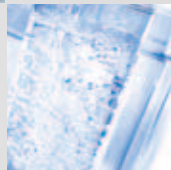
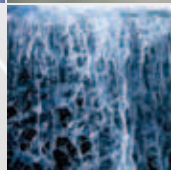




California Public Utilities Commission

2010 Annual Report



LETTER TO THE GOVERNOR AND LEGISLATURE

Honorable Edmund Brown Jr., Governor of the State of California, and distinguished members of the California State Legislature:

I am pleased to present to you the California Public Utilities Commission's 2010 Annual Report and Work Plan. This report highlights major accomplishments and activities of the CPUC in 2010, and offers a view towards what is ahead in 2011 and beyond.

The CPUC plays a key role in making California a national and international leader in a number of important policy areas for the industries we regulate.

In 2010 we made progress on a number of important energy initiatives. We saved ratepayers over \$3.8 billion through our energy efficiency programs, completed a major milestone in the effort to bring electric vehicles to market, saw more new renewable energy come online than any year prior, and made substantial progress in the California Solar Initiative's efforts to install 3,000 megawatts by installing over 16,000 new systems. We have also worked hard to ensure that low income customers are receiving information about available discounts and services during these difficult economic times. Close to 5 million homes are enrolled in our CARE program, providing discounted energy rates to eligible customers.

The CPUC is also actively involved in many different aspects of the rapidly changing communications and broadband markets. The CPUC leveraged funds from the American Recovery and Reinvestment Act (ARRA) to use with the California Advanced Services Fund to help bridge the digital divide and to secure additional resources to perform facility mapping within California, providing the ability to identify locations where services are and are not available, and raising consumer awareness of our low income California LifeLine Telephone Program.

In 2010, the CPUC updated its Water Action Plan providing a roadmap for water policy for the investor-owned water utilities. The CPUC continues its dedication to developing rate designs that promote water conservation and providing and improving assistance programs for water utility low income customers. Approval of the Coastal Water Project for the Monterey Peninsula represents a singular achievement in finding the next appropriate source of water in a supply constrained area.

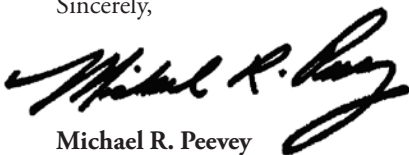
The CPUC also leads the states in increased rail and rail transit safety. Freight and passenger traffic on rails is on the rise, increasing the importance of safety, prevention, and early detection of danger zones before accidents occur.

In addition to all of this work, the CPUC continues to strive to make the California utility sector as diverse and inclusive as California itself. We also continuously work to improve our internal operations and efficiency. We decreased our backlog of consumer complaints and increased the use of electronic filing.

Perhaps most importantly of all, the tragedy of the PG&E natural gas pipeline explosion in San Bruno has put a renewed focus on the safe operation of the state's utilities and the CPUC's oversight. The CPUC continues its work to determine the cause of the explosion and will make any improvements necessary to ensure the safe operation of the state's pipeline operators.

On behalf of my fellow Commissioners and the staff, I am proud to present to you these achievements and many more like them, representing the groundbreaking work happening at the CPUC.

Sincerely,



Michael R. Peevey
CPUC President

**In 2010, the CPUC mourned the loss of five individuals
who brought passion, expertise and joy to the CPUC:**

Dana S. Appling

Kirk W. Bracht

Jacqueline Greig

Edward Quon

Donald R. Smith

This Annual Report is dedicated to their memory.

A digital copy of this report can be found at
http://www.cpuc.ca.gov/PUC/aboutus/docs_etc/ann_report/

Editing: Michael Colvin, Matthew Deal and Terrie Prosper

Design/Layout: Dan Hartmann

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COMMISSIONERS

President



Michael R. Peevey

Commissioner



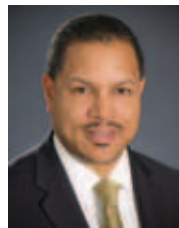
Dian M. Grueneich

Commissioner



John A. Bohn

Commissioner



Timothy A. Simon

Commissioner



Nancy E. Ryan



ABOUT THE CPUC

THE HISTORY OF THE CPUC

In 1911, the California Public Utilities Commission (CPUC) was established by Constitutional Amendment as the California Railroad Commission. In 1912, the Legislature passed the Public Utilities Act, expanding the Commission's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies. In 1946, the Commission was re-named the California Public Utilities Commission.

Today, almost 100 years old, the CPUC regulates privately-owned telecommunications, electric, natural gas, water, railroad, rail transit, and passenger transportation companies. The CPUC is responsible for assuring California utility customers have safe, reliable utility service at reasonable rates, protecting utility customers from fraud and promoting the health of California's economy.



DECISION-MAKING

The five CPUC Commissioners are appointed for six year terms by the Governor, with confirmation by the State Senate. Terms are staggered to assure that the CPUC always has the benefit of experienced members. The appointed Commissioners serve as the governing body of the agency, and make all of its final decisions.

The CPUC meets publicly at a minimum of once a month to carry out the business of the agency, which may include the adoption of utility rates, rules on safety and service standards, implementation of conservation programs, investigation into unlawful or anti-competitive practices by regulated utilities, and intervention into federal proceedings that affect California ratepayers.

The CPUC acts in both a quasi-legislative and quasi-judicial capacity. It establishes and enforces regulations, and like a court may take testimony, issue decisions, and subpoena witnesses and records. It holds hearings and workshops, and encourages participation in its proceedings by all affected parties, including the customers of the utilities it regulates.

Historically, general rate cases have been the major form of regulatory proceeding at the CPUC. In a general rate case, the utility bases its revenue request on its estimated operating costs and revenue needs for a particular future year. Under this approach, customer rates ultimately are based on the CPUC's determination of how much revenue the utility reasonably requires to operate. In recent years, the CPUC has also utilized other more innovative and flexible approaches to streamline the regulatory process and to meet California's policy goals.

The CPUC initiates investigations and rulemakings to explore broad policy issues, resolve procedural matters, investigate allegations of illegal utility activity or respond to legislative requirements. Typically, a proceeding begins with a prehearing conference that all interested parties attend, at which issues are identified and the process and schedule are discussed.

The CPUC has a variety of fact-finding tools it uses to inform its policy choices. It relies on evidentiary hearings when material issues of fact are in dispute, or on legislative-style hearings and workshops for policy issues. Workshops supplement the formal decision-

making process by providing an informal forum for the exchange of ideas and information, which is particularly useful in complex or contentious proceedings to establish facts and discover and define issues, to foster agreements and stipulations, and to work out ways to implement policy decisions made by the CPUC.

Based on the record evidence submitted over the course of a proceeding, an Administrative Law Judge (ALJ) prepares and distributes a draft decision within 90 days after submission of the case. Parties have the opportunity to comment on the draft decision, and then it is placed on the public agenda for consideration and vote by the Commissioners at a public CPUC meeting. The Commissioners may adopt, modify, or reject the draft decision, and may also offer an alternate decision for consideration by the Commissioners.

ORGANIZATION

In support of Commission decision-making and ongoing regulatory activities, the CPUC employs a staff of approximately 1,000 professionals. They include safety inspectors, customer service representatives, engineers, economists, attorneys, Administrative Law Judges, accountants, auditors, and administrative personnel. The staff is organized into both industry-specific and functional divisions. The leadership and work of those divisions is described in detail on the following pages.

In 2010, the CPUC:

- ***Opened 283 proceedings and Closed 391 proceedings***
- ***Decreased the average number of days that a proceeding is open to 121, an improvement of 78% from 2009***
- ***Held 286 days of hearings, over 8% more than in 2009***
- ***Issued 540 Decisions and 592 Rulings***
- ***Received over 8,100 documents, with more than 95% of them filed electronically***
- ***Closed 100% of the proceedings in a timely fashion***

The CPUC continues its efforts to minimize its waste stream, increase environmentally preferable purchasing and reduce energy use.

- ***Renewed staff focus on “reduce-reuse-recycle”, reducing paper and office supply expenses by 7% and furniture expenses by more than 70%***
- ***Conducted a comprehensive accounting of the building’s plug load energy use, which will be used to implement energy reduction strategies in 2011***
- ***The CPUC virtualized nearly 25% of its servers, cutting server energy use by more than 20%***
- ***In 2011, the CPUC plans to implement a printer networking project that will save more than \$50,000 in printing supply expenses***
- ***The CPUC plans to install electric vehicle charging stations in the parking garage in 2011***



ENGAGING THE CONSUMER

PROTECTING CUSTOMERS

The CPUC serves the public and is the customer's first point of contact when resolving complaints. The CPUC responds to customers of California's regulated utilities who have complaints, who require assistance, who request information or who need support in participating in the CPUC's public proceedings. In 2010, the CPUC also initiated a program that establishes an on-demand toll free number for a customer to contact during times of emergency.

OUTREACH TO CONSUMERS

In 2010 the CPUC began its transition to actively promote energy policy to all customer classes. Since energy regulatory policy is increasingly dependent on customers adapting their behavior, the CPUC is working to change its relationship with consumers. This is even more important as Federal and State legislation is mandating the transformation from the existing electric grid into a smart grid where customers are active participants rather than passive ratepayers.

Town Hall Meetings

As a result of this transition, the CPUC in 2010 conducted 10 town hall meetings and participated in more than 100 community sponsored events to explain why energy policy is being adopted and more importantly how the successful implementation of such policy depends on consumer partnership. The CPUC efficiently utilizes the influence and outreach base of community leaders and local governments to explain regulatory policies. In 2010, the CPUC attended and participated in city council meetings throughout the state as well as actively reaching out to local government to ensure that regulatory policy is explained prior to implementation. Additionally, the CPUC continued its work with community based organizations to help increase participation in programs for low income customers such as CARE, FERA, LifeLine, and Medical Baseline.

Small Business

In 2010, the CPUC sponsored three Small Business Expos for the purposes of educating small businesses about regulatory policy impacting their business. Approximately 1,000 California Small Business Owners attended the expos. The events featured a matchmaking session where procurement personnel from the utilities and state agencies held individual 10 minute meetings with small business owners. The expos included workshops on:

- ▶ California's Energy Leadership: What It Really Means to Your Business
- ▶ How to Do Business With the State and Utilities
- ▶ Access To Capital: How Small Business Can Access Financing
- ▶ Social Media Marketing: How to Use Emerging Web Tools To Grow Your Business

The CPUC is also actively working with various local Chambers of Commerce to explain how regulatory policy can positively impact a business' bottom line by making simple behavior changes and making smarter energy choices.

Outreach to Seniors

The CPUC informs senior-specific groups about programs that could reduce their utility bills – programs like CARE, FERA, Lifeline, and Medical Baseline. The CPUC continues to build on its Senior Awareness Campaign to visit Senior Centers and communities throughout the state to raise awareness targeted to these groups; the CPUC conducts at least 5 senior events per month to ensure that this community is informed of the programs available to them and also to explain the potential scams that target seniors. The CPUC also works to conduct Senior Scam Stoppers events, specifically to explain the various scams that target the senior community.

Local Government and Communities

As part of the CPUC’s local government outreach effort in 2010, all five Commissioners travelled to Southern California to meet with local government organizations. The CPUC’s local government outreach touched over 200 cities in Southern California. Throughout 2010, local government outreach happened as the CPUC met with community organizations and leaders representing hundreds of California cities.

The message to these cities was a simple one - “How can the CPUC be of service to your community?”

The CPUC was able to mediate issues concerning local governments throughout the state. The CPUC took a “boots on the ground” approach with several significant pilot programs in Energy Efficiency and energy audits.

Outreach to Non-English Speaking Consumers



The Telecommunications Education and Assistance in Multiple languages (TEAM) program uses a statewide network of Community Based Organizations (CBOs) to provide telecommunications education, outreach and complaint resolution as-



CPUC staff doing Energy Efficiency outreach

sistance in 35 languages for consumers who speak limited or no English, who can be confused by the complex telecommunications marketplace, and can be susceptible to fraud. In 2010, the TEAM program increased assistance to consumers by taking applications for CARE, the low income discount energy program, while they are interacting with consumers on telecommunications issues. In September 2010, the TEAM program began to include greater diversity by expanding to include African CBOs and the Deaf community.

“CHANGES”



In November 2010, the CPUC started a program to provide education, need and dispute resolution, and outreach through CBOs for energy consumers who have limited or no English proficiency. The program is called Community Help and Awareness of Natural Gas and Electricity Services (CHANGES), which is scheduled to begin in February 2011.



Attendees at a CPUC sponsored event

In August 2010, the CPUC co-organized a joint forum with the Federal Communications Commission, the State Office of the Chief Information Officer, and the California Asian Chamber of Commerce. The event, “Broadband and the Asian American and Pacific Islander Communities,” was held at the Japanese American National Museum in downtown Los Angeles. Approximately 160 individuals attended.

A Consumer Awareness Fair immediately followed the forum, during which consumers were provided information on all utility services, including information about LifeLine and CARE programs for low income consumers; and information on utility programs for persons with disabilities.

FACILITATING PUBLIC PARTICIPATION

The CPUC provides support, information and facilitation to the public that may wish to participate at the CPUC. The CPUC manages the bilingual services program and specific education programs. The CPUC facilitates public participation by:

- ▶ Responding to inquiries and providing procedural information and advice
- ▶ Receiving public comments on formal proceedings and at hearings to compile and report to decision-makers
- ▶ Assisting and arranging for interpreters and special accommodations under the ADA for public participation at CPUC public meetings and events
- ▶ Reviewing and approving utility bill inserts sent to customers
- ▶ Managing the CPUC’s CalPhoneInfo website, and limited- English-proficient education outreach and complaint resolution program
- ▶ Assisting parties that seek compensation through the CPUC’s Intervenor Compensation Program, which provides monetary compensation to parties that intervene in and contribute substantially to CPUC decisions



CPUC staff at a consumer education fair

In 2010, in addition to assisting the public at every CPUC business meeting, the CPUC facilitated 43 events, including Public Participation Hearings, workshops, and meetings associated with formal proceedings. Collectively, more than 3,000 individuals attended the events and approximately 1,000 signed up to speak.

HANDLING COMPLAINTS

The CPUC is responsible for providing information to utility customers and resolving informal complaints lodged by customers against their utilities. In addition to the mission of assisting all customers that contact the CPUC, issues of special interest that arose in 2010 merited extra scrutiny. Of special concern to the CPUC were complaints and inquiries about Advanced

Meters, customer shutoffs and customer-requested payment arrangements.



