



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 Deputy Directors Dave Ashuckian, who oversees energy issues, and Phyllis White, who oversees communications policy and programs and water issues, 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 positions on bills
- Updating Legislative offices on CPUC proceedings and meetings

This report provides information concerning DRA's operations over the 2009 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 140 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 the last five years.

DRA Staffing

Fiscal Year	Total DRA Staff	Explanation
2005/06	122	• 1 position added to the Water Branch.
2006/07	133	• 1 chief counsel position and 10 staff positions added.
2007/08	133.5	• 1 limited-term position expired 12/31/07 and 1 permanent position added.
2008/09	138	• 4 positions added to Water Branch and 1 added to energy for Greenhouse-gas issues
2009/10	140	• 2 positions added to energy Policy and Planning Branch for Transmission issues

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. Although these attorneys technically are not members of DRA’s staff, 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 appointee 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 full-time 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.

Currently, DRA has five branches: the Communications Policy Branch (16 staff); the Water Branch (37 staff); and three energy branches. The energy branches are Energy Cost of Service & Natural Gas (35 staff), Electricity Planning & Policy (22 staff), and Electricity Pricing & Customer Programs (20 staff). The Administrative Unit, headed by the Director, contains 10 staff members.

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

DRA Budget

Fiscal Year	Total Direct Dollars Including Reimbursable Contracts ⁴	Total Direct Dollars Plus Legal and Administrative Support
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	\$20,432,000	\$27,673,000
2010/2011	\$20,665,000 Proposed	\$27,906,000 Proposed

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 \$27.9 million budget for fiscal year 2010/2011 includes staffing, legal services and administrative overhead.

⁴ The DRA annual budget includes an authorization for “reimbursable contracts,” the costs for which DRA is reimbursed by the utilities involved. For FY2010-2011, 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.”



DRA’s budget is less than one-tenth 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.

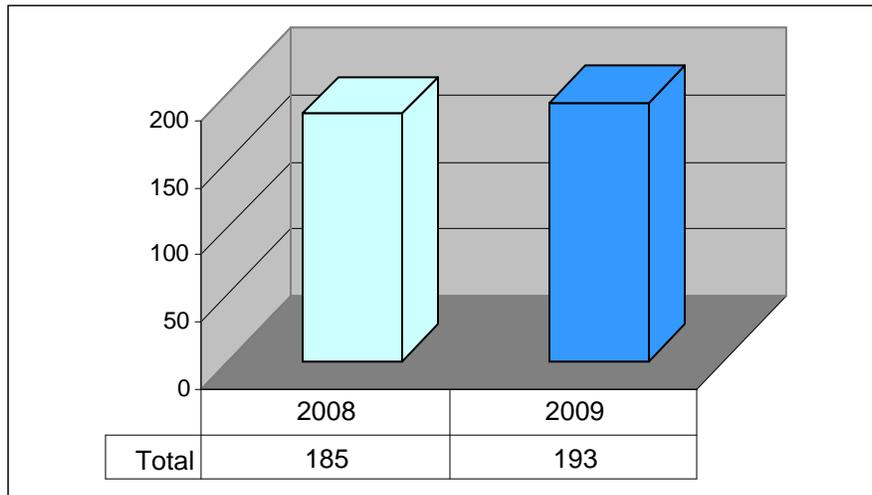
3. Workload Standards And Measures for DRA

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 DRA filed before the CPUC each year.

In 2009, DRA participated in 193 formal CPUC proceedings. These numbers do not reflect the greater complexity of the issues being addressed by DRA in omnibus proceedings addressing 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 1 and 2 depict the number of formal CPUC proceedings in which DRA participated in comparison to 2008 and by industry group in 2009, respectively.

Figure 1: Number of Formal Proceedings in which DRA participated in 2009 = 193

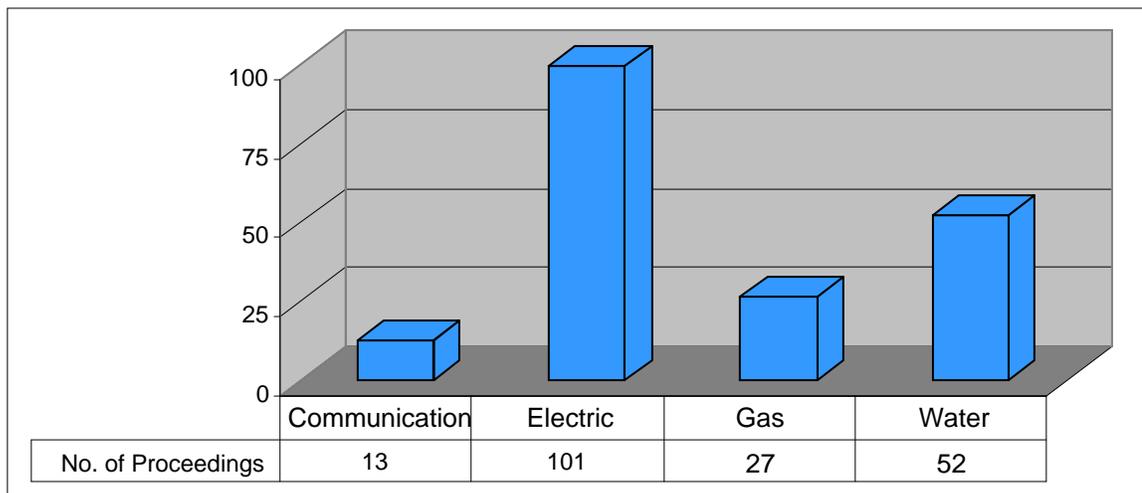


⁶ A proceeding before the CPUC is a formal case in which a legal record is developed. It may include an evidentiary hearing with the opportunity to cross-examine witnesses.

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 rulemakings or complaint cases. In a typical proceeding, DRA’s pleadings 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.



Figure 2: Number of Formal Proceedings in which DRA Participated by Industry Group in 2009



DRA staff and attorneys file hundreds of pleadings annually on behalf of customers, covering issues related to electricity, natural gas, communications and water. In 2009, DRA filed 657 pleadings in formal CPUC proceedings. The following Figures 3 and 4 compare the numbers of pleadings DRA filed in 2008 and 2009, in total and by industry group, respectively.

Figure 3: Total Number of Pleadings DRA filed in 2009 = 657

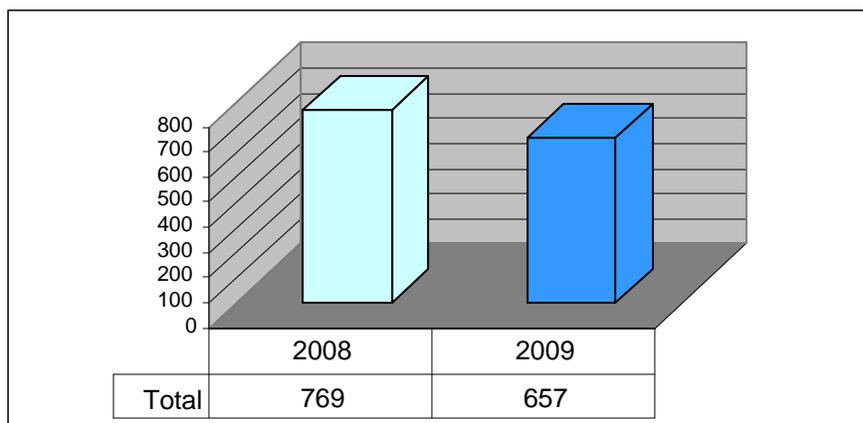
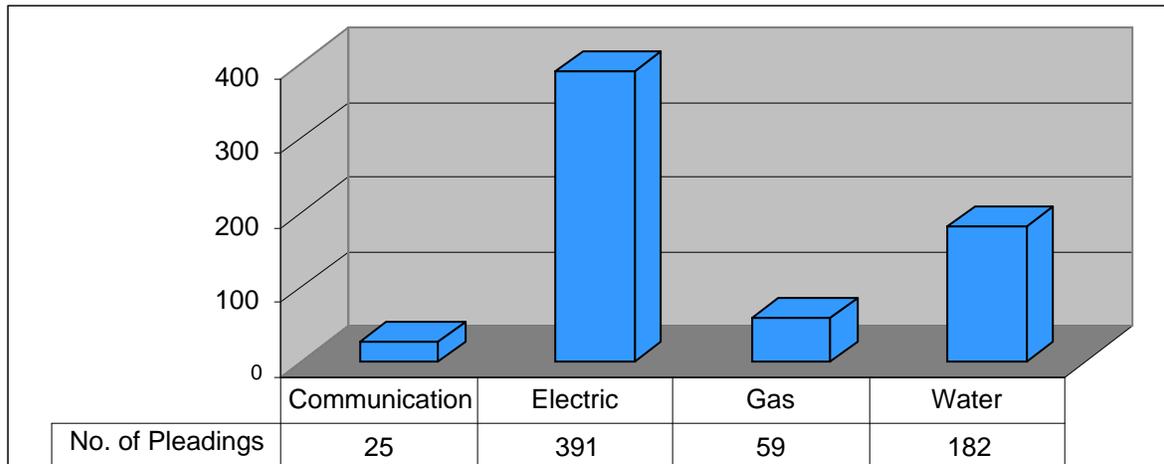




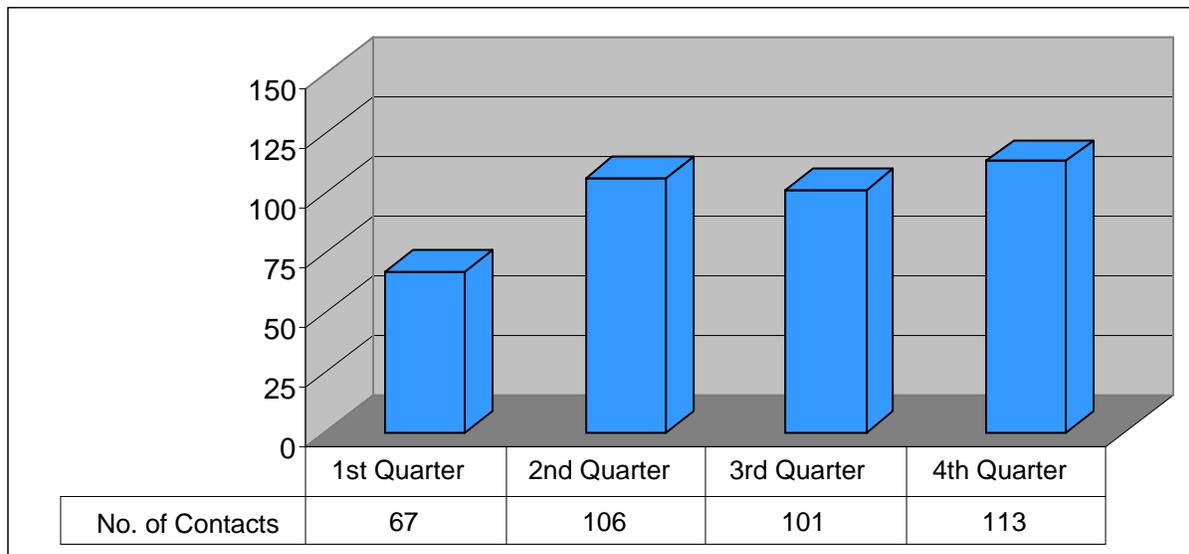
Figure 4: Number of Pleadings DRA filed by Industry Group in 2009



DRA's Increased Visibility

DRA has also developed 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 5 shows that DRA conducted 385 CPUC-related lobbying contacts in 2009.

