



*The Voice of Consumers, Making a Difference!*

**2010**



*DIVISION OF RATEPAYER ADVOCATES*

# ***Annual Report***



Submitted January 10, 2011

## DRA's Statutory Mission

*To obtain the lowest possible rates for service consistent with reliable and safe service levels. In fulfilling this goal, DRA also advocates for customer and environmental protections.*

Edited by Cheryl Cox  
with contributions by Tom Hall and Charmian Desales

Graphic Design by Karen Ng

# **DRA 2010 ANNUAL REPORT**

**Submitted to the California Legislature**

**January 10, 2011**



*Honorable Jerry Brown, Governor of the State of California, and distinguished members of the California State Legislature:*

I am pleased to present to you the Annual Report of the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission). This Report (i) highlights the major accomplishments and activities of DRA in 2010 and (ii) offers our insight, from a consumer advocate's perspective, of the challenges and issues facing California's utility ratepayers in the coming year.

This Report also fulfills DRA's legislative requirement to provide the following information:

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.<sup>1</sup>

### **Statutory Mandate**

DRA's statutory directive under Public Utilities Code Section 309.5 is to represent and advocate on behalf of the interests of public utility customers to obtain the lowest possible rate for service consistent with reliable and safe service levels.

As the only state agency charged with this responsibility, DRA plays a critical role in ensuring that utility customers are represented before the Commission and in other forums that affect how much consumers pay for utility services and the quality of those services. In the evolving landscape of California's energy, water, and communications policies, DRA also sees its role as an important partner in helping to shape state policies that affect utility customers and the environment.

### **2010 Achievements**

I am pleased to report that DRA is a very cost effective organization that has saved utility ratepayers approximately \$190 for each one dollar allocated to DRA. That savings has occurred in many different areas as highlighted in depth in the Report and concisely below:

- **Energy** - DRA has been a critical consumer advocate in finding ways for the state to meet its goals to reduce greenhouse gases, to increase energy efficiency, to keep the energy system reliable, and to increase renewable energy, but in ways that do not unnecessarily burden ratepayers, especially low income ratepayers.

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<sup>1</sup> Public Utilities Code Sections 309.5 (g).

- **Water** - DRA has advocated for cost-effective water conservation and encourage associated energy savings measures. DRA has also sought after the best water supply solutions to address long-term water supply needs, while trying to keep rates affordable.
- **Communications** - DRA looks to keep services for low income telephone customers affordable and reliable. And DRA has recently been successful in convincing the Commission to examine the existence of viable competition in the largely rate deregulated telecommunications industry.

DRA also plays an active role outside of the Commission. We work directly with the Governor's office, Legislature, Department of Finance, Legislative Analyst's office, and other entities by providing technical legislative bill and constituent assistance, taking positions on bills, and by participating in informational and bill hearings. We also actively participate in proceedings at the California Energy Commission and the California Independent System Operator. DRA provides consumer representation in other forums related to CPUC proceedings such as at the low-income oversight boards, telecommunications public policy committees, and the National Association of State Utility Consumer Advocates (NASUCA).

We are also cognizant of our role to help ensure a safe utility infrastructure in California. In light of the recent San Bruno disaster, DRA will be looking for ways that it can better ensure more accountability in utility expenditures on maintenance and safety measures. We look forward to the results of the report of the National Transportation Safety Board on the cause of the explosion and the results of the investigation of the CPUC Blue Ribbon Panel that is looking into CPUC and utility operations with regard to safety of the gas transmission system. DRA plans to play an active role to promote necessary changes to the way the gas utilities operate and to the way the CPUC administers its oversight responsibility.

I am proud of the work of our dedicated and talented staff of scientists, accountants, economists, engineers, policy analysts, and attorneys. I am confident DRA will continue to be a force for California ratepayers into the second decade of the twenty-first century.

Joe Como  
Acting Director

## *In Memoriam*

### **Dana Appling**

Former Director, Division of Ratepayer Advocates  
April 8, 1954 – August 9, 2010



On August 9, 2010, Dana Appling, the highly respected and devoted consumer advocate, public servant, legal counsel and community activist passed away after a long battle with cancer.

Dana was appointed by Governor Schwarzenegger as the Director of the Division of Ratepayer Advocates (DRA) in August 2004 and served in that capacity for over 5 years. Dana brought to DRA over two decades of public and private sector policy and regulatory experience. She also served as the vice president of the National Association of State Utility Advocates.

Dana fearlessly led DRA, the only state office charged with advocating solely on behalf of utility customers, with a focus on residential, low-income, small business customers and environmental protections. Dana made it her mission to lead DRA to become an efficient and effective advocate to protect utility customers. Dana unified DRA through her leadership, vision, wisdom, dedication and approachability. She enhanced the organization's work product, visibility, integrity, and commitment to protect utility customers. Dana made DRA a stronger, more independent champion for the utility customer.

Before joining DRA, Dana served as chief counsel for WebGen Systems, Inc., as an attorney, general counsel and secretary to the Sacramento Municipal Utility District Board of Directors, and as legal counsel for the Office of the Legislative Counsel and Legal Aid Society of San Diego. She graduated from the University of San Diego Law School and obtained a Bachelor's degree from Pomona College.

Dana will be greatly missed.

## Jacqueline "Jacki" Greig

September 23, 1965 – September 9, 2010



On September 9, 2010, Jacqueline "Jacki" Greig and her daughter Janessa Greig perished in the San Bruno natural gas pipeline explosion. Jacki was a long-time Commission employee of over 20 years and worked for the Commission's Division of Ratepayer Advocates (DRA) as a senior regulatory analyst in DRA's Natural Gas Section.

She spent the majority of her career in DRA working on natural gas matters and soon rose to become one of the most foremost and invaluable natural gas experts at the CPUC. She was also DRA's representative on the natural gas committee of the National Association of State Utility Consumer Advocates.

Jacki was a dedicated Commission employee with keen professional insight and a staunch advocate for California ratepayers. Jacki was a stellar individual and consistently earned the highest commendations from her supervisors and managers over the years. Likewise, she also won the respect and praise of all her peers in the natural gas industry.

Jacki was also an amazingly compassionate friend to many at the Commission. Those who got to know her unequivocally appreciated her quiet strength, her sincerity, and her dedication. They cherish those memories, and now mourn the irreparable loss of their dear friend. Jacki was a model of kindness and caring will be sorely missed by all her friends and colleagues at the Commission.

Her friends and colleagues miss her every day.



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# ***Executive Summary***



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

DRA's staff of experts performs detailed analyses in the areas of communications, energy, and water to determine the impact that they will have on ratepayers' bills, and also the impacts on safety and service quality. Additionally, DRA evaluates the environmental impact of regulatory issues and seeks to ensure that any utility actions will comport with CPUC rules and California laws.

DRA's staff consists of 142 technical, policy, and financial analysts with professional backgrounds as engineers, auditors, and economists with expertise in regulatory issues related to electricity, natural gas, telecommunications, and water industries in California.

### DRA's Budget

DRA's budget for 2010 was \$28,554,205 – only 1/10 of a percent of the approximately \$50 billion in revenues generated by California's regulated utilities.

### **For Every \$1 Ratepayers Spent on DRA, They Saved Nearly \$200 on Their Utility Bills**

DRA's expenditures in 2010 represented a small fraction compared with the more than \$5 billion in savings DRA achieved for Californians in the form of lower utility rates and avoided rate increases. Ratepayer investment in DRA is worthwhile and cost-effective with every dollar spent by ratepayers on DRA, they saved on approximately \$190 on their utility bill.

### DRA's Work

DRA has multiple paths in striving to accomplish its objectives to protect ratepayers:

**Building the CPUC's Evidentiary Record:** DRA's analysts review hundreds of utility advice letter requests and applications, as well as CPUC rulings and proposed decisions each year. DRA also represents ratepayers in numerous workshops and hearings throughout the year. DRA performs detailed analysis of technical and legal issues and responds to the filings, rulings, and proposed decisions through written protests and comments in order to develop the proceeding record as the basis upon which the Commission should make its final decisions. Additionally, DRA prepares briefs and testimony and litigates issues in formal CPUC hearings.



*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 Division 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.*

## EXECUTIVE SUMMARY

**Lobbying CPUC Decision-makers:** DRA views all the issues that it works on across energy, water, and communications policy as an opportunity to keep Commissioners and their advisors informed on the ratepayer perspective. DRA actively lobbies decision-makers to persuade them to adopt decisions that balance the needs of ratepayers. DRA also provides tutorials to Commissioner offices on complex regulatory issues and the impact that decisions will have on ratepayers. In addition to Commissioner offices, DRA works with the CPUC's advisory divisions including the Consumer Service and Information Division and the Consumer Protection and Safety Division so that programs and rules will be implemented in ways that facilitate ratepayer needs.

**Informing Lawmakers:** DRA has a permanent presence in Sacramento through its legislative director in order to educate legislators and aid in shaping legislation that reflects the needs of ratepayers.

**Educating the Public:** In order to better educate and inform the public of utility and regulatory issues that affect their lives, DRA proactively reaches out to the media to explain complex technical and regulatory issues to local and statewide news outlets across California, through press releases and personal contacts. DRA had over 200 press mentions in 2010. Additionally, DRA works with community based organizations to educate and build coalitions on issues of mutual interest.

### Ratepayer Impacts in 2010

In 2010, DRA shaped the outcome of numerous Commission decisions. DRA built the record and influenced many proposed decisions. Many final decisions approved by the Commission, however, were based on alternate decisions that did not adequately reflect the record.

#### ▪ **Communications Policy:**

Although the CPUC took action in 2006 to deregulate customer telephone rates, DRA continues to pursue its statutory duty to ensure the lowest possible rates consistent with safe and reliable "phone" service. In that regard, DRA filed a petition with the CPUC in October 2010 requesting that the Commission act to suspend telephone rate increases set for January 2011. DRA's petition was based on findings from DRA's own studies as well as corroborated by the Senate Office of Oversight and Outcomes July 16, 2010 report "*California Public Utilities Commission: Gaps Emerge in Telephone Consumer Protections.*" The investigations demonstrated that there is little competition in residential landline telephone service. In 2011, DRA will continue to advocate that the CPUC pursue an investigation to analyze the impact of rate deregulation on basic telephone service.

Despite deregulation of rates, DRA actively lobbied the Commission to take action to address LifeLine rates, targeted to California's low-income population, which were expected to increase in January 2011, in the absence of CPUC action. Subsequently, the Commission capped LifeLine rates to \$6.84 for the next two years. The Commission also adopted DRA's recommendation to offer LifeLine customers a wireless option. DRA will work with the CPUC and wireless carriers in 2011 to shape and formalize LifeLine rules for wireless customers.

DRA also won additional protections for wireless telephone customers as the Commission adopted rules in 2010 that require phone companies to be responsible for the content of their bills, refund customers for unauthorized charges, and provide customers with the option to block third party charges to their phone bills.

DRA supports deployment and equal access to broadband throughout California and filed a petition in September to improve the likelihood and accountability for such deployment. Current projects have large discrepancies in costs and no transparency for how public funds are spent. In December, the Commission voted to open a rulemaking to consider modifications to the California Advanced Service Funds (CASF) which will address these concerns.

### ▪ Energy:

DRA represents the ratepayers of California's investor owned energy utilities, including Pacific Gas and Electric Company (PG&E), Southern California Edison (SCE), Southern California Gas Company (SoCalGas), and San Diego Gas and Electric Company (SDG&E). This represents approximately 80% of all California's energy customers. In 2010, DRA advocacy efforts saved ratepayers \$5 billion in energy costs.

PG&E's request in its 2011 general rate case was reduced by \$2 billion over the next three years. Additionally, DRA's rate design team influenced the reshaping of customer tier levels that will have positive bill impacts on PG&E's residential customers.

DRA was also successful in convincing the Commission to postpone implementation of its dynamic pricing program, Peak Day Pricing, for small business customers. DRA was concerned that the implementation of the program during the hottest months of the year, with little advance education, would cause small business utility bills to skyrocket. Instead, DRA supported Peak Time Rebates which would provide customers with incentives, through rebates, to reduce their peak energy use.

DRA strongly protested the Commission's December 2010 approval of PG&E's Oakley power plant. The \$1.5 billion Oakley plant is representative of ongoing actions by the CPUC to over-procure in spite of the lack of demonstrated need. Customers are not only charged for unneeded power, but it is contrary to California's climate change objectives. DRA has similar concerns on the renewables side that the CPUC is potentially procuring too fast and at above market costs. DRA published two reports this year on this issue: one on the "Solar Paradox," which shows that California Solar Initiative (CSI) costs for solar are decreasing, but costs for large utility scale projects are increasing; the other report, "The Green Rush," demonstrates that California's procurement is close to meeting its 33% goals and should be more selective in choosing lower cost renewable contracts.

In 2010, DRA was instrumental in achieving consumer protections for residential and small business customers. DRA worked with SDG&E, SoCalGas, and other consumer groups to develop a best practices approach to preventing disconnection of its customers' service – the Commission adopted the parties' settlement in December. In 2011, DRA will seek to urge PG&E and SCE to commit to such best practices as well. DRA also worked with small business stakeholders in persuading the Commission to institute improved deposit rules for small business customers that will prevent utility billing errors from affecting the financial health of the business.

## EXECUTIVE SUMMARY

In 2011, DRA will continue to work on these issues as well as to begin simultaneously working on three general rate cases for SCE, SoCalGas, and SDG&E. SCE has requested a revenue increase of \$4.12 billion and the Sempra companies of SoCalGas and SDG&E have requested a combined total of \$911 million over the next three years.

- **Water:**

DRA represents 1.1 million customers of investor owned Class A & B water utilities. The CPUC has regulatory jurisdiction of approximately 20% of all of California's urban water usage customers. DRA scrutinizes water utility requests for additional revenues that will increase customer bills. DRA also intervenes to shape water policies that best protect ratepayer interests.

In 2010, DRA finalized rate cases for Great Oaks Water Company, the California Water Service, Golden State Water Company, California American Water, and Valencia Water Company culminating in ratepayer savings of approximately \$73 million or \$100 per customer annually.

DRA advocated for and shaped important policies in 2010 which will benefit ratepayers. DRA influenced rules that prevent water utilities from financially profiting from the clean-up of water contamination. The Commission also adopted many of DRA's ratepayer protections in its establishment of Affiliate Transaction Rules that protects both ratepayers and water utilities from holding company abuses. Additionally, DRA influenced the opening of a Water Recycling OIR.

DRA strongly supported a regional desalination solution for the Monterey Peninsula. In conjunction with U.C Santa Cruz, DRA facilitated a coordinated dialogue across all stakeholders in the Monterey Peninsula to develop this long-term regional water supply solution.

Since the Regional Desalination project has the potential to triple water service rates, DRA advocated strongly on behalf of California American Water customers to ensure strong ratepayer protections were incorporated into the final regional desalination project agreement. Because the final Commission decision did not incorporate adequate ratepayer safeguards, DRA continues to pursue those protections through all avenues available. In 2011, DRA will focus its efforts to mitigate impact to residential and small business ratepayers in the rate design phase.

In 2011, DRA will be working on rate cases for CalAm statewide utilities and Alco Water Company. DRA will also be reviewing and making recommendations on CalAm's costs for the removal of San Clemente Dam for the purpose of rerouting the Carmel River.



***Class A Water Companies:***  
*utilities that have over 10,000 service connections*

***Class B Water Companies:*** *more than 5,000, but less than 10,000 service connections.*

## How to use this Report

DRA's Annual Report is divided into three sections for each of the regulatory subject matters: Communications Policy, Energy, and Water. Each of these sections has its own Table of Contents in order to help the reader to more easily navigate the content.

The Report is provided with a sidebar that provides useful background descriptions, history, and definitions in order to give the reader stronger context for reviewing DRA's work in 2010.



- Note



- History / Background



- Definition



- Law



On or before January 10 of each year, DRA is required to provide to the Legislature:<sup>2</sup>

- The number of personnel years assigned to DRA and a comparison of the staffing levels for a five-year period.
- 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.
- Workload standards and measures for DRA.

**Description of DRA Staffing**

DRA currently has 142 authorized positions.<sup>3</sup> At its peak, DRA was comprised of eleven branches with over 200 employees.<sup>4</sup> The table below provides a comparison of current staffing levels with those over the past five years.

**DRA Budget over the Past 5 Fiscal Year Periods**

Fiscal Year	Total DRA Staff	Explanation
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 position added to Energy branch for Greenhouse Gas issues
2009/10	140	2 positions added to Energy Policy and Planning Branch for Transmission issues
2010/11	142	2 positions added to EPCP Branch for Energy Efficiency and Low-Income Issues

DRA is led by an executive management team, which oversees DRA’s five branches covering the issues of communications, energy, and water. Dana Appling was the Director of DRA until August of 2010. She had served as DRA’s director since 2004.

<sup>2</sup> This report is submitted in compliance with Section 309.5 (f) and (g) of the Public Utilities Code.

<sup>3</sup> Except for the Chief Counsel position which was authorized by Senate Bill 608, the CPUC Legal Division assigns attorneys to support DRA’s staff in litigation matters. These attorneys technically are not members of DRA’s staff although the cost for legal resources is included in DRA’s budget.

