Table of Contents

Founded in 1911 by constitutional amendment as the state Railroad Commission, what is today the California Public Utilities Commission has been responsible since then for ensuring that California utility customers have safe, reliable utility service at reasonable rates, protecting utility customers from fraud, and establishing programs and policies that contribute to a strong California economy. In fiscal year 2001-02, the industries that the Commission regulates were paid $43 billion in rates.

From its roots in the national railroad expansion and the Populist-era drive to balance public and private interests, the CPUC is recognized nationally for its innovative regulatory practices, and is a national leader among state regulatory bodies.

The Commission regulates privately owned electric, natural gas, telecommunications, water, sewer, railroad, rail transit, and passenger transportation companies. It does not regulate municipal or district-owned utilities, or mutual water companies.

The Commission establishes rates for utility companies and has broad regulatory powers. It sets standards of service and safety for utility and transportation services, monitors the reliability and safety of their operations, oversees markets to prevent anti-competitive activity, oversees the merger and restructuring of utility corporations, and evaluates major utility investment proposals when utilities seek rate increases to finance those projects. It works with other state and federal agencies to assure water quality, and protect the environment. And it implements programs to assist low-income utility customers, and to provide telecommunications services for customers with disabilities.

To produce and deliver vital products, such as telecommunications, gas, electricity, and water services, costs money, so utilities have a right to charge consumers for what they use. Moreover, the owners and stockholders of these utilities expect a return on their investments. The Commission ultimately serves as an intermediary, balancing the public interest in obtaining adequate, reliable and safe products and services with utility stockholders' expectations of a fair profit on investment.

To protect consumers, the CPUC prosecutes unlawful utility marketing and billing activities, governs business relationships between utilities and their affiliates, and resolves complaints by customers against utilities.

The CPUC also implements energy efficiency programs, and enforces the California Environmental Quality Act as it applies to utility construction programs.

The CPUC participates in regional and multi-state issues forums to advocate California's interests, and helps shape federal public policy by participating in federal proceedings when issues that affect California utility customers' rates or services are at stake.

The Governor appoints the members of the Commission, which is made up of five persons to six-year staggered terms; each must be confirmed by the Senate. The Governor appoints one of the five to serve as President. Commissioners make all final policy, procedural and other decisions.

The Commissioners are supported in their work by a staff of 889 economists, engineers, auditors, investigators, administrative law judges, accountants, lawyers, safety, consumer service representatives and transportation specialists and support personnel.

The Commission has a variety of fact-finding and decision-making tools it may use separately or in combination. It relies on evidentiary hearings when material issues of fact are in dispute, legislative-style and "paper" hearings for policy considerations, and informal workshops for open discussion among technical experts. It establishes its own procedures according to statute and to provide due process for those affected by its decisions. It has quasi-legislative and quasi-judicial authority in that it establishes and enforces administrative regulations and, like a court, may take testimony and subpoena witnesses and records.

The Commission initiates investigations and rulemakings to explore broad policy issues, modify procedures, investigate allegations of illegal utility activity or respond to legislative requirements. Regardless of the decision-making tools applied, the Commission's decision-making process is open, and the Commissioners make the ultimate decision. The Commission attempts to involve and make its decision-making processes accessible to the public at large, while rigorously analyzing issues before it makes decisions. It encourages participation of all affected parties in its decision-making process and provides a Work Plan that outlines the goals and priorities and describes the proceedings and issues it will work on during the year. CPUC Public Advisor staff in San Francisco and Los Angeles provides information to individuals and consumer groups about how to participate in Commission proceedings.

The Commission meets in public session approximately every two weeks to vote on an average of 50 items on a publicly noticed agenda. In most cases, the agenda items are written documents developed from a body of information open to public challenge and scrutiny, with opportunities for comment by interested stakeholders and consumers. The exceptions are items considered in Executive Session which relate to agency litigation, personnel, and other confidential administrative matters.

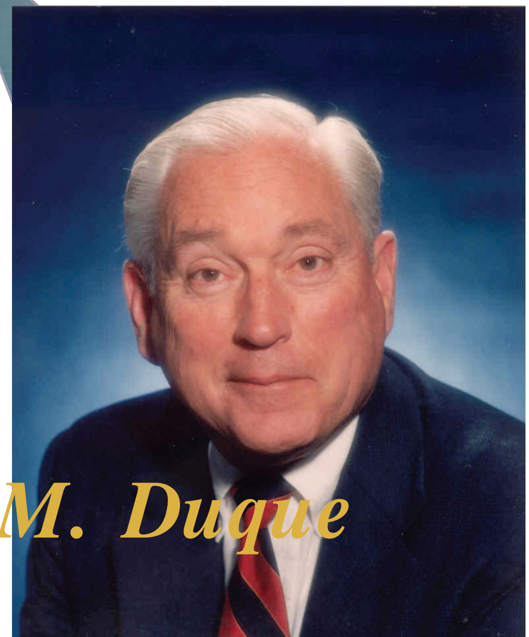
President Loretta M. Lynch

Governor Gray Davis appointed Loretta Lynch to be President of the California Public Utilities Commission on March 22, 2000.

Since her appointment as Commission President, she coauthored a report in August 2000 for the Governor that was among the first of its kind, providing a comprehensive analysis of the causes of the State's energy crisis, the history of California's deregulation experiment, and recommendations to solve the crisis. Since energy prices spiked in early summer 2000, President Lynch has been a leader in the evolution of State energy policies with regard to energy efficiency programs, financial protections for the cash-strapped utilities, low income customer rate discounts, natural gas infrastructure, and transmission line siting. She led the CPUC's efforts to protect California from anti-consumer proposals in PG&E's federal bankruptcy proceeding, intervened before the Federal Energy Regulatory Commission on issues relating to price gouging by power sellers, and developed legislation to address dozens of energy issues.

Prior to her appointment to the CPUC, President Lynch was director of Governor Davis' Office of Planning and Research (OPR).

President Lynch holds a degree from Yale Law School, and prior to joining public service was a partner in the litigation firm of Keker & Van Nest.



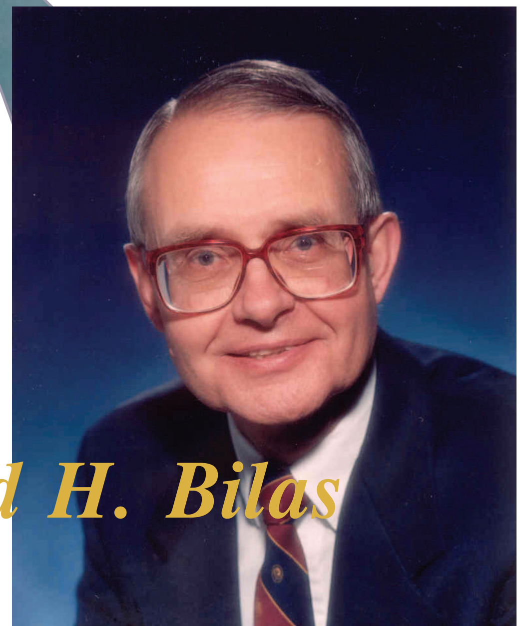
Commissioner Henry M. Duque

Henry M. Duque originally was appointed to an expired term at the California Public Utilities Commission by Governor Pete Wilson on April 3, 1995. Governor Wilson reappointed him to a full six-year term on December 17, 1996.

Commissioner Duque is a member of the National Association of Regulatory Utility Commissioners (NARUC) and serves as a member of both the NARUC Water Committee and its Committee on International Relations, as NARUC representative to the American Water Works Association Public Advisory Forum, and as a member of the NARUC Board of Directors. He is also a member of the California Institute for Energy Efficiency (CIEE) Research Board and of the National Drinking Water Advisory Council, which is chartered by the United States Environmental Protection Agency.

Prior to his appointment, Commissioner Duque served as a senior executive for financial institutions and non-profit organizations for most of his career in Los Angeles, and later in the San Francisco Bay Area

Commissioner Duque has a B.A. in political science from Stanford University and is a graduate of Indiana University's Graduate School of Savings & Loan and the School of International Building Societies in Oxford, England. He also did graduate work at the University of California Boalt School of Law.



Commissioner Richard H. Bilas

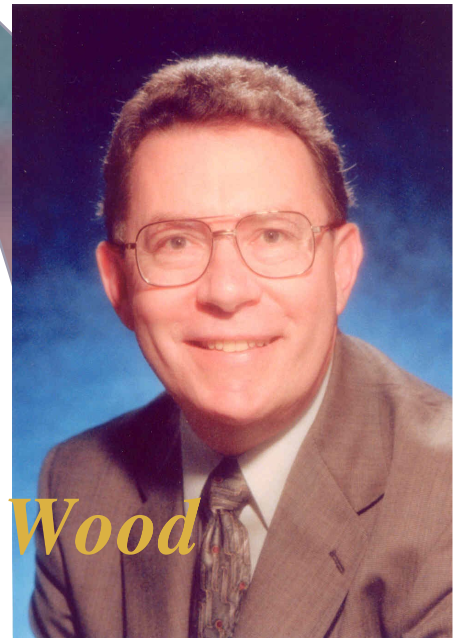
Richard A. Bilas was appointed to the California Public Utilities Commission on January 1, 1997, by Governor Pete Wilson, and was elected by his colleagues to serve as President in 1998 and 1999.

Commissioner Bilas came to the Commission from the University of Oklahoma where he held the John A. and Donnie Brock Chair in Energy Economics and Policy at Sarkeys Energy Center from 1995 to 1996. Prior to that he was a Commissioner with the California Energy Commission for eight years.

He is a member of the editorial board of the Western Economic Association's Contemporary Policy Issues, and the author of three books on economics. He is also a member of the distinguished economic Mont Pelerin Society.

He has been a faculty member at the University of Southern California, University of Colorado, Georgia State University, and California State University - Bakersfield.

Commissioner Bilas has an A.B. in mathematics from Duke University and a Ph.D in economics from the University of Virginia, is a former Fulbright Scholar to the Philippines, and is a member of Phi Beta Kappa. He resigned from the PUC on March 8, 2002.



Commissioner Carl W. Wood

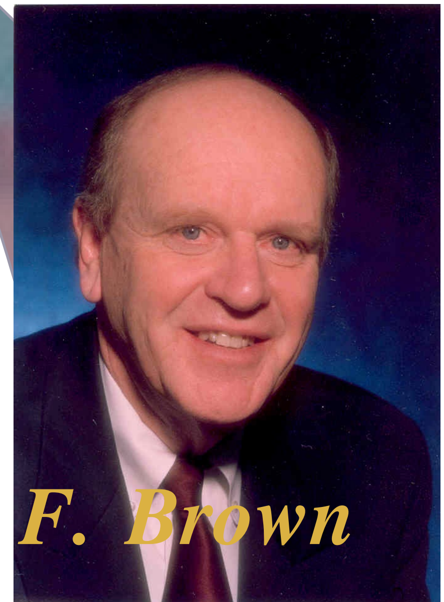
Carl W. Wood was appointed to the California Public Utilities Commission by Governor Gray Davis on June 21, 1999.

Commissioner Wood worked 10 years in the steel mills of Indiana and California, completing his apprenticeship as an industrial electrician in 1975, and later worked as an electrician at the San Onofre Nuclear Generating Station.

In 1986, Commissioner Wood was elected Business Agent (Chief Officer) of Utility Workers Union of America (UWUA) Local 246, representing 2000 generating plant workers at Edison. From 1987 to 1997 he also served on the National Executive Board of that union, and in 1997, as UWUA National Deregulation Coordinator, testified before Congressional and state legislative committees on the impacts of deregulation on reliability, consumer prices and worker protection.

From 1994 to 1999, Commissioner Wood served as Secretary of the Coalition of California Utility Employees, a coalition of unions representing electricity and gas utility workers. From 1998 to 1999, he also served as Chairman of the Southern California Gas Workers Council, a coalition of local unions formed in 1998 to fight deregulation in California's natural gas utility industry.

Commissioner Wood attended the University of California at Riverside, and was elected student body president for 1967-68.



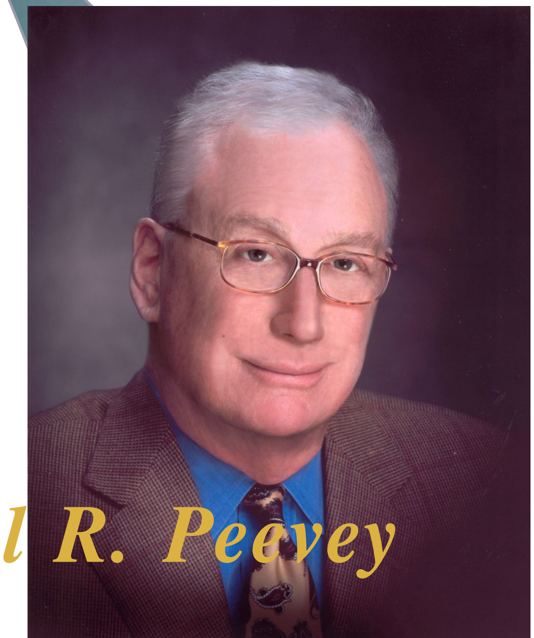
Commissioner Geoffrey F. Brown

Geoffrey F. Brown was appointed to the California Public Utilities Commission by Governor Davis in January 2001.

Born in San Francisco, Commissioner Brown graduated from the University of California at Berkeley 1964, and San Francisco Law School in 1970.

Commissioner 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.

Commissioner Brown was elected as the Public Defender for the City and County of San Francisco in 1978. He was reelected to this position in 1982, 1986, 1990, 1994 and 1998. He also served as Chief Executive Officer of a public law firm that handled legal representation of more than 20,000 people each year. In addition, he was an adjunct professor of law at Golden Gate University Law School and the New College of California.



Commissioner Michael R. Peevey

Governor Gray Davis announced the appointment of Michael R. Peevey to the California Public Utilities Commission (PUC) on March 5, 2002.

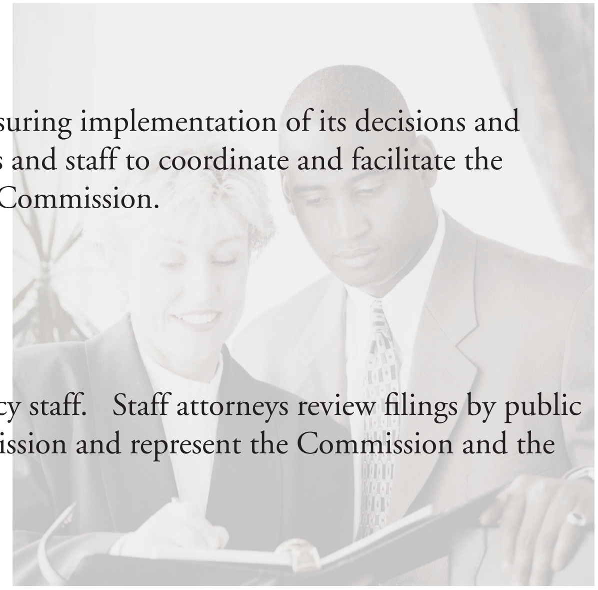
Prior to joining the Commission, Commissioner Peevey was Chief Executive Officer of TruePricing Inc. a technology company focused on assisting companies and government entities to better control their energy costs. He also recently served on the Board of Directors of the Excelergy Corporation, an energy software company, and ElectroRent Corporation. From 1995 until 2000, he was President of NewEnergy Inc., then the nation's largest energy service provider. He also was a Public Affairs Consultant to Winner & Associates, Los Angeles from 1993 until 1995. Prior to that, he was President of Edison International and Southern California Edison Company from August 1990 through March 1993 and a senior executive there, beginning in 1984.

