign which included a PSA that aired on cable TV, and promotion of the new website and the Commission's Fraud Hotline through news releases, bill notices and text messaging.

In 2007, the Public Advisor's office will implement a Long Term Education and Outreach Program, building upon and expanding the existing program. Two contracts that provide for expanded outreach and media work will take effect in 2007. The Public Advisor's office will manage the contract for expanded outreach and the Press Office will manage the contract for expanded media. In addition, a second version of the brochures, greatly simplified to appeal to consumers with low literacy skills, will be made available initially in English, Spanish and Chinese, and eventually in other languages. Additional

brochures on other telecommunications issues are in the works and will be made available in both medium and low literacy versions, as well as in multiple languages.

In-Language Report and Order Instituting Rulemaking

Based on the issuance of our Staff Report entitled “Challenges Facing Consumers with Limited English Skills in the Rapidly Changing Telecommunications Marketplace” the Commission issued a formal rulemaking on January 11, 2007 (R.07-01-021). This rulemaking will determine if the Commission should require specific protections for telecommunications consumers with limited English proficiency. We expect to complete this rulemaking in the summer of 2007.

Consumer Affairs Branch (CAB)

The CPI required the implementation of a new, integrated database system for CAB that will increase effectiveness and efficiency in processing and resolving complaints. CAB and CSID management spent the latter half of 2006 assessing advanced technology that will assist in increasing operational efficiency and improve the quality of service for any consumer that contacts CAB. Specific criterion for such a database system was developed by an outside consulting firm and resulted in a contract with a vendor for a new system with a proposed completion in late 2007.

In 2007, CAB will work with the vendor to implement the new system, as well as train all of the CAB representatives on the use of the new system. The new system will make CAB’s consumer complaint data more consistent and reliable and will interface with other databases within the Commission. The new system will also help facilitate management and staff decision- making processes by allowing reports that can quickly analyze situations and use methodologies to understand the scope of the regulatory issue.

New system features:

- Provide case tracking reports to reduce backlog numbers;
- Generate automatic electronic responses from utilities;
- Enable automatic assignment of cases from consumers;
- Provide online procedure/policy manual for quick access for CAB staff;
- Ensure relational data to be shared by commission staff;
- Allow electronic view of entire file for consumer dispute;
- Generate automated alerts (process informal complaints in timely manner);
- Centralize representatives’ workstations enabling reps to generate notice, obtain information, fax or email from workstation;

- Provide electronic access to consumers that want to check the status of his/her complaint;
- Ensure that date elements and codes comply with state and federal regulations; and
- Run reports that track trend and or utility patterns data.

Community Utility Bill Information Fairs

The concept of Community Utility Bill Information Fairs (Bill Information Fairs) was derived from input from In-Language workshops held as a result of the CPI, where both limited-English proficiency (LEP) and other communities indicated that, beyond the language barriers, there can also be distrust by consumers of calling the CPUC or the utility themselves. As noted in Section 13.3 of the CPI, it is imperative that we “focus... more on orienting those customers who are non-English or low-English proficiency speaking, seniors, disabled, or low-income. We anticipate that we will work closely with CBOs through our efforts to educate these targeted communities.” Bill Information Fairs provide a neutral forum for consumers to discuss billing issues with CPUC and utility representatives in a comfortable, non-threatening atmosphere. Low-income consumers are also provided an opportunity to enroll in programs for low-income utility consumers such as the energy CARE program or Universal Lifeline Telephone Service. Language interpretation is provided so consumers can communicate in their preferred language. Participation in these activities is completely voluntary on the part of utility companies; however, participation is high as the utilities recognize the positive benefits resulting from these Forums.

The Commission held its first Community Utility Bill Information Fair in Fresno in October 2006 which included representatives from PG&E, AT&T, Sprint, Verizon Wireless, T-Mobile, Cingular and Cricket. The Bill Forum was co-sponsored by several CBOs from the Fresno area, including the Hmong Newcomers Center and Latino Issues Forum. Language interpretation was available in Spanish, Chinese, Hmong and Cambodian. The Bill Forum was well received by the targeted communities.

CSID/Public Advisor’s office has formed a joint committee with the energy and telecommunications industries to continue holding the Bill Information Fairs in various parts of the state in 2007. There are currently eight Bill Forums planned for 2007. The first will be held in Oakland/San Leandro area in early March 2007, followed by Southern California and San Diego.

