

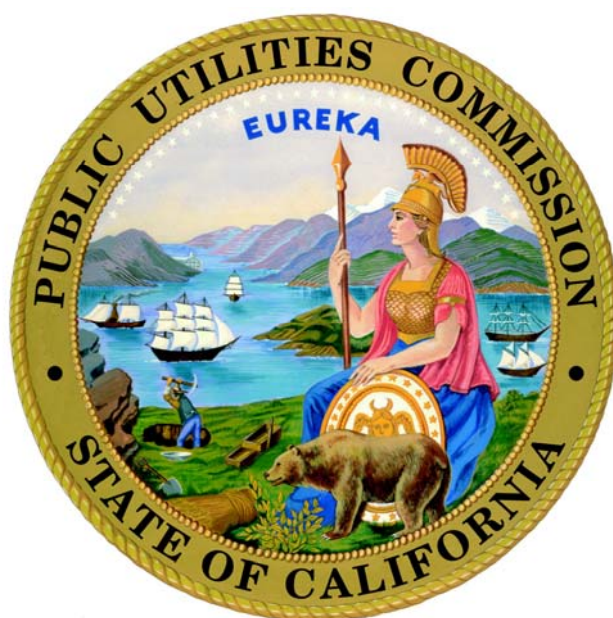
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# California

## Public Utilities Commission

### Annual Report

Fiscal Year July 1, 2003 – June 30, 2004



# CPUC Annual Report, 2003 - 2004

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## Letter to the Governor and the Legislature

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

This year, the California Public Utilities Commission has been focused on implementing legislation, developing policies, overseeing safety and setting rates for state-regulated energy, telecommunications, water, transportation and rail services.

**In electricity**, the blackouts and the high energy prices experienced during the 2000-2001 energy crisis are over. However, much work remains to be done, as noted in the joint agency Energy Action Plan, emphasized through numerous legislative mandates, and outlined in the Governor's energy plan. This year the Commission achieved the following:

- The Commission adopted a framework under which the three major investor-owned electric utilities will plan for and obtain energy resources and investments to ensure California customers receive reliable service at low and stable prices.
- The electricity transmission planning process for investor owned utilities was streamlined and several key transmission projects were approved.
- The Commission published a report and has held a full panel hearing to discuss the potential for creating a dual core/noncore market where consumers can rely on utilities for electricity, or large companies and aggregators may purchase their electricity supply on the open market.
- The Commission reached a settlement in the PG&E bankruptcy in December 2003, and subsequently the company's credit has been restored to investment grade.
- The Commission co-sponsored Senate Bill 772, which the Legislature passed and the Governor signed, that will save PG&E customers \$1 billion and contribute to the state's economic recovery from the energy crisis.
- Rates for PG&E and Edison customers were lowered. Refunds for all three major investor-owned utilities were also ordered which represented an average refund of \$40 for each residential customer.
- Energy efficiency programs continued to educate consumers about energy efficiency, provide rebates to them for purchasing efficient appliances, and provide some free energy efficient measures to low income consumers.
- The Commission continues to implement the State's Renewable Portfolio Standard program and is committed to achieving the 20% goal of renewable electricity by 2010 – seven years earlier than required by legislation.
- In response to Assembly Bill 117 enacted in 2002, the Commission initiated a proceeding to create the process and rules for cities and counties to take a more active role in energy policy and planning on behalf of their residents and businesses by aggregating their energy needs

- In response to Senate Bill 2X 39, the Commission created General Order 167 which implements maintenance, record keeping and provisional operation standards for electric power plants.

**In telecommunications**, the Commission continues to encourage a robust marketplace, manage many consumer and community programs, ensure good service for Californians and protect consumers from fraud and abuse. This year we accomplished the following:

- Under the Rural Telecommunications Infrastructure Grant Program created by Assembly Bill 140, the Commission authorized grants for construction of telecommunications infrastructure in low-income, rural communities that are without service. Other programs provide telecommunications devices to the deaf and disabled, discounted basic service for low-income customers, discounts on high speed telecommunications lines to schools, libraries and qualifying community organizations, and reimburses telecommunications utilities for part of the cost to provide service in urban and hard-to-reach communities.
- A Telecommunications Bill of Rights was issued by the Commission in May 2004, affirming that customers have the right to disclosure of important rates and service details, choice of carriers, privacy, accurate bills and redress for carrier errors.
- The Commission is looking into the extent to which regulation of Voice over Internet Protocol (VoIP) is needed for consumer protection without impeding VoIP's rapid development.
- The Commission kept the addition of more area codes at bay. Competition and the demand for telecommunications devices caused area code growth to nearly double between 1997 and 1999, but since 1999, no new area codes have been added because the Commission has implemented all available number conservation measures.

In considering the State's **natural gas** needs, the Commission took steps to establish policies and rules to ensure the state has sufficient long-term natural gas supplies to meet California's needs, with a particular focus on liquefied natural gas supplies.

**Large water companies** are required by Assembly Bill 2838 (2001), to submit request for revenue changes to the Commission every three years. In response to that statute, the Commission has held extensive workshops with water companies to develop a new Rate Case Plan for managing and processing the large water utilities' requests. An interim order was issued in June 2004.

On behalf of the Commissioners and our staff, I am pleased to submit this annual report which provides more detailed information on the Commission's work during fiscal year 2003-2004.

Sincerely,

Michael R. Peevey  
CPUC President

## The Commissioners



**Michael R. Peevey, President**

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

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

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

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

Mr. Peevey has made it a priority to work closely with sister agencies, such as the California Department of Water Resources, the Independent System Operator, the California Energy Commission, and the California Power Authority - agencies in which the CPUC has overlapping or complementary responsibilities - to assure that California has adequate energy resources and transmission facilities to support its growing population and improving economy.

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

He was awarded the Pat Brown Legacy Award in 2003, named “Man of the Year” by the Power Association of Northern California, and recognized with the Climate Action Champion Award by the California Climate Action Registry in 2004.

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



## Carl Wood

Carl Wood was appointed as a commissioner by Governor Gray Davis in June 1999.

Carl Wood attended the University of California, Riverside, and served as student body president in 1967-8 and as Regional Chairman of the National Student

Association (CA-NV-HA). He was active in movements for civil rights and against the war in Vietnam.

Wood, who worked as an industrial electrician in the steel and power generation industries for nearly 20 years, held local and national offices in the Utility Workers Union of America, AFL-CIO. As National Deregulation Coordinator of that union, he testified before Congressional and state legislative committees, warning of the likely harmful impacts of deregulation on reliability and consumer prices.

From 1994 to 1999, Wood served as Secretary of the Coalition of California Utility Employees, a coalition of unions representing electrical utility workers that was formed in 1994 to deal with the challenge of deregulation in their industry. From 1998 to 1999, he also served as Chairman of the Southern California Gas Workers Council, a coalition of unions formed in 1998 to fight deregulation in California's natural gas industry.

As a commissioner, Wood has been an outspoken critic of utility deregulation and liberalization of energy markets. He has played a key role in guiding and implementing California's recovery from its disastrous experiment with electrical deregulation, and serves as Chairman of the California Electricity Generation Facilities Standards Committee, responsible under state law for setting maintenance and operations standards for large generating facilities.

Well known in California and nationally as an aggressive consumer advocate and a champion of low-income consumers, Commissioner Wood chairs the Consumer Affairs Committee of the National Association of Regulatory Utility Commissioners.

Commissioner Wood has been married to Anne Patrice Wood since 1973. The Woods have an adult son and daughter, who both reside and work in California.



## Loretta M. Lynch

Loretta Lynch was appointed by Governor Gray Davis as a commissioner in January 2000 to fill out the remaining term of a prior commissioner.

When Ms. Lynch was president of the Commission, from 2000 through 2002, she guided it through the California energy crisis and fought against gouging and manipulation by energy sellers. Commissioner Lynch was an early critic of energy deregulation and is a strong advocate of keeping rates reasonable and affordable.