<sup>4</sup> 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 Division 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, Statues 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.

**Acting Director/Legal Counsel, Joe Como:** Since Dana Appling's untimely passing in August, DRA's Legal Counsel Joe Como has served as DRA's Acting Director. The Acting Director manages the advocacy activities of three energy branches and the water and communications policy branches consisting of 142 staff. Mr. Como is also responsible for all of DRA's legal activities.

**Deputy Director/Energy, David Ashuckian:** David Ashuckian oversees the activities of DRA's three Energy branches: Energy Cost of Service Branch, which works on ratemaking activities including Natural Gas; Policy and Planning Branch which works on electric procurement, transmission, and climate change activities including renewables; and the Electricity Pricing and Customer Programs Branch which works on rate design, demand-side management, and low income programs.

**Deputy Director/Water & Communications Policy, Phyllis White:** Phyllis White oversees the activities of DRA's Water and Communications branches. The Water Branch works on general rate cases and water policy. The Communications Policy Branch works on issues related to customer protection, service quality, and small carrier rate cases.

**Policy Advisor, Cheryl Cox:** Cheryl Cox is responsible for leading DRA's lobbying and public outreach efforts. She coordinates DRA's efforts to educate and persuade policymakers on ratepayer issues for energy, water, and telecommunications. Cheryl works to educate the public through the media and working collaboratively with community stakeholders.

**Legislative Director, Matthew Marcus:** Matthew Marcus is based in Sacramento and leads DRA's legislative lobbying and educational efforts as well as responding to inquiries from Assembly and Senate offices and the office of the governor.

DRA's 142 authorized staff positions are allocated across five branches in the areas of Communications Policy, Energy, and Water, managed by Program Managers:

- **Communications Policy Branch** (16 Staff), Denise Mann
- **Energy Branches** (85 Staff):
  - ➔ **Energy Cost of Service Section (ECOS)**, Mark Pocta
  - ➔ **Energy Planning and Policy Section (EPP)**, Cynthia Walker
  - ➔ **Electricity Pricing and Customer Programs Section (EPCP)**, Linda Serizawa
- **Water Branch** (38 Staff), Danilo Sanchez

DRA's staff consists of technical, policy, and financial analysts with professional backgrounds as engineers, auditors, and economists with expertise in regulatory issues of the electricity, natural gas, telecommunications, and water industries in California.

DRA's staff has increased by nine positions since 2006-2007 reflecting the increase in new work in energy and water policy as California has strengthened its commitment to climate change goals. DRA added two energy positions in Fiscal Year 2010-11.

**DRA's Budget**

Each year DRA reports to the legislature the total dollars expended by DRA in previous years, estimate total dollars expended in the current year, and the total dollars proposed for appropriation in the upcoming budget year.

**DRA's Budgets over the Past Five Years**

Fiscal Year	Total Direct Dollars Including Reimbursable Contracts <sup>5</sup>	Total Direct Dollars Plus Legal and Administrative Support
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	\$21,313,500	\$28,554,205
2011/2012	\$21,313,500	\$28,554,205

DRA develops its budget internally and then works with the CPUC to ensure DRA has sufficient resources, including assignment of attorneys and other legal support for the effective representation of consumer interests.<sup>6</sup> DRA's Budget is statutorily designated as a separate account into which monies are annually transferred via the annual Budget Act to the CPUC Ratepayer Advocate Account, to be used exclusively by DRA in the performance of its duties. DRA's proposed \$28.6 million budget for fiscal year 2010/2011 includes staffing, legal services, and administrative overhead.

**DRA's budget is less than 1/10th of one percent of the approximately \$50 billion in revenues generated by California's regulated utilities, and represents a small fraction of the savings DRA brings to Californians in the form of lower utility rates and avoided rate increases.**

<sup>5</sup> The DRA annual budget includes an authorization for "reimbursable contracts," the costs for which DRA is reimbursed by the utilities involved. For FY2011/2012, 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.

<sup>6</sup> 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 Workload Standards and Measures

### DRA measures its workload in two ways:

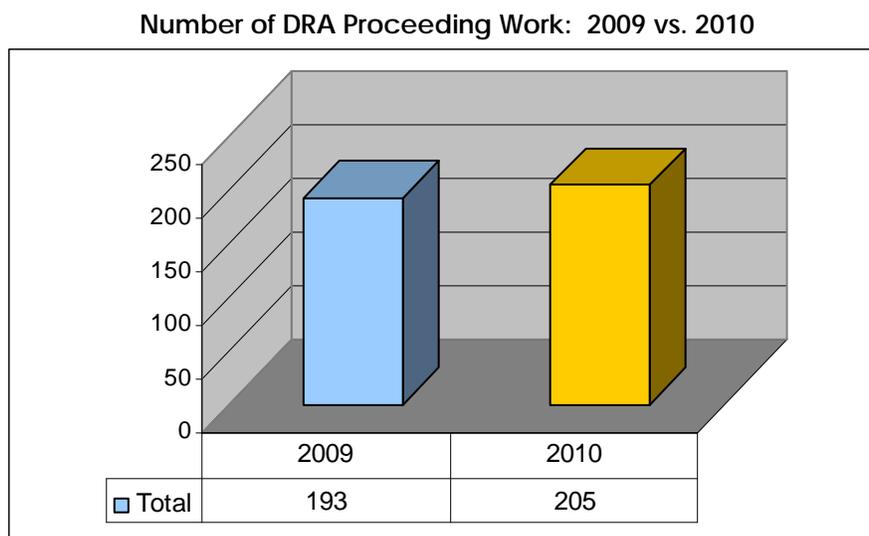
- The number of proceedings<sup>7</sup> in which DRA participates.
- The number of pleadings<sup>8</sup> filed by DRA with the CPUC.

In 2010, DRA participated in 205 formal CPUC proceedings. These numbers do not reflect the greater complexity of the issues being addressed by DRA in omnibus proceedings addressing greenhouse gas emissions, renewable resource development, telecommunications deregulation, water conservation, and other major initiatives. 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.

### DRA's Proceeding Work:

In 2010, DRA participated in 205 proceedings – an increase in its proceeding workload by approximately 5%. The following charts represent the number of formal CPUC proceedings in which DRA participated by industry group in 2010, and in comparison to 2009 proceeding participation.

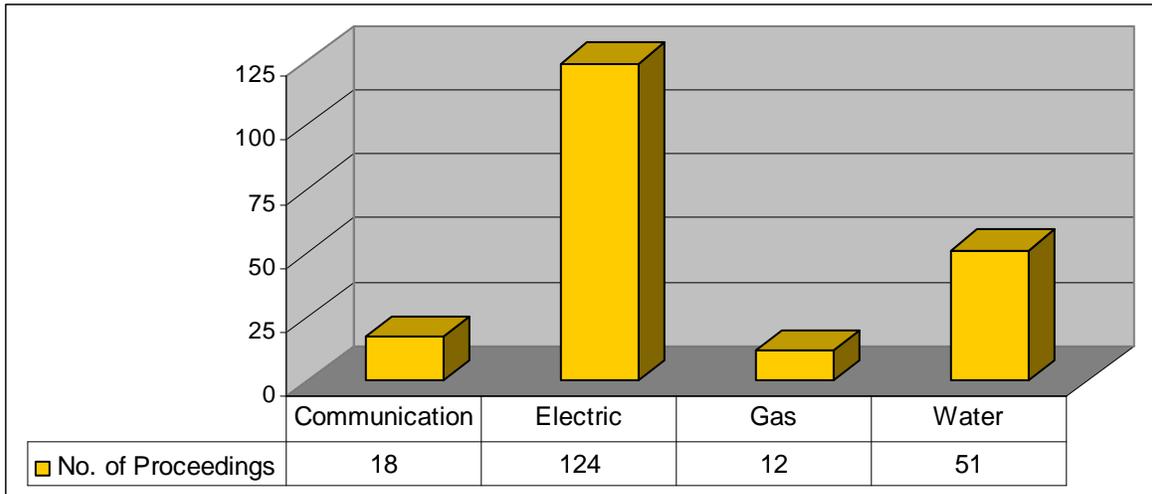
### The number of Proceedings that DRA worked on = 205.



<sup>7</sup> A Proceeding is a formal case before the CPUC in which a legal record is developed. It may include an evidentiary hearing with the opportunity to cross-examine witnesses.

<sup>8</sup> A Pleading is a legal document filed in a formal proceeding before the CPUC. The CPUC conducts proceedings regarding a wide variety of matters such as applications to raise rates, CPUC investigations, CPUC rulemaking, or complaint cases. In a typical proceeding, pleadings filed by DRA might include a protest to a utility application, a motion for evidentiary hearings, opening and reply briefs, and opening and reply comments on a proposed decision, CPUC rulemaking, or CPUC investigation.

Number of DRA Proceeding Work by Industry



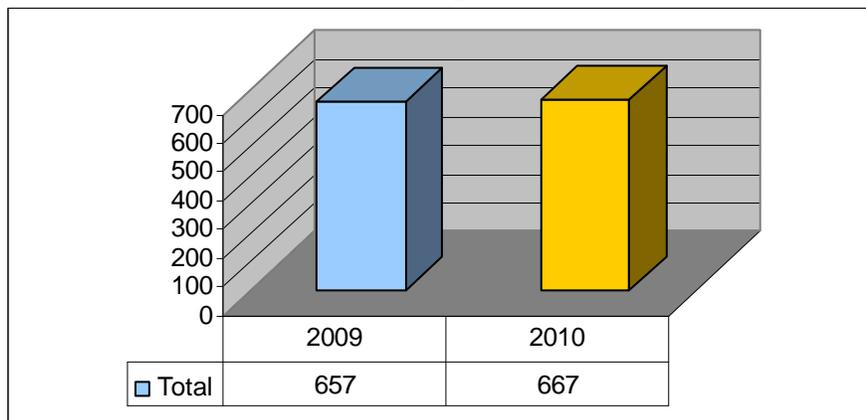
**DRA’s Pleading Work:**

DRA staff and attorneys file hundreds of pleadings annually on behalf of customers covering issues related to electricity, natural gas, communications, and water. In 2010, DRA filed 667 pleadings in formal CPUC proceedings - a slight increase in its pleadings from 2009.

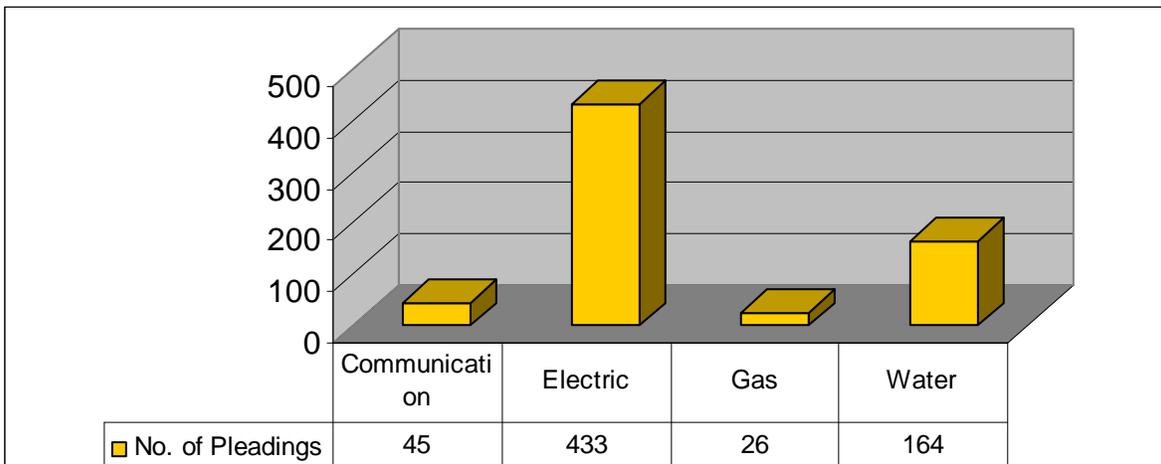
The following charts represent the comparison of the numbers of pleadings DRA filed in 2008 and 2009, in total and by industry group, respectively.

**The number of Pleadings DRA filed in 2010 = 667.**

Number of DRA Pleadings Filed: 2009 vs. 2010



**Number of DRA Pleadings Filed by Industry in 2010**



Additionally, DRA participates in numerous informal proceedings before the CPUC in which utilities often seek authority via an advice letter.<sup>9</sup>

Beyond its participation in formal and informal CPUC proceedings, DRA is an active participant in proceedings at the California Energy Commission, the California Independent System Operator, and the California Air Resources Board. DRA also provides consumer representation in other forums related to the CPUC's proceedings such as meetings to review utility procurement decisions, low-income oversight boards, telecommunication public policy committees, industry committees of the National Association of State Utility Consumer Advocates, and the Pacific Forest and Watershed Stewardship Council.

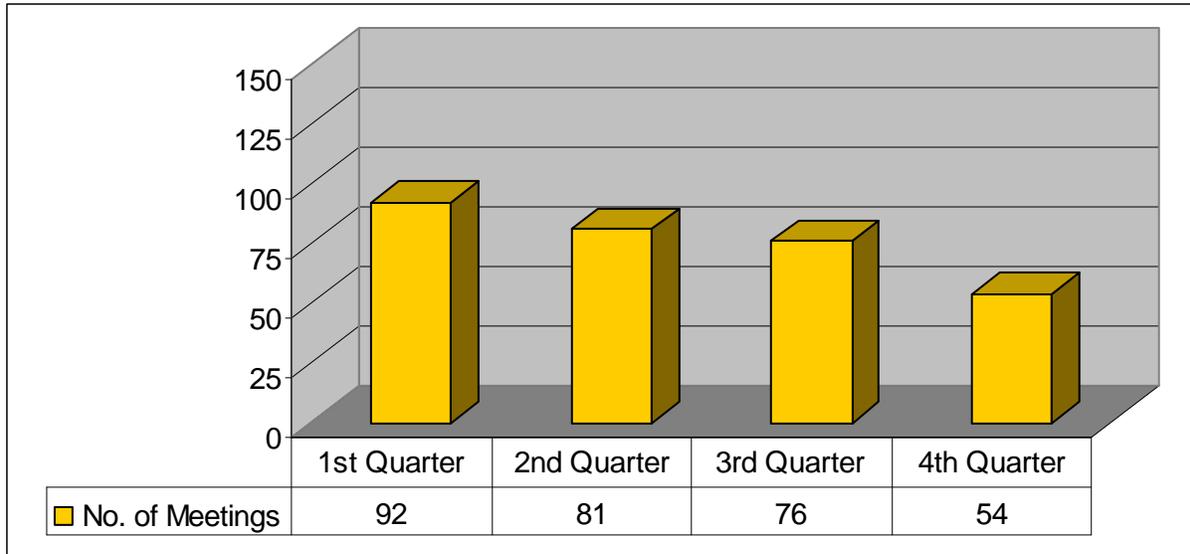
**DRA Outreach and Education:**

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 also measures its Commission lobbying efforts by tracking the number of contacts it has with Commissioners and their advisors in connection with CPUC proceedings.

<sup>9</sup> An Advice Letter is a filing by a utility seeking authority to spend ratepayer money or set/change policies which may have a significant impact on ratepayers. Utility requests via Advice Letters are typically authorized by a Commission decision adopted in a formal proceeding which sets certain parameters for determining whether the Advice Letter request is valid and should be granted.

**DRA met with Commissioners and/or their advisors over 300 times.**

Number of DRA Lobbying Visits to Commissioner Offices in 2010<sup>10</sup>



**DRA reached the public through the media over 200 times.**

In its efforts to create more transparency of the CPUC decision-making process and its outcomes that affect the daily lives of Californians, DRA’s media outreach efforts resulted in more than 200 press mentions in large and small California media outlets across the state. Additionally, DRA aided in providing the ratepayer perspective in numerous other news stories.

DRA works with a wide variety of stakeholders including small business organizations, community and environmental groups, and other consumer oriented organizations to augment the voice of ratepayers.

<sup>10</sup> This figure reflects the number of meetings between DRA representatives and CPUC Commissioners or their Advisors.

# DRA Lobbying in Sacramento



DRA 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, investor-owned 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.