Figure 5: CPUC-related lobbying by DRA in 2009⁸



In addition, DRA has established valuable relationships with media outlets and has increased the number of its press releases by 150% from 2008.

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



Informal Proceedings (Advice Letters)

DRA 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 in a formal proceeding by a Commission decision, which sets certain parameters for determining whether the advice letter request is valid and should be granted. Reviewing and protesting advice letters consumed a great deal of staff hours in 2009. DRA protested more than 100 water-, energy-, and telecommunications-related advice letters in 2009.

Other Forums

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 and the Pacific Forest and Watershed Stewardship Council. DRA also participated in emergency alerting and warning work teams for the Governor’s Office of Emergency Services in implementation of AB 2231.



DRA Lobbying in Sacramento



In addition to our efforts before the CPUC in San Francisco, DRA also actively participates in the Legislative and Budget Processes in Sacramento 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 and protect residential and small commercial, public-utility customers in Sacramento by:

- **Providing technical legislative and constituent assistance**
- **Taking positions on bills**
- **Testifying in informational and bill hearings**
- **Participating in working groups**
- **Providing updates on CPUC actions**

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:

Energy

- Renewable Portfolio Standard – *Supported with amendments* – AB 64 (Krekorian), SB 14 (Simitian), SB 805 (Wright)
- Energy Efficiency – *Supported with amendments* – SB 806 (Wiggins), AB 51 (Blakeslee)
- AB 1X Reform – *Supported* – SB 695 (Kehoe), AB 413 (Fuentes)
- Net Metering – *Provided technical assistance* – SB 7 (Wiggins), AB 560 (Skinner)
- State Energy Agency Consolidation – *Provided technical assistance* – AB 1016 (Villines), AB X3 33 (Villines)

Telecommunications

- Prohibit charging for unlisted telephone number – *Supported with amendments* – SB 437 (Pavley)
- Telephone basic service rates *Provided technical assistance* – AB 1528 (Ruskin)
- Deaf and Disabled Telecommunications Fund – *Provided technical assistance* – AB 1553 (Asm U&C Cmte)



- Broadband Stimulus Fund Dissemination – *Provided technical assistance* – AB 1012 (Perez), AB 1555 (Perez)
- 911 Service - *Provided technical assistance* – AB 912 (Torres), AB 424 (Torres)

Other

- Low-Income Customer Protections – *Provided technical assistance* – AB 1316 (Ma)
- Water Conservation – *Provided technical assistance* – AB 49 (Feuer), SBX7 7 (Steinberg)
- Disposal of utility property – *Provided technical assistance* – AB 698 (Skinner)

DRA also 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
- Energy Utility Service Disconnections







Communications Policy Branch

16 Staff members

Program Manager: Denise Mann

**Supervisors: Natalie Billingsley
 Mary Jo Borak**





In 2009, DRA's Communications Policy Branch continued its advocacy efforts on behalf of California ratepayers. Their continuing efforts have:

- Improved safety and service quality by requiring more frequent and systematic inspection of critical communications infrastructure;
- Stopped phone companies from putting surcharges on customer bills for costs already recovered by companies for basic safety inspection requirements;
- Persuaded the Commission to adopt new service quality rules and reporting;
- Brought customer groups, telephone companies and other parties together to produce consensus on steps needed to provide low-income consumers with the option of subsidized wireless service;
- Forced AT&T and Verizon to provide simple, comprehensible explanations of the terms and conditions of their residential service agreements;
- Advocated customer notification requirements about the need for backup batteries, their use, care and replacement for phone service utilizing a Voice-over-Internet Protocol
- Negotiated rate freezes for customers affected by Verizon's sale of certain exchanges to Frontier.

DRA Enhances Public Safety and Service Reliability by Increasing Inspections

The Commission opened a Rulemaking to address the devastating 2007 and 2008 firestorms in Southern California, which, in several cases, were caused by downed electric

or telephone wires. DRA joined with the Commission's Consumer Protection and Safety Division (CPSD) to recommend increased inspection and maintenance requirements to reduce the risk of fires and service outages. These recommendations were adopted, and the companies must keep records to demonstrate that they are complying with the new rules.

The phone companies argued that they should be allowed to impose a surcharge on customer bills to recover additional costs they claimed would occur from the new standards. DRA successfully fought the surcharges, arguing that safety regulations are a fundamental cost of doing business, and that companies are obliged to follow regulations and to maintain their equipment in order to provide safe and reliable service.

DRA Succeeds in Convincing the Commission to set Service Quality Standards

In July, 2009, after a seven-year-long Rulemaking, the Commission voted out a telephone service-quality decision, which adopted many of DRA recommendations. DRA convinced the Commission to adopt certain service quality standards, despite industry objections and lobbying. Customers should see improvements in repair times and in the time it takes to reach a live operator. DRA also succeeded in convincing the Commission to require "Carrier Report Cards" that will document each company's specific performance on the new service quality measures. The Report Cards will be posted on the Commission's web site and will give customers access to the information needed to help them choose the combination of price and service quality that best meets their needs.



DRA Leads Effort to Create a Wireless LifeLine Program

The California LifeLine Telephone Program (LifeLine) provides discounted basic residential telephone service to low-income customers and was the subject of a proceeding that drew extensive debate and comment at the Commission in 2009. The proposed decision (PD) included a controversial proposal to change the current fixed discounted rate to a voucher framework and to add a wireless option to the program. While DRA agrees that LifeLine customers should have the choice of subsidized wireline or wireless service, DRA foresees the voucher proposal will result in higher prices to vulnerable low-income customers. DRA heavily lobbied against the objectionable wireless voucher portions of the PD and, in conjunction with other consumer groups, pointed out critical unresolved issues that threatened the affordability and reliability of current LifeLine service. The Commission has subsequently withdrawn the PD. In a related docket, DRA also successfully lobbied the Commission to deny one service provider’s application to offer a substandard version of wireless LifeLine service. As this applicant was also in arrears for surcharge payments to public programs, the Commission denied the wireless service provider’s application and opened an investigation into its business practices.

DRA Hosts Stakeholder Forum on Wireless LifeLine Issues w/Chairman Fuentes

DRA performed extensive work related to the important goal of adding a wireless option for LifeLine customers, which is presently under evaluation by the Commission. To that end, DRA co-hosted a LifeLine Wireless Forum with Felipe Fuentes, Chairman of the Assembly Utilities

and Commerce Committee. Participants from consumer groups, the Commission, and industry (wireline and wireless) identified issues and questions which the Commission must address in order to create an equitable and efficient wireless LifeLine option. DRA will provide a report on the results of the LifeLine Forum to the Commission in January 2010.



DRA’s LifeLine forum (left to right) Commissioner Simon, Commissioner Grueneich, Assembly Member Felipe Fuentes, DRA Director Dana Appling and moderator Terry Murray.

DRA Persuades AT&T to Simplify its Residential Customer Phone Service Agreement

DRA’s relentless advocacy and public airing of the companies’ activities caused both AT&T and Verizon to withdraw their incomprehensible “Residential Service Agreements” (RSA), each of which was several thousand pages long. AT&T’s RSA caused extensive public outcry when DRA protested and made it public, as it was presented as a binding contract for customers. Both companies, after months of serious pressure, replaced these agreements with simple and short descriptions of the terms and conditions under which they provide service.

As a result of DRA’s lobbying efforts, the Commission required AT&T to rewrite its



online, un-searchable and incomprehensible 2,581-page RSA. After months of complaints, public comment at Commission meetings, lobbying, articles in the press and even legislators' attention and letters, AT&T finally produced a new, six-page-long RSA, effective July 15, 2009, written in plain English.

DRA Seeks Consumer Educational Programs for Back-up Battery Units (AB 2393)

Assembly Bill (AB) 2393 required the Commission to better prepare for large-scale emergencies, specifically by evaluating the status of communications back-up power and emergency notification systems. DRA believes that customer information such as how to store, change, monitor and use the backup battery units during emergencies is critical, along with effective notice to consumers that selecting certain types of phone service utilizing a Voice-over-Internet Protocol, means that their phones will not work if the power is out. The docket remains open, but a proposed decision issued in the docket adopts DRA's position that comprehensive educational and outreach programs are needed to provide customers with information on battery life and care for back-up power units.

DRA Protects Consumers in Verizon's Sale to Frontier

Verizon proposed the sale of a number of its service areas, with 11,000 customers in 13 states, to Frontier. DRA's negotiations with both companies resulted in a settlement to ensure a rate freeze on the basic residential and small business monthly service for one year, and a rate freeze for five of the most popular additional services, such as Call Waiting and Caller ID. The settlement also requires additional service quality reporting

for a year after the transaction is completed to ensure that current good service quality levels do not decline after Frontier takes over. The Commission adopted DRA's settlement agreement in its entirety in November 2009.

DRA Hosted "Emerging Broadband Forum"

On April 1, 2009, DRA hosted a public forum featuring five experts with local, national and international perspectives on emerging broadband policies and implementation. The panelists included experts from the City of San Francisco, an economist from the University of San Francisco and another from Georgetown who is currently Economics Director for the FCC's National Broadband Task Force. They addressed how to increase broadband access and use, including connecting the rural and urban poor, measuring the effectiveness of publicly-funded broadband projects, and debated whether the United States ranks lower in broadband subscribership and speed than other countries.