During the energy crisis, Commissioner Lynch worked extensively with the financial community regarding creditworthiness issues in California's energy market, led the CPUC component of the State team to develop the largest California bond deal to repay the State's General Fund while protecting California ratepayers, and advocated the need for additional state regulatory controls to ensure system stability and credibility. Ms. Lynch is a member of the FCC's Joint Accounting Standards Board formed in 2002 to evaluate current accounting requirements in the telecommunications industry and to suggest reforms. Commissioner Lynch chairs the Service Quality Subcommittee of the NARUC telecommunications committee and is a past board member of the NRRI – the National Regulatory Research Institute. Since 2000, Ms. Lynch has served on the NANC – the North American Numbering Council – that advises the FCC on numbering management issues to determine policy related to area codes.

Prior to her appointment, Ms. Lynch was the director of the Governor's Office of Planning and Research. Before entering state service, Ms. Lynch was a partner at the San Francisco Law firm of Kecker and Van Nest where she defended clients in the technology and industrial sectors as well as other Fortune 500 companies against securities, intellectual property and criminal lawsuits.



Ms. Lynch has worked in key roles in political campaigns, including Van de Kamp for Governor, 1990; Clinton for President, 1992; Dianne Feinstein for U.S. Senate, 1992; and Delaine Eastin, California Superintendent of Public Instruction, 1994. She volunteered for Ellen Taucher's 1996 congressional campaign and for Gray Davis' 1998 campaign for Governor.

Ms. Lynch holds a degree from Yale University and clerked for the Honorable Dorothy Nelson, U.S. Court of Appeals for the Ninth Circuit. She is a graduate of the University of Southern California and was born in Independence, Missouri.



## Geoffrey F. Brown

Geoffrey F. Brown was appointed by Governor Davis as a commissioner in January 2001 and confirmed in March by the state Senate.

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

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

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



## Susan P. Kennedy

Susan P. Kennedy was nominated by Governor Gray Davis to serve on the California Public Utilities Commission on January 10, 2003, and was confirmed by the California Senate on April 14, 2003.

Focusing heavily on telecommunications issues, Kennedy has taken on some of the most important cases before the Commission, including implementation of the FCC's Triennial Review Order and review of the New Regulatory Framework.

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

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

Prior to joining the CPUC, Kennedy served as Cabinet Secretary and Deputy Chief of Staff in the administration of Governor Gray Davis. As Cabinet Secretary, she served as the principal liaison for the Governor to his cabinet and more than 100 state agencies, departments, boards and commissions. She coordinated the development and implementation of major policy initiatives for

the Governor, including all regulatory oversight, legislation, and development of the \$100 billion State Budget. The significant policy initiatives Kennedy managed for the Governor include: strengthening the state child support enforcement system, landmark HMO reform and a Patient's Bill of Rights, the historic CalFed Record of Decision on restoration of the San Francisco Bay Delta, and improving health insurance programs for children.

During the California energy crisis, Kennedy coordinated administration efforts to streamline construction of new power plants and promote energy conservation. Under the Governor's emergency authority, she coordinated the activities of more than a dozen state agencies to simplify the power plant permitting process, reducing the time required to obtain a permit from an average of 12 months down to 21 days. She also drafted the Governor's Executive Orders that allowed maximum operation of privately owned and municipal power plants during energy alerts, freeing up more than 1,300 megawatts of additional power during the energy crisis. Under Kennedy's direction, California also launched the most aggressive and most successful energy conservation campaign ever conducted. California's "Flex Your Power" campaign is credited with saving more than 4,000 megawatts of electricity each day during the energy crisis' peak use periods and has received national recognition and numerous awards for its success.

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

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

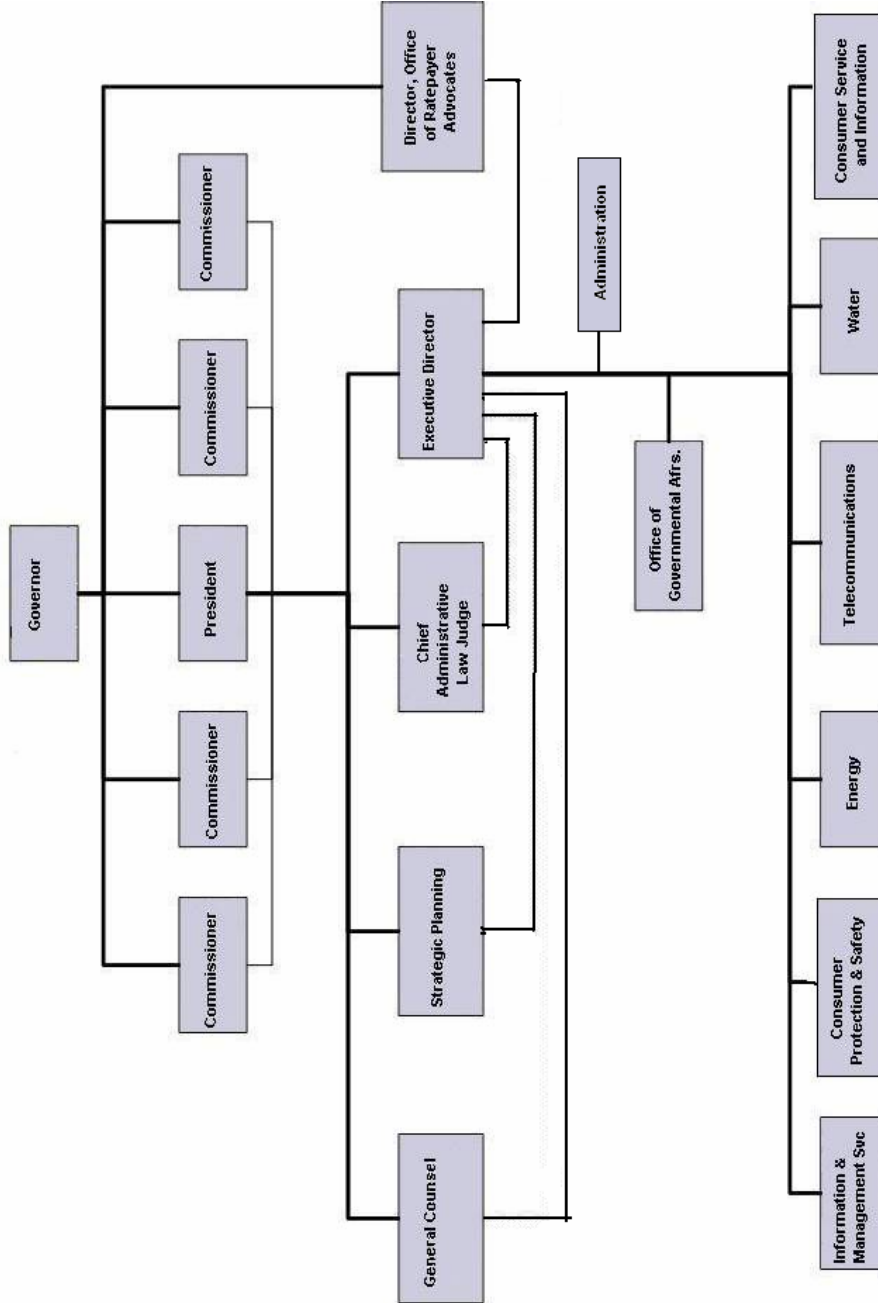
In addition to her service on the CPUC, Kennedy was confirmed by the California Senate on August 25, 2003, to serve on the California Bay-Delta Authority, the statewide body responsible for overseeing one of the largest water projects in the world – the \$8 billion, 10-year restoration of the San Francisco Bay Delta ecosystem to increase storage, promote efficiency and protect California's extensive levee system.