Commissioner Peevey has served on the boards of several corporations and non-profit organizations. Peevey holds both Bachelor of Arts and Master of Arts degrees in economics from the University of California, Berkeley. His term expires January 1, 2003.

Commissioners make all final decisions. They are supported in their work by a staff of economists, engineers, auditors, investigators, administrative law judges, accountants, lawyers, and safety and transportation specialists, and support personnel.

The CPUC is organized into industry advisory units, an enforcement division, and a strategic planning group. The Office of Ratepayer Advocates is an advocacy arm of the CPUC established by the Public Utilities Code to represent consumers in CPUC proceedings. The CPUC Public Advisor assists the public in participating in Commission proceedings, and in resolving complaints against utilities.

The CPUC has its headquarters in San Francisco and offices in Los Angeles, Sacramento and San Diego.



Executive Office

The Executive Office is accountable to the Commission for assuring implementation of its decisions and policies, 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.

Legal Division

The Legal Division advises Commissioners, advisors 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.

Administrative Law Judge Division

The Administrative Law Judge (ALJ) Division supports the Commission's decision-making process by processing formal filings, facilitating alternative dispute resolution, conducting hearings, developing an administrative record, writing draft and proposed decisions, and preparing and coordinating the agendas for the Commission's biweekly decision-making meetings.

Strategic Planning

Strategic Planning assists the Commission in analyzing problems and adapting regulatory policies to meet the needs of California's citizens and regulated industries by identifying important regulatory, industry or organizational problems not addressed by other divisions, and reviewing industry trends and developments and associated regulatory impacts.

Energy Division

The Energy Division advises the Commission 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 and informs the Commission about major developments affecting energy utilities. It assists the Commission in developing rules for and monitoring of competition, and economic regulation of remaining monopoly services, and in implementing regulatory objectives and programs for California's electricity and natural gas industries - with protection for consumers and those with special needs, assurance of continued safe, reliable service, and consideration of environmental issues.

Telecommunications Division

The Telecommunications Division assists the Commission in developing and implementing policies and procedures to facilitate competition, when in the interest of consumers, in all telecommunications markets, and addressing regulatory changes required by state and federal legislation. Once telecommunications markets are fully competitive, with necessary consumer protections, its ongoing role will be to assist the Commission in ensuring: the provision of telecommunications networks where there are many competing service providers using a variety of technologies; ensuring fair, affordable, universal access to necessary services, with special emphasis on preserving universal access; developing clear rules and regulatory tools to allow flexibility without compromising due process; and reducing or eliminating burdensome regulation.

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. Auditors assigned to the Water Division also perform accounting, auditing, and financial analysis as requested by other industry divisions.

Rail Safety and Carriers Division

The Rail Safety and Carriers Division assists the Commission in promoting public safety and protecting consumers through its regulatory authority over railroads and light rail transit systems, motor passenger carriers, vessel carriers, and household goods carriers. The Division ensures they operate safely, legally, and in the public interest. It also maintains liability insurance filings of for-hire water vessels and commercial air carriers operating only in California, and takes appropriate enforcement action against passenger carriers when they engage in unfair or illegal business practices harmful to consumers, and oversees railroad and light rail transit system safety and operation and maintenance by reviewing safety plans, conducting safety inspections, and investigating accidents.

Consumer Services Division

The Consumer Services/ Enforcement Division assists the Commission in developing and enforcing consumer protection rules in all regulated industries, facilitating consumer awareness in competitive markets by providing information and education consumers need to make informed choices regarding competing service providers, and alerting the Commission to consumer problems it needs to prevent or address. The Division also oversees consumer education programs.

The Division's Consumer Affairs Branch answers general questions about utility services and helps consumers resolve informal complaints about utility service or unfair utility practices, and reports trends in consumer issues and complaints to the Commission for possible action. The Utilities Safety Branch oversees the safety of and inspects electric, propane, and natural gas systems to ensure that these systems operate safely. The Enforcement Branch investigates utility practices for compliance with applicable tariffs, rules, and statutes, and provides advocacy support on a selective basis for consumers filing formal complaints.

Public Advisor

The Public Advisor's Office provides information and assistance to people who want to participate in Commission proceedings or who wish to file formal complaints regarding utility service. It also organizes public participation hearings on key Commission proceedings around the State so that citizens can express their opinions on issues of interest in their communities. In addition, Outreach Officers in Los Angeles and San Diego provide public, community, and local government access to information about CPUC services and programs.

Information and Management Services Division

The Information and Management Services Division integrates and facilitates CPUC 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 CPUC management.

Office of Ratepayer Advocates

The Office of Ratepayer Advocates (ORA) independently participates in Commission proceedings, workshops and other forums with significant dollar impact on consumers and that address consumer protection issues, development of fair rules for competition, service quality, rate levels, rate of return, and other significant policy issues. ORA's mission, as defined by Senate Bill 960 in 1996 and embodied in Public Utilities Code 309.5, is to "obtain the lowest possible rate for service consistent with reliable and safe service levels."

During 2001-2002, assistance to the public was provided by the Commission's Consumer Affairs Branch and the Public Advisor's Office. Public information functions were performed by the Communications Office, which is part of the CPUC Executive Office. Although the state's energy crisis of early 2001 had subsided to some extent, public concern and the need for information regarding electricity rates, energy efficiency programs and low-income assistance programs significantly impacted the workload of all three offices. Unprecedented numbers of written, electronic and telephone communications were received regarding specific events in the electricity crisis as well as general concerns about rising utility rates, customer service, telecommunications service, and a host of other policy issues before the Commission. There were many breaking news stories that required quick and accurate responses and a number of Commission actions that required immediate press releases and updated website information.

As a result of the energy crisis and the increasingly complex telecommunications environment, the Commission decided to form a new division to centralize its community outreach, consumer assistance, and public information functions to provide more efficient and effective service. Planning the new Communications and Public Information Division took place during 2001-2002 with the new division effective July 1, 2002.

The Consumer Affairs Branch (CAB) handles specific complaints from residents and businesses about utility service or billing issues. The Commission's consumer services representatives work with consumers and the utilities to informally resolve disputes. CAB solves over 90 percent of the complaints it receives. If, however, a customer is not satisfied with the result, a formal complaint may be filed with the Commission. The Public Advisor provides procedural assistance to customers who wish to file a formal complaint, which is then heard by an administrative law judge.

The dramatic increase in consumer complaints regarding telecommunications and energy utility services and billing as a result of the energy crisis and the recent proliferation of telecommunication providers that began in the late 1990s continued during 2001-2002.

Senate Bill 531 (Baca, 1999) became effective in 2002 requiring the Commission to add a consumer complaint form to its website. In just a few months, over 1000 consumer complaints were submitted via the user-friendly form.

The Public Advisor's Office (PAO) was specifically created by legislation in the early 1980s to assist public participation in Commission proceedings. To achieve that goal, it provides "The Guide to Public Participation" as well as staff assistance to individuals, ad hoc groups, and established organizations who need help with procedural matters involved in participating effectively.

Over the years, the PAO, which has offices in San Francisco and Los Angeles, has become an increasingly important contact for consumers who need information on a wide variety of subjects or who wish to register their opinion or concerns with confidence that the Commissioners will be informed of their communication.

Accomplishments 2001-2002

Answering Consumer Questions and Resolving Complaints

- The Consumer Affairs Branch received more than 198,000 inquiries and 58,474 complaints from utility consumers.

- 691 complaints were received from customers of household goods and passenger carriers and 823 complaints were closed (this number includes open cases pending at the beginning of the fiscal year), resulting in refunds of $98,638 and judgments in the amount of $42,500.

Complaints By Industry	**Number of Complaints '00 - '01**	**% of Total**	**Number of Complaints '01 - '02**	**% of Total**
Telecommunications	36,239	54.2 %	33,042	56.5 %
Electric	14,887	22.3 %	13,862	23.7 %
Gas	2,904	4.3 %	2,958	0.1 %
Water/Sewer	482	0.7 %	757	1.3 %
Household Goods/Passengers	1,221	1.8 %	691	1.2 %
Non-regulated/Other	4,379	6.5 %	3,141	5.4 %
Electric Service Providers	1,307	2.0 %	893	1.5 %
Multiple Industries	349	0.5 %	36	0.1 %
Non-Industry Specific	5,114	7.6 %	3,093	5.3 %
Total	**66,882**		**58,474**	

Top 5 Complaints By Category	**Number of Complaints '00 - '01**	**% of Total**	**Number of Complaints '01 - '02**	**% of Total**
Billing	31,578	59.4 %	35,297	65.1 %
Abusive Marketing	3,931	7.4 %	4,883	9.0 %
Rates/Rules	6,972	13.1 %	6,279	11.6 %
Service Quality	10,015	18.8 %	7,393	13.6 %
Installation	651	1.2 %	342	0.6 %
Total	**53,147**		**54,194**	

	'00 - '01	**'01 - '02**
Number of Calls to the Automated Answering System	413,184	385,073
Number of Incoming Calls Handled by Staff	233,563	198,206
Number of Dropped/Abandoned Calls	27,368	37,387

Number of complaints pending at end of Fiscal '01/02 = 4,423
Number of complaints pending at end of Fiscal '00/01 = 1,773

Assisting Public Participation in CPUC Proceedings and Programs

- An important responsibility of the Public Advisor's Office is to assist in organizing public participation hearings (PPH), which are scheduled in local communities in connection with Commission proceedings. The Commission held over 50 PPHs around the state during this period on proceedings ranging from energy baseline allowances and natural gas procurement to water company mergers and general rate cases.

- The Commission awards compensation to members of the public who participate in and contribute substantially to CPUC decisions. In the 2001 calendar year, the Commission awarded $2,672,860 in intervenor compensation compared to $1,278,763 during 2000. It has awarded a total of $19.2 million over the past 20 years.

- As required by SB 669, (Polanco, Statutes of 1999), the Commission manages several telecommunications public purpose programs with the assistance of advisory boards comprised of members representing consumers, utilities, and community-based organizations. These advisory committees include the California High Cost Fund-A Advisory Committee, California High Cost Fund-B Advisory Committee, California Teleconnect Fund Committee, Universal Lifeline Telephone Service Committee, the Payphone Service Providers Committee and the Deaf and Disabled Telephone Program Administrative Committee. The purpose of these committees is to give advice to CPUC staff about these public program operations.

- The Public Advisor's Office streamlined the formal complaint form packet sent to consumers wishing to pursue further their complaint against a utility. Notably, the size of the packet was reduced from 50 pages to 12 pages.

Providing Consumer Information, Outreach and Education

- The Public Advisor's Office responded to a monthly average of 1,000 phone calls, electronic messages and letters from consumers with questions, protests, and complaints about issues before the Commission. In addition, the Office kept count of written communications from members of the public, businesses and organizations. These communications were circulated to the commissioners on a regular basis and became part of the permanent record of the related proceeding.

- Consumer groups continued to organize mail and phone campaigns on key energy and telecommunications issues during 2001-2002. Groups such as TURN (The Utility Reform Network) organized postcard campaigns regarding the Commission's audit of the state's largest telecommunications carriers resulting in approximately 5000 postcards received in the Public Advisor's Office prior to June 30, 2002.

- Local residents in the Temecula area of southern Riverside County organized a massive writing campaign regarding a proposed transmission line during the spring of 2002. In late 2001, various groups organized public telephone campaigns regarding certain aspects of the Department of Water Resources revenue requirement proceeding.

- In early 2002, the PAO began a local government outreach program to more effectively inform local government agencies of proceedings that could affect them and to assist the agencies in participating in Commission proceedings and programs. PAO is working with the Local Government Partnership in the Governor's Office and with the League of Cities to strengthen this outreach program.

- The Commission's commitment to Dymally-Alatorre Bilingual Services Act became a major priority of the Commission during 2001-2002. A bilingual services officer was appointed to coordinate dependable interpretation and translation services.

- The CPUC Outreach Officers of the Public Advisor's Office, located in Los Angeles and San Diego, assisted dozens of organizations during 2001-2002, disseminated basic consumer information, explained issues relating to the energy crisis and assisted local and state government representatives with information. The Outreach Office also prepared consumer-oriented handouts to distribute to the public.

- The Electric Education Trust Program, which concluded on June 30, 2001, was an education and outreach program to provide consumer information on electric services, energy conservation, and low-income assistance programs. Grants totaling $8.5 million have been awarded to 210 community-based organizations statewide. Grants totaling $400,000 were provided to local governments for the same purpose. The community-based organizations that were selected by the CPUC and the Electric Education Trust Administrative Committee developed unique approaches to reach targeted groups, which included, seniors, disabled persons, small business owners, and low-income and limited English speaking communities. The CPUC developed education and outreach materials that were translated into 13 different languages. Many consumer-based organizations used media resources and reached a total of 21,995,695 targeted consumers. A program report will be published in early 2003.

- The CPUC website provides information about CPUC programs and services available to the public. In FY 2001-2002, the average number of visitors to the site was over 87,000 per month. A comprehensive program to update the Consumer Help section was undertaken in the fiscal year. Improvements in ease of access and accuracy of information were immediately noticeable and are continuing.

- The Commission is an active participant in Operation Lifesaver, a non-profit educational program dedicated to reducing and eliminating trespasser casualties on railroad right of way and accidents at highway railroad grade crossings. The Commission's commitment to Operation Lifesaver remains strong through both leadership and partnership. During the fiscal year the Commission appointed a full time Operation Lifesaver coordinator to analyze data to determine hazardous locations and then marshal resources from within and outside the agency to educate civic groups, schools, bus and truck drivers, and law enforcement personnel. This leadership has melded the Commission's commitment with that of 263 active presenters in California. The combined effort resulted in presentations to over 200,000 citizens throughout the State, many of whom were schoolchildren.

Energy

Fiscal year 2001-2002 saw the Commission taking strong action to solve the State's electricity crisis. The Commission stepped up to the plate, protecting utilities' operational health within the constraints of the law, protecting low-income customers, and implementing new energy efficiency measures and voluntary interruption programs to keep demand down. The Commission continued investigating wholesale generators, reviewed generator outages and energy dispatch, ordered the building of new transmission lines, ensured ratepayer protection with the Department of Water Resources' (DWR) having taken responsibility for buying power for utility customers, and represented California's interests in key Federal regulatory forums.

