



INTRODUCTION

The Division of Ratepayer Advocates (DRA) is an independent division of the California Public Utilities Commission (CPUC) that advocates solely on behalf of utility ratepayers.

Our statutory mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, DRA also advocates for customer and environmental protections.

As the only state agency charged with this responsibility DRA plays a critical role in ensuring that consumers are represented at the CPUC and in other forums that affect how much consumers pay for utility services and the quality of those services.



Dana Appling was appointed DRA Director by Governor Schwarzenegger on August 30, 2004. DRA's executive team consists of two Deputy Directors; Dave Ashuckian, who oversees energy policy and programs and electricity and natural gas general rate cases; and until December 2008, Cynthia Walker who oversaw communication policy and programs, water issues, including general rate cases and water conservation programs, as well as and electricity and natural gas general rate cases; Chief Counsel, Joseph P. Como, and Policy Advisor, Sepideh Khosrowjah, who heads DRA's public outreach and CPUC lobbying activities.

DRA's Legislative Director, Matthew Marcus, is located in Sacramento.



Matthew provides a full-time presence for DRA in Sacramento to respond to the needs of Assembly & Senate offices including:

- Responding to Legislative and constituent inquiries
- Participating in Committee Hearings, Roundtables and other meetings
- Providing technical assistance with legislation and presenting DRA's position on bills
- Updating Legislative offices on CPUC proceedings and meetings

This report provides information concerning DRA's operations over the 2008 calendar year consistent with the requirement of California Public Utilities Code Section 309.5. This report also provides an overview of accomplishments by each of DRA's branches over the last year.



ANNUAL REPORT TO LEGISLATURE

On or before January 10 of each year DRA is required to provide to the Legislature the following information:¹

1. The number of personnel years assigned to DRA and a comparison of the staffing levels for a five-year period.
2. The total dollars expended by DRA in the prior year, estimated total dollars expended in the current year, and the total dollars proposed for appropriation in the following budget year.
3. Workload standards and measures for DRA.

1. Number of Personnel Years Assigned To DRA – Staffing

DRA currently has 138 authorized positions.² At its peak, DRA was comprised of eleven branches with over 200 employees.³ The table below provides a comparison of projected staffing levels with staffing levels over a five-year prior period.

DRA Staffing

Fiscal Year	Total DRA Staff	Explanation
2004/05	121	<ul style="list-style-type: none"> • 2 positions re-assigned to other CPUC divisions.
2005/06	122	<ul style="list-style-type: none"> • 1 position added to the Water Branch.
2006/07	133	<ul style="list-style-type: none"> • 1 chief counsel position and 10 staff positions added.
2007/08	133.5	<ul style="list-style-type: none"> • 1 limited term position expired 12/31/07 and 1 permanent position added.
2008/09	138	<ul style="list-style-type: none"> • 4 positions added to Water Branch and 1 added to energy for Greenhouse gas issues

DRA is composed of professional engineers, auditors, economists, and financial and policy analysts who are experts in regulation of the electric, natural gas, telecommunications, and water industries in California.

¹ This report is submitted in compliance with Section 309.5 (f) and (g) of the Public Utilities Code.

² Except for the Chief Counsel position which was authorized by Senate Bill 608, the CPUC Legal Division assigns attorneys to support DRA’s staff in litigation matters. These attorneys technically are not members of DRA’s staff although the cost for legal resources is included in DRA’s budget.

³ In 1984, the CPUC created DRA, formerly known as the “Public Staff Division” in a reorganization plan to more efficiently use staff resources. In 1996, SB 960 (Chapter 856, Statutes of 1996) renamed the DRA the “Office of Ratepayer Advocates (ORA)”, and while keeping DRA within the CPUC for mutually beneficial purposes, made it independent with respect to policy, advocacy and budget. SB 960 also made the DRA Director a gubernatorial appointment subject to Senate confirmation. In 1997, the CPUC implemented its reorganization plan (“Vision 2000”), which significantly diminished the staff of DRA, but the division’s responsibilities and workload remained the same. In 2005, SB 608 (Chapter 440, Statutes of 2005) renamed ORA as DRA and strengthened the division by providing it with autonomy over its budget and staffing resources and by authorizing the appointment of a fulltime Chief Counsel.



Currently, DRA has five branches: the Communications Policy Branch (16 staff); the Water Branch (36 staff); and three energy branches. The energy branches are Energy Cost of Service & Natural Gas (35 staff), Electricity Planning & Policy (20 staff), and Electricity Pricing & Customer Programs (20 staff). The Administrative Unit, headed by the Director contains 11 staff members.

2. *The Total Dollars Expended By DRA in Pervious Years, Estimated Total Dollars Expended in the Current Year, and Total Dollars Proposed for appropriation in the Following Budget Year.*

DRA Budget

Fiscal Year	Total Direct Dollars Including Reimbursable Contracts ⁴	Total Direct Dollars Plus Legal and Administrative Support
2005/2006	\$16,718,000	\$22,296,000
2006/2007	\$18,308,000	\$24,918,000
2007/2008	\$18,608,000	\$25,242,000
2008/2009	\$19,904,850	\$26,778,000
2009/2010	\$20,790,850 Proposed	\$27,664,000

DRA develops its budget then works with the CPUC to ensure the Division has sufficient resources, including attorneys and other legal support for the effective representation of consumer interests.⁵ DRA’s Budget is statutorily designated as a separate account into which monies are annually transferred in the annual Budget Act to the Public Utilities Commission Ratepayer Advocate Account, to be used exclusively by DRA in the performance of its duties. DRA’s proposed \$27.7 million budget for fiscal year 2009/2010 includes staffing, legal services, and administrative overhead. DRA’s budget is less than 1/10th of one percent of the approximately \$50 billion in revenues generated by California’s regulated utilities, and represents a small fraction of the savings DRA brings to Californians in the form of lower utility rates and avoided rate increases.

⁴ The DRA annual budget includes an authorization for “reimbursable contracts,” the costs for which DRA is reimbursed by the utility. For FY2009-2010, the proposed amount is \$4,035,000. Actual expenditures for reimbursable contracts occur only if there are proceedings that allow for reimbursable contracts. Examples include audits, mergers, and major resource additions such as the construction of a transmission facility for which DRA may need to contract expert consultant services to assist DRA in analyzing the utility request or application.

⁵ Public Utilities Code Section 309.5 (c): “The director shall develop a budget for the division which shall be subject to final approval of the commission. In accordance with the approved budget, the commission shall, by rule or order, provide for the assignment of personnel to, and the functioning of, the division. The division may employ experts necessary to carry out its functions. Personnel and resources, including attorneys and other legal support, shall be provided to the division at a level sufficient to ensure that customer and subscriber interests are effectively represented in all significant proceedings.”



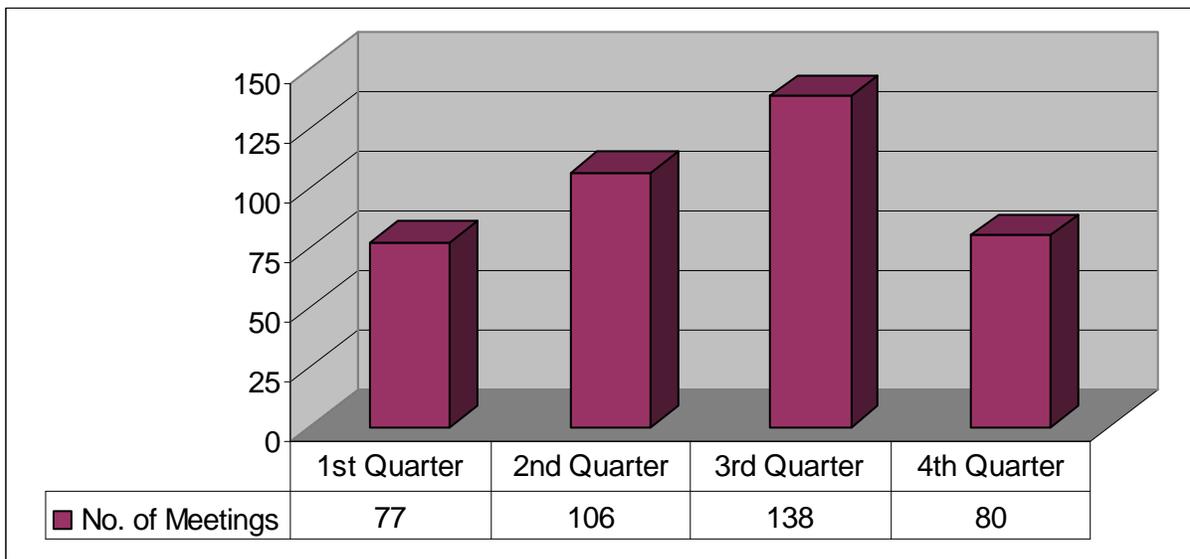
3. Workload Standards And Measures for DRA

In past reports, DRA has measured its workload in two ways:

- The number of proceedings⁶ DRA participates in on behalf of ratepayers.
- The number of pleadings⁷ filed by DRA before the CPUC each year.

DRA is also developing measures to improve the quality of its work product and increase the effectiveness of its advocacy efforts. In this regard, DRA has increased its lobbying efforts in connection with CPUC proceedings. Figure 1 shows the number of CPUC-related lobbying contacts by DRA throughout 2008, an increase of 53% from the 2007 lobbying efforts.

Figure 1: CPUC-related lobbying by DRA in 2008⁸



In 2008, DRA participated in 185 formal CPUC proceedings. These numbers do not reflect the greater complexity of the issues being addressed by DRA in omnibus proceedings addressing greenhouse gas emissions, renewable resource development, telecommunications deregulation, water conservation, and other major initiatives. In addition, DRA is often the only voice representing consumer interests in a number of these proceedings. Since the CPUC relies on a formal evidentiary record in rendering its decisions, DRA’s participation is essential to ensure that the CPUC has a record that reflects the interests of California consumers. The following Figures 2 and 3 depict the number of formal CPUC proceedings in which DRA participated in comparison to 2007 and by industry group in 2008, respectively.

⁶ A proceeding before the CPUC is a formal case in which a legal record is developed. It may include an evidentiary hearing with the opportunity to cross-examine witnesses.