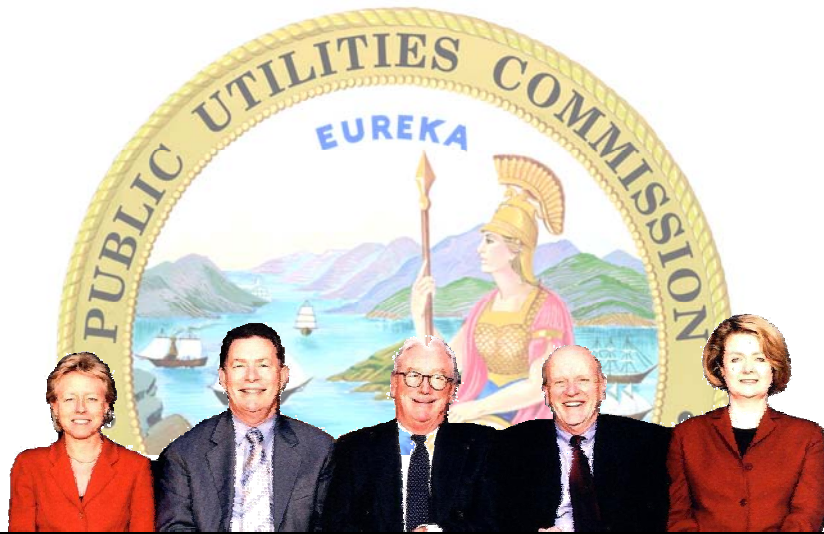
A resident of Marin County, California, Kennedy attended San Francisco State University.

# Commission Organization

## California Public Utilities Commission

December 2003





## The Commission

### Commissioners

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

### Executive Office

The Executive Office has overall responsibility for assuring that the Commission's decisions and policies are implemented and works in conjunction with commissioners, directors and staff to coordinate and facilitate the handling of procedural matters and the internal operations of the Commission.

## **Legal Division**

The Legal Division advises commissioners and agency staff. Staff attorneys review filings by public utilities, appear in a wide variety of proceedings before the Commission, and represent the Commission and the State of California before state and federal courts and agencies.

## **Division of Strategic Planning**

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

## **Administrative Law Judge Division**

The Administrative Law Judge (ALJ) Division ensures that the Commission's decision-making process is based on a full and complete administrative record developed through evidentiary hearings or comments. The ALJs prepared proposed decisions are based on the record for Commission approval. The ALJ Division also supports the decision-making process by receiving all filings, preparing and updating service lists, maintaining a database of all formal proceedings, ensuring that the Commission's files are complete and accurate, and preparing and coordinating the agendas for the Commission's bi-weekly decision-making meetings.

## **Energy Division**

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

## **Telecommunications Division**

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

## **Water Division**

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

## **Office of Ratepayer Advocates**

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

## **Consumer Protection and Safety Division**

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



### **Consumer Service and Information Division**

The Commission formed the Consumer Service and Information Division to centralize its consumer assistance, public information and community outreach functions to provide more efficient and effective service. It helps consumers resolve billing and service disputes and works with enforcement staff to identify patterns of fraud and other abuses. It advises the public and consumer organizations with participation in formal proceedings and provides outreach to local government and community groups. The division also monitors the utilities' women-owned, minority-owned and disabled veteran-owned business enterprise programs.

### **Information and Management Services Division**

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

# Energy

**Ensuring adequate energy supplies.** The Commission adopted a framework under which Pacific Gas and Electric, San Diego Gas and Electric and Southern California Edison (the three major investor-owned electric utilities) will plan for and obtain the energy resources and investments necessary to make sure that California customers receive reliable, environmentally responsible service at low and stable prices. The utilities are required to pursue an integrated resource planning process that balances the need for additional generation, transmission, and investments that will also lower consumer demand. Utilities must adhere to standards in conducting their power procurement. They will be accountable for mitigating the risks of high prices, ensuring reliable service, and delivering value to their customers. The Commission endorses a hybrid market structure, with the utilities able to own generation, and to procure power from new generators that will compete through the Requests for Proposals (RFPs) process.

## Electricity:

**10.476 million customers**  
**\$17.054 billion in revenue**  
**32,698 miles of transmission lines**  
**239,112 miles of distribution lines**  
**More than 200 electric generation units**

## Natural Gas:

**9.735 million customers**  
**\$7.621 billion in revenue**  
**9,365 miles of transmission lines**  
**92,452 miles of distribution lines**

**Ensuring sufficient gas supply and infrastructure.** The Commission took steps to establish policies and rules to ensure that the state has sufficient long-term natural gas supplies and infrastructure to meet the needs of all California residential and business consumers. To further this goal, the Commission will promote in its decisions: 1) lower demand to help mitigate potential supply imbalances, 2) sufficient firm agreements for use of pipeline capacity for California, 3) increased appreciation and utilization of the benefits and flexibility of gas storage facilities, and 4) access to imported gas supplies, e.g., from liquefied natural gas (LNG) facilities that are appropriately sited and regulated for safety.

**Improving the electric transmission system.** The Commission continues to oversee significant improvements to California's transmission system. For example, this year the Commission approved key transmission expansions for each of the three large electric utilities. More transmission projects are expected for Commission approval next year. Commission staff is also facilitating transmission development for renewable energy sources.

**Ordering refunds to California electric ratepayers.** More than \$1 billion in refunds were ordered by the Commission to be paid to customers of the three major investor-owned utilities. These monies were the result of a surplus generated by the Department of Water Resources during the last year that it purchased electricity for the three utilities. This represented an average credit of \$40 for each residential customer.

**Lowering electric rates for Southern California Edison customers.** The Commission lowered retail electric rates for Southern California Edison customers by \$1.25 billion per year, a system average reduction of nearly 13%. In early 2001, the Commission authorized rate surcharges to address the high energy costs resulting from the energy crisis of 2000-2001. The Commission agreed to allow Edison to freeze its rates to cover its debts arising from this crisis. As these debts are no longer a problem, rates to customers were lowered appropriately.

**Settling the El Paso dispute.** A San Diego Superior Court judge, the Federal Energy Regulatory Commission (FERC) and a Federal District Court judge in Los Angeles approved the three-part settlement between the Commission, the California Attorney General and numerous other California parties and El Paso Corporation concerning El Paso's alleged participation in the manipulation of natural gas and electric prices during the California energy crisis from June 2000 through May 2001.

The settlement includes El Paso's payment of \$1.4 billion to California ratepayers and numerous structural reforms to help prevent another similar energy crisis from occurring. The Commission was actively involved in the settlement negotiations and the implementation of the settlement. Moreover, the settlement resolves all of the litigation between the California parties and El Paso, which emanated from the Commission's complaint against El Paso (filed at the FERC on April 4, 2000) and the 10 weeks of hearings before the FERC's Chief Administrative Law Judge in that proceeding.

**Improving energy efficiency.** The Commission approved \$823 million for energy efficiency programs to be implemented by utilities and non-utility entities in 2004 and 2005. This includes \$41 million for the Flex Your Power campaign, and other statewide marketing and outreach programs that target non-English-speaking and rural customers. The Commission funded special projects to improve the management, effectiveness, and delivery of energy efficiency programs, including evaluating programs implemented in 2003. An audit of the Public Goods Charge (which collects funds from utility customers to cover energy efficiency programs), an update of avoided cost values used in calculating program cost effectiveness, and the development of a database to help monitor programs were also funded.

**Providing energy efficiency measures to low-income homes.** The Commission doubled the low-income energy efficiency program to \$120 million. This program provides free home weatherizing, new refrigerators, compact fluorescent lamps, and minor home repairs to low-income residences.

**Promoting renewable energy.** The Commission continued to implement the state's Renewable Portfolio Standard (RPS) program, establishing the rules and procedures whereby California's investor-owned utilities will increase their procurement of renewable energy by at least 1% per year. The year 2004 marked the first year of procurement under this program, with the utilities undertaking competitive solicitations for new renewable energy infrastructure. The Commission continued to collaborate with the California Energy Commission on this effort, and has set a goal of 20% renewable electricity by 2010, which is seven years earlier than required by legislation.

