



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 Deputy Directors are Aaron Johnson, who oversees energy issues, and Cynthia Walker, who oversees water and communication issues. In 2007, DRA hired its first Chief Counsel, Andrew Ulmer. DRA is currently recruiting a Policy Advisor who will oversee 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 2007 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 133 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
2003/04	123	
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.

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.



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.

DRA has traditionally been divided into four branches: The Communications Policy Branch (16 staff); the Water Branch (32 staff), and two energy branches. The Administrative Unit, headed by the Director contains 11 staff members. As of December 2007, as a result of the extremely heavy and increasingly complex workload in the energy area, including proceedings to decrease dependence on fossil fuels, reduce greenhouse gas emissions, and promote energy efficiency and demand response, DRA has created a third energy branch. Beginning in January 2008, the energy branches are Energy Cost of Service & Natural Gas (35 staff), Electricity Planning & Policy (20 staff), and Electricity Pricing & Customer Programs (20 staff).

2. *The Total Dollars Expended By DRA in the Prior Year, 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
2004/2005	\$16,286,000	\$21,819,000
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	\$19,893,000	\$26,778,000

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

⁴ The DRA annual budget includes an authorization for “reimbursable contracts,” the costs for which DRA is reimbursed by the utility. For FY2008-2009, the proposed amount is \$3,910,000. 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.”



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 \$26.7 million budget for fiscal year 2008/2009 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.

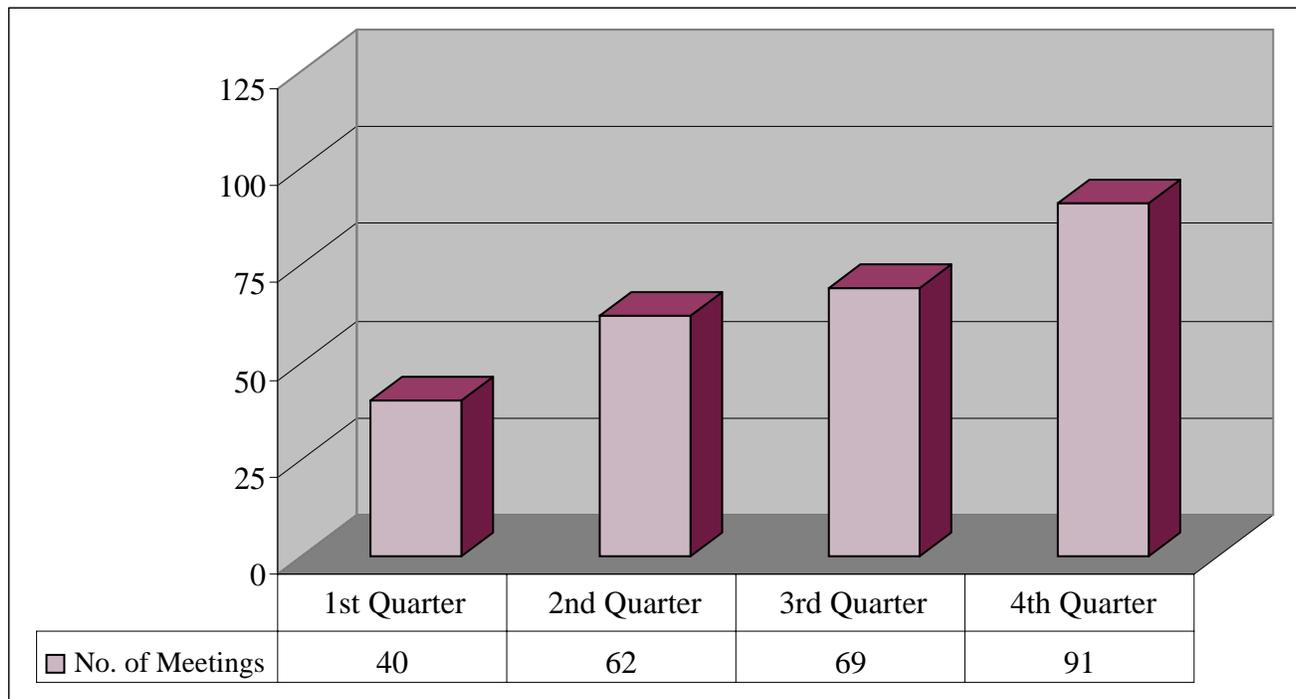
3. Workload Standards And Measures for DRA

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. The following Table 1 depicts an increase in CPUC-related lobbying activity by DRA throughout 2007.

Table 1: CPUC-related lobbying by DRA in 2007⁸



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, 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.

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



In 2007, DRA participated in 168 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 Tables 2 and 3 depict the number of formal CPUC proceedings in which DRA participated in comparison to 2006 and by industry group in 2007, respectively.