DRA Acts as Watchdog To Prevent Inappropriate Use of Ratepayer Funds

In December 2007, the Commission created the California Advanced Services Fund (CASF), a two-year, \$100 million program intended to promote construction of broadband infrastructure in unserved and underserved areas in the state. The grants awarded are funded by ratepayer dollars. In 2009, the Commission synchronized the American Recovery and Reinvestment Act (ARRA) federal stimulus funding program and the CASF program to maximize the financial benefits of both programs to applicants for ARRA funding, and authorized eligibility of ratepayer-funded CASF grants to entities applying for ARRA funding.



DRA supports expanding broadband access in the state, but also believes that the CASF program lacks sufficient oversight to ensure that projects proposed are actually built. DRA monitors and reviews applications for CASF funding, and has commented and lobbied for accountability, transparency and audit requirements as part of a CASF grant award.

AT&T's Continuing Rate Increases

In August 2006, the Commission's Uniform Regulatory Framework (URF) decision largely deregulated California's four largest incumbent phone companies (AT&T, Verizon, SureWest, and Frontier). The Commission voluntarily chose to cease exercising its authority to set rates, despite DRA's testimony that no evidence for a competitive market exists, and despite DRA's warnings that virtually complete rate freedom would lead to significant rate increases. Just as DRA had feared, AT&T subsequently

increased its basic monthly measured rate by 471% since 2006.

The prices are likely to continue trending higher, as in January 2011 the four largest wireline providers will have complete pricing freedom. The increasing basic service rates are the most devastating for vulnerable consumers, such as the working poor. DRA believes, however, that all Californians are entitled to affordable basic phone service and, as such, will relentlessly advocate for the lowest prices possible for consumers.

Consumer Information

In an almost completely deregulated communications industry, consumers are faced with many choices. DRA believes that customer education is critically important in order to give customers the information they need to know in order to choose services and technologies that best meet their needs. DRA provides education via consumer alerts posted on DRA's website at: <http://www.dra.ca.gov/DRA/Telecom/hot/>



Electricity Pricing and Customer Programs Branch

20 staff members

Program Manager: Linda Serizawa

Supervisors: Chris Danforth
Risa Hernandez





DRA’s Electricity Pricing & Customer Programs Branch Works Hard for Ratepayers in 2009

The Electricity Pricing & Customer Programs Branch represents California’s residential and small business customers in designing electric rates. It also reviews costs and policies associated with advanced metering infrastructure (Smart Meters), energy conservation, energy efficiency, demand response, the California Solar Initiative, the electric “smart grid” and programs assisting low-income energy customers.

DRA Pursues Legislation to Include More Residential Ratepayer Protections

DRA worked for two years with stakeholders on Senate Bill 695 (Kehoe), which was signed into law by Governor Schwarzenegger on October 11, 2009.

The stakeholders included other consumer organizations, utilities and Legislative offices. SB 695 modifies some of the residential rate protections from Assembly Bill 1X enacted in the 2001 Legislative session, to address California’s electricity crisis, and adds significant, additional rate protections. SB 695 preserves rate protections for residential customers, particularly low-income customers, while warding off potentially significant rate increases for residential customers.

SB 695 adds additional protections regarding the low-income rate discount program--California Alternate Rates for Energy (CARE)--and promotes increased deployment of low-income

energy-efficiency programs. It protects residential customers from default time-variant pricing until 2014 and from default, real-time pricing until 2020. It allows a limited re-opening of Direct Access, competition in the retail electricity supply market. It assures continued funding of low-income programs from all ratepayers by adding to the Public Utilities Code the existing CARE cost-allocation method of equal cents per kilowatt-hour or therm.

SB 695 also helps to reduce upper-tier residential rates (Tier 3, 4, and 5) by allowing limited increases to Tier 1 and Tier 2 residential rates ranging from 3% to 5% per year. As an additional protection, the Tier 1 rate is limited to a maximum of 90% of the system average rate until 2019. The rates for CARE customers may be escalated by the CalWORKs escalator, which partially links low-income rate increases to affordability. These increases are limited to a maximum of 3% per year.

Going forward, DRA will monitor the utilities’ implementation of SB 695, as well as impacts to customers.

DRA Urges the Utilities to Reduce Service Disconnections Particularly to Low-Income Customers

DRA has been concerned about the impact of the current economic downturn on utility service and utility customers in general. In early 2009, DRA began gathering data regarding the number of service disconnections and other data related to customer bill payment. Subsequently, in June 2009, The Utility Reform Network (TURN) filed a petition, asking the CPUC to



open a rulemaking to look into arrearage management and shutoff prevention to help California customers deal with the current economic downturn. DRA supported TURN's petition and urged the CPUC to open a proceeding to address these issues.

In November 2009, DRA issued a report, *Status Report on Energy Utility Service Disconnects*, which noted a disturbing trend of an increased number of low-income customers being disconnected from their energy services.

The report is available on DRA's website:

<http://www.dra.ca.gov/dra/>

DRA also observed that the majority of customers were disconnected for only two to three days. Somehow, these customers were able to pay enough of their energy bills and associated charges to have their service reconnected. The high number of reconnections also could imply that these disconnections could be prevented at less cost with early intervention by the utilities. It appears that the utilities use disconnection as a tool to make customers pay their bills. This practice may end up costing the utilities tens of millions of dollars and costing customers hundreds of millions of dollars per year. Customers whose power is interrupted face the direct utility service costs (energy service restoration fees), substantial indirect costs (spoiled food, lost wages, etc.), and hardship associated with service interruptions. This economically stressful period is the wrong time for the utilities to increase

the number of disconnections among their most vulnerable customers.

DRA is also concerned that disconnections will significantly increase with deployment of Smart Meter technology. Prior to this technology, utilities relied on their service technicians to disconnect customers' electricity service manually, which meant that the number of disconnections was limited by the number of available utility staff. With Smart Meters, the utilities have automated the disconnection process.

DRA has presented for Commission consideration a variety of alternative approaches to disconnection that the utilities could undertake. If DRA is successful in causing the number of service disconnections to be reduced, the annual ratepayer savings could be hundreds of millions of dollars.

As a result of DRA's Disconnection Report, the Commission conducted a formal *en banc* hearing in December 2009 to address these issues.

Subsequently, the utilities instituted a three-week moratorium on disconnections during the holiday season. In addition, the Commission adopted DRA's recommendations that during the moratorium, the utilities:

- 1) Make contact with each customer who has been identified for disconnection and arrange a manageable payment schedule based on individual circumstances;
- 2) Guide customers to government- and privately-funded assistance programs that



can help with energy-bill payment and;

- 3) Assure customers that partial bill payment will prevent disconnection as long as payments are made regularly by the due date.

DRA Pushes for Greater Customer Access to Low-Income Assistance Programs

In 2009, DRA’s advocacy on behalf of low-income customers focused on expanding access to low-income assistance programs such as CARE and Low-Income Energy Efficiency (LIEE).

DRA’s comments to the CPUC during the consideration of the utilities’ proposed energy-efficiency portfolios recommended the CPUC integrate installations of energy-efficiency services in mobile homes for both low-income and higher-income customers. As a result, the CPUC required the utilities to report on the progress of energy-efficiency integration in mobile homes in 2010 and 2011.

In addition, DRA urged greater oversight of the CPUC’s implementation of LIEE and CARE programs. In March 2009, DRA asked the Low-Income Oversight Board (LIOB) to track utility progress in enrolling customers in these programs and in hiring more workforce to better deliver the low-income programs to those in need.

In June 2009, DRA reported CARE enrollment progress to the LIOB and recommended easing the process of enrollment to reach more eligible Californians by:

- Fully deploying one-step, over-the-phone enrollment
- Highlighting the “categorical” qualification option, which only requires participation in another assistance program to participate in CARE
- Capitalizing on live telephone conversations with customers to increase program awareness and enrollment
- Tracking customer response to CARE enrollment offers. Consider an offer accomplished only after customer enrolls or explicitly opts out of the program (do not assume non-response to be a decline)

DRA’s analysis and recommendations were presented in the report, *Status Report on Energy Utility Service Disconnects*, issued in November 2009.

DRA Challenges PG&E’s \$160M “Smart Rates” Proposal – Too Costly and Untimely for Struggling Small Business Customers

Pursuant to a CPUC Decision, PG&E is implementing time-varying rates for non-residential customers over the next 12 to 15 months. In its Rate Design Window application, PG&E filed for rate changes and revenue recovery to cover the costs of this implementation. PG&E will follow its revenue request with additional requests in its 2010 GRC to implement real-time pricing.



On behalf of small business customers, DRA challenged \$52 million of PG&E's \$160 million request, finding the associated spending either unnecessary or beyond the scope of the actions ordered by a previous CPUC decision. DRA's analysis further uncovered that PG&E's information-technology planning was impacted by a series of PG&E's poor decisions, which cost ratepayers millions of dollars.

DRA advocated for a one-year delay in the implementation of time-varying rates to allow for economic recovery before burdening struggling small businesses with more complex rates and potentially higher energy bills.

The delay would permit the market to develop devices to notify customers of "peak day events" (periods of high energy cost), allowing them to adjust their electricity usage. The delay would also give PG&E time to catch up with its proposed schedule for Smart Meter deployment. Additionally, this one-year delay would provide the necessary time for small business customers to learn more about the new rate options and make educated decisions about their business operations and electricity usage.

DRA also made rate design recommendations and introduced several bill-protection mechanisms to mitigate some of the possible rate shock for small businesses. This is especially critical at a time when PG&E customers in Kern and Fresno Counties have complained about high bills and have raised suspicions about potential billing errors caused by

PG&E's new Smart Meters. The ability of the new meters to properly record hourly as well as monthly usage is critical to implementing the new time-varying rates.

In December 2009, the Assigned Commissioner issued a proposed decision. DRA is currently reviewing and commenting on the proposed decision.

DRA Successfully Defends Residential Customers in SDG&E's Rate Application

DRA advocated on behalf of SDG&E's residential customers in SDG&E's most recent Rate Design Window application. DRA recommended that SDG&E's proposal to significantly increase rates for low-income customers be denied, and that SDG&E improve and simplify rate information available in its tariffs and on its website.

DRA successfully negotiated a residential rate design settlement that resulted in low-income customers receiving their share of residential class rate reductions, and SDG&E providing more complete rate information to its residential customers.

The Commission has not yet issued a proposed decision in this proceeding.