CPUC staff member responding to a complaint

The CPUC receives inquiries, requests for assistance and informal complaints via telephone, U.S. mail or via our website. In 2010, the CPUC received over 23,000 complaints and over 3,800 inquiries from customers.

	2010	
	Complaints	Inquiries
Telecommunications	9,229	1,156
Energy	12,830	2,530
Water	1,058	125
TOTAL	23,711	3,811

The CPUC has realized a number of efficiencies in processing customer inquiries and complaints by moving toward a “paperless” operating environment. As a result, the number of complaint cases received via a web portal has increased. Also, most communications between the customer, their utility and the CPUC can be carried out electronically. Of course, for customers without the benefit of a computer, the CPUC still processes informal complaints and answers inquiries via telephone or U.S. Mail.

In 2011, the CPUC anticipates a number of customer service improvements including continued evolution of its customer service database and website, and upgrading its toll-free phone system for callers. The CPUC will also begin web-publishing selected customer complaint data.

The CPUC business projects in 2011 include:

- **Expanding the thin client initiative. In 2010, approximately 100 employees switched from desktop computers to thin clients, thereby cutting computer energy use by 9%**
- **Enhancing the display of docket card information on the CPUC website and content searching**



ENERGY

The CPUC continued its national and world-wide leadership stature in adopting policies and managing the financial support to provide energy services across the wide geography of California. The CPUC regulates 70% of California’s electric sales and 99% of the state’s natural gas. The CPUC has adopted and overseen this responsibility while stimulating the transformation of the electric and gas sectors to provide clean energy solutions and rely upon robust market tools that enable adoption of new and emerging technologies through innovative business and financial services. Highlights for 2010 include:

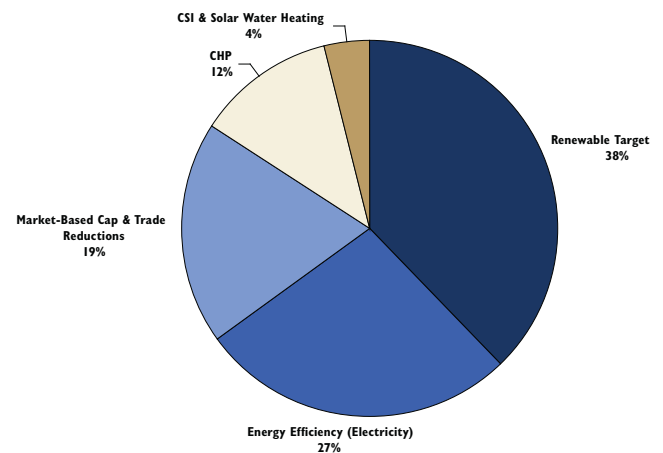
- ▶ More new renewables were built than any year prior
- ▶ Assistance to the Air Resources Board in its adoption of cap and trade rules for California’s greenhouse gas goals
- ▶ Independent evaluation findings that utility Energy Efficiency programs saved customers \$3.8 billion for 2006–08
- ▶ Installation of 140 MW of solar systems on homes and businesses, the highest level ever in a single year
- ▶ Rapid development of policies and rules to support integration of a coming wave of electric vehicles into California’s electric grid
- ▶ Settlement of a logjam of 10+ years’ litigation that stood in the way of Combined Heat and Power resources located through industry across the state, and sets the stage for adding new highly efficient CHP onto our system

ADDRESSING CLIMATE CHANGE IN CALIFORNIA’S ENERGY SECTOR

California adopted Cap and Trade regulations in December 2010, marking a major step on the groundbreaking path to address the threat of climate change. The newly passed Cap and

Trade regulation sets in motion the framework under which capped sectors will operate.

The electricity sector is tasked to reduce greenhouse gas (GHG) emissions by approximately 51 million metric tonnes from emissions otherwise expected in 2020, or about one-third of the total state GHG emissions. Beyond the “cap and trade” regulations, over 75% of electric sector reductions are expected to come from “complementary policies”—renewable power, solar distributed generation, and energy efficiency—with additional help for transportation sector emissions reductions from electric vehicles. The CPUC has jurisdiction over the investor owned utilities for this key arena of GHG emissions reductions.



2020 CO2 Emission Reductions Targets in California’s Electricity Sector

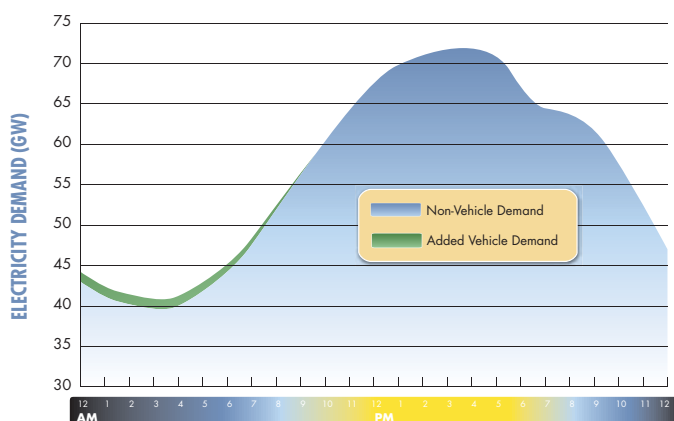
In 2010, the CPUC continued to provide technical and policy leadership in designing regulatory policies and energy sector implementation strategies to accomplish these goals. The CPUC supported the Air Resources Board in the development of the greenhouse gas cap and trade program regulations mentioned above and a 33% renewable energy standard for California. The CPUC also worked with other state agencies to develop and begin implementation of California’s Clean Energy Future initia-

tive, which will coordinate agency efforts associated with implementing the Energy Sector complementary policies. The CPUC also played an active role in the Western Climate Initiative – a process intended to link the western U.S. states and Canadian territories in a regional carbon market aimed at reducing GHG emissions, and supported the Governor’s Office in evaluating the impact of federal carbon and renewable energy legislation.

The CPUC made great strides in developing policy and program initiatives that advance the GHG “complementary policies”. These include work described below on the Renewables Portfolio Standard, Energy Efficiency Programs, California Solar Initiative, and Self Generation Incentive Program. Additionally, the CPUC adopted comprehensive policies to secure maximum contributions from Combined Heat and Power and its associated GHG emission reductions. To do so, a team of CPUC staff facilitated and mediated a groundbreaking settlement that resolves significant litigation and immediately stabilizes some 2,500 existing MW of this resource, and creates a new State CHP program to spur efficient CHP. The CPUC adopted the Settlement in December 2010 and also adopted a CHP “feed-in-tariff” policy for smaller CHP up to 20 MW, as called for by AB 1613 (Blakeslee, 2007). This tariff provides for streamlined contracts, formula prices, and assurances of high-efficiency facilities, and will be implemented in the first half of 2011.

Preparing for Initial Sales of Plug-in Electric Vehicles

The CPUC also continued its collaboration with the CEC, CARB, local governments and the California Plug-in Electric Vehicle Collaborative (PEVC) to prepare for initial sales of plug-in electric vehicles. In July 2010, the CPUC concluded that providers of electric vehicle charging services should not be regulated as public utilities. In the first half of 2011, the CPUC will address rates and metering options for vehicle charging services, cost recovery for any needed grid infrastructure improvements, and a notification arrangement to enable utilities to plan for the grid impacts of vehicle purchases.



Showing electric demand impact of 1 million PVs charging off-peak. Source: PEVC

ENERGY DEMAND

Making Energy Efficiency “Business as Usual” in California

Energy efficiency is the least cost, most reliable, and most environmentally sensitive resource available to meet growing energy demand in California. Building on California’s proud history in energy efficiency, the CPUC has accelerated its efforts to implement the most ambitious energy efficiency and conservation programs in the U.S. utility industry. January 2010 marked the beginning of the 2010-2012 program cycle, during which the investor-owned utilities will administer a \$3.1 billion portfolio of energy efficiency programs. These programs are expected to:

- ▶ Produce cost-effective gross energy savings of 10,000 GWh of electricity, 1,982 peak MW, and 200 million therms of natural gas, the equivalent to avoiding nearly four 500 megawatt power plants
- ▶ Avoid 4.9 million tons of CO₂ emissions

The CPUC anticipates that the energy efficiency programs will create between 15,000 and 18,000 skilled green jobs.

Engage 360 New Statewide Brand and Web Portal

In October 2010, the CPUC introduced Engage 360, a new brand and web portal to consolidate information and increase consumer awareness of and participation in energy saving activities. Engage 360 was developed through a year-long consumer research process and represents a significant shift to using social media to stimulate community-based efforts to provide Californians with clear and relevant options for saving energy, reducing greenhouse gas emissions, and supporting clean energy solutions. Californians adopting an energy saving way of life can come together through the Engage 360 web portal to foster widespread changes in behavior that will effect meaningful, long-term reductions in energy consumption.



Energy Upgrade California

2010 saw the launch of a promising new whole-house energy efficiency program, Energy Upgrade California. The program provides substantial incentives for improvements to existing homes when these actions produce at least 10% and up to 40% savings per home. This new approach is administered by the utilities together with new private sector partners and local governments brought together by the Energy Commission through federal stimulus funds and other programs. Energy Upgrade California provides training, scholarships and incentives to strengthen California's home performance contractor workforce and has long-term aims to transform the home energy improvement industry to produce well-organized and high-performance outcomes.

Strategic Plan Adds Important Lighting Dimension

In 2010, the CPUC adopted one additional chapter of the California Energy Efficiency Strategic Plan. The new lighting chapter sets a bold goal to transform the lighting market and achieve a 60-80% reduction in statewide electrical lighting energy consumption. The plan seeks to combine best practices in lighting, coordinated RD&D, cultivation of end user adoption, and supportive state policies. The lighting chapter was developed through a collaborative 18-month period and represents the work of more than 200 stakeholders from lighting, architecture, labor and electrical workers, laboratories, and various state agencies.

Evaluation, Measurement and Verification of Efficiency Programs

In 2010, the CPUC released its final evaluation report for the 2006-2008 energy efficiency programs. This report, drawing upon scores of independent evaluation experts, determined that California's \$2.1 billion utilities ratepayer investment in energy efficiency resulted in approximately 6,000 GWh, 80 million therms, and 1,100MW in annual, cost-effective, energy savings for program participants. Looking ahead to 2011, the CPUC will collaborate with stakeholders in planning and conducting the evaluation efforts to determine energy savings and program effectiveness for the 2010-2012 energy efficiency programs.

Assisting Low-Income Energy Consumers

The ongoing economic crisis has put significant financial pressures on Californians, including job insecurity, home foreclosures, and rising utility bills. The CPUC's Low-Income Energy Programs aim to reach all households earning at or below 200% of Federal Poverty Level with several forms of assistance. The California Alternate Rate for Energy (CARE) program provides a minimum 20% rate discount to these eligible low income

households. The CPUC authorized utilities to commit \$900 million in 2010 for rate discounts, with a goal to help 90% of eligible CARE customers.

To ensure longer-lasting help for these same customers, the Low-Income Energy Efficiency (LIEE) program provides weatherization services and energy-efficient appliances. The CPUC expanded the LIEE program in 2009 and adopted an ambitious goal of treating every low income household in California by 2020. In 2010, the IOUs treated over 240,000 homes. The CPUC approved nearly \$1 billion for the 2009-11 LIEE program, targeting 1 million households for treatment, a substantial increase over previous budget cycles. In 2010 the CPUC adopted a new statewide name, Energy Savings Assistance Program, that will be used to replace the "LIEE" name.

In 2010, the energy utilities have enrolled more than 4.8 million households in our CARE program providing energy rate discounts.

A significant new initiative was the development of a Workforce Education and Training Pilot project involving two community colleges working with IOUs, one each in Southern California and Northern California, to develop energy efficiency curriculum and training for LIEE.

To further redress the hardships faced by low income customers in the current economic downturn, the CPUC investigated and modified utility service disconnection practices. This resulted in providing customers in need with extended periods for bill payments, modifying reconnection deposit requirements, and putting a moratorium on service disconnections during winter months. The CPUC also coordinated efforts to help apply Federal stimulus funds to assist ratepayers in paying overdue bills.

Energy Public Purpose Program Audits

In 2010, the CPUC completed 11 audits on \$524.9 million of energy public purpose programs. In 2010, the CPUC audited both the energy low income assistance programs and the CSI program. These public purpose program audits represent an increase of 63% over the four energy public purpose programs audits conducted in 2009. In 2011, the CPUC will conduct audits for 2010 through 2012 by audit task area.

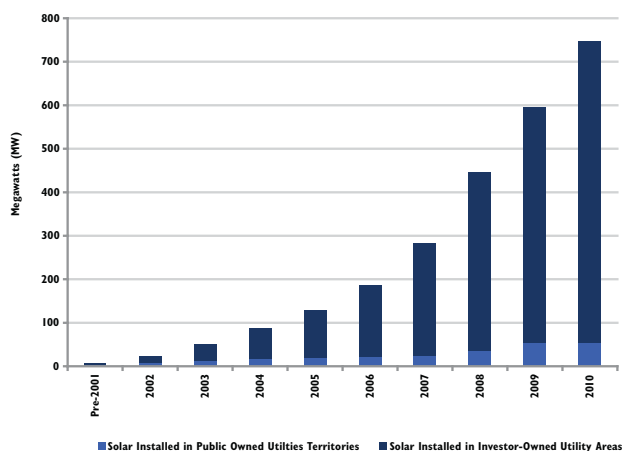
Mobilizing Dynamic Pricing

In 2010, the CPUC authorized the beginning of 'dynamic pricing' for large commercial and industrial customers in PG&E and

SCE territories, joining SDG&E's existing program. Medium-size commercial and agricultural customers will transition to dynamic rates in 2011 and 2012. Dynamic pricing conveys to customers the varying costs of electricity production at different times or seasons. On the few hottest days of the year, prices for electricity used in the afternoon will be higher to reflect the high investment and operating costs to meet peak demand. The utility will notify customers about peak days one day in advance, to allow customers to plan accordingly. As customers collectively respond to the price information by reducing their peak demand for electricity at these times, they will help improve reliability of the grid, decrease the need for additional power plants, and reduce greenhouse gases. Responsive customers could even lower their bills if they are able to sufficiently reduce electric use during the peak afternoon hours on designated days.