Public Advisor’s Office

During 2006, the CPUC’s Public Advisor’s office greatly expanded its scope; embarking upon a series of statewide Small Business Expos, significantly increasing the output of the Bilingual program, and leading a number of telecommunications related education and outreach programs required under the CPI, as discussed above. Traditional Public Advisor activities such as reaching out to consumers and assisting them in participating

in Commission processes and proceedings, general outreach and education across all regulated industries; responding to consumer questions; organization and presentation of numerous workshops conferences and hearings; and outreach to local government have also increased, as have the number of events and activities the Public Advisor has coordinated in cooperation with major public non-profit organizations such as Latino Issues Forum, Communities for Telecommunications Rights, and Asian Pacific American Legal Center. These events include coordinating in-language workshops statewide on the CPI and coordinating a community bill forum in Fresno.

In the general rate proceedings and other proceedings for energy, water, and telecommunications, the Public Advisor's Office worked with various consumer-based organizations in contacting all classes of customers about the scheduled public participation hearings which provides consumers an opportunity to tell the Commission their views about a particular proceeding. Customers were also informed of hearings through customer bill insert notifications, notices in the Commission's Daily Calendar, and various other CPUC advisories. Hearings were held throughout California at locations in the affected areas. In 2007, the Public Advisor's Office will continue to work with and expand their outreach efforts with community-based organizations and local Legislative Offices to increase the knowledge to their constituents on the critical need for consumer participation at Commission sponsored public hearings. The Public Advisor's Office will also 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.

The Public Advisor's Office also assisted with planning and conducting public participation hearings, prehearing conferences, symposiums and workshops throughout the state on key issues such as utilities applications to change rates, utilities' proposed improvements to the state's electric power grid, telephone area code changes, and Universal Public Policy Programs. Specifically, in 2006, the Public Advisor's office organized and participated in 85 such hearings/meetings/conferences throughout the state, compared to 69 such events in 2005. In addition, the Public Advisor's Office received 85,000 letters, emails and phone calls on key issues and policies, compared to 45,000 such contacts in 2005. 35,000 of the contacts were related to the solar initiative. Other hot issues were Southern California Edison's rate increases, PG&E's general rate case, which included closing several of their bill payment centers, baseline issues, issues related to the summer heat storm, area code changes, telecommunications deregulation and consumer education issues, and water proceeding issues. Summaries and counts of consumer contacts and correspondence were circulated to the Commissioners and other management on a regular basis.

Additional Outreach 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 Utility Reform Network, Disability Rights Advocates 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.

Outreach to Non-English and Limited English Speakers

In 2006, the Public Advisor's Office expanded its efforts for outreach to limited English proficient persons and communities. In addition to Spanish and Chinese, the Commission's primary information pamphlet, *The Consumer Guide*, has been translated into Vietnamese, Russian, Tagalog, and Farsi. The number of staff certified by the State Personnel Board (SPB) as fluent in a variety of languages continues to increase. In addition, the Bilingual Services Coordinator continues to ensure that key public documents and meetings are accessible in Spanish, Chinese and other languages. Key Commission reports, decisions and press releases have been translated into other languages. The number of translated documents available on the Commission website has grown. In addition, the Public Advisor's Office facilitated many public participation hearings with language interpretative services, reverse translations, and language specific material for consumer assistance. The 2006 SPB biennial language needs survey, along with in-language needs identified in the CPI, is assisting the Public Advisor in developing further goals. The Bilingual Services Coordinator is also a member of an SPB state task force to increase language accessibility in every state agency.

In 2007, bilingual services provided by the Public Advisor's will increase as the Commission continues its efforts to provide all aspects of its interaction with consumers in a multitude of languages. In addition, the Bilingual Services office will be a key participant in the implementation of the rules which will result from the In-Language OIR.

Outreach to the Small Business Community

The Commission increased its focus on outreach to the small business community by identifying effective means to provide information and get input on key issues affecting this customer segment. One result was that in 2006, the Public Advisor's Office teamed with Commissioner John Bohn and hosted eight successful statewide Small Business Expos that were held in Oakland (January 19), San Diego (February 23), Bakersfield (March 9), Sacramento (March 16), Los Angeles (April 19), Riverside (July 27), San Jose (September 14), and Anaheim (October 26). Collectively, more than 1,000 small business owners were reached.