DRA Opposes SoCalGas' Request for \$1 Billion to Install "Smart Gas Meters"

In September 2008, Southern California Gas Company filed an application for approval of \$1.08 billion for an advanced metering infrastructure (AMI) network (Smart



Meter) to serve its six million customers. In this application, SoCalGas rejected the alternative of sharing network facilities with Southern California Edison in overlap areas, claiming that it would be uneconomical to do so. SoCalGas argued that operational benefits (primarily from automating meter reading) would cover 85% of project costs. SoCalGas also claimed nearly \$150 million (present value) in conservation savings, on the theory that customers would respond to availability of more current information by reducing their usage of natural gas. Together with other, smaller, miscellaneous benefits, SoCalGas maintained that the proposed project would produce a net ratepayer benefit of \$19 million, yielding a benefit-to-cost ratio of about 1.02.

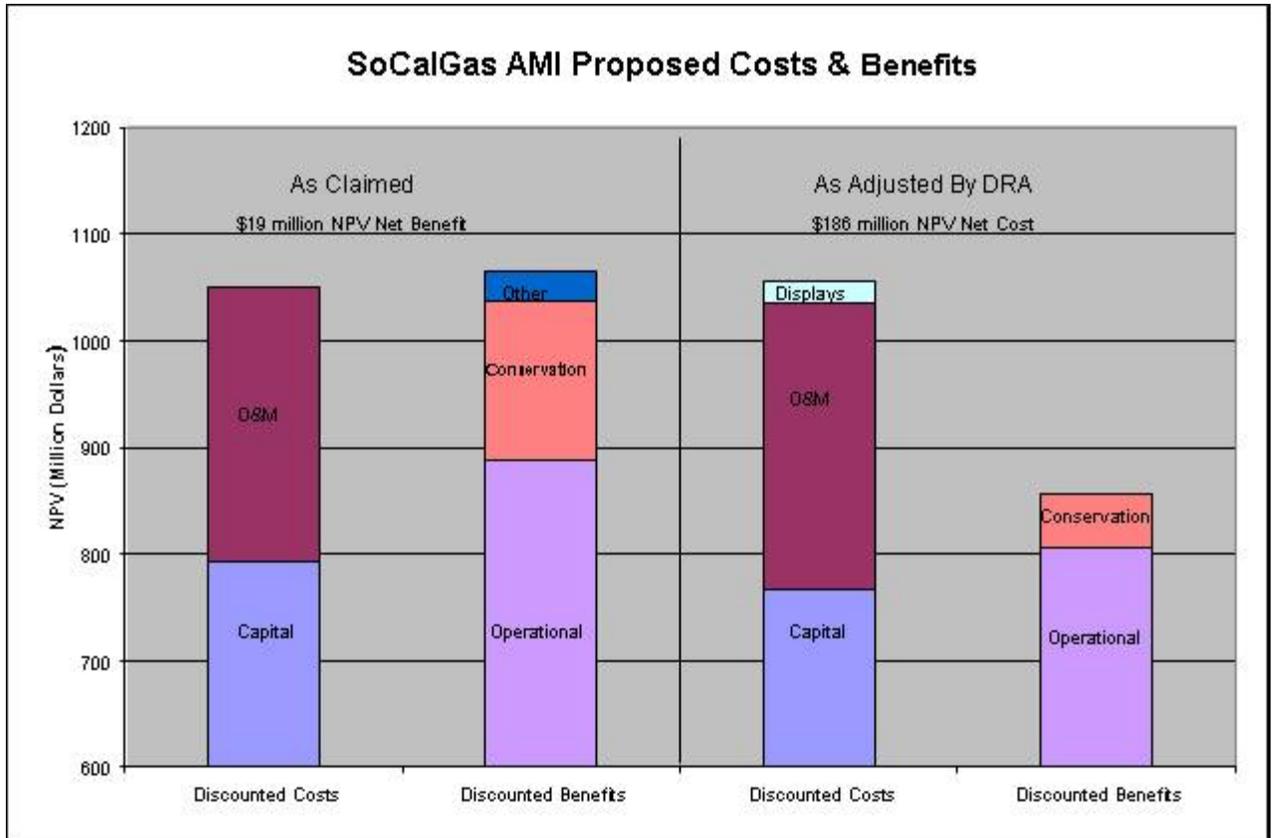
DRA opposed SoCalGas' AMI request, finding the claimed operational and conservation benefits significantly overstated. DRA also found problems with SoCalGas' proposed project costs: in-home-display costs were omitted; battery-replacement costs were understated; and projected information-technology and contingency costs were overstated.

DRA recommended reducing SoCalGas' claimed operational benefits by 9% to reflect the potential for deployment delays and the fact that the

current meter-reader labor force works on a part-time basis.

More significantly, DRA took issue with the size of SoCalGas' claimed conservation effect. The utility claimed that 13% of its customers would reduce consumption an average of 7.5% in response to usage information to be made available through the Internet or through in-home displays. Based on more conservative and supportable assumptions, DRA estimated that 8% of customers would reduce their consumption by an average of 4%. Thus, DRA believes SoCalGas' claimed conservation benefit should be reduced by about two-thirds, which would mean that SoCalGas' proposal is not cost-effective for residential ratepayers.

In April 2009, DRA filed testimony asking the CPUC to reject SoCalGas' application, because SoCalGas' proposed Smart Meter system is not cost-effective. DRA's analysis shows that the project's present value is \$1.045 billion and benefits are only \$860 million, yielding a benefit-to-cost ratio of .823. A decision is expected in early 2010.



DRA Works Toward an Efficient Smart Grid

In December 2008, the CPUC opened a rulemaking to consider development and implementation of a Smart Grid system in California, pursuant to federal legislation and the CPUC’s own desire.

Soon after the CPUC opened a rulemaking, the American Recovery and Reinvestment Act (ARRA) of 2009 appropriated \$4.5 billion to modernize the electric grid nationwide. Successful applicants for 2009 ARRA grants are required to demonstrate sufficient project funding before receiving up to 50% reimbursement from the U.S. Department of Energy. In addition, the CPUC sought comments on a set of proposed expedited processes, uniquely created

for utilities seeking to recover the non-federal portion of their Smart Grid project costs through rates.

DRA successfully advocated for a decision that retains intervenors’ due-process rights, provides opportunity for public participation, and clarifies the utilities’ responsibilities under the expedited processes in the CPUC’s evaluation of Smart Grid 2009 ARRA grant proposals.

DRA is reviewing utility project proposals to ensure benefits to ratepayers and consistency with California’s clean-energy policies.



In addition, DRA spoke on behalf of ratepayer concerns in a series of policy workshops held by the CPUC. DRA continues to participate in the proceeding, advocating for customer access to information, a clear set of functionality criteria for Smart Grid investments, a set of guiding principles, a Smart Grid policy roadmap, and cost-effective deployment plans. These factors are essential to achieving the federal and state goals of developing a cost-beneficial Smart Grid system.

DRA Strives to Guarantee that Ratepayer Funding for Energy Efficiency Optimally Achieve California's Energy and Environmental Objectives

In 2009, DRA worked to shape and improve the multi-billion dollar energy-efficiency (EE) portfolios administered by California's investor-owned utilities. DRA advocated that the CPUC should approve EE programs and policies that maximize energy savings cost-effectively to ensure that ratepayer funds are invested such that they optimally achieve the state's energy and environmental objectives.

DRA's efforts resulted in several positive ratepayer benefits and protections – adopted in the CPUC's September 2009 decision, which approved EE programs and budgets for 2010-2012, including:

- Nearly \$1 billion reduction in EE budgets, reducing the utilities' requests of \$4 billion to a more reasonable \$3.1 billion.
- Establishment of a 10% cap on administrative costs (plus an additional 10% for marketing and outreach and program evaluation) as well as program audits to ensure that administrative dollars are

appropriately accounted-for, with the intent that the majority of EE budgets should be focused on saving energy.

- Clear articulation of fund-shifting rules to maintain the integrity of the CPUC's approved portfolio of programs. In the past, the utilities utilized fund-shifting to significantly skew the composition of adopted EE portfolios.
- Clear delineation of policies for implementing an integrated strategy across all clean-energy programs to achieve a whole-building approach to saving energy and offer customers holistic solutions to saving energy. DRA continues to advocate for an approach that will more aggressively integrate clean-energy strategies across CPUC proceedings as well as more consistently measure cost-effectiveness across all programs.
- Adoption of a slight reduction in the amount of compact fluorescent lamps (CFLs) in utility EE programs in recognition that the “low-hanging fruit” of CFLs result in short-term and waning energy savings and that efforts should be shifted to more long-term, comprehensive efficiency efforts, including more technologically-advanced lighting. DRA continues to advocate shifting EE programs and activities towards market-transformation strategies and criteria that move away from outdated strategies and instead utilize ratepayer dollars to invest in programs and innovation that consumers would not otherwise initiate on their own.



- The CPUC intention to revamp its statewide EE brand under the advisement of branding experts to more effectively promote a cultural shift toward efficiency behaviors. DRA continues to advocate for a clean-energy brand that will integrate across all energy programs.

DRA Continues to Closely Monitor Ratepayer-Funded Energy-Efficiency Programs

In September 2007, the CPUC approved a decision which established financial incentives for utilities based on the amount of energy saved in the implementation of their EE programs. As the EE programs depend on ratepayer funding, DRA has consistently maintained that these incentives should only be awarded for energy savings that have been verified by an independent party (not the utilities). DRA's efforts saved ratepayers \$70 million in the utilities' 2008 incentive claim alone.

In December, the CPUC approved \$36 million in undeserved bonuses to the shareholders of PG&E, SCE, SDG&E and SoCalGas for their 2006-2008 energy-efficiency program activities. Moreover, the Commission's decision awarded a bonus to SDG&E, even though independent analysis by CPUC staff showed that the utility's energy savings were below the CPUC's minimum threshold for incentive eligibility.

The Commission relied on the utilities' representations regarding their energy-efficiency performance despite the results of an independently-administered verification study.

DRA is currently analyzing the utilities' energy savings and is engaged in the

determination of a 2009 incentive award, if any.

DRA will continue to advocate that the CPUC should only award incentives based on energy savings that are real and independently verified in order to protect ratepayers' financial investment in these programs.

In addition, DRA has advanced an incentive-mechanism proposal that better aligns ratepayer risks and shareholder rewards in the future, which if adopted, would likely result in a dramatic reduction in the level of ratepayer-funded incentive payments to utilities for the upcoming 2010-2012 EE program cycle and beyond.

