



California Public Utilities Commission
2011 Annual Report



100 Years of Service



LETTER TO THE GOVERNOR AND LEGISLATURE

Honorable Edmund G. 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 2011 Annual Report and Work Plan. This report highlights major accomplishments and activities of the CPUC in 2011, and offers a view towards what is ahead in 2012 and beyond.

At the forefront for the CPUC is the safety of the state's utility infrastructure. The rupture of a Pacific Gas and Electric Company pipeline in San Bruno in 2010 has driven a change in the CPUC's culture away from compliance box checking to determine utility compliance with our rules and toward safety programs built around critical thinking and risk assessment. The year 2011 saw many improvements made to the way the CPUC oversees and implements pipeline safety measures. In 2012 the CPUC will lead the nation with new rules for the safe and reliable operation of pipelines.

In addition to strengthening our safety oversight, the CPUC continued in 2011 to play a key role in making California a national and international leader in a number of policy areas.

In 2011 more new renewable energy resources were built than any year prior; and the state achieved the installation of 200 megawatts of solar systems on homes and businesses, the highest level ever in a single year. The CPUC also assisted the California Air Resources Board in its development of cap and trade rules for California's greenhouse gas goals, and utility energy efficiency programs saved the equivalent of four 500 megawatt power plants.

We have also continued to ensure that low income customers are receiving information about available discounts and services. In 2011, the CPUC authorized utilities to commit close to \$900 million for rate discounts, with a goal of assisting 90 percent of eligible California Alternate Rates for Energy customers. And as of 2011 the investor-owned utilities have treated more than 300,000 homes under the Energy Savings Assistance Program. The CPUC in 2011 also modified utility service disconnection practices to provide customers in need with extended periods for bill payments.

The CPUC remains active in many different aspects of the rapidly changing communications and broadband markets. In 2011 we gathered and analyzed information relevant to the proposed AT&T/T-Mobile merger to determine the impact the merger would have had on California. Also in 2011, the CPUC completed its third and fourth rounds of broadband availability data collection for its interactive, web-based map of broadband availability. For low income customers, the CPUC approved

a budget of \$355 million for 2012-13. As of October 2011, approximately 1.6 million households benefitted from California LifeLine and Federal LifeLine discounts.

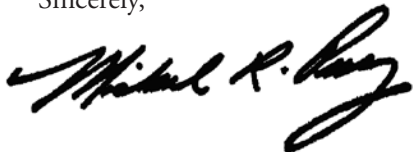
Turning to water issues, in 2011 the CPUC began evaluating new guidelines for consolidating districts, or for some variation of a High-Cost Fund, within the multi-district water utilities as a means to advance the CPUC's Water Action Plan objective of setting rates that balance investment, conservation, and affordability. The CPUC also completely revamped its small water utility audit program and implemented a risk-based auditing approach for those financial audits.

Also in 2011, the CPUC adopted a first-of-its-kind regulation enforcing prohibitions against the use of personal electronic devices, such as cell phones, by rail transit system operators. This is the first regulation in the U.S. that limits the use of personal electronic devices and requires monitoring by rail transit agencies. The CPUC also continued its work investigating rail incidents involving the actual or threatened release of hazardous materials. When a tank car loaded with nearly 30,000 gallons of propane caught on fire in Lincoln, Calif. in August 2011, the CPUC was quickly on the scene and one of our inspectors was designated as Inspector in Charge, coordinating information flow between emergency responders and the regulatory agencies during the incident.

In addition to all of the work outlined in this report, 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.

On behalf of my fellow Commissioners and the staff, I am proud to present to you our 2011 Annual Report and Work Plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael R. Peevey". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Michael R. Peevey
CPUC President

A digital copy of this report can be found at:

www.cpuc.ca.gov/PUC/aboutus/docs_etc/ann_report/

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CONTENTS

Commissioners	6
About the CPUC	7
Putting Customers First	10
Natural Gas Safety and Reliability	15
Electricity	18
Electric Safety and Reliability	27
Communications	30
Transportation	35
Water	41
Division of Ratepayer Advocates.	45



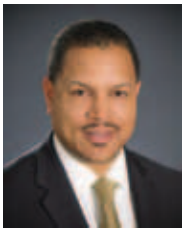
COMMISSIONERS

President



Michael R. Peevey

Commissioner



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Commissioner



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Commissioner



Catherine J.K. Sandoval

Commissioner



Mark J. Ferron



ABOUT THE CPUC

ONE HUNDRED YEARS OF SERVICE

January 2011 began the centennial year of the California Public Utilities Commission, created in 1911 during the Progressive era. The Commission 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 renamed the California Public Utilities Commission (CPUC).

One hundred years later, the CPUC regulates privately-owned telecommunications, electric, natural gas, water, railroad, rail transit, and passenger transportation companies. The CPUC is responsible for assuring that 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 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.

In 2011 the CPUC:

- Opened 301 proceedings and closed 305 proceedings.
- Held 317 days of hearings in 142 proceedings, over 10% more days than in 2010.
- Issued 501 decisions and 594 rulings.
- Received over 8,503 documents, with more than 95% filed electronically.
- Closed 100% of the proceedings in a timely fashion.

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.

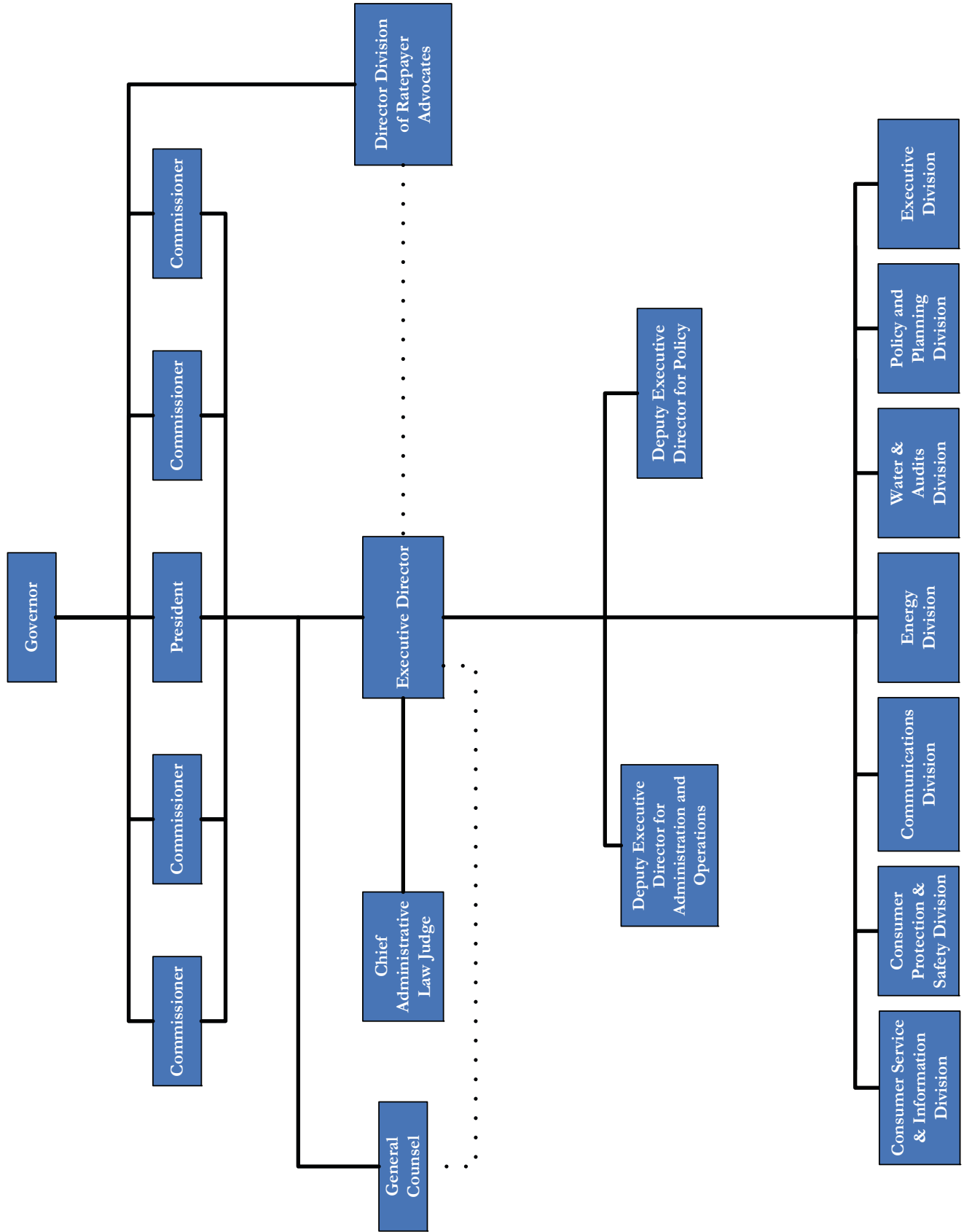
CPUC Speaker Series Promotes Education and Discussion

In 2011 the CPUC continued to host Thought Leaders, a free and open to the public guest speaker series 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. In 2011, the Thought Leaders series tackled the economic viability of energy storage, lessons learned from the solar leadership of Germany and California, and ways to engage customers.



January 2011 began the centennial year of the California Public Utilities Commission.

THE CPUC STRUCTURE





PUTTING CUSTOMERS FIRST

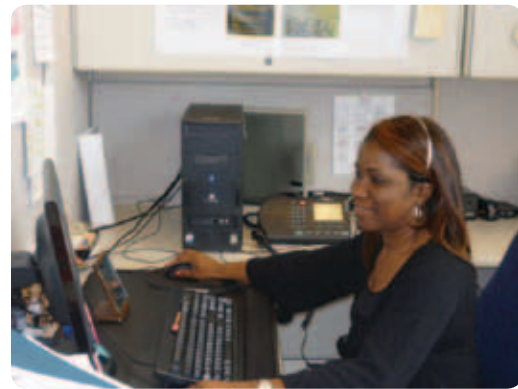
The CPUC has many programs and processes that are actively focused on consumer service and information. These include assisting consumers with disputes against their utility service providers; facilitating public participation in CPUC proceedings; empowering consumers who have physical impairments (such as vision or hearing) or have limited-English-proficiency to receive the same services and benefits as all other consumers; and outreach to seniors, small businesses, and local governments.

PROTECTING CONSUMERS

The CPUC is responsible for providing information to utility customers and resolving informal complaints they have lodged against their utility service providers. The CPUC provides a wide range of information to consumers who contact us with questions about issues ranging from their utility service quality to assistance with paying their utility bill. To facilitate these functions, each utility in the state is required to include the CPUC's contact information on its customer bills. This includes a toll free 800 number and web address.

In 2011, the CPUC received more than 29,000 informal complaints and 5,000 inquiries from consumers, as follows:

	Informal Complaints	Inquiries
Telecommunications	17,500	2,500
Energy	11,100	2,300
Water	1,300	200
TOTAL	29,900	5,000



CPUC Consumer Affairs Representative Assisting a Consumer

The CPUC has a number of channels to intake inquiries, requests for assistance, and informal complaints from consumers, including its toll-free number 800-649-7570, its website, and U.S. mail. The CPUC also assists non-English speakers through these channels. The primary languages for servicing non-English speakers includes Spanish, Chinese (both Mandarin and Cantonese), and Vietnamese. Staff resources are augmented with printed material and language line service. The CPUC has staff fluent in 34 different languages to provide assistance to consumers.

With customer service a priority, the CPUC has completed a number of technology and non-technology upgrades in 2011. Most notable was the initiation of an upgrade to the telephone system. The new system provides customer information choices more efficiently, and routes callers to subject matter experts more effectively. In addition, the CPUC initiated several non-technology upgrades. These include improving the quality and value of all written correspondence to consumers contacting the CPUC with inquiries and complaints, and web-posting data on consumer complaints and inquiries made in languages other than English. To further aid the consumer, the data is sorted by utility, making it easier to locate information about utility service providers.



CPUC Consumer Service Representatives Testing New Phone System

EMPOWERING CONSUMERS

The CPUC provides special accommodations under the Americans With Disabilities Act (ADA). Public hearings are held at locations with access to individuals with disabilities, and the CPUC has a dedicated coordinator to assist individuals with specialized needs. The CPUC also provides interpreter services (including American Sign Language) to facilitate public participation at its public meetings and events.

Limited-English proficient consumers may face challenges with understanding the variety of services and discount programs available to help them with telephone and energy bills. To educate telecommunications consumers about these services and programs, and to help them resolve disputes about their bills, in 2008 the CPUC created the Telecommunications Education and Assistance in Multiple Languages (TEAM) program.

TEAM uses a statewide network of Community Based Organizations (CBOs) to provide telecommunications education, outreach, and complaint resolution assistance 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 2011, the TEAM program increased assistance by adding more CBOs. The CBOs provide assistance ranging from helping consumers understand telecommunications services to assisting them with disputes, including fraud and identity theft.

Based on the success of the TEAM program, the CPUC initiated a pilot for a similar program to address energy (electricity and natural gas) utility issues.

The energy pilot, referred to as Community Help and Awareness of Natural Gas and Electricity Services (CHANGES), has been operating since February 2011. After a full 12 months of data have been collected, the pilot program will be evaluated to determine if it should become an ongoing CPUC program. Data collected for the first eight months show that the program accomplishments include the following:

- Provided assistance in 17 different languages;
- Helped more than 100 consumers apply for the discount program for low income consumers;
- Assisted hundreds more with applying for financial assistance to help pay their bills;
- Reached potentially 2 million consumers to tell them of the program's existence, through TV, radio, and print formats; and
- Educated 11,400 consumers about energy services and bills.

INFORMING CONSUMERS

Getting Information from the CPUC

As a government agency, the CPUC values providing timely and accurate information to all its stakeholders. The CPUC website provides extensive information about the CPUC's many programs and proceedings. The CPUC has several programs dedicated to providing information to the public, including the News and Public Information Office, the Public Advisor's Office, the Legal Division's unit responding to Public Records Act requests, and various others. In addition, current schedules, online forms, and telephone and email contacts are regularly posted and distributed to assist the public in obtaining information from the CPUC.

Giving Information to the CPUC

The CPUC values and encourages input from all interested parties in order to make better-informed decisions that reflect the views of the public it serves. As such, one of its continuous goals is to increase public participation. To achieve this goal, the CPUC provides procedural information and advice to individuals and groups who want to participate in formal CPUC proceedings.



CPUC Public Advisor's Office Staff Assisting Consumers at a Public Participation Hearing

The public has a variety of ways to provide input to the CPUC through opportunities such as giving verbal opinion by phone, speaking at public participation hearings or CPUC Voting Meetings, providing written comment through email or letter, or becoming an active participant in a formal process.



CPUC Public Participation Hearing in Los Osos, Calif.