To present successful expos, numerous utility companies, state and federal agencies, public officials' offices, the CPUC's Supplier Clearinghouse, the California Disabled Veterans Business Enterprise, statewide Chambers of Commerce, and other groups that serve the small business community partnered with the Commission to ensure that the following goals were met: (1) to connect small businesses to utilities' procurement specialists; (2) to educate small business owners on the benefits of becoming certified as a woman-/minority-/disabled-veteran-owned business; (3) to inform small business owners on the utilities' best business practices and "how to get in the door" with these

companies; (4) inform small businesses of utilities' contract opportunities; and (5) provide networking with other small business owners.

In addition, the Public Advisor's Office participated in the Government Technology Conference's first-ever "Small Business Appreciation Day" in Sacramento on May 17, small business event in Ventura, and served as sponsor of The Black Business Association's 2006 Utilities Procurement Exchange Summit in Los Angeles on November 9.

In 2007, the Public Advisor's Office and Commissioner John Bohn will hold an additional four – six Small Business Expos around the state and will continue to participate in conferences and other functions aimed at small businesses where we can continue outreach efforts. In addition, the Public Advisor's Office is creating a specific program focused on Small Businesses, which will be managed by its new Small Business Liaison. In addition to designing and implementing an outreach and education program focused solely on small businesses, the Liaison will also start publishing a newsletter directed towards those businesses.

Keeping Local Government Informed

In 2006, the Commission's Local Government electronic newsletter entered its third 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. The Public Advisor's Office will continue to publish the Local Government electronic newsletter in 2007.

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. The popular "Intervenor Compensation Program Guide" and the "Guide to Public Participation," a complete handbook for understanding Commission procedures are both 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. As a result, there was a significant increase in both the number and total amount of intervenor awards made in 2006 as compared to 2005. The number of awards increased from less than 60 awards to over 90 awards. The total amount of the awards increased from approximately \$5 million to approximately \$8 million. In 2007, the Public Advisor's Office anticipates that its increased outreach and education activities will result in increased participation by intervenors.

Consumers Affairs Branch

The Commission, through its Consumer Affairs Branch (CAB), assists consumers with their questions and complaints regarding utility billing and service. In addition, the CAB has the responsibility to process Universal Lifeline Telephone Service (ULTS) appeals for consumers. In this past fiscal year, CAB fielded over 40,000 contacts from utility customers and assisted those consumers in obtaining more than \$11.2 million in refunds from utilities. 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.

After several years of declining staff levels, CAB hired 18 permanent Customer Service Representatives in 2006 (12 of which were bilingual) 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. The new database system will increase effectiveness and efficiency in processing and resolving complaints. This system will be designed to improve the quality of service for any consumer that contacts CAB.

Provide Timely Assistance to Consumers

The CPUC's CAB assists consumers with resolution of their complaints regarding utility billing and service problems. In the latter half of 2005, CAB's staffing constraints were alleviated by the hiring of eight consumer service representatives. In 2006, CAB focused on improving the consumer complaint process in coordination with other divisions. The addition of new staff and an assessment of current operations are expected to help reduce the number of pending complaints and increase timely responses to consumers.

How Do Consumers Resolve a Complaint or Get Involved in a CPUC Proceeding?

The Consumer Affairs Branch assists consumers with their complaints, and endeavors to informally resolve disputes between customers and utilities. Customers with unresolved questions about telephone, gas, water or electric utility service or bills should contact the CPUC Consumer Affairs office at:

CPUC Consumer Affairs Branch
505 Van Ness Avenue
San Francisco, CA 94102
800-649-7570
www.cpuc.ca.gov

The Public Advisor's Office assists consumers by explaining how to file a formal complaint, how to use CPUC procedures, and how to participate in CPUC proceedings. The Public Advisor's Office also coordinates Public Participation Hearings on selected CPUC proceedings around the state, and receives, circulates within the CPUC, tabulates and responds to public comments on various proceedings.

CPUC Public Advisor
505 Van Ness Avenue, Room 2103
San Francisco, CA 94102
1-866-849-8390
public.advisor@cpuc.ca.gov

CPUC Public Advisor
320 W. 4th Street, Suite 500
Los Angeles, CA 90013
1-866-849-8391
public.advisor.la@cpuc.ca.gov

THE GUIDE TO PUBLIC PARTICIPATION explains how consumers may participate in the CPUC's formal proceedings and is available from the CPUC Public Advisor's Office, or on-line at www.cpuc.ca.gov.

Consumer Issues Analysis Branch

Issues Analysis Program

Established in late-2006 within the Consumer Service and Information Division this new program will coordinate a variety of analytical efforts based on inputs from the Consumer Affairs Branch, the Public Advisor's Office, Commission Industry Divisions, regulated utilities, other public agencies and community organizations. This is a new effort for the Commission – the ability to take direct consumer input in the form of public contacts for information and informal complaints against utilities and initiate and frame analysis to determine the magnitude and importance of issues. These analyses can be the basis for

inputs into potential Commission education programs, enforcement actions and/or policy recommendations.