Customer Distributed Generation and Solar Program Growth for 2010

The California Solar Initiative (CSI) provides incentives to customers installing solar to offset their own electrical load. Customers of California's three largest investor-owned utilities have installed over 700 MW of solar capacity, and in 2010 approximately 16,000 systems with 140 MWs were installed. The program's installed megawatt totals have increased each year. Despite the continued tough economy in 2010, the CSI made substantial progress toward its goals to install 1,750 MW of solar between 2007 – 2016. California is well along the path to transform the market for solar energy by reducing the cost of solar, encouraging innovation by solar market providers, and securing California's position as the fourth largest solar market in the world.



California has installed over 750 MW of solar PV in the past decade

The CSI program has three additional components:

- ▶ **CSI Low Income Programs ensure all income segments benefit.** The CPUC reserved 10% of the total CSI program budget, or \$217 million, for the Single-family Affordable Homes (SASH) and Multifamily Affordable Solar Housing (MASH) programs. Both reached implementation milestones in 2010. The

MASH program reserved all of its incentive funding, while SASH installed several hundred systems in 2010.

- ▶ **CSI Solar Water Heating launched to hopefully mirror PV's success with lower cost technology.** In 2010, after a pilot program in San Diego, the CPUC launched the CSI-Thermal program. The program offers direct financial incentives and stimulates market development for the installation of Solar Water Heaters (SWH) on California homes and businesses. The new CSI-Thermal Program offers up to \$350 million in financial incentives to install the equivalent of 200,000 single-family sized SWH systems and develop a self-sustaining market for the technology. The program opened for residential systems in May 2010 and for commercial-sized systems in October 2010.
- ▶ **CSI Research Development & Deployment drives innovation.** The CSI Research, Development, Demonstration & Deployment (RD&D) Program approved grants for two rounds of solicitations in 2010. The first round targeted the integration of photovoltaics into the utility grid, while the second focused on the development of innovative business models and production technologies. Awards totaled over \$33 million, including both private companies and educational and research organizations.

ENERGY SUPPLY

Power Procurement and Ensuring Resource Adequacy

Reliable electric service is of vital importance to the health and welfare of all Californians. To this end, the CPUC ensures that utilities plan for and make investments in energy resources necessary to make sure that California consumers receive reliable service at low and stable prices. The utilities procurement of energy resources must be cost effective and consistent with the goals of the Energy Action Plan and its loading order.

In 2010, the resources procured by CPUC regulated load serving entities were more than adequate to meet electric system needs and there were no California Independent System Operator (ISO) emergencies or loss of electric service as a result of insufficient supply/generation.

The CPUC monitors and ensures compliance with its Resource Adequacy Requirements. The CPUC issues citations for smaller violations and undertakes formal investigations in larger cases. The CPUC issued 8 citations in 2010 and collected \$50,500.

In April 2010 the CPUC ordered a fine of \$225,000 as a result of an investigation into Calpine Power America-CA, LLC. Also in April 2010, the CPUC began a new investigation into Constellation NewEnergy, Inc. The CPUC concluded that Constellation failed to comply with its procurement obligations and that a fine should be imposed. The fine should be finalized in 2011.

In 2011, the CPUC's procurement efforts will be focused on:

- ▶ Continuing to implement and make improvements in the Resource Adequacy program
- ▶ Completing the biennial long term procurement plan proceeding, reviewing the utilities' procurement plans and making planning decisions to facilitate a GHG constrained future, a 33% renewables future, and least cost alternatives to reaching state goals

Electric Generation Performance

The CPUC ensures that power plants: 1) operate in a safe and reliable manner, 2) plan, schedule, and complete necessary repairs, 3) perform preventive maintenance, and 4) inform the ISO when the plant is unable to run.



CPUC staff scales a Southern California plant.

For large plants 50 MW and above, the CPUC conducts inspections of plant outages, comprehensive audits, special studies and investigations, and analyzes plant performance.

The CPUC inspects roughly 15 aging steam plants, 22 new more efficient baseload plants, and a growing number of plants that operate primarily to serve summer peak demand.

To target audits and to detect any trends in reliability, the CPUC collects and analyzes data on power plants. In 2010, the CPUC monitored the startup of three new plants, which will add 1,150 MWs to California's baseload generation. In addition, the CPUC developed guidelines for plants to conduct root-cause analysis for equipment failures and other contributors to outages.

Physical and Financial Audits

The CPUC conducts physical audits of four to six plants per year. For each audit, a team of engineers researches the operating history of the plant, visits the plant for a week, and prepares an extensive report, which focuses on violations of power plant standards. The plant then submits a corrective action plan. In

The CPUC is committed to recruiting, selecting, and retaining the highest quality workforce attainable. In 2010, the CPUC had 66 new employees, 76 promotions, and 78 retirements. The CPUC is committed to providing merit and equal employment opportunities.

The CPUC began work on new initiatives in 2010 geared towards training, developing, and recognizing employees. These include Career Development, Upward Mobility, Onboarding/New Hire Orientation, and Communications Programs which are projected to be completed in 2011.

2010, the CPUC began audits of the plants located at Morro Bay, Gateway, Ormond Beach and Los Esteros.

The CPUC audits the energy utilities' quarterly procurement compliance and reports for procurement oversight. The CPUC completed 12 quarterly electric and gas procurement audits addressing the \$899.2 million of procurement.

Expiration of Department of Water Resources Contracts

Since 2002, IOU customers have paid for the costs of power contracts entered into by the California Department of Water Resources (DWR) at the height of the 2001 electricity crisis. The contracts also required DWR to establish large cash reserves that reflected the significant size of the DWR obligations to its suppliers. Now that these contracts are expiring, the amount of



CPUC staff conducting an inspection of power plant equipment

required reserves is significantly reduced, and these funds can be released by DWR. In 2011, the CPUC will ensure that these energy cost reductions are reflected in the electric rates paid by IOU ratepayers.

Continuing its effort to improve coordination between state agencies, the CPUC worked with the State Water Resources Control Board, advising them on the development of its Once-Through Cooling policy for power plants. The CPUC also continued and extended its outreach to the California ISO and Energy Commission to coordinate policy and program implementation on issues such as Once-Through Cooling, resource adequacy, standard capacity product, and long term procurement plans.

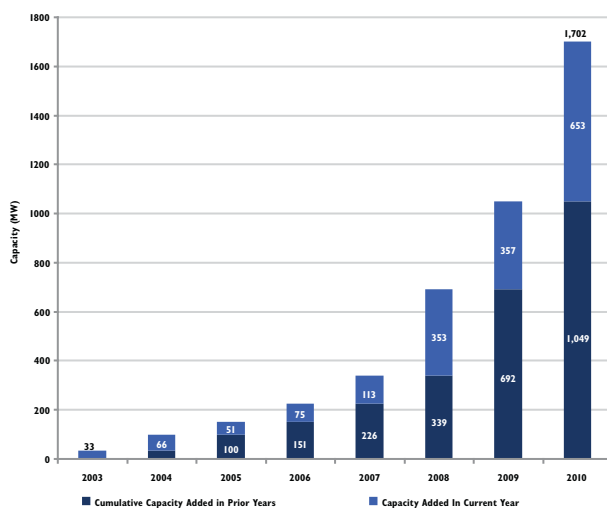
Implementing the California Renewables Portfolio Standard

The CPUC is committed to statewide environmental goals and the role of renewable power in achieving them. California's Renewables Portfolio Standard (RPS) program has the most ambitious renewable energy goals in the country; it requires electric utilities to supply 20% of their retail electricity from eligible renewable generation by 2010. California also has a further goal of 33% renewables by 2020. In 2009, the three large electric utilities collectively served 15.4% of their 2009 electric load with renewable energy, up from 13% in 2008. The CPUC expects the utilities to achieve 20% renewables in the 2011–12 timeframe, depending on the success rate of near-term projects.

The robust RPS solicitation and recent contracting rates show dramatic growth in California's renewable energy market. The utilities have shortlisted 23 TWh of the 100 TWh of bids received, which is enough to meet half of a 33% renewables target.

In 2010, California installed 653 MWs of renewables. More renewable energy was installed in 2010 than in any previous year.

In 2011, the CPUC will continue to streamline and reduce barriers to RPS procurement. This includes simplifying and standardizing the interconnection process for renewable wholesale distributed generation, working with the ISO to better understand the integration issues and transmission needs associated with large amounts of renewables on the transmission system, and refining the methodology for determining renewable need over the next 10 years.



Large Investor-Owned Utility New Online RPS Capacity

Utility-Scale Renewable Distributed Generation

The RPS solicitation process is the primary method for the development of utility-scale renewable energy in California and is designed to capture the least-cost best-fit renewable projects. Since the more economically competitive projects tend to be large, take several years to develop, and are often located in remote areas that require new transmission, the CPUC has considered a variety of programs to encourage the small to medium-scale market segment.

The potential benefits of this market segment include:

- ▶ Quick project development timelines
- ▶ Avoidance of new transmission
- ▶ Declining technology prices
- ▶ Hedging against riskier, large-scale renewable projects

In 2010, the CPUC authorized SCE, PG&E, and SDG&E to own and operate solar PV facilities as well as to execute solar PV power purchase agreements with independent power producers (IPP) through a competitive solicitation process. In total, these programs will yield up to 1,100 MW of new solar PV capacity in California over the next five years.

Introduction of a new Renewable Auction Mechanism

In December 2010, the CPUC adopted the Renewable Auction Mechanism as a streamlined procurement process for smaller renewable projects. Under RAM, the utilities will procure a minimum of 1,000 MW of renewable resources up to 20 MW in size. Auctions will be held twice a year over a two year period. Individual prices will be determined by each seller submitting a non-negotiable bid to the utilities, who select purchases in the order of least-costly first. In addition, to promote expeditious review and streamlined contracting, the program relies on stan-

standardized contracts and features a variety of project viability criteria and aggressive timelines for project development.

Increasing Direct Access

SB 695 (Kehoe, 2009) allows Direct Access load to gradually increase until it reaches the maximum levels attained prior to the 2001 electricity crisis. In 2010, the CPUC facilitated a process to enable an orderly expansion of the Direct Access service option, while at the same time ensuring that additional costs are not borne by the ratepayers who do not switch to Direct Access.

Community Choice Aggregation

In 2002, the Legislature established a program that allows communities to offer energy service to electric customers within their boundaries, as outlined in AB 117 (Migden, 2002). These new entities are called Community Choice Aggregators (CCAs).

Since 2002, the CPUC has issued a number of decisions to facilitate creation of CCAs within the service territories of PG&E, SCE and SDG&E. In 2010, the CPUC was active in the creation of the Marin Energy Authority by clarifying and refining exiting rules and by restricting activities of PG&E that could impede MEA's progress to become operational.

SMART GRID

The CPUC has embarked on a momentous path toward modernizing the state's electric grid from one based on industrial age technology to one based on the technology of the information age: a Smart Grid. Creating a smarter grid will result in a safer, more reliable, efficient, affordable, and interoperable electric system. Among the many benefits consumers will see from a Smart Grid is the availability of more information and tools to manage their energy usage. Consumers will have greater control over their utility bills through the availability of real-time information about rates and usage, which will allow customers to decide when and how much energy to use.

In 2010, pursuant to SB 17 (Padilla, 2009), the CPUC set requirements for a Smart Grid deployment plan, which the utilities must file by July 1, 2011. The deployment plans must address how the utilities will enable customers to capture the benefits of a wide range of energy technologies and energy management products and services while protecting customers' privacy.

The CPUC's leadership on Smart Grid led to California capturing \$118 million, more than 30% of the ARRA funds distributed by the Department of Energy.

As a result of these ARRA funds, California has the opportunity to expand and accelerate its activities to modernize the state's electric infrastructure at a significantly lower cost to ratepayers.

TRANSMISSION, DISTRIBUTION AND OPERATIONS

Improving Transmission Planning

The CPUC works closely with the ISO and the Energy Commission to ensure that transmission planning in the state is efficient. The CPUC is working on a detailed study of the operational implications and requirements for achieving a 33% RPS by 2020. The CPUC is also closely involved in the "Renewable Energy Transmission Planning Process" which extends statewide and takes a more proactive and integrated "big picture" view of transmission and resource priorities.

Assessment of Statewide Renewable Resource and Transmission Priorities

In order to ensure that California is able to meet its renewable energy goals, the CPUC initiated the formation of the California Renewable Energy Transmission Initiative (RETI). RETI facilitates the development of the major transmission projects needed to access the most desirable renewable generation resources for California. The CPUC is now working to translate RETI's conceptual planning work into detailed plans of service for viable priority transmission projects.



Environmental Review of New Transmission Facilities

In 2010, there was significant progress towards the construction of CPUC approved transmission lines that will provide capacity for solar, wind, and geothermal renewables along with added

reliability and lower cost energy access. The 123-mile SDG&E Sunrise Powerlink 500/230 kV line approved in December 2008 through San Diego and Imperial Counties has been undergoing extensive preconstruction environmental compliance. It is now proceeding into construction and is estimated to be online in late 2012. The SCE Devers-Palo Verde #2 California Only 150 mile 500 kV line approved by the CPUC in November 2009 is now undergoing environmental compliance/construction and is anticipated to be online in 2013. Further, the remaining SCE Tehachapi 4-11 173 mile 500 kV line segments which were approved by the CPUC in December 2009 are also in the monitoring/construction phase and are estimated to be online by December 2015.

The CPUC has been actively involved in the environmental review and permitting of a number of substation and transmission projects for interconnecting renewable projects. SCE has two potential projects, for the Red Bluff Substation and the Colorado River Substation expansion in Riverside County. These substations will allow the interconnection of solar generators. The two substation projects are expected to be approved by the CPUC in early 2011 and online by 2013. The SDG&E Eco Substation that will allow the interconnection of renewable generation is presently undergoing environmental review. Along with the substations the CPUC has been involved in the environmental review and permitting process for the SCE Eldorado to Ivanpah transmission line upgrade project for renewable interconnection projects.

In 2011, there will be continued progress in constructing the major transmission lines and substations for future renewable project interconnections. The CPUC is expected to make a decision on the Eco Substation in late 2011 with an online date of late 2012. In addition the CPUC will be conducting environmental and permit review on a number of transmission line upgrades to accommodate several wind and solar projects in the PG&E service territory.

The CPUC implemented a number of new applications aimed at streamlining our business processes:

- ***A new web-based application for authorized law enforcement agencies to access transportation licensing data pertaining to passenger carriers and moving companies***
- ***A new web-based application for telecommunications carriers' filings subject to surcharge***
- ***Expanded the GIS infrastructure to meet the increasing demands for maps***

Facilitating Regional Transmission Planning

CPUC safeguards California ratepayer interests for Western power grid investments.