ELECTRICITY PRIORITIES

- Setting Reasonable Rates and Protecting Consumers
- Expanding Energy Efficiency Programs and incentives
- Improving System Reliability Programs and Incentives
- Promoting Utility Financial Integrity
- Ensuring Utility Infrastructure Environmental Compliance
- Transmission System Governance

INDUSTRY OVERVIEW

10.5	Million Customers
$17.1	Billion in Revenue
32,698	Miles of Transmission Lines
239,112	Miles of Distribution Lines

Accomplishments 2001-2002

Solving The Electricity Crisis

To ensure electric utility financial integrity in 2001-2002, the Commission took constructive steps within the constraints of the law. The Commission entered into an agreement with Southern California Edison (SCE) that would bring the utility back to financial stability and proposed a financial plan to the bankruptcy court that precludes the splitting up of Pacific Gas & Electric (PG&E) to the disadvantage to the California ratepayers.

- Department of Water Resources Electricity Costs

Since January 2001, the Department of Water Resources (DWR) has bought power for PG&E, SCE, and San Diego Gas & Electric (SDG&E) customers. DWR is selling long-term bonds to reimburse the State. At a Commission rehearing in March 2002, the final allocation of DWR's $9 billion revenue requirement for 2001 and 2002 was made to ratepayers of PG&E, SCE, and SDG&E.

- Transmission Project Siting and Environmental Compliance

The Commission assessed the environmental impacts of four proposed transmission projects, and is monitoring environmental compliance on four approved projects. The approved projects added $500 million of investment to increase California's power delivery system reliability. Additionally, two other large electricity projects are being environmentally assessed that would add an additional $500 million of transmission investment. These projects are in addition to the 37 projects completed in 2001 that were ordered in 2000 as part of the AB970 Order Instituting Investigation (OII).

- Restoring the Utility Obligation to Serve Electricity

During the energy crisis, the state's regulated electricity companies stopped buying large portions of their electricity. DWR made up the difference. Under recent legislation, these purchases will move back to the utilities by January 1, 2003. Consistent with the legislation, the Commission is developing rules to govern utility power purchases and will then oversee the reasonableness of these purchases. A vital component of this effort is restoring the credit worthiness of PG & E and SCE.

- Federal Energy Regulatory Commission (FERC) Transmission Issues

The Commission continued to advocate at FERC on behalf of California ratepayers on important FERC transmission and wholesale market issues.

Some of these issues are a new "standard market design" that would shift regulatory jurisdiction from the State to FERC and from regulation to a market base, the national development and implementation of Independent Providers who would plan, control, and operate the transmission system, governance of CAISO with FERC's order restructuring the Board, the coordination of transmission planning in the West, new transmission tariff requests by SCE and SDG&E and anticipated shortly by PG&E, and the States' request for refunds from generators for the excessive energy prices paid for energy from May 2000 through June 2001.

- Direct Access Suspended, Determination of Cost Responsibility Surcharge Begins

By July 2001, events in the electric industry were creating a variety of incentives for customers to remove themselves from bundled utility service to Direct Access (DA). Wholesale electric prices were beginning to decline and the prices in contracts executed by the Department of Water Resources (DWR) to serve ratepayers began to appear high relative to those wholesale prices. In order to ensure an adequate revenue stream to DWR, the Commission issued a decision to suspend DA effective September 20, 2001, and later affirmed that decision in March 2002.

The Commission's March 2002 decision also signaled its intent to adopt a Cost Responsibility Surcharge (CRS) to mitigate cost shifting to bundled utility customers as a result of other customers who switched to DA after July 1, 2001. The outcome of the CRS proceeding is not expected until the end of 2002.

Electricity Adequacy and Reliability

- Generator Performance

SBx2 39 requires the Commission to develop and enforce maintenance and availability standards for hundreds of otherwise unregulated electric generating units in California. The Commission is working with others to develop a standard set of maintenance practices

- System Reliability

The Commission under General Order 165 monitors distribution reliability compliance through an annual electric utilities distribution line patrolling report. The G.O. covers the inspection cycle for poles, transformers, switching and protection devices, conductors, regulators, and capacitors. The utilities filed reports for 2001 to show that they are in compliance with the general order.

- Emergency Planning and Notification Under General Order 166

To assist the electric utilities to be better prepared for disasters and power shortages the Commission established standards for utility planning, utility response and reporting. These standards were developed to minimize the damage and inconvenience that outages have on the ratepayers, and to allow the Commission to investigate the reasonableness of a utility's response. Commission staff attends utility annual emergency drills and provides feedback to them on emergency reporting requirements.

- Distribution System Undergrounding

The Commission concluded phase one of its investigation under AB 1149 into the progress of its ongoing program to convert unsightly overhead and communications lines to underground along public thoroughfares. Some 2,500 miles of overhead line has been placed underground at a cost of $1.9 billion and the Commission's goal is to identify possible additional benefits to undergrounding, such as improved public safety and reliability.

- Relieving Transmission Constraints

The Commission was ordered under AB 970 to determine the causes of electric transmission constraints and work with the California Independent System Operator (CAISO) to find solutions. The Commission opened an Order Instituting Investigation (OII) to identify electric projects that may eliminate transmission constraints. The Commission has conducted hearings and workshops, analyzed the issues, and granted a Certificate of Public Convenience and Necessity (CPCN) on three projects. The Commissioned ordered the investor owned utilities to transfer low priority loads from distribution circuits that were exempt from blackouts because they provide electricity to high priority public health and safety facilities.

- Distributed Generation Policies established to Increase System Reliability and Promote Renewables

The Commission encourages installation of distributed generation (DG), which lowers peak demand, enhances system reliability, and reduces costs to ratepayers. Renewable DG can also help to reduce the environmental effects of power generation. Examples of DG include photovoltaic, wind turbines, combined cycle gas turbines, and fuel cells. The Commission adopted rules to streamline the process by which customers interconnect DG to the utilities' power grid, eliminated standby charges for many DG facilities, and developed a program which provides financial incentives to customers who install DG. As a result, 179 MW of DG have been authorized for interconnection since January 2001.

- Load Curtailment Programs Continued and Rotating Outage Plans Modified to Protect Rate payers Further

The Commission completed Phase II of its rulemaking (started in October 2000) by authorizing the utilities to continue a portfolio of interruptible programs through the summer of 2003. These programs compensate customers who are willing to lower their demand at times when the system is approaching its maximum capacity. Currently the programs in aggregate (PG&E, SCE, SDG&E) can provide about 1,470 MWs of interruptible load if called upon.

Modifications were made to the utilities' rotating outage plans in several respects. Specifically the Commission added skilled nursing facilities to the list of facilities exempt from rotating outages, ordered testing of emergency exemption and restoration procedures for water and sewer customers and authorized an education and advance notification process for customers who are temperature sensitive.

- Audit of Pacific Gas & Electric's Distribution Capital Expense

Under Decision (D.) 00-02-046 the Energy Division was ordered to perform an engineering audit of PG&E's distribution capital spending in 1999 through an outside engineering consulting firm. The scope includes an assessment of system reliability, capacity, and adequacy of service. The engineering audit looked at a sample of 12,000 projects, and is reviewing engineering weakness in the authorization of these projects' cost estimates. PG&E's engineering performance is being benchmarked against other comparable electric utilities.

Electric Utility Operational and Financial Health

- Federal Lawsuit Settled with SCE

On October 2, 2001, the PUC and SCE reached a settlement in the Filed Rate Doctrine lawsuit that Edison filed in federal court against the PUC. The settlement was intended to: (1) restore Edison to creditworthiness so that the utility is able to resume procuring the electricity needed by its customers; (2) limit ratepayers' costs of paying off the debt; and (3) maintain the state's role in regulating the investor-owned utility.

- Alternative Plan of Reorganization for PG&E Bankruptcy Proposed

In April 2001, PG&E filed for Chapter 11 bankruptcy, primarily because it could not pay its debt obligations from energy purchases. PG&E's reorganization plan proposed shifting billions of assets out from under state regulation. Numerous electric and gas assets would be spun off to the utility's parent company and would be regulated by FERC.

In April 2002, the Commission filed its Alternative Plan of Reorganization; the U.S. Bankruptcy Court approved distribution of that plan to creditors in May 2002. Under the Commission's plan, PG&E's assets would remain under California jurisdiction, and generation rates would be established through cost-based ratemaking. In June 2002, the Official Committee of Unsecured Creditors recommended approval of both PG&E's and the Commission's plan. The Bankruptcy Court confirmation hearings for the plans are scheduled to begin in November 2002.

- Utilities' Energy Procurement

The Commission opened a rulemaking proceeding in October 2001 to establish policies and cost recovery mechanisms for energy procurement, with a specific near-term emphasis on: (1) an interim cost recovery mechanism for short-term power products; (2) renewable generation; (3) ways to ensure adequate supply of demand-side resources for 2003 and beyond; (4) DWR contract allocation; and (5) reasonableness review of utility procurement decisions.

Issues such as operating agreements between the utilities and DWR, roles and responsibilities, and dispatch protocols must be developed prior to January 1, 2003, when DWR's authority to contract for certain energy shortages expires pursuant to AB 1X. Commission decisions addressing those procurement issues will be issued before the end of 2002.

- SDG&E's Revenue Shortfall from the AB 265 Energy Rate Ceiling Addressed

In March 2002 the Assigned Commissioner issued a schedule to finalize the proceeding to consider SDG&E's revenue shortfall resulting from the energy price ceiling established by Assembly Bill 265. A PUC decision is expected before the end of 2002 to address SDG&E's proposal to establish a surcharge to recover the shortfall. AB 265, signed by Governor Davis in September 2000 in response to the electricity crisis, set a 6.5 cent per kilowatt-hour energy price ceiling for residential and small commercial customers and allows SDG&E to track the revenue shortfall associated with the price ceiling.

The shortfall grew to hundreds of millions of dollars by mid-2001, and was subsequently reduced as energy prices stabilized and revenues in other regulatory accounts were used to offset the shortfall. The decision in this proceeding will also address the treatment of revenues from sales of power from intermediate term (3 to 5 years) power purchase contracts that SDG&E signed in 1996 and 1997.

- Rate Agreement Adopted with the Department of Water Resources

In February 2002 the Commission issued D.02-02-051 adopting a rate agreement between the Commission and DWR. The purpose of the rate agreement is to facilitate DWR's issuance of bonds. DWR will use bond proceeds to repay more than $10 billion of debt that DWR incurred to finance power purchases during the electricity crisis. The rate agreement establishes revenue streams from bond charges imposed on electric customers designed to pay for bond-related costs, and power charges paid by electric customers who buy power from DWR. Both revenue streams are necessary for DWR to issue bonds with investment-grade ratings.

- Department of Water Resources' 2001 and 2002 Revenue Requirement for Power Purchases Allocated for PG&E's, SCE's and SDG&E's Electric Customers.

In March 2002, the Commission issued D.02-03-062 allocating DWR's $9 billion revenue requirement for 2001 and 2002 among the electric customers of PG&E, SCE, and SDG&E, and established a per kilowatt-hour charge for each utility to remit to DWR. Assembly Bill 1X, signed into law in February 2001 during the electricity crisis, responded to the inability of the utilities to buy the power needed to serve their customers. AB 1X authorized DWR to purchase electric power to sell directly to the utilities' customers, and allowed DWR to recover from utility customers revenues to pay for power purchases and costs for bonds that will be used to finance the power purchases.

- 2002 Retained Generation Revenue Requirements for PG&E, SCE, and SDG&E Approved

In D.02-04-016 dated April 2002, the Commission approved cost-based revenue requirements for PG&E, SCE, and SDG&E associated with owning and operating their retained power plants and purchasing power under utility managed power contracts (utility retained generation or "URG"). The Commission adopted a 2002 URG revenue requirement of $2.9 billion for PG&E, $3.8 billion for SCE, and $430 million for SDG&E. The Commission established accounting mechanisms to track these revenue requirements against actual costs to ensure that the utilities' reasonable URG costs will be recovered.

- First Steps to Reassess PG&E Operations Underway in General Rate Case (GRC)

In December of 2001, the Commission pushed forward the process of reexamining and reevaluating PG&E's costs and service by requiring the utility to file initial documents (a notice of intent, or NOI) for a General Rate Case (GRC) to cover utility business in 2003. In the GRC, the Commission will take a comprehensive view of PG&E's costs for distribution service and retained generation. The Commission will look at PG&E's operations, management, and policies with a goal of maintaining a high level of customer service at reasonable rates, and ensure that PG&E has sufficient revenues to cover its costs (commonly referred to as its revenue requirement).

On April 15, 2002, PG&E filed its NOI documents requesting increases of $71 million for gas distribution and $407 million for electric distribution service. PG&E estimates these increases correspond to approximately a 3% increase in revenues. The Commission accepted PG&E's NOI on August 15, 2002, and PG&E's GRC application is expected in early November 2002.

- SCE's Rates & Services Examined in General Rate Case

In May 2002, SCE filed a request to increase its revenue requirement by $896 million for the three-year period of 2003 through 2005. The Commission will examine how SCE should resume provision of fully integrated utility service and resources planning, investigate operation and maintenance practices, and conduct a traditional review of utility rates, costs, and spending.

Energy Conservation and Energy Efficiency

- Energy Efficiency Programs

Under current Rulemaking 01-08-028, the Commission established a major enhancement in energy efficiency program delivery by opening the process for program implementation not only to utility energy efficiency providers, but also to non-utility providers. In response, the Commission received over 250 non-utility local program energy efficiency proposals as well as a full portfolio of statewide and local proposals from the state's four largest utilities.

In March 2002, the Commission approved $192 million of utility energy efficiency programs, and another $10 million for statewide marketing efforts through the Department of Consumer Affairs' FLEX YOUR POWER program and through Univision Television Groups' statewide Spanish language energy efficiency marketing efforts. To these statewide programs, the Commission approved over $100 million in energy efficiency programs, targeted to all sectors, to be delivered by 55 non-utility providers, local governments, and community-based organization for 2002-2003.

Public Goods Charge (PGC) expenditures for energy efficiency in 2002 will result in energy savings of 1.8 billion kWh and 24.8 million therms. The CPUC 2002 program portfolio of statewide and local energy efficiency programs has a gross benefit of $491 million and a cost of $259 million. The resulting $232 million in consumer benefits amounts to a return to California ratepayers of $1.66 for every dollar expended on efficiency programs.

These benefits accrued in 2002 to Californians in the residential and non-residential sectors, reaching every segment of the state's population. For 2002 the Commission added a focus on efficiency programs finding ways to reach those ratepayers or rate-paying sectors that have not in the past received the full benefit of the state's energy efficiency program efforts.

- Low-Income Energy Programs

The Commission directed an expansion of programs to increase the enrollment of customers into the low-income energy programs. This resulted in an increase in the number of customers participating in these programs.