For 2007, a major focus of the program will be work with other state PUCs and the FCC in national forums to determine “best practices” for capturing and utilizing consumer information to inform policy. Also, the program will continue its efforts, initiated in late-2006, to streamline the resolution of informal complaints with our Consumer Affairs Branch. We have also begun the process of designing an internal training program for the Consumer Services and Information Division that is targeted at improving relationships with consumers and streamlining public contacts.

Utility Supplier Diversity Program

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.

In October 2006, the Commission held its fourth annual full panel hearing on diversity-related matters in the utility industry. The hearing focused on diversity in the utilities’ workforce, improving diversity with respect to the utilities’ procurement of legal services, and how language access relates to customer service. As a result of this hearing, the Commission will be able to better evaluate the status of the utilities’ efforts and identify areas for further review. In 2007, the Commission will closely examine the utilities’ procurement practices in traditionally underrepresented procurement categories such as legal services and financial services.

In 2007, our program will continue working with the California Utilities Diversity Council (CUDC) to promote increasing the utilities’ procurement opportunities with women-, minority-, and disabled veteran-owned businesses in the areas of procurement, philanthropy, corporate governance, language access, and customer service and marketing. Members of the Council include recognized leaders from the business community, consumer groups, multi-language interests, education, labor organizations, and the utilities.

DIVISION OF RATEPAYER ADVOCATES

The Commission's Division of Ratepayer Advocates (DRA) represents utility ratepayers in Commission proceedings and related activities. Public Utilities Code § 309.5 both requires the Commission to provide sufficient resources for DRA to represent consumer interests in all significant proceedings, and requires that DRA seek to obtain low rates for consumers consistent with safe and reliable service. DRA advocates on the behalf of ratepayers when the Commission considers utility proposals to increase rates, adjust service quality, or undertake major projects. In addition, DRA addresses issues of importance to ratepayers in other forums, including testifying before Legislative committees, and participation in proceedings at the California Energy Commission and the California ISO.

DRA Staff

DRA currently has a staff of 133 professional engineers, auditors, economists, and financial and policy analysts who are experts in the regulation of electric, natural gas, telecommunications, and water industries. DRA's advocacy staff is supported by attorneys assigned from the Commission's Legal Division. In addition to saving consumers over \$1 billion, significant qualitative benefits resulted from DRA's efforts of the past year to improve the quality of service provided by California's investor-owned electricity, natural gas, telecommunications, and water companies this fiscal year.

Pursuing Lower Energy Rates

DRA participated in essentially all Commission proceedings for major energy utilities such as PG&E, Southern California Edison Company, SDG&E, and SoCalGas. DRA'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:

- Southern California Edison filed for a \$569 million rate increase for 2006, and further increases of \$225 million in 2007, and \$207 million for 2008 (A.04-12-014). DRA conducted an extensive analysis of Edison's request and proposed increases of \$106 million in 2006, \$67 million in 2007, and \$76 million in 2008. The Commission adopted increases \$333 million in 2006, \$143 million in 2007, and \$193 million in 2008. DRA's advocacy resulted in nearly \$900 million in savings for ratepayers over the three year period covered by this rate case.
- In December 2005, Pacific Gas and Electric Company (PG&E) filed its test year 2007 GRC requesting rate increases of \$394 million in 2007, \$143 million in 2008 and \$180 million in 2009 for its electric and gas distribution and electric generation operations. By contrast, DRA proposed increases of \$20 million in 2007, \$100 million in 2008 and \$131 million in 2009. DRA, PG&E and other parties entered into a settlement agreement which limits PG&E's rate increases to \$213 million in 2007 (or a 46 percent reduction to PG&E's request), \$125 million

annually in 2008-2010. If adopted by the Commission, DRA's efforts will save PG&E ratepayers approximately \$600 million cumulatively over the next 3 years.