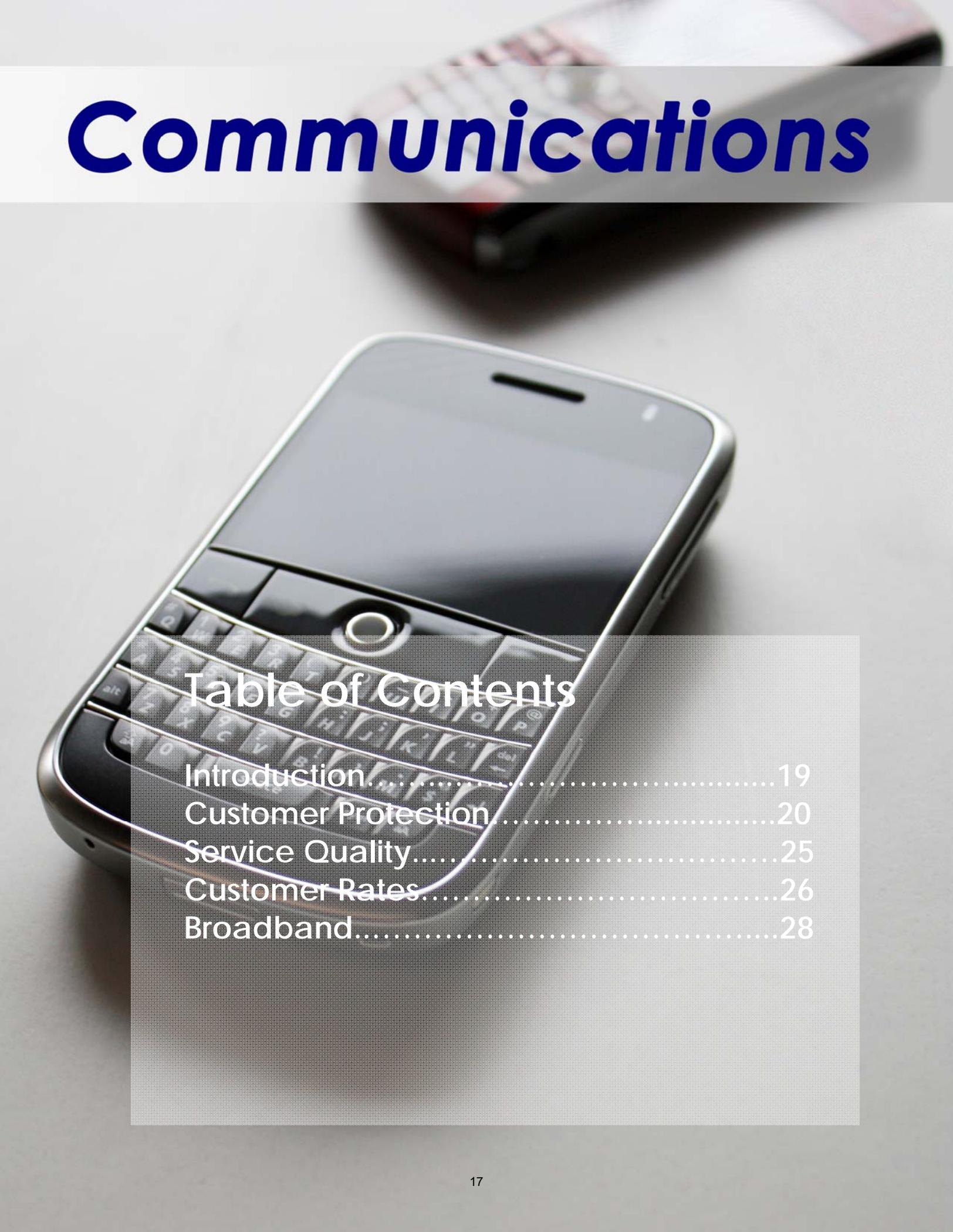
DRA worked directly with Member offices and testified on many consumer protection bills this year:

## Energy

- **AB 1879 (Beall)** - Would have required the CPUC to re-examine if electric or gas investor-owned utility small commercial customers should be responsible for costs resulting from utility metering or billing errors for up to 3 years – *Supported*.
- **AB 2441 (Berryhill)** - Would have required the CPUC to set the natural gas surcharge rate paid by commercial and industrial non-core end-use customers at 25% of the natural gas surcharge rate paid by other customers. The natural gas surcharge rate funds low-income assistance programs, including energy efficiency, conservation, and most notably the California Alternative Rates for Energy program – *Opposed*.
- **AB 2514 (Skinner)** – Requires, among other things, the investor-owned utilities to develop plans and procure energy storage systems, as specified – *Supported with amendments*.
- **SB 837 (Florez)** – Previous version would have reduced service disconnections, addressed faulty equipment concerns, and prevented the mis-use of ratepayer information associated with advanced metering infrastructure, as specified – *Supported*.
- **SB 1437 (Kehoe)** – Previous version would have required the CPUC to determine the appropriate ratepayer surcharge for subsidizing electricity for plug-in hybrid and electric vehicles – *Supported*.
- **SB 1476 (Padilla)** - Protects the personal identifiable information of electric and gas customer's that use advanced metering infrastructure – *Supported*.

## Telecommunications

- **AB 2213 (Fuentes)** - Makes specified definitional changes to the LifeLine program created by the Moore Universal Telephone Service Act. These changes would provide eligible LifeLine individuals with the option to choose current technologies, such as wireless service, in lieu of traditional wireline technologies – *Supported*.
- **SB 1040 (Padilla)** - Promotes deployment of broadband infrastructure in unserved and under-served areas – *Supported with amendments*.



# Communications

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The CPUC no longer regulates rates charged by the four largest California telecommunications carriers. DRA will analyze the effect of rate deregulation on basic telephone service—a fundamentally, crucial service for the California working poor. DRA will advocate for the availability, adequacy, and affordability of LifeLine Service and other Public Program Programs for low-income consumers and consumers with disabilities.

DRA will additionally participate in the general rate cases of the more numerous and smaller, mostly rural, local exchange carriers that remain subject to rate regulation. DRA's objective is to ensure customer rates comport with the cost of service and does not unduly burden the larger body of ratepayers who subsidize the high cost of providing service to rural remote areas of California.

With communications services largely rate deregulated in California, DRA expects, and will encourage, vigilant CPUC involvement in the areas of service quality, reliability, customer protections, and emergency communications policy. DRA monitors market and complaint data and will quickly intervene if abusive marketing or other anti-consumer behavior becomes apparent.

Finally, DRA supports the implementation of ubiquitous broadband deployment and access throughout California, for all Californians without regard to location, income, or physical limitation. DRA will continue to advocate before the CPUC and elsewhere that ratepayer subsidized build-out requires more transparency, accountability, and cost-effectiveness than current CPUC rules provide.

## COMMUNICATIONS: INTRODUCTION

DRA represents California customers in their purchase and use of telephone services – both wireline and wireless - advocating on behalf of telephone ratepayers for:

- Customer Protection
- Service Quality
- Broadband Access
- Emergency Communications
- Payphones
- Special Telephone for Deaf and Disabled
- Video Franchise: Public/Education/Government Channels
- Low-Income Services

While the CPUC does not currently regulate the rates for the large telephone carriers of AT&T, Verizon, Surewest, and Frontier. DRA continues to be concerned about the lack of rate regulation in a monopolistic market for wireline service and continues to monitor the impacts on customers and keep decision-makers and lawmakers informed. DRA does, however, continue to review and evaluate the rate increase requests from smaller California carriers, which are mostly rural.

DRA actively seeks to protect customers. In 2010, DRA actively lobbied the Commission to take action which were, likely to 2011.

Commission at \$6.84 for Commission

offer LifeLine option. DRA and wireless and formalize customers.

DRA also won

from third party cramming activities for wireless telephone customers as the Commission adopted rules this year that require phone companies to be responsible for the content of their bills, refund customers for unauthorized charges, and provide customers with the option to block third party charges to their phone bills.

DRA supports deployment and equal access to broadband throughout California and filed a petition in September to improve the likelihood and accountability for such deployment. Current projects have large discrepancies in costs and no transparency for how public funds are spent. In December, the Commission voted to open a rulemaking to consider modifications to the California Advanced Service Funds which will address these concerns.



to address LifeLine rates without any action, increase in January. Subsequently, the capped LifeLine rates the next two years. The also adopted DRA's recommendation to customers a wireless will work with the CPUC carriers in 2011 to shape LifeLine rules for wireless

additional protections

### California LifeLine Program

In 2010, DRA actively advocated to both preserve and expand the LifeLine program before rates could expire in January 2011. DRA proposed solutions that would make a near-term resolution possible, yet provide the time needed for the CPUC and stakeholders to discuss and explore many complex issues.

**1.8 million**

LifeLine Subscribers

In November 2010, the CPUC issued a final decision adopting DRA's recommendation to bifurcate the LifeLine issues to:

- Extend guaranteed low LifeLine rates by January 1, 2011.
- Commit to a wireless LifeLine option now in order to make the LifeLine program more flexible, but to explore the details of implementation through a workshop process.

### **DRA Advocacy Aided in Preserving LifeLine Rates for Nearly 2 Million Low Income Customers**

In doing so, DRA was instrumental in convincing the CPUC to de-link LifeLine rates from AT&T's rates so that LifeLine affordability is not dependent on AT&T's market power. In its decision, the CPUC capped LifeLine rates at \$6.84 for two years and added a "voluntary" wireless option to the program.

### **DRA was Instrumental in Obtaining Wireless Option for LifeLine Customers**

Many low income customers will benefit from a wireless option, including those of mobility and avoiding costly landline connection charges. DRA was also pivotal in proposing a bifurcated approach to the proceeding, designed to separate affordability concerns from unresolved complex wireless issue.

In 2011, DRA plans to actively participate in LifeLine workshops to develop a wireless carrier LifeLine program. DRA will advocate to ensure that the proceeding progresses in a timely manner in order to resolve issues before rate caps expire in 2013.



*The **California LifeLine Telephone Program (LifeLine)** provides discounted basic residential telephone service to low-income customers and has continued to be a controversial subject in 2010.*

*Controls on LifeLine rates were due to expire as of January 1, 2011, leaving many families that depend on low-cost telephone service uncertain of rate increases if the CPUC did not act by the end of the year.*



**Cramming:** *The placement of unauthorized, misleading, or deceptive charges on a customer's telephone bill. Cramming not only causes considerable economic injury, but it also threatens the integrity of the public telephone system.*

*Cramming costs millions of dollars in loss from fraud every year. Cramming fraud is easy and profitable because telephone companies, billing aggregators and third party service providers all receive a portion of often substantial revenues— in the millions and hundreds of millions of dollars from cramming.*

*Examples of cramming include being billed for unsolicited ringtones or text messages.*

*Third- Party cramming refers to independent service providers that utilize wireless carriers as the vehicle for their services; First- Party cramming refers to the wireless carriers themselves.*

### Cramming

In 2010, DRA conducted a detailed investigation of customer complaints filed at the CPUC and found that cramming is still a critical problem despite industry claims of self-policing. DRA believes that a customer's phone bill should bear the same scrutiny as other fiduciary or quasi-fiduciary contractual relationships.

DRA developed recommendations for improving customer protections against cramming and strongly advocated with decision-makers to adopt rules that would provide a foundation for enforcement of fraud rules.

### **DRA was Instrumental in the Development of Third Party Cramming Rules**

In October 2010, the CPUC agreed with key DRA proposals and adopted a decision to institute California Telephone Corporation Billing Rules. The adopted rules include DRA proposals that:

- Require phone companies to be responsible for the content of their bills.
- Require refunds for unauthorized charges for up to two years from the charge (or if customers mistakenly paid fraudulent bills).
- Provide customers the option to install a block to all third-party charges on their bills.

The CPUC, however, did not adopt DRA's recommendation to require the same rules be applied to first-party providers, the wireless carriers themselves.

In 2011, DRA will continue to monitor implementation of the new billing rules and to investigate and collect data on phone billing practices. DRA will also seek to investigate first-party cramming infractions by the phone companies themselves and to advocate for rules and enforcement to protect ratepayers.

## E 9-1-1

In 2010, the CPUC initiated a rulemaking to evaluate the need for specific E9-1-1 rules for multi-line telephone systems. Currently, 9-1-1 calls from a multi-line telephone or from a multi-story office building do not specifically identify or transmit the location, floor, and/or number/extension of a call.

Emergency responders, therefore, must take the time to search a building or compound to locate the 9-1-1 caller. DRA strongly supports proposals to require multi-line telephone systems to pinpoint the location of the caller to the exact telephone extension and floor number and to provide that information to the emergency dispatcher.

In 2011, DRA will participate in a series of CPUC-sponsored working groups to identify the technological feasibilities and estimated costs of implementing multi-line telephone system E9-1-1 standards.

DRA will continue to monitor this proceeding and further participate in any necessary way to guarantee that the public receives adequate and reliable emergency safety service. Anything less than precise and instant call location information in an emergency fails to protect Californians, and DRA is committed to improving safety in California's homes and offices.

## California Advanced Service Fund (CASF)

On September 13, 2010, DRA filed a petition for modification CPUC decision D.07-10-054 on the CASF on the grounds that the decision:

- Erroneously assumed that competition to provide broadband service would keep prices low.
- Lacks transparency in the CASF application review process.

DRA's Petition emphasized that the CPUC has a statutory obligation to review how the public's money is spent. Accordingly, DRA recommended that the CASF program should do more to encourage adoption and affordability of high speed broadband in unserved and underserved communities at reasonable rates.

**\$225 million**  
casf fund



### **Enhanced 9-1-1 or**

**E9-1-1** automatically transmits the caller's phone number and location when a 9-1-1 call is made, thus allowing for faster and more efficient dispatch of the emergency assistance (police, fire, ambulance) needed.



### **Multi-Line Telephone System (MLTS)**

is an internal telephone system that serves an entire office building or group of buildings, for example, an old-style PBX system serving multiple buildings on a college campus.



### **The California Advanced Service Fund (CASF)**

was instituted by the CPUC on December 20, 2007, in accordance with Public Utilities Code §701. In 2007, the CPUC adopted Decision (D.)07-10-054, which established the CASF and allocated \$100 million of ratepayer funds from the California High Cost Fund-B (CHCF-B) to the CASF to promote broadband deployment in unserved and underserved areas of California.

Initially, the CPUC granted limited funds to proposed projects, however, the CASF grant requests significantly increased following the initiation of the American Recovery and Reinvestment Act (ARRA), which supplemented CASF funding with matching federal grants. On September 27, 2010, the Legislature chaptered Senate Bill 1040 (Padilla), which amended Pub. Util. Code § 281 and extended the CASF indefinitely, while also supplementing the fund by an additional \$125 million of ratepayer dollars.

## COMMUNICATIONS: CUSTOMER PROTECTION

The CPUC has approved projects with total costs per household that range from approximately \$289 to \$37,000. To date the CPUC has not analyzed the costs or the reasons for the discrepancies in costs across projects.

### DRA Calls for CASF Program Oversight

It is DRA's position that ratepayer subsidies are inefficiently expended if broadband facilities receive funding, but households and small businesses cannot afford to subscribe to the services those subsidies help create. To combat this, DRA recommended that the CPUC modify the current CASF process to include and strengthen:

- Transparency for use of public funds
- Affordability and Adoption
- Standards for Internet Speeds
- Cost Controls
- Open Access and Net Neutrality
- Audits



### DRA Persuaded CPUC to Open CASF Rulemaking

On December 16, 2010, the CPUC voted unanimously to initiate a rulemaking to consider modifications to the CASF program, including implementation of SB 1040. The rulemaking also addresses other possible changes to the program, which substantially incorporate recommendations articulated in DRA's petition for Modification of D.07-12-054.

In 2011, DRA will continue to monitor CASF grants and expects to participate actively in the new Order Instituting Rulemaking with the goal of using the CASF rulemaking to deploy broadband service throughout California at justified and reasonable costs.

### Non-Dominant Interexchange Carriers (NDIECs)

DRA participated in the CPUC's NDIEC proceeding to revise the registration process established in Decision (D.)97-06-107 for NDIECs for the purpose of protecting consumers from fraud or unlawful business practice. DRA filed comments and provided detailed recommendations for a more rigorous registration process to include customer protection requirements.

#### **DRA Helped to Shape Improved Registration Rules**

On September 2, 2010, the CPUC's final decision, D. 10-06-017, adopted several DRA recommendations. These are:

- **More Thorough Review for New Applicants** – Requires registration license applicants to provide resumes of all key officers, directors, and owners of 10 percent or more of outstanding shares, listing all employment, from officers and directors of applicants; to provide information on prior or current known investigations by governmental agencies, and any settlement agreements, voluntary payments, or any other type of monetary forfeitures.
- **Proof of Good Standing and Current CPUC Compliance for Transfer Applicants** – Requires applicants seeking to transfer registration licenses to show good standing and verify compliance with CPUC reporting, fee, and surcharge transmittals.
- **Higher Registration Fee** – Increases the application fee for new and transferred registration licenses from \$75 to \$250, in order to help offset the additional costs associated with expanded applicant reviews.
- **Performance Bond Requirement** – Requires all applicants to post a bond of at least \$25,000 or 10 percent of intrastate revenues reported to the CPUC, whichever is greater, in order to facilitate the collection of fines, penalties, and restitution related to enforcement actions taken against companies, as well as to recover customer advances and deposits.
- **Annual User Fee** – Establishes an annual user fee of \$100 for registrants (original DRA recommendation was \$300 renewal fee every three years) to keep the NDIEC database up-to-date, as those who do not pay annually will be removed.

DRA is concerned that NDIEC applicants may try to obtain a license through a traditional Certificate of Public Convenience and Necessity (CPCN) application process in order to avoid posting a performance bond or making full disclosures of prior records, as these are not required for the CPCN application. This issue was not resolved in the final decision. DRA will review Communications Division records in the coming months to identify new NDIECs registered through the CPCN process, and may seek to modify the prior decision accordingly.



#### **Non-Dominant Interexchange Carriers**

**(NDIECs):** companies that provide stand-alone telecommunications services including long-distance, high-speed data service, operator services and prepaid debit card services.