**Approving the PG&E bankruptcy resolution.** The Commission approved the proposed settlement between PG&E and the Commission staff. This settlement lowered customer rates twice in 2004. It restores PG&E to financial health through the implementation of a rate component dedicated for this purpose, and approved by the Legislature. The settlement ensures continued regulatory oversight of the utility by the Commission, and provides \$100 million for environmental projects and the provision of a "wilderness experience" for inner city urban youth.

**Protecting the environment.** The bankruptcy settlement between PG&E and the Commission provides money for environmental programs and ensures conservation of lands. Under the settlement, PG&E will protect 140,000 acres of its watershed lands associated with its hydroelectric system, plus its 655 acre Carizzo Plains in San Luis Obispo County. The Pacific Forest and Watershed Lands Stewardship Council has been established to ensure the implementation of the settlement's requirements regarding lands and easements.

The Commission also completed extensive environmental impact reports on the Jefferson-Martin 230 kV and the Miguel-Mission 230 kV transmission projects.



Conifer trees at the Eel River in Mendocino County, part of the land PG&E agreed to conserve in the bankruptcy settlement. Photo credit and copyrighted by PG&E.

## Telecommunications

**Establishing a Telecommunications Bill of Rights.** In May 2004, the Commission established basic rights (disclosure, choice, privacy, public participation and enforcement, accurate bills and redress, non-discrimination and safety) to protect residential and small business consumers of telecommunications services. The Commission also established consumer protection rules to enforce those rights. Most rules become effective on December 6, 2004. The proceeding remains open to consider privacy, limitation of liability, language issues and a broad consumer education program.

### Telecommunications

**41.890 million access lines**  
**16,491,142 wireless customers**  
**2,111,093 DSL lines**  
**58,681,228 numbers assigned**  
**\$14.447 billion in revenue**  
**1,325 certified carriers**

**Assuring good service quality.** In November 2003, the Commission issued a decision that found that SBC provided generally good service with weakness in some important areas such as the time the company took to answer customers' calls and to repair service. The Commission also found that Verizon provided very good service. The Commission based its assessment on company performance over time and in comparison to other utilities, and used more than 20 federal and state service quality measures.

**Setting fair prices to facilitate competition.** Under its own ratemaking authority, and following the Federal Communications Commission (FCC) Telecommunications Act of 1996, the Commission determines the costs for SBC's and Verizon's basic network functions and sets the prices that competitors pay to purchase access to these functions, which the competitors use to provide local phone service. These network functions are commonly referred to as "unbundled network elements" or UNEs. They include the copper lines between the central offices and the customer's premises, switching services, and other elements. In May 2004, the Administrative Law Judge and the Commissioner assigned to the proceeding each issued proposed decisions to set new prices for SBC's UNEs. [Note: the Commission subsequently adopted rates on September 23, 2004.]

**Applying the FCC's Triennial Review Order.** During 2003 the FCC issued its Triennial Review Order (TRO) to provide guidance to the states and the telecommunications industry on how incumbent phone companies unbundled network elements (UNEs) are to be utilized to foster competition. On June 18, 2004, the Commission suspended consideration of the TRO in light of the Federal Court's Decision vacating and remanding the FCC's original TRO rules, and will monitor the FCC's further Order regarding the provision of UNEs. However, on June 24, 2004, the Commission authorized continuation of certain aspects of the TRO to prepare for the potential migration of competitive carriers off of UNEs after the FCC's further Order is initiated in the first quarter of 2005.

**Issuing a telecommunications competition report.** In response to legislation, the Commission issued its 3rd report to the Legislature on the state's telecommunications marketplace. This report examined relative market share data in the various telecommunication markets (i.e., local, long distance, wireless, and broadband). In addition, the report compared California's results with national data and trends.

**Participating in FCC proceedings.** The Commission participated in several proceedings at the FCC in order to facilitate market-based competition and to provide consumers with increased choice, greater value, and more reliable services. Among other proceedings, the Commission submitted pleadings in the following cases:

- **Classification of DSL Service:** This FCC proceeding examined how to classify broadband access service to the Internet over wireline facilities (DSL) for regulatory purposes. It also considered whether facilities-based providers of broadband Internet access services provided over wireline, cable, wireless, satellite or other platforms should be required to contribute to universal service.
- **Classification of Cable Modem Service:** California and other states appealed the FCC's ruling to deregulate cable modem service before the 9<sup>th</sup> Circuit Court of Appeal. On October 6, 2003, the Court found that the FCC had erred by effectively absolving cable companies of any obligation to make their lines accessible to competitors and that cable broadband service providers are in part providing "telecommunications services," (a definition that could subject them to the greater obligations of "common carriers" under federal law). The result of the court decision could give consumers more choice when shopping for a provider of high-speed Internet service.
- **AT&T Voice over Internet Protocol (VoIP) Petition:** AT&T has asked the FCC for a declaratory ruling stating that providers of VoIP services are exempt from interstate access charges unless and until the FCC adopts regulations that prospectively provide otherwise. In February 2003, the Commission filed comments arguing that AT&T's internet protocol telephony traffic is a telecommunications service, therefore; subject to local network access charges.

**Implementing 2-1-1 service.** With the FCC having designated the abbreviated dialing prefix "2-1-1" for use by social services information and referral (I&R) agencies, the Commission has handled applications from I&R providers seeking to offer 2-1-1 service in various counties of the state. This fiscal year, the Commission approved six applications, and 2-1-1 service is now available (or will soon be available) in Los Angeles, Alameda, Contra Costa, Orange, San Francisco and Ventura counties.

**Managing Prudent Area Code Growth.** After holding public meetings in July 2003 in communities in San Bernardino and Riverside counties to discuss seven alternative plans for splitting the area served by the 909 area code, the Commission approved on November 13, 2003, a plan to split the 909 area code roughly along the San Bernardino and Riverside County line with the Riverside area changing to the 951 area code. Permissive dialing is scheduled to begin on July 17, 2004, with mandatory dialing

beginning October 30, 2004. New phone numbers will be issued to utilities beginning February 27, 2005. The Commission also determined in late 2003 not to split the 310 area code as it concluded that sufficient quantities of telephone numbers remained to meet the utilities' and customers' needs.

**Promoting efficient telephone number usage.** In response to a Commission petition to the FCC, the FCC allowed a temporary modification of its rules for the 310 and 909 area codes and allowed the Commission to issue to carriers, blocks of phone numbers that have more numbers used in the block than previously (from 10 percent in use to 25 percent). With this change, the Commission reduced the amount of phone numbers that were stranded, which efficiently increased the available supply of numbers. In its June 2004, report to the FCC evaluating the effectiveness of the waiver, the Commission found that carriers were able to donate 900 more blocks of numbers between August 2003 and April 2004 to the 310 and 909 area code number pools.

**Implementing wireless portability.** In response to requests from the Commission and other parties, the FCC implemented Local Number Portability (LNP) for wireless carriers in November 2003. LNP allows customers to continue using their existing telephone numbers when they change phone companies. Wireline customers have enjoyed this option since 1998. The expansion of LNP to wireless carriers also helps minimize the demand on telephone numbers.

**Managing universal service programs.** Four universal service programs provide discounted telecommunications services. The California Teleconnect Fund provided approximately \$5.1 million to reimburse carriers this fiscal year for discounts on telecommunications services to 2,100 California schools, libraries, health care institutions, and community-based organizations. The Universal Lifeline Telephone Service program provided \$244 million this year for discounted basic telephone services to more than 3.3 million low-income households. Finally, two programs, the California High Cost Funds A & B, provided \$41 million and \$440 million respectively to reimburse carriers to support lower basic service rates in high cost areas of California.