The CPUC typically receives thousands of informal comments on a wide variety of issues every month. The number of comments received are tracked and reported to Commissioners; while specific comments are circulated to the Commissioners, Executive Office, and Assigned Administrative Law Judge for their review. The top issues on which the CPUC received informal comments in Calendar Year 2011 include:

- Smart Meters (digital meters replacing analog meters used to measure a customer's consumption of a utility, such as electricity or natural gas);
- PG&E natural gas pipeline rupture in San Bruno, Calif., and resulting proceedings and related safety programs;

- Change in the definition of Basic Telephone Service;
- General Rate Case proceedings for PG&E, Southern California Edison, and Sempra;
- General Rate Case for Golden State Water Company;
- California American Water Company Desalination Plant Project;
- California LifeLine Program rate issues;
- Diablo Canyon Nuclear Power Plant relicensing and seismic issues;
- PG&E tiered rate increase for residential customers;
- Electric transmission line issues; and
- PG&E's financial contribution to the Proposition 16 ballot measure.

In 2011, the CPUC held 88 public participation hearings in order to provide the public an opportunity to comment on specific issues. These hearings were held in communities impacted by the specific issue. Collectively, approximately 5,000 individuals attended the events and of those more than 1,500 made public comments.

Another way the CPUC demonstrated its commitment to increasing public involvement was through a public workshop, held in September 2011, to gain input from all stakeholders on ways to improve the CPUC's public participation processes. External stakeholders, such as community based organizations, intervenors, consumers, and utilities are integral to the CPUC's decision-making process, and as such, were fully included in the workshop. Working groups were subsequently created as a result of the workshop, and these groups are currently engaged in developing proposals for improvements that have been formulated during this process. The reports from the working groups and resulting proposals will be presented to the assigned CPUC Commissioner in the first quarter of 2012.

Assisting Low Income Energy Consumers

The CPUC's Energy Savings Assistance Programs aims to reach all households earning at or below 200 percent of the Federal Poverty Level with several forms of assistance. The California Alternate Rates for Energy (CARE) program provides a minimum 20 percent rate discount to eligible low income households. In 2011, the CPUC authorized utilities to commit close to \$900 million for rate discounts, with a goal of assisting 90 percent of eligible CARE customers.

The Energy Savings Assistance program (formerly known as the Low Income Energy Efficiency program) provides weatherization services, energy-efficient appliances, and education to qualified low income customers. The Long-Term Energy Efficiency Strategic Plan adopted an ambitious

goal of treating every low income household in California by 2020, and as of 2011 the investor-owned utilities have treated more than 300,000 homes.

In 2011, the CPUC has pending before it applications from the four large investor-owned utilities proposing to expand the budgets and programs for both the CARE and the Energy Savings Assistance programs for the upcoming 2012-2014 program years. To avoid disruption and continue services to low income customers in California as the CPUC considers these applications, it authorized a bridge funding period for the first part of 2012 based on 2011 funding levels. Authorization for the full 2012-2014 program funding and implementation is expected by summer 2012.

The CPUC in 2011 also modified utility service disconnection practices to provide customers in need with extended periods for bill payments. The modifications also revised reconnection deposit requirements and placed 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.

Assistance for Low Income Water Customers

As of September 2011, approximately 113,360 residential water customers participated in the CPUC's low income water assistance programs and received a discount off their water bills, an estimated increase of 4.5 percent from 2010.

In 2011, the CPUC made significant strides towards improving the assistance available to low income water customers by adopting a data sharing program intended to increase program participation in the water low income assistance program, standardizing eligibility criteria among the energy and water programs, streamlining program enrollment, and establishing data collection and reporting criteria that includes tracking water service shut offs. These new requirements and related policies are a fundamental step towards coordinating subscribership among the various low income programs offered by the water and energy utilities. The first data exchanges are expected to take place in 2012.

In response to state mandated conservation objectives, the CPUC has in recent years adopted numerous water conservation measures designed to encourage reductions in water usage. Many of these measures affect low income households, particularly conservation rates implemented by all large water utilities. To measure the impact that adopted conservation rate design may have on customers, including low income households, the CPUC requires large water utilities to track, collect, and report conservation data that

will assist in determining whether the conservation measures have unintended impacts on low income customers.

Looking forward, the CPUC will use the annual water low income reports to monitor the CPUC's assistance programs' effectiveness and evaluate means to improve assistance. Throughout this process, the CPUC will continue to work with the Low Income Oversight Board in identifying new and effective ways to assist water low income customers.

Discounted Home Phone Service via California LifeLine

The California LifeLine Program provides discounted basic landline telephone service to eligible households. In 2011, the CPUC approved a budget of \$355 million for 2012-13. As of October 2011, approximately 1.6 million households benefited from California LifeLine and Federal LifeLine discounts.

In 2011, the CPUC made changes to the program by implementing a new methodology for providing California LifeLine discounts to consumers through the use of a technology neutral set subsidy amount calculated as 55 percent of the highest basic rate of the state's carriers of last resort as of July 31, and currently set at \$11.50. California LifeLine subscribers will have rate protection such that no participant will pay more than 50 percent of their carrier's basic service rate starting in 2013.

In 2012, the CPUC will conduct an audit of the California LifeLine Program. The 2009-2010 California LifeLine claims of six companies totaling \$7 million will be included in the audit.

DDTP Offers Specialized Equipment and Services

The Deaf and Disabled Telecommunications Program (DDTP) is mandated by the State Legislature and administered by the CPUC. The DDTP provides deaf and disabled Californians with specialized telephone equipment and relay services through the California Telephone Access Program (CTAP) and California Relay Service (CRS).

In November 2010, the CPUC ordered that wireless equipment be a permanent part of DDTP/CTAP. In 2011, the CPUC developed operational and program design parameters for the provision of wireless equipment under DDTP/CTAP.

In 2011, the DDTP began testing a new service — Visually Assisted Speech to Speech (VA STS) — to enhance the

experience of a Speech to Speech call. VA STS provides the STS Communications Assistant with visual communication cues that can facilitate comprehension of what the person with a speech disability is saying. The DDTP is inviting STS users to try out this enhanced service at test call locations and also via testing in their home/office.

Reaching Out To Customers

The CPUC helps educate and inform California's utility customers through outreach to communities, community based organizations, local governments, and businesses, helping them to make smart energy, telecommunications, transportation, and water choices.

One of the CPUC's goals is to equip California customers with knowledge so they will have the necessary resources to make informed decisions about their energy usage. Through outreach, the CPUC is working hand-in-hand with customers to mold their behavior from being passive ratepayers to active participants in their energy consumption, which will ultimately lead to lower utility bills and money savings.

In 2012 the CPUC will add a new target audience to its outreach efforts — children. The CPUC completed extensive training geared to this specific audience in late 2011 and plans to establish partnerships with elementary schools within the state to teach children about energy conservation and that smart energy choices begin at home.

2011 Outreach

The CPUC participated in nearly 250 events in 2011, promoting consumer programs such as CARE, Medical Baseline, and LifeLine, and offering information on managing energy bills. At these events, the CPUC also promotes energy policies, including energy efficiency and demand response. In addition, the CPUC partnered with the Department of Consumer Affairs and other agencies on senior fraud prevention workshops and Senior Scam Stoppers events to help spread the word about scams that target the senior community. In 2011, the CPUC participated in more than 50 Senior Scam Stoppers. Lastly, the CPUC continued its partnerships with statewide senior centers and make presentations to senior groups on the variety of consumer programs and services.

Growing the State's Small Businesses

In 2011 the CPUC held three Small Business Expos statewide to educate small business owners about regulatory

policies impacting their businesses and connecting them to procurement specialists from the utilities and other state agencies. Reaching more than 1,000 small business owners throughout the state, each CPUC-sponsored expo featured a matchmaking session, where procurement representatives met individually with small business owners to discuss their company's business needs and, in turn, find out what products and services they offer in return, as well as a variety of workshops/presentations on specific topics geared to the small business owner, including how to do business with the state and utilities and small business suppliers going green. The CPUC is also actively working with chambers of commerce and small business associations to explain how regulatory policies can positively impact the bottom line of businesses by making simple behavior changes that lead to smarter energy choices. In 2011 the CPUC coordinated a handful of roundtables for the Commissioners and leaders of the small business community to exchange information and learn from their successes. The CPUC plans to hold more of these roundtables in 2012. The CPUC's 2011 efforts to promote and support California small business owners was recognized by the Department of General Services and captured Bronze for Advocate of the Year as part of the State Agency Recognition Awards.

Supplier Diversity

General Order 156 was adopted by the CPUC in 1986 to promote greater competition among utility suppliers by expanding the available supplier base, and to encourage greater economic opportunity for women, minority, and disabled veteran owned businesses historically left out of utility procurement. The goal has been to encourage utilities to procure at least 21.5 percent of total goods and services from diverse suppliers and in 2010 (as reported in 2011) for the first time that goal was reached and exceeded. The CPUC requires that water utilities with gross annual revenues exceeding \$25 million be subject to the same supplier diversity reporting requirements as gas, electric, and telephone companies. In 2010 a large water utility was among the top overall performers, spending 26.2 percent of its procurement with women, minority, and disabled veteran owned businesses.

The CPUC will continue to be an active leader in this area because it is good business for Californians and consumers.



NATURAL GAS SAFETY AND RELIABILITY

The CPUC oversees the safety of the state's intrastate natural gas pipelines. It is responsible for enforcing safety regulations, auditing pipeline operators, conducting inspections, and making necessary additions and changes to regulations to promote the safety of the public and the utility employees who work on the gas pipeline systems. In addition to enforcing various state regulations, the CPUC works as an agent of the federal government to enforce gas safety requirements in California.

Changing CPUC Culture

The rupture of a PG&E pipeline in San Bruno in 2010 has driven change to the CPUC's gas safety program and the CPUC has worked to improve pipeline safety in California, both on the utility side and internally, since the evening of the blast.

The National Transportation Safety Board (NTSB) investigated the pipeline rupture and concluded that contributing to the accident were the CPUC's and the U.S. Department of Transportation's exemptions of existing pipelines from the requirement for pressure testing, which likely would have detected pipeline installation defects. Also contributing to the accident was the CPUC's failure to detect the inadequacies of PG&E's pipeline integrity management program. Additionally, an Independent Review Panel also investigating the rupture determined that it was caused by a consequence of multiple weaknesses in PG&E's management and oversight of the safety of its gas transmission system, and that the CPUC did not have the resources to monitor PG&E's performance in pipeline integrity management adequately or the organizational focus that would have elevated concerns about PG&E's performance in a meaningful way.

A Commitment to Safety

Since the pipeline rupture, the CPUC has taken significant steps towards improving its safety culture and programs, including implementing the NTSB's recommendations, as well as those of the Independent Review Panel. New safety measures the CPUC has implemented include:

- Ordered all pipelines that were not required to be pressure tested under federal rules (referred to as grandfathered pipes) to be pressure tested or replaced. All transmission pipes that haven't been tested before are being tested or replaced, and for all pipes that have been tested, we are re-verifying operating pressures based on complete, traceable, and verifiable records. The CPUC is also actively monitoring the ongoing hydrotesting efforts of PG&E;
- Ordered immediate pressure reductions on specified PG&E lines, including lines with weld characteristics similar to the segment that ruptured in San Bruno. PG&E has reduced pressure on other pipelines for which it has incomplete pressure records or that were operating at an insufficient margin of safety based on changes in nearby population density;
- Opened a penalty consideration proceeding against PG&E, alleging poor record-keeping;
- Required PG&E to file safety project information twice a year so the CPUC and the public can be assured the utility has spent funds appropriately;
- Conducted an audit of PG&E's Public Awareness Program and began a comprehensive audit of PG&E's operations; and,
- Expanded gas safety enforcement tools with a new citation program under which natural gas companies can be fined by CPUC staff for violating state and federal safety rules.

The CPUC has also taken a close look at its internal operations and has taken steps to reform and improve its regulatory oversight function, including:

- Doubled the number of pipeline inspectors;
- Created a new Risk Assessment Unit to help change the CPUC's inspection culture away from compliance box-checking to proactive risk assessment;
- Restructured the CPUC's Consumer Protection and Safety Division, which includes recruiting a Natural Gas Safety and Reliability Branch Manager, training staff to undertake specialized roles, and issuing a Request for Proposals to conduct an internal management audit of the gas safety branch; and,
- Established a public stakeholder process to improve the integration of safety into ratemaking, and consider a periodic safety certification of each utility independent of all other considerations.



In 2012 the CPUC will set new rules for the safe and reliable operation of natural gas pipelines in California, which includes requirements for automatic or remotely operable valves, emergency response, and public information. The new rules will be a model of natural gas pipeline safety regulation for all California pipelines and for the nation.

In the first quarter of 2012, the CPUC will release a Comprehensive Natural Gas Safety Workplan to identify broad safety goals, including a commitment to acquiring the necessary increases in resources, training, and skills to achieve the goal of effective performance-based oversight.

Citation Program

In December 2011, the CPUC gave its Consumer Protection and Safety Division staff the authority to issue citations to gas corporations and levy penalties to enforce compliance with General Order 112-E and the Code of Federal Regulations for Gas Pipeline Safety. Penalty payments will be the responsibility of the shareholders of the gas corporations and not charged to the ratepayers. Prior to the institution of this Citation Program, CPUC staff had limited tools to enforce pipeline safety requirements. The new program will significantly expand the enforcement ability of the CPUC staff and ensure compliance and prompt action in correcting gas safety violations. The new Citation Program is consistent with recommendations made by the National Transportation and Safety Board and Independent Review Panel following PG&E's pipeline rupture in San Bruno in 2010, as well as new legislation mandating increased safety measures to promote gas pipeline safety.

Fine Issued for Rancho Cordova Gas Incident

In December 2008, a house in Rancho Cordova exploded due to a natural gas leak from a PG&E pipeline. The explosion resulted in one fatality and five people injured. The CPUC worked jointly with the National Transportation Safety Board, Federal Department of Transportation, and the City of Rancho Cordova in conducting an investigation. The CPUC determined that the incident was caused by a segment of pipeline that was not properly tested or approved for gas service. On December 1, 2011, the CPUC approved a \$38 million fine against PG&E.

Gas Distribution Integrity Management Program

The Federal Pipeline and Hazardous Materials Safety Administration amended its Federal Gas Safety Regulations to require operators of gas distribution pipeline systems to develop and implement gas distribution integrity management (IM) programs by August 2011, including a written plan. Operators are required to include procedures in their IM plans to identify and implement measures to reduce common risks to their gas pipeline distribution systems. In 2011, the CPUC met with gas utilities to conduct preliminary reviews of their IM plans. The CPUC also provided training to operators of small gas and propane systems to aid them in developing IM plans. In 2012, the CPUC plans to conduct comprehensive reviews of the IM plans.