The expansion increased the maximum qualifiable income level to 175% per household from the federal poverty level of 150%. It increased the gas and electric discount from 15% to 20%. The increases apply to all electric and gas utilities.

The expansion also included increased marketing efforts by the utilities. This effort allows the utilities to pay Community Based Organizations up to $12.00 per successful enrollment into the programs. It also improved and increased ways to measure program success and customer bill savings.

The Commission established and adopted a charter for the Low Income Oversight Board as required in SB X 22. The first board meeting was held in June 2002.

- Energy Efficiency and Low-Income Programs Audits and Reports

In April 2001, the Governor signed SBXl 5 into law. Appropriating $242 million (later reduced to $148 million) from the General Fund to: (1) ensure the immediate implementation of energy efficiency programs to reduce energy consumption; and (2) assist in reducing the costs associated with energy demand. The legislation allocated the monies among five energy efficiency and low-income programs.

The legislation directed the Commission to file periodic reports summarizing the amount of SBX1 5 funds expended; measures, programs, or activities that were funded; and a description of the effectiveness of the measures, programs, or activities funded in reducing peak electricity demand and improving energy efficiency. SBX1 5 also directed the Commission to contract for an independent audit of the expenditures made pursuant to the bill, to determine whether the funds achieved demonstrable and cost-effective energy savings and peak demand reduction. The first of the periodic reports was sent to the Legislature in January 2002, and an executive summary of the independent auditors' report was sent in July 2002.

- Baseline Quantities

Public Utilities Code Section 739(d)(1) requires review and revision of baseline allowances. Baseline quantities and rates are designed to ensure that residential electric and gas customers are provided minimum necessary quantities of electricity and gas at the lowest possible cost. Phase I of the rulemaking increased baseline allowances for residential customers and improved the medical baseline program.

Phase II of the rulemaking is underway. The following issues are expected to be addressed regarding baseline: home/household size and demographics, climate zone and geographic boundaries, well-water pumping for household use, condominium and other multiple dwelling unit common areas, seasonal residence effects, proposed legislative changes, and rate impact of changes in Phase I.

NATURAL GAS PRIORITIES

- Reasonable Rates and Good Service
- Adequate Natural Gas Supply
- Prevent Market Abuse
- Promoting Utility Financial Integrity
- Improve the Natural Gas Market Infrastructure

INDUSTRY OVERVIEW

9.735	Million Customers
$7.6	Billion in Revenue
9,365	Miles of Transmission Lines
92,452	Miles of Distribution Lines

Accomplishments 2001-2002

Natural Gas Market Restructured in Southern California

In December 2001, the Commission adopted measures to restructure the natural gas services and rates offered by Southern California Gas Company and San Diego Gas & Electric Company. These measures are intended to allow smoother functioning of the natural gas market in southern California, and allow greater opportunities for competition. The Commission has been reviewing utility proposals on how to implement these measures.

The Commission adopted a "peaking service" rate in August 2001 that would more readily allow certain natural gas consumers in southern California to take natural gas transportation service from a competing pipeline system while also taking service from SoCalGas.

The Commission Investigates High Natural Gas Prices in 2000-2001 and Orders Refund for Unreasonable Gas Costs

In June 2002, the Commission ordered an investigation into the causes of high natural gas prices at the southern California border that occurred in late 2000 and early 2001. The Commission is concerned that utilities under its jurisdiction may have contributed to the increase in natural gas prices.

In a separate proceeding, the Commission found that Southwest Gas Company had not reasonably used natural gas storage in 2000-2001, and ordered the utility to refund $2.6 million to ratepayers.

California's Gas Interests Defended at the Federal Energy Regulatory Commission (FERC)

In a proceeding that has gained national attention, the Commission vigorously pursued a complaint against a major interstate pipeline, El Paso Natural Gas, which delivers much of the out-of-state gas consumed in California. The Commission believes that El Paso withheld some pipeline capacity from the natural gas market to drive up natural gas prices. A judge at the FERC issued a draft decision in September 2002 that agrees with much of the Commission's complaint. The FERC is expected to issue its final decision in this case by the end of the first quarter of 2003.

El Paso has also been responsible for "overselling" the available pipeline capacity on its system. This has resulted in less pipeline capacity being available to California and less natural gas being delivered to California consumers, while El Paso shippers in states east of California have been receiving more than their fair share of pipeline usage. The Commission has joined in a complaint at the FERC against El Paso on this matter to assure that California shippers are treated in an equitable manner, and that El Paso expands its pipeline system.

The Commission has also been opposing certain "negotiated rates", i.e. non-tariffed rates, on the Transwestern pipeline system at the FERC, and won $9 million in refunds for California shippers in this case.

Natural Gas Rates Reduced in Northern California

The Commission adopted new natural gas transportation rates for PG&E in November 2001, resulting in a $93 million rate decrease for core customers, and a $20 million decrease for noncore customers.

An Adequate Natural Gas Infrastructure Assured for California

To address potential constraints of natural gas deliveries to California consumers, the Commission worked with California natural gas utilities to expand their pipeline and storage systems. SoCalGas' pipeline and storage capacity has been expanded by over 10% since early 2001. PG&E is expected to complete a significant expansion of its pipeline capacity before the end of 2002. After reviewing Wild Goose's proposal in 2001 and 2002, the Commission approved an expansion of the Wild Goose storage facility in July 2002.

As required by the California legislature, an analysis was completed of the adequacy of California's natural gas infrastructure in November 2001. The Commission found that the infrastructure would be adequate for the next five years to provide seasonally reliable amounts of competitively priced natural gas to consumers.

Telecommunications

TELECOMMUNICATIONS PRIORITIES

- Consumer Rights
- Universal Service
- Reasonable Rates
- Area Codes Management
- Approve New Services and Facilitate Competition

INDUSTRY OVERVIEW

32.1	Million Access Lines
58.8	Million Numbers Assigned
17.4	Billion in Revenue
1,771	Certified Carriers

During 2001 and 2002, the Commission focused on consumer protections in the telecommunications industry as it continues to examine policies that promote competition beneficial to consumers in California and as it works to obtain lower prices, product and service innovation, and improved service quality.

The number of carriers in the local markets declined during 2001/2002. The continuing economic downturn saw many carriers merging or going out of business. The wireless industry accounted for the largest growth area in the telecommunications markets. Customer demand for wireless services, new market entrants, and numerous calling plans and options have resulted in a 50% increase in wireless subscribership for the fiscal year. There are now almost half as many wireless telephones in California as standard wireline access lines.

Accomplishments 2001-2002

OSS Incentives

In April 2002, the Commission adopted a performance incentive plan to monitor and enforce Pacific Bell's non-discriminatory provision of services to CLECs. Since Pacific Bell has a wire-based telephone service monopoly (that is, the only complete wire-based telephone system in large regions in California), to compete with Pacific Bell the CLECs must lease or connect to critical elements of Pacific Bell's infrastructure. For example, to provide service to their customers, the CLECs must use Pacific's lines, switching offices, networks, and/or other operations systems.

The performance incentive plan measures Pacific Bell's performance in nine areas: pre-ordering, ordering, provisioning, maintenance, network performance, billing, database updates, collocation, and interfaces. The plan consists of a comprehensive set of performance measurements, standards, business procedures, and monetary incentives tied to performance outcomes. The plan functions by generating performance-based rate adjustments and for poor performance Pacific Bell must pay billing credits to the CLECs and the ratepayers. In April, May, and June 2002, Pacific Bell averaged about $500,000 per month in total credits paid. The Commission continues to refine the plan, including possible adjustments needed to ensure that the credit amounts are sufficient to motivate good performance.

Reasonable Rates - -NRF Review

The New Regulatory Framework (NRF), adopted for Pacific Bell and Verizon California, incorporated financial incentives, streamlined regulation, and safeguards for customers and shareholders. The Commission established a set of regulatory goals for the NRF Program and provided that the program is reviewed triennially through audits.

The Commission conducted its fourth review of the NRF and focused on the audit of Verizon California covering the three-year period from 1996 through 1998. In the audit report that was issued in April 2001, ORA's audit consultant identified 144 issues with Verizon. A final decision is expected in late 2002. Pacific Bell's audit covered years 1997 to 1999 and staff's consultant issued an audit report in February 2002 which found that Pacific Bell had underreported its earnings by about $2 billion over the three year period. Consequently, the report concluded that Pacific Bell's customers should be refunded about $350 million under the earnings sharing mechanism that had been in effect during that period. A proposed decision is expected at the end of 2002.

The final portion of the NRF audits will address whether changes need to be made to the companies' NRF programs in lieu of audit and service quality findings and is expected to conclude by July 2003.

New Services and Competition

The CPUC manages entry and exit by competitive telecommunications companies into the market to protect consumers and assure the benefits of emerging technologies and services. This year the Commission approved 100 new service and feature offerings and 900 interconnection agreements between local exchange carriers and competitors to permit competitors access to the network so that they can provide new services. Even with these successes, there are other challenges which the Commission is addressing:

· Pacific Bell's Long Distance Application

In July 1999, Pacific Bell filed a "Notice of Intent" with the CPUC that it would seek approval under the Section 271 of the 1996 Federal Telecommunications Act to offer long distance services. The Act provides that the FCC may grant such authority to an ILEC when it has opened its monopoly local market such that its competitors have a fair opportunity to compete in the market. Because a competitive local market will ensure that consumers will enjoy more choices of service providers, features and prices, the CPUC is investigating Pacific Bell's 271 compliance and, when concluded, will advise the FCC of its findings. In parallel and concurrently, the CPUC is assessing Pacific Bell's compliance with California PU Code 709.2, which set out four similar conditions that ensure California consumers will benefit from fair competition in both the local and long distance telecommunications markets. The Commission expects to conclude the application review in late 2002.

· Report on the Status of Telecommunications Competition

On June 5, 2002, the CPUC issued a report to the State Legislature entitled, The Status of Telecommunications Competition in California. The report was submitted in compliance with Section 316.5 of the state Public Utilities Code which requires that the CPUC annually report, through December 2003, on the following:

- The status of competition in the telecommunications marketplace;
- Significant changes that have occurred in the telecommunications marketplace in the previous year;
- Any statutes that might impede or discourage competition in or deregulation of the telecommunications marketplace; and,
- Recommendations to the Legislature on statutes that should be amended, repealed, or enacted to enhance and reflect the competitive telecommunications environment, and/ or promote the orderly deregulation of the telecommunications industry.

The report separately analyzed the status of competition for wireline services in the state's local, local toll, and long distance markets. The report concluded that incumbent carriers, such as Pacific Bell and Verizon, are still dominant in the state's local and local toll markets, although new competitors fared somewhat better in the local toll market. The long distance market in California demonstrated mixed signals; long distance minutes of use grew slowly between 1996 and 2000 while long distance revenues declined in the state.

The report also examined competition in the wireless and advanced services markets. On one hand, the wireless market is growing in terms of revenues and customer share in California and there are at least five established wireless service providers in every area code. On the other hand, consolidation among wireless carriers, lack of number portability, high fees for breaking contracts, limited spectrum of bandwidth, and different technology standards may constrain competition. For advanced services, California is the only U.S. state with higher DSL subscribership than cable modem subscribership. However, competition in the DSL market is disintegrating as DSL providers are going out of business and ILECs and their affiliates control 90% of the DSL lines in the state.

Finally, the report provided information on a myriad of issues that affect competition statewide including market entry and activity as measured by the number of carrier license applications handled by the CPUC and the number of carriers remitting surcharges to the CPUC annually. Also analyzed are the mode of entry that new competitors use to enter the local market and Pacific Bell's pending application to enter the long distance market in California. With regard to market consolidation and exit, staff examined a trend toward cross sector consolidation among carriers, the impact of economic downturn on competition, and a decline in demand for numbering resources as an indicator of consolidation and service reduction. Staff reported on consumer issues of competition and detailed significant steps that the CPUC is taking to promote competition in the state such as UNE pricing, review of the new regulatory framework, preservation of access and choice for DSL service, and steps to allow local number portability to be more widely utilized.

- Unbundled Network Elements

In response to applications filed in early 2001 by competitive local telephone service providers, or competitive local exchange carriers (CLECs) as they are called in the industry, the CPUC initiated a proceeding to investigate their requests to re-examine Pacific Bell's telephone network facilities' costs. In their applications, the CLECs seek to lower the rates of telephone network facilities that they lease from Pacific Bell to offer their own competitive services and contend that the underlying costs for these UNEs, as these leased network facilities are commonly called, have undergone significant reductions in recent years.

By Decision 02-05-042, the Commission announced its interim opinion lowering some of Pacific's UNE rates. The UNE rates that were lowered include loop, port, switching, and vertical features. The interim discount adopted for loop was 15.1% while the discounts for port, switching, and vertical features range from approximately 70% to 80%. In June 2002, the assigned Commissioner and Administrative Law Judge to this UNE cost reexamination proceeding issued a joint ruling identifying the additional UNEs this proceeding will examine and setting forth the procedural schedule for reaching the final opinion of these UNE rates in the second quarter of 2003.

Universal Service

Public programs assure low rates and telecommunications services for all Californians and have served more than 30 million Californians, funded 3.8 million access lines, assisted 4,200 community-based organizations, provided 400,000 pieces of equipment, and regulated 255,000 public payphones. In Fiscal Year (FY) 2001-2002 there were $1.482 billion in funds to support:

- California High Cost Fund–A. The CHCF-A provides a source of supplemental revenues to small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service. Today, the CHCF-A provides subsidy, when needed, to support the 17 small LECs and approximately 125,000 Californians in high cost areas.

  In compliance with PU Code 274, the CHCF-A program fund was included in the State budgeting process as of October 1, 2001. Resolution T-16594 (October 10, 2001) approved the CHCF-A program budget in the amount of $29.8 million for FY 2001-2002.

- California High Cost Fund-B. The CHCF-B program provides universal service subsidy support in the high cost areas of the service territories of the five largest incumbent LECs. Prior to the competitive environment, the carriers relied on subsidies from low cost urban areas and from non-basic services, such as toll and access, to fund the cost of providing universal service in high cost areas. These subsidies have become less sustainable in a competitive environment. The CHCF-B allows the competitors of local exchange companies access to universal service funds where these carriers provide basic service and approximately 4.2 million access lines in high cost areas.

  In compliance with PU Code 275, the CHCF-B program fund was included in the State budgeting process as of October 1, 2001. Resolution T-16598 (October 10, 2001) approved the CHCF-B program budget in the amount of $972.9 million for FY 2001-2002.

- California Teleconnect Fund (CTF). The CTF provides discounted services to qualifying schools, libraries, municipal and county government-owned hospitals and health clinics, and community based organizations so that these entities can benefit from the information age technologies. The California Digital Plan is also qualified for discounts from the CTF. Over 4,000 applications have been approved from schools and libraries for the deployment of advanced telecommunications technology.