DRA Takes Issue with the Cost-Effectiveness of the IOUs' Demand-Response Programs and Budgets

In 2009, DRA filed testimony and participated in hearings related to PG&E, SCE and SDG&E's applications requesting over \$465 million to fund their demand-response programs for the 2009-2011 program cycle. Demand-response programs allow customers to decrease energy usage 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 took issue with the lack of cost-effectiveness of some of the demand-response programs and lack of integration of emergency-type programs with the California Independent System Operator's (CAISO's) wholesale markets. DRA also advocated for a freeze on enrollment increases in emergency-triggered, demand-response programs.

The CPUC issued a final decision in August 2009, which adopted several of DRA's recommendations including termination of



PG&E's Business Energy Coalition program, which was not cost-effective.

During 2009, DRA also negotiated settlements with several Demand-Response Aggregators. Demand-Response Aggregators are third-party, private companies which focus on enrolling groups of customers in the utilities' demand-response programs, and, in return, the aggregators receive payments from the utilities. DRA sought and obtained better pricing and participant-verification terms to ensure that aggregators paid for demand-response reduction actually provide a reduction.

DRA's efforts ensured that ratepayers would only pay for actual electric-load capacity reduced by program participants and also lessened ratepayer costs by almost \$28 million over the life of the contracts.

DRA Pushes for Full Integration of Demand-Response Programs with CAISO Operations by 2012

DRA has advocated on behalf of ratepayers by participating in a series of workshops conducted by the CPUC's Energy Division to determine if there were alternatives to the utilities' current emergency demand-response programs and/or how to better integrate the program triggers with the CAISO's procurement processes with the aim of full integration by 2012.

The workshops also focused on whether there was an optimum megawatt size for the emergency demand-response programs for meeting local or transmission emergencies. In addition, the workshops considered whether there should be a cap on utilities' current emergency demand-response programs. In 2010, DRA will continue to participate in ongoing negotiations.

DRA Monitors DWR Reserve Reduction Allocation to Ratepayers

DRA is participating in the CPUC Rulemaking regarding the Annual Revenue Requirement Determination of the California Department of Water Resources (DWR). In this proceeding, the CPUC is considering the allocation of DWR's 2010 revenue requirement to the electricity customers of PG&E, SDG&E, and SCE. It is taking into account methods of allocating the 2010 reduction and future reductions in DWR's operating fund reserves. Some of DWR's power contracts have already expired, and all will terminate by 2015. Each DWR contract that expires typically decreases total contract costs, and the operating fund reserve would likely be reduced as well. Thus, the annual reserve could be reduced by hundreds of millions of dollars. Such amounts can be used to benefit ratepayers by reducing power charges, bond charges or power revenue bonds.

DRA is focused on ensuring that ratepayers are allocated the proper amount of credit for the revenue reduction resulting from DWR's operating fund reserve reductions.

In mid-October 2009, DRA joined the California investor-owned utilities and other market participants in supporting a return of approximately \$15 million in reserve revenues to ratepayers. DRA is also representing ratepayers on the issue of re-opening the competition in the retail electricity supply market (otherwise known as direct access) by SB 695. DRA will examine how the new allocation of direct access load may impact the utilities' committed resources and will develop recommendations to mitigate any potential stranded costs to ratepayers.



DRA Believes PG&E's SmartAC Program Should be Modified to Reduce Costs

PG&E will install approximately 269,000 control devices on customers' central air-conditioning units in the hot climate zones of the Greater Bay Area, Stockton, and Fresno and Kern Counties as well as other hot zones in California by 2011, for a total cost of \$123.5 million. These control devices are either central air-conditioning switches or programmable thermostats. PG&E will utilize these control devices to decrease electric load when the CAISO is about to declare an emergency because energy resources are not available to meet high, summer peak loads or to respond to other electricity operating or transmission emergencies. PG&E expects the Smart Air-Conditioning (SmartAC) devices will be able

to temporarily reduce customers' central air-conditioning load by as much as 220 megawatts.

DRA filed a protest identifying several potential issues with the program. DRA is primarily concerned that PG&E's proposal to install devices with the current technological specifications with only one-way communication capability will not be cost-effective if they will need to be replaced when more advanced devices with two-way communication capability become available in a couple of years. DRA is also concerned about whether the SmartAC program could be triggered prior to an emergency so that the CAISO can avoid unnecessarily buying electricity resources to meet load that could otherwise be curtailed under this program. DRA will continue its work on this proceeding through 2010.



Electricity Planning and Policy Branch

22 staff members

Program Manager: Cynthia Walker

Supervisors: Joseph Abhulimen
Chloe Lukins





DRA’s Electricity Planning and Policy Branch

The Electricity Planning and Policy Branch is responsible for Energy Resources Recovery Accounts (ERRA) applications, all resource-need proceedings, transmission, procurement of renewable energy proceedings, research, development and demonstration (RD&D) cases, greenhouse gas-reduction proceedings and other electricity policy-related proceedings.

Energy Resources Recovery Account (ERRA)

During 2009, DRA reviewed the Energy Resources Recovery Account (ERRA) applications submitted by PG&E, Edison, and SDG&E. ERRA is a balancing account that reconciles the utilities’ actual cost of energy generation and procurement with the revenues collected. DRA sought to ensure prudent management of energy-purchase and generation costs, including least-cost dispatch and generation cost-effectiveness.

In the 2009 PG&E ERRA proceeding, DRA successfully argued that PG&E should confer with DRA in the development of its internal audit for contract-management activities prior to filing its next ERRA reasonableness-review application for the 2009 record period. This internal audit could result in significant savings to ratepayers.

DRA also reviewed the utilities’ energy-procurement cost estimates for the 2010 calendar year. The major cost drivers of these estimates are customer growth, load forecast, and the price of natural gas. DRA reviewed the utilities’ projected 2010 energy-generation and procurement costs, which reflect recent reductions in gas prices.

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 refund in 2010.

Resource Adequacy (RA)

Resource Adequacy (RA) is the process of planning to meet system electricity demand with sufficient resources. RA has two main objectives: (1) to ensure that there is adequate cost-effective electric-generation capacity, 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.

During 2009, the CPUC continued revising RA rules, including setting local RA requirements for the following year. DRA and other parties contributed to this process through workshops at the CPUC and stakeholder meetings at the CAISO.

The major issue in 2009 continued to be the consideration of developing a capacity market in California. A capacity market would allow utilities and other load-serving entities (LSEs) to trade capacity to meet peak loads.

There were two main proposals to create a capacity market for California:

1. A centralized capacity market operated by CAISO; and
2. A bilateral capacity market that would involve individual contracts between the utilities and LSEs and generators to buy and sell energy.

DRA, as well as other consumer groups, supported the bilateral capacity market. The Commission has not issued a final decision on this issue yet, however the proposed decision issued in October 2009 adopted a bilateral capacity market with a multi-year



requirement, rejecting the proposal for a centralized capacity market operated by CAISO.

As compared to a centralized capacity market, DRA estimates that the bilateral market will save up to a billion dollars a year for the next several years.

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 costs 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.

DRA supported improvements to the Long-Term Procurement Planning Standards. The new standards require utilities to prepare procurement plans that are consistent with California's Energy Action Plan, which prioritizes energy efficiency, demand response and renewable energy above additional fossil-fired generation. In 2010, DRA will be involved in the utilities' application of these new standards, to ensure that updated procurement plans are in the best long-term interest of ratepayers.

In 2009, DRA stressed the need for improved renewable-procurement planning. DRA seeks to ensure that utilities prepare robust, renewable-procurement plans that pave the way for the development of new renewable-energy resources at the least expense to ratepayers.

DRA also participated in the utility PRGs to evaluate utility procurement strategy and the price of power procured by the electric utilities, promoting consistency between procurement planning and implementation. Through these groups, DRA closely monitored utility competitive solicitations. DRA sought to ensure that the design, implementation and results of solicitations meet ratepayer needs for cost-effective electricity procurement.

Utility RD&D Projects

DRA has consistently supported cost-effective renewable resources and public-interest energy research, development and demonstration (RD&D). RD&D activities include providing contracts and grants for research and development of energy technologies and related scientific activities.

However, DRA is concerned about the current trend of the utilities filing piecemeal RD&D projects which may be duplicative and therefore may not be the best use of ratepayer funds.

During 2009, Southern California Edison requested \$30 million in ratepayer funds for a carbon capture and sequestration RD&D project using petroleum coke. DRA recommended that the application be denied based on the lack of evidence supporting the cost-effectiveness of the project.

DRA also recommended that instead, such proposals should be part of a comprehensive, statewide, renewable RD&D program administered by the California Energy Commission's Public Interest Energy Research (PIER) program. This would alleviate concerns about research duplication and focus the state's renewable RD&D efforts.



While the Commission approved SCE’s aforementioned application, DRA will continue to oppose piecemeal RD&D programs which do not demonstrate benefits to ratepayers and encourage the Commission to deal with these issues in a holistic manner.

Greenhouse Gas (GHG) Reduction Proceedings



During 2009, The California Air Resources Board (ARB) hosted workshops and public meetings to implement AB 32, the California Global Warming Solutions Act of 2006. DRA participated in ARB workshops and working groups, and submitted informal comments to the ARB on cap-and-trade emission allowance allocation and auction design issues. DRA also recommended that a carbon tax be considered, which would provide ratepayers more cost certainty and reduce the possibility of market manipulation. With regard to allowance allocation, DRA advocated that 75% of emissions allowances are freely allocated based on historical emissions during a brief transition to a 100% auction, and the use of auction revenues in a transparent manner for purposes consistent with AB32.

DRA also recommended that allowance revenue from the utility sector be used to mitigate the financial impact of GHG-reduction efforts on utility ratepayers.

With regard to auction design, DRA recommended ARB consider design elements that will promote a cost-effective, efficient, transparent and stable market for emissions permits. Such elements may include a price floor or ceiling and/or a strategic reserve, the inclusion of banking and borrowing provisions and the liberal use of offsets to stabilize allowance prices.

DRA also recommended adequate oversight to prevent market manipulation.

Alternative fuel vehicles Rulemaking

In 2009, the CPUC initiated a rulemaking to consider the impacts that electric or alternative fuel vehicles (AFV) may have on our state’s electric infrastructure and what actions the CPUC should take. The CPUC’s goal is to ensure that the charging of electric vehicles does not adversely impact the electric system, while at the same time recognizing the benefits of these vehicles in achieving California’s GHG-reduction goals.