⁷ A pleading is a legal document filed in a formal proceeding before the CPUC. The CPUC conducts proceedings regarding a wide variety of matters such as applications to raise rates, CPUC investigations, CPUC rulemaking, or complaint cases. In a typical proceeding, pleadings filed by DRA might include a protest to a utility application, a motion for evidentiary hearings, opening and reply briefs, and opening and reply comments on a proposed decision, CPUC rulemaking, or CPUC investigation.

⁸ This Figure reflects the number of meetings between DRA representative and CPUC Commissioners or their Advisors.



Figure 2: Number of Formal Proceedings in which DRA participated in 2008 = 185

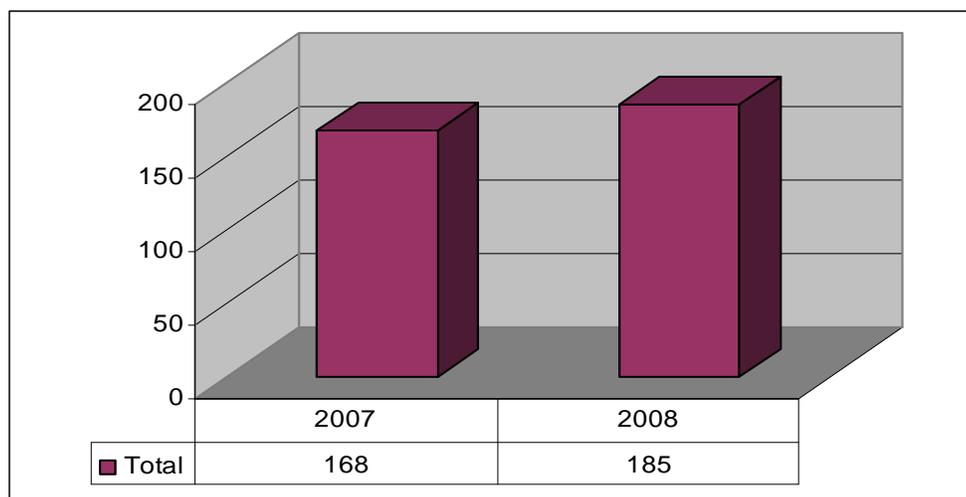
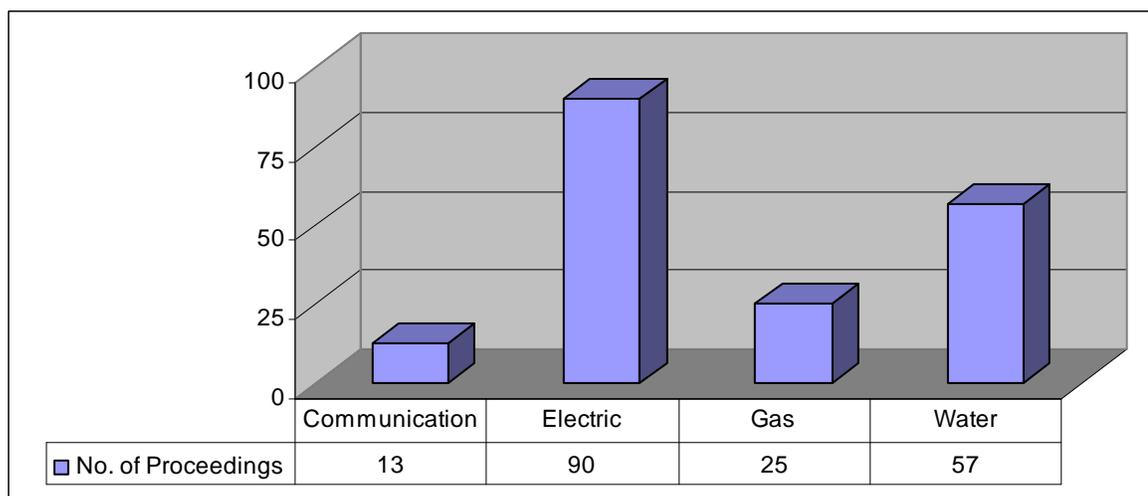


Figure 3: Number of Formal Proceedings in which DRA Participated by Industry Group in 2008



DRA staff and attorneys file hundreds of pleadings annually on behalf of customers covering issues related to electricity, natural gas, communications, and water. In 2008, DRA filed 769 pleadings in formal CPUC proceedings. The following Figures 4 and 5 depict the number of pleadings DRA filed in comparison to 2007 and by industry group in 2008, respectively.



Figure 4: Total Number of Pleadings filed by DRA in 2008 = 769

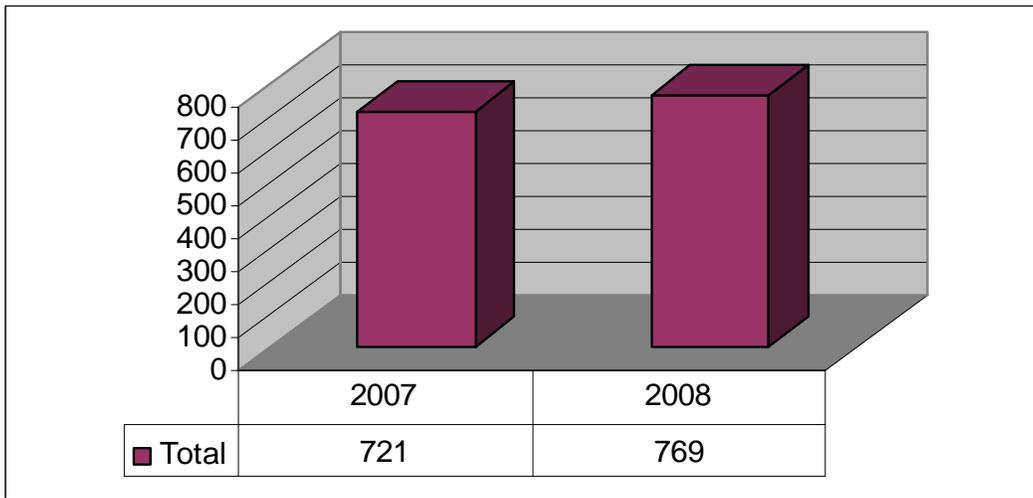
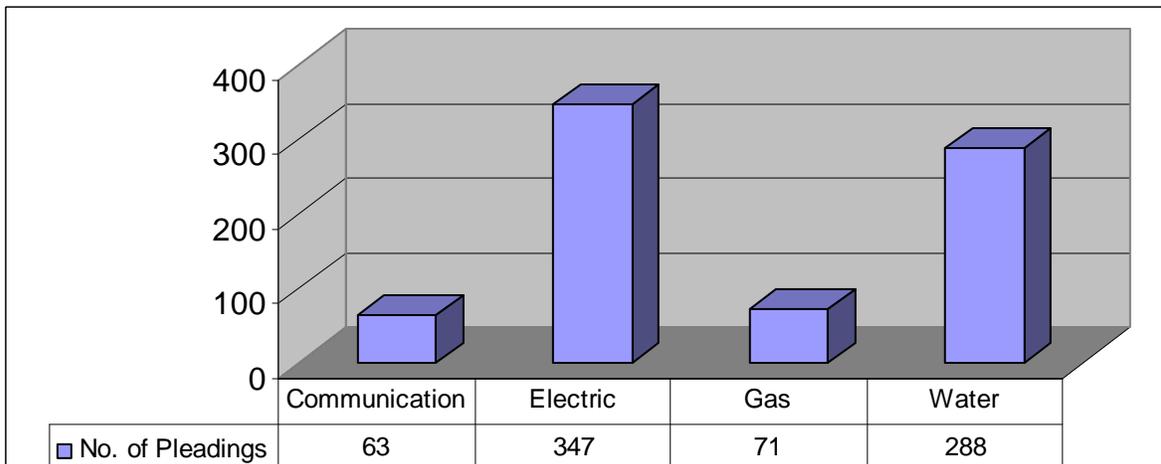


Figure 5: Number of Pleadings DRA filed by Industry Group in 2008



DRA also participates in numerous informal proceedings (not depicted in the foregoing graphs) before the CPUC in which utilities often seek authority via an “Advice Letter” process to undertake certain actions, which may have significant impacts on ratepayers. Utility requests via Advice Letters are typically authorized by a Commission decision adopted in a formal proceeding which sets certain parameters for determining whether the Advice Letter request is valid and should be granted. Beyond its participation in formal and informal CPUC proceedings, DRA has become an active participant in proceedings at the California Energy Commission and the California Independent System Operator. DRA also provides consumer representation in other forums related to the CPUC’s proceedings such as meetings to review utility procurement decisions, low-income oversight boards, telecommunication public policy committees, industry committees of the National Association of State Utility Consumer Advocates and the Pacific Forest and Watershed Stewardship Council.



DRA Lobbying before the Legislature



In addition to our efforts before the CPUC in San Francisco, DRA's workload also consists of actively participating in the Legislative and Budget Processes by working directly with the Governor's office, Legislature, Department of Finance, Legislative Analyst's Office and other related entities. DRA carries out its statutory mission to represent residential and small commercial public utility customers by providing Member-offices with technical legislative and constituent assistance, taking positions on bills, testifying in Informational and Bill Hearings and by participating in working groups. DRA does this by maintaining a full-time presence in Sacramento.

DRA worked directly with Member-offices and testified in Bill Hearings on the following consumer protection issues:

- Telecommunication subscriber privacy - Supported - **AB 2385 (Ruskin), AB 3011 (Huffman), SB 1423 (Kuehl)**
- Basic telephone service availability, affordability and quality – Supported - **SB 780 (Wiggins)**
- Telecommunication company mergers – Opposed - **SB 1389 (Padilla)**
- Electric and gas utility bill user-friendliness – Supported - **AB 1763 (Blakeslee)**
- Utility bill payment locations housed in convenient and safe locations – Supported - **AB 2511 (Salas)**
- Expanding low-income utility program efforts – Supported - **AB 2857 (Lieber)**
- Ensuring existing power contract modifications are just and reasonable – Supported - **AB 3058 (U&C)**

DRA has participated in Informational Hearings on the following issues to ensure consumer utility rates are reasonable and utility service is safe and reliable:

- California Solar Initiative
- Renewable Portfolio Standard
- Direct Access
- Transmission Costs
- Greenhouse Gas Emissions

DRA actively participated in many working groups that were formed to tackle the more controversial issues. Below are working groups DRA participated in to ensure protections for residential customers:

- AB 1X Reform
- Renewable Portfolio Standard Acceleration

Furthermore, DRA drafts and develops its own budget and advocates for it before the Governor's office, Legislature and Department of Finance.