California has always relied upon and participated in the west-wide interconnected electric system with its diverse electricity supply resources. Accordingly, the CPUC monitors and participates in western transmission planning and related activities with the Western Electricity Coordinating Council and its Transmission Expansion Planning Policy Committee (TEPPC), as well as activities and forums sponsored by the Western Governors' Association, such as the Western Renewable Energy Zone Initiative (WREZ). The Western Governors' Association is utilizing Department of Energy funding under the ARRA to extend this effort by enlisting stakeholders in exploration of collaborative permitting and resource procurement opportunities. The CPUC has been actively involved in development and ongoing implementation of the expanded west-wide transmission planning process benefitting from federal funding. This process is centered on TEPPC, and focuses on renewable and other alternative energy futures.

Enhancing Electric Distribution Reliability

The CPUC approved PG&E's "Cornerstone Project" designed to enhance its electric distribution reliability. The project will replace aging transformers at distribution substations, provide automatic isolation of short circuits on distribution lines and install automatic switches on rural distribution lines.

Reducing Power-line Induced Wildfires

The CPUC initiated steps to reduce the chances of power-line induced wildfires, looking for ways to improve the design, construction and inspection of power lines. The CPUC is considering better coordination between power, telephone and video companies sharing pole lines, stricter inspection of lines, reporting of deficiencies and tree trimming, and the preparation of maps identifying fire-prone areas. The CPUC will finalize this process in 2011.

Summer Emergency Preparedness and Reporting

When the ISO declares Stage 1, 2, or 3 emergencies due to electrical capacity shortages, the CPUC issues special, same-day inspection reports. The CPUC uses this information to brief other state and Federal officials and agencies. As part of the CPUC's work in preparing for the summer 2010, inspectors contacted each power plant to discuss summer readiness. California did not experience any Stage 1, 2, or 3 alerts during summer 2010.

REPRESENTING CALIFORNIA IN FEDERAL WHOLESALE POWER REGULATION

The CPUC participates in Federal energy proceedings to advocate California's interests, including utility customers' rates and services.

Advocating for California Consumers in Transmission Rate Cases

The CPUC represents California energy consumers in transmission rate cases at the Federal Energy Regulatory Commission to ensure just and reasonable rates. In 2010, CPUC staff settled a PG&E transmission owner rate case and an SDG&E capital addition update case. Furthermore, CPUC staff is actively litigating/settling SCE's fifth transmission owner rate case, and participating in settlement negotiations with Trans Bay Cable, an independent transmission owner.

Regional Transmission Planning and Cost Allocation

The CPUC has actively participated in steps leading up to this Federal effort, because this initiative has substantial implications

for planning and paying for transmission across the west, particularly to access renewable resources.

Integration of Variable Energy Resources

The CPUC is interested in ensuring that Federal policy and rules regarding integration of variable (e.g., wind and solar) generation are consistent with California's needs and ongoing efforts to prepare for integration of large amounts of renewable generation in the next few years.



A CPUC Inspector at a site visit

OVERSIGHT OF ELECTRIC RATES

The CPUC undertakes a thorough review of the cost to the major energy utilities of owning, maintaining and operating the electric and gas infrastructure in a major proceeding called the general rate cases (GRCs). The allocation of these costs among various customer classes and many other rate design issues are addressed in these proceedings. The GRC decisions specify how

The CPUC is committed to making its work more efficient and more effective. The CPUC takes advantage of in house expertise in organizational development methodologies such as strategic planning, process improvement, project management, and knowledge management. Major CPUC-wide initiatives in 2010 and ongoing through 2011 include:

- ***Improve compliance with CPUC Decisions by implementing a centralized tracking system***
- ***A Mentoring Program that pairs junior and senior employees to share knowledge and expertise***
- ***Improve knowledge capture by creating systems to collect, store, and make mission-critical knowledge easily accessible***
- ***Create a training needs assessment project to comprehensively identify the knowledge and skills required to support the agency's core work and employees' professional development***

the utilities' authorized revenues are to be adjusted during the years between rate cases.

PG&E General Rate Case Revenues

The CPUC approved a 0.5% increase for PG&E in 2010 to account for escalation in the costs of providing service, including necessary repairs and upgrade to its electricity systems. The CPUC is considering a 3% increase in 2011 to provide funding for owning, operating, and maintaining PG&E's electric distribution system and its power plants. The CPUC is also considering a 1% increase to PG&E's gas distribution revenues in 2011.

SDG&E and SoCalGas General Rate Case Revenues

The CPUC authorized revenue increases for SDG&E and SoCalGas of approximately 1% for years 2009, 2010, and 2011 to account for escalation in the costs of providing service. SDG&E and SoCalGas filed their 2012 GRCs in December of 2010, and the CPUC will review these applications in 2011. SDG&E will file its 2012 application on electric marginal costs, revenue allocation, and rate design in March 2011.

SCE General Rate Case Revenues

In SCE's 2009 GRC, the CPUC authorized SCE increases of approximately 2% for years 2010 and 2011 to account for escalation in the costs of providing service. In November 2010, SCE filed its GRC application in which it requests an 8% revenue increase in 2012. Some of the reasons for the increase cited in SCE's application are the need to connect new customers to its system, make capital investments to replace aging distribution and business systems, make pension contributions and increase depreciation rates to account for increases in removal costs of depreciated equipment. The CPUC expects to decide this in 2011.

ENERGY CRISIS LITIGATION

The CPUC is seeking to obtain refunds of overcharges for power purchased to serve California ratepayers during the 2000-01 electricity crisis. To date, California has settled with approximately 45 suppliers and obtained over \$3 billion in settlements to resolve overpayments in short-term electricity transactions alone. In April 2010, California achieved a substantial success in reaching a settlement with Sempra Energy for a total of over \$400 million.

The CPUC and the California Attorney General are the only parties seeking to obtain ratepayer relief from the excessive rates in long-term contracts that the California Department of Water Resources entered into during the energy crisis. The CPUC previously reached numerous settlements, resulting in ratepayer savings of over \$6 billion. The CPUC continues to challenge 3 contracts, and over \$3 billion still remains at stake.

INSPECTIONS OF POWER PLANT OUTAGES

In 2010, the CPUC inspected 270 outages. Through those inspections, the CPUC verified that outages were legitimate, observed the progress of repair and maintenance work, and maintained contact with plant staff. In general, the CPUC inspected outages in which plants lose 50 megawatts of capacity or more. In 2011, the CPUC plans to explore the feasibility of expanding the program to hydroelectric generators.

The CPUC also investigates outages when evidence suggests a significant violation of Operation and Maintenance standards. In 2010, the CPUC investigated:

- ▶ **April 1, 2010 blackout in San Diego:** During a CAISO-ordered outage, CPUC investigators found weaknesses in SDG&E's load-shedding procedures and substation maintenance that exacerbated the length of the blackout and the number of affected customers; these findings lead to immediate corrections at SDG&E
- ▶ **December 2010 transformer explosion,** which resulted in a massive fire at a Southern California plant; the investigation is ongoing
- ▶ **A fire at a Northern California plant,** which destroyed the powerhouse and generators, and left local residents and businesses without electricity for over 48 hours; CPUC investigation is still ongoing



CPUC Inspector at a power plant

ELECTRIC SAFETY AND RELIABILITY

Transformer Loading Study

In 2010, the CPUC prepared mitigation measures that would help reduce outages caused by overloaded transformers. The CPUC conducted a study examining the impact the increased

demand had on distribution transformers during the heat storms. The CPUC plans to take final action in 2011.

California Firestorms

In October 2007, several fires erupted in Southern California, causing significant electric outages and displacing thousands of residents from their homes. The CPUC completed its investigations of the causes of these fires in 2008, and determined that three fires were directly related to lack of compliance with CPUC rules for electric overhead line construction. In April 2010, the CPUC reached final resolution with SDG&E and Cox Communication, leveling fines in excess of \$16 million.

Malibu Fire

In October 2007, three wooden utility poles in Malibu jointly owned and maintained by SCE, Verizon Wireless, Sprint Communications Company, NextG Networks of California, and AT&T Communications of California, Inc. broke and fell to the ground. This caused a major fire over 3,800 acres in the Malibu area resulting in major destruction. The CPUC investigated the incident and determined that the loading on the three Malibu utility poles was in violation of CPUC rules. The CPUC also concluded that the owners of the poles failed to inspect and maintain them within specified standards. The CPUC continues to work on this matter.

SDG&E Proactive Electric De-Energization

In December 2008, SDG&E filed an application requesting approval to proactively de-energize its electric system when certain weather conditions existed that could damage its facilities and cause fires. In 2009, the CPUC ruled against SDG&E's application and ordered all key stakeholders to create a Fire Prevention Plan for San Diego County. In 2010, the CPUC participated in the creation of the Fire Prevention Plan for San Diego County and will work to finalize it in 2011.

Electric Substation Inspection Program

The Substation Inspection Program ensures the reliability of electric service and safety of the general public and utility employees. In 2010, the CPUC received a request to update its rules regarding electric substation operation and maintenance. In the second half of 2011, the CPUC will start inspecting electric substations.

NATURAL GAS

Natural gas commodity prices remained at low levels in 2010, ranging only from about \$3.00 to \$5.00 per MMBtu. While the CPUC does not regulate natural gas commodity prices, it

takes necessary steps to enable utilities to gain better access to new sources of supplies, develop a diverse supply portfolio, ensure adequate natural gas infrastructure and to reduce natural gas demand.

Assuring Adequate Storage Infrastructure and Supplies

Natural gas storage capacity increases delivery reliability and provides significant economic benefits to consumers. The CPUC authorized further expansion of natural gas storage capacity in 2010, and is reviewing a significant number of other storage expansion requests.

- ▶ In 2010, the CPUC approved the expansion of storage capacity at SoCalGas' Honor Rancho storage field, and will assess SoCalGas' request to conduct work at its Aliso Canyon field in 2011
- ▶ In October 2010, the CPUC approved development of the new Central Valley Storage facility
- ▶ Based on prior CPUC approval, the new Gill Ranch Storage field facility went into operation in 2010
- ▶ Sacramento Natural Gas Storage (SNGS) requested to construct natural gas storage facilities. The CPUC expects to complete its assessment in 2011
- ▶ In 2010, the CPUC approved a request by Wild Goose Storage to expand the capacity of its storage field

Setting Reasonable Natural Gas Utility Operational Costs and Rates

The CPUC has and will be considering the reasonable operational costs of natural gas utilities.

- ▶ PG&E has requested to revise its revenue requirement, rates and some terms of service for its backbone gas transmission system and its storage service for the 2011-2014 period. The CPUC expects to issue its decision in this proceeding in early 2011. In late 2010, the CPUC added an additional pipeline safety phase to this proceeding and will evaluate in early 2011
- ▶ The CPUC expects to review SoCalGas and SDG&E gas rate case in 2011

Refining Gas Cost Incentive Mechanisms

The CPUC has adopted "gas cost incentive mechanisms" for each of the four largest natural gas utilities. The mechanisms provide the utilities with an incentive to procure natural gas supplies at low cost. In early 2010, the CPUC required SoCalGas and PG&E to include 25% and 20%, respectively, of their hedging costs at risk of recovery under their gas cost incentive mechanisms.

Cost Allocation and Rate Design

In June 2010, the CPUC approved a PG&E application to allocate its natural gas distribution costs to different customer classes and to propose changes to its rate design, and adopted a compression cost for service of natural gas vehicles. In late 2010, the CPUC decided the amount of the core brokerage fee.

“Off-System Delivery” by SoCalGas

In June 2008, SoCalGas requested authorization from the CPUC to make deliveries of natural gas to points outside the state after in-state needs have been met. The CPUC is considering the necessity, terms and rates for the service, and expects to issue its final decision in 2011.

Natural Gas Research and Development

Since 2004, the Energy Commission has been the administrator of a natural gas ratepayer-funded research and development program. In 2010, CPUC staff began a review of how well the program has been conducted, and expects to issue a report of its findings in 2011.

Developing Biogas

Biogas and biomass gas projects not only help reduce greenhouse gas emissions but also can help develop alternative sources of natural gas supplies. In 2010, the CPUC approved several renewable electric generation contracts that use biogas or biomass as a fuel.

NATURAL GAS SAFETY AND RELIABILITY

The CPUC is responsible for all matters pertaining to safety and reliability matters for investor-owned gas utilities, mobile home parks and propane systems.



House Destroyed by Gas Explosion

Rancho Cordova Gas Accident

In December 2008, a house in Rancho Cordova exploded due to a natural gas leak from a PG&E main pipeline. The explosion resulted in one fatality and five people sustained injuries. The CPUC worked jointly with the National Transportation Safety Board, Federal Department of Transportation and the City of Rancho Cordova to conduct an investigation and interviews of key witnesses. In November 2010 the CPUC began the penalty consideration phase of its investigation into the explosion.

Gas Distribution Integrity Management Program

The Federal Pipeline and Hazardous Materials Safety Administration amended the Federal Gas Safety Regulations to require operators of gas distribution pipeline systems to implement Integrity Management programs. Gas distribution system operators must establish a written plan to identify and implement measures to reduce risks to their gas distribution systems by August 2011. By 2012, the CPUC plans to conduct specialized audits of these programs. The CPUC also plans to host Gas Safety Seminars for operators of master-metered mobile home parks and propane systems to educate them of these new requirements.

Damage Prevention Program

The majority of the reported incidents involve pipelines that were damaged by excavation. Currently, the CPUC does not have the regulatory oversight to take legal action against non-utility entities that do not follow proper procedures when excavating near underground gas facilities. The CPUC will continue to explore new ways to penalize entities that do not follow proper procedures when excavating near underground gas and electric utility facilities.



ADVANCED METERING INITIATIVE

CALIFORNIA UTILITIES LEAD THE WAY TO A SMARTER GRID WITH ADVANCED METER INSTALLATIONS

The state's utilities continue down the road toward development of an Advanced Grid by installing Advanced Meters for their customers. Advanced Meters enable a utility to provide customers with detailed information about their energy usage at different times of the day, which in turn enables customers to manage their energy use more proactively. Advanced Meters also allow for faster outage detection and restoration and help the environment by offering the opportunity to reduce the need to build power plants, or avoid the use of older, less efficient power plants as customers lower their electric demand.