#### **The NDIEC Proceeding**

was opened in response to findings in the 2007 State Controller's Audit Report that found that the CPUC's collection efforts were ineffective against companies that ceased to operate or filed for bankruptcy when fines were imposed. The Audit Report recommended, among other things, that the CPUC conduct more stringent background and financial viability reviews of individuals or companies registering with the CPUC, and that the CPUC require the posting of a performance bond for NDIEC registration.



#### **CPCN:**

A permit issued by the CPUC for proposed utility infrastructure projects. The PU Code requires the CPUC to examine the cost, need, and environmental impacts of a project. It explicitly allows the CPUC to cap expenditures and modify the project to better meet ratepayer need and minimize environmental impacts.



*In 2007, Southern California was devastated by a series of wildfires, caused partly by overhead transmission and phone lines. In response to the disaster, the CPUC adopted more stringent standards to reduce the risks of safety infrastructure failures.*

*On August 20, 2009, the CPUC adopted an interim decision (D.09-08-029) addressing the first phase of issues including denying authorization for the state's largest telephone carriers to add a new fee to customer bills. The Decision left the remaining issues to be decided in Phase 2, including ratemaking issues.*

### Critical Infrastructure

In 2010, DRA participated in Phase 2 of the CPUC's proceeding to improve and protect California's critical infrastructure by addressing:

- Additional safety concerns.
- Determining the appropriate cost recovery mechanism for the electric utilities and Small Local Exchange Carrier (Small LEC) telephone providers.

Throughout 2010, DRA participated in workshops to assist in the shaping of more appropriate safety measures that will protect critical infrastructures during disasters.

### **DRA Worked to Improve the Reliability of Critical Infrastructure During Disasters**

Accordingly, the CPUC's Consumer Protection and Safety Division issued a proposal for augmented safety rules. The proposed rule will enhance existing safety rules, but also required additional utility expenditures. In response, DRA asserted that while traditional rate recovery methods are appropriate for GRC-regulated companies, utility requests to streamline cost recovery without proper CPUC review are inappropriate for the purpose of ensuring that the utilities actually complete their projects.

In September 2010, DRA filed opening and closing briefs in response to the CPUC's August 17 Workshop Report stating that the utilities had failed to provide sufficient justifications for adoption of their cost recovery proposals. The CPUC should, therefore, adopt DRA's recommendation to verify the reasonableness of utility compliance costs in a formal proceeding as a requirement for cost recovery.

A final Phase 2 decision which will clarify outstanding critical infrastructure issues is currently pending, but expected to be resolved in early 2011. DRA will proactively work with the CPUC and other stakeholders to promote movement on this important public safety issue that requires resolution as soon as possible, at justified and reasonable costs.

## Price Controls for Basic Residential Service

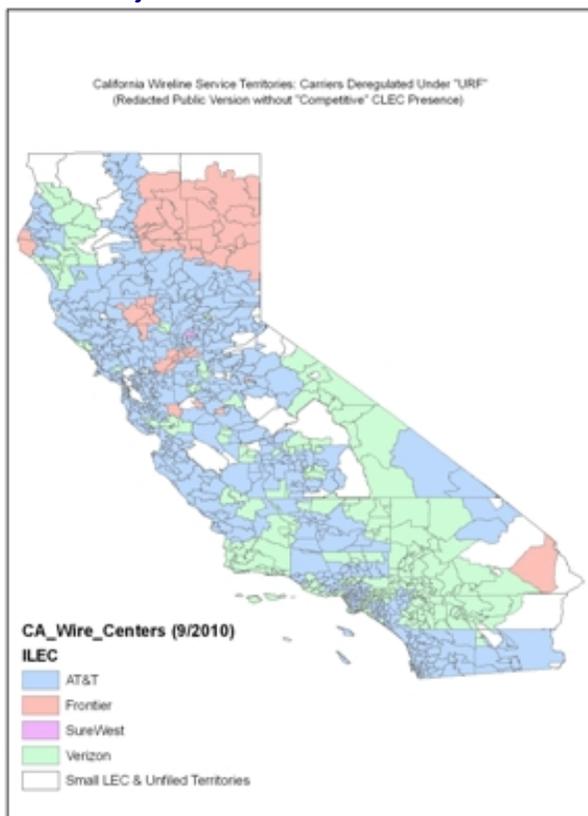
Given DRA's policy position to protect the affordability of telephone service and reverse growing trends of rate increases, in October 2010 DRA petitioned the Commission to extend the price controls on basic residential rates that are scheduled to be lifted on January 1, 2011.

### DRA Published Report Illustrating the Failure of Deregulation to Control Customer Rates

DRA's petition is based on the findings of its report, *The Failure of Consumer Protection*. DRA's report shows that lifting the price controls as scheduled will result in substantial rate increases, adversely affecting high-cost areas of the state as well as middle and low-income ratepayers:

- Rates on uncapped services have skyrocketed.
- Wireless service is not a substitute for wireline service.
- There is little if any competition for home phone service sufficient to produce stable or reduced prices.
- Basic residential rates are certain to increase in the absence of sufficient competition or regulation.

### DRA Map Illustrates No Area Overlap of Major Carriers Service Territories



*In 2006, the Commission issued a decision deregulating landline telephone rates, asserting that competition by wireless and other services would be adequate to keep residential wireline rates low. DRA filed a petition in 2008 to modify the Commission's 2006 deregulation decision based on its "Report on Rate Increases," which demonstrated that there were significant rate increases (especially by AT&T and Verizon) since prices were deregulated. In 2009-10, DRA successfully convinced the Commission to adopt gradual rate increases for basic residential telephone services but these caps were set to expire on January 1, 2011. Then in July 2010, the California Senate Office of Oversight and Outcomes' issued July 16, 2010, report "California Public Utilities Commission: Gaps Emerge in Telephone Consumer Protections," which concluded that deregulation of the California telecommunications market caused rates to increase with no apparent end in sight.*

With telephone rates set to increase in January 2011, DRA lobbied Commissioners to have the CPUC to open a new investigation in 2011 to address issues of telecommunications and to evaluate the Commission's basic premises of deregulation in relation to real market conditions. On December 31, Commissioner Bohn released a ruling for the purpose of analyzing the impact of deregulation on basic telephone service rates.

In 2011, DRA will continue to advocate to freeze residential rates and urge the CPUC to move quickly to examine rates and competition in California.



**California High Cost Fund**

**A (CHCF-A)**. *The CHCF-A provides a source of supplemental revenues to 14 small local exchange carriers (LECs) for the purpose of minimizing any rate disparity of basic telephone services between rural and metropolitan areas. CHCF-A is funded by an all-end-user surcharge billed and collected by telecommunications carriers.*

**Siskiyou Telephone Company Rate Case**

Siskiyou Telephone Company sought an increase in its CHCF-A allotment of \$2.55 million—26 percent more than its last CHCF-A request. The CHCF-A subsidizes small Local Exchange Carriers (LECs) for the difference between the amount of revenue they collect from their own customers and the amount of money needed for construction and operations.

DRA advocated for reductions in Siskiyou’s forecasted expenses and plant additions. After auditing Siskiyou’s accounts and reviewing past and projected expenses, revenue forecasts, cost of capital, plant additions, and rate design, DRA made numerous revenue reduction recommendations that included disallowing unnecessary expenditures, such as spending on luxury items and excessive salaries, as well as excluding or delaying new facilities and plant replacements.

In June 2010, DRA successfully negotiated a settlement with Siskiyou that resulted in the following savings:

- **Revenues** – A reduction of \$1.9 million in intrastate 2011 revenues and thereby the 2011 CHCF-A draw as well.
- **Expenses** – A reduction of \$696,000 in intrastate 2011 operating expenses.
- **Plant Additions** – A reduction of approximately \$1.6 million in 2011 net plant additions.
- **Cost of Capital** – An authorized rate of return on capital investments of 10 percent versus 12.4 percent as Siskiyou had requested; a reduction in the cost of capital by 2.4 percent.

The CPUC issued a final decision in November 2010 adopting the DRA/Siskiyou settlement. DRA’s advocacy resulted in nearly \$2 million of savings in telephone surcharges paid by California ratepayers.

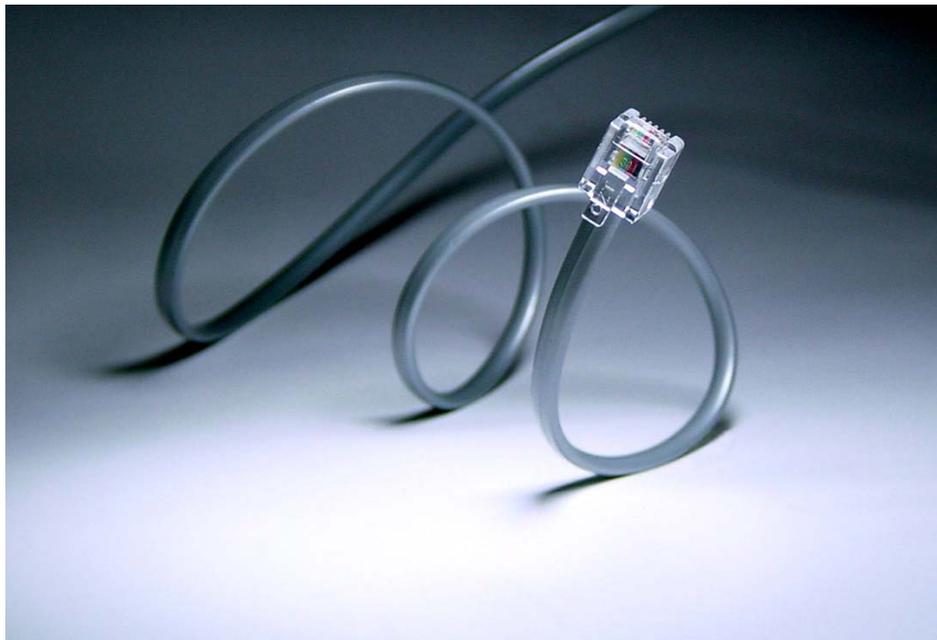
**DRA Work in 2011:** DRA anticipates it will be reviewing these rate cases in 2011.

<b>Upcoming Telecommunications General Rate Cases 2010-2011</b>		
<b>Carrier</b>	<b>Expected Filing Date</b>	<b>Number of Access Lines</b>
Foresthill Telephone Company (Foresthill, Placer County)	December 2010	3,200
Sierra Telephone Company (Oakhurst, Madera County)	December 2010	22,448

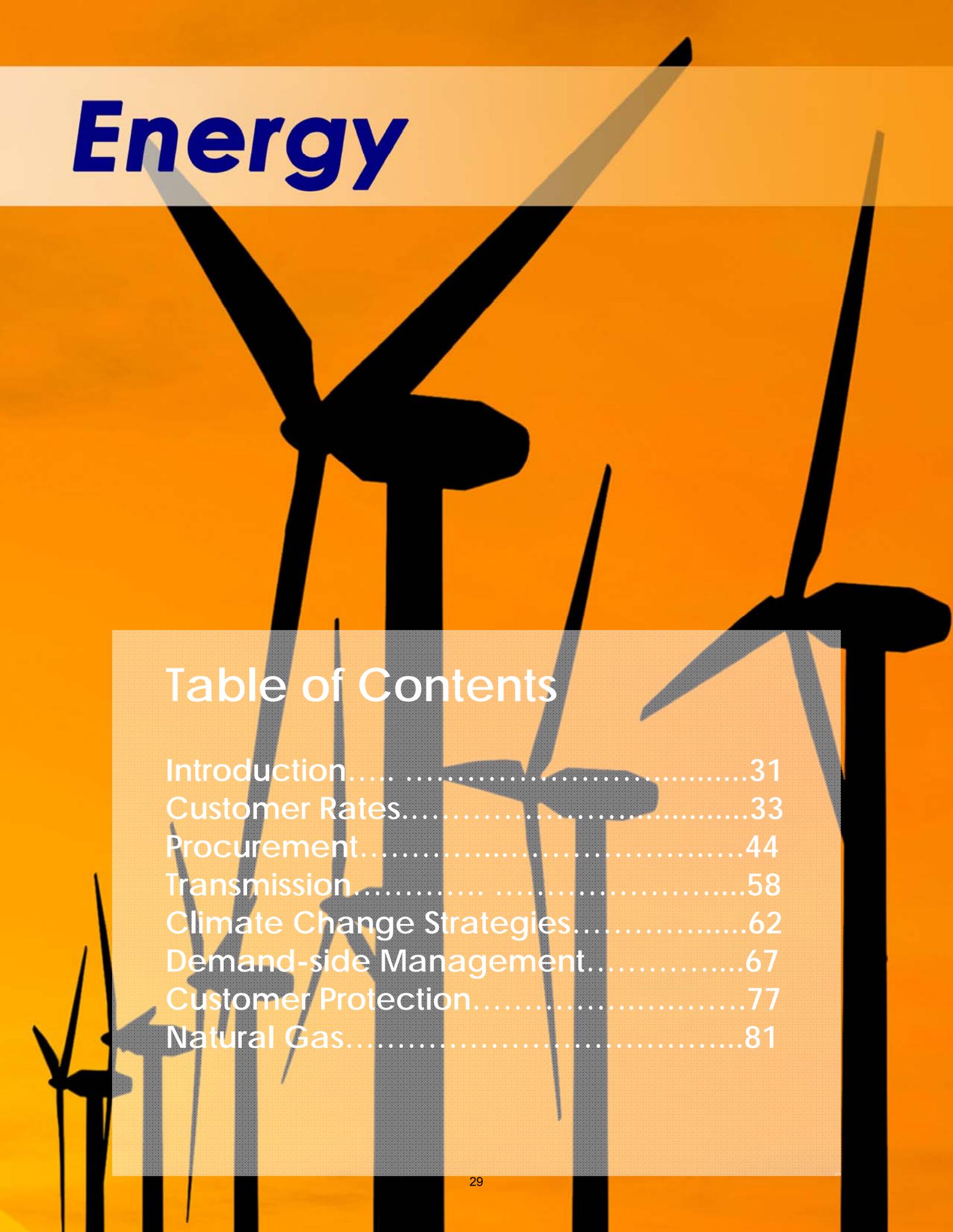
### DRA Sponsors Broadband Forum

On June 16, 2010, DRA held a forum on Internet telephony, led by Dr. Lee Selwyn who is an internationally recognized authority on telecommunications economics, network engineering, and public policy. DRA's outreach forum sparked thinking about the changing communications market and regulatory landscape. In his presentation, "The Transition to Internet Protocol Telecom: Revolution or Evolution?," Dr. Selwyn discussed current economic and policy issues relevant to regulators. He described the problems we face in the development and financing of broadband access and the Internet, and the way these new "technologies" use and are dependent upon the legacy telephone network. Comparable to such pivotal developments as the printing press and the telephone, the underlying Internet technology presents fresh challenges for decision makers.

DRA was pleased to host this educational event that raised awareness of business models, legalities, and philosophical considerations that are changing the way the market functions and is regulated as well as the needs of consumers. DRA is committed to reaching out to peer organizations and creating bridges with industry in order to further the discourse on issues of our time, such that the needs of Californians are a priority.



# Energy



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DRA's overall objective is to ensure that ratepayers receive reasonable and affordable energy that is also safe and reliable. In addition, our objective is to ensure that California's energy policies are achieved in the most cost effective manner.

DRA's energy policy objectives in 2011 are to ensure that energy programs implemented by utilities are cost-effective and that policy makers are provided with a comprehensive understanding of the issues that will adversely affect ratepayers, including costs to ratepayers, and barriers to achieving California's energy policy goals.

The challenge for the implementation of California's energy policy goals is to balance actual need at an appropriate cost. As a multitude of various strategies to achieve California's policy goals are implemented, policymakers will need to continuously consider the integration of programs and the timing of their deployment to avoid costly duplication, rather than allowing the proliferation of energy programs to become the goal at ratepayer expense.

### California's Energy Challenges

DRA's energy activities have resulted in a number of victories for ratepayers. In total, our efforts in 2010 will have saved ratepayers more than \$5 billion over the next few years.

#### **DRA's 2010 Efforts Saved Energy Ratepayers More than \$5 Billion**

2010 has been a challenging year for California's energy ratepayers. DRA started the year highlighting concerns regarding the utilities' recent pattern of increasing service disconnections of low income customers. The rate of disconnections was exacerbated by the advent of smart meters, which have the capability of remote disconnection. We were successful in having the CPUC open a rulemaking to consider ways the utilities could prevent service disconnections. DRA and other consumer groups reached a settlement with San Diego Gas & Electric Company and Southern California Gas Company, two of the four largest energy utilities. The settlement, which was adopted by the Commission in December sets forth strong consumer protections to prevent service disconnections.

Early in the summer, smart meters became the focus again when ratepayers in the central valley areas of Bakersfield and Fresno experienced significant increases in their monthly utility bills. It appeared that some meters were either over-counting energy consumption, or PG&E was not processing the meter data correctly. A rate increase that had occurred in March multiplied the effect of an unusually hot period in the spring. The CPUC ordered an independent investigation (at the expense of ratepayers) and the results, which were completed in early September, indicated that although individual meters were recording energy consumption accurately, there were a number of areas that PG&E could improve upon. However, the cause of the extremely high bills was not identified. DRA is reviewing the findings of the independent investigation in an effort to ascertain the reasons for the exceptionally high bills.