Communications Policy Branch

16 Staff members

Program Manager: Denise Mann

Supervisors: Natalie Billingsley
MaryJo Borak



Introduction

In 2008, technological and regulatory changes dominated the telecommunications landscape in California, resulting in more and more telecommunications offerings for consumers. While technological advancements underscore the State's progressive leadership, these options introduce consumers to an increasingly sophisticated, expensive and confusing market. The CPUC has continued down its chosen path of deregulation, eliminating the last price controls on essential residential telephone services, leaving consumers vulnerable to price increases during the unsettling financial future. In this new deregulated environment, DRA continues to advocate on behalf of consumers. In 2008, DRA deterred AT&T and Verizon from issuing unreasonable and voluminous service agreement contracts and prevented the companies from removing tariffs which regulated their disclosure practices. In addition, DRA is dedicated to preserving the rights of Californians who require assistance in the use of telecommunications equipment and to ensuring consumer safety through reliable and sustained equipment operation in the event of emergencies.

DRA Communications Policy staff remains hopeful about sees the long-term benefits of its work. In 2008, DRA's work has:

- enabled limited English speakers to receive customer support in their native language when the company markets in those languages;
- halted AT&T and Verizon from issuing 1,000+ page service agreements that force customers to give up their basic rights;
- allowed families to obtain LifeLine discounts without going into debt before they become officially qualified;
- identified the potential for disaster if emergency back-up power systems are not required, particularly when copper loops are replaced by fiber optics.

Consumer Information

In this newly deregulated communications environment, consumers have much more responsibility when using and choosing services. In response, DRA provides consumer education via consumer alerts found on DRA's website. at: <http://www.dra.ca.gov/DRA/Telecom/hot/>.

DRA Successfully Challenges AT&T Abusive Marketing Practices

Thanks to DRA's advocacy work, AT&T was not allowed to eliminate customer disclosures established in Tariff Rule 12, a set of regulations designed to address previous marketing abuses by AT&T. DRA and other California consumer advocacy groups opposed the removal of the consumer protection mandate requiring AT&T to disclose its lowest cost phone services to callers before beginning marketing pitches. Following evidentiary hearings in November 2007, in which DRA Communications Policy staff testified on behalf of California consumers, AT&T was required to redesign its website to clarify service offerings and prominently display prices of all services. The Commission also required AT&T to train sales staff to disclose to new customers the prices for all services, not just more expensive products. The decision helps to ensure that customers are adequately informed of their telecommunications choices.

Victories for Persons with Limited English Proficiency

In 2008, DRA effectively advocated on behalf of non-English and limited English speaking consumers in the Limited English Proficiency (LEP) proceeding, seeking to establish rules to protect these customers who may be more susceptible to fraud and deceptive marketing. In 2008, DRA Communications Policy branch built upon successes of the previous year -- in which staff convinced the Commission to require service providers marketing in languages other than English to provide customer support in those languages as well -- and joined other



consumer groups to successfully lobby the Commission to require additional LEP consumer protections. New protections include requirements that LEP complaints are published on the Commission's website and that a statewide survey is conducted in 2009 to determine if LEP customers are receiving adequate service and service quality.

DRA Challenges CPUC's Final De-Regulation of the Communications Market

In August 2006, the Commission declared California's communications market competitive and decided to cease using its regulatory authority over rate-setting. DRA disagrees and firmly believes that some level of rate regulation is needed to protect consumers. Consequently, DRA filed a petition requesting that the Commission reconsider its conclusion that there is no need for ongoing price controls for basic residential service. DRA based its request on a report it produced, "*Report on Rate Increases*," which demonstrated aggressive price increases for ancillary services by AT&T. In its November 2008 "High Cost Fund B" decision, the Commission authorized the elimination of all remaining rate caps on stand-alone residential telephone service, but DRA successfully advocated for a two-year transition period to mitigate the potential "rate shock" from sudden price increases. DRA convinced the Commission to conduct a statewide study to determine the affordability of basic services from consumers' perspectives. The Commission has approved conducting the study, contingent upon the Legislature authorizing funding to do so in the 2009-2010 fiscal year. If the Commission continues to rely upon its vision of a competitive phone market, DRA remains concerned that stand-alone basic service will become too expensive for the working poor to afford, as the two-year transition period is only an interim solution. DRA also believes that stand-alone telephone service may vanish as the market provides less and less incentive to continue providing it and phone companies increasingly

advertise expensive multimedia bundles. It is DRA's position that California consumers are entitled to affordable telephone options, including basic landline service, and should not be compelled to accept heavily marketed "bundled" service packages.

DRA Directs Attention to Critical Emergency Back-Up Power System Needs

Assembly Bill (AB) 2393 required the Commission to better prepare for large-scale emergencies, specifically by evaluating the status of telecommunications back-up power and emergency notification systems. DRA believes that California must maintain reliable means of communication during catastrophic events. Californians and the companies serving them need to have well-organized plans and efficient standards to protect crucial communications infrastructure. DRA disagrees with the Commission's recent decision to allow telephone companies to replace highly reliable copper loops with fiber optics without notifying customers. Copper loop systems are not dependent on the uninterrupted flow of electricity to maintain telephone service. Unfortunately, fiber-optic cable *is* dependent on electricity, and requires a source of back-up power in the event of a power outage. In response to the Legislature's request, DRA has successfully convinced the Commission to extend the Emergency Back-up Power proceedings and hold a series of workshops. DRA remains committed to advocating for the safety of all Californians by ensuring that communication systems will be in place and functional in the event of an emergency.

DRA Convinces Commission to Review AT&T's and Verizon's Incomprehensible "Service Agreements"

In August 2008, AT&T and Verizon began changing the way they establish and communicate the rates, terms, and conditions of



their service offerings for residential customers. These rates, terms, and conditions were previously contained in “tariffs”, documents that are reviewed and approved by the Commission. The companies are substituting “Service Agreement” contracts with their customers for the tariffs and Advice Letters they previously filed with the Commission. In 2008, DRA protested these service agreements, which severely limited consumer rights to notice of service and rate changes and took away most consumer legal remedies. This allowed AT&T and Verizon to impose any terms they may choose. Both AT&T’s “Service Agreement” and Verizon’s “Product Guide” exceeded one thousand pages. DRA Communications Policy staff have adamantly opposed both AT&T’s and Verizon’s attempts to limit customer rights by threatening to terminate service if customers do not agree to these confusing and ambiguous contracts. As a result, the Commission agreed to suspend AT&T’s “detariffing” Advice Letter filings, pending further review and Verizon agreed to change its “Product Guide” to be more accessible and comprehensible. These contracts exemplify recent industry trends, resulting in less consumer choice and fewer protections.

DRA Acts as Watchdog to Improve Broadband Development Grant Process

In response to the California Broadband Task Force’s report to the Governor and Legislature, the Commission voted unanimously to implement the California Advanced Service Fund (CASF). The CASF is a two-year, \$100 million program funded by consumer surcharges aimed at promoting broadband service in unserved and underserved areas in the state. DRA supports universal broadband, but believes that the current funding mechanism is flawed. DRA supports a more equitable, efficient and broadly-funded program in which taxpayers fund broadband build-out in unserved and underserved areas, but do not subsidize wealthy communities. During the CASF development process, DRA advocated for a “low-income”

standard to focus funds on communities in need and not on lucrative markets. Six applications serving 1,300 previously unserved Californians have received funding. The CASF has so far the carrier participation or ubiquitous coverage projected at its inception. DRA advocated for an accelerated and transparent approval process as well as greater participation by non-dominant carriers. DRA continues to monitor the CASF program and applications to achieve the Legislature’s objective of statewide high-speed connectivity and infrastructure development for Californians in need.

DRA Advocacy Removes Significant Barriers to LifeLine Participation

The California LifeLine Telephone Program was adopted by the Commission to provide discounted basic residential telephone services to low-income households. Beginning July 1, 2009, LifeLine applicants will no longer be able to receive discounted rates until they have been determined eligible by a third-party certifying agent. DRA views the gap between applying and being deemed eligible as a barrier to low-income households that lack funds for up-front costs such as installation fees and deposits. DRA successfully advocated for several safeguards that the Commission adopted. As a result of DRA’s advocacy, LifeLine applicants who are deemed eligible will be given a choice between receiving automatic refund checks or credit for undiscounted payments made during their qualification review period. Additionally, the Commission will require carriers to inform LifeLine applicants that they have the option of utilizing payment plans for up-front charges. DRA also persuaded the Commission to keep the LifeLine proceeding open to allow the Commission’s Communications Division to monitor the implementation of pre-qualification. These new measures will mitigate any barriers to LifeLine enrollment by customers that the movement to prequalification, rather than self-certification, might cause.



DRA Working to Make Video Franchising More Effective and to Preserve Public Television

In 2006, the Digital Infrastructure and Video Competition Act (DIVCA) authorized the CPUC to approve statewide franchises for cable television services. The stated goal of the Act is to increase the competitive choices for video and broadband services to all Californians. DRA lobbied to incorporate consumer protections into DIVCA such as anti-redlining provisions, and has taken a proactive role in lobbying the Commission on stakeholder issues.

Last year DRA: (i) initiated and facilitated discussions between local governments and video service providers to standardize a franchise fee remittance form,(ii) instituted monitoring of cable companies' compliance with consumer protection and customer service franchising requirements, and (iii) partnered with cities and community media centers to lobby to continue the provision of Public, Education and Government (PEG) program channels, an important community television resource.



Energy Cost of Service & Natural Gas Branch

35 staff members

Program Manager: Mark Pocta.