  In compliance with PU Code 280, the CTF program fund was included in the State budgeting process as of October 1, 2001. Resolution T-16584 (October 10, 2001) approved the CTF program budget in the amount of $146.0 million for FY 2001-2002.

- Deaf and Disabled Telecommunications Program (DDTP). In compliance with State legislation, the Com mission implemented three telecommunications programs for California residents who are deaf, hearing impaired or otherwise disabled.

  Assembly Bill 1734 requires on July 1, 2003, any funds remaining in the DEAF Trust revert to the Deaf and Disabled Telecommunications Program Administrative Committee Fund in the State Treasury.

  Resolution T-16627 (February 21, 2002) and Resolution T-16491 (September 20, 2001) approved the DDTP program budget in the amount of $51.9 million for FY 2001-2002.

- Universal Lifeline Telephone Service (ULTS). The ULTS program provides discounted basic telephone services to low-income families so basic telephone service is available and affordable to low-income citizens in the state. ULTS provides lifeline service to 3.3 million Californians.

  In compliance with PU Code 277, the ULTS program fund was included in the State budgeting process as of October 1, 2001. Resolution T-16594 (October 10, 2001) approved the ULTS program budget in the amount of $281.7 million for FY 2001-2002

Managing Area Codes

The CPUC continues to protect consumers from the cost and confusion of unnecessary implementation of new area codes by assuring efficient use of telephone numbers by carriers. With the implementation of number pooling, carriers now meet their number resource needs with 1,000-number blocks instead of whole prefixes composed of 10,000-number blocks. The CPUC ordered and oversaw the implementation of number pooling in 11 different California area codes during the fiscal year bringing the total number of area codes using number pooling to 19 as of June 30. Number pooling is scheduled to begin in the remaining 6 California area codes by March 2003. The FCC will require wireless carriers to start number pooling in November 2002.

Number pooling has saved 4,970,000 numbers and, with other number conservation measures, has helped delay 11 planned area code splits and overlays and encouraged carriers to return 540 unused prefixes in 2001 and 134 prefixes in the first half of 2002. From 1997 to 1999, 13 new area codes were established. Commission policies have resulted in no new area codes since 1999. The most recent forecast of the lives of the nation's area codes indicates that the projected exhaust dates of California's 25 area codes have been extended by an average of 4 ¾ years compared to the forecast made in 1999.

The CPUC completed 12 area code number utilization studies and 1 area code number utilization audit during this fiscal year. In number utilization studies, the CPUC analyzes how many telephone numbers are available for use in an area code and how long the existing supply of numbers will last before a new area code needs to be created to manage demand for numbers. Area code audits investigate how individual companies manage telephone number resources and to make sure companies use numbers consistently with CPUC number conservation policies.

The CPUC participated in cases before the Federal Communications Commission that significantly impact area code issues in California and the nation. The CPUC filed comments opposing Verizon Wireless' petition seeking permanent exemption of wireless carriers from the FCC's number portability requirements. In response, the FCC granted a one-year delay in the wireless carrier's obligation to provide number portability, but did not grant wireless carriers the permanent exemption they had sought. The CPUC also began preparing a petition seeking the FCC's approval of specialized area code overlays in two areas of Southern California in which area codes are nearing exhaust. This petition will be filed early in the next fiscal year.

While the Commission has worked hard to ensure that carriers use their numbers efficiently, the Commission remains committed to providing carriers the numbers they need to offer service to their customers. The Commission has established procedures for carriers to apply for prefixes on an emergency basis if they have been unable to meet their numbering needs through normal procedures. During the fiscal year, the Commission granted 25 prefixes to carriers who have submitted emergency applications for prefixes.

The Commission opened a proceeding and conducted workshops on implementing 2-1-1 dialing for access to health and human services information and referral services.

Water

Regulating Water

Regulated water utilities in California typically consist of two types: large, corporate run utilities and small, family-owned systems, many of which have problems with service quality, water quality and aging infrastructures. Large water systems are those which have 10,000 service connections or more. Small systems are less than this with many under 1,000 service connections. In 2001-2002, the Commission continued its commitment to water and service quality by increasing its outreach to small companies that have not come in for system revenue increases recently. Also, during the fiscal year a major focus was on reviewing its policies on offset rate increases associated with expenses over which the utility has no control.

WATER PRIORITIES

- Reliable, Reasonably-priced Water Service
- Safe Water Quality
- Adequate Water Supply

INDUSTRY OVERVIEW

1.4	Million Service Connections Serving 4.6 Million Californians
147	Water and 9 Sewer Utilities
15%	of California Drinking Water
$765	Million in Revenue

During the fiscal year, the Commission processed 186 Advice Letters filed by the utilities for changes in rate and service. Of those 65% were for rate changes and the remainder were for expansion of service territory or updating of forms and conditions of service.

Small Water Outreach Program

The Commission's outreach program focuses on contacting small water utilities that have not come in for a rate increase for a long time and the ones that need help in seeking relief from the Commission for system improvements and repairs. This program provides staff to assist the small utilities in determining if they need an increase in rates to maintain or improve quality and how much that increase should be. A key part of this effort is the Commission working more closely with the California Department of Health Services and county health agencies to identify and rectify water quality problems before they happen.

The Commission began its latest survey in April 2002. The survey consisted of eighteen information items such as the date of the utility's last general rate case (GRC), year of latest annual report on file, number of water outages in the last twelve months, compliance with the state water quality standards, anticipated year of next GRC filing, and whether there are certified distribution and treatment plant operators on board, etc. This information will provide valuable input to the Commission for addressing troubled small water utility systems. The study is expected to be completed in November 2002.

Receiverships

During fiscal year 2001-2002, the Commission ordered three utilities into receivership, one because of poor service quality and two who had misappropriated revenues the Safe Drinking Water Bond Act (SDWBA) loans authorized only for system improvements.

- Bidwell Water Company was ordered to pay back funds it had collected to pay back its SDWBA Loan and used for other purposes.
- Arrowhead Manor Water Company was found to have provided poor service and misused its SDWBA surcharge revenues.
- Mineral City Water Company had refused to take action required by the California Department of Health Services to filter its water. The new owner is installing a filtration plant.

Processing Offset Rate Increases and Balancing Accounts

In December 2001, the Commission opened a rulemaking proceeding, Order Instituting Rulemaking (R.01-02-009), to evaluate existing practices and policies for processing offset rate increases and balancing accounts for water utilities. Pursuant to Section 792.5, water utilities are authorized expense offset and must, upon receiving authorization to pass through the expense costs, maintain a balancing account reflecting the difference between actual costs incurred by the utility and the revenue collected through the offset rate increase. Offset rate increases traditionally have been authorized to protect utilities from unforeseen expenses of a significant nature over which the utility has no control. Water utilities are regularly authorized offset rate increases and attendant balancing account treatment for unforeseen increases in three expenses areas: purchased power, purchased water and pump tax. R. 01-02-009 is intended to provide sufficient information about what new or different policies and procedures in the processing of offset rate increases and balancing accounts are needed. A decision is expected in late 2002.

Report Card Billing

It has been a longstanding policy of the Commission to encourage water utilities to include all the information necessary to calculate the total charges on bills for metered service. The bills should also provide historical usage data to allow customers to monitor their own conservation efforts. Additionally, utilities are encouraged to mail a bill insert each year to explain their bills in detail. In the past it was difficult for smaller companies to supply the historical data, but over the past few years the necessary computer equipment has become very affordable.

During the fiscal year, the Commission investigated to determine to what extent water utilities were complying with report card billing practices and to send a letter to utilities that were not complying, informing them of the policy. It was found that approximately 60% were not in compliance. A letter was sent to all utilities directing them to modify their bills, if necessary, and verify to the Commission they are in compliance. The Commission continues to review their efforts.

Water System Security

After the tragic attacks of September 11, 2001, the Commission became concerned with whether or not water activities had sufficient resources to address necessary security enhancements. In March 2002, the Commission sent a data request to all water utilities requesting a description of such prevention measures taken, a breakdown of monthly expenses incurred, and to indicate if the security measures taken are within the guidelines developed by the American Water Works Association (AWWA) and the Environmental Protection Agency (EPA).

Based upon the majority of the responses, the study, completed in May 2002, generally concluded that the security measures taken are being accomplished within a utility's existing resources. A few companies did contend that their existing resources due are not sufficient. The Commission continues to monitor these areas as the national and state events unfold.

Transportation

The Commission's regulatory role in the transportation sector is to promote public safety by ensuring that railroads and rail transit systems operate safely, legally, and in the public interest. The Commission is the state's lead agency with respect to railroad and rail transit safety. In addition, the Commission is responsible for licensing and registering motor carriers of passengers and household goods and acts to prevent the unlawful business practices of these entities.

Railroad Safety

Federally certified inspectors examine track, equipment, and signal systems, oversee the safety of operations and transportation of hazardous materials, investigate accidents, and enforce federal and state rail safety regulations. The Commission also ensures safe railroad operation practices and railroad and public safety at rail/highway at-grade crossings.

Accomplishments 2001-2002

Rail Inspections

The Commission is required by law to establish minimum standards to ensure the inspection of railroad locomotives, equipment and facilities in major railroad yards not less frequently than every 180 days, and of all branch and main line track at least once every 12 months. During this period, staff fulfilled the plan requirements and also conducted significant inspections of other railroad items such as 32,032 units of equipment and 7,055 miles of track. In addition, staff conducted 413 inspections of facilities that handle hazardous materials, 1,117 inspections related to railroad operating rules, and 8,169 inspections of signal and train control systems. The Commission also handled 78 complaints from railroad employees and the general public.

Railroad Safety Assessments

In addition to accident investigations and routine inspection activity, the Commission safety assessments constitute an important element of its overall safety program. The Commission uses a "system safety" approach when conducting safety assessments, analyzing the underlying systemic causes of accidents and regulatory non-compliance. Assessment teams often include staff from the FRA in a cooperative approach to railroad safety. During this period, assessments involved the UPRR, the BNSF, and other railroads and shippers, including the following:

- Alameda Corridor - The Alameda Corridor officially opened April 15, 2002, allowing unimpeded mov ment of Burlington Northern Santa Fe and Union Pacific freight trains from the Ports of Los Angeles and Long Beach to mainline rail connections near downtown Los Angeles. The $2.4 billion project eliminated more than 200 street-level crossings in its 20-mile segment. The Corridor's centerpiece is a 10-mile trench--33 feet deep and 50 feet wide--from State Route 91 in Compton to 25th Street near the border of Vernon and Los Angeles. During this period, the Commission successfully resolved many safety issues, including coordination of dispatching, track standards and clearances, signal systems, and planned coordination of emergency response.

- Operations Assessment, UPRR, Roseville Yard - On November 5-8, 2001, Commission and FRA inspectorschecked on the safety of switching activities, including the locking out of switches, use of protective equipment, job briefings, radio procedures, and safe work practices in the designated "hot zone", where air hose connection occurs. Instances of non-compliance were documented and plans for follow-up inspections were made.

- Track Assessment, UPRR, Southern California - On January 15-17, 2002, Commission and FRA inspectors found 916 defects and 46 violations, and findings of track deteriorating beyond expectations from railroad management commitments after a prior focused inspection two years ago. Commission track inspectors will return for follow-up inspections in the area.

- Security Monitoring and Inspection Assessment, UPRR, Southern and Northern California - On February 5-22, 2002, Commission and FRA inspectors conducted security monitoring and inspection exercises to ensure added protection for the Olympic Winter Games in Salt Lake City, Utah. Staff examined hazardous materials shipments, verified train consists (indicating the location of all hazmat cars in a train as verification of the proper placement of those cars), checked for proper hazardous placards and inclusion of the required hazardous response information on the train consist. Inspectors also checked the mechanical condition of rail equipment destined to travel to or through Utah. Safety audit results were positive. Participants received a special commendation from the FRA administrator and from the President and CEO of the Salt Lake Organizing Committee for the Olympic Winter Games.

- Remote Control Locomotive (RCL) Operations Assessments, BNSF, Barstow Commission and FRA inspectors performed an inspection on May 20-24, 2002 to ensure the safety of the new RCL technology at Barstow. BNSF retrofitted 30 locomotives at $130,000 each to permit single train operators to control units from the ground with a "pitch and catch" system. The safety feature installed is the Fail Safe Mode, a "tilt" feature that stops the locomotive if the belt pack is not lifted to an upright position within four seconds. Commission inspectors noted some exceptions to BNSF's RCL training and implementation process and worked with the management team, as well as labor organizations, to resolve the issues prior to the commencement of operations. Throughout the two-week period, Commission investigators observed personnel in training, reviewed training materials, and monitored on the job training. The Commission continues to participate and monitor the program in Barstow every two months.

Federal Proceedings

The Commission continued to represent the state in ongoing federal rail safety-related proceedings and was actively involved in the FRA's proceeding on "Use of Locomotive Horns at Highway-Rail Crossings." The Commission submitted comments recommending that the Commission serve as the agency to process requests for "quiet zones," areas in which engineering solutions could render nighttime locomotive whistles unnecessary. The "quiet zone" designation, if approved in the final rulemaking, would be the only exception to FRA's implementation of the Swift Act, requiring that whistles otherwise be sounded at every railroad-highway grade crossing.

FRA granted waiver requests to provide "temporal separation" to allow freight and passenger operations to share the same track systems but not at the same time at two separate locations in Southern California. A waiver request granted to the Port of Los Angeles will allow replicas of Pacific Electric red cars to operate on Pacific Harbor Line's trackage for 1-1/2 miles in San Pedro from the Cruise Center to 22nd and Miner Streets with stops at the Maritime Museum and Ports of Call. Revenue service is planned to begin in the Fall of 2002. Meanwhile, a waiver request granted to the North San Diego County Transit District will permit it to proceed with final planning and conversion of its Oceanside to Escondido Rail Project, an existing 22-mile freight line that will be converted into a Diesel Multiple Unit (DMU) passenger rail system. Four two-car trains would serve 15 stations for a 54-minute trip. BNSF freight trains would continue to serve industries along the track at night after passenger service had ceased. DMU Revenue service is estimated to start in January 2004.

Rail/Highway Crossings

The Commission authorizes construction of new rail/highway crossings, closure of unnecessary crossings, and construction of underpasses or overheads at dangerous crossings. There are over 50 railroad corporations using over 11,200 public grade crossings located within 52 counties and 400 cities in California. The Commission reviewed over 140 crossing applications during the fiscal year 2001-2002.

The Commission administers the grade crossing program by performing diagnostic reviews of all crossing-related proposals, inspecting the design features of existing crossings, and recommending improvements at existing and proposed crossings. To effectively monitor each crossing in California, the Commission maintains several computer databases describing the design and safety characteristics and accident-related data pertaining to each crossing. The accident data is evaluated on an annual basis to determine which crossings may be unsafe and are in need of improvement. During this period, there were approximately 200 accidents at railroad crossings. Over half of the accidents involved vehicles that were driven by unsafe motorists that did not heed the crossing warning devices. To help prevent the number of crossing-related accidents in California, the Commission seeks the implementation of new technologies designed to enhance crossing safety.