Damage Prevention Program

A majority of incidents reported to the CPUC involve natural gas pipelines that were damaged by excavation. As of November 2011, of the 134 natural gas incidents that were reported, 73 were the result of excavation damage. A major percentage of these “dig-in” incidents occur because the excavator did not go through the established one-call process and call 811 prior to digging. Current regulations require gas utilities to develop and implement programs to reduce excavation damage to their facilities. Through these programs, gas utilities educate excavators about the one-call process and, when notified, provide excavators with the location of any underground utility facilities in relation to the work area.

In an effort to improve the accuracy and effectiveness of the utilities’ mark and locate activities, in 2011, the CPUC proposed a rule to require accurate markings. The CPUC participates in the Common Ground Alliance, a statewide organization focused on identifying ways to minimize damage prevention throughout the state, and will continue to explore new ways to penalize entities that do not follow proper procedures when excavating near underground gas and electric utility facilities.

Assuring Adequate Natural Gas Storage Infrastructure and Supplies

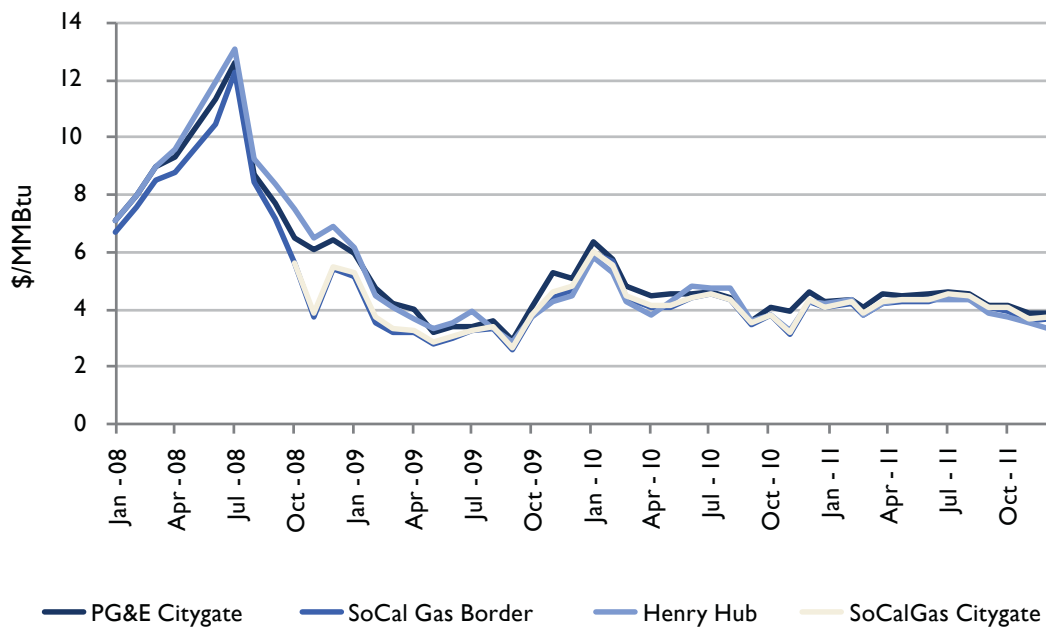
Natural gas storage capacity increases delivery reliability and provides significant economic benefits to consumers. The CPUC is reviewing the following storage expansion requests.

- SoCalGas’ request to conduct work at its Aliso Canyon field. This work would increase the injection capacity at the field by 145 million cubic feet per day; and,
- Sacramento Natural Gas Storage’s request to construct natural gas storage facilities as a public utility. The CPUC expects to complete its assessment in 2012.

Natural Gas Prices

Natural gas commodity prices remained at low levels in 2011, ranging from about \$3.50 to \$4.50 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.

Gas Daily Monthly Spot Gas Prices





ELECTRICITY

The CPUC regulates 70 percent of California's electric sales and 99 percent of the state's natural gas sales. In 2011, the CPUC continued its national and worldwide leadership stature in adopting policies and managing the financial support to provide energy services across the wide geography of California. The CPUC also continued its work in stimulating the transformation of the electric and gas sectors to provide clean energy solutions. Highlights for 2011 include:

- More new renewables were built than any year prior;
- Assistance to the California Air Resources Board in its adoption of cap and trade rules for California's greenhouse gas goals;
- Findings that utility energy efficiency programs saved the equivalent of avoiding four 500 megawatt (MW) power plants; and,
- Installation of 200 MW of solar systems on homes and businesses, the highest level ever in a single year.

ADDRESSING CLIMATE CHANGE IN CALIFORNIA'S ENERGY SECTOR

California continues to demonstrate national leadership on the issue of climate change. The electricity sector is tasked to reduce greenhouse gas (GHG) emissions by approximately 51 million metric tons from emissions otherwise expected in 2020, or about one-third of the total state GHG emissions. Climate change policy and legislation are expected to account for most of the state's emission reduction goals, representing approximately 75 percent of the total reductions required by 2020.

In October 2011, the California Air Resources Board in collaboration with the CPUC, the California Energy Commission, and other stakeholders, adopted its final cap and trade regulation, setting the stage for implementation of the cap and trade program in 2012.

The Governor signed Senate Bill 2 (2011-2012 1st Ex. Sess.) in April 2011, codifying a 33 percent renewable energy

mandate. The CPUC is moving forward with policy development and implementation including energy efficiency and demand response, increased renewable deployment, electrification of transportation, and combined heat and power systems. The CPUC adopted policy on the use of revenues generated from the sale of emissions allowances allocated to the investor-owned utilities. A final decision on how these revenues will be used is anticipated in July 2012.

The CPUC continues to work with other state agencies on the California Clean Energy Future effort and continues to participate in the Western Climate Initiative, which promotes development of a Western states and Canadian regional climate framework.

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 acceler-

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

ated its efforts to implement the most ambitious energy efficiency and conservation programs in the U.S. utility industry. January 2011 marked the middle 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 MW power plants; and,
- Avoid 4.9 million tons of CO₂ emissions.

In 2011, the CPUC initiated the plans for a two year (2013-14) portfolio. The plan proposes several significant changes in the next portfolio, including a far greater reliance on financing mechanisms and a reduction in the amount of funds being spent to subsidize compact fluorescent light bulbs since that market has been successfully transformed by previous programs.

Ensuring Sustained Funding

The CPUC took action in 2011 to ensure that utility energy efficiency programs continue to have adequate funding to fulfill statutory and policy mandates. Energy efficiency funding comes from three sources: 20 percent from natural gas Public Purpose Program surcharges, 25 percent from electric Public Goods Charge collections, and 55 percent from procurement dollars. Since energy efficiency is the state's top resource, the CPUC in October 2011 ensured that funding dedicated to natural gas energy efficiency programs would be maintained to avoid an unintended impact on cost-effective programs. In December the CPUC approved a surcharge to prevent any funding deficiencies to Public Purpose Programs as a result of the January 2012 expiration of the Public Goods Charge.

Energy Upgrade California

Under Energy Upgrade California program approximately 2,500 single-family homes received energy efficiency upgrades in 2011. There was an average of 29 percent energy savings per home. The program is administered by the investor-owned utilities together with new private sector partners and local governments brought together by the California Energy Commission through Federal stimulus funds and other programs. Energy Upgrade California provides substantial incentives for energy improvements to existing homes when these actions produce at least 10 percent, and up to 40 percent, savings per home. The program also provides training and scholarships to strengthen California's home energy performance contractor workforce and has the long-term goal of transforming the home energy improvement industry to produce well-organized, high-performance, and high energy savings outcomes.

Strategic Plan Adds Important Lighting Dimension

The CPUC made progress in 2011 on the California Long-Term Energy Efficiency Strategic Plan through investor-owned utility programs and the launch of three new Action Plans that advance the Strategic Plan: commercial zero net energy buildings; heating, air-conditioning and ventilation systems; and lighting systems. Action Plans are

collaboratively developed and implemented by "champions" from the utilities, state agencies, private industry, and research institutions working together on specific strategies called for in the Strategic Plan.

Evaluation, Measurement and Verification of Efficiency Programs

The CPUC and investor-owned utilities launched in 2011 a \$125 million program designed to evaluate electric and gas savings and peak electric demand reduction that result from the investor-owned utilities' 2010-12 energy efficiency portfolios. The evaluation program will evaluate how well the utility programs support the Long-Term Energy Efficiency Strategic Plan and market transformation goals, the work of other state agencies, and future program innovations. Finally, the evaluation plan calls for greater focus on the design and implementation of programs, the uptake of specific energy efficiency technologies in the market, and the behavior of key market actors.

Dynamic Pricing: Customer Education and Implementation

Dynamic pricing reflects in customer prices the varying costs of electricity production at different times of day and times of the year. Responsive customers may even lower their bills if they are able to sufficiently reduce electric use during peak afternoon hours on designated days. In 2011, the CPUC set customer education and outreach requirements for the investor-owned utilities to allow small- and medium-size commercial and agricultural customers to prepare for time-varying prices when dynamic pricing for these customers is implemented in 2013 and 2014.

Customer Distributed Generation and Solar Program Growth for 2011

Under the California Solar Initiative (CSI), California reached a major milestone in 2011 by installing more than 1,000 megawatts of customer-sited solar throughout the state (more than 60 percent of which can be attributed to the CSI Program). In five years, the CSI Program has installed more than 650 MW at more than 60,000 sites in the investor-owned-utility territories of PG&E, SCE, and SDG&E. Another 325 MW, at more than 12,000 sites, are pending installation. In 2011 alone, the CSI Program installed more than 200 MW of new solar — more than any other year in the history of the program. In September 2011, Senate Bill 585, which grants the CPUC \$200 million to cover a budget shortfall in the CSI Program, was signed into law. The additional monies will allow for more solar projects to be installed, as well as help the CSI General

Market Program to meet its goal of installing 1,750 MW by 2016.

The CSI program has three additional components to ensure all income levels receive the benefits of solar technology: a Single-Family Affordable Solar Homes (SASH) Program allowing low income families to have access to renewable energy; a Multifamily Affordable Solar Housing (MASH) Program providing solar incentives on qualifying affordable housing multifamily dwellings; and a CSI Thermal Program offering financial incentives and stimulating market development for the installation of Solar Water Heaters on California homes and businesses.

In addition, in 2011 the Research, Development, Demonstration and Deployment (RD&D) Program completed its third grant solicitation, which will fund up to \$12 million for projects focused on grid-integration and business development.

The Self-Generation Incentive Program (SGIP) provides incentives for distributed generation and storage technologies that reduce greenhouse gas emissions in the investor-owned utility territories of PG&E, SCE, SDG&E, and SoCalGas. The program, which had been suspended since the end of 2010, reopened in November 2011. The program has been expanded to provide incentives to wind turbines, fuel cells, combined heat and power systems, and advanced energy storage systems. To date, the SGIP has installed 227 MW of non-solar distributed generation, with another 111 MW pending installation.

ENERGY SUPPLY

Power Procurement and Ensuring Resource Adequacy

The CPUC ensures that utilities plan for and make investments in energy resources necessary to provide California consumers with reliable service at low and stable prices. Utility procurement of energy resources must be cost effective and consistent with the goals of the Energy Action Plan and its loading order. In 2011, 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 emergencies or loss of electric service as a result of insufficient supply/generation. The CPUC continued to develop and refine its Resource Adequacy program and deliberated policy issues such as accounting of demand response and energy efficiency into the resource mix.

Expiration of Department of Water Resources Contracts

Since 2002, investor-owned utility 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. In 2011, there was one DWR contract remaining and the CPUC continued to ensure that these energy cost reductions are reflected in the electric rates paid by investor-owned utility ratepayers.

Implementing the California Renewables Portfolio Standard

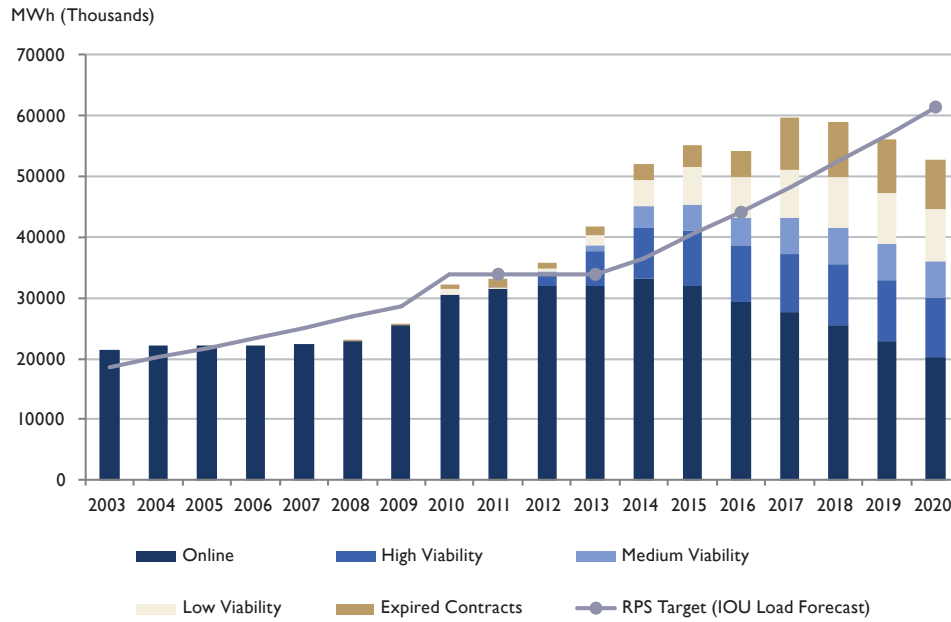
The CPUC is committed to statewide environmental goals and the role of renewable power in achieving such goals. At the start of 2011, the Renewables Portfolio Standard (RPS) program required electric utilities to supply 20 percent of their retail electricity from eligible renewable generation by 2010. In 2011, the three large electric utilities collectively served 17 percent of their 2010 electric load with renewable energy, up from 15.4 percent in 2009. As Figure 1 shows, the utilities are expected to achieve 20 percent renewables in the 2011-13 time frame, depending on the success rate of near-term projects. In 2011, Senate Bill SB 2 (Simitian, 2011-2012 1st Ex. Sess.) made significant changes to the RPS program. Specifically, it increases the renewable target to 33 percent by 2020 and requires both retail sellers and publicly owned utilities to achieve a 33 percent RPS.

Since 2002, the CPUC has approved 195 contracts for more than 17,000 MW of renewable capacity. In addition, the 2011 RPS solicitation and recent contracting rates show dramatic growth in California's renewable energy market. Furthermore, the rate of RPS projects coming online has

In 2011, California installed 839 megawatts of renewables. More renewable energy was installed in 2011 than in any previous year.

increased each year since 2003. As Figure 2 shows, more renewable energy (839 MW) has been installed in 2011 than in any previous year.