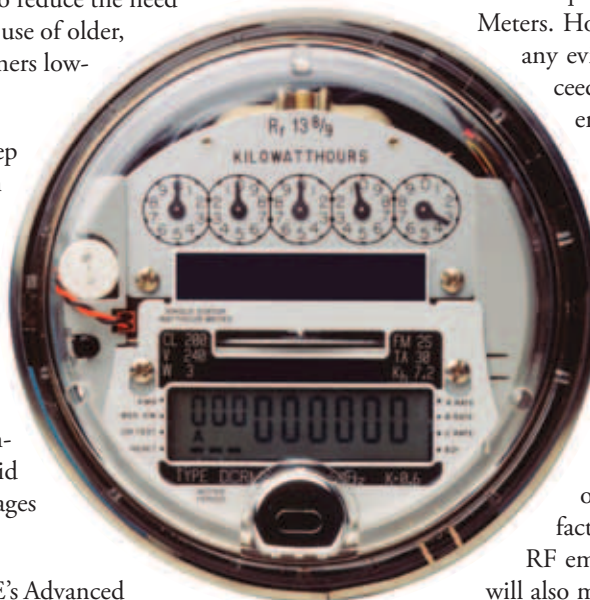
Advanced Meters are the first step toward creating a Smart Grid in California. With a Smart Grid, digital technologies are applied to every aspect of the industry, from generation, to transmission, to distribution, to the customer interface. This will help the grid sense what is happening to the energy flow, keep it in balance, improve reliability, and make the grid more resilient in the face of outages and other problems.

In 2010, amid concerns that PG&E's Advanced Meter installations had caused inflated electricity bills, the CPUC hired an independent consultant, The Structure Group, to independently evaluate PG&E's Advanced Meters and billing systems. Structure found that the meters and associ-

ated software and billing systems were consistent with industry standards and were performing accurately in the overall system. However, the evaluation cited PG&E's customer service practices as a contributing factor to consumer confusion and skepticism about Advanced Meters.

In 2010, the CPUC also heard from consumers about concerns over radio frequency (RF) emissions from Advanced Meters. However, the CPUC was not presented any evidence that the RF emission levels exceeded the Federal standards. In fact, RF emissions from Advanced Meters are one/six thousandth of the Federal health standard at a distance of 10 feet from the Advanced Meter and far below the RF emissions of many commonly used devices.

In 2011, the CPUC will continue to oversee the roll out of Advanced Meters in California and will take extra steps to ensure that utilities are making their consumers aware of the need for Advanced Meters, the facts associated with their installation and RF emissions, and the benefits. The CPUC will also monitor the national and international roll out of Advanced Meters. According to the Edison Foundation, nearly 60 million Advanced Meters should be in place nationally by 2020. Worldwide, the total is likely to be at least triple that amount.





SAN BRUNO PIPELINE

CPUC INVESTIGATES PG&E GAS TRANSMISSION PIPELINE RUPTURE IN SAN BRUNO

On September 9, 2010, a 30-inch PG&E natural gas transmission pipeline in San Bruno exploded, claiming the lives of eight residents, injuring numerous others, and destroying many homes.



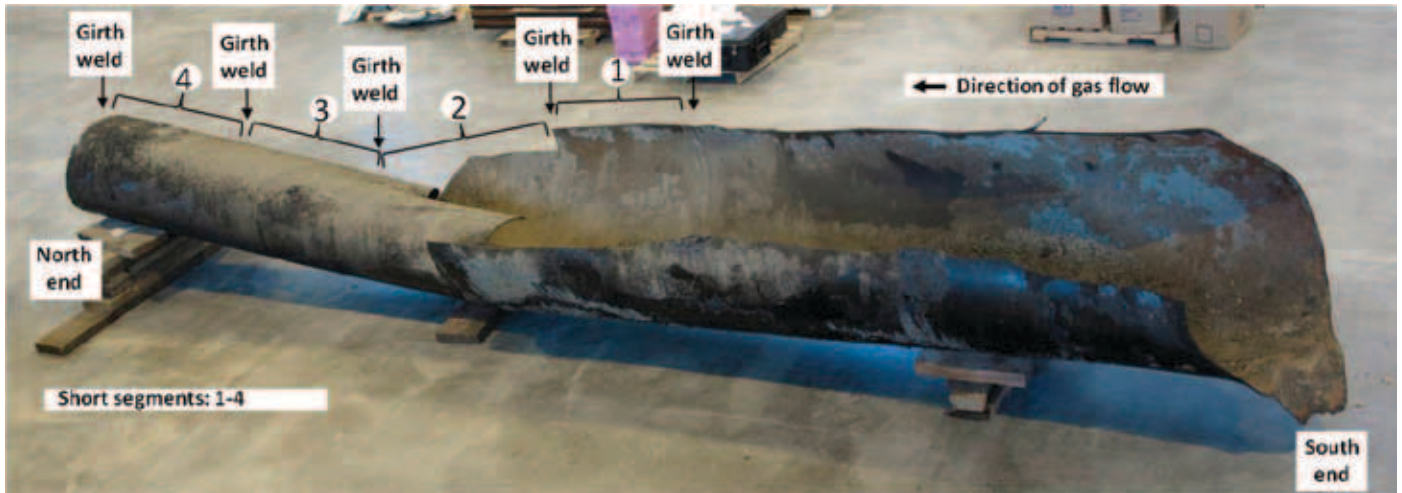
CPUC inspector Sunil Shori in San Bruno.

As the state agency charged with overseeing the operation of the state's utilities, the CPUC immediately had an inspector on-site in San Bruno, and has since been working closely with the National Transportation Safety Board (NTSB) to investigate the cause of the San Bruno explosion.

The CPUC has made numerous directives to PG&E as part of its investigation and to ensure public safety. These steps include:

- ▶ **Sept. 10, 2010:** Set up a toll-free phone number and email address for those with information on a natural gas smell in the San Bruno area weeks before Sept. 9th.

- ▶ **Sept. 12:** Ordered PG&E to immediately reduce pressure in the affected pipeline, inspect its natural gas system, preserve all records, report on authorized versus actual levels of spending on pipeline maintenance, and evaluate customer leak complaint records.
- ▶ **Sept. 17:** Ordered PG&E to provide additional information on its pipelines, including a list of Top 100 maintenance projects and automatic valve information.
- ▶ **Oct. 28:** Approved rate relief to customers directly impacted by the explosion.
- ▶ **Nov. 23:** Began process to hire four additional pipeline inspectors; completed hiring by January.
- ▶ **Dec 10:** Ordered PG&E to provide data about all hydro tests performed on all segments of pipes in its system.
- ▶ **Dec. 16:** Responded to the discovery that PG&E might have misidentified natural gas pipes by taking immediate action to protect the public and ordering PG&E to reduce pressure on all other pipelines that were of the same size and age as the pipeline in San Bruno, and had not yet been pressure tested.
- ▶ **Jan. 3, 2011:** Directed PG&E to implement safety recommendations made by the NTSB immediately. Many of the recommended actions had already been initiated by the CPUC's Dec. 16 order to PG&E. The CPUC also directed the state's other natural gas pipeline operators - Southern California Gas Company, San Diego Gas & Electric Company, and Southwest Gas Corporation - to report on the steps they were taking in response to the NTSB's recommendations.



28-foot-long ruptured section of pipeline at laboratory facilities at the NTSB Training Center, Ashburn, VA. Photo courtesy of NTSB.

Further, on Sept. 23rd, the CPUC announced its intention to establish an expert Independent Review Panel to conduct a comprehensive study and investigation of the explosion, including examining the root causes and making recommendations for action by the CPUC to best ensure such an accident is not repeated elsewhere. On Oct. 14th, the CPUC announced the expert panel members:

- ▶ **Chair Larry N. Vanderhoef**, Chancellor Emeritus, University of California, Davis
- ▶ **Patrick Lavin**, International Brotherhood of Electrical Workers 7th District International Executive Council Member; Co-chairman of the Pacific Council on International Policy, Energy Task Force
- ▶ **Karl S. Pister**, Chair of the Governing Board of the California Council on Science and Technology; Chancellor Emeritus, University of California, Santa Cruz; Dean and Roy W. Carlson Professor of Engineering, Emeritus, University of California, Berkeley
- ▶ **Paula Rosput Reynolds**, President and Chief Executive Officer, PreferWest, LLC; former Chairman, President, and Chief Executive Officer of AGL Resources, a Fortune 1000 Atlanta-based energy services holding company
- ▶ **Jan Schori**, counsel to the law firm Downey Brand LLP; former General Manager and Chief Executive Officer of the Sacramento Municipal Utility District; North American Electric Reliability Council Board of Trustees; Climate Action Reserve Board of Directors

The CPUC conferred on the panel the same investigatory authority as the CPUC staff possesses for purposes of the fact-finding investigation. The Panel's recommendations may include changes to design, construction, operation, maintenance, and replacement of natural gas facilities; management practices at PG&E in the areas of pipeline integrity and public safety; regulatory changes by the CPUC itself; statutory changes to be recommended by the CPUC on the state and national level;

whether there may be systemic management problems at PG&E and whether greater resources are needed to achieve fundamental infrastructure improvements; and other recommendations deemed appropriate by the Panel.

Since the explosion, CPUC officials have participated in hearings at the state and federal levels to inform civic leaders of the CPUC's role and responsibilities and the status of the investigation into the cause of the explosion. The CPUC will continue to participate in such forums in 2011. Also in 2011, the CPUC will continue its work to determine the cause of the explosion and will make any improvements necessary to ensure the safe operation of the state's pipeline operators.

The CPUC has a web page where the public can receive updates and view materials related to the San Bruno explosion: www.cpuc.ca.gov/PUC/events/sanbruno.htm



Firefighters respond at the explosion site



COMMUNICATIONS

PARTICIPATING IN FEDERAL COMMUNICATIONS ISSUES

The CPUC actively participates in Federal Communications Commission (FCC) proceedings relevant to California. In 2010, the CPUC provided expert analysis and policy recommendations in 17 separate FCC proceedings. Much of the FCC's activity in 2010 was focused on proposals designed to advance the rollout and adoption of broadband Internet service and on the transition to an all Internet Protocol (IP) world. The CPUC's recommendations included reforms to the Federal universal service programs and the intercarrier compensation regime. The CPUC advocated not to diminish its vital role over intrastate communications services, especially in the areas of consumer protection and enforcement. When filing at the FCC, the CPUC seeks to ensure that the FCC:

- ▶ Advances broadband rollout and adoption
- ▶ Preserves end user access to lawful Internet services, applications, and content
- ▶ Promotes universal service
- ▶ Maintains adequate consumer protections and service quality
- ▶ Promotes fair dealing between service providers

BROADBAND MAPPING AND DEPLOYMENT

Additional Recovery Act Grant Received

In September 2010, the CPUC was awarded \$5.6 million as part of the ARRA stimulus program to expand access to broadband services in California. This grant enhances the funds from 2009 for a total of \$7.98 million to be spent over the course of five years. These grants will enable the CPUC to gather and

verify broadband data and to create a publicly available, interactive web-based map that will display information about broadband services and providers available throughout California. The CPUC will develop and implement a broadband adoption strategy specifically targeting Californian Native American tribes and Rancherias. Finally, this funding will also support a new California Wireless Broadband Performance and Coverage Tracking Study program, where the CPUC will develop an open-source smartphone application to accurately document the mobile wireless network performance in the state.

Revised Broadband Availability Map

California uses maps of broadband availability to help formulate broadband policy and to determine unserved and underserved areas. Below is the most current map, showing wireline broadband availability by speed in California, as of June, 2010



California broadband availability

CALIFORNIA ADVANCED SERVICES FUND

The California Advanced Services Fund (CASF) provides matching funds for the deployment of broadband infrastructure in unserved and underserved areas in the state. Through SB 1193 (Padilla, 2008), CASF provides for transfer payments to telephone corporations to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies. The CPUC has leveraged ARRA funds to create new opportunities for California to partner with the federal government to advance the goal of bridging the digital divide. ARRA provides funding of up to 80% of the project costs and CASF provides up to 10%. AB 1555 (Perez, 2009) allows non-CPUC certified entities to be able to apply for ARRA and CASF partnered funding. As of October 2010, CASF has awarded over \$57 million for 41 projects covering over 15,000 square miles and benefiting over 300,000 households.

SB 1040 (Padilla, 2010) extends the program indefinitely, expands the scope of the program to include both the Rural and Regional Urban Consortia Grant and the Broadband Infrastructure Revolving Loan Accounts. The CASF programs funding was increased by \$125 million. The CPUC began the process to update the CASF in 2010 and that work will continue into 2011.



Statewide Map of CPUC Approved Projects

Audit of the California Advanced Services Fund

The CPUC commenced an audit of the California Advanced Services Fund surcharge remittances and disbursements for the period of January 2008 through June 2010, where total CASF revenue exceeded \$116 million. This audit is expected to be completed in January 2011.

VIDEO FRANCHISING

AB 2987 (Núñez/Levine, 2006) enacted California's Digital Infrastructure and Video Competition Act. DIVCA shifts cable franchising from the local to the state level, streamlining the video franchise process, allowing for increased competition throughout the state, and expediting deployment of video and broadband infrastructure. Video competition and broadband deployment are both increasing in California. In 2010, the CPUC approved 23 new or amended franchises, bringing the total number to 39.

Broadband availability, penetration and speed are all increasing.

Video Deployment and Choice Grows

- ▶ AT&T and Verizon, combined, now offer video to almost 5 million households, more than quadruple the number in 2007
- ▶ Over a million more households gained a choice of a second state franchised video provider
- ▶ The number of broadband subscribers in California (both business and residential) has almost tripled to 9.5 million since 2003
- ▶ The number of residential broadband subscribers served by state-issued video franchisees increased by 24% since 2007, to 8.5 million households
- ▶ California has a broadband penetration rate of 66%
- ▶ 1.2 million more households (9% of the total households in the state) subscribe to wireline broadband with bandwidth with advertised maximum download speeds of 10 – 25 mbps — a 240% increase

CALIFORNIA LIFELINE TELEPHONE PROGRAM

The California LifeLine Telephone Program (California LifeLine) provides discounted basic landline telephone service to eligible households. The 2010 LifeLine program budget was \$420 million. Eligibility for LifeLine service is based on income or participation in one of 12 public assistance programs.

At the end of 2010, 1.8 million households were receiving the California LifeLine discounts.