In September, PG&E made headlines again with the explosion of a high-pressure natural gas transmission line located in San Bruno. This tragedy was especially difficult for DRA as Jacki Greig, an analyst in DRA's Natural Gas Unit, and her daughter perished in the explosion. DRA awaits the final report of the National Transportation Safety Board (NTSB) to determine what role DRA can play to improve the oversight of ratepayers' investment in natural gas infrastructure that is essential to reliability and safety.

These events, along with the continuing efforts by the CPUC to achieve a number of energy policy goals create ongoing challenges for DRA. These goals include reducing peak load through demand response, achieving a 33% renewable resource level, and achieving energy efficiency goals.

The CPUC is striving to ensure that smart meters begin providing customers with benefits as soon as possible. This is transpiring in the form of dynamic rates, starting with commercial and industrial customers and will be implemented on residential customers as early as 2012. However, the early results from the deployment of critical peak rates indicates that most customers either do not understand the new rate structures, or are not interested in actively participating in peak rate pricing. This will become more of a challenge for utilities and ratepayers as customers are offered new rate programs, expected to actively participate in peak load reduction, and will need to be educated on how these new rate structures can provide ratepayer cost savings.

Energy efficiency is another area where DRA has advocated for improvements to increase the cost-effectiveness of ratepayer funded programs. Specifically, the CPUC has given the utilities

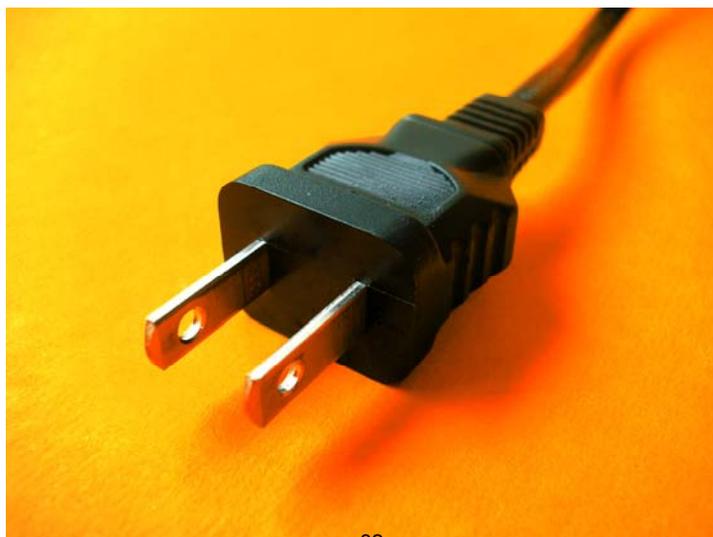
over \$200 million in bonuses to implement energy efficiency programs mandated by the CPUC, and paid for by ratepayers. These bonuses have been approved despite an independent report

conducted by the CPUC's Energy Division which determined that the utilities' energy efficiency savings efforts did not achieve the expected results. DRA's concern is that utilities are not the ideal provider to implement energy efficiency programs and is exploring independent administration as a more effective means to achieve the state's climate change and energy savings goals.

Reviewing procurement contracts for renewable resources to achieve the 20% and 33% renewable resource goals has been an area that DRA spent a significant amount of time on in 2010. DRA staff also produced a report on the declining prices of solar panels and associated reduction on California Solar Initiative (CSI) system prices compared to large scale solar PV bids from utility solicitations. One conclusion of the report was that large scale solar PV projects were not enjoying the same price reductions seen in the CSI program. In addition, the utilities have contracted for enough renewable resources to achieve the 20% goal, and are very close to procuring enough renewable resources to achieve the 33% goal. DRA's recommendation to the CPUC was to be more judicious and only approve IOU renewable procurement contracts benchmarked to the lower end of market prices.

A continuing challenge for DRA is in ensuring that policymakers integrate program timing and do not over-burden ratepayers with costly and duplicative programs in an effort to achieve California's energy policy goals. For example, ratepayers are now investing in energy efficiency programs and smart meters that are expected to reduce total energy use and peak load reductions. However, those reductions will not be fully realized for a number of years as smart appliances and other new technologies and programs are created and deployed to achieve those benefits. Yet, before these activities are able to achieve results, ratepayers are being asked to procure new fossil fueled generation that is necessary to integrate California's expanded use of renewable resources. Once the demand-side programs achieve success, many of the fossil fueled resources that are currently on the table for CPUC approval will no longer be needed. As a result, ratepayers may end up paying much more than necessary to achieve California's goals, and energy providers will experience declining market demand, both of which may further imperil California's long-term economic recovery.

In 2011, DRA will continue to advocate for the comprehensive integration of energy programs and policy decisions to ensure that ratepayer investments are cost-effective and that the duplication of energy program goals is minimized.



## ENERGY: CUSTOMER RATES

### PG&E 2011 General Rate Case

In December 2009, Pacific Gas and Electric Company (PG&E) filed its 2011 general rate case (GRC) requesting a \$1.1 billion (19.7 percent) increase in 2011 revenues for its electric generation and electric and gas distribution operations.

<b>\$1.1</b> billion	PG&E revenue increase request for 2011
<b>\$395</b> million	pending settlement

PG&E also sought revenue increases of \$275 million (4.1 percent) in 2012 and \$343 million (4.9 percent) in 2013. By contrast, DRA recommended a \$227 million (4.1 percent) increase for 2011, \$116 million (2 percent) in 2012, and \$107 million (1.8 percent) in 2013.

### **DRA Negotiated Agreement Saving PG&E Customers \$2 Billion Over Three Years**

On October 15, 2010, seventeen parties in the proceeding, including PG&E and DRA, filed a motion requesting adoption of a Settlement Agreement at the CPUC. The Settlement Agreement proposes to adopt revenue increases of \$395 million (7.1 percent) in 2011, \$180 million (3 percent) in 2012, and \$185 million (3 percent) in 2013. The Agreement figures are far less than the proposals made by PG&E and will result in a substantially lower bill increases for customers.

#### **2011-2013 Revenue Requirement: PG&E's Request vs. Settlement (in millions)**

Year	Authorized 2011 Rev.	PG&E's Proposals for 2011-2013 Revenue Requirement			Settlement Outcome for PG&E's 2011-2013 Revenue Requirement		
		Current Year Change	Current Year Total	Percent Change	Current Year Change	Current Year Total	Percent Change
2011	\$5,587	\$1,101	\$6,688	19.7%	\$395	\$5,977	7.1%
2012		\$275	\$6,963	4.1%	\$180	\$6,157	3.0%
2013		\$343	\$7,306	4.9%	\$185	\$6,342	3.0%

The proceeding is currently pending before the CPUC. The administrative law judge's proposed decision is anticipated to be released in early 2011. A final CPUC decision may be issued soon after.

**PacifiCorp 2011 General Rate Case**

In May of 2010, DRA served its reports recommending an increase in rates of only \$130,000 or 0.15 percent for PacifiCorp’s 2011 general rate case.

**DRA Negotiated \$13 Million in Savings for PacifiCorp Customers**

On June 23, 2010, DRA, PacifiCorp, and the California Farm Bureau Federation filed an All Party Motion for approval of a Settlement Agreement that recommends the CPUC grant PacifiCorp a \$4.1 million (4.6 percent) increase in rates for 2011. This compromise results in savings of \$4.3 million in 2011 relative to the utilities’ request and to \$12.9 million cumulatively for the GRC period of 2011 – 2013.

<b>\$8.4</b> million	PacifiCorp revenue increase request
<b>\$4.1</b> million	CPUC approved settlement

On September 2, 2010, the CPUC issued D.10-09-010, which adopted the Settlement Agreement.

**SCE 2012 General Rate Case**

DRA will actively participate in the Southern California Edison (SCE) 2012 General Rate Case (GRC).

<b>\$938</b> million	SCE revenue increase Request for 2012
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SCE filed its GRC application on November 23, 2010 (A.10-11-015), and is requesting a cumulative increase of \$4.12 billion over three years:

	Revenue Increase Request (millions)	% Increase
2012	\$938 million	17.5
2013	\$347 million	5.3
2014	\$612 million	8.9



**Region:** Northern California (Siskiyou County)

*In November 2009, PacifiCorp filed its 2011 general rate case proposing an increase in rates for its California retail customers of \$8.4 million or 9.6 percent overall.*

## ENERGY: CUSTOMER RATES

### SDG&E and SoCalGas 2012 General Rate Cases

At the end of 2010, DRA began to review the 2012 General Rate Case (GRC) for Sempra companies, San Diego Gas & Electric (SDG&E) and Southern California Gas (SoCalGas).

The applications were filed on December 15, 2010 and represent a \$911 million total request from Sempra over a period of four years, based on the following increases.

**SDG&E is requesting a revenue increase:**

	Revenue Increase Request (millions)	% Increase
2012	\$246	7.0
2013	\$54	3.2
2014	\$72	3.0
2015	\$89	4.0

**SDG&E is requesting a revenue increase:**

	Revenue Increase Request (millions)	% Increase
2012	\$282	7.4
2013	\$55	3.2
2014	\$62	3.0
2015	\$51	4.0

In 2011, DRA will be reviewing both applications in detail to control bill increases for customers.

### PG&E Electric Distribution Reliability Improvement Project

In June 2010, the CPUC resolved PG&E's May 2008 application requesting a \$1.122 billion revenue requirement increase for a seven-year called the *Cornerstone Improvement Project (CIP)*. The project comprised incremental increases to ratepayer over six years, per PG&E's request.

On July 17, 2009, DRA issued its report recommending that the CPUC provide no ratepayer funding for PG&E's proposed capital expenditures and operation and maintenance expenses of the CIP since PG&E had failed to justify its requested CIP expenditures. DRA concluded that the costs of the Distribution Capacity portion of the CIP were not justified by the minimal reliability improvements forecasted by PG&E.

### **DRA Opposed PG&E Unsubstantiated Cost Increases Saving Ratepayers \$1 Billion**

On June 24, 2010, the CPUC issued its decision in the matter rejecting the majority of PG&E's request and adopting a scaled-down program for 2010 through 2013, with the following increases to ratepayers over three years.

#### **PG&E Proposed Revenue Increase vs. CPUC Approved Increase**

	<b>Proposed CIP Revenue Increase</b>	<b>Adopted CIP Revenue Increase</b>
2011	\$41 million	\$13 million
2012	\$98 million	\$33 million
2013	\$164 million	\$54 million
2014	\$225 million	n/a
2015	\$276 million	n/a
2016	\$310 million	n/a

The CPUC agreed with DRA in concluding that, "The preponderance of evidence does not support the need for a program with the scope and cost of the Cornerstone project as proposed by PG&E."



## **CEMA - Catastrophic Events Memorandum**

**Account.** A rate adjustment mechanism intended to allow California utilities to recover through rates their reasonable costs incurred for restoring service and repairing or replacing facilities following a catastrophic event. The event has to be declared a disaster by the appropriate federal or state authorities.

## **CATASTROPHIC EVENTS (CEMA)**

### **SDG&E Costs for 2007 Southern California Fires**

In March 2009, SDG&E filed an application with the CPUC under its Catastrophic Events Memorandum Account (CEMA) requesting recovery from its customers the incremental costs incurred in responding to seven 2007 Southern California fires.

**\$32.2**  
million

SDG&E  
requested  
revenue  
requirement

**\$25.4**  
million

CPUC  
approved  
settlement

SDG&E estimated that it incurred \$112.1 million in total costs associated with these fires. SDG&E sought recovery of \$6.8 million in operation and maintenance (O&M) costs and \$43 million in capital investment resulting in a revenue requirement request of \$32.2 million.

### **DRA Negotiated \$6.8 Million Reduction for SDG&E Customers for Wildfire Damage**

On June 10, 2010, DRA and SDG&E filed a Settlement Agreement which proposed to remove all O&M costs of \$6.8 million from the CEMA request. This resulted in a revised revenue requirement of \$25.44 million which represents a 21 percent reduction from SDG&E's original CEMA request.

The Settlement Agreement was adopted by the CPUC in D.10-10-004 on October 14, 2010.

### **PacifiCorp Customer Costs for Winter Storms**

On May 7, 2010, PacifiCorp applied for recovery of \$1.36 million based on \$3.63 million of CEMA-eligible costs caused by a string of winter storms in Siskiyou County during January 2010. DRA conducted an extensive on-site audit to ensure the validity of the request.

### **DRA Audit Resulted in Nearly 10 Percent Cost Reduction for PacifiCorp Customers**

On August 19, 2010, DRA and PacifiCorp filed an all-party Joint Settlement Agreement in the case which reduced the revenue request to \$1.23 million. This is a 9.5 percent reduction to PacifiCorp's original request. On October 14, 2010, the Commission issued D.10-10-011 which approved the Settlement Agreement.

## 2010-12 NUCLEAR DECOMMISSIONING COSTS

### PG&E: Diablo Canyon and Humboldt Bay

On April 3, 2009, PG&E filed its application for the period 2010 through 2012 requesting annual contributions of \$23 million for Diablo Canyon Units 1 and 2 and \$10 million for Humboldt Bay Unit 3.

DRA proposed no annual contribution for Diablo Canyon, because more current information showed that the trust was sufficiently funded, and \$6.1 million for Humboldt.

### SCE and SDG&E: San Onofre Nuclear Generating Station (SONGS)

SCE and SDG&E filed a joint application seeking incremental decommission funds for their respective share of the jointly owned San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. SCE requests annual funding of \$66.4 million for its share of SONGS Units 2 and 3, an increase of \$20 million compared to the currently authorized amount of \$46.4 million. 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.

### **DRA Saved Ratepayers over \$50 Million on SONGS**

DRA recommended funding of \$53.8 million, a reduction of \$12.6 million from SCE's request. For SDG&E, DRA recommended a zero incremental annual contribution to the currently authorized level of \$9.4 million.

In August 2010, the CPUC rejected a Settlement Agreement (D.10-07-047) reached by PG&E, SCE, SDG&E, and TURN as a whole. The CPUC instead adopted \$9.2 million in revenues for the Humboldt Nuclear Unit. The CPUC also adopted an annual contribution of \$9 million to the Diablo Canyon qualified trusts. Relying on updated trust balances filed by SCE and SDG&E after the hearings, the adopted annual contributions for the utilities dropped to about \$23 million and \$8 million respectively.

### PG&E Diablo Power Plant License Renewal

On January 29, 2010, PG&E, submitted an application to the CPUC to recover the costs associated with renewal of the Diablo Canyon Power Plant operating license. PG&E requested authority to recover \$85 million in rates for federal and state approvals related to the renewal and other conditions.



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

## ENERGY: CUSTOMER RATES

DRA submitted testimony proposing an \$8 million reduction to PG&E's cost estimate and also proposed reducing depreciation expense by \$5.9 million to reflect a longer operating term than PG&E.

### **DRA Negotiated Settlement Saving Ratepayers \$5 Million**

On November 16, 2010, DRA, PG&E, and TURN filed a Settlement Agreement with the CPUC which forecasts an \$80 million cost for renewal costs and a 30-year remaining life upon approval of re-licensing which will further reduce future ratepayer costs.

The agreement is currently pending before the CPUC in 2011.

### **Energy Resources Recovery Account (ERRA)**

In 2010, DRA reviewed the Energy Resources Recovery Account (ERRA) compliance applications submitted by PG&E, SCE, and SDG&E for 2009. For 2009, PG&E, SCE, and SDG&E claimed \$3.706 billion, \$3.433 billion and \$664.33 million, respectively, in energy procurement expenditures. DRA has reviewed these expenditures as part of the IOUs' annual ERRA compliance filings to ensure that they are consistent with the CPUC-approved short and long procurement plans for the IOUs.

DRA also reviewed the utilities' energy procurement cost estimates in 2010 for the 2011 calendar year. DRA's analysis determined that the major cost drivers of these estimates are customer growth, load forecast and the price of natural gas. DRA analyzed the utilities' projected 2011 energy procurement costs and determined the impact of the downward trend in natural gas prices on these forecasts.

### **DRA ERRA Review Saved Ratepayers \$344 Million**

DRA also reviewed SCE and SDG&E ERRA trigger applications in 2010. Pursuant to DRA's review, SCE and SDG&E refunded to ratepayers \$184 million and \$160 million, respectively. The total amount returned to ratepayers for this over-collection of revenues due to a reduction in gas prices was \$344 million.

DRA will continue to monitor trends in market prices, with the objective of delivering maximum benefits to ratepayers in the form of a reduced ERRA revenue requirement and possible rebate in 2011. There has been no CPUC decision yet on any of the utilities' 2009 ERRA compliance cases because the proceedings are still ongoing.



#### **ERRA:** *A balancing*

*account that compares the utilities' actual cost of procuring energy with the rates collected to procure that energy. The ERRA process is where the account is reconciled so that rates are adjusted to equal actual costs of procurement.*

*DRA is often the only party representing ratepayers in this proceeding. DRA compares the utilities' actual expenses with forecasted expenses for a given year to ensure prudent fiscal management of energy procurement expenses.*

*This annual analysis involves a review of the utilities' energy generation activities and energy procurement contract management to ensure efficient and prudent management.*

*This review is primarily to ensure that any over-collection in revenues by the utilities is refunded to ratepayers via reduced rates and any under-collection in revenues is surcharged using increased rates. This is generally accomplished in trigger applications that the utilities file when their revenues exceed or are below the revenue threshold that are authorized for them by the CPUC.*

## PG&E 2011 Rate Design Application

In March 2010, PG&E filed its General Rate Case (GRC) Phase II, Rate Design application. PG&E had requested authority to:

- Re-allocate customer class revenue responsibilities to reduce residential rates by an average of 1.9 percent and increase small commercial rates by an average of 4.1 percent.
- Make various changes to residential rate design.