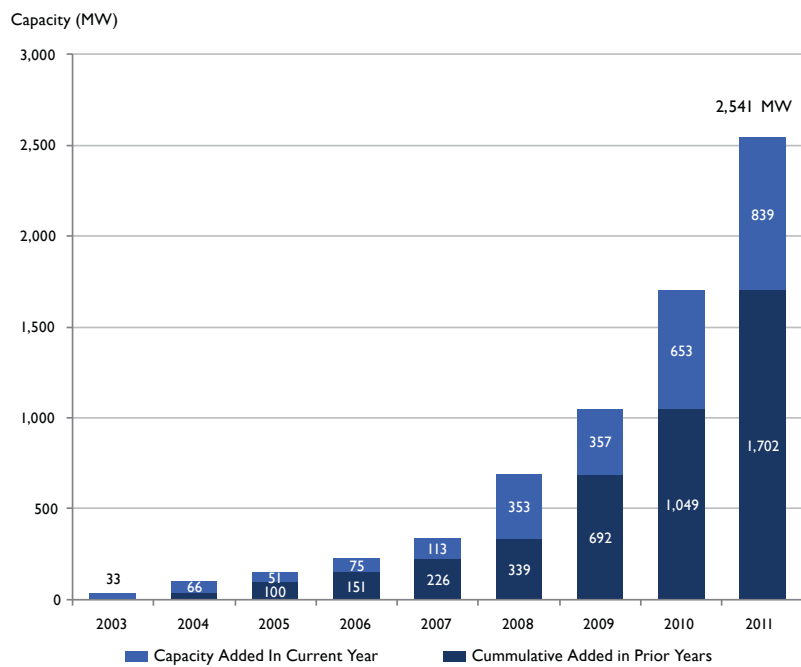
Investor-Owned Utilities RPS Generation



Source: California Public Utilities Commission, 3rd Quarter 2011

Figure 1. Large Investor-Owned Utilities' Actual and Forecasted RPS Generation

Investor-Owned Utilities New RPS Capacity



Source: California Public Utilities Commission, 4th Quarter 2011

Figure 2. 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 time lines;
- Avoidance of new transmission;
- Declining technology prices; and,
- Hedging against riskier, large-scale renewable projects.

In 2009 and 2010, the CPUC authorized PG&E, SCE, and SDG&E to own and operate solar photovoltaic (PV) facilities as well as to execute solar PV power purchase agreements with independent power producers through a competitive solicitation process. SCE's program targets solar PV rooftop projects from 1-2 megawatts, PG&E's program targets solar PV ground-mount projects from 1-20 megawatts, and SDG&E's program targets solar PV ground-mount projects from 1-5 megawatts. In total, these programs will yield up to 1,100 megawatts of new solar PV capacity in California over the next five years.



CPUC staff at the April 12, 2011, signing by Governor Brown of the 33% RPS bill.

Introduction of a New Renewable Auction Mechanism

The Renewable Auction Mechanism, or RAM, is a simplified and market-based procurement mechanism for renewable distributed generation projects up to 20 MW on the

system side of the meter. The CPUC adopted RAM as the primary procurement tool for system-side renewable distributed generation because it will promote competition, elicit the lowest costs for ratepayers, encourage the development of resources that can utilize existing transmission and distribution infrastructure, and contribute to RPS goals in the near term. To begin the program, the CPUC authorized the utilities to procure 1,000 MW through RAM. Going forward, the capacity authorization will reflect each utility's need for system-side distributed generation under 20 MW. RAM is a unique program because it streamlines the procurement process for developers, utilities, and regulators. It allows bidders to set their own price, provides a simple standard contract for each utility, and allows all projects to be submitted to the CPUC through an expedited regulatory review process.

Combined Heat and Power

Combined Heat and Power (CHP) is recognized as a potentially significant source of energy cost savings and emissions reductions. In 2011, the CPUC began implementation of two ground-breaking programs supporting CHP. Following approval of a new statewide program for the procurement of at least 3,000 MW of CHP in December 2010, the CPUC has worked with parties to finalize issues related to cost allocation. The program includes four new power purchase agreements for CHP, and a requirement for the utilities to conduct at least three CHP-only competitive solicitations. The CPUC in 2011 provided final approval for a new CHP feed-in tariff program. This program requires investor-owned utilities to purchase excess power from small, new, and highly efficient CHP facilities at a standard price and standardized contract terms and conditions. The contracts approved by the CPUC provide highly efficient CHP facilities that generate less than 20 MW an easy means to sell power that isn't needed for onsite energy demand.

Increasing Direct Access

The Direct Access program enables electric end-use customers to purchase electricity from competitive providers called Electric Service Providers (ESPs). The Direct Access program was suspended on September 20, 2001, in the aftermath of the energy crisis. The CPUC is currently implementing a four-year phased program authorized by Senate Bill 695, which allows Direct Access load to gradually increase to the maximum level that existed before Direct Access was suspended. During 2011, a major focus of the CPUC in the Direct Access area was to evaluate and refine the rules governing switching by customers between Direct Access and bundled utility service, the security requirements applicable

to ESPs, and the charge paid by Direct Access customers to assure bundled customer indifference.

Community Choice Aggregation

In 2002, the California Legislature established the Community Choice Aggregators (CCAs) program, which allows local governments to aggregate and serve the electric loads of customers within their jurisdictions. In 2011, the CPUC submitted four quarterly reports on the progress of implementation and utility incurred costs associated with the Community Choice Aggregation program.

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. In 2010, pursuant to Senate Bill 17 (Padilla, 2009), the

Advanced Meters, also called Smart Meters are the first step toward creating a Smart Grid in California.

CPUC set requirements for a Smart Grid deployment plan. In July 2011 the utilities submitted their deployment plans. The plans are currently being reviewed with deployment plan workshops set for early 2012. The workshops will 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



customer privacy. The CPUC in July 2011 approved rules to protect the privacy and security of customer usage data generated by Smart Meters.

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. In 2012, the CPUC will consider opt-out options for customers who do not wish to have an Advanced Meter installed on their premises.

TRANSMISSION, DISTRIBUTION, AND OPERATIONS

Improving Transmission Planning and Statewide Renewable Resource Priorities

The CPUC works closely with the California Independent System Operator (ISO) and the California 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 percent 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. In 2011, the CPUC submitted Long Term Procurement Program scenarios that included Renewable Energy Transmission Initiative (RETI) scenarios to the ISO. The CPUC also actively participated in steps leading up to the federally initiated Regional Transmission Planning and Cost Allocation because this initiative has substantial implications for planning and paying for transmission across the west, particularly to access renewable resources.

Environmental Review of New Transmission Facilities

In 2011, 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 SDG&E ECO Substation that will allow the interconnection of approximately 1,200 megawatts of renewable generation is presently undergoing environmental review and is expected to be approved in early 2012. The California

portion (150 miles) of SCE's Devers-Palo Verde #2 500 kV line approved by the CPUC in November 2009 underwent environmental compliance/construction in 2011 with construction to start in 2012 and is anticipated to be online in 2013. Furthermore, the remaining SCE Tehachapi 500 kV line segments (4-11), which were approved by the CPUC in December 2009, are also in the compliance/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 projects, the Red Bluff and Colorado River



Substations expansions in Riverside County. These substations will allow the interconnection of large solar generators. The two substation projects were approved by the CPUC in 2011 and are expected to be online by 2013. The SDG&E ECO Substation that will allow the interconnection of approximately 1,200 megawatts of renewable generation is presently undergoing environmental review and expected to be approved in early 2012.

In 2012, there will be continued progress in constructing the major transmission lines and substations for future

renewable project interconnections. In addition the CPUC will conduct environmental and permit review on a number of transmission line upgrades to accommodate several wind and solar projects in the PG&E and SCE service territories.

Facilitating Regional Transmission Planning

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. The Western Governors' Association is utilizing Department of Energy funding under the American Recovery and Reinvestment Act to extend this effort by enlisting stakeholders in explo-

The CPUC safeguards California ratepayer interests for Western power grid investments.

ration 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 benefiting from federal funding. This process is centered on TEPPC and focuses on renewable and other alternative energy futures.

OVERSIGHT OF ELECTRIC RATES

The CPUC thoroughly reviews the costs to the major energy utilities of owning, maintaining, and operating the electric and gas infrastructure. Approximately 50 percent of the total costs are reviewed and authorized in General Rate Cases (GRCs). The GRCs generally occur on a triennial basis and address costs that can be predicted with a fair degree of accuracy over the next three years. The GRC decisions address allocation of costs among various customer classes and rate design and specify how the utilities' authorized revenues are to be adjusted during the years between rate cases. Fuel and purchased costs representing approximately 25 percent to 35 percent of a utilities' total revenue requirements are recovered in the annual Energy Resource Recovery Account proceedings as these costs are difficult to predict. The CPUC processed the following GRC-related reviews and fuel and purchased power cost reviews during this report period.

SDG&E and Southern California Gas Company General Rate Case Revenues

SDG&E and SoCalGas filed their 2012 GRCs in December of 2010. The CPUC is reviewing these applications with a decision expected in early 2012. SDG&E is requesting an increase of \$238 million (7.5 percent) in electric and \$39 million (6.3 percent) in gas revenues in 2012 citing various factors driving its costs. SDG&E filed its 2012 phase two GRC application on electric marginal costs, revenue allocation, and rate design in September 2011 and a CPUC decision is expected in late 2012. In July 2011 the CPUC authorized a 2011 ERRA revenue requirement of \$755 million for SDG&E. The CPUC expects to decide on SDG&E's 2012 ERRA revenue requirement in mid-2012.

SCE General Rate Case Revenues

In November 2010, SCE filed its test year 2012 GRC application in which it requests an 8 percent revenue increase in 2012 citing various factors increasing its costs. In 2011, the CPUC reviewed SCE's GRC application, and a decision is expected in early 2012. The CPUC began to review SCE's 2012 phase two GRC application, which SCE filed in June 2011. A CPUC decision is expected in mid-2012. In April 2011 the CPUC adopted a 2011 ERRA revenue requirement of \$3.4 billion for SCE. A CPUC decision is expected in early 2012 regarding SCE's 2012 ERRA revenue requirement request.

PG&E General Rate Case Revenues

The CPUC concluded phase one of PG&E's 2011 GRC and approved a 3.3 percent increase in electric revenues in 2011 to provide funding for owning, operating, and maintaining PG&E's electric distribution system and its power plants. The CPUC also approved a 1 percent increase in PG&E's gas distribution revenues in 2011. The CPUC in December 2011 approved PG&E's 2011 phase two GRC application, which addressed electric marginal costs, revenue allocation, and rate design and adopted a 2012 ERRA revenue requirement of \$4 billion.

Energy Utility Audits

In 2011, the CPUC completed 12 compliance audits on \$1.1 billion of energy Public Purpose Programs implemented in 2007, 2008, and 2010, including the Low Income Energy Efficiency Program (LIEE) and energy efficiency programs. These Public Purpose Program audits represent an increase of 52.4 percent over the \$524.9 million audited in 2010. In addition, the CPUC performed four analytical reviews

on \$744.5 million the four largest energy utilities spent in 2009 on energy efficiency. In 2012, the CPUC plans to conduct compliance audits of the 2009/2010 Energy Savings Assistance Programs, formerly known as LIEE, and the 2011 energy efficiency program expenses of PG&E, SCE, San Diego Gas & Electric, and Southern California Gas Company.

The energy utilities' gas and electric procurement process is a complex endeavor with the utilities attempting to hedge energy costs with large sums of money at stake. Auditing the utilities' quarterly procurement compliance and reports is one of the tools the CPUC uses for procurement oversight. In 2011, the CPUC completed 12 quarterly electric and gas procurement audits addressing the \$2.3 billion of energy procurement conducted by PG&E, SCE, and SDG&E. The CPUC found instances where each utility was not in compliance with CPUC directives. While each of these omissions was immaterial, even small infractions have the potential to create material losses. The utilities have corrected most of these deficiencies and the CPUC developed new procedures requiring the utilities to provide additional analysis and documentation for their non-standard product purchases.

One of the ways the CPUC is improving its oversight over energy utilities is to vary its audits and include additional program or subject areas. The CPUC plans to audit or review



the following areas in 2012: 1) PG&E's claim of overpaying its gas and electric user fees by approximately \$600,000 from 2004 to 2011; 2) PG&E, SCE, and SDG&E's Market Redesign Technology Upgrade Memo Account; and 3) The energy utilities' supplier diversity programs.

ENERGY CRISIS LITIGATION

The CPUC is seeking to obtain refunds of overcharges for power purchased to serve California ratepayers during the 2000-01 energy crisis. To date, California has settled with approximately 45 suppliers and obtained more than \$3 billion in settlements to resolve overpayments in short-term electricity transactions alone. 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 more than \$6 billion. The CPUC continues to challenge three contracts, and more than \$3 billion remains at stake.

Advocating for California Consumers at FERC

The CPUC intervenes in transmission rate cases at the Federal Energy Regulatory Commission (FERC) to ensure just and reasonable rates by providing testimony and by negotiating and litigating rate cases. In 2010-11 the CPUC's FERC-related work included three transmission rate cases involving PG&E, SCE, and SDG&E, and two other FERC rate cases involving Trans Bay Cable LLC and SCE. The CPUC's work in FERC proceedings is a critical factor in the FERC reducing the utilities' requested revenues, which has saved California customers more than \$150 million in transmission costs. Additionally, to represent California interests, the CPUC intervened in the El Paso Pipeline Company General Rate Case at the FERC. El Paso is one of the largest interstate pipelines that deliver natural gas to California.

Preparing for Initial Sales of Plug-in Electric Vehicles

The CPUC continued to work with the California Energy Commission, California Air Resources Board, local governments, and the California Plug-In Vehicle Collaborative to design and implement policies to facilitate the widespread deployment of electric vehicles. In July 2011, the CPUC took additional action on Alternative Fueled Vehicles. This action covered several areas:

- Directs electric utilities to collaborate with automakers and other stakeholders to develop an assessment report to be filed with the CPUC addressing notification processes that identify where electric vehicle charging will likely occur on the electric system;

- Affirms that electric utilities' existing residential electric vehicle rates are sufficient for early electric vehicle market development and that existing commercial and industrial rates are sufficient in the early electric vehicle market for non-residential customers, and identifies a process reexamining electric vehicle rates in 2013;
- Looks at new and lower cost metering technologies for electric vehicle charging and established a process to develop an electric vehicle metering protocol, such as submetering;
- Determines that until June 30, 2013, the cost of any distribution or service facility upgrade needs to accommodate basic residential electric vehicle charging and will be treated as shared cost;
- Defines the role that utilities may play in education and outreach related to electric vehicles;
- Requires utilities to perform load research to inform future CPUC policy; and,
- Addresses utility ownership of electric vehicle service equipment.