California LifeLine implemented some new and creative strategies to reach potential program participants. The program held outreach events at KV Marts where over 2,300 consumers visited. California LifeLine partnered with PG&E's and SDG&E's Low-Income Energy Efficiency (LIEE) Program's call centers to have call center staff inform eligible participants about LifeLine. These LIEE call centers have transferred more than 4,800 consumers to the California LifeLine Call Center. California LifeLine developed an educational video in three languages: English, Spanish, and Chinese.

The California LifeLine Call Center provides free in-language information to consumers in the following languages: English, Spanish, Cambodian, Chinese, Hmong, Korean, Laotian, Tagalog, Vietnamese, Japanese, and TTY. The call center transferred about 20,000 callers to their preferred carrier and screened more than 19,000 callers for eligibility.

In 2010, the CPUC made forward looking changes to the California LifeLine Program:

- ▶ Adopted a new methodology for providing California LifeLine discounts to consumers
- ▶ Set a specific support amount at 55% of the highest basic rate of the State's carriers of last resort;
- ▶ Each phone company authorized to provide California LifeLine discounts capped at no more than 50% of its basic service rate
- ▶ Established that each phone company providing California LifeLine discounts may alter its rate to be annually
- ▶ Expanded California LifeLine to include data services for consumers receiving wireless equipment via the Deaf and Disabled Telecommunications Program (DDTP)
- ▶ Reiterated that the California LifeLine Program's rules allow for the voluntary participation of non-traditional phone companies

CALIFORNIA TELECONNECT FUND

The California Teleconnect Fund (CTF) provides a 50% discount on select telecommunications and Internet access services to schools, libraries, health care organizations, California community colleges, community based organizations (CBOs), and California Telehealth Network (CTN) participants. The CTF

program has a budget \$69.9 million for FY 2010-11. There was a 30% increase in overall CTF participation in 2010, for a total of 1,200 new applications. Since its inception, the CTF program has approved over 5,500 applications.

CALIFORNIA HIGH COST FUND

The California High Cost Fund-A provides supplemental revenues to small local exchange carriers to reduce disparities between basic telephone service rates in rural versus metropolitan areas. There are 14 small local exchange carriers that are eligible to receive support. In 2011, the estimated payments are \$34.3 million.

The California High Cost Fund-B provides subsidies to Service Carriers of Last Resort in order for them to provide local exchange service to any customer requesting basic service within a designated area. These subsidies help provide service to residential customers in high-cost areas; they are currently served by AT&T, Verizon, Frontier, and Cox. The subsidies impact about 270,000 lines. For FY 2010-11 the CPUC has authorized a budget of \$50.9 million.

In 2010, the CPUC examined the definition of basic telephone service in order to determine which telephone providers can be eligible for support. In 2011, the CPUC will consider revisions to the amount of and method of support, including alternative methods such as a reverse auction bidding mechanism. Any revisions made would be done to facilitate meeting the state's universal service goals.

TELEPHONE AFFORDABILITY SURVEYS

In compliance with SB 780 (Wiggins, 2007), the CPUC conducts telephone affordability surveys. The survey concludes that the median California household telephone bill as has not changed significantly. 71% of the respondents found their monthly landline bill to be affordable. The survey results credit programs such as Lifeline and California High Cost Fund as maintaining affordable voice service rates, fulfilling the state's goal of 95% universal service.

As part of its oversight over the six universal service programs, the CPUC regularly conducts audits of the surcharges collected by the telecommunication utilities. In 2010, the CPUC audited four telecommunication carriers' universal service program surcharges and as a result of these four audits, the CPUC assessed these carriers for \$1.9 million in under remittances.

Emerging Issues Forum

The CPUC's Emerging Issues Forum provides an opportunity for the CPUC, academia and industry experts to share ideas on topics outside of the CPUC's formal processes. Launched in 2010, the Emerging Issues Forum provides proactive leadership on emerging policy issues, and it supports sound, long-term policy development through independent research and analysis. The Forum is online at www.cpuc.ca.gov/puc/emergingissues

In 2010, the Emerging Issues Forum featured the following topics:

- *Implementing a Public Goods Charge for Water*
- *Advanced Meters: How Customers Benefit*
- *Electric Energy Storage: An Assessment of Potential Barriers and Opportunities*

RURAL TELECOMMUNICATIONS INFRASTRUCTURE GRANT PROGRAM

The Rural Telecommunications Infrastructure Grant Program aids in the establishment of telecommunications service in areas not currently served by existing local exchange service providers. In 2010, the Iowa Hill, Trinity County and Yurok Tribe projects were completed. Indian Springs and Channel Islands are awaiting completion of their California Environmental Quality Act review and will be considered for approval in 2011.

211 SERVICE

211 is a three digit dial code to reach information and referral services for non-emergency social and crisis needs. The CPUC approves applications to provide 211 services on a county-wide basis. The CPUC approved 211 applications for Shasta and San Mateo counties in 2010. The CPUC received a petition in February 2010 by 211 California, a consortium of the California United Ways and the California Association of Information and Referral Specialists, to be named the 211 provider for 30 unserved counties. The CPUC is expecting to act in Spring of 2011.

TELEPHONE NUMBERING

The CPUC continues to address area code and number conservation issues. The CPUC routinely facilitates the return of unused telephone resources back to the national numbering pool in order to hold off introduction of new area codes. In the second half of 2011, the CPUC will decide the best way to integrate a new area code "669" in the "408" region.

NEW ENVIRONMENTAL REVIEW PROCEDURES

In 2010, the CPUC adopted procedures for reviewing proposed construction projects by communications carriers in order to satisfy California environmental laws and regulations. The CPUC has responsibilities under the California Environmental Quality Act to review possible environmental impacts of construction projects in the State. The CPUC developed a comprehensive, streamlined process to facilitate deployment of advanced communications infrastructure, particularly broadband.

INVESTIGATIONS

An Investigation is comparable to an indictment in a prosecutorial process. An Investigation is issued after the CPUC has gathered evidence and is prepared to make its case for penalty actions to the CPUC's Commissioners.

The CPUC accomplished several strategic initiatives aimed at making its administrative operations more efficient, accountable, and environmentally sustainable.

- *Improving the tracking, monitoring, quality assurance, and management of all goods, services and contracts*
- *Modernizing security in the data center and in the building*
- *Electronic inventory management of all goods*



Investigation into TracFone Wireless

The CPUC instituted an investigation into the failure of TracFone Wireless, Inc. (TracFone) to pay public purpose surcharges and user fees on its intrastate telephone revenue. The CPUC ordered TracFone to show cause why it should not immediately be ordered to pay all such outstanding sums. Hearings are scheduled for February 2011.

Investigation into Americatel

The CPUC instituted an investigation to determine whether Americatel Corporation billed consumers for dial-around long distance monthly service without authorization and by for applying incorrect rates on customers' phone bills, resulting in overcharges of approximately \$3.5 million in total. The case reached a settlement in late 2010 and the CPUC intends to act on it in the first quarter of 2011.

Investigation into Legacy Long Distance

The CPUC ordered an investigation into the operations of Legacy Long Distance to determine whether they placed unauthorized charges on consumers' telephone bills. Legacy is accused of charging for calls that did not occur and a variety of charges related to collect calls that consumers did not accept nor make. Hearings are scheduled for January 2011.

Investigation into Seven Companies for Illegal Use of Automatic Dialers

The CPUC instituted an investigation into the practices of the following payphone service providers: Contractors Strategies Group, Inc., Intella II, Inc., A&M Communications, Limo Services, Inc., TNT Financial Services, CALNEV Communications, and 1st Capital Source Funding & Financial Services, Inc. Through the unlawful connection of automatic dialing-announcing devices to pay telephones, they generated revenue totaling over \$156,000. In December 2010, the CPUC took steps to resolve all issues including the distribution of over \$103,000 payable (50%) to the State of California General Fund and (50%) to

the Telecommunications Consumer Education Fund operated by the California Consumer Protection Foundation.

Background Investigations

The CPUC performs background reviews to determine the fitness and truthfulness, and to detect specific acts of misleading representations made by, telecommunication providers in their applications for authority to operate in California. In 2010, the CPUC performed background reviews of 30 applicants seeking authority and protested 5 applications based on potential misrepresentations. In 2010, the CPUC fined Speedypin Prepaid LLC (\$13,000), Broadvox-CLEC, LLC (\$5,000), Krush Communications (\$7,500), and Talton Communications (\$11,000) for operating without authority and/or failing to provide information or providing inaccurate information in their applications.

Investigations of Unlawful Changes of Consumer Selected Telecommunications Service Providers (aka Slamming)

The CPUC protects consumers from providers who illegally switch consumers' phone carriers without customer authorization, a practice known as slamming.

In 2010, the CPUC issued one slamming citation to a carrier who violated the third party verification of orders for changes in service providers.

The CPUC credits the low number of fines to its increased visibility and accelerated penalty imposition, prompting carriers to be compliant with requirements for third party verification.

Cramming Complaint Reporting Requirements

In October 2010, the CPUC revised the rules that establish cramming reporting requirements applicable to all Billing Telephone Corporations and Billing Agents. This results in a comprehensive standard set of rules applicable to all Billing Telephone Corporations, including resellers and wireless service providers.



RAIL SAFETY

The CPUC has safety jurisdiction over rail transit systems, highway-rail crossings, and railroads, including freight railroads, intercity passenger railroads, commuter railroads, and the currently developing high-speed rail systems.

RAIL TRANSIT SAFETY

The CPUC has safety and security regulatory authority over all rail transit agencies (RTAs) in California and works in cooperation with the Federal Transit Administration to enhance public safety and security. The CPUC focuses on verification of the System Safety and Security Plans of each RTA to ensure that these plans meet all state and federal rules and regulations.

The CPUC prescribes safety requirements for the design, construction, operation, and maintenance of light-rail transit systems. The CPUC ensures that all rail transit system extensions and new construction projects undergo a safety certification review and approval.

The CPUC oversees the following twelve rail transit agencies:

1. Bay Area Rapid Transit District (BART)
2. San Francisco Municipal Transportation Agency (SFMTA)
3. Los Angeles Metropolitan Transportation authority (LACMTA)
4. Sacramento Regional Transit District (SRTA)
5. San Diego Trolley Inc. (SDTI)
6. Santa Clara Valley Transportation Authority (VTA)
7. San Francisco International Airport (AirTrain) connection to BART
8. North County Transit District (NCTD), Coaster and Sprinter
9. Angel's Flight Railway Company, funicular system in Los Angeles

10. San Pedro Red Cars (POLA)

11. Los Angeles Farmer's Market

12. Americana on Brand trolley, located in Glendale

In addition, CPUC also has jurisdiction over the Sacramento County Airport Automated People Mover System which is currently under construction. The CPUC approved the System Safety Program Plan for this system in 2010.

Comprehensive Audits

In 2010, the CPUC approved an audit of BART operations. The CPUC conducted audits for LACMTA, POLA, and AirTrain. The CPUC will approve these final audit reports in 2011. The CPUC ensures all audit recommendations are addressed by the RTAs with corrective action plans and implementation.

Safety Certification

The CPUC verifies the safety certification of new projects and extensions. For FTA-funded projects, the CPUC works with FTA personnel to ensure compliance with federal mandates. Over the past few years, RTA operations have expanded considerably, resulting in several new projects. Staff is participating in the SFMTA Central Subway Project and the SDTI Mid-Coast Corridor Transit Project.

In late 2010, the CPUC approved a Safety and Security Certification Plan for the Sacramento County Airport Automated People Mover System. The CPUC also approved a Safety and Security Certification Plan for the SRTA green line extension. Due to the expansion of some RTA systems, the CPUC expects to participate in several safety certifications in the near future.

Accident Investigations

In 2010, 105 rail transit accidents had occurred in California. Ten fatalities occurred on RTA properties in 2010. The CPUC participates in accident investigations conducted by RTAs, reviews RTA-prepared accident notification and reports or directly investigates accidents.

The CPUC also participates in accident investigation task forces with members from all railroads and transit agencies, including the FRA, Caltrans, and local law enforcement representatives. The CPUC continues to develop and enhance its internal investigation procedures, policies, and processes through training and participation with other investigative agencies such as the NTSB. The CPUC ensures all accident investigation recommendations are addressed by the RTAs with corrective action plans and implementation.

New Safety Inspection Program

The CPUC recently established a new rail transit inspection program with a new staff of four inspectors specializing in operations, equipment, track, and signal and train control. With this new team, the CPUC has been able to examine RTA infrastructure and operations “on the ground” to ensure that safety plans and corrective action plans are actually implemented to the level of quality expected. This is a significant new program that has enabled the CPUC to have more effective enforcement and safety oversight. The CPUC expects to add two additional inspectors positions as part of a strategic plan to provide an expert comprehensive “on the ground” safety assurance function.

Complaints

In 2010, four informal complaints regarding rail transit systems were submitted to the CPUC. The CPUC resolved two of these complaints and the other two are still under investigation. In addition, a formal complaint was filed by the Pasadena Avenue Monterey Road Committee regarding noise impacts along the Los Angeles Metropolitan Transportation Authority’s Gold Line.

Cell Phone/Personal Electronic Device Use by Rail Transit Operators

The CPUC is determining how to restrict personal use of electronic devices by rail transit personnel and if these restrictions should be adopted on a permanent basis.

This is in response to the September 2008, multiple-fatality Metrolink and Union Pacific Railroad collision amongst others. CPUC Investigations indicate personal cell phone use as a primary or contributing cause. The CPUC expects to complete this effort in early 2011.

Roadway Worker Protections

In response to two roadway worker fatalities in 2008, the CPUC is determining whether current roadway worker protection rules

are adequate. The CPUC completed a draft set of rules in 2010 and is expected to be completed in 2011.