Table 2: Number of Formal Proceedings in which DRA participated in 2007 = 168

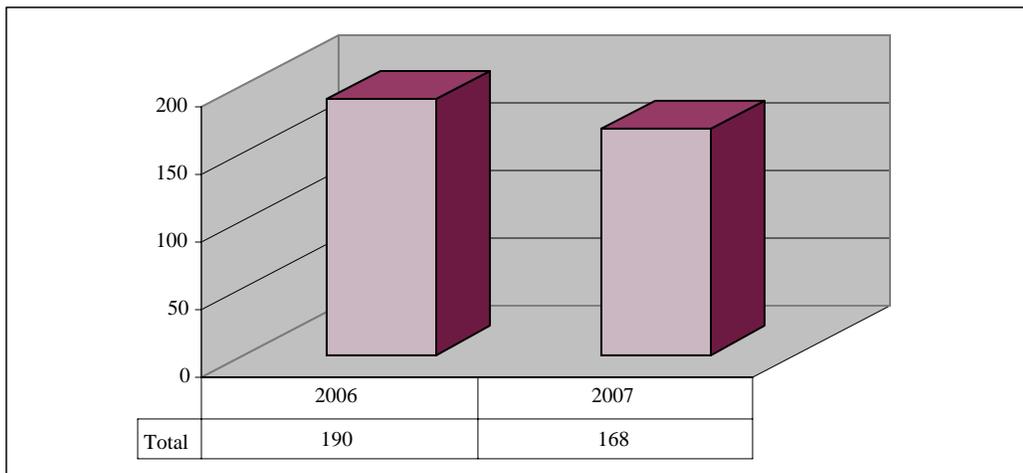
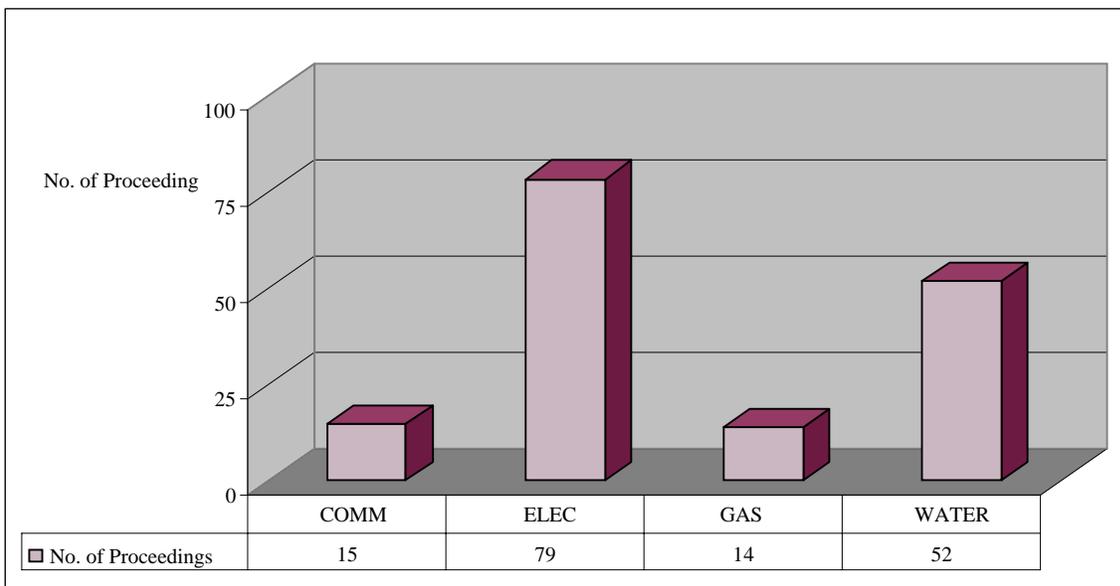


Table 3: Number of Formal Proceedings in which DRA Participated by Industry Group in 2007





DRA also participates in informal proceedings (not depicted in the foregoing graphs) before the CPUC in which utilities often seek via authority to undertake certain action, which has a significant impact on ratepayers. Beyond its participation in formal and informal CPUC proceedings, DRA has become an active participant in proceedings at the Legislature, 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, telecommunications public policy committees, industry committees of the National Association of State Utility Consumer Advocates, the Western Electricity Coordinating Council and the Pacific Forest and Watershed Stewardship Council.

DRA staff and attorneys file hundreds of pleadings annually on behalf of customers covering issues related to electricity, natural gas, communications, and water. In 2007, DRA filed 721 pleadings in formal CPUC proceedings. The following Tables 4 and 5 depict the number of pleadings DRA filed in comparison to 2006 and by industry group in 2007, respectively.