The AFV rulemaking seeks to consider rates, infrastructure and policies needed for utilities to be ready for the projected statewide market growth of plug-in, hybrid-electric vehicles and battery-electric vehicles throughout California. Other electric vehicle classes may also be considered in this proceeding.

DRA has been involved in the AFV Rulemaking, filing comments and reply comments in October and November 2009. DRA seeks to ensure ratepayers are not saddled with unnecessary infrastructure-upgrade costs. DRA’s recommendations included:

1. Ratepayers should not subsidize commercial & public charging facilities that promote peak charging;
2. Ratepayer incentives should only be provided to plug-in electric vehicle



- (PEV) owners where it is cost-beneficial;
3. Commission should adopt time-of-use rates for PEVs;
 4. Utility local infrastructure upgrades, if needed, should be funded through GRCs;
 5. Ratepayers should not be required to pay for prospective electric vehicle owners' personal equipment and network upgrades.

Workshops will be held in early 2010 to address in detail the specific issues related to PEVs.

San Diego Gas & Electric's De-Energization Proposal

In December 2008, SDG&E filed an Application seeking Commission approval to proactively curtail power ("de-energize") in high-risk, fire-prone areas in order to prevent catastrophic wildfires. The proposed changes to its tariff language would also absolve SDG&E from any legal liabilities resulting from a de-energizing event.

In a rare, interdivisional/inter-branch collaboration, DRA joined with the Consumer Protection and Safety Division (CPSD) to successfully lobby the Commission to deny SDG&E's proposal. The joint DRA/CPSD task-force pointed out that the SDG&E proposal would result in serious negative impacts on the health and safety of customers residing in the affected areas and would severely impact communications and evacuation efforts during high fire-risk conditions.

The CPUC denied the application and also adopted the following recommendations by DRA and CPSD:

1. to require SDG&E to engage in a collaborative dispute-resolution process with interested stakeholders; and
2. to allow SDG&E to file a revised fire-prevention program if a consensus is not reached.

Feed-in-Tariff

A Feed-in-Tariff (FIT) is a tariff under which utility customers can sell their electric production to the utility at a fixed or indexed price. FITs have been found to be an effective way to increase renewable-energy production in several countries, most notably Germany and Spain, by reducing transactions costs and risks for small project developers. However, FIT's can be costly if tariffs are established to incentivize resource development.

During 2009, the CPUC solicited input regarding the establishment of a FIT for small renewable generators. Energy Division also issued a proposal for a renewable auction mechanism (RAM) for purchasing renewable power from small generators at the distribution level.

DRA participated by supporting the establishment of a FIT as a cost-effective way of promoting small renewable development, supporting the CPUC's jurisdiction to establish a FIT against utility opposition to that jurisdiction, and providing comments supporting the RAM program with some modifications to reduce transactions costs.

A proposed decision has not yet been issued.



Fuel Cell Proposals

In these applications, PG&E and Edison proposed to spend over \$43 million to develop, own, and operate six, non-renewable, demonstration fuel-cell-installation facilities, which would be designed to generate about six megawatts on five university campuses:

- PG&E proposed to spend \$21.5 million for three facilities on two campuses, totaling three megawatts; and,
- SCE proposes to spend \$21.6 million for three facilities on three campuses also totaling three megawatts.

DRA successfully moved to consolidate the two applications for efficiency and consistency purposes. DRA also strongly recommended that the Commission reject the applications due to the projects' high costs and duplication of other regulatory programs. At a levelized energy cost of 30¢/kWh, these projects are almost three times the current renewable Market Price

Referent (11¢/KWh). MPR is a proxy cost per KWh of fossil-fuel electricity. More importantly, the projects do not qualify as renewable and therefore will not help California meet its Renewable Portfolio Standard (RPS) goal.

DRA recommended that university campuses instead pursue the available Self Generation Incentive Program (SGIP) funds for fuel-cell projects.

If the Commission approves these projects, DRA recommended that ratepayer investment be limited to a total of no more than \$33 million.

This case has been submitted, and a proposed decision is due in February 2010.

Renewable Portfolio Standard (RPS)

DRA is the primary representative of ratepayers in renewable energy development. DRA has 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 MPR for support of renewable-resource development.



Utility Solar Development Projects

While DRA endorses solar development as a means to reduce our reliance on fossil-fuel generation, it opposed the solar photovoltaic (PV) programs proposed by PG&E, SCE, and SDG&E.

DRA estimates that the total cost of these projects will be over \$6 billion.

Each of the utilities’ programs would consist of a number of small PV facilities, at one to twenty MW each. DRA argued that:

1) The utility solar PV programs are not competitive with other renewable projects.

- 2) The solar PV projects proposed are two to five times more expensive than renewable projects proposed by developers through the competitive bidding process, and energy provided by small renewable generators that receive the Commission’s current feed-in tariff price.
- 3) The solar PV programs will not contribute significantly toward the utilities’ RPS goals. The programs would make up only three percent of the amount of renewable energy the utilities would need to reach a 33% renewables goal.
- 4) The California Solar Initiative (CSI) results in projects costing much less. CSI also effectively leverages private investment, resulting in downward pressure on costs. For every \$1 paid by ratepayers, an additional \$6 in private funds is invested. In contrast, since utility PV costs are paid by ratepayers, there is incentive to innovate to decrease costs. CSI is in its third year and is on track to meet its goal of 1750 MW by 2017.

- 5) DRA has supported many utility-owned renewable projects in the past due to economies of scale. Utility-scale projects are typically cheaper per MW than smaller projects. However, the utilities’ currently-proposed solar PV projects are generally only one to two MW each. Merchant generators are proposing similar-sized projects at a much lower cost.

The Commission approved SCE’s proposal in June, but DRA has requested that the Commission reconsider its decision.

Parties filed briefs for PG&E’s solar PV program in October 2009 and for SDG&E’s solar PV program in November 2009. Proposed decisions are expected in both applications during the first quarter of 2010.

Transmission Evaluation and Policy

During 2009, DRA advocated for consumers on major transmission-project proposals submitted to the CPUC for approval, resulting in hundreds of millions of dollars in savings to ratepayers. DRA’s focus in these proceedings is on need and cost issues.

DRA was also active in transmission-related Commission rulemaking and investigation proceedings where policy and evaluation issues are addressed. DRA participated on the Renewable Energy Transmission Initiative’s (RETI) Stakeholder Steering Committee, which reported on transmission needs and build-out in support of the RPS.

Additionally, DRA monitored and participated as needed in CAISO proceedings, which address transmission planning and projects, as well as statewide coordination issues.

During 2009, the major transmission proceeding was Southern California Edison’s Tehachapi Renewable Transmission Project, Segments 4-11 (TRTP), a \$1.7 billion, 4500



MW-capacity project designed to bring significant wind-resource generation from Kern County to the SCE load center.

DRA supported the TRTP, but recommended a significant reduction in SCE's requested contingency costs. The CPUC adopted DRA's recommendation in December, which will save ratepayers approximately \$200 million based on the final cost cap.

A major concern facing transmission policy is statewide coordination between the CPUC, the Energy Commission and CAISO. Another planning entity, the California Transmission Planning Group (which includes municipal utilities), may play an important role, as well as the RETI stakeholder group. DRA will continue to participate in these forums to ensure ratepayers' needs are represented in all forums in which significant investment decisions could be made.







Energy Cost of Service & Natural Gas Branch

35 staff members

Program Manager: Mark Pocta

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





Southern California Edison Company (SCE) General Rate Case

In November 2007, Southern California Edison Company (SCE) filed its 2009 general rate case (GRC) requesting an \$871 million (20.1%) increase in revenues for its electric generation, transmission and distribution operations. SCE was also seeking revenue increases of \$288 million (5.54%) in 2010 and \$362 million (6.18%) in 2011. By contrast, DRA recommended a \$162.4 million (3.75%) increase for 2009, \$135.8 million (3%) in 2010 and \$139.9 million (3%) in 2011.

On March 12, 2009, the Commission issued its decision in the matter, which authorized SCE GRC increases of \$495 million in 2009, \$206 million in 2010, and \$219 million in 2011, reflecting success from DRA’s hard work. The Commission adopted many of DRA’s proposals, which served to mitigate significantly the increase originally requested by SCE. The cumulative savings over the three year period amounts to \$1.45 billion.

DRA Negotiates \$480 Million Reduction to PG&E’s Proposed Retirement Plan Contributions

On March 2, 2009, PG&E filed an application requesting authorization of contributions to its retirement plan. Originally, PG&E proposed annual cash contributions to the plan of \$446.1 million in 2011, 2012 and 2013. DRA recommended annual contributions of \$204.4 million in the same years. DRA and PG&E reached a settlement on this issue, and on July 31, 2009, DRA and PG&E filed a settlement agreement with the Commission incorporating annual contributions to PG&E’s retirement plan of \$245.2 million in 2011, \$286.1 million in 2012, and \$327.0 million in 2013.

These figures result in approximately \$480 million in savings for consumers relative to PG&E’s original request. The Commission adopted the settlement agreement on September 10, 2009.

Sierra Pacific Power Company’s General Rate Case

In August 2008, Sierra Pacific Power Company filed its 2009 test year GRC application. Sierra Pacific requested a revenue increase of \$8.9 million in 2009 amounting to a rate increase of 11%. In April 2009, DRA issued its report in the proceeding recommending a revenue increase of \$4.3 million or 5.35%. In June 2009, Sierra Pacific and DRA entered into a settlement agreement which provided for a revenue increase of \$5.5 million in 2009.

This compromise results in savings of \$3.4 million in 2009 relative to the utilities’ request and amounts to cumulative savings of \$10.2 million for the GRC period of 2009 – 2011. The Commission adopted the settlement agreement on October 29, 2009.

Bear Valley Electric Service Division 2009 General Rate Case

In June 2008, Bear Valley Electric Service Division filed its 2009 GRC 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 (2%) in 2012. On December 19, 2008, DRA issued its report in this proceeding 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. Finally, DRA and the company reached a settlement. On October 15, 2009, the Commission adopted the Settlement Agreement executed between Bear Valley and DRA approving revenue increases of \$5.5 million for 2009, \$515,000



for 2010, \$209,000 for 2011, and \$168,000 for 2012.

The agreement results in cumulative savings of \$6.8 million over the four-year 2009 - 2012 period.