Supervisors: **Marty Lyons**
 Ramesh Ramchandani
 Clayton Tang
 Jim Wuehler



DRA Proposals Contribute To Significant Ratepayer Refunds By Sothern California Edison

On September 23, 2008, the Commission issued its decision "Regarding Performance Based Ratemaking Finding Violations of PBR Standards, Ordering Refunds, and Imposing A Fine" pertaining to its investigation of Southern California Edison (Edison). Under the terms of Performance Based Ratemaking (PBR) certain Edison employees and management were entitled to bonus payments funded by ratepayers upon achieving certain goals set in the PBR standards. The Commission concluded that Edison violated the Public Utilities Code because its employees and management manipulated data that would have evidenced achievement of PBR goals over a seven year period. This fraudulent data was used to determine PBR customer satisfaction rewards, health and safety rewards, and revenue for Edison's Results Sharing program, all of which were included in customer rates. The decision ordered Edison to make refunds to its ratepayers totaling \$80.7 million; to forego \$35 million in requested PBR rewards not previously awarded to Edison; and imposed a fine of \$30 million. A breakdown is as follows:

REFUNDS

Results Sharing	\$ 32,714,000
Customer Satisfaction	\$ 28,000,000
Health & Safety	\$ 20,000,000
Total	\$ 80,714,000

Forego Requested Rewards

Customer Satisfaction	\$20,000,000
Health & Safety	\$15,000,000
Total	\$35,000,000

FINE **\$ 30,000,000**

GRAND TOTAL **\$ 145,714,000**
(plus interest)

The \$32.7 million refund of results sharing payments, \$28 million refund of customer satisfaction rewards and \$20 million of requested

customer satisfaction rewards that Edison must forego was based entirely upon DRA's testimony. DRA proposed that Edison refund \$88 million for results sharing while the Presiding Administrative Law Judge's Decision had found a \$76.6 million refund was warranted. Although the Final Decision reduced the amount of the Results Sharing refund proposed by DRA, it clearly recognizes DRA's evidence and recommendations regarding the matter.

Pacific Gas & Electric (PG&E) Climate Smart Program

The Internal Revenue Service approved the tax deductibility of customer contributions to PG&E's Climate Smart Program. The Climate Smart Program allows customers to make voluntary contributions (about \$5/mo above their normal monthly bill) to offset their carbon footprint. PG&E collects this money and uses it to fund green house gas reduction projects on behalf of the customer. In this proceeding, DRA initiated the recommendation that PG&E be directed by the Commission to seek tax deductibility for customer contributions to the program. The Commission agreed with DRA's recommendation and now these customer contributions are tax deductible, similar to other carbon emission reduction programs.

PG&E Recovery For Restoring Facilities Damaged By The January 2008 Winter Storms

On November 21, 2008, the Commission adopted a settlement agreement between PG&E and DRA permitting PG&E to recover \$23 million in costs for restoring facilities damaged by the January 2008 winter storms. The settlement negotiated by DRA was \$4 million less than the \$27 million that PG&E requested, based on DRA's evidence that PG&E did not demonstrate the incremental nature of the costs.



Ruby Pipeline

The Commission approved PG&E's request to contract for long-term interstate pipeline capacity on the Ruby Pipeline on behalf of its core gas customers (250 MMcfd) and bundled electric customers (125 MMcfd). DRA was a strong proponent of PG&E's request for approval of the Ruby capacity contracts which will deliver natural gas from the Rocky Mountain production basins to PG&E which will diversify its gas supply portfolio and benefit customers through lower gas prices.

San Diego Gas & Electric (SDG&E)/ Southern California Gas (SoCalGas) Biennial Cost Allocation Proceeding

On December 4, 2008, the Commission issued a decision adopting a Settlement in Phase 1 of the SoCalGas / SDG&E Biennial Cost Allocation Proceeding. DRA was a primary participant in the settlement process. The Settlement Agreement: 1) preserves the existing 79 BCF of storage inventory for core gas customers of SoCalGas and SDG&E (in contrast to reductions proposed by other parties and opposed by DRA); 2) provides core customers increases in inventory capacity amounting to 4 BCF over the next 5 years associated with new storage expansions; 3) provides wholesale customers with proportional allocations of storage capacity to serve its core requirements as proposed by DRA; and 4) adopts a favorable allocation of revenues generated through SoCalGas' unbundled storage program in accordance with the DRA litigation position:

- The first \$15 million: 90% ratepayers / 10% shareholders;
- Next \$15 million: 75% ratepayers / 25% shareholders;
- Above \$30 million: 50% ratepayers / 50% shareholders.
- Shareholders earnings capped at \$20 million annually.

- This new allocation provides higher revenues to customers relative to the prior method, which is estimated to provide \$10 million more to customers in 2008 alone.

PG&E, SoCalGas and SDG&E Joint Application for Public Purpose Programs (PPPs)

In December 2007, PG&E, SoCalGas and SDG&E filed a joint application requesting the Commission to modify the current cost allocation methodologies for California's various energy Public Purpose Programs (PPPs). These include the California Alternate Rates for Energy (known as CARE) which provides a 20% discount on gas purchases to low income customers. Specifically, the applicants requested that the various cost allocation methodologies be replaced with a single uniform cost allocation method that would reduce the amount of cost for these programs allocated to the higher volume gas purchasers (mostly large manufacturing and industrial customers) and shift those costs to residential and small commercial customers. DRA contested this application arguing that the existing cost allocation methodologies were essential to ensure that the PPP and other similar programs are adequately funded and that all customers pay their fair share to fund such programs. The November 17, 2008 Administrative Law Judge's Proposed Decision adopted DRA's recommendation and denies the utilities' joint application. The matter is pending before the Commission.

Liquefied Natural Gas

On October 16, 2008, the Commission issued a decision which determines procedures for procuring Liquefied Natural Gas (LNG) Supply. The Commission decision agreed that LNG supply should compete head-to-head with other domestic supply sources as proposed by DRA.



PG&E Gas Hedging Survey

Pursuant to a Winter Hedging Settlement approved by the Commission, DRA worked actively with the Core Hedging Advisory Group on a survey to assess the risk preference of core customers. PG&E enters into gas hedging contracts in an attempt to hedge ratepayer risk associated with high winter natural gas prices. The costs for these hedging mechanisms are funded by ratepayers. The Commission, in its decision supported a study that would “determine the dollar amount core customers might be willing to spend on hedging to mitigate the impacts of commodity price volatility.” The results of this study should be available in 2009.

Southwest Gas Exchange Fees Memorandum Account

SoCalGas requested the establishment of a Southwest Gas Exchange Fees Memorandum Account (SGEFMA) for an increase in exchange fees that PG&E sought to impose on Southwest Gas. DRA protested the increase in the exchange fee. The Commission adopted DRA’s position and SoCalGas, PG&E, and Southwest Gas were directed to continue operating under the old lower cost exchange fee agreements.

Southern California Edison Company (Edison) General Rate Case

In November 2007, Southern California Edison Company (Edison) filed its 2009 general rate case requesting an \$871 million (20.1%) increase in revenues for its electric generation, transmission, and distribution operations. Edison is also seeking revenue increases of \$288 million (5.54%) in 2010 and \$362 million (6.18%) in 2011. By contrast DRA is recommending a \$162.4 million (3.75%) increase for 2009, \$135.8 million (3%) in 2010 and \$139.9 million (3%) in 2011. The case is currently pending before the California Public Utilities Commission.

Southern California Gas (SoCalGas) General Rate Case

In December 2006, SoCalGas filed its 2008 general rate case requesting a \$139 million (8.8%) rate increase in 2008, and further revenue increases from 2009 through 2013 for its gas distribution operations. In 2008, the CPUC adopted a settlement agreement between DRA, SoCalGas, and other parties limiting SoCalGas’ rate increases to \$29 million (1.9%) in 2008 and \$52 million/year on average (3.1% annually) from 2009-2011.

San Diego Gas & Electric (SDG&E) General Rate Case

In December 2006, SDG&E filed its 2008 General Rate Case requesting a \$232 million (19.7%) rate increase in 2008, and further revenue increases from 2009 through 2013 for its electric and gas distribution operations. In 2008, the CPUC adopted a settlement agreement between DRA, SDG&E, and other parties limiting SDG&E’s rate increases to \$147 million (12.5%) in 2007 and \$43 million/year on average (3.1% annually) from 2009-2011. Approximately 85% of the rate increases are for SDG&E’s electric operations, and 15% for its gas operations.

Southwest Gas General Rate Case

In December 2007, Southwest Gas filed its 2009 General Rate Case requesting a \$9.1 million (12.2%) rate increase in 2009, and further increases averaging \$4.7 million/year (5.6%) from 2010 through 2013 for its gas distribution operations. In 2008, the CPUC adopted a settlement agreement negotiated between DRA and Southwest Gas limiting its rate increases to \$3.2 million (4.3%) in 2009 and \$2.3 million/year on average (2.9% annually) from 2010-2013, which will save Southwest Gas’ California



ratepayers approximately \$16 million over five years.

Bear Valley Electric Service Division 2009 General Rate Case

In June 2008, Bear Valley Electric Service Division filed its 2009 general rate case requesting electric revenue increases of \$6.8 million (55%) in 2009, and further increases of \$878,000 (5%) in 2010, \$391,000 (2%) in 2011, and \$315,000 (or 2%) in 2012. On December 19, 2008, DRA issued its report in this General Rate Case recommending increases of \$2.2 million (18%) in 2009, \$1.1 million (8%) in 2010, \$619,000 (4%) in 2011, and \$807,000 (5%) in 2012. DRA's proposal would save Bear Valley Electric customers approximately \$16.5 million over the four year period of 2009 – 2012. DRA also proposes that Bear Valley refund an additional \$1.5 million to its customers as a one-time billing credit due to an over collection of costs for the Bear Valley Power Plant.

West Coast Gas Company General Rate Case

The Commission approved a settlement between DRA and West Coast Gas regarding its general rate case. The settlement grants West Coast a \$202,116 (9.49%) increase in rates on January 1, 2009 which was negotiated by DRA and the utility, in contrast to the utility request of \$234,127 (11%).