**Assuring the State's universal telephone service goals are being met.** The Commission completed its annual *Report to the Legislature on Universal Telephone Service to Residential Customers*. It reports that California, with a statewide telephone subscribership of 96.5 percent, ranks higher than the national average of 94.7 percent. Since implementing its Lifeline Program in 1985, California has made significant strides in achieving its universal service telephone goals. Prior to the implementation of lifeline assistance, 82.9 percent of California's low-income households subscribed to telephone service; as of March 2003, subscription of low-income households grew to 93.1 percent, which is higher than the national average of 89.2 percent.

**Expanding telephone service to rural California.** The Commission manages the Rural Telecommunications Infrastructure Grant Program, created by Assembly Bill 140. This program, the first of its kind in the nation, provides \$10 million per year (up to \$2.5 million per project) for construction of telecommunications infrastructure in low-income, rural communities that are without telephone service. In June 2004, the Commission approved three grants under this program: \$2.5 million for wireline telecommunications service to the Yurok Tribe in Humboldt County, \$1.835 million for a combination of wireless and wireline infrastructure to Iowa Hill in Placer County, and \$2.5 million for wireless infrastructure throughout Trinity County.

**Expanding telephone service through greater outreach efforts.** Commission staff has established a Universal Lifeline Telephone Service (ULTS) Call Center to assist and to encourage low-income families to sign up for lifeline telephone service. The Call Center provides service to callers in English, Spanish, Cambodian, Cantonese, Hmong, Korean, Lao, Mandarin, Tagalog and Vietnamese languages. In the first year, the Call Center received 23,229 calls, of which 72 percent were found to be eligible for ULTS and were referred to a carrier to sign up for service.

**Auditing universal service telecommunications programs.** In the past year, the Commission has completed audits of universal service program transactions for six small telephone companies. These audits examined telephone carrier remittances of surcharges collected from customers to fund five telecommunications public programs, and examined the carriers' claims seeking reimbursement for universal service discount prices provided. The audits found programming errors with some of the companies that led to over-collections of surcharges from customers.

**Making the regulatory process more efficient.** Pursuant to a Commission resolution, the Telecommunications Division (TD) implemented Advice Letter filings by CD-ROM on January 5, 2004, which TD stores on a secure server. The Commission receives more than 4,000 Advice Letter filings a year from telephone carriers. This change streamlines the regulatory process greatly as only a minimal amount of paper is necessary for Advice Letter filings. TD staff plans to work with telephone carriers and seek the complete record of tariffs by CD-ROM next year, and hopes to eventually implement on-line filing of Advice Letters and tariffs.



# Water

**Adopting a rate case processing plan.** The Water Division held extensive public workshops and worked with utilities in developing a new Rate Case Plan (RCP) for the large (Class A) water utilities that is required by Public Utilities Code 455.2, enacted in 2001. The purpose of the workshop was two-fold:

1. Identify the least controversial issues in the draft Rate Case Plan which was prepared by the Water Division and;
2. Promote compliance with Assembly Bill 2838's mandate for an updated plan by December 2003, by developing a proposed interim general rate case schedule for 2004 to be later submitted to the Commission for its consideration.

The Commission issued the interim order (D.04-06-018) on June 9, 2004. The Water Division is currently hosting workshops on Phase II issues of the Rate Case Plan.

**Saving consumers money through the Balancing Account OIR.** In the summer of 2003, the Commission issued D.03-06-072, which for the first time imposed an earnings test to limit utilities to reasonable recovery of charges in special balancing accounts for purchased water, purchased power and pump taxes. The large water utilities filed more than 50 advice letters for that recovery. As a result of the earnings test, consumers saved more than \$4 million during the past year.

**Developing a low-income program for water service.** The Water Division is working with all of the Class A water utilities in an effort to develop a standardized low-income program available to all customers of regulated water utilities in California. This effort has included meetings with the companies, research regarding low-income programs across the U.S. in both public and private jurisdictions, and discussions with the CPUC's Energy Low-Income Oversight Board. Currently, a number of Class A water utilities have plans for a variety of low-income programs under Commission review. When final decisions are made in those cases, the Commission's position on the uniform program will be incorporated into any future low-income plans developed.

A major concern of the parties and the Commission is how to include low-income residents of multi-family housing in a standardized program. Since the water service these individuals receive is not separately metered, they are not customers of the water utility. Therefore, it is difficult to identify them and difficult to determine how to pass on a discount to someone who is not a customer. Landlords' rates would increase to subsidize the low-income rates and that presents another concern of whether landlords would in turn increase their tenants' rates, whereby negating any benefit to the low-income individual.

## Water

**6.8 million customers**  
**144 water utilities**  
**12 sewer utilities**  
**20 percent of California's drinking water**  
**\$800 million in revenue**

Alternatives to inclusion of low-income residents of multi-family dwellings have been suggested in a recent ruling by the Assigned Commissioner and Administrative Law Judge in a San Gabriel Valley Water case (A.03-04-025), which stated that an alternative approach to serving low-income customers would be to provide a discount to non-profit organizations that serve low-income individuals.

The Water Division is also working with California-American Water in developing a plan for the use of funds that RWE/Thames agreed to spend on low-income programs in D.02-12-068.

**Investigating Conlin Strawberry Water Company.** The Commission issued an Order Instituting Investigation (I.03-10-038, filed October 16, 2003), Notice of Opportunity for Hearing, and Order to Show Cause directed to Conlin-Strawberry Water Co. (CSWC) and Danny T. Conlin, its owner and operator. The proceeding requires the utility and its owner to provide certain information to the Commission and show cause why the Commission should not petition the Tuolumne County Superior Court for the appointment of a receiver to assume possession of CSWC and its water system, pursuant to the California Public Utilities Code, Section 855. Other issues to be investigated include determining if fines, penalties, and other remedies should be imposed.

Hearings are scheduled to end on September 2, 2004. While a proposed decision would be the next step, settlement talks between the parties are ongoing and could bring the case to an end at anytime.

**Resolving customer complaints.** In 2001, the Water Division added to its duties the processing of all water customer complaints that do not involve money impounds. In FY 2003-2004 the division assisted nearly one hundred customers in resolving their complaints with their water utilities.

## Rail Safety

### Commending staff for accident investigations.

The Federal Railroad Administration's (FRA) Region VII Regional Administrator commended Commission staff for work on two major derailments involving the Burlington Northern Santa Fe.

- The first accident occurred in Ludlow when 26 cars of a 104-car train derailed, blocking both tracks. Staff determined that the derailment was caused by a mechanical failure - a rail car's wheel seized up causing that car, and the next 25 cars, to derail.
- The second accident occurred in Caliente on the Union Pacific Railroad's (Union Pacific) Mojave Subdivision when 14 cars derailed inside Tunnel #1 on a single track. The derailed cars remained upright and undamaged. The train was operating on a descending 2.2 percent grade through a series of "S" curves at 20 miles per hour (the maximum authorized speed) when an air hose broke on the 11<sup>th</sup> car from the rear of the train causing an emergency application of the brakes.

#### Railroad Safety

**10,385 miles of main/branch tracks**

**16,016 pieces of railroad equipment**

**Thousands of HAZMAT facilities**

**11,200 public railroad crossings**

**5,000 private railroad crossings**

**Inspecting track and operations with the FRA.** Teams consisting of Commission and FRA staff inspected the following Union Pacific facilities:

- **Los Angeles Basin track facilities.** Inspections focused on yard and industry tracks that had the most track-related defects for 2003. Of the 838 units of the track inspected, staff found that 371 were defective. Recommendations included that the Union Pacific track maintenance managers monitor the inspectors' records and perform on-site inspections to ensure that the inspections are done at the required frequencies and that Union Pacific take proper remedial action for defects.
- **Roseville service unit between Sacramento and Bakersfield.** Inspections focused on Union Pacific's compliance with: 1) track safety and signal standards, 2) instructions governing the installation, inspection, maintenance, and repair of signal and train control systems, devices, and appliances, and 3) to promote communication between the track and signal personnel at the Fresno Subdivision. Hundreds of defects were identified and the team's several recommendations included improving joint track and signal inspections, and improving inspectors' awareness of Union Pacific's maintenance standards.
- **Roseville service unit.** The team audit revealed that some issues need to be resolved in Union Pacific's operational testing program; however, overall indications were positive. The defects noted were very close to the operational testing failures recorded by Union Pacific's managers in the first quarter of 2004. The defects and testing failures relate to the rules that are most frequently violated by operating employees and result in employee injury. Union Pacific's testing of the employees compliance with these rules should result in reductions in the number of train accidents and employee injuries due to human factor.