DRA submitted testimony in September 2010 proposing significant adjustments and modifications to PG&E's proposed marginal costs and allocation of program costs for 16 miscellaneous accounts, including the California Solar Initiative, Self Generation Incentive Program, and Demand Response. DRA's position:

- Reallocate revenues to reduce residential and small commercial rates by an average of 3.6 percent and 0.1 percent respectively.
- Opposed to many of PG&E's residential rate design changes.

### **DRA Seeks Rate Protection for Residential and Low Income Customers**

DRA's recommendations would result in a significantly lower allocation of costs to the residential and small commercial customer classes. DRA opposes PG&E's residential rate design proposals to:

- Reduce baseline allowances
- Introduce a \$3 per month customer charge
- Consolidate Tiers 3 and 4 rates to form a new Tier 3 rate

### **DRA Supports New Low-Income Tier but Opposes Rate Hike for Low-Income Customers**

DRA provisionally supports a new Tier 3 rate for low-income customers participating in the California Alternate Rates for Energy (CARE) program, but opposes further increases to CARE Tier 3 rates in years 2 and 3 of the GRC cycle.

**DRA Work in 2011:** The CPUC has bifurcated the PG&E Rate Design proceeding to allow a final decision on residential rate design issues before the summer of 2011. A subsequent decision on the remaining issues will likely lag the residential rate design decision by a month or two. DRA will continue to urge the CPUC to use restraint in implementing dynamic pricing. DRA believes dynamic pricing may catch customers off-guard by exposing them to higher rates without adequate education and adjustment period.



**Rate Design:** Rate design is the process that creates a pricing structure for electricity. A pricing structure is comprised of different prices, which vary by level of electricity usage. Rate design starts with the [marginal cost](#) of providing the electricity to different types of customers ([customer class](#)), although several adjustments are made to the marginal cost to produce the resulting rate design. Each utility has a unique marginal cost study and a unique rate structure.

**Marginal Cost:** The change in total cost of the utility as electric production changes by one unit, or one kWh.

**Customer Classes:** Different customers are grouped together based on similar demand characteristics. Customer classes tend to impose similar costs on the utility system. While customer classes tend to vary by utility, typical customer classes include: residential class, industrial class, agricultural class, and commercial class.



## PG&E Requested

authorization to change residential electric rates effective June 1, 2010, to provide rate relief during the summer of 2010 for customers whose electricity usage is in the upper tier levels, particularly for those customers with large summer cooling demands during periods of high temperatures. Specifically, PG&E proposed to increase the Tier 3 rate, and reduce the Tier 4 and 5 rates.

## PG&E Summer 2010 Rate Relief

In February 2010, PG&E filed an application designed to reduce upper tier residential rates (Tiers 4 and 5) beginning on June 1, 2010.

### Percentage of Reduction by Tier

Tier 1	up to 100% of baseline
Tier 2	101 - 130 % of baseline
Tier 3	131 - 200% of baseline
Tier 4	201 - 300% of baseline
Tier 5	Over 300% of baseline

PG&E proposed changing the rate design or rate structure for residential customers and also proposed incorporating the effects of four other applications that proposed reductions to overall revenue requirements.

### **DRA Negotiated to Reduce Bill Impacts for Residential Customers**

While DRA supported PG&E's proposed revenue requirements reductions, it preferred rate design changes that would result in lower bill impacts for residential customers with Tier 3 usage. DRA and other parties succeeded in reaching a settlement with PG&E that produced fewer bill impacts for medium use residential customers. Tiers 4 and 5 rates were consolidated into a new Tier 4 rate. Most revenue requirement reductions were used to reduce this Tier 4 rate. The settlement significantly reduced Tiers 4 and 5 rates with fewer bill impacts to customers who consumed in the Tier 3 range.

In May 2010, the CPUC adopted the settlement (D.10-05-051) that allows Tiers 4 and 5 to be combined to create a new Tier 4 rate. The new Tier 4 rate is 2.5 cents lower than the March 1, 2010, Tier 4 rate level, and almost 10 cents lower than the March 1, 2010, Tier 5 rate level.

### Economic Development Rates

PG&E and SCE filed applications to extend their economic development rates programs from December 31, 2009 to December 31, 2012, as well as to increase the amount of customer load that could participate in the program.

#### **DRA Protected Customers from Unwarranted Subsidies During Economic Downturn**

DRA was concerned about the burden that the cost of these programs would impose on other utility ratepayers who subsidize the program. DRA negotiated with PG&E and SCE to reach a settlement agreement that restricts the eligibility of customers who can receive the discounted program rate. To be eligible, a customer's electricity costs must account for at least five percent (5 percent) of their operating costs, less the cost of raw materials. The settlement allows for the program to continue through 2012 with a maximum discount of 12 percent of an eligible customer's otherwise applicable tariff rate each year for five years.

On June 3, 2010, the CPUC approved the settlement agreement in Decision 10-06-015.



#### ***Economic development***

***Rate*** programs provide a rate discount to companies that are at risk of shutting down or relocating outside California due to high energy costs. The programs also provide an incentive to attract companies to California or to those that would expand their businesses within California. The program is subsidized by ratepayers.



**Dynamic Pricing:** A form of rate design where retail prices are allowed to fluctuate to reflect changes in the wholesale market power price.

**Critical Peak Pricing (CPP):** A form of dynamic pricing that only occurs on certain event days as determined 24 hours in advance. During these event days, the on-peak price reflects the cost of generation or purchased power when supply constraints exist.

**Peak Day Pricing (PDP):** A hybrid of traditional Time-of-Use pricing and CPP.

**Time-of-Use Pricing:** A non-dynamic pricing forum where electricity prices are set for specific time periods of the day, e.g. "on-peak" hours. Prices are established and published in advance.

### PG&E Dynamic Pricing Program

In light of the recent economic downturn, DRA was particularly concerned about summer bill increases to inland small business customers during heat waves.

#### **DRA Won Victory to Postpone Implementation of Bill Increases for Small Business Customers**

DRA fought for - and won - a nine-month postponement of the implementation date of the program for small business customers. With the CPUC's postponement, the new rate design will be implemented for small business customers after the summer of 2011, which will reduce their risk of high bills, and allow PG&E more time to educate its customers.

#### **DRA Persuaded the CPUC to Streamline PG&E Billing System Upgrades, Saving Ratepayers \$35 Million**

PG&E requested \$162 million in ratepayer funding primarily to cover a software version upgrade for its billing system, needed to implement these new rates, and customer outreach and education activities. DRA argued that the software upgrade was unnecessary because the utility had also requested funding to upgrade to the next software version in its General Rate Case (GRC). Persuaded by DRA's arguments, the CPUC ordered PG&E to perform a single version upgrade at a reduced cost of \$35 million to \$124 million to be reflected in rates by removing the costs of a second upgrade from the GRC. This reduced the combined cost of these upgrades by about 50 percent relative to PG&E's original projections.

## Long-Term Procurement Planning (LTPP)

In May 2010, the CPUC kicked off its 2010 Long-Term Procurement Planning (LTPP) proceeding. DRA reviews the utilities' procurement plans to confirm that the plans are in the best long-term interest of ratepayers. DRA seeks to ensure that the utilities prepare procurement plans consistent with California's Energy Action Plan, which prioritizes energy efficiency, demand response and renewable energy above additional fossil-fired generation.

DRA advocated for ratepayer protections in regards to the utilities' planned participation in the CAISO virtual bidding market that will commence in February 2011. Some of DRA's recommendations for virtual bidding consumer protections were adopted by the CPUC in December 2010:

- The utilities have a stop loss limit where they must stop participating in the virtual bidding market if they lose a specified dollar limit.
- The utilities have interim authority to participate in virtual bidding.
- The utilities are only authorized to place virtual bids of 3 specific categories; and the utilities must regularly report their performance in the virtual bidding market.

In addition, DRA continued to challenge attempts by the utilities and generators to use renewable integration needs as a means to get thousands of MWs of new fossil-fired generation approved in the procurement planning process. DRA argued that determination of renewable integration needs be done with validated models that reflect reality and use reasonable assumptions that have been vetted by all parties.

In 2011, the LTPP proceeding will continue to evaluate and develop a plan for:

- The integration renewable energy resources into the grid.
- How to account for greenhouse gas procurement products.
- Development of the bundled procurement plans (i.e. for each utility service territory) and system (i.e. for the CAISO grid) procurement plans.

## Procurement Review Groups (PRGs)

DRA actively participated in the Procurement Review Groups (PRGs) throughout 2010. These groups oversee power procurement activities of SCE, PG&E, and SDG&E. DRA provides input on:

- Contracting and Requests For Proposals for various short- and mid-term power products.
- Estimates of net-short and net-long positions.
- Risk management strategies.
- Quarterly procurement reviews.
- Renewable contracts.
- Other procurement activities.

DRA's informal review and input ensures that utilities' procurement activity is consistent with their long-term plans, thereby improving regulatory certainty. Through these groups, DRA closely monitors utility competitive solicitations. DRA seeks to ensure that the design, implementation, and results of solicitations meet ratepayer needs for cost-effective electricity procurement.



**The LTPP Proceeding:** *The vehicle for the CPUC to evaluate the utilities' need for new resources to maintain a set amount of energy above what they estimate they will need to serve their customers (called a reserve margin) and establishes rules for rate recovery of procurement transactions.*



### The CPUC's **Resource**

**Adequacy (RA)** program was established in 2004, in response to high spot market prices for electricity experienced in 2000-2001. California enacted legislation which was codified as Public Utilities Code 380). It required all load serving entities to procure 90% of their needed capacity (plus a 15% reserve margin) one year in advance.

The RA program contains two distinct requirements: a system-wide compliance demonstration filed annually and monthly; and a local compliance filing, thus ensuring that the state's grid operator, the California Independent System Operator (CAISO), has sufficient resources available when and where needed.

The RA program has successfully stabilized energy prices and drastically reduced CAISO out of market backstop procurement costs.



### **Bilateral Trading:** The

CPUC Resource Adequacy program relies on forward bilateral contracts negotiated between load serving entities and energy resource suppliers



### The **Planning Reserve**

**Margin (PRM)** is an off-shoot of the Resource Adequacy proceeding. It was initiated in 2008 to consider revisions to the amount of electricity reserves that load serving entities must procure to ensure system reliability. The current PRM is set at 15-17% on top of the forecasted peak demand.

## Resource Adequacy

In 2010, the CPUC considered improvements to the Resource Adequacy program, including refinements for long-term Resource Adequacy program market design. A key component was how to facilitate the development of new generating capacity.

DRA participated heavily in this phase of the proceeding, joining a coalition of stakeholders (known as the Bilateral Trading Group) to develop and submit its own proposal based on continuing the bilateral contracting framework to ensure future energy needs.

### **DRA Supported for Continued Bilateral Approach to Resource Adequacy Saving Ratepayers \$1 Billion**

In June 2010, the CPUC adopted many of DRA's recommendations (D.10-06-018):

- Continues the existing bilateral framework with improvements to increase liquidity of trading so that load serving entities can negotiate with generation providers to obtain the best prices for consumers (for example, unproven experiments with a centralized capacity market could result in a windfall to existing generation, at ratepayer expense of more than \$1 billion annually).
- Preserves state jurisdiction over the RA program ensuring the state's preferred resource policies and environmental goals are met.

## Planning Reserve Margin

In 2010, there was a CPUC proceeding to determine whether to increase the Planning Reserve Margin (PRM). DRA advocated that there is no need to increase the current PRM given the current excess of system reserves, which range from 30 to 40 percent across all investor owned utilities.

### **DRA Advocated to Maintain Current PRM to Not Compound Over-Procurement**

In September 2010, the CPUC adopted DRA's position to leave the current PRM at 15-17 percent and closed the planning reserve margin proceeding. The CPUC determined to revisit the PRM at some point in the future, if circumstances warranted further review.

**DRA Work in 2011:** DRA is concerned that an over-abundance of procurement projects continue to be encouraged at the CPUC, but which are not currently needed. In 2011, DRA will advocate for the CPUC to approve new procurement projects based on actual need determined by the Long-term Procurement Proceeding and in a holistic manner across fossil and renewable procurement options.

## Evaluation of New Power Procurement

DRA evaluates the price of all power-procurement proposals pursued by California's investor-owned utilities. DRA weighs the costs and benefits of new resource options, reviews the utility's need for the project for electrical reliability, 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.

### **Oakley Power Plant:**

In 2010, DRA effectively represented ratepayer interests as PG&E sought the CPUC's approval to own and operate a 586 MW plant in the city of Oakley. DRA recommended that the CPUC deny the proposal for the \$1.5 billion power plant as it would have exceeded PG&E's procurement authority for new capacity granted in 2007. Additionally, due to the economic downturn, PG&E's electricity load had decreased and the Oakley power plant would not be needed until at least 2018. In August 2010, the CPUC agreed with DRA and denied the Oakley proposal, making it clear that over-procurement electric capacity at a time when demand is down would have done much more harm than good to PG&E's ratepayers.

### **DRA Opposed Over-Procurement of \$1.5 Billion Oakley Power Plant**

But just a few weeks after the CPUC's decision to reject Oakley, PG&E filed a petition for modification requesting approval of Oakley. DRA protested this request based on the fact that no additional power plants need to be built until at least 2018, as demonstrated through the CPUC's long-term procurement process, and that PG&E currently has 40 percent excess reserves. Yet on December 16, 2010, the CPUC approved for PG&E customers to begin paying for the Oakley power plant in 2016. The Oakley plant is expected to go online by 2014, with PG&E customers expected to pay full costs for a 2-year-old power plant starting in 2016.

### **Russell City Project:**

In response to PG&E's request to delay the online date of a previously approved power purchase contract with the Russell City Energy Company, with support from other consumer advocates, DRA successfully negotiated with PG&E and the Russell City Energy Company to secure a much better deal for ratepayers. This new contract negotiated by DRA will preserve the benefits of the original power purchase contract at a significantly lower cost to customers. The CPUC approved the settlement in September 2010.



**Direct Access (DA):** A

retail service option allowing eligible retail customers to purchase electricity directly from an independent electric service provider (ESP) rather than from an investor owned utility. In 2001, Assembly Bill 1X required the CPUC to suspend Direct Access service for any customers not already on a competitive service as of September 20, 2001.



**Cost Responsibility**

**Surcharge (CRS):** When customers depart bundled service for Direct Access service, some of the costs the IOUs incurred on their behalf may become stranded. To prevent cost-shifting to the remaining bundled customers, the CPUC implemented a cost responsibility surcharge (CRS) to hold departing customers accountable for their share of these costs. The point is for bundled customers to remain indifferent, so that they are no better off or worse off as a result of departing loads.

**Direct Access: Retail Electricity Competition**

There is a renewed interest in California to revive a competitive Direct Access market for electricity customers. Departing load issues will impact current bundled investor owned utilities (IOU) customers, departing customers, and the entities that serve these customers, such as community choice aggregators (CCAs), energy service providers (ESPs), publicly owned utilities (POUs), and others.

DRA has been actively involved in policy development to ensure that the IOU customers it represents remain protected. In 2009, the California Legislature enacted Senate Bill (SB) 695, which lifted the Direct Access suspension for the next three to five years, permitting a limited return to Direct Access for about 6 percent of each utility's system load.

**DRA's Proposal for a Pragmatic Subscription Process is Adopted**

In early 2010, the CPUC focused its efforts on how to implement SB 695. A key issue was what percentage of the additional new Direct Access load allowance (6 percent) should be available in each of the next three to five years. With many parties pushing for immediate release of most of the allowance, DRA warned that a "gold rush" phenomenon, along with the associated administrative burdens, could occur leaving a burden on remaining customers of the investor owned utilities. DRA was instrumental in decreasing the first year allocation from 75 percent to 35 percent. The Commission adopted DRA's proposal to distribute the Direct Access load allowance more slowly over four years:

2010	35%
2011	35%
2012	20%
2013	10%

In an effort to promote customer equity, new enrollment of Direct Access customers is based on a first-come, first-served principle, without special set-aside eligibility for customers who have previously been Direct Access customers. When the Direct Access allowance was made available in early April 2010, the entire 35 percent was filled within minutes. Had DRA not been effective in advocating for a slower ramp-up allocation of the load allowance and fair management of the wait-list, the full allowance would likely have been nearly exhausted immediately.