Energy Pricing and Customer Programs Branch

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DRA Evaluates the Accelerated Re-opening of Direct Access:

DRA participated in the CPUC Rulemaking regarding “Whether, or Subject to What Conditions, the Suspension of Direct Access May Be Lifted Consistent with Assembly Bill AB1X.” In this proceeding, the CPUC is considering whether conditions have been met to lift the suspension of competition in the retail electricity supply market – otherwise known as “Direct Access”. In 2001, the Legislature enacted a suspension of Direct Access as part of a package of solutions to address California’s electricity crisis. In early 2008, the Commission previously determined that it does not have authority to re-open Direct Access while the Department of Water Resources (“DWR”) still supplies power under Assembly Bill 1X of 2001 (“AB 1X”). AB 1X, among other requirements instituted to address California’s electricity crisis, directed DWR to purchase electricity on behalf of utility customers. In the recently completed phase of this proceeding, the Commission sought to determine the merits and feasibility of accelerating the re-opening Direct Access by removing DWR from its role as a supplier of power.

DRA’s position is that the accelerated removal of DWR from its power supplier role, i.e. accelerated Direct Access re-opening, must be based on factual evidence of ratepayer benefits. It also must be consistent with energy policy developments on electric resource wholesale market redesign, renewable power procurement, and long term procurement plans, among other considerations. In this proceeding, DRA voiced its concerns about pursuing the re-opening of Direct Access while these other important policy implementations are still in flux.

Throughout different phases of this rulemaking, DRA provided objective analyses on the cost-benefit scenarios of DWR contract re-assignment or replacement – otherwise referred to as “novation”. DRA highlighted the significant obstacles and effort required to revise

and novate DWR contracts without harming ratepayers. DRA emphasized that expedited novation of DWR contracts causes other costs to be incurred, which are not quantifiable at this time. For example, transaction costs attributable to contract renegotiation, regulatory review of replacement contracts, and circumvention around the competitive procurement process, are not factors incorporated into the net benefit estimates. Given that net benefit estimates (of accelerated removal of DWR from the power supplier role) are already highly sensitive to input assumptions, DRA voiced its skepticism regarding the Commission’s decision to move forward with a plan of action to novate all DWR contracts by January 2010. DRA will continue to actively participate in the Direct Access Rulemaking with a focus on whether proposed policy and rule changes will benefit residential and small business customers.

DRA Works Toward Streamlining Section 851 Applications

In 2008, Pacific Gas & Electric Company (PG&E) filed an application requesting that the Commission authorize a streamlined set of regulatory processes by which to consider the conveyance or transfer for conservation purposes of more than 140,000 acres of hydroelectric associated watershed land and 655 acres of its Carrizo Plains properties in San Luis Obispo County. These properties were the prior subject of a Stipulation Agreement included in the settlement of the 2003 PG&E bankruptcy proceeding.

PG&E anticipates that potentially hundreds of applications for land transfers and other associated assets will occur and was seeking a set of methodologies for streamlined processing of these Section 851 (of the Public Utilities Code) applications.

DRA participated in resolving several key issues including identification and simplification of the criteria for consideration in the Section 851 process modifications and the design of an



associated balancing account to track all related expenses.

In addition to PG&E and DRA, other parties to this proceeding included the County of Plumas, Bucks Lake Homeowners Association, and two individual property owners and finally an all party settlement was reached. A Proposed Decision was issued on October 22, 2008, that, with minor modifications, adopted the all party settlement agreement on most of the disputed issues. The agreement fulfills an obligation to effect process streamlining while assuring appropriate levels of CPUC regulatory oversight and review as each application for asset transfer occurs. A final CPUC decision adopting the terms identified in the Proposed Decision was issued on November 21, 2008.

DRA Seeks More Cost Effective Demand Response Programs in 2009-2011

DRA protested the utilities' applications (PG&E, Edison and SDG&E) for approval of Demand Response programs and budgets for the next three years. Demand Response programs allow customers to decrease energy use within a relatively short amount of time (e.g., an hour or a day) when a reduction in load is critical to the operation of the statewide electrical system. DRA's primary concern in this proceeding was that several of the proposed programs were not cost effective and the utilities' applications lacked the required level of detailed information to evaluate the programs. Correspondingly, the Commission mandated that the utilities re-submit the applications with additional information.

The Commission's schedule for evaluating the utilities' revised applications anticipates a final decision by May 2009. DRA submitted its opening testimony on November 24, 2008. In the testimony, DRA ranked utilities' programs based primarily on whether the programs will be cost effective and whether the programs will be able to integrate successfully with the California

Independent System Operator's (CAISO) wholesale markets. DRA recommended the Commission only approve programs that meet these two criteria. DRA opposed approval of several programs that had little potential to be cost-effective. DRA also recommended the Commission require utilities' to submit program updates via the Commission's informal advice letter process as many of the issues surrounding demand response cost-effectiveness and integration with the CAISO's markets are still being resolved

DRA Seeks Demand Response Program Integration with CAISO's MRTU

Most of the current Demand Response programs lack the necessary features that would allow the CAISO to fully avoid the procurement of unnecessary resources to serve load reduced by the programs. DRA has consistently argued for modifications to Demand Response program designs to align the programs with CAISO's current operations and with its Market Restructuring and Transmission Upgrade (MRTU) for wholesale markets. One recent promising outcome of DRA's advocacy is a proposed joint agreement between the CAISO, the utilities, and large industrial customers to call the "Interruptible" Demand Response programs before the CAISO declares a serious system emergency that could cause forced blackouts. An interruptible demand response program gives the CAISO or the serving utility the ability to cause a participating company to reduce load in an emergency. Triggering these interruptible programs before a serious system emergency could greatly help CAISO reduce stresses on its system during very hot weather spells and continue to provide uninterrupted service to utility customers. The programs also save ratepayers millions of dollars by avoiding building unnecessary electric generation plants. DRA is supporting several pilot proposals in the utilities' applications that would test the viability of Demand Response programs to directly participate in CAISO's proposed wholesale



markets, and thereby provide even greater value to the CAISO.

DRA Pursues Integration of Demand Response and Demand Side Management Programs

The Commission has directed utilities to integrate efforts in marketing, education and outreach to increase Energy Efficiency, Demand Response, Distributed Generation and similar demand side management (DSM) programs consistent with its vision in the Energy Efficiency Strategic Plan adopted on September 18, 2008. DRA has actively supported an integrated approach that reduces customer confusion by coordinating all DSM activities. This approach should lead to increased potential energy savings by all participating customers and would benefit all ratepayers by deferring expensive new generation and reducing green house gases (GHG). DRA will carefully evaluate the utilities' DSM integration proposals in their 2009-2011 Demand Response applications.

DRA Continues to Modernize the Electric Grid through Advanced Metering Infrastructure

Pursuant to a Commission directive, the electric utilities have filed an application to replace their meters with "smart meters" that can be read remotely and have the capability of measuring electric usage at least on an hourly basis. These multi-billion dollar "smart metering systems" have been called the "advanced metering infrastructure" ("AMI"). They will allow reduction in meter reading labor costs and the ability to offer new time-differentiated tariffs. DRA was involved in two major AMI proceedings in 2008, one with the Southern California Edison Company ("Edison") and one with the Pacific Gas and Electric Company ("PG&E").

DRA entered into a settlement with Edison to authorize it to spend \$1.634 billion (nominal direct dollars) on a new AMI system. This system

will be one of the first in the nation to allow the meter to communicate with home area networks ("HAN") using non-proprietary communications protocols. The HAN will automatically adjust electricity appliance usage depending on the price of electricity. These advanced meters also will include integrated service switches that will reduce utility operational costs involved in turning on and turning off service. The settlement provides many details that were not originally in Edison's application, about equipment related to the HAN that would be deployed concurrently with the advanced meters. Edison will provide a certain number of programmable communicating thermostats and other devices to customers free of charge with no increase in the funding that Edison requested.

PG&E's AMI application this year was for an upgrade of technology that it has already been deploying pursuant to a Commission decision in 2006. DRA opposed this application because the incremental benefits are smaller than the incremental costs. DRA has argued that the almost \$572 million upgrade is very expensive and the benefits do not justify the costs. PG&E plans to use a completely different vendor and communications technology from the original deployment. This requires PG&E to prematurely replace new advanced metering equipment. In December 2008, the CPUC issued a Proposed Decision, which authorizes PG&E to spend \$495 million on the upgrade. DRA continues to advocate for lowering this cost. Furthermore, DRA is concerned that ratepayers will continue to pay for the IOUs' costly infrastructure upgrades in addition to any technology rendered obsolete. AMI technology is in its nascent stage of development and ratepayers are bearing the cost and associated risks of this new technology while not yet receiving its benefits. DRA will continue to examine the merits of any future AMI proposals.

DRA Continues Its Rate Design Work in 2008

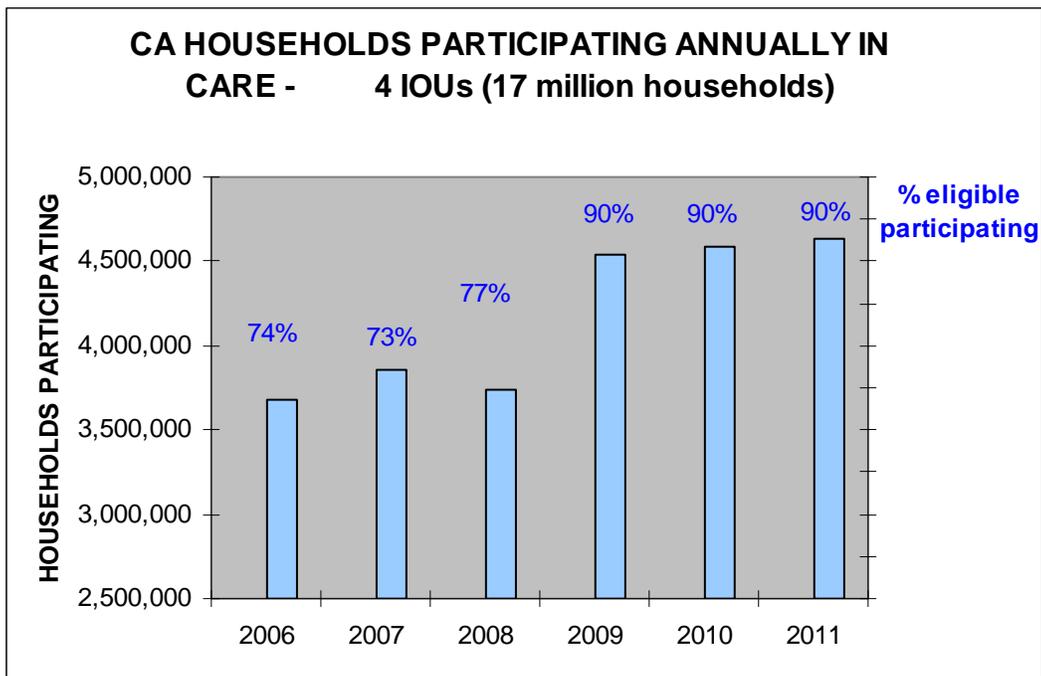
DRA has continued to work to maintain the AB 1X rate protections that prohibit rate increases



for Tier 1 - the residential baseline consumption level, and Tier 2 - the 130 percent of baseline consumption level. All residential customers are designated a minimum quantity of gas and electricity – otherwise known as “baseline quantities”, at which they are charged a lower rate. In SDG&E’s General Rate Case Phase II, SDG&E proposed to phase out these rate protections over the next eight years. DRA opposed SDG&E’s proposal in testimony, briefs, and comments on Proposed Decisions. DRA provided extensive legal analysis to help the Commission evaluate this issue.