In 2011 the CPUC continued to collaborate with the California Air Resources Board on the ongoing development of the Low Carbon Fuel Standard regulations.

Resource Adequacy Requirement Citation Program

In 2011, the CPUC issued and collected payments on two citations totaling \$7,000. In March 2011, the CPUC approved a settlement agreement between its staff and Constellation NewEnergy, Inc. (CNE) for CNE's alleged violation of the CPUC's system resource adequacy requirement for the month of January 2009. CNE agreed to make a \$300,000 payment to the state's General Fund.

In June 2011, the CPUC began a formal investigation to consider whether to penalize PG&E \$7,133,100 for not securing its required energy resources for March, April, and July 2010. The formal investigation stems from findings in a CPUC Investigative Report. In a separate proceeding, the CPUC instituted a formal investigation to determine whether PG&E violated laws following a CPUC Decision that granted PG&E's request for a permit to Construct the Seventh Standard Substation Project.



ELECTRIC SAFETY AND RELIABILITY

The CPUC oversees the safety of electric, communications, natural gas, and propane gas systems. CPUC staff enforces rules and regulations and investigates and determines ways to reduce utility related accidents. Following are areas of interest for 2011.

REDUCING FIRE RISK FROM ELECTRIC POWERLINES

Fires caused by downed powerlines can result in massive property damage and are a serious risk to public safety. To reduce these risks, the CPUC works to improve the design, construction, and inspection of powerlines as well as improve the coordination between power, telephone, and video companies that share pole lines. In the coming year the CPUC will consider requiring stricter inspections for powerlines, reporting of deficiencies and tree trimming, and the preparation of maps that identify fire-prone areas.



Malibu Fire

In October 2007, three wooden utility poles in Malibu that were 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, causing a large fire covering 3,800 acres and resulting in property damage. CPUC staff investigated the incident and found that the loading of the three Malibu utility poles was in violation of CPUC rules. Staff submitted testimony concluding that the owners failed to inspect and maintain the poles within specified standards.

SDG&E Proactive Electric De-Energization

In 2011, the CPUC participated in the creation of the Fire Prevention Plan for San Diego County, which is expected to be finalized in 2012. In 2009, the CPUC ruled against an application from SDG&E that requested approval to proactively de-energize its electric system when certain weather conditions existed that could damage its facilities and cause fires. The CPUC instead ordered all key stakeholders to create a Fire Prevention Plan for San Diego County.

Transformer Loading Study

Residential transformers can become overloaded due to increased consumer demand; heat waves in particular dramatically increase residential use of air conditioning, which can overload transformers and result in power outages. In 2011, the CPUC continued its work to mitigate these effects by conducting a study that examines the impact of increased demand on distribution transformers during so-called “heat storms”. The study led to proposed rules aimed at reducing power outages associated with transformer overloading, which the CPUC expects to consider in 2012.

Low Transmission Lines

Low transmission lines can be extremely dangerous, and their occurrence increases the chance of power outages, contact with humans, and the risk of shock or electrocution. In October 2010, the North American Electric Reliability Corporation issued an alert to electric utilities to verify “as-built” conditions of overhead transmission lines due to the possibility of low lines that are in violation of existing laws.

In September 2011, the CPUC met with electric utilities to determine the severity of the issue and are currently reviewing corrective action plans to ensure that the hazards are being addressed. The CPUC is examining the root cause of the low lines to determine if additional measures should be taken to prevent reoccurrence in the future.

ELECTRIC GENERATION SAFETY AND RELIABILITY

CPUC jurisdiction extends to most power plants in California, with the exception of nuclear plants, publicly-owned generating facilities, and small generators known as “Qualifying Facilities,” or QFs. The CPUC’s regulation of utility generation and procurement includes large fossil-fuel plants, 50 megawatts and above. A total of 62 fossil fuel plants provide more than 58 gigawatts of generating capacity to customers of PG&E, SCE, and SDG&E. The CPUC conducts comprehensive audits, inspections of plant outages, special studies and investigations, and analysis of plant performance data. As large Renewables Portfolio Standards (RPS) projects become operational, the CPUC will conduct similar work at those facilities. The purpose of the Electric Generation Safety and Reliability Program is to:

1. Implement and enforce maintenance and operation standards for electric generating facilities;
2. Maintain and protect the public health and safety of California residents and businesses;
3. Ensure that power plant owners effectively maintain such facilities to optimize production;
4. Ensure electrical service reliability and adequacy;
5. Require plant owners to notify the CPUC and California Independent System Operator (ISO) when the plant is unable to produce power;
6. Require plants to seek CPUC approval prior to long-term or permanent shutdown; and,
7. Comply with Public Utilities Code §761.3, which mandates the program.



Power Plant Inspection

Onsite Audits

CPUC staff conducts comprehensive onsite audits of four to six plants every year. For each audit, a team of engineers researches the operating history of the plant, spends a week at the plant, and prepares an extensive report that focuses on safety, efficiency, and reliability. The plant then submits a corrective action plan, which CPUC staff approves, rejects, or modifies. In 2011, CPUC staff audited the Ormond Beach and High Desert plants, located in Ventura and San Bernardino counties, respectively; reviewed corrective action plans submitted by Sutter and Metcalf (Yuba City and San Jose); and completed an audit of Encina (Carlsbad). Other audits in various work stages include those for the Pittsburgh, Morro Bay, Los Esteros (San Jose), and Gateway (Antioch) plants.



CPUC Inspector at a Power Plant

Summer Emergency Preparedness and Reporting

When the ISO declares Stage 1, 2, or 3 emergencies due to electrical capacity shortages, CPUC staff investigates the cause and estimated return to service, and circulate 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 2011, inspectors contacted each power plant to discuss summer readiness. California did not experience any Stage 1, 2, or 3 alerts during summer 2011.

INVESTIGATING POWER PLANT OUTAGES

In 2011, the CPUC inspected more than 300 outages, an increase of almost 20 percent compared to 2009. Predictably, outages occur at aging plants, but also at recently built plants that operate new and sometimes unfamiliar technologies. Roughly 85 percent of such outages occurred at plants located in Southern California. To target

audits and to detect reliability trends and causal factors, the CPUC collects and analyzes inspection data.

The CPUC also investigates outages when evidence suggests a significant violation of safety, operation, and/or maintenance standards, or if it suggests a larger systemic problem. The CPUC's 2011 investigations fell into multiple categories: equipment explosions, fires, electrical "flash" incidents, and a chemical release that resulted in employee injuries, damaged equipment, and posed an inconvenience and potential safety risk to the public. As a result of multiple explosions and fires at large transformers, the CPUC began a special study to determine if any actions should be considered to improve the reliability and safety of transformers.

By far, the largest outage occurred in the San Diego area on September 8, 2011, after a series of cascading regional outages left customers of SDG&E, SCE, and Imperial Irrigation District without service for up to nine hours. The outage also affected customers in Arizona and Northern Mexico. While the Federal Energy Regulatory Commission retains control of the overall investigation, CPUC staff looks for system flaws, trends, faulty standards, or other lessons-learned to ensure this type of outage does not happen again in any region of California.

PG&E Underground Inspection Records Falsification

The falsification of any utility records is a serious issue — undiscovered problems with infrastructure and equipment could cause undue risks to public safety and reliability. In 2011, PG&E reported to the CPUC that it had identified inspectors who were falsifying records of underground electric facility inspections that are required by General Order 165. CPUC staff conducted an investigation into the matter and will create mitigation measures that reduce the possibility of future report falsification. The CPUC plans to take final action in 2012.

San Bernardino Electrocution Incident

In January 2011, a SCE overhead 12 kilovolt conductor failed, fell to the ground, and started a small grass fire in the rear of a property. Three of the residents at the property were electrocuted while attempting to put out the fire. CPUC staff is investigating this incident to determine its cause and identify measures that can be taken to reduce the likelihood of reoccurrence.

Safety of Electricity and Communication Infrastructure Facilities

In response to several wildfires that were reportedly ignited by powerlines, the CPUC is considering several new and revised regulations to reduce the fire hazards associated with overhead powerline facilities and aerial communication facilities located in close proximity to powerlines. In particular, CPUC General Order 95 was revised to require Communication Infrastructure Providers (CIPs) to inspect their aerial facilities according to specific inspection cycles, require pole-loading calculations wherever there is a material increase in load on the pole, and require CIPs to attach a marker to newly constructed or reconstructed CIPs facilities or joint-use poles.

Electric Substation Inspection Program

Proper inspection of electric substation operations is critical to identifying, documenting, and resolving many safety and reliability concerns. The CPUC continues to revise and improve its rules regarding electric substation operation and maintenance through a proceeding opened in 2010 where CPUC staff proposed a draft General Order to establish minimum inspection and maintenance standards. A final decision by the CPUC is expected in mid-2012.

Transfer of Master-Meter/Submeter Systems at Mobilehome Parks and Manufactured Housing Communities

Many residents of Mobile Home Parks and Manufactured Housing communities (collectively, MHPs) do not receive electricity and/or natural gas directly from investor owned utilities (IOUs). Instead, the IOUs serve a master-meter customer, in this case the MHP, who then distributes the electricity or natural gas, or both, to individual coaches, or homes. Because the utilities do not own or operate the MHP submeter systems they do not have the same maintenance or safety responsibilities as they do for their own distribution systems. The CPUC opened a proceeding to examine measures the CPUC should take to encourage replacement of submeter systems with direct utility electricity and natural gas service to MHPs as a way to improve the safety and reliability of service. The CPUC plans to issue a decision on the matter in 2012.



COMMUNICATIONS

The CPUC develops and implements policies for the telecommunications industry, including ensuring fair, affordable universal access to necessary services; developing clear rules of the game and regulatory tools to allow flexibility without compromising due process; removing barriers that prevent a fully competitive market; and reducing or eliminating burdensome regulation. The following offers a snapshot of key activities for 2011.

PROPOSED MERGER OF AT&T AND T-MOBILE

On June 9, 2011, the CPUC initiated an investigation into the proposed acquisition by AT&T Inc. of T-Mobile USA, Inc. The acquisition would have affected millions of California wireless subscribers. The CPUC gathered and analyzed information relevant to the proposed merger to determine the impact of the merger on California. On December 19, 2011, AT&T and T-Mobile cancelled their proposed merger due to overwhelming opposition by subscribers.

CASF PROMOTES BROADBAND DEPLOYMENT

The CPUC established the California Advanced Services Fund (CASF) in December 2007 for the purpose of promoting broadband deployment in unserved and underserved areas in the state. The CASF program provides subsidy grants to qualifying carriers to build needed infrastructure to bring broadband to those with no or limited broadband access.

As of November 2011, total CASF awards amount to almost \$39.25 million for 32 projects benefiting 254,796 households: \$2.3 million for 14 projects benefiting 16,530 households in unserved areas and \$36.95 million for 18 projects benefiting 238,266 households in underserved areas.

In December 2010, the CPUC opened a proceeding to implement the provisions of Senate Bill 1040, which extended the CASF program five years and expanded it to include a revolving loan and regional consortia funds. Concluding the first part of the proceeding in June 2011, the CPUC adopted a set of eligibility criteria and rules for the new CASF Consortia Grant Fund. The CPUC is addressing the criteria and rules for the new Revolving Loan program and changes to the existing Infrastructure Grant Fund, which is expected to be completed in early 2012. The CPUC submitted an audit report of the CASF in April 2011.



Approved CASF Projects as of the End of 2011

MAPPING OF BROADBAND AVAILABILITY

In September 2010, the CPUC was awarded an additional \$5.6 million by the Federal government as part of the American Recovery and Reinvestment Act for a total of \$7.9 million to be spent over the course of five years. The CPUC will use the grant to gather and verify broadband data and to create a publicly available, interactive web-based map displaying information about the broadband services and providers at each address throughout California.

The broadband availability maps will also help the CPUC in the creation of broadband policy based on the location and extent of unserved and underserved areas. Data is collected from providers twice a year. During 2011, the CPUC completed its third and fourth rounds of broadband availability data collection. An interactive, web-based map of broadband availability is now available at: www.broadbandmap.ca.gov.

Based on data as of June 30, 2011, the broadband map illustrates the areas of the state that are served (access to broadband with speeds at least 3 Mbps down and 756 kbps up), underserved (access to broadband service slower than 3 Mbps down or 756 Kbps up), unserved (no broadband service at all), and unpopulated (those areas without any households).



Broadband Availability Map as of 2011

PARTICIPATION IN FCC ACTIVITIES

The transition of the communications industry away from provision of service via the legacy wireline voice network to wireless and IP-enabled broadband networks, is calling into question the authority of states and the role of state regulation in the developing broadband world. In order to ensure California consumers continue to receive high-quality communications services at reasonable prices, the CPUC in 2011 provided expert analysis and policy recommendations in numerous separate Federal Communications Commission (FCC) proceedings. A key FCC focus in 2011 was reform of the current Intercarrier Compensation scheme and the federal Universal Service Fund to enable the transition to broadband networks and services. The CPUC supported necessary reform but urged the FCC to retain the vital role of the states over intrastate communications services, especially in the areas of consumer protection and enforcement. In November 2011, the FCC issued a Report and Order mandating changes to the state and federal Intercarrier Compensation scheme and the federal High Cost support program.

VIDEO FRANCHISING

California's Digital Infrastructure and Video Competition Act of 2006 shifted cable franchising from the local to the state level, and the CPUC was designated as the state entity to issue the new state video franchises.

In 2011, the CPUC issued five new video franchises and the consolidation of one video franchisee, bringing the total number of companies holding state video franchises to 34. AT&T and Verizon combined now offer video service available to almost 5.5 million households, more than five times the number in 2007. Over 72 percent of California households (9.1 million) can now choose from two or more video service providers.

PROVIDING UNIVERSAL SERVICE IN HIGH COSTS AREAS OF THE STATE

Universal Service, a concept that basic telephone service be affordable and ubiquitously available to all members of society, is a long-standing cornerstone of the California Legislature and the CPUC's telecommunications policy. In

response to this commitment and in compliance with legislative mandates, the CPUC created various public programs to achieve this goal including the following programs.

California High Cost Fund-A

The California High Cost Fund-A (CHCF-A) provides supplemental revenues to small independent local exchange carriers (ILECs) to minimize disparities between basic telephone service rates in rural versus metropolitan areas. The CHCF-A is funded by an all-end-user surcharge billed and collected by telecommunications service providers.

There are 14 small ILECs that are eligible to receive CHCF-A support although only 10 request and receive support, which represents 60,366 of the 81,450 eligible access lines. For 2011-12 the CPUC authorized a budget of \$56.28 million for CHCF-A.

In late 2011, the CPUC began a review of the CHCF-A. This review seeks comments on how the program can more efficiently and effectively meet its stated goals. Furthermore, the CPUC seeks to determine whether the CHCF-A program remains necessary to achieve the fundamental statutory goal of enhancing universal service and, if so, what changes are necessary to further this goal in today's telecommunications environment where varied technologies compete to fulfill the communication needs of consumers.