Authorized Direct Access Cap Increase (in GWh) by Electric Service Territory

	 Pacific Gas and Electric Company®	 Sempra Energy utility™	 SOUTHERN CALIFORNIA EDISON® An EDISON INTERNATIONAL® Company
Load Cap (SB 695)	9,520	3,562	11,710
Existing Baseline DA	5,574	3,100	7,764
New DA Load Allowance	3,946	462	3,946

**DRA Advocated to Protect Ratepayers from Cost-Shifting as Direct Access is Implemented**

On November 22, 2010, the CPUC granted a motion to consider revisions to the methodology for calculating the Power Charge Indifference Adjustment (PCIA). This will be addressed concurrently in 2011 with Direct Access customer switching rules, energy service provider financial security requirements, and other unresolved Direct Access issues. The primary issues involve stranded costs associated with the meeting California’s renewable portfolio standards (RPS) and resource adequacy (RA) requirements. DRA will continue to advocate on behalf of bundled customers to ensure that they are not negatively impacted by any revision or rule change. DRA’s objective is to prevent cost-shifting and maintain bundled customer indifference.



### **Renewable Electricity**

**Standard (RES):** Established by Executive Order S-21-09, authorizing the Air Resources Board (ARB) to adopt regulations to implement a requirement that all retail sellers of electricity shall serve 33 percent of their load with renewable energy by 2020. ARB is developing the RES in cooperation with the California Public Utilities Commission (CPUC), the California Energy Commission, and the California Independent Systems Operator (CAISO).



Established in 2002 under Senate Bill 1078 and accelerated in 2006 under Senate Bill 107, California's **Renewable Portfolio Standard (RPS)** obligates investor-owned utilities (IOUs), energy service providers (ESPs) and community choice aggregators (CCAs) to procure an additional 1 percent of retail sales per year from eligible renewable sources until 20 percent is reached, no later than 2010. The California Public Utilities Commission (CPUC) and California Energy Commission (CEC) are jointly responsible for implementing the program.



**TRECs:** A renewable generator produces two outputs simultaneously, electricity and an environmental attribute. RECs are certificates that represent the environmental attributes or "greenness" of renewable production. Thus, for every unit of electricity produced by a renewable generator, a corresponding unit of REC is also produced. In order to be eligible, credits must be fully accounted for by the Western Renewable Energy Generation Information System (WREGIS).

### **Renewable Electricity Standard (RES)**

DRA is an active participant in the CPUC's proceeding on the Renewable Electricity Standard (RES). DRA has proposed recommendations for the Proposed Concept Outline for the California Renewable Electricity Standard (RES), advocating the need for ratepayer protections in the area of cost transparency measures to better inform policy makers of the financial impacts of implementing the RES.

DRA supports the ARB's general approach to link renewable procurement and greenhouse gas reduction together in the RES program design. DRA asserts that regulations enacted pursuant to the Executive Order must include cost containment mechanisms and be consistent with the current RPS program to avoid administrative complexity and regulatory uncertainty.

DRA will continue to participate in assisting the ARB with the development of a cost-effective regulatory concept for RES.

### **Tradable Renewable Energy Credits (TRECs)**

DRA supports the development of cost-effective renewable resources, including the use of tradable renewable energy credits (TRECs) to meet the goal of achieving a statewide renewable energy mix of 33 percent by 2020.

DRA supports the use of TRECs for compliance under certain conditions, including if they are cost-effective compared to other compliance alternatives and are registered with the Western Renewable Energy Generation Information System (WREGIS) in order to increase access to compliant resources. However, the developing TREC market is highly uncertain and ratepayers should be protected from this uncertainty.

### **DRA Advocated for Cost-Effective TRECs Strategy If Uncertainty Can Be Mitigated**

If properly regulated, TRECs transactions are a procurement solution that may enable near-term, cost-effective compliance for the Renewable Portfolio Standards (RPS), particularly given a limited supply of in-state renewable power that has resulted in higher than expected costs. Given that high-cost renewables, along with the state's other policy initiatives, will lead to higher electricity rates, optimizing strategies for RPS compliance is essential.

### **DRA Advocated for TREC Price Cap to Protect Ratepayers from Uncontrolled Costs**

In 2010, DRA participated in the CPUC's rulemaking to develop a policy for TRECs, advocating for a TREC price cap to protect ratepayers from excessive payments in the early stages of the TREC market. DRA also recommended that the CPUC carefully analyze and verify the TREC market before lifting the price cap. Subsequently, as a result of DRA's lobbying efforts, the proposed decisions extend the sunset dates. A final CPUC decision is pending.

### Renewable Energy Procurement Tools

In August 2010, the CPUC released a proposed decision which would adopt the Renewable Auction Mechanism (RAM), a tool for procuring renewable energy transactions for projects up to 20 MW.

DRA supports the CPUC's proposal for the RAM as it should spur the development of low-cost renewable projects at the local distribution level of the IOUs facilities in the near term and provide an effective tool for renewable energy procurement. DRA made recommendations to the CPUC to modify the proposal to better distinguish the program from the larger competitive solicitation program for renewable energy. In particular, DRA supports a program that will encourage distribution-level renewable projects as a way of avoiding the need for more costly transmission projects.



#### **Renewable Auction**

**Mechanism (RAM):** *The price for the renewable energy will be determined by the sellers submitting a price through a non-negotiable bid, with the buyers, the IOUs, using the criteria of least cost to select projects for purchase.*

### Utility Owned Renewable Generation

#### **PG&E Solar Photovoltaic (PV) Program:**

In April 2010, PG&E received CPUC approval for its multi-billion dollar 500 MW Solar PV Program. The program provides for 250 MW of the generation to be owned by PG&E and 250 MW to be procured from generators through a competitive request-for-offer process. DRA asserted that the costs of this program were exorbitant when compared to alternative, competitive market prices for Solar PV and advocated for the administrative law judge alternative program that would have reduced the costs considerably.

#### **DRA Influenced Streamlining of PG&E PV Pilot that Will Save Ratepayers**

Many of DRA's recommendations were adopted by the CPUC including:

- A capital cost savings incentive mechanism, system performance guarantees for utility projects.
- Requirement to use an independent evaluator to oversee the solicitation process optimizing the locational value of project sites, and denying PG&E's request to earn a rate of return on land deposits.



DRA was successful in influencing PG&E's implementation and locational requirements that should result in efficiencies that will benefit ratepayers and the state's electric grid operations. In response to DRA's recommendations, PG&E filed with the Commission its intent and commitment to ensure that its 250 MW of Utility Owned Generation (UOG) PV facilities' capacity is able to be recognized and counted as resource adequacy (RA) capacity – resulting in added value for these projects.

### **PG&E Vaca-Dixon Solar Station PV Pilot Project:**

DRA is encouraged by PG&E's first Solar PV pilot project sited on utility-owned land and adjacent to a substation, which eliminates additional costs to



Caption: DRA staff on-site with PG&E at the Vaca-Dixon Solar Station, May 6, 2010 (Photo by Rahmon Momoh)

ratepayers for land purchase and transmission lines. PG&E's two megawatt (2 MW) Vaca-Dixon Solar Station PV pilot project was the first to come online as part of PG&E's owned portion of the program.

### **SDG&E Solar Energy Project:**

In September 2010, the CPUC approved a SDG&E Solar Energy Project that would consist of 1-2 MW solar PV systems on host sites with open areas and over parking lots, such as shopping malls and local governments over the next five years. The SDG&E solar PV

program is similar in design and cost to the previously approved PG&E and SCE solar PV programs. DRA’s initial application review indicated that this project would be 4 to 6 times more expensive than any of SDG&E’s approved RPS contracts. In the middle of the proceeding, SDG&E negotiated a settlement agreement with several parties but DRA declined to be a signatory when it became clear that the proposed settlement was no more beneficial for ratepayers than the original application, which was overly vague and complicated, and too expensive. Ultimately, the Commission rejected the settlement due to many of the shortcomings DRA had uncovered and adopted DRA’s recommendation for a more cost-effective solar project.



### PG&E Manzana Wind Project

In January 2010, DRA protested PG&E’s \$911 million request to purchase a turnkey wind farm – the Manzana Wind Project – in Southern California because the proposed project costs are not reasonable when compared to other options for procuring renewable energy. Manzana would be the first case of a major wind project to be owned and operated by an investor-owned utility.

<b>\$911</b> million	estimated cost to ratepayers
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PG&E proposes to recover in rates at least \$911 million in initial capital costs, along with additional Operations & Maintenance costs to be recovered throughout the 30-year life of the project.

### DRA Opposes Manzana Wind Project as Too Expensive and Risky for Ratepayers

DRA actively participated in hearings in May 2010 and filed briefs in June and July 2010. DRA’s recommended that the CPUC reject PG&E’s application because the project is not cost-competitive and forces ratepayers to bear a number of risks while providing shareholders with the guaranteed rate of return extended to utility-owned generation.

The risks ratepayers bear under the proposal include:

- Under-performance
- Issues related to violations of endangered species laws
- Costly delays

DRA recommended that if the CPUC does approve the Manzana project, it should mandate a number of ratepayer protections and cost reductions including:

- Remove from ratebase any portion of the project that is not used.
- Require PG&E's shareholders to bear any potential fines or penalties due to endangered species issues.
- Reduce the contingency proposed by PG&E by over \$20 million.
- Require shareholders to bear the potentially very high costs of delays.

Additionally, the California Department of Fish and Game sent a letter to the CPUC in October 2010 detailing the risk of endangered species issues on the project site and supporting DRA's claims that risks of violation of environmental laws must be considered in approval of the application.

The CPUC is expected to issue a proposed decision in January 2011 with a CPUC vote on a final decision likely in early 2011. The project, if approved, is expected to begin operations in December 2011 although it may be delayed until the end of 2012.

### DRA Report: The Solar Paradox

In October 2010, DRA released a report on solar photovoltaic (PV) price trends in California entitled *California's Solar PV Paradox: Declining California Solar Initiative Prices and Rising Investor-Owned Utility Bid Prices*.

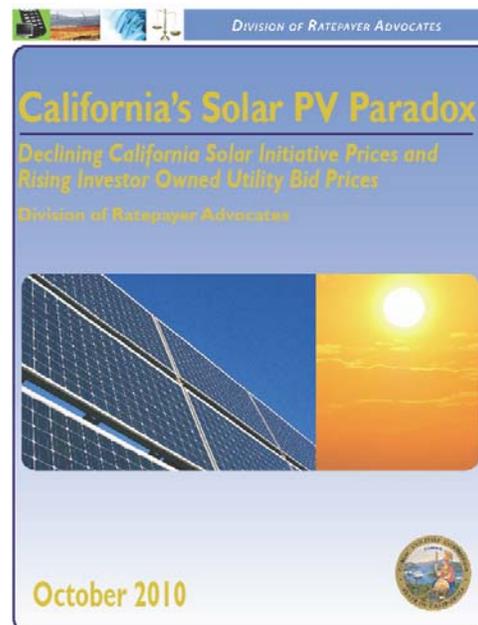
#### **DRA Report Illustrates Solar Pricing Trends and High Cost of Utility Projects**

The report examines how declining costs of solar PV panels and materials translates into dollars saved for California's ratepayers. DRA's investigation highlights the declining cost of solar PV panels and materials from 2008 onward by examining price trends in two renewable energy programs:

- The California Solar Initiative (CSI) program for customer-side, small-scale (less than 1 megawatt) solar PV rooftop installations.
- The investor-owned utilities Renewables Portfolio Standard (RPS) program request for offer (RFO) solicitation.

#### **DRA Report Shows a Contradiction in the Trends of Costs**

In comparing the installed cost of a CSI solar PV system to developer bid prices for utility-scale systems (those larger than 10 megawatts), DRA found that prices for an installed CSI solar PV system had declined by 22 percent from 2008 onward but contrarily utility bid prices for solar PV projects had increased in this same time period.



DRA attributes the rising solar PV bid prices to:

- Lack of judicious review by the CPUC.
- Reduced financing available to developers because of the global credit crunch.
- Downward pressure from the state's energy policy creating a 'buyers' market' for renewables.

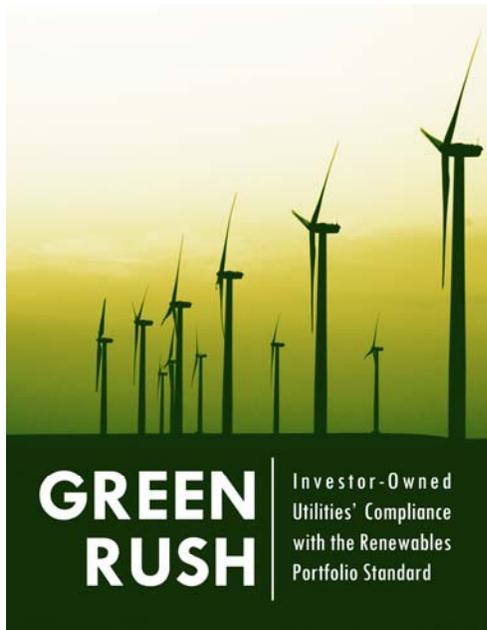
To remedy this trend, DRA urges the CPUC to:

- Select more cost-competitive contracts.
- Utilize flexible compliance mechanisms.
- Allow excess generation from CSI systems to count towards the states' RPS goals.

As a follow-up to the public release of the report, DRA met with the CPUC Commissioners to present and discuss its findings. DRA plans to update the report before the end of 2011 for a second phase of analysis into solar PV prices in California.

### DRA Report: The Green Rush

In order to meet their RPS obligations, the IOUs submit annual RPS plans or compliance filings for review and approval by the CPUC. Renewable resources that are procured pursuant to an approved plan are considered through the advice letter process. DRA reviewed advice letters during 2010 to ensure that proposals adhere appropriately to California's renewables objectives as well as balancing needs of cost-effectiveness so that ratepayers are adequately protected.



### **DRA Report Highlights Renewable Progress**

In order to gain a better understanding of the status of California's renewable energy requirement for the state's IOUs, DRA undertook research and analysis of the current market status. In December 2010, DRA completed its confidential report on the investor-owned utilities' progress toward the 20 percent and 33 percent RPS goals. The report, "Green Rush: Investor-Owned Utilities' Compliance with the Renewables Portfolio Standard," finds that all of the utilities are on track to meeting the 20 percent standard by the end of the flexible compliance period in 2013 and that they are well on their way to meeting the 33 percent requirement by 2020.

Recommendations in the report, given that the utilities are close to achieving the RPS goals, urge the CPUC to take the following steps:

- Reject higher-cost, lowest-quality contracts.
- Require a higher standard of review for all contracts whose expected above-market costs exceed \$100 million.
- Establish a limit on the weighted-average contract price for each utility in a given filing year.
- Increase accountability and transparency by establishing a clear cost reporting requirement for the utilities.

DRA plans to brief Commissioners on its findings in early 2011.

DRA supports the development of low-cost and near-term solar PV projects at the distribution level and believes these system-side renewables could play an important role in achieving a 33 percent RPS. In 2010, based on review of the utilities' solar PV programs, DRA recommended modifications to improve the effectiveness of the programs and protect ratepayer interests.

### SCE Tehachapi Wind Energy Storage Project (TSP)

On June 10, 2010, DRA reviewed SCE's advice letter (AL 2482-E) proposal to develop the Tehachapi Wind Energy Storage Project (TSP). The \$80 million cost was to be matched by federal stimulus funding awarded by the United States Department of Energy (DOE) under the American Recovery and Reinvestment Act (ARRA).

**\$26**  
million      cost to  
ratepayers

SCE requested authorization to spend its share of the project costs up to a maximum of \$26 million. SCE designed the TSP to demonstrate the performance of an 8MW-4 hour (32MWh) lithium-ion battery system.

### **DRA Persuaded the CPUC to Allocate Future Project Revenues to Ratepayers**



*Energy storage has great potential to provide useful functions for California's electricity market. In particular, energy storage can support the increasing amount of renewables that are being added to California's electricity grid. Energy storage is also viewed as a possible tool to assist in improving the functioning of the electricity grid and deferring transmission investment.*

DRA supported the SCE pilot, but recommended that the CPUC impose a condition on SCE to require that ratepayers receive all future revenues from the project in proportion to their contributions to the funding of this project, including:

- Providing various services to the grid.
- Sale of intellectual property.
- Proceeds from the sale of various physical components of the project, after the end of its demonstration life.

DRA recommended that SCE investigate the feasibility of continued operation of the Tehachapi project beyond its projected demonstration life, if it does not result in any added costs to the



ratepayers. The CPUC issued Resolution E-4355, on August 12, 2010, approving SCE’s request for the TSP and adopted DRA’s recommendations to require SCE to pass potential future revenues to ratepayers.