Rate Case Phase II In this time of great economic volatility in the financial sector and energy markets, DRA recommends special caution and moderation in granting increases to revenue requirements, and further recommends small changes in the revenue allocation process. DRA thus advocates for limiting potential revenue allocation increases to customer classes to a maximum of the average increase in revenue requirements plus 2 percent. DRA has presented analysis and recommendations on marginal costs, revenue allocation, and rate design, and has negotiated a settlement, which if adopted by the Commission would resolve a substantial number of issues.

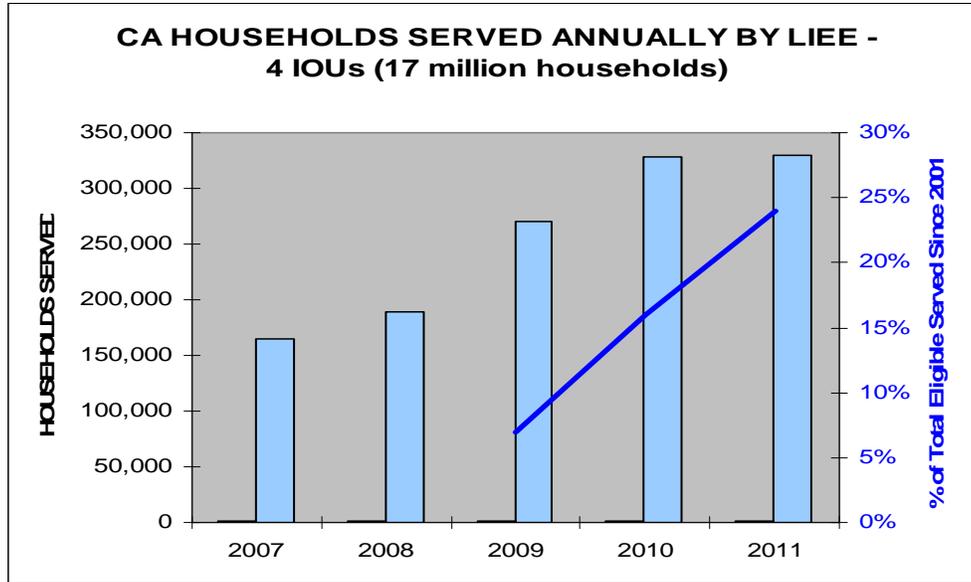
DRA is working to protect the interests of residential customers in the 2009 Edison General



DRA Impacts Low-Income Energy Assistance

DRA’s vigorous efforts on behalf of low income customers helped to expand and improve the California Alternative Rates for Energy (CARE) bill discount program and the Low Income Energy Efficiency (LIEE) program. In

November 2008, the CPUC authorized Pacific Gas and Electric Company (PG&E), Southern California Edison (Edison), San Diego Gas and Electric Company (SDG&E), and Southern California Gas (SoCalGas) to spend \$1.1 billion in 2009 to reduce low income household energy bills through discounts and energy efficiency retrofits.



The following DRA recommendations shaped the CPUC’s decision by ensuring that:

- An additional 35,000 eligible households, (which increases the total number of eligible households to 305,000) will be offered energy efficiency assessments and retrofits in 2009
- An additional 1 million eligible households (which increases the total number of eligible households to 4.7 million) will be offered the 20 percent CARE discount on energy bills
- Utilities will prioritize customers with high energy burdens (defined as those who spend more than 4 percent of income on energy) and high energy insecurity (defined as those chronically late on bills or in danger of being shut-off)
- Utilities will engage more community based organizations to assist in enrolling and serving eligible CARE and LIEE customers
- Utilities will inform all incoming customers about CARE as they sign-up for service
- Utilities will continue to provide customers with all-feasible energy efficiency measures

The Commission also issued a decision regarding the low income program applications filed by the six California small and multi-jurisdictional utilities’ (SMJUs). The decision adopted many of DRA’s

recommendations to improve the SMJU programs, including:

- Require SMJUs to offer approximately 25 of low-income homes Energy Efficiency retrofits by 2012, in accordance with the Commission’s programmatic initiative to offer
- Ensures SMJUs spend the amounts authorized on the programs in order to maximize program participation and benefits, and return any unspent dollars to ratepayers by adjusting surcharges annually.
- Increases the eligibility limits in Bear Valley’s service area from 175 to 200 of the Federal Poverty Level.

In addition to expanding and improving CARE and LIEE services, DRA advocates for programs and policies that:

- Streamline and ease enrollment in all of California’s low income utility services
- Save money through improved coordination between CARE, LIEE, and other state and federal energy efficiency programs
- Require utilities to make “Green Collar Jobs” available to California’s low income community

Each of these initiatives will continue to be pursued through the implementation of California’s Energy Efficiency Strategic Plan, which sets a laudable goal of providing all eligible



low income households energy efficiency services by 2020. DRA helped keep California's low-income customers a primary concern during the Commission's creation of a California Energy Efficiency Strategic Plan in 2008. The Plan, issued in September 2008, emphasizes the unique characteristics of low-income customers as lower energy users and more likely to be renters and live in multi-family dwellings.

In addition, DRA became one of the main drivers behind efforts to coordinate the Commission's low-income programs in the regulated industries. DRA created a Low Income Program Comparison, which illustrates the rules, administrative processes, costs, and benefits of all the CPUC's low income programs in energy, communications, and water. DRA is actively identifying areas for coordination that would ease the customer enrollment experience and save ratepayer costs.

DRA Promotes Energy Efficiency Programs Through Further Advocacy

DRA has a long history advocating on behalf of consumers in the Energy Efficiency proceeding, and is currently a key party to this pivotal

proceeding. In 2008, DRA promoted and provided guidance to the development of an integrated statewide Strategic Plan for Energy Efficiency. The Plan provides a roadmap through 2020 to statewide collaboration across jurisdictions and industries to optimize energy efficiency efforts in California and to mitigate greenhouse gas emissions. DRA also actively participated in the development of a nearly \$4 billion portfolio of investor-owned utility administered energy efficiency programs for 2009-2011, to ensure cost-effective programs that adhere to the statewide Strategic Plan. A Commission decision adopted in September 2007 established financial incentives based on how much energy is saved by these utility-portfolios. DRA has continuously advocated that these incentives should be only awarded based on an independently verified performance process. DRA's effort helped save ratepayers \$70 million dollars in the 2008 incentive claim alone. Additionally, DRA advocated for pilot programs that test whether saving water will also save energy in order to assess the potential impacts of the water-energy nexus. The pilot will likely result in key data that provide insight into the relationship of these two important resources that can benefit California on a statewide basis.



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Certificate of Public Convenience and Necessity (CPCN) for Sunrise Powerlink

DRA actively participated in San Diego Gas & Electric's (SDG&E's) application for a Certificate of Public Convenience and Necessity (CPCN) for the 150-mile, 500 kV, \$1.7 billion Sunrise Powerlink transmission project. Phase 2 testimony and hearings occurred in March and April 2008, and further workshops, final briefs, and comments on various Proposed Decisions occurred during the September – December 2008 timeframe. DRA submitted three volumes of testimony that evaluated the economic, reliability, and renewable power issues associated with the project. DRA remained concerned over the cost and need for the proposed transmission line throughout the proceeding and agreed with the findings of the Administrative Law Judge's Proposed Decision (ALJ PD) which denied the CPCN.

Consistent with DRA's position in the proceeding, the ALJ PD found that the Sunrise Powerlink is:

- Not needed to meet SDG&E's renewable portfolio standard (RPS) obligation of 20% by 2010.
- Is not economic and will potentially generate significant ratepayer costs;
- Not necessary to meet reliability need as the need for new resources does not occur until 2014.

Alternate Proposed Decisions were also offered by Assigned Commissioner Grueneich and by President Peevey. The Grueneich Alternate would have approved the CPCN, subject to verification of the development of new renewable power projects in the Imperial Valley. The Peevey Alternate would apply no such conditions. The Commission adopted the President Peevey's Alternate, and approved the CPCN for the \$1.7 billion Sunrise Powerlink transmission project on December 18, 2008.

Energy Resources Recovery Account (ERRA)

DRA reviewed the Energy Resources Recovery Account (ERRA) applications submitted by Pacific Gas & Electric (PG&E), Southern California Edison (Edison) and SDG&E for calendar year 2007. ERRA is essentially a balancing account that compares the utilities actual cost of procuring energy with the rates collected to procure that energy and ultimately reconciles the costs with rates so that rates are adjusted to equal actual costs. DRA analysis involves comparing actual expenses with forecasted expenses for a given year to ensure prudent fiscal management of energy procurement expenses. This annual review and analysis ensures efficient management of the utilities' energy procurement activities, including the least cost dispatch and cost effectiveness of their generation units. Any over-collection in revenues by the utilities from ratepayers for the energy generation and procurement activities is refunded to the ratepayers in reduced rates and any under-collection in revenues is surcharged in increased rates.