The Commission's major focus during the fiscal year included:

- Section 130 Programs - This program provides federal money for improvements to existing at-grade crossings under Title 23 United States Code, Section 130 (23 U.S.C. 130). The program is a cooperative effort between the Federal Highway Administration, California Department of Transportation (Caltrans), and the Commission. Grade crossing improvements funded under the program include crossing gates, lights, bells, and other warning devices. During fiscal year 2001/2002, Caltrans funded $10 million for local grade crossing improvements and $5 million for state highway grade crossing projects.

- Grade Separation Program – Pursuant to California Streets and Highways (S&H) Code Section 2452, the Commission furnished a priority list for grade separation projects eligible for funding to the California Transportation Commission (CTC) and Caltrans by July 1, 2002. The priority list is based on nominations submitted by cities, counties, the League of California Cities, the County Boards of Supervisors, Caltrans, or any railroad/rail transit company operating within the state. Projects for (1) grade separations of existing or proposed crossings of city streets, county roads, or state highways, (2) grade crossings in need of elimination or removal or relocation of streets or railroad tracks, or (3) existing separations in need of alteration or reconstruction are eligible for funding. Funding for each project is limited to $5 million. The total amount of funding available under the program is $15 million.

- Four-Quadrant Gate Systems Guidelines – After the success of the Los Angeles County Metropolitan Transportation Authority's (LACMTA) experiment with the four-quadrant gate systems, the Commission adopted the four-quadrant gate system as a form of grade crossing protection. During FY 2001-2002, the Commission established guidelines for the implementation and configuration of four-quadrant gate systems as authorized under General Order 75-C. These guidelines are applicable to all modes of rail including freight, passenger, commuter, light rail, and streetcars.

- Automated Horn System - Senate Bill 1491 authorized the Commission to implement, as a pilot program, the Automated Horn System (AHS) at railroad-highway crossings. The AHS, or wayside horn, is designed to reduce the adverse effects of train horn noise along approaches to railroad crossings. The City of Roseville (City) filed a formal application with the Commission to install the AHS at a selected crossing. Commission staff worked with the City and the Union Pacific Railroad Company in the design of the crossing and maintenance of the device. After the AHS is in operation, it will be tested to measure its effectiveness as a railroad crossing warning device. The Commission will report the test findings to the Legislature by March 31, 2003.

- In-Roadway Warning Lights – The Commission is the lead agency on the Highway Railroad Crossing Safety Experimental Project. As part of the project, the Commission will study the behavioral characteristics of the motorists who are alerted by the in-roadway warning lights. During this period, the Commission selected 3 crossings in Kern County to conduct the study. The crossings were selected because of high rates of freight and passenger train usage, no crossing gates, and a number of recent accidents at each of the crossings. The Office of Traffic Safety will provide $150,000 to fund the study. Once chosen, a consultant will conduct the study, under the direction of the Commission. The Commission staff plans to release its findings in a report by March 2004.

- Pasadena Blue Line Project - The Commission oversaw the two-phase Pasadena Blue Line (PBL) project that will provide rail transit service from Union Station in Downtown Los Angeles to Claremont in eastern Los Angeles County, a total of 37.7 miles. The Los Angeles County Metropolitan Transportation Authority will operate the trains upon completion of the project. The Commission has approved the majority of the crossings involved in the first phase of the project, which consist of both grade-separated and at-grade crossings. Construction has commenced and the system is scheduled for operation in 2003.

- Mission Valley East Light Rail Transit Project - San Diego Trolley- The Mission Valley East Light Rail Transit Project consists of a 5.8 mile extension from San Diego Trolley's Mission San Diego Station to the Orange Line near Baltimore Drive in La Mesa. The extension will parallel Interstate 8, loop into the San Diego State University (SDSU) campus, then continue east along Interstate 8. The extension will include elevated and ground level sections, and a tunnel under SDSU. All the railroad crossings will be grade separated except for the Alvarado Road crossing. Approximately 10,800 daily riders will be served. The estimated project costs are $361.1 million including funding from local, State and Federal sources. San Diego Trolley, Inc. will operate the line using electrically propelled vehicles in trains of up to four vehicles at an average speed of 30 mph, with a maximum of 55 mph.

- San Francisco Municipal Railroad 3rd Street Extension - The Commission worked with the San Francisco Municipal Railroad (Muni) in refining safety details for its new 3rd Street extension. The 5.2-mile extension runs from PacBell Baseball Park in the north to San Mateo/San Francisco County Line in the south. Each end of the extension provides an intermodal transfer possibility with Caltrain. The extension is expected to revitalize the Bayview/Hunters Point areas of San Francisco.

- Crossing Upgrades in the City of Placentia - The City of Placentia (City) plans to implement new safety improvements at 11 railroad-highway crossings. The 11 crossings are on a 4.4-mile stretch of Burlington Northern Santa Fe Railroad track in the City. The safety improvements include the construction of grade-separated crossings combined with four-quadrant gates and conventionally protected systems. The City plans to commence construction of the project in June 2003.

- Santa Clara Valley Transportation Authority – Vasona Extension - The Santa Clara Valley Transportation Authority's (VTA) proposed Vasona Extension will extend approximately 5.3 miles from VTA's Guadalupe Line in downtown San Jose to Campbell. Future plans include an additional 1.5-mile extension from Campbell to Los Gatos. The Commission has concerns with operating Light Rail Vehicles over a section of the proposed line, the proposed crossing protection at some of the crossings, and the placement and type of crossings to be constructed. The Commission will work with VTA in resolving these matters. VTA plans to open the first portion of the Vasona Extension by 2004.

Rail Accidents Investigations 2001-2002

During the fiscal year, California freight railroads operated 30 million train miles, a 6.8% decrease from the previous year. A total of 531 train accidents or hazardous materials releases involving passenger and freight trains were reported, resulting in 136 fatalities. This compares to 494 accidents and 111 fatalities reported in the previous period. These include 204 FRA-reportable accidents/derailments, compared to 203 such accidents in 2000, a 0.5% increase. No train employees were killed on the job during this period (one was killed in 2000).

Railroad Accidents

- The most significant accident investigated by the Commission during the fiscal year occurred on April 23, 2002 at 8:08 a.m. when a Burlington Northern Santa Fe (BNSF) freight train struck a Metrolink train while the passenger train was crossing over from one main track to another. Metrolink's lead "cab car" and two following coaches derailed. Three passengers died, two on the day of the accident and a third on June 7, 2002. Twenty passengers were hospitalized, and 161 passengers received medical treatment.

  Commission Railroad Safety Inspectors were the first regulatory personnel on the scene, arriving within 20 minutes of the crash. A full National Transportation Safety Board (NTSB) "Go Team" was launched from Washington, D.C. and an investigation was immediately started. When the NTSB and the FRA personnel arrived, Commission representatives briefed all of the arriving regulators and senior personnel. Preliminary findings indicate that the BNSF freight train crew failed to observe yellow warning lights indicating that a red stop signal was ahead. By the time the crew saw the red signal and the passenger train, they were unable to avoid a collision.

In wake of the accident, the Commission instituted a major efficiency test audit of BNSF and Metrolink's efficiency testing programs (supervision in the field by railroad officers of crew performance) and monitored such events to ensure adequate testing of operating crews, especially for their reactions to control signals that require them to slow down or stop. Staff will continue such test audits into the next fiscal year.

- On July 1, 2001, two individuals in Carlsbad were struck and killed by an Amtrak train after walking around lowered gates. Numerous accidents involved trespassers on railroad right of way, some of which appear to be attempted suicides. Staff is exploring mitigating measures such as added fencing, railroad police patrols, and continued education to the public through Operation Lifesaver to protect potential trespassers from moving trains.

- On November 23, 2001, an Amtrak train slammed into a farm tractor, killing the tractor driver, injuring 12 of the 120 train passengers, and setting the surrounding fields on fire. The Commission worked with Operation Lifesaver to provide two farm trains to educate farm and field workers about the dangers of trains in Ventura County, where 24 people have died in accidents involving Amtrak and Metrolink trains since 1992.

- On June 25, 2002, at Buttonwillow, a San Joaquin Valley Railroad contracted backhoe operator (not a railroad employee) noticed an air hose lying along the track. He left the backhoe motor running, dismounted the machine, coiled the air hose, and tossed it into the cab where it landed on the lever that caused the boom arm to rotate and fatally entrap him. The Commission continues to emphasize job briefings and safe work practices identified in FRA's Roadway Worker Protection regulations.

- On July 5, 2001, an uncontrolled Union Pacific (UP) tank car struck two light switch locomotives at Aurant Yard in Los Angeles. The engineer sustained severe bruising to his shoulder and several cuts; the conductor sustained head trauma, cuts, and bruises. The brakeman had a fractured right wrist, a fractured left ankle, cuts, and bruises. The Commission has focused inspection efforts on railroad operating rules that require securing the hand brakes on standing equipment.

- On September 25, 2001, a UP switchman suffered the amputation of his right leg during a Los Angeles switching accident when he was apparently unaware of the train's close proximity. Commission's Switching Operations Fatality Analysis (SOFA) audits in switching yards have resulted in interventions when unsafe practices are observed, especially poor radio procedures, getting onto or off moving equipment, and going in between cuts of cars subject to unexpected movement.

- On November 21, 2001 (Thanksgiving Eve) at Fleta (near Mojave) a collision occurred when a UP freight train traveling 40 mph on the main line sideswiped two standing, previously derailed, hopper cars. The lead locomotive derailed on its right side; the remaining locomotives and 31 loaded hoppers of potash derailed and came to rest in an accordion-type pileup. Commission investigators responded to the accident scene and found that the conductor of a previous train had placed empty cars on the siding without properly inspecting them. The conductor was unaware that a harsh coupling onto standing equipment had caused two cars to buckle out to partially obstruct the main line. The investigators subsequently monitored crew performance through SOFA observations, inspections and audits of carrier efficiency testing.

- On January 8, 2002, a UP unit coal train derailed 31 cars at Cantil (near Mojave) on the Lone Pine Branch. A track defect caused the derailment. The Commission continues annual main and branch line track inspections pursuant to legislative mandate and monitors carrier records to ensure proper track inspections by the carrier.

- On January 21, 2002, a local freight train traveling on UP's Chino Branch, derailed 7 cars due to a track defect. A Commission track inspector found that "FRA excepted track," where minimal regulatory standards apply contingent on low speeds and restricted hazardous commodities, was the norm on this branch line. His intervention, nonetheless, resulted in extensive inspection of operative track in the area.

- On March 4, 2002, a UP freight switcher was involved in an incident that resulted in the uncontrolled movement of five cars, which traveled five miles before derailing at Orange Junction. The Commission focused its inspection efforts on railroad operating rules, which require securing hand brakes on standing equipment.

Rail Transit Safety

- The Commission is the designated oversight agency for the Federal Transit Administration's (FTA) safety regulation of rail transit systems in California. The Commission's Rail Transit Safety staff review and approve the system safety program plan of each rail transit agency, investigate accidents and hazardous conditions, approve corrective action plans, and perform on-site triennial reviews of each rail transit agency's safety program. The Commission carries out this program for the following rail transit agencies that come under FTA jurisdiction:

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

The Commission also provides safety oversight for the design and construction of rail extensions and new systems. Currently each of the existing systems is building at least one extension.

Rail Extensions Under Review

- BART West Bay Extension (SFO),
- LACMTA Pasadena Blue line
- LACMTA East side Extension
- SRTD South Extension
- SRTD Folsom Extension
- SDTI Mission East
- MUNI 3rd Street Extension
- SCVTA Capitol Extension
- SCVTA Vasona Extension
- SCVTA Tasman East Extension

In addition, the Commission is providing safety oversight for Angel's Flight Funicular, the new Los Angeles Farmer's Market trolley, the Port of Los Angeles's trolley line in San Pedro (Red Car), the North San Diego County Transportation District's final design stage of a new light rail system between Oceanside and Escondido, and San Francisco International Airport's people mover system (AirTrain). The Commission is also monitoring several other proposed systems that are in the planning stage.

During the fiscal year the Commission also performed triennial safety reviews of the SCVTA and SRTD transit systems. It completed safety certification on Phase 2 of BART's advanced automatic train control system.

Major Rail Transit Accidents 2001-2002:

- On March 15, 2002, an outbound two-car San Francisco Municipal Metro N line train derailed on a curve as it emerged from the westerly end of the Sunset Tunnel. The train traveled more than 120 feet from the point of derailment and finally came to rest after entering Carl Street. All six axles on the lead car left the track. Ten passengers were injured. Two passengers received treatment at the scene and three additional passengers were transported by ambulance to hospitals for treatment of injuries. Damage to the train and structures exceeded $100,000. The primary cause of the derailment was attributed to the train operator's failure to adhere to the reduced speed posted for the curve where the derailment occurred.

- On February 28, 2002, an inbound F-Line Sacramento Regional Transit District light rail train derailed at the spring switch just West of 17th Street crossing in Sacramento. At the time of the derailment, there were 92 passengers on the two-car train. There were no fatalities, but four passengers on the train were transported by ambulance to local medical facilities for treatment of injuries.

The Commission's preliminary investigation determined that the accident occurred due to the failure of the spring switch to function properly and failure of the train operator to operate the train according to prescribed rules and procedures. As the Commission's investigation continues, it will focus on the adequacy of the transit district's signal by-pass rules and procedures; spring switch maintenance and inspection practices, and the design standards that permit installation of spring switches in mainline locations where they are subject to facing point train operation.

Passenger/Household Goods Carriers

The Commission is responsible for licensing and registering various providers of for-hire and private transportation services within California.

INDUSTRY OVERVIEW

222	Passenger Stage Corporations
3,426	Charter-Party Carriers
2,293	Private Carriers of Passengers
21	Vessel Common Carriers
254	For-Hire Vessel Operators
210	Commercial Air Operators
1,078	Household Goods Carriers

The majority of the Commission's activities relate to the licensing of for-hire household goods and passenger carriers. To obtain an operating permit or certificate, these carriers must file evidence of liability and workers' compensation insurance, and meet safety, fitness and consumer protection standards. Permits and certificates are subject to suspension and revocation if the carrier fails to maintain continuous insurance in effect or comply with other statutory or Commission requirements:

Carrier Registration FY 2001/2002

	Passenger	Household Goods
Authorities issued (new)	985	112
Authorities issued (renewal)	837	--
Authority suspensions	3,901	963
Authority revocations	918	243

The Commission facilitates consumer awareness in competitive markets by providing information and education consumers need to make informed choices regarding competing service providers, monitors consumer problems it needs to prevent or address, and investigates utility and transportation entities practices for compliance with applicable tariffs, rules, and statutes.