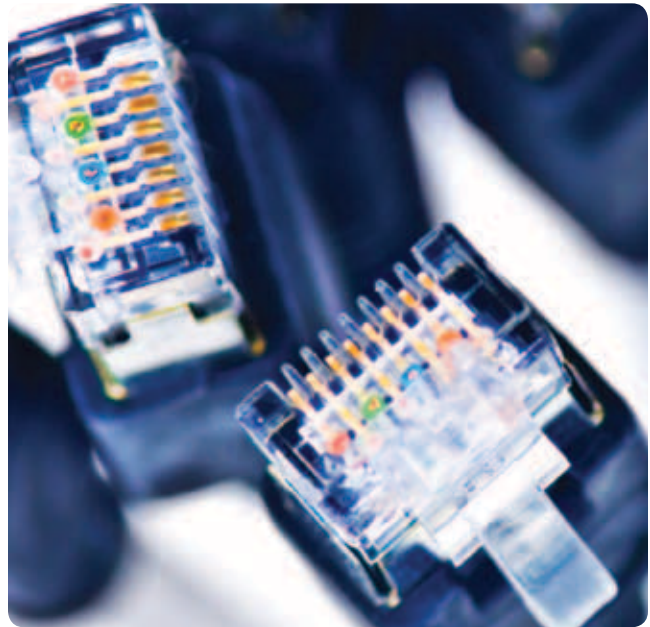
California High Cost Fund-B

The California High Cost Fund-B (CHCF-B) provides subsidies to Carriers of Last Resort (COLR). A COLR provides local exchange service and stands ready to provide basic service to any customer requesting such service within a specified area. CHCF-B subsidies provide cost support for basic local telephone service to residential customers in high-cost areas that are currently served by AT&T, Verizon, Frontier, and Cox. The subsidies impact approximately 260,000 access lines and allow the rates in the high cost areas to be lower. For 2011-12 the fund budget is \$47.71 million.

In 2011, the CPUC examined the definition of basic telephone service in the CHCF-B. Public Participation Hearings were held to gather information from interested parties on proposed criteria. The issues surrounding the definition of basic service need to be resolved in order to determine which telephone providers can be designated as COLRs and eligible for CHCF-B support. In November 2011, a proposal on the definition of basic service was released by the CPUC for comments, with a final decision expected in early 2012.

CALIFORNIA TELECONNECT FUND PROVIDES NEEDED DISCOUNTS

The California Teleconnect Fund (CTF) provides a 50 percent discount on select communications and Internet access services to schools, libraries, government-owned and operated hospitals and health clinics (GHHCs), California community colleges, community based organizations (CBOs), and California Telehealth Network participants.



The CTF program has a budget of \$75.2 million for 2011-12 with more than 60 communications carriers offering the discount. Starting in 2011, the CPUC contracted with an outside vendor to conduct CTF outreach to increase participation in the CTF program, particularly to CBOs and GHHCs.

The CPUC will conduct a compliance audit of the CTF program in 2012, which will include \$10.6 million of 2009-2010 CTF claims from five telecommunications carriers.

211 SERVICE

The three-digit dial code to reach information and referral services for non-emergency social and crisis needs in California is 211. The CPUC approves applications to provide 211 services on a countywide basis. The CPUC received one application in 2011. The application, from Yolo County, was approved in May 2011. Also in May 2011, the CPUC approved 211 California as the lead agency for 211 services in California, and also established rules for the provision of emergency period 211 service affecting 28 counties not served by 211 information and referral.

IMPROVING SERVICE QUALITY

In December 2010 and January 2011, severe rainstorms caused more than 250,000 AT&T and Verizon customers in Southern California to experience extensive service outage. The CPUC presented background information on current service quality rules at a February 4, 2011, State Senate hearing in Los Angeles and discussed the extensive telephone service outage in Southern California.

In March 2011, the CPUC issued a staff report entitled Telephone Carrier Service Quality for the Year 2010, discussing the substandard results reported by the four large telephone companies in the state (AT&T, Verizon, SureWest, and Frontier) and recommended addressing carriers' ability to meet service quality standards, and to evaluate whether there is a need to revise the current standards. The CPUC examined the issues raised by the staff report as well as other service quality related issues.

AREA CODE CONSERVATION

The CPUC continues to address area code and telephone number conservation issues. In October 2011, the CPUC approved an overlay of the 669 area code over the 408 area code. This decision was issued after public meetings in Santa Clara County — the area served by the 408 area code — and after receiving approximately 250 comments via a web link. The CPUC also instituted prefix rationing, and has pursued the return of unused 408 telephone numbers for redistribution. The CPUC expects that these measures will ensure that the remaining 408 area code telephone numbers will not be depleted prior to the availability of 669 area code.

CHANGING DELIVERY OF RESIDENTIAL WHITE PAGES BY VERIZON

On June 14, 2011, the CPUC allowed, with conditions, Verizon California, Inc. to change how it delivers residential white page directory listings. Verizon will no longer automatically deliver residential white page directories to its customers. Instead, each Verizon customer will be given the option of: 1) Requesting continued delivery of residential white pages in printed form; 2) Requesting a CD-ROM containing such white pages; or 3) Accessing the residential white pages online. This is the first such change in white page delivery. Approval was based on changing customer communications habits, environmental concerns with printed directories, and the condition of the implementation review.

INVESTIGATIONS

CPUC staff investigates allegations of telecommunication tariff, rule, and code violations, including cramming, slamming, misleading advertising, unfair business practices, and ratemaking misrepresentations. Based on the evidence uncovered by staff during their investigations, staff may request CPUC Commissioner approval to open a formal investigation. Staff also provide testimony in such investigative proceedings and propose remedies, penalties, and restitutions. In 2011 the CPUC achieved several significant results.

Protecting Against Slamming

The CPUC protects consumers from providers who illegally switch a consumer's phone company without that customer's authorization, a practice known as slamming. In 2011, the CPUC reviewed 239 slamming complaints and issued two slamming citations totaling \$2,000 to carriers who violated the third-party verification rules.



Implementation of New Cramming Rules

In October 2010, the CPUC adopted revisions to Part 4 of General Order 168, Market Rules to Empower Consumers and Prevent Fraud — Rules Governing Cramming Complaints. The revised rules established cramming reporting requirements applicable to all Billing Telephone Corporations (BTC) and Billing Agents, and combined two former sets of rules into a comprehensive standard set applicable to all BTCs. In 2011, the CPUC convened meetings with industry representatives to discuss the implementation of these rules. The parties agreed on a standard template for data submission, and submitted required data for the first

through third quarters of 2011. In addition, CPUC staff and parties collaborated to develop materials to educate consumers on how to avoid being crammed.

Americatel Corporation Fined

The CPUC adopted a settlement agreement between its staff and Americatel Corporation to resolve Americatel's alleged violations of Public Utilities Code Section 2890, which prohibits placing unauthorized charges on customers' telephone bills (also known as "cramming"). By the terms of the settlement, Americatel paid a fine of \$503,000 to the state's General Fund, in addition to \$2 million already refunded to customers for billing errors uncovered in the investigation.

Legacy Long Distance International Fined

In October 2011, the CPUC adopted a settlement agreement between its staff and Legacy Long Distance to resolve Legacy's alleged violations of Public Utilities Code Section 2890 and other sections of the Public Utilities Code. Under the settlement, Legacy issued refunds or credits to California consumers who complained about Legacy's billing between 2005 and 2008 and paid a fine of \$215,000 to the state's General Fund.

ILLEGAL USE OF AUTOMATIC DIALERS

In January 2011, the CPUC directed a number of entities to release their claims to \$103,193.64 in illegally obtained dial around charges generated by their illegal use of automatic dialer. These funds, which were held in escrow by the respondents' billing aggregator, were released to the state's General Fund. The CPUC imposed a fine of \$13,451.33 on Alterber Terlusky Freeman and his companies, and \$1,462.45 on Massimo Cavallaro and his company for the illegal use of automatic dialers. As part of the decision, the CPUC also adopted a settlement between its staff and three other pay phone service providers and their owners: Intella II, Inc., TNT Financial Services, and Limo Services, Inc. Intella II paid a fine of \$1,000, while TNT Financial Services paid a fine of \$500, and the individual owners of Limo Services, Inc. paid a fine of \$2,000.

REVIEWS OF APPLICATIONS TO OPERATE IN CALIFORNIA

The CPUC performs background reviews to determine the fitness and truthfulness of telecommunication companies and to detect any misleading representations in applications to provide service in California. Two cases that were protested in 2010 were resolved in 2011:

1. **NobelBiz VoIP Services** – The CPUC adopted a settlement between its staff and NobelBiz VoIP Services, Inc. to resolve issues raised by CPUC staff. NobelBiz was granted authority to operate in California, and paid a \$12,000 fine for allegedly violating Rule 1.1 by failing to disclose regulatory sanctions in its application; and,
2. **Metropolitan Telecommunications of California** – The CPUC adopted a settlement agreement between its staff and MetTel. MetTel was fined \$8,000 for allegedly violating Rule 1.1 by failing to disclose numerous sanctions by the Federal Communications Commission against an affiliate company. MetTel was granted authority to provide limited facilities-based and resold local exchange service as a competitive local carrier.





TRANSPORTATION

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 (FTA) and the RTAs to enhance public safety and security. The CPUC verifies 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 and security requirements for the design, construction, operation, and maintenance of heavy rail transit, light-rail transit, trolleys, and funicular systems. The CPUC ensures that all rail transit system extensions and new construction projects undergo a safety certification review and approval.

The CPUC regulates safety and security of the following 12 transit agencies:

1. Bay Area Rapid Transit District (BART);
2. San Francisco Municipal Transportation Agency (SFMTA);
3. Los Angeles County Metropolitan Transportation Authority (LACMTA);
4. Sacramento Regional Transit District (SRTD);
5. San Diego Trolley Inc. (SDTI);
6. Santa Clara Valley Transportation Authority (SCVTA);
7. San Francisco International Airport (AirTrain) connection to BART;
8. North County Transit District (NCTD) (Sprinter);
9. Angel's Flight Railway Company, funicular system in Los Angeles;
10. San Pedro Red Cars (POLA);
11. Los Angeles Farmer's Market trolley located at the Grove and Americana on Brand trolley, located in Glendale; and,
12. Sacramento Airport Automated People Mover System (commenced service in 2011).

Comprehensive Triennial Audits

In 2011, the CPUC conducted Triennial Reviews, including both safety and security components, of Santa Clara Valley Transportation Authority, Sacramento Regional Transit District, and Angel's Flight Railway, and approved audit reports for AirTrain, BART, NCTD, SDTI, LACMTA, POLA, and SCVTA to ensure that audit recommendations are addressed through corrective action plans, monitoring, and inspection.

Safety and Security Certification

The CPUC verifies the safety and security certification of new transit projects and extensions and works closely with FTA personnel on federally funded projects. Over the past few years, rail transit system extensions have been successfully pursued by the RTAs, resulting in several new projects. The CPUC provides regulatory oversight of the SFMTA Central Subway Project, the SDTI Mid-Coast Corridor Transit Project, LACMTA EXPO Lines Phase 1 and 2, LACMTA Foothill Extension Project, LACMTA Crenshaw Corridor Project, LACMTA Regional Connector project, BART/VTA Warm Springs project, BART Oakland airport extension, eBART extension, SRTD extension, and SDTI Blue Line extension.

During 2011, the CPUC also approved Safety and Security Certification Plans for the SDTI vintage trolley restoration, and SDTI new light rail vehicle procurement projects. Due to the expansion of these RTA systems, the CPUC expects to review and consider several safety certifications in the near future relating to these and other upcoming projects.

ACCIDENT INVESTIGATIONS

As of mid-November 2011, 144 rail transit accidents were reported to the CPUC. Seven fatalities occurred on RTA properties in 2011. Depending upon the circumstances of the accident, CPUC staff either directly investigates or participates in accident investigations conducted

by RTAs and reviews and approves RTA accident investigation reports.

When circumstances suggest a multiagency investigation is appropriate, CPUC staff participates in accident investigation task forces with members from all railroads and transit agencies, the FRA, Caltrans, local roadway authorities, 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 National Transportation Safety Board. The CPUC ensures all accident investigation recommendations are addressed by the RTAs with corrective action plans and by monitoring implementation.

Rail Transit Safety Inspection Program

The CPUC established a safety inspection program in 2009 with staff investigators that specialize in operations, equipment, track, and signal and train control. The inspection program is unique among State Safety Oversight Agencies in the U.S., as it allows the CPUC to examine RTA infrastructure and operations on the ground to ensure that safety plans and corrective action plans are actually implemented to meet industry standards. The inspection team performed 93 separate inspections, including a three-day joint track inspection in a rail corridor shared with freight operations.

Complaints

In 2011, CPUC staff investigated five complaints regarding rail transit systems. Three complaints are still under investigation and two have been resolved. The CPUC continues to work a complaint filed by the Pasadena Avenue Monterey Road Committee regarding noise impacts along the Los Angeles County Metropolitan Transportation Authority's Gold Line.

CPUC Leads Industry with Ban on Use of Personal Electronic Devices By Rail Transit Operators

On October 6, 2011, the CPUC adopted a first-of-its-kind regulation enforcing prohibitions against the use of personal electronic devices, such as cell phones, by rail transit system operators. This is the first regulation issued in the U.S. that limits the use of personal electronic devices and requires monitoring by rail transit agencies. This regulation was the culmination of a CPUC staff investigation of a September 2008 multiple-fatality Metrolink and Union Pacific Railroad collision in which personal cell

phone use is thought to be a primary or contributing cause of the accident.

Roadway Worker Protections

In response to two transit agency roadway worker fatalities in 2008, the CPUC is evaluating whether current roadway worker protection rules for transit agency personnel are adequate. The CPUC completed a draft set of rules in 2010, and in 2011 held additional meetings and refined the rules. The CPUC expects a final decision on the matter in the first part of 2012.

Investigation into the Facilities and Practices of SFMTA

In February 2011, the CPUC opened a formal investigation into the facilities and practices of the San Francisco Municipal Transportation Agency (SFMTA). CPUC staff identified repeated safety violations and areas in SFMTA's light rail systems that require safety improvements. In addition to specific alleged safety violations and recommendations, CPUC staff observed a lack of responsiveness by SFMTA to CPUC findings and recommendations. Of particular concern was SFMTA's inadequate and delayed responses to staff's incident reports, investigations, and corrective action recommendations. Through investigation, the CPUC seeks to address alleged past violations that may have resulted in unsafe operations and endangered SFMTA's passengers and employees. The proceeding will conclude in 2012.