DRA also reviewed these utilities energy procurement cost estimates for the 2009 calendar year. The major cost drivers of these estimates are customer growth, load forecast, and the price of natural gas. DRA analyzed the utilities projected 2009 energy procurement costs and recognized the impact of the downward trend in natural gas prices on these forecasts. DRA will continue to monitor trends in market prices, with the objective of delivering maximum benefits to ratepayers in the form of a reduced ERRA revenue requirement and possible rebate in 2009.

Resource Adequacy (RA)

Resource Adequacy, or planning to meet system electricity load demand with sufficient resources has two main objectives: (1) to ensure that there is adequate cost-effective investment in the



electric generation capacity for California; and (2) to identify that such capacity is made available to the California Independent System Operator (CAISO) when and where it is needed for reliable system operation. In 2008 the CPUC continued revising Resource Adequacy (RA) rules, including those related to local RA. DRA and other parties contributed to this process.

The major issue in 2008 was consideration of developing a capacity market in California. A capacity market would allow utilities and other load serving entities to trade capacity – availability of generation resources, to meet peak loads. There are two main proposals to create capacity markets: (1) a Centralized Capacity Market operated by the CAISO; or (2) a Bilateral Capacity Market which would involve individual contracts traded by and between utilities and other load serving entities to sell and buy capacity. DRA supports the Bilateral Trading market, which is supported by other consumer advocates and large customers. If the CPUC adopts the Bilateral Trading proposal, DRA estimates significant ratepayer savings over the next several years. A Commission decision on this issue is expected in early 2009.

Planning Reserve Margin (PRM)

DRA is participating in a Commission Rulemaking to review and possibly modify the planning reserve margin (PRM). The Planning Reserve Margin is used for purposes of Long-Term Procurement Planning (LTPP), the process by which the utilities procure sufficient energy and capacity to meet forecasted loads. The Planning Reserve Margin is the amount of excess capacity needed above the expected load to ensure there are enough resources in the event of generation outages, extreme weather or other electric supply or distribution interruptions. This Rulemaking is expected to bring greater clarity and certainty to California's electricity market and to ensure that the LTPP and RA programs provide low-cost energy reliability. The Rulemaking is examining, among other things, the assumptions and methodology used to set

the PRM, whether to periodically recalibrate the PRM, whether to establish a single PRM that applies throughout the service territories of utilities under the CPUC jurisdiction, whether to establish separate short-term and long-term PRMs, and how best to coordinate PRM determinations with the needs of the California CAISO. A decision in this proceeding is expected in early to mid 2009.

Evaluation of New Power Procurement

DRA evaluates the price of all power procurement proposals pursued by California's investor owned utilities. Through active participation in the Procurement Review Groups (PRGs) and other related Commission proceedings, DRA weighs the cost and benefits of new resource options, comparing each to state energy policy goals such as the Renewable Portfolio Standard, current market conditions, and alternatives to generation. DRA's evaluation always seeks to ensure that the utilities energy procurement plans meet state energy policy goals in the most cost effective way.

For example, DRA effectively represented ratepayer interests as PG&E sought the Commission's approval to build a 560MW plant in Eastern Alameda, the Tesla Power Plant (Tesla). DRA recommended that Tesla be vetted through a competitive bidding process before approval. The Commission agreed with this recommendation and denied PG&E's request.

Additionally, in response to PG&E's request to raise the price of a previously approved power purchase contract with the Russell City Energy Company, DRA successfully demonstrated that the new contract would not be beneficial to ratepayers. With support from other consumer advocates, DRA successfully negotiated with PG&E and the Russell City Energy Company to secure a better deal for ratepayers, if approved. This new contract negotiation by DRA will save ratepayers millions over the life of the contract. DRA's advocacy contributed to grid reliability in



the Bay Area, which faces significant transmission constraints, while guaranteeing a lower cost to ratepayers. The Commission's decision on this matter is expected sometime in early 2009.

Greenhouse Gas (GHG) Reduction Proceedings

The GHG proceedings at both the joint CPUC and California Energy Commission (CEC) and the California Air Resource Board (ARB) ended this year. DRA actively participated in both proceedings. The joint agencies issued their final recommendations to the ARB on October 28, 2008. The ARB unanimously approved its proposed scoping plan on December 11, 2008.

The joint agencies decision incorporated DRA's observation that the ARB's scoping plan disproportionately burdened the electricity sector by requiring it to be responsible for more than 40% of the emission reductions, though the electric sector was only responsible for approximately 25% of current CO₂ emissions.

The joint commissions also adopted the distribution system for the allowance auction proposed by DRA. DRA suggested that 25% of the emission allowances be auctioned in 2012, increasing annually until 100% of the allowances are auctioned in 2017. The joint agencies recommended a similar time table, but with a 100% auction commencing in 2016.

DRA filed twenty-one pages of comments to ARB in response to the ARB's Draft Proposed Scoping Report. DRA requested that the ARB provide cost estimates for each reduction method, then create an *economic loading order* of emissions reduction strategies across all emission producing sectors. This would result in the lowest-cost reduction strategies being implemented first. DRA advocated that the ARB consider methods other than a cap and trade system for the electric sector, arguing that it may not be the most cost-effective or effective

method of emissions reduction. DRA suggested that the ARB also consider a carbon fee system.

DRA identified that implementing the 33% Renewable Portfolio Standard for purposes of reducing greenhouse gases would be more costly than a number of other emission reduction strategies available. DRA argued that a 33% standard would unnecessarily burden utilities and increase rates for consumers while other sectors would remain unregulated. DRA argued that such a standard should not be necessary in the context of a cap and trade system. A multi-sector cap and trade system should ensure that the most cost-effective reductions would be implemented first. This should result in the state meeting its GHG reduction goal without a strict renewable standard. DRA also advocated for the expansion of energy efficiency by adopting a 36,000 Giga Watt-hour Statewide Energy Efficiency Target.

Emerging Renewable Resource Program (ERRP)

The utilities are seeking to establish Emerging Renewable Resource Programs (ERRP), which are intended to bridge the gap between research and development and commercial production of new renewable technologies.

DRA has consistently supported cost-effective renewable resources. DRA's support for the ERRP was conditional on the premise that the utilities' shareholders contribute funds to the program and the Commission establishes a stronger oversight committee. DRA applauds the Alternate Proposed Decision (AD) of Commissioner Timothy Simon denying without prejudice the applications for funding by SDG&E and PG&E for \$15 million and \$30 million, respectively, for emerging renewable resource programs funding (Application 07-07-015). The AD recognized the need to minimize the rate impact of Commission activities on already burdened ratepayers and appropriately denies the Joint Application at this time without



prejudice. DRA supports a comprehensive state-wide renewable resource R&D program that avoids redundancy and waste.

DRA recommends a statewide renewable Research Development and Demonstration (RD&D) program coordinated and/or administered by the California Energy Commission (CEC) Public Interest Energy Research (“PIER”) program. This would alleviate concerns about program duplication and better focus the state’s renewable research polices. The PIER program annually awards up to \$84 million to conduct the most promising public interest energy research by partnering with RD&D organizations including individuals, businesses, utilities, and public or private research institutions. The PIER program has sponsored numerous research projects specifically related to renewable resources issues. Instead of piecemeal RD&D applications by the Investor-Owned Utilities, DRA recommends a collaborative and comprehensive effort with the PIER program to achieve cost effective renewable research and development in California.

Ensuring California's Renewable Portfolio Standard (RPS) Goals Are Achieved In The Most Cost-Effective And Meaningful Manner

DRA is the primary representative of ratepayers in renewable energy development. California's RPS is the most aggressive RPS program in the U.S. California's RPS obligates investor-owned utilities (IOUs), energy service providers (ESPs) and community choice aggregators (CCAs) to procure 20% of retail sales per year from eligible renewable sources, no later than 2010. Legislative proposals are underway to expand and accelerate renewable goals to 33% or more by 2020. DRA has actively participated in all aspects of the RPS program implementation proceeding since its inception.

In order to protect ratepayers from any unnecessary costs or overcharges in the utilities efforts to meet the RPS goals, DRA:

- Reviews RPS contracts before the commission for approval.
- Meets regularly with utilities to review their anticipated renewable resource procurement activities in order to streamline the process, thereby making it more efficient and cost-effective.
- Evaluates transmission plans and projects for renewable resource integration.
- Provides technical expertise and support for developing reliability criteria for renewable resources integration and the Market Price Referent (MPR) for support of renewable resource development. MPR is a proxy cost per kWh of fossil fueled electricity.
- Evaluates and provides technical support in workshops and rulings regarding renewable energy Feed-in Tariffs. Feed-in-tariffs are designed to encourage renewable energy development by developers are compensated at some agreed cost/price for interconnection to the statewide electric grid.

Balancing In-State Renewable Resource Development with Out of State REC's

California’s RPS was developed to decrease California's reliance on fossil fuel energy resources, promote stable electricity prices, protect public health, improve air quality, stimulate sustainable economic development, and create new employment opportunities. In an effort to ensure the RPS program continues to deliver the intended benefits to California ratepayers, DRA is a strong proponent for in-state renewable energy development. The Commission is considering whether to approve the use of tradable renewable energy credits (RECs) to increase flexibility for RPS compliance. DRA is advocating for REC safeguards and controls to insure ratepayers are



protected against potential high costs and gaming, as well as encouraging in-state renewable resource development.

Southern California Edison Company (Edison) Solar Photovoltaic (PV) Program

On March 27, 2008, Edison filed an application regarding a proposed Solar Photovoltaic (PV) program with estimated costs of \$1 billion. The program would install 250 megawatts (MW) of utility-owned PV within 5 years. DRA supports the procurement of cost-effective renewable energy and is optimistic that Utility-Owned Generation (UOG) will become an important part of the future renewable energy market in California. However, even Edison admits that its \$1 billion rooftop PV program is not competitive with renewable alternatives that are procured under the RPS program. Therefore, DRA protested Edison's application based on the fact that this project is not cost effective compared to renewable resource options available to SCE. While Edison would earn a guaranteed rate of return on this project, the ratepayers are taking on all program risks and receive no performance guarantees. DRA projected that the levelized cost of this project, \$300/MWh is 3 times the Market Price Referent (MPR), which is a proxy cost per kWh of fossil fueled electricity. Other renewables are currently available under the MPR cost. This proceeding is pending a commission's decision.