DRA Opposes PG&E’s Proposed Cornerstone Improvement Project

In May 2008, Pacific Gas and Electric Company (PG&E) filed an application requesting a \$1.122 billion revenue-requirement increase (comprising a \$41 million increase in 2011, \$98 million increase in 2012, \$164 million increase in 2013, \$225 million increase in 2014, \$276 million increase in 2015, and \$310 million increase in 2016) for a seven-year Electric Distribution Reliability Improvement Program called the Cornerstone Improvement Project (CIP).

On July 17, 2009, DRA issued its report recommending that the Commission provide no ratepayer funding for PG&E’s proposed capital expenditures and operation and maintenance expenses of the CIP since PG&E failed to justify its requested CIP expenditures presented in its testimony.

DRA concluded that the costs of the distribution capacity portion of the CIP are not justified by the minimal reliability improvements forecasted by PG&E.

The case is currently pending before the Commission.

DRA Joins with SCE and PG&E to Save Ratepayers of the Two Utilities \$92 Million and \$120 Million, Respectively

On October 15, 2009, the Commission issued a decision adopting the proposals set forth in two petitions to modify prior decisions (filed by DRA, SCE and PG&E) which provided that PG&E and SCE would forego transitory increases in the utilities’ cost of capital. Under the decision, SCE will

forego an increase of \$92 million in 2010, and PG&E will forego an increase of \$120 million. The existing cost-of-capital mechanism allows the two utilities to file for substantial rate increases for 2010 due to increases in bond rates during 2009. These increases were driven primarily by the upheaval in financial markets in late 2008 and 2009. Due to the transitory nature of these increases and the fact that volatility in the interest-rate markets have largely subsided, DRA and the two utilities jointly initiated the petitions.

Granting the petitions holds utility equity returns at current levels and serves to mitigate a substantial rate increase for both utilities.

DRA Successfully Opposes the Joint Application of PG&E, SoCalGas and SDG&E to Modify Public Purpose Programs (PPPs)

In December 2007, PG&E, SoCalGas and SDG&E filed a joint application requesting that the Commission modify the current cost-allocation methodologies for California’s various energy public-purpose programs (PPPs). These include the California Alternate Rates for Energy (CARE) program, 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 and its proposed changes arguing that the existing cost-allocation methodologies are 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.

On March 12, 2009, the Commission issued its decision in the proceeding adopting DRA's recommendation and denying the utilities' joint application.

Nuclear Decommissioning Cost Triennial Proceeding

The PUC requires three of California's major energy utilities to file applications once every three years in the consolidated Nuclear Decommissioning Costs Triennial Proceeding (NDCTP), where the utilities seek Commission approval to collect specified amounts in rates to be deposited in their nuclear trust accounts towards future decommissioning costs of the nuclear facilities that are either owned individually or jointly-owned with other utilities.

On April 3, 2009, PG&E filed its application seeking decommissioning funds for its Diablo Canyon and Humboldt Nuclear Units. For the period 2010 through 2012, PG&E seeks annual contributions of \$23.0 million for Diablo Canyon Units 1 and 2 and \$10.0 million for Humboldt Bay Unit 3. Instead, DRA proposes annual contributions of zero for Diablo Canyon and \$6.1 million for Humboldt.

SCE and SDG&E filed a joint application seeking incremental decommission funds for their respective share of the jointly-owned San Onofre Nuclear Generating Systems (SONGS) Units 2 and 3. For the period 2010 through 2012, SCE and SDG&E seek no additional funding for SONGS Unit 1, and SCE seeks no additional funding for its share of Palo Verde Nuclear Generating Systems (PVNGS) units. SCE requests annual funding of \$66.4 million for its share of SONGS Units 2 and 3, an increase of

\$20.0 million compared to the currently-authorized amount of \$46.4 million.

Instead, DRA recommends funding of \$53.8 million, a reduction of \$12.6 million from SCE's request. SDG&E requests annual funding of \$15.3 million for its share of SONGS Units 2 and 3, an increase of about \$6 million compared to the currently-authorized amount of \$9.4 million. For SDG&E, DRA recommends a zero incremental annual contribution to the currently authorized level of \$9.4 million.

This proceeding is currently pending before the Commission.

Southern California Edison Company (SCE) General Rate Case for Propane Service on Santa Catalina Island

In September 2008, SCE applied for a general rate increase of \$751,000, or 83%, in 2009 for its Santa Catalina Island Division. DRA recommended a much lower increase of \$426,000 to be phased-in over three years to mitigate rate shock. The Commission issued its decision on September 24, 2009, and, based on the evidence provided by DRA, adopted an increase of \$548,000 to be phased-in over a three-year period as proposed by DRA. This equates to a \$186,000 increase in 2009, a \$181,000 increase in 2010, and a \$181,000 increase in 2011. This totals to cumulative savings of \$1.15 million compared to SCE's request.

DRA Completes Work in the SCE Fraud Investigation

On May 21, 2009, the Commission adopted a settlement agreement between DRA, SCE and other parties in Phase 2 of the Commission's investigation into violations in monitoring and reporting pertaining to SCE's performance-based regulation (PBR).



The settlement provides that SCE will credit \$4 million to its ratepayers, forego \$2 million in rewards, and not propose customer satisfaction or employee-safety incentive mechanisms prior to 2018. This decision closes the case. On September 23, 2008, the Commission previously issued D.08-09-038 (the Phase 1 Decision) which ordered SCE to make ratepayer refunds totaling \$80.7 million, forego \$35 million in requested PBR rewards and pay a \$30 million fine.

PG&E’s Restoration and Repair Costs Associated with Wildland Fires

On October 29, 2009, the Commission adopted a settlement agreement between PG&E and DRA permitting PG&E to recover \$11.09 million in costs for repairing and restoring facilities damaged by various wildland fires in 2008.

The settlement negotiated by DRA was \$630,000 less than the \$11.72 million in costs that PG&E requested, based on DRA’s evidence that PG&E did not demonstrate the incremental nature of the costs.

Gas Hedging Rulemaking

In June 2008, the Commission started a rulemaking to examine the treatment of hedging costs incurred by the gas utilities. On December 22, 2009, a proposed decision was issued that would adopt a settlement between PG&E, DRA and TURN which integrated 20% of PG&E’s gas-hedging costs into its core procurement-incentive mechanism. This places hedging costs at some risk and provides PG&E a greater incentive to prudently manage these costs. The decision would also place 25% of the hedging costs of SoCalGas and SDG&E at risk within its gas cost incentive mechanism. These policies are consistent with the recommendations DRA proposed in the

case. The case is pending before the Commission.

DRA Supports Proposed Gas Storage Projects

A number of new gas storage projects have been filed with the Commission. These projects include: the proposal of Central Valley Gas Storage for a new storage project of 5.5 Bcf; Wild Goose Storage’s proposal to expand its facilities; the expansion of the SoCalGas Aliso Canyon and Honor Rancho facilities; and the new Gill Ranch Storage project.

DRA has supported the construction of new storage projects and expansions because of the reliability, price, and other benefits they bring to California ratepayers.

DRA has proposed that all new storage projects be followed by periodic reporting to ensure that the operations can be appropriately monitored.

Biennial Cost Allocation Proceedings

DRA participated in the Biennial Cost Allocation Proceedings (BCAPs) for gas utilities. The BCAPs address the proper allocation of gas distribution, transmission, storage and other costs among customers, and other provisions related to gas operations.

On November, 20, 2008, the Commission adopted a settlement agreement in SoCalGas and SDG&E BCAPs in which DRA was a key participant. Under the settlement, the residential rates for SoCalGas customers would decrease by 1%, while SDG&E customers would see a small 1.7% increase, both of which are lower than the requests of the utilities.



In December 2009, DRA entered into a settlement agreement with PG&E and other parties in the PG&E BCAP. The settlement will result in savings for residential customers of \$9.6 million compared with the PG&E request. The case is pending at the Commission.

**Gas Procurement Incentive Mechanisms
Deliver Benefits to California Gas
Customers**

DRA conducts comprehensive reviews, audits, and evaluations of the PG&E Core

Procurement Incentive Mechanism (CPIM) and the SoCalGas Gas Cost Incentive Mechanism (GCIM) on an annual basis.

In June 2009, DRA issued its annual report for Year 15 of the PG&E CPIM verifying that PG&E's ratepayers received \$54.9 million in savings under the mechanism. In October 2009, DRA submitted its annual report for Year 15 of the SoCalGas GCIM which confirmed that SoCalGas' ratepayers received \$63.5 million in savings.





Water Branch

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Water Rates and Services

DRA represents consumers by scrutinizing the costs of service of California’s nine 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 deals with 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 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

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 that customers with low or fixed incomes will not need to curtail or eliminate other essential services to pay their water bills.

DRA carefully scrutinizes for reasonableness all Class A (10,000 or more service connections) water-utility rate-increase requests, with a focus on keeping overall rates affordable. The need for water infrastructure replacement and/or improvement and meeting water quality standards are the primary factors affecting water utility rates. In 2009, the Commission authorized rate increases for Apple Valley Ranchos Water Company, Fontana Water Company, San Jose Water Company and California American Water Company.

These water utilities had requested increases in rates of \$77.5 million in total. As a result of DRA’s efforts, those increases were pared down by over \$37.8 million, or about 49%.

Apple Valley Ranchos Water Company Rate Increase

In the latter half of 2008, DRA entered into a partial settlement with Apple Valley Ranchos Water Company for a rate increase. The company had requested a revenue increase of \$3.77 million for its forecasted increases in expenses and plant additions.

As a result of DRA’s efforts, the Commission adopted an increase of only \$2.96 million, a decrease of over 21% from the company’s request.



DRA staff inspects facilities at Apple Valley Ranchos Water Company.



Fontana Water Company Rate Increase

In June of 2009 the Commission authorized a rate increase for the Fontana Water Company. In its application, the company requested an increase in rates of \$12.86 million or 26.5%.

As a result of DRA’s analysis, which questioned several forecasted expenses and utility plant projects, the Commission adopted an increase of only \$6.99 million, or an increase of 14.4%, which was a reduction in the company’s request of over 45%.

San Jose Water Company Rate Increase

In November 2009, the Commission adopted a partial settlement agreement between San Jose Water Company (SJWC) and DRA for a rate increase.

The company had requested an increase of \$36.2 million, or approximately 18.4%. The settlement agreement reduced the increase amount to \$18.6 million, or approximately 9.2%.

DRA’s efforts saved SJWC customers almost 50% from the company’s initial request.

Also included in the settlement agreement were rate design enhancements to encourage necessary water conservation.