RAIL CROSSING SAFETY

The CPUC oversees the safety of railroad crossings in California and evaluates and approves 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 rail and road are at the same level). 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 (Section 130 intended to eliminate hazards at existing public crossings);
- Administering the State's Grade-Separation Fund program;
- Administering the State's Automatic Railroad Crossing Warning Device Maintenance Fund program;
- Administering the CPUC's existing crossing inventory and accidents databases;
- 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; and,
- Responding to Notices of Intent and Notices of Establishment for railroad quiet zones.

The CPUC's rail crossing responsibilities play a critical role in ensuring the safety of the state's residents, and the CPUC 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. However, the numbers have been generally trending downward. 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 2011. The CPUC identifies problematic crossings and investigates

crossing accidents as a way to proactively allocate funding to improve crossing safety.

Highway-Rail Crossing Hazard Elimination Program

The CPUC jointly administers the approximately \$16 million per year Highway-Rail Crossing Hazard Elimination program with Caltrans. The CPUC is responsible for a number of projects, including an extensive data analysis project aimed at identifying crossings to evaluate for potential improvement projects. The CPUC coordinates site evaluation and reviews, and works with all involved parties to develop various improvement projects. Caltrans is responsible for contracting for, administering, and implementing the crossing improvement projects.

Evaluating Crossing Applications and Modification Requests

Over the years, the CPUC has seen an increase in the number of new crossing applications and modification requests it receives. Primary factors driving the increase are 1) The implementation of the 2006 Bond Act; 2) The availability of American Recovery and Reinvestment Act funds; 3) Transit system expansions and line extensions; and 4) Specific local and regional transportation initiatives approved by voters, all of which fund many current transportation projects. In 2011, 19 applications for new or modified crossings were filed with the CPUC. Through December 1, 2011, 104 public highway-rail crossing modification cases were opened involving over 125 crossings.

Rail Corridor Safety Enhancement Program

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

Highway-Rail Grade Crossing Action Plan

California was identified in the Rail Safety Improvement Act of 2008 as one of the 10 states with the most grade crossing collisions in the prior three years. As such,

California was required to develop action plans to identify specific solutions for improving safety at crossings. Due to its jurisdiction over railroad and rail transit crossings within California, the CPUC took the lead in developing the resulting action plan. The plan outlines the current state of rail crossing safety in California and the federal, state, and local agency roles and responsibilities relative to improving safety. The Action Plan outlines the significant investments made by the state to construct grade separation structures as a way to eliminate existing crossings and to improve existing at-grade crossings to eliminate hazards. It also outlines several new strategies to improve crossing safety. The CPUC submitted the Action Plan to the Federal Railroad Administration for comment.

RAILROAD SAFETY

The CPUC employs federally certified inspectors to ensure that railroads comply with federal railroad safety regulations. The CPUC's railroad safety federal and 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; and,
- Ensuring efficient enforcement of rail safety requirements.

Implementing the Rail Safety Improvement Act

The Rail Safety Improvement Act of 2008 required the installation of Positive Train Control (PTC) by 2016 on all routes that share track with passenger trains and on all freight mainlines over which poison- or toxic-by-inhalation hazardous materials are transported. The CPUC is working closely with the Federal Railroad Administration in the implementation of this significant piece of legislation, including participation in the Rail Safety Advisory Committees for PTC and for System Safety Program Plans. Metrolink and Union Pacific voluntarily pledged to implement PTC on Union Pacific Railroad – Metrolink joint operation track by the end of 2012. In 2011, the CPUC continued to work with the FRA in PTC oversight, including oversight of Class I and commuter railroads in the Los Angeles Basin in their effort to achieve PTC implementation.

Railroad Inspections

The CPUC works to ensure that railroad locomotives and equipment and facilities are inspected at least once every 180 days, and that all main and branch line tracks are inspected at least once each year. During fiscal year 2010-2011, CPUC rail safety staff inspectors inspected 21,662 units of equipment (a unit is one locomotive or one car) and 12,399 miles of track. In addition, the CPUC conducted 866 inspections at facilities that handle hazardous materials (39,561 hazardous materials inspection units), conducted 768 inspections (6,113 units), and inspected 6,515 units of signal and train control systems. The CPUC also responded to 32 complaints from railroad employees and the public during the same time period.

Hazardous Materials/Security Inspections

The CPUC conducted a variety of activities related to rail transportation of hazardous materials in 2011, including unannounced inspections at various types of facilities that handle hazardous materials, such as shipper facilities, consignees, freight forwarders, intermodal transportation companies, and railroads. The CPUC staff investigates accidents



and incidents involving the actual and/or threatened release of hazardous materials to determine root cause and identify corrective actions needed to safely transport hazardous materials. The most dramatic incident occurred in August 2011, when a tank car loaded with nearly 30,000 gallons of propane caught on fire in Lincoln, Calif. Explosion of a propane-laden tank car could have resulted in significant property damage and loss of life. One of the CPUC's Hazardous Materials Inspectors was designated as Inspector in Charge of the CPUC and Federal Railroad Administration response, coordinating information flow between emergency responders and the regulatory agencies during the incident. The incredible response of the emergency responders and railroad hazardous materials specialist allowed the fire to be extinguished without loss of life or significant property damage. The CPUC is focusing on identifying the root cause of the fire, needed safety improvements at the propane facility related to the rail cars, and possible new safety regulations that can be applied industry-wide.

High-Speed Rail Systems

The CPUC will provide safety oversight in the planning, development, construction, and operation of the California High-Speed Rail project. The CPUC will be proactively involved in the early stages in order to address problems before they become entrenched either by construction or operational commitments. In 2011, the CPUC began formulating a safety oversight approach with the railroads that will utilize new technologies that will be employed on the California High-Speed Rail system.

Promoting Rail Safety via Public Education

In 2011, CPUC employees continued their participation 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 provided presentations to schools and community groups and raised public awareness of safety measures that should be taken near railroad tracks. The CPUC's bilingual presenters ensured that this safety message was communicated to a larger audience. In 2011, Operation Lifesaver-certified presenters from the CPUC educated more than 10,000 people through 191 presentations and 12 events.

HOUSEHOLD GOODS AND PASSENGER CARRIERS

The CPUC is responsible for issuing operating permits and certificates to companies (often called "carriers") that

transport passengers for compensation, such as limousine operators, charter-bus companies, and airport shuttle services, and to moving companies, known as "household goods carriers." The CPUC also enforces the licensing of a carrier's operations.

Passenger Carrier Enforcement

The CPUC regularly conducts passenger carrier vehicle inspections at airports and other locations where passenger carriers frequently operate. It also responds to requests for assistance from local authorities to help address special situations or problems involving passenger carrier operations that arise. In 2011, the CPUC joined with city and university police departments to address the problems of underage drinking on "party buses" and limousines operating in San Diego, worked with Modesto police at the popular "X-Fest 2011," and assisted San Francisco taxicab administrators in dealing with CPUC-licensed charter sedan services undermining city regulations by acting as taxicabs.



Unlicensed Towncar being towed at San Francisco International Airport.

Raising Awareness with Other Agencies

The CPUC conducts outreach to public agencies and other organizations to inform them of the CPUC's carrier enforcement and consumer protection programs. The CPUC believes this greatly increases the effectiveness of the programs. In some cases the activities may result in the formation of a special task force with other agencies to work jointly on issues of mutual concern. Those receiving program presentations from the CPUC in 2011 included the Alameda County Sheriff's Department, San Francisco and Oakland International Airports, San Diego University Police Department, and the Better Business Bureau of Northeast California.



Multiagency bus inspection at Yosemite National Park.

Disconnecting Unlicensed Carriers' Telephone Service

The CPUC is authorized to seek a court order to disconnect telephone service of unlicensed charter-party carriers and household goods carriers when other enforcement remedies have failed to terminate the unlawful activities. In 2011, the CPUC obtained orders against 10 household goods carriers and three charter-party carriers.

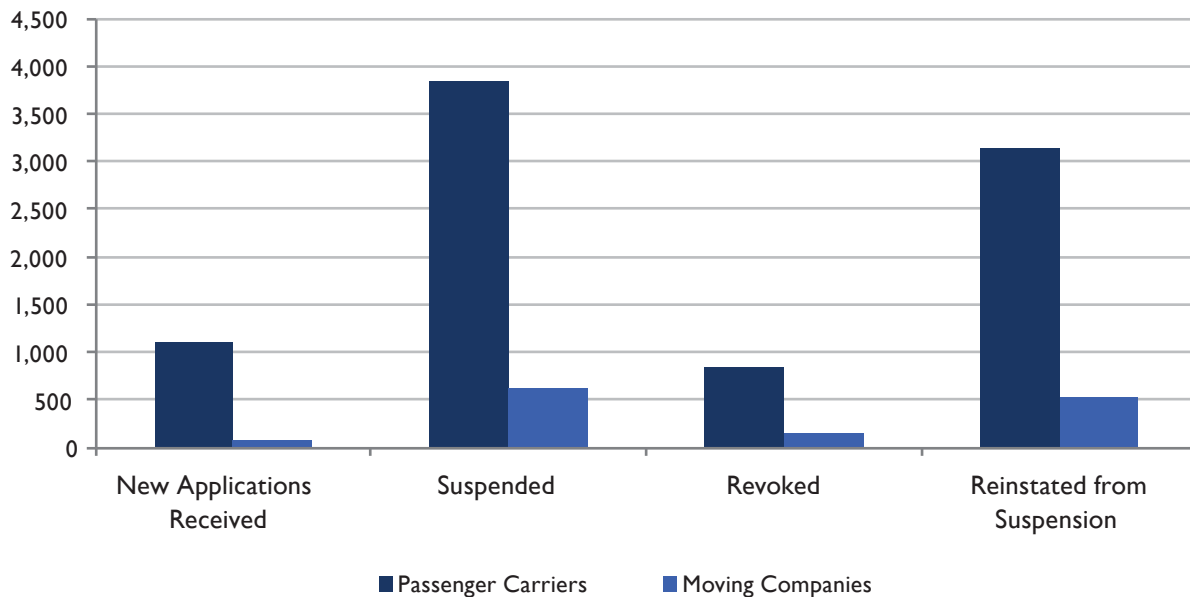
HOUSEHOLD GOODS CARRIER ENFORCEMENT

Moving companies that operate without a permit or that engage in abusive consumer practices such as holding goods hostage or charging exorbitant, unjustified rates are subject to criminal prosecution. In 2011, the CPUC participated in a task force led by the Santa Clara County District Attorney that included other prosecuting offices and local and federal law enforcement agencies to investigate and prosecute several carriers. Evidence obtained through the service of search warrants on three companies helped to support the issuance of felony arrest warrants against numerous company owners and employees. CPUC investigators are assisting with the prosecution of these individuals by testifying as witnesses in court.

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 2011.

Carrier License Activity in 2011





WATER

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 providing water service to about 17 percent of California's residents. Approximately 95 percent of that total is served by 10 Class A water utilities — each serving more than 10,000 connections. Annual revenues under the CPUC's regulation total \$1.3 billion.

WATER ACTION PLAN AND OVERVIEW

The CPUC sets forth its policy objectives for the regulation of investor-owned water utilities in its Water Action Plan (WAP). Originally adopted in 2005, and updated in 2010, the WAP highlights the actions that the CPUC would consider taking in order to implement specific objectives. The CPUC's objectives in regulating water utilities rest on four key principles 1) Safe, high quality water, 2) Highly reliable water supplies, 3) Efficient use of water, and 4) Reasonable rates and viable utilities. The CPUC's goal is to apply regulatory best practices from the energy utilities to the water utilities and place water conservation at the top of the loading order as the best, lowest-cost supply source.

Since the WAP was first adopted, the CPUC substantially revised how it regulates water utilities. The CPUC decoupled sales from revenues, instituted tiered rate structures, and updated water conservation rules and water service standards. Water utility conservation budgets have increased multiple times. A schedule has been established for General Rate Case filings, low income ratepayer assistance programs are in place, and water/energy nexus programs have started.

Balancing the many competing interests with the practical realities of supply has become increasingly complex, making the CPUC aware of the necessity to 1) Remain flexible and adaptable to changes in supply, 2) Work closely with

sister agencies, the state legislature, and other regulatory bodies, 3) Learn from the experiences of public agencies, other states, and other countries about such issues as public exchanges, private partnerships, and conservation, 4) Stay abreast of technological discoveries and advances, and 5) Recognize the CPUC's role in educating the public about the true value of water and the consequences of declining water availability.

The WAP update considers these five factors and more. The WAP is a forward-looking plan that describes the regulatory future the CPUC wants to achieve for water utilities and lays out the steps needed to get there. When enforcement of CPUC orders and rules become necessary, the CPUC will prosecute to correct utility non-compliance and abuse.

The CPUC proactively participates in water matters at the state level by monitoring and taking positions on legislation. The CPUC participates in a number of statewide water committees, either as a member or to monitor developments, including 1) State Agency Water Plan Steering Committee, 2) Water Plan Groundwater Committee, 3) Water Technology Advisory Committee, 4) State Water Sustainability Committee, and 5) SB X7.7 Standardized Water Usage Reporting Committee.

In 2012, the highlights in water utility regulation for the CPUC will include: 1) Examining the expanded role of single tariff pricing in water rates, 2) Completing an investigation on the potential of recycled water to augment potable supply, 3) Implementing orders to increase participation in water low income programs, 4) Conducting enforcement and compliance activities, and 5) Expanding and improving auditing of all utilities and certain CPUC programs.

SUPPLY ALTERNATIVES FOR THE MONTEREY PENINSULA

During 2011, work progressed on the Regional Desalination Project (RDP), located in the Monterey Bay area of California, which will replace the portion of

the current water supply for California-America Water Company (Cal-Am) that is constrained by recent legal decisions and will provide a new water supply for the redevelopment of the former Fort Ord. Work included the hiring of a project manager, assembling project teams, engineering design and planning, and the permitting required for implementation of the project. The RDP is expected to be completed before December 31, 2016, the date ordered by the State Water Resources Control Board when Cal-Am must cease taking water from the Carmel River in excess of its allocated limits. In the interim, Cal-Am is required to step down its usage of water from the Carmel River on a prescribed basis.

The RDP is being implemented through a Water Purchase Agreement, a three-way partnership of the Marina Coast Water District (MCWD), the Monterey County Water Resources Agency, and Cal-Am. The RDP will extract a combination of seawater and brackish water, produce potable water, convey it to the existing MCWD and Cal-Am distribution systems, and increase the system's use of storage capacity in the Seaside Groundwater Basin.

The three partners are currently pursuing an Alternate Dispute Resolution process as permitted by the WPA to resolve certain differences. In addition, one of the former members of the Monterey County Water Resources Agency Board of Directors who helped negotiate the WPA while serving on the Board is currently under investigation for an alleged conflict of interest. In December 2011, a Monterey County Superior Court judge ordered a new environmental review for the RDP, stating that the MCWD should be the lead agency on the project (instead of the CPUC) and must prepare and certify another environmental impact report. The impact of these situations on the final project completion schedule is unknown at the time of this report.