- In June 2006, the Commission initiated an investigation into the practices of the Southern California Edison Company (SCE) concerning possible violations governing its performance based ratemaking mechanism. In September 2006, DRA filed its report in the matter recommending that SCE make customer refunds totaling \$134 million associated with results sharing expenses of \$94 million included in prior GRC rates, survey expenses of \$4 million and performance rewards of \$28 million granted to SCE based on manipulated and falsified data.
- PacifiCorp requested a \$12.7 million GRC rate increase for 2007, while DRA recommended a \$3.4 million increase. The parties in the case entered into a settlement which limited the rate increase to \$7.3 million and also capped the increase to residential customers at 2.5 percent above the system average or 13.3 percent. The agreement limits rate increases in 2008 and 2009 to the CPI less a 0.5 percent productivity offset. On December 14, 2006, the Commission adopted the settlement in D.06-12-011 and also rejected the Klamath irrigators request for a rate credit as proposed by DRA.
- PG&E filed A.05-12-021 for authority to increase its rates associated with a pension contribution of \$273.2 million for each of the years 2006-2009. On June 15, 2006, the Commission adopted a settlement agreement entered into by DRA, PG&E and CCUE which adopts the requested pension contribution for 2006 and a lower amount of \$176.0 million for the years 2007-2009. This resulted in ratepayer savings of approximately \$291.6 million compared to PG&E's original request.
- On August 18, 2006, the Commission issued D.06-08-024 which approved a settlement agreement among DRA, Sierra Pacific and other parties which authorized a general rate increase of \$4.1 million. This was well below Sierra Pacific's request of \$8.2 million and will save ratepayers over \$12 million over the next three years in contrast to the utilities request. The parties also agreed to apply a 3.2 percent cap above the overall system average increase for all customer classes as compared to Sierra's proposed 5 percent cap and DRA's 2.5 percent proposal. This cap served to lessen the impact of the increase on residential and small commercial customers.
- The Commission reduced SCE's Air Conditioner Cycling program request from \$37 million to \$18 million based on DRA's protest and comments, without any reduction in the expected savings of 600 MW by summer 2007 in SCE's service area.
- DRA negotiated modifications to PG&E's advanced meter program that will increase the functionality of the new meters, and provide significant increases in customer benefits. In addition, DRA obtained a requirement that PG&E

shareholders bear some of the burden on any cost overrun associated with the project.

- The Commission adopted a settlement agreement between West Coast and DRA which provides a \$136,376 general rate increase while deferring any additional general rate increases until 2009.
- Pursuant to a DRA protest, PG&E agreed to amortize a \$50 million Purchased Gas Account (PGA) overcollection during the 2006-2007 winter season in order to mitigate the impact of high winter gas prices on customers. Pursuant to a DRA audit proposal, PG&E issued a Supplemental Report to revise its CPIM Year 8 shareholder award resulting in a \$2.7 million refund to customers.
- On May 11, 2006, the Commission issued Resolution G-3385 which agreed with DRA's protest to Southwest Gas Corporation's annual attrition calculation for a 2006 rate increase which resulted in savings of \$1.5 million for customers.

Pursuing Lower Rates in Water Rate Cases

DRA represents consumers in scrutinizing the costs of service of California's nine large investor-owned water companies (Class A companies with over 10,000 customers). These companies have 63 geographically separate ratemaking districts, each with their own system costs. Most of DRA's work in this area concerns applications for rate increases. In these GRC applications, DRA audits the company's accounts, reviews past and projected expenses, revenue forecasts, cost of capital, plant additions, and rate design. In 2007, DRA expects to issue 20 reports for water ratemaking districts of Golden State Water Company, California American Water Company, and San Gabriel Water Company. DRA will also be submitting comments to the Commission's rulemaking (R.06-12-016) to revise the rate case plan for Class A water utilities.

Keeping Water Rates Affordable

- DRA is working with the water industry, the CPUC's Water Division, and other interested parties to develop a program that provides assistance to low-income customers of water utilities. DRA's goal is to help establish a statewide program to streamline administration, minimize costs and make water accessible and affordable to water utility customers in greatest need. For example, in 2006, low-income customer programs were established company-wide for California Water Service Company, California American Water Company and Park Water's Central Los Angeles District.
- In 2006, DRA scrutinized applications for general rate increases in 21 districts of large water utilities, advocating for the elimination of unjustified expenses. DRA's efforts reduced authorized increases by nearly \$40 million compared to the amounts requested by the utilities.
- DRA has spearheaded efforts to find a regional solution in response to California American Water Company's (Cal-Am) request to build a desalination plant

costing over \$190 million for its Monterey district. Desalination is an expensive process that will have significant impacts on water rates in this area. A regional solution, as opposed to Cal-Am's proposal to build a facility just for its customers, will be able to reduce the financial burden on Cal-Am's customers.