Table 4: Total Number of Pleadings filed by DRA in 2007 = 721

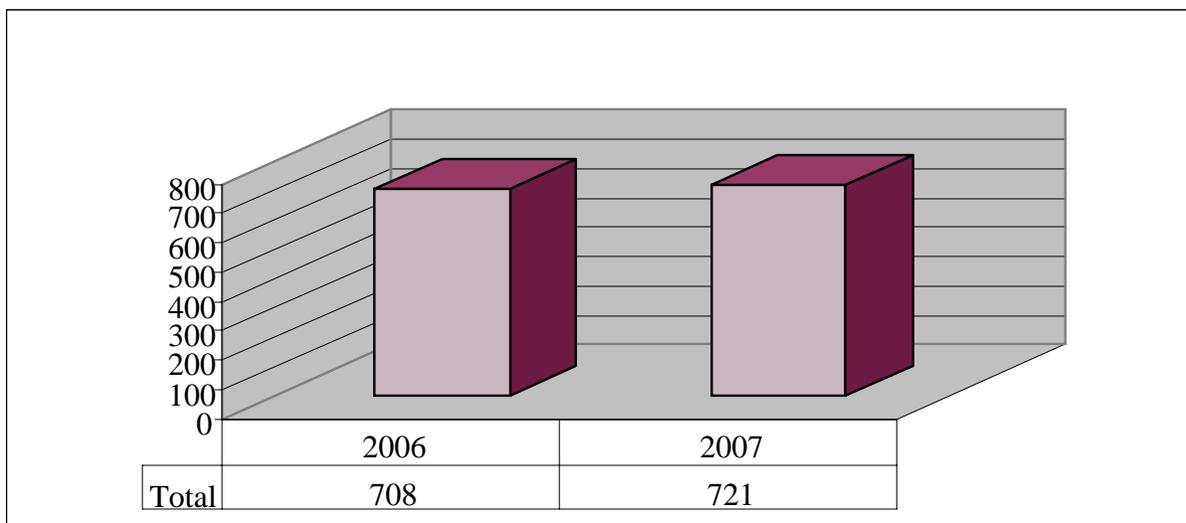
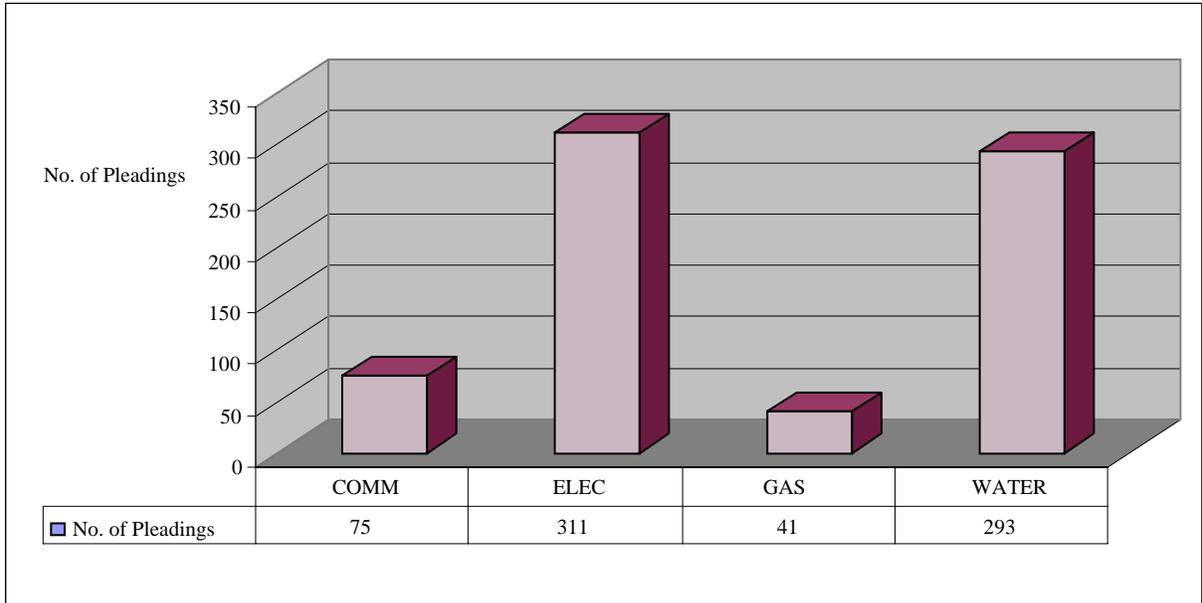




Table 5: Number of Pleadings DRA filed by Industry Group in 2007



The remainder of this report contains chapters highlighting the accomplishments by each of DRA's branches over the last year.



Communications Policy Branch

The Communications Policy Branch consists of 16 staff members. The Program Manager is Denise Mann.



DRA's Role in a Changing Communications Landscape

Two large national telecommunications mergers, the CPUC's new statewide video franchising authority, and the deregulation of telephone services within the state have dramatically changed the communications landscape in California in the last three years. AT&T and MCI were acquired by the two largest incumbent local exchange carriers, SBC (the "new" AT&T) and Verizon, respectively. These companies are now actively expanding into other markets such as internet access, VoIP (voice over internet protocol), and video services. The mergers were followed by the CPUC's decision to eliminate virtually all rate regulation of telephone service in California (except for small, rural telephone companies). In this new technological and regulatory environment, DRA continues to advocate on behalf of consumers so that they obtain the services and information necessary to make informed choices. In addition, DRA advocates for improvements in the quality of service and protections against abusive or misleading marketing practices.

DRA Advocates on Behalf of California's Most Vulnerable Populations

DRA actively participates in communications public policy programs. DRA serves on the committees or advisory boards for the Telecommunications Access for the Deaf and Disabled Administrative Committee, the California Teleconnect Fund, the California High Coast Fund B, and California Payphones. These programs provide, for example, discounted telephone service to low income customers or specialized equipment for people with disabilities. Funding for these programs comes from surcharges on customers' phone bills. DRA participates in CPUC proceedings to review these programs in order to maintain necessary services and reduce ratepayer costs.

The CPUC is currently reviewing and determining which consumer protection rules should apply to service providers that market in languages other than English. The rules proposed by DRA include disclosure requirements for terms of service, descriptions of fraud risks, and methods for reporting complaints and customer language preferences. DRA continues to advocate for greater protections for customers not fluent in English.