In the utility area, which includes telecommunications and energy utilities, electric service providers, mobile telephone service providers, and water utilities, the investigations focus primarily on violations that involve consumer fraud and abuse, such as "slamming" (switching a customer from one telephone service provider to another without the knowledge and consent of the customer) and "cramming" (placing charges on a customer's phone bill for goods and services without the consent of the customer). In the transportation sector, enforcement usually involves investigations into alleged violations by transportation entities, including household goods movers, charter-party carriers of passengers and limousine operators.

Investigations may result in formal actions by the Commission, which issue Orders Instituting Investigation (OII), and, where warranted, takes enforcement action such as suspension or revocation of operating authorities, and ordering fines and restitution. Cases are sometimes referred to state and local prosecutors for further civil or riminal prosecutions.

Accomplishments 2001-2002

Utilities

- Talk America, Inc. - On June 27, 2002, the Commission in Decision 02-06-073 adopted a settlement agreement wherein respondent Talk America, a long distance telephone service provider, agreed to pay $625,200 in fines and $374,800 in restitution to 14,992 California consumers. The respondent admitted to violating Public Utilities Code Section 2889.5, by failing to verify customers' decisions to change their long distance telephone service to Talk America by an independent third-party verification company.

- Long Distance Charges, Inc. & Tel-Save, Inc. - On June 27, 2002, the Commission in Decision 02-06-075 adopted settlement agreements wherein respondents Long Distance Charges and Tel-Save agreed to pay $136,000 in penalties and $152,000 in restitution to 6,020 California consumers who alleged the respondents slammed them.

- Telmatch Telecommunications, Inc. - On June 27, 2002, the Commission in Decision 02-06-077 found that Telmatch Telecommunications (Telmatch), a long distance telephone service provider, violated Public Utilities Code Section 2890 (cramming). The decision ordered that Telmatch's operating authority be revoked, and ordered the company to pay $1.74 million in fines and $5.5 million in restitution to California consumers. The Commission's investigation alleged that Telmatch billed over 120,000 California consumers, during the years 1997-1999, for a calling card that they had neither requested nor used.

- VarTec Telecom, Inc. - On April 4, 2002, the Commission in Decision 02-04-020 adopted a settlement agreement wherein respondent VarTec Telecom agreed to pay $80,000 in fines and, on behalf of its subsidiary, U.S. Republic, restitution ($25 checks) to 101 former customers who were allegedly slammed by U.S. Republic. VarTec Telecom also admitted in the settlement agreement to violating Public Utilities

Code provisions by selling U.S. Republic without prior Commission authorization, failing to provide former customers with notice of the sale of U.S. Republic, purchasing Choctaw Communications without prior Commission authorization, and selling Choctaw Communications to 1-800-Reconex without prior Commission authorization.

- WorldCom, Inc. - On July 20, 2000, the California State Attorney General's Office and the Commission jointly filed a civil complaint (Case No. 313730) against WorldCom, Inc. On March 7, 2002, the Commission entered into a settlement agreement wherein defendant WorldCom, Inc. agreed to pay the State of California $8.5 million in civil penalties. The defendant also agreed to cease certain business practices that the Commission felt contributed to high levels of slamming and cramming complaints. During the period 1999 to 2002, the Commission's Consumer Affairs Branch received over 1500 slamming and cramming complaints against WorldCom.

- Qwest Communications Corporation (Qwest) - On December 5, 2001, a proposed decision found that Qwest, a long distance telephone service provider, violated Public Utilities Code Sections 2889.5 and 2890. The proposed decision ordered the respondents to pay $38,265,500 in fines and an unspecified amount in restitution to California consumers. The Commission's investigation alleged that the respondents, during the years 1999 and 2000, had generated 90,000 slamming and 6,553 cramming complaints. A final decision is expected early in FY 2002-03.

- Vista Communications, Inc. - On September 6, 2001, the Commission in Decision 01-09-017 found that Vista Communications, a long distance telephone service provider, violated Public Utilities Code Section 2889.5 (slamming). The decision ordered Vista Communications to pay $7 million in fines and $215,460 in restitution to approximately 10,773 California consumers.

- Cingular Wireless - On June 6, 2002, the Commission ordered an investigation (I.02-06-003) into the business practices of Cingular Wireless. The respondent sells mobile telephones bundled with wireless and long-distance telephone services. The Commission's investigation alleges that the respondent, through its advertisements, promised consumers adequate system coverage and capacity, but in the same advertisements, in small print, the company's promise of adequate coverage was taken back under a disclaimer of warranty. It is also alleged that some consumers who wished to cancel their service for lack of coverage had to pay an early termination fee and other fees that made cancellation more costly than continuing to use the service. The Commission will investigate whether Cingular Wireless' sale of cellular telephone service and equipment violated the laws of this State or the orders and regulations of this Commission.

- NOS Communications, Inc. & Affinity Network, Inc. - On May 2, 2002, the Commission ordered an investigation (I.02.05-001) into the business practices of NOS Communications (NOS) and Affinity Network, to determine if the respondents violated Public Utilities Code Section 2890, by billing consumers for unauthorized charges for long distance telephone calls. The Commission received 850 complaints in 1999 and 2000 from customers alleging that the respondents promised them a per minute usage call rate but charged them in "Total Call Units" (TCU).

- Verizon California - On April 22, 2002, the Commission ordered an investigation (I.02-04-027) into the business practices of Verizon, in which the Commission directed staff to retain and supervise outside consultants to undertake a review of Verizon's compliance with the Commission's rules governing Individual Case Basis contract filing requirements.

- Pacific Bell Internet & SBC Advanced Solutions, Inc. - On January 23, 2002, the Commission ordered an investigation (I.02-01-024) into the business practices of SBC Advanced Solutions, Inc. (ASI), to determine if the respondents violated Public Utilities Code Section 2890 (cramming). The investigation also seeks to determine if Pacific Bell failed to adequately report the number of cramming complaints it received for its affiliate, ASI, to the Commission, as required by Commission Decision 00-03-020.

Transportation

Household Goods Carriers

- Best Movers - Commission investigation disclosed that this household goods carrier continued to advertise its moving services and to conduct operations as a household goods carrier without a permit in force during a substantial part of the year 2000. In addition, the investigation disclosed that the carrier failed to put estimates in writing; failed to complete documents with the consumer protection information required by the Commission; failed to provide competent, trained, and adequately supervised moving crews; and failed to respond to customers claims of loss, damage, overcharges and poor service. In Decision (D.) 02-05-028, the Commission allowed the company to reinstate its permit of it addressed the shortcomings identified in the investigation.

- Affordable Apartment Movers- Commission investigation disclosed that this household goods carrier failed to respond to customers' claims for loss and damage; provided illegal verbal estimates; charged more than the provided estimate; failed to respond to Commission inquiries into customers' complaints; failed to maintain on file with the Commission evidence of insurance for public liability; and continued to advertise and conduct operations as a household goods mover for extended periods without a valid permit in force. A decision is expected by September 2002.

- Starving Students - Commission investigation disclosed that this household goods carrier is alleged to have significantly under-reported its gross operating revenue to the Commission in order to under-pay regulatory fees to the Commission, and operated during a period of suspension for failure to have valid insurance in effect and on file with the Commission. Reports from Commission enforcement staff and declarations from 58 consumers also indicate that the carrier may have failed to timely acknowledge and process consumers' claims for lost, stolen or damaged goods; failed to properly supervise and manage its employees and facilities resulting in items being stolen while in the carrier's custody; provided illegal verbal estimates; charged more than the provided estimate. Hearings are scheduled for September 2002.

Carrier and Vehicle Inspections

The Commission participated in the following carrier and vehicle inspections:

- On February 28, 2002 the Commission, along with representatives from the Los Angeles World (LAX) Airport Police and Landside Operations staff and the California Highway Patrol (CHP), inspected 96 vehicles at Los Angeles World Airport. CHP and LAX Airport Police officers issued 11 citations for various California Vehicle Code violations. Commission staff completed 74 observation reports on carriers; found 18 carriers with no violations of Commission requirements; placed 8 carriers on Official Notice of failing to enroll drivers in the DMV Employer Pull Notice Program; and sent letters to 13 carriers, instructing them to correct their reports of equipment listed with the Commission.

- On February 28, 2002, the Commission, along with representatives from the CHP, the U.S. Dept. of Transportation Federal Highway Administration, and Viejas tribal gaming staff, inspected 25 buses at the Viejas Casino in Alpine, California. Four buses were placed out of service for mechanical violations, two of which were cited for operating without a valid Commission permit.

- On June 12, 2002, the Commission, along with representatives from the LAX Airport Police and CHP, inspected 43 vehicles. CHP officers issued 16 citations and placed one vehicle out of service for mechanical violations. LAX Airport Police officers issued 32 Administrative Citations and 8 misdemeanor and traffic citations. Commission staff checked the status of 83 carriers, and found 5 who did not have valid Commission permits to operate. The violations were included in misdemeanor citations issued by LAX Airport Police officers.

The Commission investigates gas and electric incidents that involve loss of life, serious injury, media attention, fire, and property damage exceeding specific limits. The purpose of its investigations is to determine whether violation of Commission orders contributed to the incident and whether to recommend changes in Commission orders to prevent future incidents. Under contract with the US Department of Transportation, the Commission inspects gas distribution facilities of utilities, master metered mobile home parks, and propane master tank operators for compliance with federal regulations.

Accomplishments 2001-2002

Electric

The Commission inspects electric and communication utilities for compliance with its general orders for construction of overhead and underground lines. It investigates incidents meeting specified criteria such as those involving injuries or significant property damage. It also investigates safety-related complaints from the public. The Commission:

- investigated 318 electric incidents.
- performed 28 inspections of overhead electric lines and found 4,118 infractions.
- performed 11 inspections of underground electric lines and found 510 infractions.
- investigated 200 safety-related complaints from members of the public.

Gas

The Commission inspects gas utilities for compliance with federal pipeline safety regulations. It also investigates incidents meeting specified criteria such as release of gas and injury requiring overnight hospitalization and:

- investigated 40 gas incidents.
- performed 27 inspections of gas utilities and found 166 infractions.
- investigated 90 safety-related complaints from members of the public

Mobile Home Parks

The Commission inspects master-metered mobile home parks, and propane master tank installations for compliance with federal pipeline safety regulations. The Commission issues citations to master-metered mobile home parks for refusal to correct infractions.

The Commission:

- inspected 317 master-metered mobile home parks and found 1,495 infractions. (Twenty-one parks were free of infractions.)

- cited 10 mobile home parks, assessed $7,500 in fines, and collected $4,500
- inspected 34 propane master-tank operators and found 158 infractions. (3 operators were free of infrac tions)

Investigation of Merchant Power Plants

The Commission conducted over 550 field inspections of merchant power plant units from July 1, 2001 to June 30, 2002, to ensure that scheduled and unscheduled (forced) outages reported by the power plants were legitimate.

Playa del Rey Complaints

In August 2000, the Commission investigated three complaints from residents of Playa del Rey, located in Southern California. The complainants allege that Southern California Gas Company's storage facilities and reservoir were leaking natural gas into the atmosphere and that abandoned wells were leaking natural gas, creating a health and safety hazard to the residents and general public. The Commission determined that there are gas leaks in the area. The Commission will continue its investigation to determine the source of the leak.

Overhead Electric Lines/Underground Construction

On January 10, 2001, the Commission issued an Order Instituting Rulemaking (OIR) to revise Commission General Orders (GO) Numbers 95 and 128. GO 95, "Rules for Overhead Electric Line Construction" and GO 128, "Rules for Construction of Underground Electric Supply and Communication Systems" formulate uniform requirements for overhead and underground electric and communication line construction for the State of California. Workshops are being conducted to attempt to reach consensus on the 53 rule changes proposed by the Commission and other parties. Among the parties attending are electric and communication utilities, utility employee unions, consultants and Commission staff. At the conclusion of the workshops, a workshop report will be released summarizing the parties' positions on the proposed rule changes.

Public Payphones Programs

The Commission has administrative oversight over three public payphone programs. The Public Policy Payphone Program (PPPP) provides payphones to the general public in the interest of public health, safety, and welfare at locations where there would otherwise not be a payphone. The PPPP is funded by a portion of the monthly surcharge applied on all payphone access lines in the state. The Payphone Service Providers Enforcement (PSPE) program ensures that payphone consumer safeguards are followed and subjects all payphones in service in California to compliance inspections. Fees on the monthly rates paid by payphone access line subscribers fund the PSPE. Finally, the Telecommunications Devices for the Deaf Interim Placement (TPIC) program provides publicly available telecommunications devices for the deaf and hearing-impaired in existing buildings, structures, facilities, and public accommodations. Funding for this program is collected from part of the Deaf and Disabled Telecommunications Program (DDTP) charge on utility customer bills.

Prior to October 1, 2001, external administrative committees, under Commission oversight, administered these programs and non-civil service employees under the direction of those committees did the work associated with these programs. SB 669 codified the funding for these programs and mandated that state employees under the control and direction of the Commission perform the activities associated with these programs. The former administrative committee structure has been replaced with advisory boards, which advise the Commission on the development, implementation, and administration of the programs.

Since assuming the direct administration of these programs, the Commission has:

- inspected 11,868 payphones
- found 13,018 violations

Strategic Planning Unit

The Commission envisioned the need for a new internal unit whose purpose would be to target egregious violators of Commission rules and regulations for investigation and potential enforcement activity. The Strategic Planning Unit (SPU) was created to provide the analysis of internal and external complaint information relating to utility compliance with the Public Utilities Code and to proactively initiate investigations based on identification of adverse service provider behavior.

During this period, SPU activity has focused on telecommunication service providers. Using both internal (Commission's Complaint Tracking System), and external (billing aggregators, Incumbent Local Exchange Carriers, other state Utility Commissions and Consumer Advocacy agencies) data sources, SPU established composite pictures of specific telecommunications service provider behavior in the market place. Utilizing a powerful database called Concordance, carrier information is captured in one location, along with anecdotal information about the carriers' management structure, history of litigation activity, and other pertinent information. The database also enables the SPU to track the worst offenders for constant monitoring and early warning of unfavorable business practices.

To date, the SPU has recommended 14 new investigations, identified 116 telecommunications service providers for tracking, identified 209 communications service providers that may be in violation of registration requirements, and established a list of the top twenty producers of consumer complaints received by internal and external sources. These companies were culled from a list of 1,728 telecommunication service providers currently conducting business in California.

Due to the success of the SPU activity to date, the Commission plans to expand the SPU's focus in the near future to encompass electric, gas, and rail utilities, including electric generating plants. This expansion will include the Commission's participation in the development of standards for electric generation plants, tracking plant-operating records to ensure compliance with those standards, and the analysis of data from plant inspections conducted by utility safety staff. The SPU will support the Commission's goal of effective enforcement through: 1) identification and prioritization of consumer problems, 2) formulation of effective rules to counter those problems, 3) detection of infractions through consumer complaints and a regular inspection program, 4) implementation of an effective procedure for imposing penalties for violations, and 5) institution of regular re-evaluations of the program. The consolidation of data collection, monitoring, and enforcement efforts and the analysis and evaluation of the Commission's system for identifying problems and acting upon them will enhance the Commission's ability to protect consumers in a competitive market environment.