Water Action Plan

DRA represented ratepayer interests in the development and implementation of the Commission's WAP. This plan identifies the policy objectives that will guide the Commission in its regulation of investor-owned water utilities along with associated action items. DRA is actively addressing ways to improve water conservation efforts and approaches for revising rate structures to provide incentives to conserve. In 2006, various water companies have selectively proposed some aspects of rate design changes beneficial to the companies, ignoring other necessary changes that benefit consumers, while other utilities have proposed nothing at all. In 2007, DRA will be addressing specific rate design proposals for California Water Service Company, California American Water Company, San Jose Water Company, Golden State Water Company, Park Water Company and Suburban. DRA expects that before the end of 2007, conservation rate design will be in place for most of these companies.

Advocating Telecommunications Ratemaking and Service Quality

The telecommunications landscape in California has changed dramatically in the last two years. In addition to the many technological changes that have resulted in a redefining of telecommunications services for both the industry and consumers, the acquisition of the two largest long distance companies, AT&T and MCI, by the two largest incumbent local exchange carriers, SBC (now the "new" AT&T) and Verizon, solidified the dominance of the incumbents throughout the state, which are now actively extending their presence into other markets such as internet access, voice services over broadband, and video services. These mergers were followed by the Commission's decision to eliminate virtually all rate regulation of phone service in California (except for small, rural telephone companies). DRA's challenge is to ensure that, in this new technological and regulatory environment, consumers actually obtain expected benefits, experience improvement in the quality of services they receive, are not subject to abusive or misleading marketing practices, and have a choice of providers for the services they wish to purchase.

- In early 2006, the Commission rolled back the consumer protections that were put into place in 2004 as part of the Commission's Consumer Bill of Rights. In its place, the Commission adopted the Consumer Protection Initiative (CPI) that emphasizes consumer education. In 2006, DRA sought reinstatement of the rescinded consumer protections, both in proceedings at the Commission and at the Legislature.
- DRA is also actively participating in the implementation of the CPI. For example, DRA made recommendations with respect to issues surrounding protections for limited English speakers, such as CPUC collaboration with community based organizations on complaint resolution, and the need for a

proceeding on language based issues. The Commission will be addressing these issues in the first half of 2007.

- DRA responded to AT&T's request for a fixed-rate surcharge on San Diego customers for undergrounding costs this year, arguing that the surcharge was unfair to customers and inappropriate given the CPUC's decision to deregulate AT&T's prices. The CPUC authorized the fixed-rate surcharge but only until the freeze on basic service rates is lifted in January 2009. DRA prevailed in its request that San Diego customers be notified of the limited duration of the Commission's authorization for the surcharge.
- In the Uniform Regulatory Framework (URF) proceeding, DRA strongly opposed the elimination of the large phone company price caps and other consumer protections, including the uniform pricing of services throughout each company's service territory in the state. The Commission approved the new framework, sparing only basic service from price deregulation for a limited term of two years. As a consequence of URF, certain consumer protections against marketing abuses by AT&T were promptly deleted by the company from its tariffs. DRA protested AT&T's action, and has filed a petition to rehear the URF decision as well as the decision that approved the elimination of AT&T's disclosure rules.
- DRA investigated AT&T's service quality, provided recommendations and actively lobbied the Commission to enforce the existing service quality rules applicable to AT&T. Based on DRA's recommendations, the Commission found that AT&T had failed to comply with minimum service standards and fined the company a penalty of \$900,000. In addition, DRA filed a petition urging the Commission to resume the service quality rulemaking as it is particularly important to monitor service quality as a result of the passage and implementation of the URF.
- DRA participated in the Commission's proceeding to review the state's various public policy programs addressing the operation, goals and funding of those programs given the many changes that have taken place in the telecommunications landscape. DRA stressed the need to weigh the cost to all ratepayers of increasing expenditures to allow for subsidies of new technologies against the benefits of providing those new technologies to low income and disabled consumers.
- DRA participated in a rulemaking addressing the High Cost Fund, which is a program that provides subsidies to companies who provide phone service in previously-defined high cost areas. The program is funded by ratepayers who paid for over \$3 billion in phone company subsidies through 2004. DRA argued for the elimination of this subsidy program because it is incompatible with the URF, but also recommended that if the program continued, the Commission should review the eligible high cost areas, some of which no longer qualify for high cost fund support.

- DRA serves on a number of public program administrative committees to ensure that consumer interests are fairly and adequately represented. These committees include: Telecommunications Access for the Deaf and Disabled, Public Payphone, Universal Lifeline Telephone Service, High Cost Fund, and, the California Teleconnect Fund.