DRA Protects California's Ratepayers from Corporate Abuse

AT&T Marketing Practices

DRA continues to challenge AT&T's attempts to eliminate programs meant to prevent marketing abuses. AT&T was required to develop customer disclosure requirements in response to a past CPUC Decision ordering such a program of mandatory disclosures to address past abusive marketing practices. DRA is seeking to ensure AT&T customers are adequately informed of their choices and not sold expensive packages of services that they do not want. The CPUC held evidentiary hearings on this matter in November 2007, and a decision is expected in 2008.

High-Cost Fund B (CHCF-B)/ Large Telco Subsidies for Rural/Suburban Customers

In 2007, DRA's analyses and advocacy efforts contributed to the CPUC's decision to reduce the CHCF-B by over seventy (70) percent (while preserving it in limited areas). Ratepayers are expected to save approximately \$300 million annually through a reduction in customer phone bill surcharges. The CPUC continues to review the CHCF-B to determine whether Fund monies should be used to subsidize build-out of broadband infrastructure to provide Internet access and video services. The proceeding also will update the determination of which "high-cost areas" need to be subsidized. DRA will continue to participate actively in this proceeding, seeking to further reduce



unnecessary surcharges to ratepayers and to ensure that ratepayers actually receive the benefits of any ongoing ratepayer-funded subsidies.

Verizon Audit

During 2006-2007, DRA conducted a financial and regulatory audit of Verizon's operations in California for the three year period 2002-2004. This audit was initially ordered by the CPUC as part of the New Regulatory Framework (NRF) proceeding in 2002, but subsequently deferred by CPUC order until 2006. DRA anticipates the final audit results and report will be presented to the CPUC in early 2008.

DRA Pursues Reliability Measures to Protect Service Quality

AT&T Out-of-Service Repair Intervals

As a result of an earlier DRA investigation, the CPUC required AT&T to meet certain standards in restoring service to customers on a timely basis. AT&T failed to meet those repair interval standards for a number of months in 2006. DRA argued that the CPUC should impose penalties against AT&T for its failure to restore customers' service promptly. The CPUC issued a \$900,000 fine against AT&T.

Emergency Back-Up Power/Disaster Preparedness

Assembly Bill (AB) 2393 required the CPUC to prepare for large-scale emergencies, specifically by evaluating the status and adequacy of

telecommunications companies' back-up power facilities and the system and plans for emergency notification of citizens in California. DRA is participating in the CPUC proceedings to review these plans and to ensure that appropriate standards are adopted to protect crucial communications infrastructure during catastrophic events, such as earthquakes or wildfires.

DRA implements Cable TV Franchising Law ("DIVCA")

Assembly Bill 2987 – the Digital Infrastructure Video Competition Act (DIVCA) – authorized the CPUC to issue statewide video franchises. This approach is a significant change from the issuance of cable franchises by local governments in each community. Under DIVCA, DRA represents ratepayers in connection with renewal applications for statewide licenses. DRA also advocates and enforces customer service standards, nondiscrimination requirements and build-out requirements under DIVCA. DRA is working in collaboration with local governments to ensure customer service standards are enforced.

The Program and Project Supervisors of the Communications Policy Branch are Natalie Billingsley and Mary Jo Borak.



Electricity Resources & Pricing

The Electricity Resources and Pricing Branch consists of 40 staff members. The Program Manager is Scott Cauchois.



DRA Strives to Reduce Electricity Rates

Utility Power Procurement

DRA continues to Provide Input on Utility Power Procurement

DRA actively participates in each of the Procurement Review Groups (PRGs) that oversee the power procurement activities of the three large investor owned energy utilities – Southern California Edison (Edison), Pacific Gas & Electric (PG&E) and San Diego Gas & Electric (SDG&E). DRA participation permits ratepayers to provide input on utilities’ contracting, risk management strategies, renewable energy portfolios, and natural gas hedging, as well as other procurement activities.

Ratepayers Prevail in 2006 Long-Term Procurement Plan Decision

On December 20, 2007, the CPUC approved a comprehensive set of electricity procurement policies and adopted the long-term procurement plans of Edison, PG&E and SDG&E. The CPUC adopted all of DRA's major recommendations in this proceeding, including ensuring all generators compete fairly for utility contracts, appropriate contingency reserve levels for power procurement, and improvements to procurement processes. DRA anticipates the CPUC's decision will result in savings of hundreds of millions of dollars for California ratepayers over the next ten years.

Rate Design

DRA continues to support rate design protections, including the rate caps imposed by Assembly Bill (AB) 1X of 2001 for residential usage, and limited rate increases for low income customers under the California Alternative Rates for Energy (CARE) program. In this regard, DRA has successfully negotiated a settlement

with SDG&E and other parties in the rate design phase of SDG&E's current General Rate Case, which limits the average residential rate increase and withdraws SDG&E's proposal to increase CARE rates.

Resource Adequacy

Resource Adequacy—planning to meet system electricity demand load with sufficient resources—has two main objectives: (1) ensure that there is adequate, cost-effective investment in electric generation capacity for California; and (2) identify that such capacity is made available to the California Independent System Operator (CAISO) when and where it is needed for reliable transmission grid operations.