The California Public Utilities Commission established the Office of Ratepayer Advocates (ORA) in 1997 in accordance with Senate Bill 960. Prior to 1997, a similar ratepayer advocacy division existed within the CPUC itself; that division's budget and personnel were determined by the CPUC. The legislation ensures that the Commission represents ratepayers by the creation of a separate division and that the division has adequate staff to accomplish its goals.

ORA is housed within the CPUC for administrative purposes, but unlike other Commission directors who report to the President, the Governor appoints the director of ORA to ensure independence from the CPUC with respect to policy analysis and advocacy. ORA's budget is a separate line item in the Governor's budget. The total budget for FY 2001-02 is $14 million and 114 person years.

The staff evaluates utility proposals, investigates regulatory issues, presents findings, and makes recommendations to the Commission. ORA advocates for consumers in Commission proceedings (e.g., in applications, complaints, investigations and rulemakings), in advice letter filings, Commission-sponsored working groups, advisory boards, workshops, and other forums. ORA also protects consumers from abusive marketing practices, and ensures consumers receive quality service on behalf of gas, electric, water and telephone ratepayers.

In addition to formal Commission proceedings, ORA also conducts a substantial amount of work outside of the hearing room. ORA reviews hundreds of utility advice letters every year, and protests those with adverse ratepayer impacts. ORA staff review consumer complaints to monitor problems customers encounter with utilities and competitive providers of utility services to identify trends and protect consumers from unreasonable actions. ORA conducts Commission-ordered periodic monitoring of utility performance and operation, and brings to Commission attention any problems that may be causing ratepayer harm. In addition, ORA monitors the marketplace to discern broader trends and the consumer impact of these trends.

During this fiscal year, five regulated energy companies filed General Rate Case (GRC) applications. A significant level of the division's staff is dedicated to reviewing and evaluating these applications, and ORA will ultimately submit reports on its findings and recommendations in the next fiscal year. ORA will file its report on Southwest Gas Company's GRC in July 2002 and Southern California Edison Company's (SCE) GRC in October 2002. ORA will be filing its report pertaining to the GRC applications of Pacific, Gas and Electric Company (PG&E), Sierra Pacific Power Company and PacifiCorp in 2003.

Accomplishments 2001-2002

Electricity

- The Commission adopted ORA's proposal to allocate merger savings of $124 million to customers of Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) in 2003. This results in customer savings that are $58 million greater than the utilities recommendation. SoCalGas and SDG&E gas ratepayers will receive a one-time bill credit in 2003 to reflect their portion of the savings, while savings due to SDG&E electric ratepayers will be used to reduce the high electricity costs accrued during the energy crisis.

- ORA opposed PG&E's request for an electric attrition rate increase of $184.6 million in 2001. The Commission granted a lower increase of $150.8 million that was determined by adopting some of the adjustments recommended by ORA.

- The Commission reduced Southern California Edison Company's requested electric distribution rate increase for 2001 by $15.17 million, which reflected a portion of the total adjustment to SCE's request recommended by ORA. As proposed by ORA, the Commission made modifications to the utilities' performance incentive standards.

- The Commission adopted a Settlement Agreement between ORA, Southern California Water Company, and Bear Mountain, Inc. that increased electric rates in the utilities' Bear Valley Electric District by $6.0 million related to high energy costs. The increase was $1.85 million (or 23.5%) lower than the $7.85 million sought by the utility. Southern California Water Company also agreed to forego a $600,000 rate increase for its water utility operations in 2002.

- ORA provided evidence to the Commission, calling for a revenue requirement for utility retained generation $3.6 to $7.0 billion lower than PG&E's and about $1.3 billion lower than SCE's.

- ORA challenged SDG&E's claim that contracts signed after December 1995, should only benefit shareholders. This is a $291 million issue now before the Commission.

- ORA reviewed SDG&E's electric procurement, and found that SDG&E had failed to adequately manage risk. ORA and SDG&E have reached a settlement that would disallow $100 million in SDG&E's electric procurement costs.

- ORA successfully argued to not terminate the electric direct access program retroactively to July 1, 2001. ORA's proposal to instead charge an exit fee, which would make ratepayers indifferent to migration from bundled service to direct access between July 1, 2001 and September 20, 2001, the actual suspension date, is now being implemented in R.02-01-011.

Gas

- ORA has developed gas purchase incentive mechanisms, which ensure that the utilities procure gas supply at the lowest possible cost. Ratepayer savings (based on comparisons to market based benchmarks) over the last seven to eight years have totaled approximately:
  - $235 million for SoCalGas customers
  - $59 million for SDG&E customers
  - $75 million for PG&E customers

- ORA was a signatory to a settlement submitted in the PG&E Biennial Cost Allocation Proceeding (BCAP), adopted by the Commission. It resolved various cost allocation issues and resulted in transportation rate decreases of $93 million annually and $20 million annually for core and noncore customers, respectively, for a two year period (2002-2003).

- ORA participated in the Wild Goose Storage, Inc., proceeding in which Wild Goose, an independent storage provider, sought an amendment of its certificate of public convenience and necessity (CPCN) to expand its storage facilities in California. ORA supported Wild Goose's request to expand but objected to any determination that PG&E should expand its facilities to serve Wild Goose and then allocate those costs to all ratepayers. The Commission ruled in ORA's favor, determining that to the extent that there is insufficient capacity on the PG&E system to meet Wild Goose's demand, firm service should continue to have the highest priority and "interruptible" capacity should be allocated among all customers.

- ORA initiated a proposal that resulted in a settlement adopted by the Commission to sell SoCalGas' Montebello gas storage assets. This resulted in a one-time immediate annual rate reduction of $44.1 million, with continuing annual savings of about $14 million.

- The Commission adopted ORA's proposed modifications to the methodology used to develop SDG&E's core and non-core rates that will reduce core procurement rates by approximately $2 million annually.

- ORA participated in the Southwest Gas (SWG) Procurement Investigation, recommending a $7.3 million disallowance for imprudent storage practices. The Commission ultimately imposed a disallowance of $2.7 million on SWG shareholders based on ORA's finding of imprudence and its associated disallowance methodology.

- ORA was a signatory to the SoCalGas Comprehensive Settlement Agreement (CSA) adopted by the Commission in December 2001. The CSA unbundles SoCalGas' intrastate backbone transmission, storage, balancing, and core interstate capacity. It was estimated that the CSA would reduce rates by up to $10 million annually.

Telecommunications

- Deceptive Marketing Practices: ORA joined in charging Pacific Bell (PacBell) with using deceptive marketing practices. ORA's ability to present evidence of actual sales staff conversations with customers was key to the CPUC's ordering Pacific to cease the unlawful activity and imposing a $25.5 million fine.

- Prompted Repeat Dialing: ORA charged PacBell with violating state laws, Commission orders and Pacific's own tariff in deploying prompted repeat dialing on the lines of its residential customers to interrupt the busy signal with an advertisement. The Commission ordered Pacific to remove the service or get its customers' permission to continue to play the prompt.

- Repair Service Interval: ORA charged PacBell with violating state laws and Commission orders based on the deterioration of PacBell's residential repair service. Since the merger of SBC and PacBell, PacBell's residential customers have experienced longer periods without dial tone waiting for Pacific to make repairs. The pending decision grants ORA's complaint in part.

- The Commission agreed with ORA in its decision to require Roseville Telephone Company to share more than $4.2 million of 1998 and 1999 earnings with its customers.

- The Commission agreed with ORA to require Citizens Telephone to keep existing service guarantee rules for new customers, freeze rates and charges for up to 5 years and extend telephone service to the unserved Indian reservations of the Hoopa Valley Indian Tribe and the Yurok Indian Tribe.

- ORA opposes Verizon's requests to raise the monthly ceiling rate for residential and small business inside wire repair services. Verizon's market power over inside wire repair services remains dominant, if not actually increasing. Verizon already recovers far more than its costs for these services.
- ORA is actively participating in the NRF review of Pacific Bell and Verizon. ORA proposes over $100 million be refunded to ratepayers resulting from its audit of Verizon and proposes over $400 million be refunded to ratepayers in its audit of Pacific.
- ORA is actively participating in Roseville Telephone Company's general rate case investigation. ORA opposes Roseville Telephone Company's revenue requirement request to recover $11.5 for EAS which payment from Pacific Bell was terminated. Roseville continues to demonstrate that it is financially healthy.
- The Commission agreed with ORA to dismiss Pacific Bell's request to transfer assets of its broadband and other advance services to an SBC affiliate, Advanced Solutions, Inc. (ASI) ORA opposed Pacific Bell's request due to the United States Circuit Court of Appeals decision changing the ground rules under which ASI operates.
- ORA opposed Verizon's ratemaking treatment of the gain in sale of its headquarters building. ORA proposed that the net gain in the tens of million of dollars resulting from the sale of the headquarters building, which ratepayers funded, should be refunded to ratepayers.
- ORA opposed Verizon's request to recategorize its National Directory Assistance and Operator Assisted Services as Category III services, fully competitive services. Verizon continues to possess market power in the market of these services.

Water

- ORA protested procedures for balancing account offset rate increases and recommended that requests for all offset rate increases be subjected to recorded earnings test. The recorded earnings test will save California ratepayers millions of dollars and prevent water utilities from receiving additional offset rate increases when they are earning above their authorized rate of return. An Order Instituting Rulemaking was issued and the Commission's proposed decision sided with ORA.

- California Water Service filed a $12.3 million offset rate increase for increases in costs associated with its general office operations. ORA protested this offset rate increase on grounds that general office costs should not be passed on to ratepayers through a simplified offset proceeding because the utility had full control over these costs. The Commission agreed with ORA and denied the entire $12.3 million increase.

- ORA also negotiated a partial settlement for the majority of the issues in California Water Service Company's general rate increase requests for its 15 districts. The settlement reduced the original rate increase request of $40.0 million to $19.6 million, thus saving the ratepayers $20.4 million in rate increases.
- In California Water Service Company's rate case, ORA introduced into evidence an exhibit listing various repeated violations of the Public Utilities Code and Commission decisions when the utility (a) acquired and operated three water systems without obtaining Commission approval; (b) charged unauthorized rates in violation of Section 532 of the Public Utilities Code; and (c) violated provisions of a Commission decision that required the utility to follow certain steps when acquiring another utility. ORA contended that the Commission was never given an opportunity to determine whether the acquisitions were in the best interest of the ratepayers. A final decision in this matter is pending.

- San Gabriel Water Service filed a rate case application to increase revenues by 30.4% in 2002, 17/8% in 2003, and just over 5% per year in 2004 and 2005. After scrutinizing the utility's costs of service and requested a return, ORA negotiated a settlement with San Gabriel Water Service, which the Commission adopted with few modifications. This settlement reduced San Gabriel's rate increase from $9.5 million to $3.4 million in 2002. In 2003, 2004, and 2005, San Gabriel's rate increases will be limited to $1.55 million per year, considerably less than the company's proposed increases of $7.2 million in 2003, and $2.7 million in 2004 and 2005.

Keeping Rates Affordable/Low Income Advocacy:

- ORA advocated to exempt qualifying low income customers from electric rate increases resulting from the energy crisis last winter, effectively increasing the standard 15% discount offered by the rate assistance program from 22% to 59%, depending on usage.

- ORA supported increased penetration rates for the energy low-income rate assistance program (CARE) to ensure those who needed assistance got it.

- ORA recommended, and the Commission adopted, self-certification with random post-enrollment verification procedures to eliminate barriers to program participation and protested utility efforts that would have made enrollment more burdensome for CARE program participants.

- ORA advocated to ensure that low income energy efficiency (LIEE) programs were implemented in a fair and cost-effective way, to ensure that resulting customer bill savings reduced hardship and made energy more affordable. ORA worked closely with the Legislature to ensure passage of a bill which clarified that those community-based organizations and contractors implementing the LIEE program be selected based on criteria that included both cost-of-service and quality-of-service criteria.

- ORA plans on pursuing a rate discount for low-income water customers. Currently only 2 of the 64 large water districts regulated by the PUC have such programs.

- ORA advocated , and the Commission concurred, that ratepayers be represented on a number of boards advising the Commission on telecommunications service, including access rates to high cost areas; discounted telecommunications services to schools, hospitals, and Community Based Organizations; the Deaf and Disabled Telecommunications Program; and low income assistance programs.

UTILITY MATTERS	HEARING DAYS	DECISIONS
COMMUNICATIONS		
Agreement Approval	12	11
Certificate	7	68
Commission Investigations	11	18
Complaint	29	58
Discontinuance		3
Expansion of Service		2
Lease of Property	1	1
Miscellaneous	8	22
Mortgage/Issue Notes		1
NDI Registration		96
PM/Rehearing of Resolution		5
Project	3	
Rate Request	1	2
Rulemaking	40	32
Transfer	3	28
Total	115	347
ELECTRIC		
Agreement Approval	2	5
Certificate	13	2
Commission Investigations	15	7
Complaint	23	37
Financial Review	1	4
Lease of Property		12
Major Rate Request		1
Miscellaneous	25	28
Mortgage/Issue Notes		1
PM/Rehearing of Resolution		2
Programs	5	7
Project		3
Rate Request	44	55
Rulemaking	36	41
Transfer	1	6
Total	165	211

UTILITY MATTERS	HEARING DAYS	DECISIONS
GAS		
Agreement Approval		1
Commission Investigations	11	2
Complaint	5	7
Discontinuance		1
Expansion of Service		1
Miscellaneous	15	5
Mortgage/Issue Notes		2
PM/Rehearing of Resolution		1
Rate Request	3	6
Rulemaking		3
Transfer	1	1
Total	35	30
MISCELLANEOUS		
Commission Investigations	6	2
Complaint		8
Grade Crossing		3
Insurance		1
Lease of Property		1
Miscellaneous	5	12
Mortgage/Issue Notes		2
Rate Request		3
Rulemaking	2	9
Transfer	3	4
Total	16	45
RAILROAD/GRADE		
Commission Investigations	4	1
Complaint		2
Grade Crossing	1	13
Miscellaneous	2	11
Total	7	27

UTILITY MATTERS	HEARING DAYS	DECISIONS
SEWER		
Certificate	3	1
Total	3	1
TRANSPORTATION		
Certificate	2	2
Commission Investigations	5	8
Complaint	4	6
Expansion of Service		1
Grade Crossing	17	17
Household Goods Carrier		5
Miscellaneous	2	23
Passenger Stage	2	12
Rate Request		1
Transfer		10
Total	32	85
WATER		
Certificate	1	1
Commission Investigations	7	7
Complaint	5	11
Miscellaneous	5	6
Mortgage/Issue Notes		6
PM/Rehearing of Resolution		2
Programs		3
Rate Request	35	6
Transfer	4	6
Total	57	48
Total	***430***	***794***