Rail Crossing Safety

The CPUC oversees the safety of railroad crossings in California, including determining their design, location, terms of installation, operation, maintenance, use, and warning devices. The CPUC currently has safety oversight responsibility for approximately 13,250 crossings, of which 10,000 are at-grade. The CPUC’s responsibilities include:

- ▶ Performing safety inspections of crossings
- ▶ Enhancing and improving safety at all crossings in the state
- ▶ Analyzing new crossing safety technology
- ▶ Reviewing and processing applications for CPUC authorization to construct new or to alter existing crossings
- ▶ Reviewing and responding to public complaints (e.g., rough or unsafe crossings, noise issues, etc.)
- ▶ Administering Highway-Rail Crossing Hazard Elimination Program funds intended to eliminate hazards at existing public crossings
- ▶ Administering the State’s Grade-Separation Fund program
- ▶ Administers the State’s Automatic Railroad Crossing Warning Device Maintenance Fund program
- ▶ Administers the CPUC’s existing crossing inventory and accidents database
- ▶ Performing field reviews of crossings
- ▶ Investigating collisions involving trains or light rail transit vehicles at crossings
- ▶ Reviewing environmental impact reports regarding the potential impacts of proposed development projects, such as the High-Speed Rail initiative, on crossings and other rail safety-related issues in or near the project areas

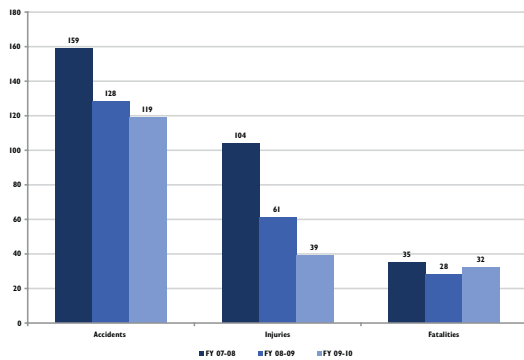


The CPUC’s rail crossings responsibilities play a critical role in ensuring the safety of the state’s residents. CPUC staff is taking a number of steps to improve rail crossing safety throughout the state.

Rail Crossing Accident Investigations and Evaluations

Rail crossing accidents continue to be a major source of railroad-related casualties in California, averaging approximately 150 highway-rail crossing accidents annually since 2003. However, that number is trending downward.

While not the sole reason, the improved administration of the Highway-Rail Crossing Hazard Reduction funds has contributed to the decline of the number of accidents over the last few years.



California highway-rail crossing accidents, injuries and fatalities

A total of 119 crossing incidents in California, which resulted in 32 fatalities and 39 injuries, were reported to the CPUC and to the Federal Railroad Administration during Fiscal Year 2009-10.

Identification and investigation of crossings accidents, and the subsequent evaluation of the crossings involved, are necessary to take steps pro-actively to allocate funding to improve crossings.

Highway-Rail Crossing Hazard Elimination Program

The CPUC jointly administers the Highway-Rail Crossing Hazard Elimination program with Caltrans. In October 2010, the CPUC entered into a Memorandum of Understanding with the California Department of Transportation regarding the two agencies’ joint administration. The MOU clarifies roles and responsibilities, including timelines for crossing evaluations and the projects developed as a result. The program is funded at approximately \$16 million per year

Evaluating Crossing Applications and Crossing Modification Requests

The CPUC has reviewed and approved an increasing number of new crossing applications and modification requests. Primary

factors driving the increase are (1) the implementation of the 2006 Bond Act, (2) the availability of American Recovery and Reinvestment Act funds, and (3) specific local and regional transportation initiatives recently approved by voters, all of which fund many current transportation projects.

In 2010, 19 applications for new or modified crossings were filed with the CPUC. Also in 2010, 181 public highway-rail crossing modification cases were opened. These figures show a growth in crossing improvement projects. The annual numbers of crossing modification cases for the last two years are over twice the average numbers experienced in the prior five calendar years.

Calendar Year 2010 Statistics

Type	Carry-Over from CY 2009	Total Received CY2010	Closed in CY2010	Carry-Over to CY2011
Formal Applications	3	19	9	13
General Order 88-B Requests	5	181	170	16
Complaints	21	17	8	30

Rail Corridor Safety Enhancement Program

The CPUC continues to develop and refine its rail corridor safety enhancement program. The program provides in-depth technical analysis of environmental review documents for proposed development projects in an effort to eliminate or mitigate any potential rail safety impacts. Review of rail crossing impacts while development projects are still in the planning stages allows staff to be proactive in seeking corrective measures rather than reactive after an incident has occurred.

RAILROAD SAFETY

The CPUC employs federally certified inspectors to ensure that railroads comply with Federal railroad safety regulations. The CPUC’s railroad safety Federal/state participation program is the largest in the nation. The CPUC’s railroad operations safety work responsibilities include:

- ▶ Inspecting railroads for compliance with state and Federal railroad safety
- ▶ Investigating rail accidents and safety-related complaints
- ▶ Recommending rail safety improvements to the CPUC and Federal government
- ▶ Ensuring efficient enforcement of rail safety requirements

Implementing The Rail Safety Improvement Act

A significant change in rail safety oversight occurred in 2008 when Congress passed the Rail Safety Improvement Act, which requires the installation of Positive Train Control (PTC) by 2016 on all routes that share trackage with passenger trains and on all freight mainlines over which poison- or toxic-by-inhalation hazardous materials are transported. The CPUC has been working closely with the Federal Railroad Administration in the implementation of this significant piece of legislation, including participation in the Rail Safety Advisory Committees (RSAC) for PTC and for System Safety Program Plans.

Railroad Inspections

The CPUC ensures that railroad locomotives and equipment and facilities are inspected at least every 180 days, and that all main and branch line tracks are inspected at least once per year. During the 2009-10 Fiscal Year, the CPUC inspected 133,247 units of equipment (a unit is one locomotive or one car).

The CPUC inspected over 9,600 miles of track in California.

In addition, the CPUC inspected 719 facilities that handle hazardous materials and 10,861 units of signal and train control systems. The CPUC also responded to 34 informal complaints from railroad employees and the general public.



Close up view of track separation on inside of track

Hazardous Materials/Security Inspections

The CPUC regulates the rail transportation of hazardous materials. CPUC inspectors conduct a variety of activities, including the investigation of accidents and incidents involving the actual

and/or threatened release of hazardous materials as reported by the California Emergency Management Agency's (CEMA) 24-hour Warning Center. Inspectors also conduct unannounced inspections at shipper facilities, consignees, freight forwarders, intermodal transportation companies, and railroads. In addition, two certified inspectors conduct annual security plan inspections on all Class I and short line railroads in California.

Collision Avoidance

In November 2010, the CPUC concluded that due to action taken by Congress, the FRA and Metrolink, no additional implementation of a collision avoidance system was necessary. The FRA adopted regulations for PTC under the Congressional mandate. Metrolink and Union Pacific voluntarily pledged to implement Positive Train Control on Union Pacific-Metrolink joint operation trackage by the end of 2012.

High-Speed Rail Systems

With plans for ground-breaking in 2012, the CPUC is planning to provide safety oversight in the planning, development, construction, and ultimately the operations stages of the California High-Speed Rail project. Initial plans call for engineering staff to be proactively involved in the early stages in order to address problems before they become entrenched either by construction or operational commitments.

Rail Safety and Security Information Management System (RSSIMS)

The CPUC manages large inventories of rail inspection, accident, infrastructure, complaint, formal proceeding, and historical data. The CPUC is developing a centralized database, the Rail Safety and Security Information Management System, in order to better manage and utilize this data. The CPUC seeks to comprehensively include all aspects of data management in a single system for its rail safety and security programs. This will replace the independent and non-integrated rail information management systems that are currently used.

Promoting Rail Safety via Public Education

CPUC employees participate in volunteer activities for Operation Lifesaver, an international organization committed to reducing the number of grade crossing and trespasser related accidents through education, enforcement, and engineering. CPUC employees provide presentations to schools and community groups, raising public awareness of safety measures that should be taken near railroad tracks. CPUC's bilingual presenters ensure that this safety message is communicated to a larger audience. During FY 2009-10, the CPUC educated over 7,000 people through 57 presentations and 17 events in coordination with Operation Lifesaver.



HOUSEHOLD GOODS AND PASSENGER CARRIERS

The CPUC is responsible for issuing operating permits and certificates to carriers that transport passengers for compensation, such as limousine operators, charter bus companies, and airport shuttle services, and to moving companies, known under the law as “household goods carriers.” The CPUC also enforces the licensing of the carriers’ operations.

to take swift action to revoke a carrier’s operating authority if needed. Additionally, the CPUC worked with the California Highway Patrol to impound a bus that was being operated by an unlicensed carrier.

PASSENGER CARRIER ENFORCEMENT

Inspection Program

The CPUC regularly conducts passenger carrier vehicle inspections at airports. In 2010, the CPUC conducted 22 inspections, with over 800 vehicles inspected, 362 citations issued, 28 buses towed and impounded, and 32 buses placed out of service until noted deficiencies were corrected.

The CPUC maintains a permanent presence at Los Angeles International Airport (LAX). The CPUC works with LAX police and representatives of the Los Angeles City Attorney’s Office to detect and prosecute unlicensed limousine and sedan services operating at the airport. In 2010, LAX police issued 253 citations to for-hire carriers, 173 vehicles were impounded, and the CPUC issued 112 administrative citations with fine collections totaling \$112,000.

Implementation of “One Strike” Legislation

AB 636 (Jones, 2009) directs the CPUC to revoke a carrier’s operating authority or to bar a carrier from being issued new operating authority if the carrier commits a violation involving operating a bus without authority, operating without liability insurance on file, employing an unqualified driver to operate a bus, or operating an improperly registered bus. The CPUC formally adopted procedures implementing AB 636 in order



Passenger Carrier Inspection — Oakland International Airport



Towing of an Unlicensed Charter Bus — San Jose

Disconnecting Unlicensed Carriers' Telephone

The CPUC can obtain a court order directing the disconnection of telephone service of any unlicensed charter-party carrier that uses the telephone to conduct its illegal business. In 2010, the CPUC obtained orders against 14 charter-party carriers and 11 household goods carriers.

Coordinating with Other Agencies

The transportation enforcement program benefits from the help it receives from other law enforcement and regulatory agencies. The CPUC regularly coordinates with other public agencies to educate them our programs. The CPUC participates in joint agency task forces, working with organizations such as the California Highway Patrol, National Park Service, and U.S. Customs and Border Protection. In 2010, the CPUC arranged for a significant outreach effort where public agencies received special access to licensing information and where the CPUC conducted training sessions.

HOUSEHOLD GOODS CARRIER ENFORCEMENT

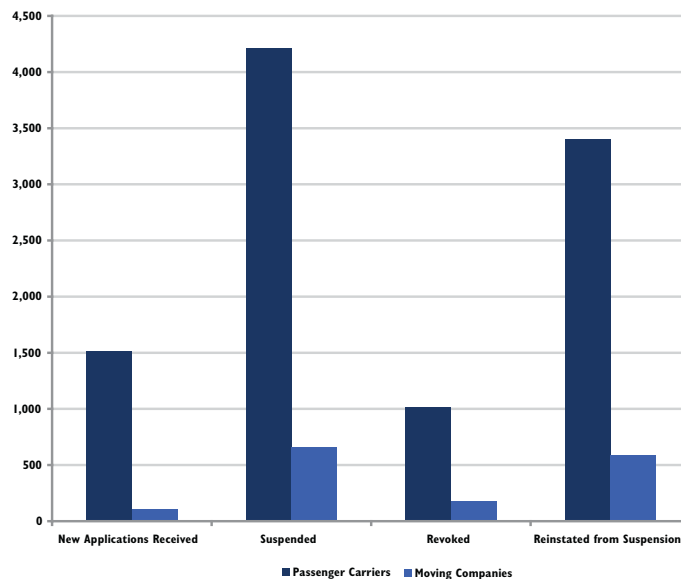
Holding Goods Hostage

In 2010, the practice of holding goods hostage as leverage to collect additional, unjustified charges is the most egregious example of consumer complaint received against moving companies. To combat the problem, the CPUC imposed significant fines against licensed carriers and filed criminal charges against

unlicensed carriers.. The CPUC endeavors to familiarize local law enforcement officials with the statute that authorizes a peace officer to take custody of goods being held hostage and return them to the owner.

CARRIER LICENSING

The CPUC licenses and registers various types of intrastate transportation providers. It receives, processes, and produces thousands of documents each year. The following chart shows selected core activities relating to passenger carriers and moving companies in 2010.



Carrier license activity in 2010

Supplier Diversity

Supplier Diversity is a key objective for the regulated California utilities. The CPUC encourages a fair proportion of total utility contracts for products and services to be awarded to Women, Minority, and Disabled Veteran Business Enterprises. For participating California companies, the CPUC has transformed the idea of Supplier Diversity from merely a social justice program into a business imperative. The CPUC has established voluntary procurement goals for each utility. There are about 30 utilities participating in this program. In 2010, the leadership of the major participating companies spoke about their respective company's performance and their company's future plans to take advantage of the diverse supply base. In this program, the CPUC has demonstrated that improving social infrastructure produces not only profits but also a sound physical infrastructure which benefits all California customers. In 2010, the CPUC's Supplier Diversity program:

- Saw an increase in utility spending on WMDVBE procurement to 23%, an amount of over \$4 Billion
- The CPUC has expanded the supplier database by 32%, containing over 6,300 certified suppliers



WATER

WATER ACTION PLAN AND OVERVIEW

The CPUC is responsible for ensuring that California's investor owned water utilities deliver clean, safe, and reliable water to their customers at reasonable rates. There are 127 investor owned water utilities and 13 investor owned wastewater utilities under the CPUC's jurisdiction, which provide water service to about 18% percent of California's residents.

In 2010, the CPUC updated its Water Action Plan. The Water Action Plan sets forth the CPUC's policy objectives for the regulation of investor-owned water utilities and highlights actions to implement these objectives. The Water Action Plan contains four key principles: 1) Provide safe high quality water, 2) Provide highly reliable water supplies, 3) Promote efficient use of water, and 4) Ensure reasonable rates for water.

The CPUC aims to apply regulatory best practices from the energy utilities to the water utilities. The CPUC places water conservation at the top of the water loading order as the best, lowest-cost supply source.

The Safe, Clean & Reliable Drinking Water Supply Act of 2010 addresses water conservation (SBx7-7), groundwater monitoring (SBx7-6), Sacramento-San Joaquin Delta Reform Act (SBx7-1), and water diversion and water rights enforcement (SBx7-8). The 2010 Water Action Plan update contains specific actions to implement this legislation.

In 2011, the CPUC will be pursuing the following objectives: 1) Implementation of the 2010 Water Action Plan update, 2) Investigate the potential of recycled water to augment potable supply, 3) Increase participation in water low-income programs, and 4) Expand and improve auditing of all utilities and certain CPUC programs.

MONTEREY PENINSULA SUPPLY PLAN

California American Water Company (CalAm) supplies water to the Monterey peninsula. To serve the needs of its customers, CalAm uses a combination of water diverted from the Carmel River system and water pumped from the Seaside Basin, an underground aquifer providing groundwater supply to CalAm. CalAm was diverting water from the Carmel River in excess of its allocated limits. AB 1182 (Keely, 1998) directed the CPUC to identify a long term water supply contingency plan to replace the excess diversions from the Carmel River.