In 2007, the CPUC considered adopting additional resource adequacy requirements, which in DRA's view would require over-procurement of generation resources and ultimately translate into unnecessary adders to consumers' electric bills. DRA and other parties made an alternative proposal based on the location and deliverability of available resources, which was adopted by the CPUC and is expected to result in significant savings in the cost of local power resources.

The CPUC is also considering the development of capacity markets in California. A capacity market allows utilities and other load serving entities to trade capacity – or the availability of generation resources to deliver energy. There are two main proposals concerning capacity markets: (1) a Centralized Capacity Market operated by the CAISO; or (2) Bilateral Trading. Bilateral Trading would involve individual contracts by and between utilities and other load servicing entities to sell and buy capacity. DRA is an active supporter of the Bilateral Trading group, which is supported by other consumer advocates and large customers. If the CPUC adopts the Bilateral Trading proposal, DRA estimates significant annual ratepayer savings over the next several years.



California Solar Initiative

The California Solar Initiative is nearing the end of its first year of a ten year program. This effort is expected to produce 3,000 MW of Installed Solar Capacity, largely on single family residences, although there will also be some multi-family and commercial building installations. During 2007, DRA participated in various activities involving implementation and administration of the program as well as mechanisms and incentives to incorporate low-income ratepayers into the overall program. DRA is focused on implementing the California Solar Initiative while finding means to reduce program costs to ratepayers.

Energy Resources Recovery Accounts

DRA annually reviews the Energy Resources Recovery Account Applications of Edison, PG&E, and SDG&E in which the CPUC approves billions of dollars for recovery in rates for activities such as utility fuel and purchased electricity costs. In these annual proceedings, DRA checks the utilities' compliance with their CPUC-approved energy procurement plans. DRA is the only entity that audits these utility applications.

DRA Supports Cost Effective Means to Reduce Reliance on Fossil Fuels

Renewable Resources

DRA supports the goal of increasing the use of renewable energy, but through efforts that produce the maximum renewable energy at the minimum system wide cost. As part of its activities in this area, DRA helps shape the utilities' renewable procurement plans. DRA also reviews proposed renewable energy contracts. Recently, DRA has participated in workshops examining how California can achieve its Renewable Portfolio Standard,

including the use of small renewable resources and tradable renewable energy certificates.

Greenhouse Gas (GHG) Reduction

California's electric and natural gas ratepayers face potentially huge rate increases from reducing GHG emission from electricity. DRA continues to participate in proceedings to implement GHG reductions both at the CPUC and before the California Energy Commission and Air Resources Board. DRA's objective is to minimize costs to ratepayers while ensuring that California's GHG reduction strategies are implemented in a manner compatible with expected regional and federal GHG reduction strategies.

Energy Efficiency

DRA Reduces Incentive Payments to Utilities

The CPUC is examining a number of energy efficiency policy efforts that will result in significant financial impact on ratepayers. These policies include incentive payments to utility shareholders for effective administration of energy efficiency programs by the utility. In other words, the utility's shareholders get what amounts to a bonus if the utility can demonstrate that customers' use of less energy is attributable to the utility's administration of its energy efficiency program. DRA's advocacy efforts have contributed to reductions in authorized incentive payments to utility shareholders and may result in savings to ratepayers of hundreds of millions of dollars.

DRA Takes Long-Term View of Energy Efficiency Programs

DRA has been instrumental in developing a long-term strategic plan that will guide energy efficiency efforts among the utilities, relevant market sectors, and state and local government agencies. DRA was successful in getting the CPUC to recognize that ratepayer investment in



energy efficiency must be balanced with long-term energy savings programs. The CPUC is now integrating various energy programs (such as energy efficiency, demand response, and r) across utility portfolios and multiple jurisdictions within California to maximize energy savings and mitigate GHG emissions.

DRA Supports Water Conservation and Energy Efficiency Pilot Programs

In December 2007, the CPUC issued a decision to fund a \$6 million pilot program to measure the impact of water conservation on energy savings. DRA actively promoted the development of a pilot program that would provide a wide variety of information on the relationship between water distribution and energy throughout California. The result was a mix of energy-water utility partnerships that will implement a wide variety of programs and studies that are expected to provide data by mid-year 2009. These programs and studies will bring a better understanding of energy and water conservation efforts across jurisdictions throughout California.

DRA Defends Low Income Participation in Energy Efficiency

DRA defends the rights of California's low-income households to participate in energy efficiency programs. DRA supports the goal of making energy efficiency measures available to every low-income residence. DRA also continues to support measures to ensure low income energy efficiency is cost effective and prudently administered. Recently, DRA successfully prevented Edison from implementing a \$22 million light bulb distribution program that lacked any cohesive administrative structure or financial oversight. In areas of low income energy marketing, DRA is encouraging the utilities subject to the CPUC's jurisdiction to work with municipal utilities to increase awareness of energy efficiency programs among low income households throughout the state.