**Implementing Automated Horn Systems.** Senate Bill 1491 authorized the Commission to implement the Automated Horn System (AHS) as a pilot project to reduce train horn noise at highway-rail crossings. The Commission has worked closely with the cities of Roseville and Riverside and the railroads in implementing AHS. The Commission submitted a report to the Legislature in March 2004 on the progress of the pilot projects. Preliminary results appear positive; however, more data must be collected and evaluated before final determinations can be made. The Commission will continue working with the cities in evaluating the effectiveness of AHS.

**Certifying rail transit safety.** The Commission approved the safety certification process for the following transit systems:

- Port of Los Angeles Red Car Trolley
- Los Angeles County Metropolitan Transportation Agency Gold Line
- Sacramento Regional Transit District South Line
- Sacramento Regional Transit District Sunrise Extension
- Santa Clara Valley Transportation Authority Tasman East/Capitol Extension

In addition, the Commission staff met with transit agencies to resolve concerns staff had with the transit agencies' requests for deviations from Commission safety rules. After extensive analysis, the Commission adopted five resolutions that responded to local needs while preserving safety.

**Auditing rail transit safety.** The Commission performed comprehensive safety audits on:

- Bay Area Rapid Transit District in San Francisco
- Los Angeles County Metropolitan Transportation Agency in Los Angeles
- AirTrain at the San Francisco Airport

## Enforcement

**Prosecuting rogue carriers.** The Commission successfully prosecuted household goods and passenger carriers who violated CPUC regulations by operating illegally, overcharging, losing or damaging property (Loss and Damage or L&D), or advertising illegally. The Commission obtained sanctions such as Temporary Restraining Orders, Telephone Disconnections, or Citation Forfeitures against the carriers. The most egregious cases were the following:

- Ford Moving & Storage - Overcharge, L&D, Illegal Operations
- Pacific Coast Moving & Storage - Overcharge, L&D, Illegal Operations
- KW Moving, et al - Illegal Operations, Illegal Advertising
- Allstate Moving & Storage - Overcharge, L&D, Illegal Operations
- Black Diamond Transportation - Illegal Operations
- Carty Moving & Storage - Illegal Operations
- Lucky Movers - Illegal Operations
- Sal's Airport Service - Illegal Operations
- Marin Door To Door, Inc - Illegal Operations
- Starving Students, Inc. – Consumer Protection Laws

The Commission prosecuted telecommunications carriers that violated consumer protections and the California Environmental Quality Act (CEQA). The most egregious cases were the following:

- **Cingular Wireless** - a Presiding Officer's Decision (POD) fined Cingular \$12 million, and ordered restitution that could amount to another \$20 million for violating consumer protection laws that included failure to disclose the company's: 1) lack of adequate network capacity and coverage, 2) no return or refund policy which required a \$150 early termination fee, and 3) illegal bundled sale of equipment and service (note: the Commission subsequently approved the POD on September 23, 2004).
- **Cingular Wireless** - the Commission fined Cingular Wireless \$12 million for marketing abuse and directed it to pay several million dollars in reparation to Californians.

### **Marketing Abuse**

**Slamming - 76,000 complaints involving 3 companies**

**Cramming - 50,770 complaints involving 2 companies, 14,000 victims obtained restitution.**

**Wireless Telephone Marketing Abuse - 1,000 complaints involving one company, 130,000 victims obtained restitution.**

**Unauthorized Contracts - 151 violations from one company**

- **Verizon Communications** - the Commission fined the company \$4.8 million for failing to comply with contract rules and submitting false and incomplete information.
- **NOS Communications** - the Commission fined NOS \$2.5 million and ordered restitution to 1,400 Californians for unauthorized bills.
- **MCI** - The Commission and the California Attorney General reached a settlement in MCI's bankruptcy proceeding which recovers \$3 million that MCI owed the Commission in fines stemming from a previous Commission case where MCI was charged with misrepresenting rates, and long distance service provisions.
- **USP&C and Vista Communications** - the Commission filed civil complaints in Superior Court against USP&C and Vista Communications to collect unpaid fines. The Superior Court ordered USP&C to pay the Commission \$1.68 million in unpaid fines; the case against Vista is still pending.
- **Qwest Communications** - the Commission is investigating allegations that Qwest Communications constructed telecommunications facilities without Commission approval as required under CEQA.

## Utility Safety and Reliability

**Revising General Orders 95 and 128 (R.01-10-001).** The General Orders specify the requirements for the construction, operation and maintenance of overhead and underground electric utility systems. Workshop participants filed a joint workshop report to assist the Commission in making its final decision. The report summarized the parties' positions on 63 proposed revisions to existing rules, and the parties' proposed new rules. The parties reached consensus on a majority of the changes. Where consensus was not reached, alternative proposals were documented with the supporting parties' rationales for rule changes.

**Fining Southern California Edison.** The Commission fined Edison \$656,000 primarily for 30 violations of General Orders 95 and 128. The penalties are intended to encourage Edison to focus its resources and efforts on preventing safety violations and finding and curing them in a timely fashion to prevent potential harm.

**Investigating a PG&E outage.** The Commission is investigating a fire at PG&E's Mission Substation in San Francisco, which occurred on December 20, 2003. The fire resulted in an outage to more than 100,000 customers, including several large downtown retail and business customers on the Saturday night before Christmas. The fire was caused by a cable failure and burned for hours before it was found and extinguished. The investigation has included many hours of interviews with PG&E employees and San Francisco Fire Department firefighters, and hours of site visits to PG&E facilities. Guided by this investigation, PG&E has already made improvements in personnel, procedures, and its relationship with the fire department. The investigation is still in progress.

**Auditing PG&E's vegetation management program.** The three-year audit, ordered in I.98-09-007, began September 29, 2003, at a cost of \$993,000, which is paid by PG&E stockholders. It may be extended two more years if necessary. The purpose is to monitor PG&E's vegetation control performance (including its database), management, and costs. The consultant has interviewed PG&E staff, reviewed PG&E's Vegetation Database, and inspected 40 miles of PG&E's overhead conductors for compliance with General Order 95, Rule 35 and the Public Resource Code, Rules 4292 and 4293.

**Reliability standards approved (General Order 167).** The Commission approved enforcement plan for standards governing record keeping and facility maintenance for electric generators in California, as outlined in Senate Bill 39x which was authored by Senators John Burton and Jackie Speier. These standards and protocols were developed through cooperation with the California Electricity Generation Facilities Standards Committee and the California Independent System Operator. The Commission's implementation and enforcement of the Maintenance Standards and Protocol will help ensure the reliable operation of electric generation facilities subject to Commission authority, and provide for public health and safety.