APPENDIX A

MAJOR PROCEEDINGS BEFORE THE CPUC

Communications Division

Jack Leutza, Director

(415)703-1060

Docket No.	Lead Commissioner	Title/Caption
R.00-02-004	President Peevey	PUC- OIR To Establish Consumer Rights and Consumer Rules Applicable to all Telecommunications Utilities
R.02-12-004	Commissioner Chong	Order Instituting Rulemaking on the Commission's own motion into the service quality standards for all telecommunications carriers and revisions to General Order 133-B
R.05-04-005	Commissioner Chong	Order Instituting Rulemaking on the Commission's own motion to assess and revise the regulation of telecommunications utilities
R.06-05-028	Commissioner Chong	Rulemaking on the Commission's own motion to review the telecommunications public policy programs
R.06-10-006	Commissioner Bohn	Order Instituting Rulemaking on the Commission's own motion into the application of the California Environmental Quality Act to applications of jurisdictional telecommunications utilities for authority to offer service and construct facilities
R.06-06-028	Commissioner Chong	Order Instituting Rulemaking into the review of the California High Cost Fund B Program
R.07-01-021	President Peevey	Order Instituting Rulemaking to address the needs of telecommunications customers who have limited English proficiency

Video

Docket No.	Assigned Commissioner	Title/Caption
R.06-10-005	Commissioner Chong	Order Instituting Rulemaking to consider the adoption of a General Order and Procedures to implement the Digital Infrastructure and Video Competition Act of 2006

Energy Division
Sean Gallagher, Director
(415)703-2059

Docket No.	Assigned Commissioner	Title/Caption
A.04-12-007	Commissioner Grueneich	In the matter of the application of Southern California Edison Company for a certificate of public convenience and necessity concerning the Antelope-Pardee 500 kV (Segment 1) Transmission Project as required by Decision 04-06-010 and as modified by subsequent Assigned Commissioner Ruling
A.04-12-008	Commissioner Grueneich	In the matter of the application of Southern California Edison Co. for a certificate of public convenience and necessity concerning the Antelope-Vincent 500 kV (Segment 2) and Antelope-Tehachapi 500 kV and 220 kV (Segment 3) Transmission Projects as required by Decision 04-06-010 and as modified by subsequent Assigned Commissioner Ruling
A.05-03-015	Commissioner Grueneich	Application of San Diego Gas & Electric Co. for adoption of an advanced metering infrastructure deployment scenario and associated cost recovery and rate design
A.05-04-015/ I.05-06-041	Commissioner Grueneich	In the matter of the application of Southern California Edison Co. for a certificate of public convenience and necessity concerning the Devers-Palo Verde No. 2 Transmission Line Project
A.05-12-002/ I.06-03-003	Commissioner Bohn	Application of Pacific Gas and Electric Co. for authority, among other things, to increase rates and charges for electric and gas service effective on January 1, 2007
A.06-03-005	Commissioner Chong	Application of Pacific Gas and Electric Co. to revise its electric marginal costs, revenue allocation and rate design
A.06-08-010	Commissioner Grueneich	In the matter of the application of San Diego Gas & Electric Co. for a certificate of public convenience and necessity for the Sunrise Powerlink Transmission Project
A.06-08-026	President Peevey	In the matter of the application of Southern California Gas Co., San Diego Gas & Electric Co. and Southern California Edison Co. for approval of changes to natural gas operations and service offerings
A.06-11-007	President Peevey	In the matter of the application of Southern

		California Edison Co. for approval of results of Summer 2007 track of its new generation request for offers and cost recovery
A.06-12-009/ A.06-12-010	Commissioner Bohn	Application of San Diego Gas & Electric Co. for authority to update its gas and electric revenue requirement and base rates effective on January 1, 2008; Application of Southern California Gas Co. for authority to update its gas revenue requirement and base rates effective on January 1, 2008
A.07-01-003	President Peevey	In the matter of the application of Southern California Edison Co. for approval of renewables portfolio standard power purchase agreement with Imperial Valley Resource Recovery Co. LLC and for authority to recover the costs of such power purchase agreement in rates
A.07-01-024	Commissioner Grueneich	Southern California Edison Co.'s Application for approval of embedded energy efficiency water pilot programs for 2007-2008
A.07-01-026	Commissioner Grueneich	Application of Pacific Gas and Electric Co. Seeking Approval of water-embedded energy savings pilot program
A.07-01-029	Commissioner Grueneich	San Diego Gas & Electric Co. for approval of energy and water efficiency partnership and budget for years 2007 through 2008
A.07-01-030	Commissioner Grueneich	Southern California Gas Co. for approval of energy and water efficiency partnership and budget for years 2007 through 2008
I.05-09-005	Commissioner Grueneich	Order instituting investigation to facilitate proactive development of transmission infrastructure to access renewable energy resources for California
I.06-06-014	President Peevey	Investigation on the Commission's own motion into the practices of the Southern California Edison Co. to determine the violations of the laws, rules and regulations governing performance based ratemaking, its monitoring and reporting to the Commission, refunds to customers and other relief, and future performance based ratemaking for this utility
P.06-12-002	President Peevey	Petition of the Alliance for Retail Energy Markets [et al.] to adopt, amend, or repeal a regulation pursuant to Pub. Util. Code § 1708.5
R.02-01-011	President Peevey	Order instituting rulemaking regarding the implementation of the suspension of direct