Demand Response

DRA Seeks More Efficient Air Conditioning Control Programs

DRA continues to ensure demand response programs are good investments for ratepayers. A demand response program is one that allows a customer 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 functioning of the statewide electrical system. The customer is typically paid an incentive for participating in the program. Air conditioning control is one such program. In 2007, DRA protested a proposed program that would permit PG&E to spend over \$300 million over 14 years with no program review on an air conditioning control program that was not cost-effective. DRA negotiated a settlement with PG&E that, if adopted, will save ratepayers \$188 million and provide for a program assessment in 2009.

DRA Asks for Adoption of Ratepayer Protections in the Design of Demand Response Programs

The CPUC is reviewing and developing protocols for measuring how much load reduction can be estimated from demand response programs and ways to assess the cost-effectiveness of these programs. DRA and other parties have presented a proposal addressing multiple issues, including preventing overpayment of demand response incentives and requiring program performance and reliability measures to ensure ratepayers receive value in connection with these ratepayer-funded programs.



DRA Seeks to Maximize Ratepayer Value of Major Infrastructure Investments

Transmission Planning

During 2007, the CPUC continued its assessment of the need for the Sunrise Powerlink transmission line which SDG&E has requested authority to build in Southern California at an estimated cost of \$1.3 billion. DRA submitted extensive testimony, briefs, and participated in the four weeks of evidentiary hearings. DRA's analysis demonstrates that SDG&E does not need this facility until 2013 at the earliest rather than in 2010 as SDG&E asserts. Phase 2 of the proceeding, addressing the routing and environmental issues, is scheduled to commence in January 2008.

Advanced Metering Infrastructure

DRA has achieved significant ratepayer benefits in the area of automatic meter reading. DRA negotiated a settlement with SDG&E to add next generation enhancements to SDG&E's

advanced metering infrastructure ("AMI") residential meter design, thereby providing for long-term cost effective benefits to ratepayers. PG&E, which dismissed DRA recommendations to install the latest technology two years ago, now has amended its proposed business plan to include this technology.

The next generation of meter enhancements includes an open standard for wireless communications between the utility meter and Home Area Networks ("HAN") that will provide simple energy use information to empower consumers to conserve energy. DRA worked with Edison, PG&E and SDG&E to set the standard HAN communications protocol for California. This single open standard also will interface with programmable communicating thermostats that will be required in new buildings in California.

The Program and Project Supervisors of the Electricity Resources and Pricing Branch are Joseph Abhulimen, David Ashuckian, Christopher Danforth, and Risa Hernandez.



Energy Cost of Service & Natural Gas Branch

The Energy Cost of Service and Natural Gas branch consists of 35 staff members. The Program Manager is Robert M. Pocta.



DRA Responds to Consolidated Applications of SoCalGas and SDG&E

In response to an application filed by SoCalGas with the CPUC in 2006 requesting a \$139 million general rate case increase, DRA has recommended a rate decrease of \$68 million. In response to SDG&E's 2006 application for an electric rate increase of \$198 million and a gas rate increase of \$34 million, DRA has recommended an electric rate increase of only \$90 million and a gas rate decrease of \$4 million. During 2007, the CPUC held evidentiary hearings in these matters. A decision is expected in 2008.

DRA Settlement Saves PG&E Customers \$600 Million

In December 2005, PG&E filed its 2007 general rate case (GRC) requesting rate increases of \$394 million in 2007, \$143 million in 2008, and \$180 million in 2009, for its electric and gas distribution and electric generation operations. In 2007, the CPUC adopted a settlement agreement between DRA, PG&E, and other parties limiting PG&E's rate increases to \$213 million in 2007 (a 46% reduction to PG&E's request), and \$125 million annually in 2008-2010, which will save PG&E ratepayers approximately \$600 million over four years.

DRA's Successful Challenge to PG&E Request Saves Ratepayers \$50 Million

In November 2006, PG&E requested recovery of \$23 million in costs for 2005-2006 New Years Storms and \$39 million for the July 2006 heat storm. PG&E and DRA reached a settlement of the New Years Storm issues which allows recovery of \$12 million, or \$10 million less than PG&E requested. The agreement is pending approval before the CPUC. DRA recommended no recovery for the heat storm costs since there

was no declaration of a disaster by a competent state or federal authority. The CPUC in a 2007 decision agreed with DRA and denied PG&E recovery of \$39 million in heat storm costs.

PacifiCorp Reduces its Electric Increase by \$500,000

Based on DRA's review, PacifiCorp reduced its requested increase for electric procurement costs by approximately \$500,000. The CPUC adopted the stipulation in December 2007.

DRA Fights for Reliable Gas Supply

SoCalGas and SDG&E proposed a gas portfolio consolidation with no commensurate increase to the storage inventory for core residential and commercial customers. DRA argued that any such consolidation requires an equivalent increase in storage inventory held by the separate portfolios to assure supply reliability. The CPUC agreed with DRA's recommendation to increase the level of storage for residential and commercial gas customers, ensuring low cost gas for customers during the winter heating season.

In July 2007, the CPUC approved a revised winter hedge plan for SDG&E to guard against potentially high winter gas prices. This plan was based on a settlement agreement which incorporated specific DRA recommendations to lower SDG&E's proposed hedging budget to assure the lowest ratepayer costs for this program.