Of particular note, the Commission agreed with DRA in disallowing SJWC’s proposal to spend nearly \$25 million on various solar projects. The Commission found insufficient reliable data available to assess benefits that would flow to SJWC’s ratepayers during this current economic environment or whether the projects would improve SJWC’s ability to provide quality and reliable water service.

California American Water Company Rate Increase

In its 2008 Monterey GRC application, California American Water Company requested a revenue increase of \$24.7 million,

which amounted to a massive 80.3% rate increase. The company proposed significant increases in capital investments, operating expenses, maintenance programs and personnel.

DRA proved that the majority of the company’s requests were unreasonable and that the company’s Monterey system was not in dire need of massive upgrades. DRA’s efforts resulted in a Commission decision that limited the California American Water rate increase to 36%, saving the Monterey district’s approximately 40,000 ratepayers \$13.5 million.

The Commission adopted numerous DRA recommendations resulting in the following:

- **Plant.** Disallowed a company request for \$7 million for unnecessary new and re-drilled wells and associated treatment facilities – facilities that would have become stranded assets once the new desalination project came online. Approved \$833,000 for re-drilling of two deteriorated wells instead.
- **Sand City Desalination Plant.** Denied Sand City Desalination Plant expenditures of \$10 million plus \$1 million per year in operating expenses that would have forced Monterey residents to pay the highest prices for purchased water in California. DRA argued that the plant was not needed, not reasonably priced, not justified, and a bad business deal with unfavorable lease terms and conditions. The Commission dismissed the project and required the company to renegotiate the contract and then renew its request for cost recovery.
- **Pipeline replacement.** Requires Cal Am to apply industry best practices and track break types and causes, using tracking data to implement a condition-based assessment of need for infrastructure replacement, instead of a mere age assessment.



- Parent/Affiliate Separation.** Recognized and denied improper allocations of unregulated utility operations costs to the California company from its parent company, saving ratepayers \$3.2 million.

In addition, prior to hearings, DRA succeeded in convincing Cal Am to withdraw its request for full recovery of \$75 million in capital expenditures related to solving environmental and seismic safety concerns with the San Clemente Dam on the Carmel River.



California American Water Company's San Clemente Dam on the Carmel River.

DRA Continues Efforts to Identify the Best Water Supply Solution for the Monterey Peninsula

DRA continued its participation in the Water for Monterey County coalition, a diverse stakeholder consortium that worked to develop a less-costly and environmentally-superior supply alternative to 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). The Coalition was successful! In its January 2009 Draft Environmental Impact Report, the Commission found the Coalition's Regional Water Supply Project (Regional Project)

environmentally superior to Cal Am's proposed Moss Landing project.

DRA has also been analyzing the cost estimates for the proposed projects. DRA continued its partnership with the U.S. Bureau of Reclamation's Technical Services Center (USBR) to evaluate data from Cal Am's pilot desalination facility as well as designs for other project elements such as wells, tanks, and pipelines. DRA and the USBR participated in a cost workshop held by the administrative law judge presiding over the case. The goal of the workshop was to develop common assumptions about project costs.

As the administrative process moves forward, DRA will develop a report recommending means of cost and risk containment, technical specifications for the desalination facility, project financing methodology, and equitable ways to allocate cost and risk between Cal Am and its public agency partners (Monterey County Water Resources Agency and Marina Coast Water District) should the Regional Project be selected.

At stake are \$300 million and the future water supply for the Monterey Peninsula.

DRA Promotes Effective Conservation Programs and Rates

DRA negotiated a settlement regarding cost-effective and affordable water-conservation programs and plans in California American Water Company's Monterey District. DRA also reached a settlement regarding conservation rates to promote water conservation and keep rates affordable in Golden State Water Company's Region I. The CPUC adopted these settlements in 2009. DRA recommended strengthening conservation through the use of conservation rates for customers of San Gabriel Valley Water Company. Hearings have been



completed and this case has been submitted for a Commission decision.

DRA also completed an audit of Cal Am's Water Revenue Adjustment Mechanism (WRAM), and recommended a refund of over \$1.4 million to ratepayers in the Monterey District.

Based on the disposition of Cal Am's WRAM request by the Commission's Division of Water and Audits, DRA expects Cal Am to resubmit an advice letter to the Commission reflecting DRA's audit adjustments to Cal Am's WRAM account.

DRA Improves Rationing Plans in Areas with Water Shortages

California faced its third year of drought in 2009. Reduced water supplies around the state prompted several water wholesalers to reduce allocations to Commission-regulated water utilities and apply penalties for exceeding those allocations. Four water companies, Golden State, California American, San Jose and Del Oro, responded by requesting voluntary and mandatory rationing programs for their customers in 12 districts across the state. These utilities also requested permission to establish accounts to track and collect "lost revenues" that would result from rationing.

Addressing inequities in the proposed plans, DRA successfully pushed for rationing plans differentiated by source of water in order to protect customers in areas not experiencing water shortages from rationing and unnecessary cost. The Commission ordered that rationing plans include source differentiation and that revenues lost to reduced usage be offset by lower operating expenses also due to reduced usage.

As a result of DRA's involvement, water utilities' rationing plans are more equitable and better address the financial implications of rationing.

DRA Objects to Utilities Circumventing the Regulatory Process

Utilities seek changes in their rates, procedures and/or services by way of general rate cases (GRC), which are formal proceedings. When the Commission in the course of such proceedings authorizes or orders changes, the utilities normally submit implementation requests by way of a device called an advice letter. Advice letters are supposed to be generally non-controversial and administratively-handled. However, in recent years, some water utilities are submitting advice letters that, if granted or overlooked, would result in rate increases or accounting changes outside of the proper scrutiny and due process of a GRC.

DRA is becoming increasingly concerned that the upward trend in the volume of inappropriate advice letter filings is not only taking limited staff time away from GRC work, but indicates utility abuse of the regulatory process.

In 2009, DRA reviewed a record 265 Class A water utility advice letter filings. The 265 filings average out to more than five per week. The content of a significant number of the filings has been inappropriate for an advice letter and more suited for formal treatment in a GRC.

DRA protested 49 of the 265 advice letters filed in 2009. Of those protests, 27, or 55%, involved utility requests to establish memorandum accounts to track expenses to be recovered later in GRCs. Memorandum accounts are by nature controversial and



authorized only in special circumstances to remedy problems beyond a utility’s control. They are authorized by formal Commission action, either in GRCs or special proceedings for the purpose. They are not designed to account for a utility’s normal operating expenses, yet some utilities are attempting to obtain memorandum accounts via advice letter to do just that.

What used to be a routine task of reviewing implementation or compliance requests for completeness has become a task of significant proportion, draining valuable limited staff and management time to scrutinize and protest requests that should never have been submitted outside a GRC.

DRA will strive to eliminate improper advice letter filings, thus preserving proper regulatory process and protecting the ratepayers from potential harm.

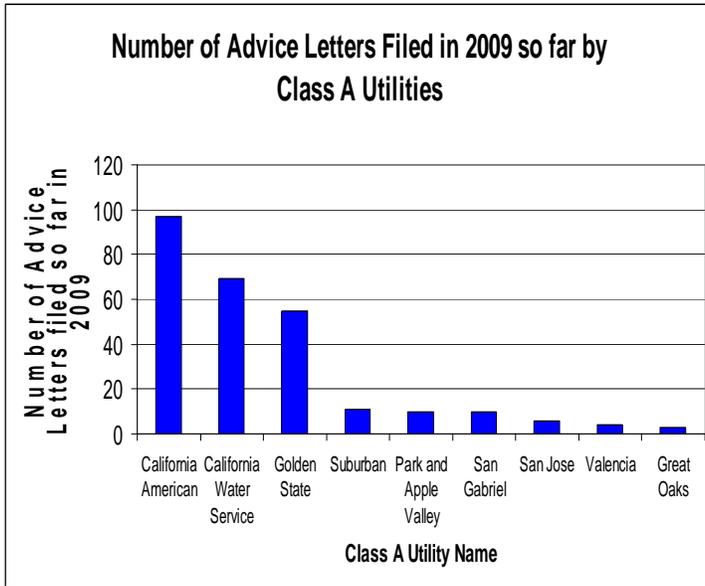
DRA Participates In Key Commission Rulemakings

In 2009, the Commission issued three new rulemakings covering various broad policy issues relating to water utilities.

On March 12, 2009, the Commission issued R.09-03-014 to establish standardized rules and policies to govern the accounting and ratemaking treatment of damage awards and public loans received by a regulated water utility as a result of contamination of its water supply. DRA submitted comments responding to the many questions in the rulemaking and participated in three days of workshops conducted by the Commission’s Division of Water and Audits.

The most controversial issues of this proceeding are whether water utilities’ shareholders should share in the contamination proceeds awarded from lawsuits, and what incentives, if any, should be provided to water utilities to pursue contamination lawsuits. DRA does not support the sharing of contamination proceeds between shareholders and utility ratepayers. However, should the Commission consider sharing contamination proceeds, DRA has recommended that the shared amounts be determined after funds have been used to reimburse the utility for litigating the case and remediating the water contamination. This approach will minimize the cost impacts on water-utility ratepayers.

In regard to providing incentives, DRA opposes giving incentives for pursuing contamination lawsuits, because the Commission already provides mechanisms to make the water utility whole for the cost incurred in pursuing such lawsuits.



Class A water utilities filed a record number of advice letters: 265



In addition, water utilities as monopoly service providers have an obligation to serve and to provide safe and reliable water service. No further shareholder incentives should be provided to meet this obligation.

On April 16, 2009, the Commission issued rulemaking R.09-04-012, designed to create generic rules for all water and sewer companies with regard to transactions with a parent company and/or affiliates and with regard to the use of regulated assets and personnel for non-tariffed utility products and services. DRA submitted comments in this proceeding and has participated in one workshop. This proceeding is still in its early stages, and final decision is expected in late 2010. Some of the key principles DRA advocates in this proceeding are:

- Protect utility from holding company abuse
- Prevent cross-subsidies
- Uniform and consistent application of affiliate and excess-capacity rules.
- No harm to ratepayers' services
- Transparent accounting for all transactions
- Prevent anti-competitive behavior

On December 17, 2009, the Commission issued Order Instituting Rulemaking R.09-12-017. This rulemaking will address sharing qualifying low-income customer information between regulated water utilities and regulated energy utilities, and what rules should govern such information sharing. DRA supports the issuance of this rulemaking, which may lead to increasing low-income customer participation in rate-discount programs and lower utility administrative cost. DRA will file comments in this proceeding in February 2010.