San Diego Gas & Electric Company (SDG&E) Solar Photovoltaic (PV) Program

In 2008, SDG&E also filed an application seeking authorization to implement a Solar Energy Project (SEP) over the next five years. This project would site solar photovoltaic (PV) systems on host sites with open areas and over parking lots, such as shopping malls and local governments over the next five years. The systems will have a nominal generating capacity

of 1 to 2 Megawatts (MW) and will result in up to 52 MW of utility-owned generation (UOG).

DRA's review of the application indicated that this project is 4 to 6 times more expensive than any of SDG&E's approved RPS contracts. DRA had recommended that the Commission reject SDG&E application for reasons similar to the SCE PV proposal, that there are more cost effective renewables available, and encouraged SDG&E to submit more prudent and reasonable renewable UOG. This proceeding is pending a Commission's decision.





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Water Rates and Services

DRA represents consumers by scrutinizing the costs of service of California's nine (9) large investor-owned water utilities (Utilities with over 10,000 customers). These utilities have 61 geographically separate ratemaking districts, each with its own system costs. Most of DRA's work in this area concerns applications for rate increases. In these General Rate Case applications, DRA audits the utilities' accounts and reviews past and projected expenses, revenue forecasts, cost of capital, plant additions, and rate design. In addition to advocating on behalf of ratepayers in these General Rate Cases, DRA takes an active role in broad policy projects whose outcomes will impact ratepayers and California's water resources as a whole.

DRA Keeps Water Rates Affordable for Customers Served by Investor Owned Utilities

Water affordability is a real and growing concern for many water utility customers, especially during these difficult economic times. An increasing number of California households face tough choices and real economic hardship. Water rates for basic human needs should be low enough so that those with low- or fixed-incomes will not need to curtail or eliminate other essential services to pay their water bills.

DRA carefully scrutinizes Class A (10,000 or more service connections) water utility requests for rate increases for reasonableness with a focus on keeping overall rates affordable. Water utility rates are primarily impacted by the need for water infrastructure replacement/improvement and meeting water quality standards. In 2008, the Commission adopted rate increases for San Gabriel Water Company (San Gabriel) eight districts and a rate increase for the California Water Service Company (Cal-Water). These water utilities requested increases in rates of over \$57.8 million in total.



Cal-Water Bakersfield Surface Water Treatment Facility

DRA reviewed and actively participated in these proceedings. In both rate cases DRA reached settlement agreements that reduced the requested increases to customers. In the San Gabriel Water rate case, the company's request was reduced from \$13.4 million to \$3.8 million, a 70% reduction. Based on the company's request an average customers' monthly water bill would have increased by over \$23 per month, or 28%. DRA's active participation in the case limited the average monthly bill increase to 8.1% or about \$7 per month.



DRA engineer Nihar Shab inspects a San Gabriel well pump located in Fontana, California

DRA's dedicated staff of analysts and engineers continue to effectively represent California water customers in rate case proceedings. For 2008, on a Person Year (PY) basis DRA staff was able to reduce water utilities' request for rate increases by an average of \$3.1 million per PY.



Currently, DRA is participating in general rate cases representing over 22 water utility service districts. In these cases, DRA either will be submitting testimony or has submitted the case to the Commission for a decision. The total increases in rates represented by these cases exceed \$105 million, with new rates going into effect in 2009 and 2010.

California American Water (Cal Am) requested a rate increase of nearly \$25 million or 80% for 2009. Hearings have been completed and this case is being submitted for a Commission decision.

- DRA opposed over \$60 million in proposed infrastructure that was inadequately justified and could have been phased in over a longer period of time. These costs would have significantly burdened Monterey Peninsula customers.
- DRA opposed ratepayer funding of a \$75 million seismic retrofit of the San Clemente Dam because this excessively expensive proposal would not likely receive federal environmental regulatory approval. After DRA submitted its testimony, California American Water withdrew its request.
- DRA also opposed ratepayer funding of a desalination plant in Sand City which would unfairly burden existing customers. DRA found that the proposal was a poorly negotiated public-private partnership whose improper costs should be borne by others.

Due to the significant water supply constraints in the Monterey Peninsula, over time these customers may face rate increases of up to 300% and DRA will continue to vigorously fight to ensure that future rate increases are kept to reasonable levels that support worthy projects.

DRA also was successful in obtaining a refund of nearly \$1.5 million for San Jose Water customers representing profit from the sale of San Jose Water's office building. The Commission found in this case that ratepayers were entitled to 100% of the profit from the sale of the office building, because the building continues to be

used and useful, and was considered depreciable property under the Commission's rules.

DRA and Water Utilities Complete the Process of Establishing Low Income Rate Assistance Programs

DRA has worked with water utilities to establish and improve upon existing low-income water rate assistance programs to increase affordability of water among qualifying low-income residential customers. As of 2008, all nine large (Class A) water utilities have implemented low-income assistance programs.

- DRA reached a settlement with Suburban Water Company on a low-income ratepayer assistance program, adopted by the Commission in 2008.
- DRA reached a settlement with California American Water Company to enhance and expand its existing low income rate assistance program in the Monterey District. This program will provide a fixed dollar discount to customers depending on the number of people living in the residence and expands the program to include customers in additional subdivisions.
- DRA is working with certain water utilities to transition from rate assistance programs that provide percentage discounts to programs that provide a specific dollar discount. This type of program provides an equal discount to all qualifying low income customers and encourages conservation because it does not reward customers who use more water by providing them a higher discount.

DRA's Efforts Leads to a Regional Water Supply Proposal in Monterey

DRA continues its participation in the Water for Monterey County coalition, a diverse stakeholder consortium that is devising less costly and more environmentally friendly supply alternatives than the desalination plant proposed by California American Water (Cal Am) at Moss Landing.



DRA initiated and funded the regional dialogues that grew into the Water for Monterey County coalition. DRA has partnered with the Center for Integrated Water Research at UC Santa Cruz and the US Bureau of Reclamation's Technical Services Center to evaluate the costs of the proposed water supply projects.

DRA's initial effort has resulted in the *Water for Monterey* coalition to develop and submit a regional plan proposal to address the water supply needs of Monterey. The proposed regional plan includes a combination of water supply solutions, such as recycling municipal waste water and storm water for agricultural and urban landscaping use, additional conservation, and desalination.

The *Water for Monterey* proposal along with Cal-Am's request to build a desalination plant are now being considered in the CPUC's California Environmental Quality Act (CEQA) review process. DRA expects the CPUC to release the Draft Environmental Impact Report by January 31, 2009.



Cal-Am's pilot desalination plant built by Acciona Angua at Moss Landing, California.

In 2009, DRA expects to conduct further analysis comparing the *Water for Monterey* regional project with California American's Coastal Water Project proposal for cost-effectiveness. As part of its Coastal Water Project application Cal Am proposes to build a desalination plant for 10,730 acre-feet per year at the estimated cost of about \$250 million or higher. California American

Water is running a pilot desalination facility at Moss Landing. The purpose of the pilot facility is to test the technologies used to transform seawater into high quality drinking water. DRA has contracted with the US Bureau of Reclamation's Technical Services Center to analyze the pilot plant data and provide recommendations on the scale of the desalination facility. In November 2008, DRA and Bureau of Reclamation staff toured the pilot facility. The pilot facility is expected to run until June 2009.



DRA and Bureau of Reclamation staff along with Cal-Am engineers inspect the company's pilot desalination facility at Moss Landing, California.

DRA Negotiates Water Conservation Rate Design and Water Conservation Programs Settlements

DRA negotiated settlement agreements to implement conservation rates and revenue decoupling mechanisms through trial programs with California Water Service, Park Water, Suburban Water, San Jose Water, Golden State Water Company, and California American Water Company. The Commission adopted these agreements in 2008. Additionally, in 2008, DRA negotiated settlement agreements to implement cost-effective conservation programs such as rebates for water saving devices with Park Water Company, San Gabriel Valley Water Company, and California American Water Company.



In particular, DRA negotiated a settlement with California American Water Company's Monterey District regarding drought response and a trial program for conservation rate design and revenue decoupling. Revenue decoupling is a ratemaking mechanism designed to eliminate or reduce the dependence of a utility's revenues on sales. This settlement prepares for drought by implementing stages of an emergency conservation plan, as well as implementing rationing and emergency conservation rates. The settlement improves equitability of rates and encourages outdoor water conservation by reducing the rate adjustment for property size; it also requires detailed reporting of data that will allow DRA to review program results and make suggestions for improvement. Furthermore, the settlement reduces California American Water Company's disincentive to conserve water.

The combination of conservation rate designs and water conservation programs included in these settlements are designed to encourage customers to conserve water as well as improve Class A water utilities' compliance with the Best Management Practices of the California Urban Water Conservation Council (CUWCC). By pursuing settlements, DRA effectively stewards valuable state water resources by avoiding litigation expenses.

DRA anticipates developing conservation rate designs for the remaining Class A water utilities in 2009, which are San Gabriel Valley Water Company, Valencia Water Company, and Great Oaks.

DRA Continues to Participate in DWR California Water Plan Update

DRA participates on the Department of Water Resources (DWR) California Water Plan Update 2009 Public Advisory Committee. DRA's participation allows it to provide input on statewide water policy issues and initiatives that may impact regulated investor owned water utilities. DWR is currently examining integrated regional water planning efforts as well as the

means to use water efficiently, protect water quality, and support environmental stewardship. DRA is exploring ways the CPUC can implement similar goals for investor-owned utilities while keeping water rates affordable.

New DRA Auditor Positions will Allow for Closer Review of Water Utilities' Financial Records and Operations

In the 2008-2009 State Budget, the Governor authorized DRA three financial examiner positions. With these new auditing positions DRA will be able to meet the Commission's mandate under Public Utility Code Section 314.5, which requires that water utilities be audited at least every three years or during a general rate case proceeding. Performing regulatory audits of water utilities is essential to assuring that:

- Rates charged for water service are reasonable.
- Accurate information is being provided to the Commission in general rate cases
- Risk associated with undetected inappropriate utility practices is minimized.
- Regulated companies are not subsidizing unregulated affiliates.