Carmel River Reroute and San Clemente Dam Removal Project

The CPUC is evaluating a request by Cal-Am to implement the Carmel River Reroute and San Clemente Dam Removal Project in partnership with the California State Coastal Conservancy and the National Marine Fisheries Service.

The San Clemente Dam is a 106-foot high concrete arch dam located approximately 18.5 miles from the Pacific Ocean on the Carmel River. It was constructed in 1921 and has been operated by Cal-Am since 1966. Historically, the Dam provided water for Cal-Am's customers by diverting the surface flow of the Carmel River at the Dam. However, due to sediment build-up in the reservoir over the years, the reservoir can no longer be used as a source to supply water

to customers. There are also concerns regarding the Dam's ability to satisfy current seismic safety standards and protection of the South-Central California Coast steelhead and California red-legged frog, both designated as endangered species. The project is expected to be completed in 2015.

SINGLE TARIFF PRICING

In its WAP, the CPUC established a goal to develop policies to subsidize high-cost areas, either through some variation of a High-Cost Fund or through the consolidation of districts or rates. In November 2011, the CPUC began evaluating new guidelines for consolidating districts, or for some variation of a High-Cost Fund, within the multi-district water utilities as a means to advance the CPUC's WAP objective of setting rates that balance investment, conservation, and affordability.

While the concept of a High-Cost Fund mechanism has long been utilized for telecommunications ratepayers, and uniform electric rates with cross subsidization between customer classes are the norm, the CPUC is examining whether these concepts can be applied to the water utilities and their ratepayers in a fair and equitable manner. While the CPUC currently has guidelines for consolidated rates or single tariff pricing, the CPUC is taking a comprehensive look at the advantages and disadvantages of such a pricing scheme for water utilities.

The CPUC will consider these mechanisms on a general policy basis and to the extent the CPUC's examination results in the adoption of new mechanisms or guidelines, utilities can include requests to utilize these mechanisms or guidelines in their respective General Rate Cases or other ratemaking applications, as appropriate.

RECYCLED WATER

In order to develop effective regulatory policy on recycled water, the CPUC is investigating 19 issues surrounding recycled water, within six categories: 1) Planning, 2) Cost allocation, 3) Rate design, 4) Inter-agency coordination, 5) Environmental matters, and 6) Accountability. The CPUC held two workshops in 2011 to gather information and discuss issues.

In 2011, the CPUC presented the Department of Public Health's current regulations on recycled water quality and gathered information on the timing of possible recycled water projects, funding opportunities, partnership, customer/commercial customer sector drivers, regulatory burdens, service duplication, contract relationships, and permitting processes. The CPUC also assessed the

development of reasonableness standards and cost effectiveness evaluation methodologies. Discussion included an integrated water resource planning system-wide approach, guidelines for preparing economic analysis for water recycling projects, and recommendations on the regulatory framework.

In 2012, the CPUC intends to address rate design, inter-agency collaboration, public funding and proposed goals and guidelines, among other subjects, and release its policy guidelines on recycled water.



WATER QUALITY

The CPUC monitors water utilities' compliance with the federal and state safe drinking water standards and provides specific findings and conclusions to the CPUC. During 2011, CPUC staff provided preliminary reports on the water quality of four large water utilities, advising the CPUC on necessary water quality capital improvements to maintain water quality in the future. However, there were no current water quality issues in dispute.

While no major water contamination incidents occurred in 2011, some utilities reported minor bacteriological contamination that affected part of their distribution systems. These utilities issued precautionary boil notices to their customers, interrupted service to the affected areas, and flushed

out their distribution system sections before restoring water service to their customers.

Hexavalent chromium has been detected in some groundwater basins of California. While hexavalent chromium is a naturally occurring element found in rocks, animals, plants, soil, and in volcanic dust and gases, it is also widely used in various industries such as electroplating, stainless steel production, leather tanning, textile manufacturing, and in wood preservation.

The U.S. Environmental Protection Agency and the California Department of Public Health are setting up a regulatory drinking water standard for hexavalent chromium. Once the hexavalent chromium drinking water standard becomes an enforceable drinking water standard, CPUC staff will develop findings and make recommendations on the costs of treatment for hexavalent chromium.

ENERGY USE IN WATER DELIVERY

Upwards of 19 percent of California's electricity is used for the conveyance and delivery of water. As energy usage is a major cost driver for water utility rates, the water/energy nexus for water utilities means reducing energy usage in the delivery and treatment of water. In 2008, the CPUC authorized an RD&D program to identify potential energy and water savings at this critical nexus. Known as the Operational Energy Efficiency Program, or OEEP, this program entails the operation of well pump and motor combinations at optimal efficiency levels using specialized software.

While initial preliminary results from the pilots showed promising energy efficiency gains, the final results showed that at a majority of the sites the OEEP did not produce efficiency savings sufficient to offset the additional losses of 2-5 percent associated with the additional variable frequency drive hardware. The OEEP program, however, did provide useful information on peak demand reduction and the benefits of real-time energy efficiency modeling for operators. The CPUC will not further pursue the OEEP RD&D program.

In its 2010 WAP, the CPUC set forth its intent to encourage the self-generation of energy using renewable sources. To this end, the CPUC approved six RD&D projects for the four largest water utilities to replace pressure-reducing valves (PRV) with modern electrical regenerative Flow Control Valves (FCV). An electrical regenerative FCV uses the excess pressure embedded in the water to spin a turbine, coupled to a generator, to recover the energy. The CPUC seeks to determine whether replacing a mechanical PRV

with an electrical regenerative FCV presents an opportunity to recover wasted energy as electric power. These projects are expected to be completed in 2012/13.

The CPUC continues to investigate promising energy efficiency programs and policies to reduce energy used in the delivery and treatment of water utility service.

RATE PROPOSALS AND COMPLIANCE REQUESTS



During 2011, the CPUC completed processing 352 water utility compliance requests, of which 13 were rate and expense reviews for small water and sewer utilities and two were for transfers of ownership. In addition, the CPUC began processing an additional 53 water utility compliance requests, of which 25 are for rate and expense reviews for small water and sewer utilities.

WATER UTILITY ACCOUNTING

The CPUC is currently monitoring the Securities and Exchange Commission's (SEC) progress in considering adoption of the International Financial Reporting Standards (IFRS). In 2011, the CPUC reviewed the Class A Water System of Accounts to determine if it would need to be revised if the SEC requires U.S. companies to adopt the IFRS. Should the SEC adopt IFRS, the CPUC, in partnership with the large water utilities, may address necessary changes to the Water System of Accounts. The main objective of IFRS is to create uniform accounting standards for all nations.

The CPUC also began a review of United States' Financial Accounting Standards Board convergence projects designed to resolve key accounting differences between the IFRS and the United States' Generally Accepted Accounting

Principles (GAAP). The current IFRS does not recognize the existence of regulatory assets and liabilities and does not provide for any rate-regulated standards. While the SEC has not yet determined whether to require IFRS for U.S. companies, it has issued several notices for public comment.

In 2011 the CPUC re-established its internal Certified Public Accountant Review and Support Committee to provide work related experience to those who want to obtain a CPA license through the California Board of Accountancy.

WATER ENFORCEMENT ACTIVITIES

Enforcement of the CPUC's orders, rules, regulations, and rates is paramount to ensure utility compliance. In 2009, the CPUC delegated authority to staff to draft and issue citations for specific violations and to levy fines. For more serious matters, the CPUC may launch a formal investigation.

In 2011, culminating a three-year robust investigation into allegations that Golden State Water Company (GSW) did not exercise reasonable management oversight and failed to apply adequate internal controls over its procurement for plant improvements, primarily in one of its regions, the CPUC adopted a settlement agreement between its staff and GSW. As a result, GSW will refund \$10 million to its customers in certain areas and reduce plant costs by \$2.5 million, which will result in lower future rates. In addition to receiving less in rates, GSW will pay a fine of \$1 million to the state's General Fund for not informing the CPUC of GSW's internal control failures and the impact of those deficiencies on rates.

To ensure that GSW's improper practices were remedied and did not occur in other regions, over the next 10 years the CPUC will conduct three additional independent audits and require GSW to report on the management of their internal controls related to procurement practices.

Auditing and conducting reviews are some of the investigative tools that the CPUC uses to evaluate compliance with its orders, rules, and regulations. The CPUC initiated comprehensive financial audits on three small water utilities encompassing the three-year period of 2008, 2009, and 2010. Two of the audits are expected to be completed by year end and the remaining in 2012.

In 2011, the CPUC completely revamped its small water utility audit program and implemented a risk-based auditing approach for those financial audits. In 2012, independent of the investigation discussed above, the CPUC expects to complete its attestation review of GSW's La Serena Project costs and regulatory expense account.



DIVISION OF RATEPAYER ADVOCATES

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

DRA's staff of experts performs detailed review and analyses on regulatory policy issues and utility requests, which total in the tens of billions of dollars, to determine whether they are in the interest of the ratepayers who fund utility activities through their utility bills. Additionally, DRA supports environmental protections and seeks to ensure that utility actions comport with CPUC rules and California environmental laws. DRA actively participates in CPUC proceedings to aid the CPUC in developing the record from which it will formulate its final decisions. DRA also actively lobbies decision-makers on behalf of ratepayers to ensure that the consumer perspective is heard.

DRA'S STAFF AND BUDGET

DRA has a staff of 142 professionals consisting of engineers, economists, scientists, and auditors with expertise in regulatory issues related to the electricity, natural gas, water, and telecommunications industries in California.

DRA's budget for 2011 was \$27,283,000. DRA's expenditures in 2011 represented a small fraction of ratepayer investment compared with the more than \$4.1 billion in savings DRA achieved for Californians in the form of lower utility rates and avoided rate increases. For every customer dollar spent on DRA in 2011, they saved approximately \$157 across their utility bills.

DRA'S WORK IN 2011

DRA aided in shaping the outcome of numerous CPUC decisions and California legislation that will impact ratepayers.

Energy

DRA represents the customers of California's investor-owned energy utilities, most notably PG&E, Southern California Edison, Southern California Gas Company, and San Diego Gas & Electric. These utilities serve approximately 80 percent of all California's energy customers. DRA evaluates energy regulatory issues for both electricity and natural gas in the areas of customer rates, procurement, renewables, safety, transmission, demand-side management, and consumer protection. DRA's advocacy efforts in 2011 saved ratepayers more than \$4 billion in energy costs.

DRA's energy advocacy efforts focused on achieving California's progressive energy goals in the most affordable manner for residential and small business customers. DRA worked on four large rate cases in 2011, reviewing utility requests for revenue increases and programs that totaled more than \$20 billion statewide, and saved PG&E customers nearly \$2.5 billion. DRA opposed the CPUC's Critical Peak Pricing rate scheme for PG&E's small business customers, who may be the least equipped to deal with the complex mechanism. DRA elaborated on this issue in its 2011 report, *Time-Variant Pricing for California's Small Electric Consumers*, who may be the least equipped to deal with the complex mechanism.

DRA supports California's climate change goals and the role of renewable energy to aid in meeting those goals at competitive market rates. However, DRA opposed the approval of the most overpriced renewables contracts, given that the utilities are on-track to meet their Renewables Portfolio Standard goals. DRA persuaded the CPUC to reject two utility owned wind power projects resulting in savings of more than a billion dollars. DRA advocates for programs

and policies that support California's goal to reduce greenhouse gases.

On the consumer protection side, DRA was successful in achieving many strong Smart Grid privacy rules that limit access to personally identifiable information and energy usage data. Additionally, DRA was effective in achieving additional time for stakeholders to improve low-income assistance programs that can have a larger impact on the affordability gap that exists for the most at-risk customers. Subsequent to DRA's 2011 Report on the Status of Energy Service Disconnections, the CPUC continued disconnection protections for PG&E and Edison customers. And, in the wake of the 2010 PG&E natural gas pipeline explosion in San Bruno, California, DRA augmented its natural gas staff in order to provide increased scrutiny of utility requests and expenditures to ensure that customers receive the lowest possible rates for safe service.

Water

DRA represents 1.3 million customers of investor owned Class A water utilities (more than 10,000 service connections) and Class B water utilities (less than 10,000 service connections, but more than 5,000). The CPUC has regulatory jurisdiction over approximately 20 percent of all of California's urban water usage customers. DRA scrutinizes water utility requests for additional revenues that will increase customer bills. DRA advocates on behalf of water ratepayers in CPUC proceedings and participates in statewide planning processes at the Department of Water Resources and the California Air Resources Board. In 2011, DRA's efforts saved water customers more than \$23.3 million, resulting in an averaging monthly savings of \$7.08 per customer.

DRA's efforts on Water issues are two-fold: 1) Review and analysis of water utility General Rate Cases, which determine the amount of revenues a water utility may collect that in turn will impact a customer's bill; and 2) Development of water policy that sets rules and develops programs that shape the water industry.

In 2011, DRA had many successes including negotiating a settlement with Class A water companies that would lower the return on equity from 10.2 percent to 9.99 percent. DRA worked on five rate cases in 2011 that saved a total of \$23.3 million from utilities' total revenue increase request

of \$70.2 million. DRA's advocacy on the removal of the San Clemente Dam project resulted in a proposed decision with numerous consumer protections, including capping project costs. Additionally, water conservation efforts resulted in progress with focus on water recycling and other conservation programs.

Communications Policy

DRA represents customers of both wireline and wireless telephone carriers on communications policy issues with particular focus on affordability, consumer protection, and service quality. California's telecommunications network is central to the daily life, work, safety, and education of people throughout the state. DRA represents all customers of telephone carriers, seeking to improve service quality and reliability, hasten response times by operators and repair personnel, maintain rates at reasonable levels, increase coverage and reliability for 911 and emergency services, and protect consumers from fraud, unauthorized charges, and abusive marketing practices. DRA also actively participates in the promotion and development of federal and state programs to expand equal access to broadband across California at reasonable costs.

In 2011, DRA sought to protect customer dollars by targeting inefficiency and improving the success of ratepayer-funded programs. DRA promoted improved guidelines and stricter accountability and outreach requirements for the California Advanced Services Fund program to promote and speed the adoption of broadband in unserved and under-served regions of California. DRA also urged the CPUC to open an investigation and to oppose AT&T's federal merger application because the resulting concentration in the wireless market would have increased costs substantially for all Californians. DRA also actively participates in the promotion and development of federal and state programs to expand equal access to broadband across California at reasonable costs.

DRA 2011 ANNUAL REPORT

DRA is required to submit its Annual Report to the Legislature by January 10th of each year. DRA's 2011 Annual Report can be found on its website at: www.dra.ca.gov/DRA/about/annualreports.htm.