DRA Thwarts PG&E's Proposed Local Office Closures

PG&E proposed to permanently close all 84 of its front counters at local offices where customers may pay their bills and perform other essential transactions without any analysis of how many customers use those offices. DRA opposed the PG&E proposal and negotiated a settlement with PG&E which authorizes PG&E



to close only nine front counters in its service territory that have low transactional volumes and have a close proximity to other offices. Under the agreement, PG&E may not close any additional front counters for three years and may only seek to close a maximum of 20 front counters in its next GRC proceeding, and must study customer use levels before making any proposals.



Branch Retreat at Marconi Center - November 2007

DRA Pursues Lower Gas Costs for PG&E Customers

DRA Joins Gas Accord IV Settlement

DRA joined PG&E and 30 other interested parties to reach a settlement agreement pertaining to PG&E's gas transmission and storage rates for the next three years. Under the agreement, the backbone transmission and storage component of customers' rates will remain essentially unchanged through 2010, while local transmission rates will increase modestly. The CPUC adopted the Settlement on September 20, 2007.

DRA Scrutinizes Gas Hedging Costs and Operations

Pursuant to a DRA proposal, PG&E agreed to amortize a \$50 million over-collection during the 2006-2007 winter season in order to mitigate the impact of high winter gas prices on customers. In June 2007, the CPUC approved an agreement between DRA, PG&E, and other consumer advocates to implement a long-term gas hedging program to insure PG&E ratepayers against high

winter gas price spikes. Pursuant to a prior DRA proposal, PG&E revised its gas procurement incentive mechanism, which rewards its shareholders if PG&E's gas procurement costs are less than PG&E's established benchmark costs. PG&E's revision results in a \$2.7 million refund to customers.

DRA Supports Additional Pipeline Capacity

DRA negotiated an agreement with PG&E for increasing Baja Path capacity in California to match PG&E's upstream interstate pipeline capacity in order to deliver gas supplies from the Southwest United States for core residential and small commercial customers. The net benefit of this transaction is estimated at \$2 to \$5 million annually and was approved by the CPUC in July 2007.

DRA Audits PG&E's Expenditures of Proposed SMUD Annexation

DRA conducted an extensive audit of PG&E's expenditures associated with its opposition to the proposed annexation by SMUD of portions of PG&E's electric service territory in Yolo County. The report issued in April 2007 confirmed that no ratepayer funds were used by PG&E in this effort and offered proposals to assure that ratepayers are refunded for any utilization of common utility assets included within rates.

Judge's Order Agrees with DRA's Proposed Refund Related to Fraud at Southern California Edison Company

In June 2006, the CPUC initiated an investigation into the practices of Edison concerning possible violations relating to its performance based ratemaking program. This program provided for Edison shareholders to receive a reward for meeting or exceeding pre-determined performance targets. DRA recommended customer refunds totaling \$171 million because performance rewards and employee bonuses were based on data that was



manipulated and falsified by Edison. The Presiding Officer's Decision agrees with many of DRA's findings and proposes fines and refunds totaling approximately \$200 million. The matter is currently pending appeal before the full CPUC.

DRA Successfully Challenges Discounting Public Purpose Programs

On September 6, 2007, the CPUC issued a decision concluding that gas public purposes program surcharges, which include programs for low income ratepayers, energy efficiency, research and development, and demand response, cannot be discounted for specific customers. The decision adopts DRA's recommendations and ensures that public purpose programs will be adequately funded and all ratepayers groups will pay their fair share of the program costs.

DRA Efforts Reduce PG&E Request for Cost Recovery Related to Divestiture of Generation Assets

On May 3, 2007, the CPUC adopted a settlement agreement between DRA and PG&E which reduced the utility's request for recovery of \$2.5 million in transaction costs associated with the divestiture of generation assets by 50% to \$1.25 million.

DRA Assures Fair Level for Nuclear Decommissioning Costs

On January 11, 2007, the CPUC adopted two settlement agreements between DRA, Edison, PG&E, SDG&E, and other parties regarding contribution levels to nuclear decommissioning trust funds over the next three years. The adopted annual contribution levels are \$13.7 million for PG&E, \$42.2 million for Edison, and \$9.4 million for SDG&E. These settlements result in combined ratepayers' savings of \$85.8 million.



DRA Natural Gas Staff Meet with Sempra at Costa Azul LNG Plant in Baja California, Mexico.

The Program and Project Supervisors of the Energy Cost of Service and Natural Gas branch are Martin Lyons, Ramesh Ramchandani, Clayton Tang, and James Wuehler.



Water Branch

The Water Branch consists of 32 staff members. The Program Manager is Danilo Sanchez.



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 (GRC) 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 GRCs, DRA has taken an active role in several 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. 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 water utility requests for rate increases for reasonableness.

In 2007, DRA reviewed 21 ratemaking districts' GRC applications filed by water utilities. Combined these utilities asked for increases in rates of \$35.2 million. While the total magnitude of these increases may seem small in comparison to energy revenue increases, the impact per customer is usually far greater. One company, California Water Service (CWS), was seeking an increase of 22% or \$11.2 million in its Bakersfield district -- a requested bill increase of approximately \$14 per month per customer. DRA's effort reduced the requested increase by over 60% to \$4.1 million, about \$5.20 per

monthly household bill. Similarly, California American Water (Cal Am) sought an 11.2% increase in its Los Angeles district. However, as a result of DRA's efforts the final outcome of that proceeding resulted in a decrease in rates instead of an increase. DRA also was successful in obtaining a refund of nearly \$1.6 million for customers of San Gabriel Valley Water Company's Fontana District. The refund resulted from excess contamination funds collected by San Gabriel and resulted in a one-time bill credit of approximately \$37.00 per customer in 2007.