# Office of Ratepayer Advocates (ORA)

## Pursuing lower energy rates

- ORA challenged the magnitude of Pacific Gas and Electric's request for a \$447 million increase in electric distribution costs, \$105 million increase in gas distribution costs, and \$149 million in utility retained generation costs, resulting in a settlement that saved ratepayers \$375 million. In May 2004, the Commission approved the settlement, D.04-05-055, authorizing a \$236 million increase in electric distribution costs, \$52 million in gas distribution costs, and \$38 million in utility retained generation expenses.
- San Diego Gas and Electric's Cost of Service application for 2004 sought a \$59 million increase in rates for electric distribution service with a \$22 million jump in gas distribution costs. ORA's analysis and audit showed that the Commission should cut the company's electric rates by \$37.8 million and reduce gas rates by \$7 million. ORA reached a settlement with the utility, which lowered the company's initial request by \$53.5 million for electric distribution, and reduced gas distribution by \$9.8 million. A decision on the settlement is pending.
- Southern California Gas filed for a \$130 million cost of service increase over the 2002 authorized level. Following an audit and scrutiny of the utility's distribution cost of service, ORA recommended that the Commission reduce the utility's revenues by \$131 million compared to present rates. ORA and the utility reached a settlement which provides for a \$70 million reduction in the company's requested revenue requirement for 2004 and represents a decrease of \$33 million from the Commission-authorized revenue requirement for 2003 for the same costs. A decision on the settlement is pending.
- Southern California Edison Company's May 2002 general rate case application requested a \$286 million increase in electric rates for 2003. Edison subsequently reduced the request to \$252 million following issuance of ORA's report that recommended a \$170 million reduction in authorized revenues. In July 2004, the Commission granted a \$70 million rate increase in D.04-07-022.
- Sierra Pacific Company filed for an \$8.9 million rate increase in April 2002. ORA recommended a \$1.5 million increase. ORA ultimately entered into a settlement with Sierra Pacific that recommended a \$3 million increase in rates. In January 2004, the Commission issued D.04-01-027 adopting the settlement.

### ORA

**During the year, ORA participated in 200 proceedings and submitted 600 filings. In deciding policy direction ORA looks at:**

**Legislative intent**

**Impact on rates and service**

**Number of Californians affected**

**Proceedings that deal with fair treatment of utility customers**

**Proceedings that support the development of affordable infrastructure and promote universal service**

**The needs of those most vulnerable - low income, disabled, and seniors**



- In November 2003, the Commission adopted a settlement that was negotiated by ORA granting PacifiCorp a modest rate increase of \$2.8 million (D.03-11-019). ORA's efforts saved ratepayers \$8.6 million, compared to the \$11.4 million increase requested by PacifiCorp.
- In March 2004, the Commission adopted rate increases of \$3.6 million and \$3.8 million for Southwest Gas Corporation's Southern and Northern California Divisions. ORA's report proposed a \$1.1 million rate decrease for Southern California and a \$3.3 million increase in Northern California. In response to the report, Southwest reduced its request from \$8.4 million to \$5.7 million in Southern California and from \$5.5 million to \$4.4 million in Northern California.
- ORA entered a settlement agreement with PG&E that will disallow more than \$67 million in recovery of revenues associated with PG&E's Electric Restructuring Cost Account. These monies are associated with restructuring costs incurred during 1997-2001.
- Resulting from strong opposition from ORA and other intervenors, Edison withdrew a proposal to raise residential rates 24 percent over three years via a Grid Infrastructure Charge.
- As a result of strong opposition from ORA and other intervenors to PG&E's proposal to emerge from bankruptcy, PG&E agreed to reduce the cost to ratepayers by refinancing its Regulatory Asset using securitized bonds.
- ORA helped persuade the California Pollution Control Financing Authority to retain PG&E's existing pollution control bonds at a tax-exempt rate, saving ratepayers \$23 million each year for the next 20 years.

### **Assuring consumer interest in electricity and natural gas regulation**

- In the Commission's rulemaking (R.04-01-025) to ensure reliable, long-term supplies of natural gas to California, ORA collaborated in the development of interstate pipeline capacity acquisition procedures to guide the gas utilities procurement of firm interstate pipeline capacity over the next several years.
- In the development of Renewable Portfolio Standards (R.01-10-024), ORA promoted methods of evaluating renewable energy sources that will allow ratepayers to obtain the maximum renewable benefits at the lowest cost while maintaining system reliability.
- ORA contributed to the development of electricity procurement strategies expected to save ratepayers more than \$22 million in 2004. ORA supported procurement and energy efficiency policies that will triple California's investment in energy efficiency over the next ten years.

### **Advocating telecommunications ratemaking and service quality**

- ORA successfully challenged Commission decision D.03-10-088 that found Verizon's service quality to be "very good" and SBC's "generally good ... in most areas." ORA's own survey of SBC's customers showed serious problems in residential and small business customers' perceptions of service quality.
- ORA investigated whether the California High Cost Fund B (CHCF-B) is functioning properly and achieving program goals. ORA submitted its report to the Commission and the Legislature in March 2004. ORA's report raised a number of concerns about the CHCF-B and urged the Commission to open a formal investigation. The \$500 million fund is intended to subsidize certain telephone companies to provide service in high cost areas.

**Pursuing lower rates in water rate cases.** In December 2003, the Commission's decision D.03-12-040 authorized Park Water Company (Park) a general rate increase in which ORA's efforts helped save Park's ratepayers \$1.3 million, compared to the \$3.1 million increase requested by Park Water.

# Consumer Services and Information

## Public Advisor's Office

**Assisting public participation.** Public Advisor staff continued to assist consumers and consumer advocacy groups, providing procedural guidance and advice regarding the Commission's formal hearings and formal complaint process, and facilitated communication between consumers, the Commission and its formal processes.

**75 hearings/meetings conducted**  
**27,000 letters, e-mails and calls received**  
**\$3.1 million awarded to intervenors**

The Public Advisor's Office participated in hearings and meetings statewide, providing opportunities for the public to comment and ask questions about numerous issues including, applications to change utility rates, proposed improvements to the state's electric power grid, and telephone area code changes.

During FY 2003-04, the Public Advisor's Office received thousands of letters, e-mails and calls on utility general rate cases, energy efficiency programs, the PG&E bankruptcy proceeding and telecommunications issues including the Telecommunications Consumer Bill of Rights. All contacts and correspondence were circulated to the Commissioners on a regular basis.

**Keeping local government informed.** Many cities, counties and regional government entities are directly affected by proceedings before the Commission including transmission line applications, railroad safety and noise issues, utility rate increases and various telecommunications issues such as the California Rural Telecommunications Fund. In response to a request by cities, the Public Advisor's Office developed a monthly local government electronic newsletter, which now circulates to local elected officials and their agencies, and other interested groups. In addition, the Public Advisor's Office organized a day-long briefing on energy issues affecting a Southern California city.

**Assisting participation in CPUC proceedings.** The Commission administers an Intervenor Compensation program, which provides monetary compensation to parties that intervene in and contribute substantially to Commission decisions. The Public Advisor's Office assists those who wish to apply for Intervenor Compensation. In 2003-2004, the Public Advisor, working with the Administrative Law Judge Division, created an *Intervenor Compensation Program Guide* to explain the program and provide instructions and templates for various filings. The Guide is available in hard copy from the Public Advisor's Office and is also available on the Commission's website.

**Renewing our commitment to diversity.** The Commission continued to exercise national leadership by encouraging utilities to achieve more diversity in their employment and procurement practices through its Utility Supplier Diversity program, also referred to as the Women-owned, Minority-owned and Disabled Veteran-owned Business Enterprise Program (WMDVBE). Six major water utilities volunteered to join the program following a public hearing held in July 2003. As a result of that conference, the California Utilities Diversity Council was established to act as a forum for the program. The members of the Council include leaders from the business community, consumer groups, academicians, labor and the utilities. Also, the National Association of Regulatory Commissioners (NARUC) unanimously adopted a policy to encourage utilities nationwide to increase business opportunities with diverse suppliers.

**Providing bilingual services.** Great progress was made improving Commission services and information for consumers who converse easier in languages other than English. Many consumer advisories are available in Spanish and Chinese, in hard copy and on the website. Callers needing information, assistance or wishing to express opinions on various issues were helped immediately in the language of their choice. More employees were certified by the State Personnel Board as bilingual, which allows them to assist consumers and review the CPUC's outreach materials for correct grammar and accuracy in the language in which they are certified. Bilingual Services staff also addressed common consumer issues on local and statewide radio and television programs, particularly in Spanish.