		access pursuant to Assembly Bill 1X and Decision 01-09-060
R.04-04-003	President Peevey	Order instituting rulemaking to promote policy and program coordination and integration in electric utility resource planning
R.04-04-025	President Peevey	Order instituting rulemaking to promote consistency in methodology and input assumptions in Commission applications of short-run and long-run avoided costs, including pricing for qualifying facilities
R.05-06-040	Commissioner Grueneich	Order instituting rulemaking to implement Senate Bill No. 1488 (2005 Cal. Stats., Ch. 690 (Sept. 22, 2004)) relating to confidentiality of information
R.05-12-013	President Peevey	Order instituting rulemaking to consider refinements to and further development of the Commission's resource adequacy requirements program
R.06-02-012	President Peevey	Order instituting rulemaking to develop additional methods to implement the California Renewables Portfolio Standard Program
R.06-02-013	President Peevey	Order instituting rulemaking to integrate procurement policies and consider long-term procurement plans
R.06-03-004	President Peevey	Order instituting rulemaking regarding policies, procedures and rules for the California Solar Initiative, the Self-Generation Incentive Program and other distributed generation issues
R.06-04-009	President Peevey	Order instituting rulemaking to implement the Commission's procurement incentive framework and to examine the integration of greenhouse gas emissions standards into procurement policies
R.06-04-010	Commissioner Grueneich	Order instituting rulemaking to examine the Commission's post-2005 energy efficiency policies, programs, evaluation, measurement and verification, and related issues
R.06-05-027	President Peevey	Order instituting rulemaking to continue implementation and administration of California Renewables Portfolio Standard Program
R.06-07-010	President Peevey	Order instituting rulemaking to consider the annual revenue requirement determination of the California Department of Water Resources

Water Division
Kevin Coughlin, Director
(415)703-1837

Docket No.	Lead Commissioner	Title/Caption
A.04-09-019	Commissioner Bohn	In the matter of the application of California-American Water Co. for a certificate of public convenience and necessity to construct and operate its Coastal Water Project to resolve the long-term water supply deficit in its Monterey District and to recover all present and future costs in connection therewith in rates
A.05-08-021	Commissioner Bohn	In the matter of the application of San Gabriel Valley Water Co. for authority to increase rates charges for water service in its Fontana Water Co. division
A.06-01-005	Commissioner Bohn	In the matter of the application of California-American Water Co. for an order authorizing it to increase its rates for water service in its Los Angeles District
A.06-02-023	Commissioner Bohn	In the matter of the application of Golden State Water Co. for an order authorizing it to increase rates for water service in its Region II service area
A.06-05-025	Commissioner Bohn	In the matter of the application of California-American Water Co., a California Corporation, RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a corporation organized under the laws of the Federal Republic of Germany, for an order authorizing the sale by Thames GmbH of up to 100% of the common stock of American Water Works Co., Inc. resulting in a change of control of California-American Water Co. and for such related relief as may be necessary to effectuate such transaction
A.06-07-002	Commissioner Bohn	Application of Valencia Water Co. for an order authorizing it to increase rates for water service and to make further changes and additions to its tariff for water services
A.06-07-017	Commissioner Bohn	In the matter of application of California Water Service Co. for an order authorizing it to increase rates charged for water service in the Bakersfield District
I.07-01-022	Commissioner Bohn	Order instituting investigation to consider

		policies to achieve the Commission's conservation objectives for Class A water utilities
R.06-12-016	Commissioner Bohn	Order instituting rulemaking to consider revisions to the General Rate Case Plan for Class A water companies