DRA and Water Utilities Establish Low Income Programs

DRA has worked with water utilities to establish a low-income water rate assistance program to help qualifying low-income customers better manage their water bills. As of 2007, eight (8) of the nine (9) large water utilities have implemented low-income assistance programs. DRA is awaiting a decision approving a low-income assistance program with the last large water utility.

DRA continues to review and evaluate the effectiveness of utility low-income rate assistance programs in each GRC. DRA has worked with other parties and the utilities to develop better outreach and enrollment methods to increase customer participation in water utility low-income rate assistance programs.

DRA Develops Creative Solutions to Assist Customers of Small Water Systems in Economically Disadvantaged Communities

DRA has negotiated creative solutions to assist customers of small water systems in economically disadvantaged communities where water affordability is an issue due to the need for significant infrastructure investment. For example, the CPUC adopted a settlement between DRA and California Water Service for a one penny surcharge on each unit of water sold



company-wide to fund a Rate Support Fund (RSF) that provides support to these types of communities.

The RSF approach provides targeted support where it is most needed, and avoids undue cross-subsidization that can result under utility district consolidation proposals. DRA has developed guidelines that the CPUC has relied on in reviewing utility district consolidation proposals. DRA guidelines seek to maintain rates based on the cost-of-service for fairness to all customers and to support the efficient use of water resources.

DRA Sponsors Regional Water Supply Dialogues on the Monterey Peninsula

In an effort to assure the most economically beneficial water service for Cal Am ratepayers on the Monterey Peninsula, DRA has partnered with the Center for Integrated Water Research at the University of California Santa Cruz (UCSC) to investigate possible cost savings for Cal Am ratepayers by taking a broader, regional approach to meeting water supply reliability needs. The goal is to develop an alternative to the large-scale and very expensive desalination plant proposed by Cal Am at Moss Landing. To accomplish this goal, DRA and UCSC have facilitated monthly meetings with stakeholders from local governments, water supply and treatment agencies, nonprofits, individual citizens, Cal Am, CWS and others. The objective of these dialogues is to achieve broad-based support among the various interested parties for a solution to supplying the water needs of the Monterey Peninsula in a cost-effective and sustainable way.



In 1995, the State Water Resources Control Board found that Cal Am was taking water from the Carmel River without a valid water right and ordered the company to develop a replacement supply. In response, Cal Am proposed to build a new dam on the river. The dam project generated intense opposition and was abandoned by Cal Am in 2003. In 2004, Cal Am requested authority to build the Coastal Water Project (CWP), a large scale desalination plant at Moss Landing and an Aquifer Storage and Recovery system to store excess winter flows from the Carmel River in the Seaside aquifer for summer use. The estimated cost of the CWP is currently \$230 million and would result in a doubling of customer rates. The Coastal Water Project is currently undergoing a CEQA review at the CPUC. The CEQA review will also look at feasible alternatives to the CWP. The Draft Environmental Impact Report (DEIR) is slated for completion in June 2008. DRA is participating in each phase of Cal Am's application.

The participants in this regional water supply dialogue have identified alternative water supply solutions including recycling municipal waste water and storm water for agricultural and urban landscaping use, additional conservation, and desalination of brackish water. Currently, the participants are working to complete the



technical and environmental studies necessary for inclusion of a regional alternative into the CPUC's CEQA review. Challenges for the participants in 2008 include working out an ownership and governance structure for the water supply elements and securing financing. DRA remains committed to this dialogue process and expects to conduct further analysis comparing the regional project to the Coastal Water Project during 2008.

DRA Negotiates Important Water Conservation Rate Settlements

In January 2007, the CPUC began an investigation to address policies to achieve conservation goals for water utilities, including conservation rates, funding for conservation activities, and water allocation. DRA has taken a lead role in this investigation because of the potential for drought conditions in California and the importance of fostering conservation while maintaining reasonable rates. The proceeding has been divided into two phases. Phase I is addressing conservation ratemaking and utility revenue risks. Phase II will address

guidelines for additional conservation programs.

DRA has been the primary voice on behalf of ratepayers in this proceeding. In addition to presenting expert witnesses on ratemaking issues, DRA has negotiated settlement agreements to implement conservation rates with California Water Service, Park Water, Suburban Water, San Jose Water, and Golden State Water Company. These settlements establish criteria, guidelines, and procedures for rates to encourage conservation. Under the settlements, the water utilities will track data that will help DRA and the CPUC analyze the effects of conservation rates.

With the adoption of these settlements, by spring 2008 water rates for the Class A water utilities will be in line with the Best Management Practices of the California Urban Water Conservation Council (CUWCC) and will provide customers with a greater incentive to conserve water.





DRA Participates 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.

The Program and Project Supervisors of the Water Branch are Diana Brooks, Mark Bumgardner, Hani Moussa and Ting-Pong Yuen.

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