## Outreach

**Reaching out to communities.** Outreach staff met with community-based, service and business organizations to explain Commission programs and services. They visited local and state elected officials' offices and public libraries to provide resource materials for further distribution throughout the state. They gave presentations and participated in community events.

**65 Presentations  
55 Community Events  
240 Constituency Visits**

Collaboration continued with consumer protection groups, such as the California Consumer Affairs Association (CCAA), the National Association of Consumer Agency Administrators (NACAA), and the CPUC's Office of Ratepayer Advocates.

The Commission also received NACAA's ACE (Achievements in Consumer Education) Award which recognized the CPUC's outreach materials and distribution efforts.

## Consumer Affairs

**Assisting consumers.** The Commission's Consumer Affairs Branch assists consumers with their questions and complaints regarding utility billing and service. Consumers who initiate a complaint with Consumer Affairs are protected from the threat of service termination, fraud, and overcharging. Staff assisted consumers in obtaining more than \$8.6 million in refunds from utilities.

The Commission uses data compiled from consumer complaints to identify patterns of widespread consumer abuse, which has led to several Commission-initiated investigations against companies – many of which have targeted limited English-proficient consumers. The Commission also has expanded its ability to assist limited English-proficient consumers by hiring bilingual Consumer Service Representatives to assist with their complaints and inquiries.

<b><u>Consumer Complaints</u></b>		
<b>Industry</b>	<b>Amount</b>	<b>%</b>
<b>Telecommunications</b>	<b>31,045</b>	<b>64</b>
<b>Electric</b>	<b>10,712</b>	<b>22</b>
<b>Gas</b>	<b>1,273</b>	<b>3</b>
<b>Water</b>	<b>534</b>	<b>1</b>
<b>Transportation</b>	<b>475</b>	<b>1</b>
<b>Other</b>	<b>3,688</b>	<b>8</b>
<b>Total</b>	<b>47,742</b>	
<b><u>Top 5 Complaints</u></b>		
	<b>Amount</b>	<b>%</b>
<b>Billing</b>	<b>31,171</b>	<b>75</b>
<b>Service</b>	<b>5,396</b>	<b>13</b>
<b>Rates/rules</b>	<b>4,933</b>	<b>12</b>
<b>Abusive Marketing</b>	<b>941</b>	<b>2</b>
<b>Installation</b>		<b>1</b>
<b>Total</b>	<b>42,605</b>	

## Appendix A – Hearing Days by Industry and Subject

### Telecommunications

Agreement Approval	4
Commission Investigations	6
Complaint	32
Lease of Property	1
Miscellaneous	3
NDI Registration	2
Rulemaking	35
Transfer	2
<b><u>Total</u></b>	<b><u>85</u></b>

### Electric

Certificate	26
Commission Investigations	17
Complaint	14
Lease of Property	1
Miscellaneous	42
Project	3
Rate Request	45
Rulemaking	67
Transfer	2
<b><u>Total</u></b>	<b><u>217</u></b>

### Gas

Certificate	2
Commission Investigations	8
Complaint	2
Miscellaneous	6
Rate Request	38
Rulemaking	2
<b><u>Total</u></b>	<b><u>58</u></b>

### Water

Commission Investigations	13
Complaint	3
Miscellaneous	2
Rate Request	49
Rulemaking	1
Transfer	1
<b><u>Total</u></b>	<b><u>69</u></b>

### Railroad/Grade Crossing

Commission Investigations	2
Complaint	3
Grade Crossing	8
Miscellaneous	4
<b><u>Total</u></b>	<b><u>17</u></b>

### Miscellaneous

Complaint	1
Miscellaneous	8
Rulemaking	2
Transfer	1
<b><u>Total</u></b>	<b><u>12</u></b>

### Transportation

Commission Investigations	2
<b><u>Total</u></b>	<b><u>2</u></b>

**Total Hearing Days      460**

## Appendix B – Decisions Issued by Industry and Subcategory

### Telecommunications

Agreement Approval	8
Certificate	43
Commission Investigations	10
Complaint	67
Discontinuance	1
Lease of Property	9
Miscellaneous	11
Mortgage/Issue Notes	1
NDI Registration	93
Programs	1
Rate Request	2
Rulemaking	26
Transfer	23
<b><u>Total</u></b>	<b><u>295</u></b>

### Electric

Agreement Approval	1
Certificate	6
Commission Investigations	12
Complaint	31
Financial Review	7
Lease of Property	11
Miscellaneous	25
Mortgage/Issue Notes	3
Petition to Modify/Rehearing of Resolution	4
Programs	2
Project	2
Rate Request	37
Rulemaking	55
Stocks	2
Transfer	7
<b><u>Total</u></b>	<b><u>205</u></b>

## **Gas**

Certificate	2
Commission Investigations	4
Complaint	6
Expansion of Service	1
Miscellaneous	14
Mortgage/Issue Notes	1
Petition to Modify/Rehearing of Resolution	2
Programs	2
Rate Request	6
Rulemaking	1
<b><u>Total</u></b>	<b><u>39</u></b>

## **Water**

Certificate	2
Commission Investigations	2
Complaint	3
Miscellaneous	2
Mortgage/Issue Notes	2
Programs	1
Rate Request	29
Rulemaking	5
Transfer	6
<b><u>Total</u></b>	<b><u>52</u></b>

## **Sewer**

Certificate	1
<b><u>Total</u></b>	<b><u>1</u></b>



## Transportation

Certificate	1
Commission Investigations	4
Complaint	2
Expansion of Service	4
Insurance	1
Miscellaneous	1
Passenger Stage	28
Rate Request	7
Transfer	20
<b><u>Total</u></b>	<b><u>68</u></b>

## Railroad/Grade Crossing

Commission Investigations	2
Complaint	2
Grade Crossing	49
Miscellaneous	8
<b><u>Total</u></b>	<b><u>61</u></b>

## Miscellaneous

Agreement Approval	1
Commission Investigations	5
Complaint	4
Miscellaneous	9
Mortgage/Issue Notes	3
Rate Request	6
Rulemaking	7
Transfer	3
<b><u>Total</u></b>	<b><u>38</u></b>

**Grand Total** **759**

## Appendix C – About the CPUC

California has a long tradition of forging innovation in regulation to protect its residents and businesses. In 1853, before a mile of railroad track had been laid in the state, a law was passed making it illegal to charge more than 20 cents a mile for transporting passengers. In 1873, the Legislature created the State Board of Transportation Commissioners, giving it jurisdiction over railroads. In 1911, voters passed a constitutional amendment setting up the Railroad Commission.

The Public Utilities Act in 1912 broadened the Railroad Commission's duties and powers to include utilities and in 1946, the name was changed to the California Public Utilities Commission (CPUC).

Its purpose continues today: to regulate the rates and services of privately owned utilities and some transportation companies in the state and to oversee the safety of utility facilities and rail systems.

### Commissioners and Directors during Fiscal 2003-2004:

Michael R. Peevey, President

Carl Wood, Commissioner

Loretta M. Lynch, Commissioner

Geoffrey F. Brown, Commissioner

Susan P. Kennedy, Commissioner

William Ahern, Executive Director

Randolph Wu, General Counsel

Angela Minkin, Chief Administrative Law Judge

Barbara Hale, Director, Division of Strategic Planning

Linda Serizawa, Director, Consumer Service and Information

Paul Clanon, Director, Energy Division

Jack Leutza, Director, Telecommunications Division

Izetta Jackson, Director, Water Division

Regina Birdsell, Director Office of Ratepayer Advocates

Richard Clark, Director, Consumer Protections and Safety Division

Alan Lofaso, Director, Office of Governmental Affairs

Ed Quan, Director, Information and Management Services Division

Maxine Harrison, Southern California Commission Representative

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## California Public Utilities Commission

[www.cpuc.ca.gov](http://www.cpuc.ca.gov)

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### **Los Angeles Office:**

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