In December 2010, the CPUC approved the Coastal Water Project in the Monterey Peninsula. The Coastal Water Project would produce desalinated water, convey it to the existing distribution system, and increase the system's use of storage capacity in the Seaside Groundwater Basin. This decision was historic in that it resolves a water-supply issue that has bedeviled the community for well over 25 years; as well as approving a request by CalAm to join with several local agencies on the Monterey Peninsula to form a public-private partnership to build, own, and operate a regional water desalination project on the Monterey Peninsula.

CONTAMINATED PLANT REPLACEMENTS

The CPUC adopted standardized policies for the replacement of contaminated plants financed by water contamination damage awards, local or federal grants and low-cost government loans.

This framework takes into account the comparative risk, benefit, or burden that customers and the water utility experience under the particular circumstances of each water contamination case. The CPUC also provides that when a water utility assumes an above-normal risk related to contamination litigation, the



CPUC staff at a water treatment facility

CPUC will take that risk into account in setting the utility's rate of return on its capital investments.

AFFILIATE TRANSACTION RULES

In October 2010, the CPUC adopted a uniform set of affiliate transaction rules applicable to all Class A and B water and sewer utilities. These rules and procedures are key for governing the utilities' transactions with a parent company and/or affiliate(s), and the use of and the cost accounting for regulated assets and utility personnel used for non-tariffed utility products and services. The rules are effective in January 2011 and protect rate-payers while also providing flexibility to account for unique utility-specific circumstances.

RECYCLED WATER

In November 2010, the CPUC began to develop a comprehensive policy framework for recycled water for our Class A and B water utilities. Recycled water provides a local source of new water supply which can be used to augment existing water supply and reduce the need for imported water. With technology advances, recycled water is becoming a competitive and compelling alternate to potable water when uses allow.

In 2011, the CPUC will address state policy goals and legislation on the production, delivery, and use of recycled water; the CPUC will facilitate recycled water production and delivery. The CPUC will examine planning criteria including barriers to production and delivery, ratemaking and pricing, as well as environmental opportunities and accountability.

REDUCING ENERGY USE IN WATER

Reducing energy usage in the delivery and treatment of water is a key goal. Upwards to 19% of California's electricity usage

Thought Leaders Speaker Series

The CPUC hosts an ongoing guest speaker series, "Thought Leaders," designed to stimulate thought and discussion of some of the most pressing challenges facing California utility regulators and the private sector industries impacted by state policies. Leading experts take center stage to offer their expertise and vision in areas such as communications, energy, water, transportation, the environment, green jobs, and more. In 2010, the Thought Leaders series featured:

- **Jacques Besnainou**, CEO of Areva North America; and **John Hutson**, CEO and President of the Fresno Nuclear Energy Group, discussing their plans utilizing nuclear and solar power for a new Clean Energy Park in the San Joaquin Valley
- **Dr. Peter Fox-Penner**, discussing his vision for electric utilities as described in his new book, *Smart Power: Climate Change, the Smart Grid, and the Future of Electric Utilities*
- **Peter Darbee**, CEO and President of PG&E, sharing his perspective on Climate Change for Policymakers and Business Leaders
- **Panel discussion on The Real Cost of Water and the Coming Water Shortage.** Panel members include **Fran Spivy-Weber**, Vice-Chair of the State Water Resources Control Board, **Ellen Hanak**, Public Policy Institute of California, **Dr. Michael Hanemann**, UC Berkeley and **Dr. Bob Wilkinson**, UC Santa Barbara
- **Panel discussion on What Role Can Clean Tech and Smart Grid Start-Ups Play in Solving the Climate Change Crisis?**
- **Ralph Gavanagh**, co-Director of the Natural Resources Defense Council's Energy Program, discussing his vision for energy efficiency, clean energy, and climate change policies
- **FERC Commissioner Philip D. Moeller**, discussing FERC actions on grid needs to ensure reliability as more renewables interconnect
- **Panel discussion on Carbon Capture and Storage and the role it plays in climate change mitigation**

www.cpuc.ca.gov/thoughtleaders

is in the conveyance and delivery of water. The CPUC identified potential energy and water savings at this critical nexus. In 2010, the CPUC increased the number of utilities putting these projects into operation. In one pilot program, preliminary results show energy efficiency gains in the 20% to 50% range. The CPUC expects more program results from these pilots throughout 2011 and the CPUC will evaluate a more comprehensive rollout of these projects.

The CPUC also encourages water utilities to utilize self-generation of energy from renewable sources. In December 2010, the CPUC approved six projects in four large water utilities to replace pressure-reducing valves (PRV) with modern electrical regenerative Flow Control Valves (FCV), using the excess pressure embedded in the water to spin a turbine to generate clean electricity. These projects are expected to be completed in 2012.

ASSISTANCE FOR LOW INCOME CUSTOMERS

The CPUC requires all large and some smaller water utilities to offer their low-income customers rate assistance programs. The current economic climate has placed significant financial pressures on low-income households who now face a greater burden in affording monthly water service.

Over 108,000 residential water customers participated in the CPUC-regulated low-income water assistance programs — a 10% increase from 2009.

In 2010, the CPUC continued its efforts to increase participation rates for low-income assistance programs. The CPUC is exploring a set of guidelines that would require water and energy utilities to share low-income customer information, with the intention of identifying eligible but not yet participating customers. The CPUC is also considering ways to streamline enrollment and to coordinate subscribership among the various low-income programs offered by the water and energy utilities. The Water Action Plan Update highlights other actions for low-income program participants, such as tracking water service shut-offs, developing standardized assistance discounts and eligibility criteria among the programs, increasing penetration rates of existing programs, and enhancing the CPUC website to prominently feature the low-income assistance water programs.

WATER QUALITY

The CPUC requires that regulated water utilities provide water that protects the public health and safety, since water quality can be compromised at a moment's notice. On November 19,

2010, a Do Not Drink order was issued for Barstow, served by Golden State Water Company (GSWC) because of contamination from perchlorate. The next day, Governor Schwarzenegger declared a state of emergency. The community was quickly notified and bottled water was provided while the perchlorate was flushed from the distribution system. The Do Not Drink order was lifted for all residents six days later. The CPUC is investigating this matter.

The CPUC has experts which provide specific findings and recommendations regarding a water utility's compliance with the federal and state drinking water regulations. The water quality expert provided Reports in four general rate proceedings during 2010.

OUTREACH

In 2010, the CPUC conducted cash flow analyses for 17 Class C & D water utilities' general rate proceedings to evaluate whether these utilities needed immediate rate relief while processing their rate cases. As a result, the CPUC granted several interim rate increases to provide these utilities to meet current obligations, pending final disposition of their general rate cases.

A necessary component of a viable water utility is that the utility has rates adequate to cover operating expenses, infrastructure investments, and an adequate and fair rate-of-return. The CPUC annually provides recommended rate-of-return and rate-of-margin for the smallest water utilities. The rate-of-return for the large and medium-sized water utilities is determined on a case-by-case basis.

WATER UTILITY COMPLIANCE REQUESTS

During 2010, the CPUC processed 409 water utility compliance requests. Twelve of the water utility compliance requests completed in 2010 were complete rate and expense reviews for small water and sewer utilities. The CPUC is currently processing an additional 62 water utility compliance requests, of which 12 are for complete rate and expense reviews for small water and sewer utilities and one for a transfer of ownership.

GREAT OAKS WATER COMPANY

In 2010, the CPUC found that Great Oaks Water Company withheld \$4.8 million of pump tax payments owed to Santa Clara Valley Water District. As a result of withholding these payments, Great Oaks Water Company was incurring interest penalties of 1% each month on the delinquent amounts. After conducting a formal investigation, the CPUC ordered that Great Oak Water Company shall be solely responsible for all penalties associated with this nonpayment and is investigating to further review their action to possibly impose fines.



DIVISION OF RATEPAYER ADVOCATES

The Division of Ratepayer Advocates (DRA) is an independent division of the CPUC that advocates solely on behalf of utility ratepayers. As the only state agency charged with this responsibility, DRA plays a critical role in ensuring that the customers of California's investor owned utilities are represented at the CPUC and in other forums that affect how much consumers will pay for utility services and the quality of those services.

DRA's staff of experts performs detailed analyses in the areas of communications, energy, and water to determine the impact that they will have on ratepayers' bills, and also the impacts on safety and service quality. Additionally, DRA evaluates the environmental impact of regulatory issues.

DRA's budget for 2010 was \$28,554,205 – only 1/10 of a percent of the approximately \$50 billion in revenues generated by California's regulated utilities. DRA's expenditures in 2010 represented a small fraction compared with the more than \$5 billion in savings DRA achieved for Californians in the form of lower utility rates and avoided rate increases.

For every dollar DRA spent protecting ratepayers, they were saved approximately \$190 on their utility bill.

DRA'S WORK

DRA has multiple paths in striving to accomplish its objectives to protect ratepayers:

- ▶ **Building the CPUC's Evidentiary Record:** DRA performs detailed analysis of technical and legal issues in order to develop the evidentiary record as the basis upon which the CPUC should make its final decisions.

Additionally, DRA prepares briefs and testimony and litigates issues in formal CPUC hearings.

- ▶ **Lobbying CPUC Decision-makers:** DRA views all the issues that it works on as an opportunity to keep decision-makers informed on the ratepayer perspective. DRA also provides tutorials on complex regulatory issues and the impact that decisions will have on ratepayers.
- ▶ **Informing Lawmakers:** DRA has a permanent presence in Sacramento through its legislative director in order to educate legislators and aid in shaping legislation that reflects the needs of ratepayers.
- ▶ **Educating the Public:** DRA proactively reaches out to the media to explain complex technical and regulatory issues to local and statewide news outlets across California in order to better educate and inform the public of utility and regulatory issues that affect their lives. DRA had over 200 press mentions in 2010.

RATEPAYER IMPACTS IN 2010

Communications

DRA continues to pursue its duty to ensure the lowest possible rates consistent with safe and reliable phone service. DRA petitioned the CPUC in October 2010 requesting to suspend telephone rate increases set for January 2011. DRA's petition was based on findings from its own studies and was corroborated by the Senate Office of Oversight and Outcomes July 2010 report "California Public Utilities Commission: Gaps Emerge in Telephone Consumer Protections." The investigations demonstrated that there is little competition in residential landline telephone service. In 2011, DRA will continue to advocate that the CPUC pursue an investigation to analyze the impact of rate deregulation on basic telephone service.

DRA actively advocated that the CPUC address LifeLine rates, targeted to California's low-income population. Subsequently, the CPUC capped LifeLine rates for the next two years. The CPUC also adopted DRA's recommendation to offer LifeLine customers a wireless option. DRA will work with the CPUC and wireless carriers in 2011 to shape and formalize LifeLine rules for wireless customers.

DRA also won additional protections for wireless telephone customers as the CPUC adopted rules in 2010 that require phone companies to be responsible for the content of their bills, refund customers for unauthorized charges, and provide customers with the option to block third party charges to their phone bills.

DRA supports deployment and equal access to broadband throughout California and filed a petition in September 2010 to improve the likelihood and accountability for such deployment. Current projects have large discrepancies in costs and no transparency for how public funds are spent.

Energy

In 2010, DRA advocacy efforts saved ratepayers \$5 billion in energy costs. DRA influenced the reshaping of customer tier levels that will have positive bill impacts on PG&E's residential customers.

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DRA was successful in postponing the implementation of a Peak Day Pricing program for small business customers. DRA was concerned that implementing the program during the hottest months with little advance education would cause small business utility bills to skyrocket. Instead, DRA supported Peak Time Rebates, which provide customers with incentives to reduce their peak energy use.

DRA strongly protested the December 2010 approval of PG&E's Oakley power plant because the \$1.5 billion project is representative of over-procurement in spite of the lack of demonstrated need. DRA has similar concerns on the renewables side that the utilities are procuring too fast and at above market costs. DRA published two reports this year on this issue: one on the "Solar Paradox," which shows that California Solar Initiative (CSI) costs for solar are decreasing, but costs for large utility scale projects are increasing; the other report, "The Green Rush," demonstrates that California's procurement is close to meeting its 33% goals and should be more selective in choosing lower cost renewable contracts.

In 2010, DRA was instrumental in achieving consumer protections for residential and small business customers. DRA worked with SDG&E, SoCalGas and other consumer groups to develop

a best practices approach to preventing disconnection of its customers' service. In 2011, DRA will seek to urge PG&E and SCE to commit to such best practices as well. DRA also worked with small business stakeholders in persuading the CPUC to institute improved deposit rules for small business customers that will prevent utility billing errors from affecting the financial health of the business.

In 2011, DRA will analyze general rate cases for SCE, SoCalGas, and SDG&E.

Water

DRA represents 1.1 million customers of investor owned water utilities. DRA scrutinizes water utility requests for additional revenues that will increase customer bills. DRA also intervenes to shape water policies that best protect ratepayer interests.

In 2010, DRA finalized rate cases for Great Oaks Water Company, the California Water Service, Golden State Water Company, California American Water, and Valencia Water Company, culminating in ratepayer savings of approximately \$73 million or \$100 per customer annually.

DRA advocated for and shaped important policies in 2010 which will benefit ratepayers. DRA influenced rules that prevent water utilities from financially profiting from the clean-up of water contamination. Additionally, DRA influenced the opening of a Water Recycling proceeding.

DRA strongly supported a regional desalination solution for the Monterey Peninsula. In conjunction with U.C. Santa Cruz, DRA facilitated a coordinated dialogue across all stakeholders in the Monterey Peninsula to develop this long-term regional water supply solution. Since the Regional Desalination project has the potential to triple water service rates, DRA advocated strongly on behalf of California American Water customers to ensure strong ratepayer protections were incorporated into the final regional desalination project agreement. DRA continues to pursue those protections through all avenues available. In 2011, DRA will focus its efforts to mitigate impact to residential and small business ratepayers in the rate design phase.

In 2011, DRA will be working on rate cases for CalAm state-wide utilities and Alco Water Company. DRA will also be reviewing and making recommendations on CalAm's costs for the removal of San Clemente Dam for the purpose of rerouting the Carmel River.

DRA 2010 ANNUAL REPORT

Full details of DRA's 2010 efforts can be found in its 2010 Annual Report, which can be accessed at: www.dra.ca.gov/DRA/about/annualreports.htm