Source: Southern California Edison

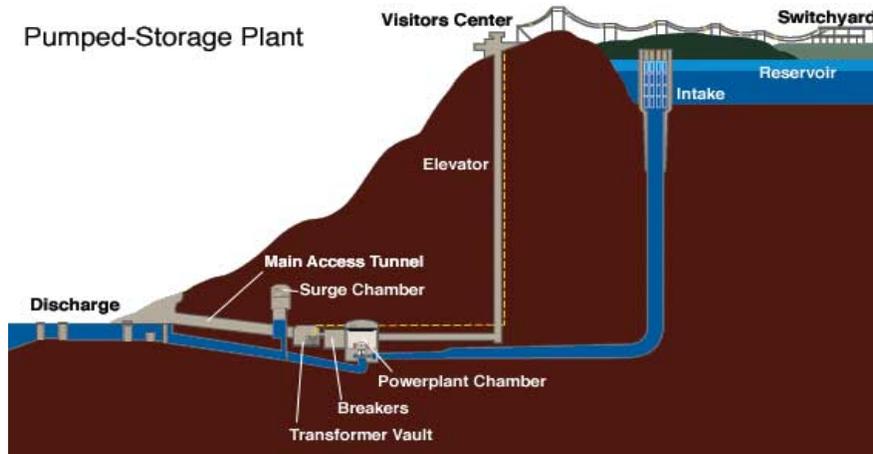
**PG&E Pumped Storage**

In 2010, PG&E filed an application seeking CPUC approval to recover \$31.9 million for feasibility, licensing and design study costs associated with a new Mokelumne pumped storage hydroelectric project (MPSP) located within the Mokelumne River watershed in Amador County. If ultimately constructed, PG&E claims the MPSP would provide up to 1,200 megawatts of energy storage capability by 2020. In addition, PG&E seeks authority to recover up to an additional \$1.575 million for study costs associated with other potential pumped storage projects, including one on the Kings River in Fresno County.



**Pumped Storage**

**Hydroelectricity** is a type of hydroelectric power generation used for load balancing. The method stores energy in the form of water, pumped from a lower elevation reservoir to a higher elevation. At times of low electrical demand, excess generation capacity is used to pump water into the higher reservoir. When there is higher demand, water is released back into the lower reservoir through a turbine, generating electricity.



## ENERGY: PROCUREMENT

DRA protested the application due to:

- PG&E currently has an excess generation planning reserve margin of 38.5 percent.
- PG&E should not receive ratepayer funding for any project costs before use and usefulness has been demonstrated.
- PG&E should not receive special treatment for routine project development costs.
- Project cost-effectiveness and cost-benefit analyses are deficient.
- Project request is insensitive during this recessionary economy.
- The request is duplicative and premature since Assembly Bill 2514 requests that the Commission open a rulemaking to consider establishing investor owned utility procurement targets for viable and cost-effective energy storage systems.

**\$33.6**  
million

estimated  
cost to  
ratepayers

A previous CPUC Decision (D.06-05-016), however, requires utilities to bear the same risks for project development as independent power producers. Therefore, DRA recommended that PG&E more appropriately requests project development costs when the project is approved and after it begins commercial operation as Utility-Owned Generation facility.



Transmission

DRA is actively participating in applications for Certificate of Public Convenience and Necessity (CPCN) for three major transmission projects:

- Eldorado-Ivanpah Transmission Project
- Alberhill System Project
- Talega-Escondido/Valley-Serrano 500-kV Interconnect Project
- Red Bluff Substation 500-kV Interconnection Project

DRA’s review of these projects is to ensure that the transmission owner justifies the need for the project and that the costs of the project are reasonable.



**CPCN:** a permit issued by the CPUC for proposed utility infrastructure projects. The PU Code requires the CPUC to examine the cost, need, and environmental impacts of a project. It explicitly allows the CPUC to cap expenditures and modify the project to better meet ratepayer need and minimize environmental impacts.

**Talega-Escondido / Valley-Serrano Interconnect Project:**

The Nevada Hydro Company (TNHC) filed its application on July 1, 2010, requesting CPUC approval for a CPCN for the Talega-Escondido/Valley-Serrano (TEVS) 500-kV Interconnect Project, between Western Riverside County and Northern San Diego County.

<b>\$353</b> million	estimated cost to ratepayers
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The project consists of:

- The construction, operation, and maintenance of a new, approximately 30-mile long, 500-kilovolt (kV) alternating current regional transmission interconnection that would link SCE’s existing Valley-Serrano 500-kV transmission line in western Riverside County with SDG&E’s existing 230-kV Talega-Escondido transmission line in northern San Diego County
- The construction and operation of new electrical substations and upgrades to both the SCE and the SDG&E system.
- The plan is to add distribution level (115-kV) facilities to the SCE system at the proposed Lee Lake substation. These 115-kV facilities will be constructed by TNHC and turned over to SCE upon completion. TNHC is in the process of finalizing the Large Generator Interconnection Agreements (LGIAs) with SCE, SDG&E, and the California Independent System Operator (CAISO) regarding the above-described network upgrades.

According to the applicant, the estimated cost of the TE/VS Interconnect project is \$353 million. DRA is currently reviewing the project proposal. A Commission decision on the project will not be issued until 2011, at the earliest.



## PTC: A Permit to

**Construct** is the permitting process by which the Commission, reviews the environmental impacts of projects that otherwise would not be presented to the Commission. There is no requirement to either limit cost, or examine the need for a project.

## Red Bluff Substation and 500-KV Interconnection Project:

On November 17, 2010, SCE applied for a Permit to Construct (PTC) to build the Red Bluff Substation located in Tehama County. DRA has begun to review the Application which estimates the cost of the Red Bluff project to be \$217 million. The purpose of the project is to interconnect with a proposed 550-megawatt solar photovoltaic (PV), generation project known as the Desert Sunlight Solar Farm (DSSF). DSSF would connect to the CAISO grid at the site of the Red Bluff substation. The DSSF project would be located on lands administered by the Bureau of Land Management (BLM).

**\$217**  
million

estimated  
cost to  
ratepayers

DRA is protesting the application for a Permit to Construct because the project proposes to extend 500KV transmission lines by more than two miles. Accordingly, SCE should be required to file for a CPCN given that this is an explicit extension to a major transmission line and firmly falls within the conditions requiring a CPCN. An issuance of a PTC would allow an estimated \$217 million of capital spend, with no cap or limit on expenditure for this project, without the required review.

## Eldorado-Ivanpah Transmission Project:

SCE's Eldorado-Ivanpah Transmission Project is for an approximately 35-mile long, 220 kV double circuit transmission line between the Ivanpah Dry Lake area of California and the existing Eldorado Substation near Boulder City, Nevada. As estimated by SCE, the total project cost will be \$445 Million.

**\$445**  
million

estimated  
cost to  
ratepayers

In evaluating this project, DRA found a number of significant issues that require resolution:

- SCE has not yet submitted the project to the CAISO for evaluation and approval, which is typically the first step and CAISO approval has been historically required by the is required by the Federal Energy Regulatory Commission for all transmission projects.
- SCE did not provide sufficient information and analysis to allow the CPUC to fully analyze the project to determine need.
- The System Impact Study submitted by SCE is not valid because it includes a significant number of generators and other facilities that do not exist and excludes most of the generation associated with the Project.

- The CAISO’s System Impact Study Voltage Stability Simulations could not demonstrate a need for the Special Protection System that was provided in the Project.
- SCE chose the longest path without considering any other alternatives.

Despite these significant problems, the CPUC approved the Ivanpah transmission project in December 2010. DRA believes that the cost to resolve these problems will result in far greater final costs to all California ratepayers than the initial \$445 million dollar estimate.

**Alberhill System Project**

SCE’s Alberhill System Project in the Southern California Inland Empire will:

- construct a new 1,120 Megavolt Ampere (MVA) 500/115 kV Substation .
- construct two new 500 kV transmission line segments.
- connect the new substation to the existing Serrano-Valley 500 kV transmission line.

<b>\$318</b> million	estimated cost to ratepayers
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As estimated by SCE, the total project cost will be \$318 million. According to SCE, the project is needed to address an identified future overload of the existing two 500 kV/115 kV transformers in the Valley Substation that feed the Valley South 115 kV System due to increased electrical demand on the Valley South 115 kV System.

DRA is currently evaluating the project proposal (A.09-09-022), including an analysis and review of SCE’s justification for the project based on load demand estimates for the existing lines as well as looking at alternatives to this project.

The project is pending before the CPUC.



### **RETP: Renewable Energy**

**Transmission Plan.** In response to state directives for renewable energy, the CAISO instituted an Initiative in September 2009 to develop a Renewable Energy Transmission Planning Process (RETPP). The CAISO's stated objectives for an RETPP is to enhance the existing transmission planning and generation interconnection processes to promote the development of infrastructure needed to achieve the state's 33 percent renewable portfolio standard (RPS) by 2020.

### Renewable Energy Transmission Plan

In 2010, DRA participated in the CAISO Stakeholder process on the RETP initiative to ensure that transmission development cost issues and other ratepayers' interests were well represented in the CAISO transmission planning processes.

In January 2010, DRA reviewed and evaluated the CAISO's "Draft Final Proposal of the RETPP." DRA provided feedback to many controversial issues in the draft plan. In April, the CAISO issued a nine-page "Second Draft Final Proposal for RETPP" which essentially deleted all the controversial issues. The plan was subsequently renamed "The Revised Transmission Planning Process" (RTPP) and submitted to the CAISO Board of Governors for approval at their May 17-18, 2010 meeting.

Despite written and oral objection to the plan by DRA and other stakeholders, the CAISO Board approved the Plan. DRA continues to have concerns that two of the primary objectives of the original initiative have not come to fruition:

- Develop a statewide conceptual transmission plan through collaboration among all transmission providers and owners in California .
- Finalize the plan for the ISO balancing authority area with sufficient detail both to establish needs and to elicit specific proposals to build the needed transmission.



### Greenhouse Gas Cap & Trade Program

In 2010, the California Air Resources Board (ARB) hosted stakeholder workshops and public meetings to design a California cap-and-trade program that is enforceable and meets the requirements of Assembly Bill 32 (AB 32). DRA participated in these ARB workshops and submitted comments to the ARB to influence the specific design elements of the program, including cost containment, offsets, market oversight and allowance allocation.

#### **DRA Supports Cost Containment as a Crucial Component of Cap-and-Trade**

DRA supports cost containment as a key policy objective within a California GHG cap-and-trade compliance program. A Strategic Reserve is an important cost containment mechanism, which should make allowances available to the market if and when allowances reach a predetermined “trigger” price. The Strategic Reserve and offsets should work together as cost containment mechanisms the offset limit should be expanded from 4 to 8 percent. Since there is some concern about offset supply in California, DRA recommended that ARB prioritize the evaluation of additional protocols and external programs to link to, in accordance with ARB’s criteria for offset quality requirements.

#### **DRA Advocated for a Market Oversight Advisory Board to Protect Ratepayers**

DRA asserts that effective market oversight is a necessary component of cap-and-trade. DRA recommends that ARB work to establish a market oversight advisory board to perform ongoing review of the cap-and-trade program. The board should be given the authority to suspend the program - or recommend that the Governor suspend the program - if allowance prices remain unacceptably high.

DRA advocated for free allocation of allowances to the electric utility sector, so that electric ratepayers would not be disproportionately burdened by the costs of mandated greenhouse gas reduction programs and emissions allowance costs. DRA conveyed concern with ARB’s preliminary consideration to auction 100 percent of the allowances.

#### **DRA Supports the Return of Auction Revenues to Ratepayers**

Ultimately, DRA supports the use of cap-and-trade program revenues to protect consumers from rate increases resulting from various GHG policies. DRA recommended that, if allowances are sold through an auction, then the auction revenue should be returned directly to the utility ratepayers to help offset the price impacts of cap-and-trade and other GHG reduction efforts under AB 32.



**AB 32, The California Global Warming Solutions Act OF 2006**, sets into law the required statewide reduction of greenhouse gas (GHG) emissions to 1990 levels by 2020.



The **Cap-and-Trade** program is a key element of the overall strategy to meet the AB 32 emissions reduction target. In the program, the California Air Resources Board (ARB) will place a cap on GHG emissions from sources responsible for 80 percent of California’s GHG emissions. The ARB will issue a limited number of tradable allowances equal to the cap and over time, the cap will steadily decline, eventually reaching a level in 2020 designed to ensure that California achieves the AB 32 target. The cap-and-trade program is designed to provide covered entities flexibility to seek out and implement cost-effective options to reduce emissions.

On October 28, 2010, ARB released the *Proposed Regulation to Implement the California Cap-and-Trade Program*. The proposed regulation includes the following DRA recommendations:

- Free allocation to the electricity sector equal to about 90 percent of their compliance obligations.
- A focus on cost-containment, including a Strategic Reserve and an expanded use of offsets to eight percent.
- Strong language to indicate that market oversight is a necessary component of the program.

The ARB voted 9-1 in favor of adopting the regulation at a public hearing on December 16, 2010.



### **Carbon Capture and**

**Storage (CCS):** *The capture, or removal, of carbon dioxide (CO<sub>2</sub>) at large industrial sources and its subsequent compression, transportation and injection into the subsurface for long-term or permanent storage. CCS has been identified as a potential strategy for reducing greenhouse gas (GHG) emissions in California and worldwide.*

### **Carbon Capture and Storage (CCS)**

In 2010, the CPUC, the California Energy Commission, and ARB formed the Carbon Capture and Storage (CCS) Review Panel and held four public meetings to review policy and develop recommendations that could help guide legislation and regulations regarding CCS in California. DRA was an active participant in these meetings, including giving a presentation at the third panel meeting on the ratepayer perspective on CCS.

DRA supports CCS as a strategy to compete with other emissions-reducing strategies. The California cap-and-trade program established under AB 32 provides the regulatory framework to allow CCS to compete with other emissions-reducing strategies. Because there is no required measure to reduce emissions through CCS in California, CCS needs to be cost-competitive under a cap-and-trade framework compared against other technologies.

### **DRA Advocated for a Cost-Competitive, Level Playing Field for CCS**

To ensure a level playing field, DRA recommends that the cost of CCS be compared to other carbon emissions-reducing technologies using the levelized price of generation produced and adding the economic benefits of carbon-emissions reductions.

DRA's main concerns with CCS relate to:

- The uncertainty of levelized costs over the life of projects.
- The uncertainty with long-term carbon reduction impacts (e.g. chance of leakage).
- The need for demonstrating that CCS projects will be operationally useful in the context of California's systemwide resource portfolio needs.

Given the significant technological risks and uncertainty regarding CCS costs, DRA does not believe that ratepayers of any one service area should fund CCS projects at this point. CCS is still in the research and development phase, and the “stepping stone” projects to test CCS technology provide no direct benefits to ratepayers who would fund them.

### Combined Heat and Power: Qualifying Facilities

In 2010, DRA, along with the IOUs, TURN, and Qualifying Facility (QF) trade groups entered into a settlement agreement that addresses contract terms and pricing issues for Combined Heat and Power (CHP) QFs. The settlement process was initiated by the CPUC in response to several legal challenges to the existing paradigm for CHP QFs. The new program, defined in the settlement agreement, is designed to retain the current fleet of CHP QFs that are efficient and economical, while encouraging new CHP development as a mechanism for meeting the state’s greenhouse gas (GHG) emission policies.

A major DRA concern about QF contracts is that the CPUC’s previously established “avoided cost” methodology resulted in utilities paying above-market rates for QF power. In Decision D.08-07-048, the CPUC allowed utilities to apply for retroactive pricing for overpayments in QF power, based on alleged violations under PURPA. This ruling incited much litigation by the QF companies. Recent federal amendments allow the utilities to terminate the mandatory purchase obligation for QF power with an approved application at FERC.

In 2009, pursuant to AB 32, the “California Global Warming Solutions Act of 2006,” the California Air Resources Board called for more cogeneration as part of its plan to reduce greenhouse gas (GHG) emissions statewide.

These correlating federal and state policies provided the impetus for DRA to enter into negotiations with investor-owned utilities, the CHP-QF trade and interest groups, and The Utility Reform Network to settle. After 16 months of negotiations, the joint parties filed the Combined Heat and Power (CHP)-Qualifying Facilities (QFs) Settlement with the CPUC in September 2010. The proposed settlement will end several years of litigation and settle future issues associated with CHP and QFs.

### **DRA QF Settlement Brings Environmental and Cost Benefits to California**

The proposed settlement provides a transition from a QF program under PURPA to a California statewide CHP program and provides the following benefits to ratepayers:



*Pursuant to the 1978 Public Utilities Regulatory Policy Act (PURPA), utilities are required to enter into long-term contracts to buy power from Qualifying Facilities at a CPUC-determined rate. Under PURPA, these prices must not, as a matter of law, exceed the utility’s avoided cost. Many of these contracts have expired or are scheduled to expire in the next few years.*



**Combined heat and power (CHP):** Also called cogeneration. The use of a heat engine or a power station to simultaneously generate electricity and useful heat.

**Qualifying Facilities (QF):** Non-utility power producers that meet certain operating, efficiency, and fuel-use standards set forth by the Federal Energy Regulatory Commission (FERC).

**Avoided Cost:** The incremental cost the utility would have incurred if it had produced the electric energy itself or purchased it from other non-QF sources.

## ENERGY: CLIMATE CHANGE STRATEGIES

- Cost-effective GHG reductions.
- System, Grid, and Local Area Reliability.
- Reduction of Transmission and Distribution losses and investment .
- Transition to viable, market-based compensation for QFs that are currently under contract with the IOUs for CHP resources to sustain California CHP operations at fair prices.

The Settlement was adopted by the CPUC in December 2010 in D.10-12-035.

**DRA Work in 2011:** The implementation of the terms of the settlement will begin in 2011. DRA will participate in the review of negotiated contracts and the establishment of a competitive procurement process for CHP resources to ensure that the most efficient and lowest-priced resources are procured by the IOUs to meet the state's CHP mandate.



*Senate Bill 626 requires the CPUC to evaluate policies to overcome barriers to widespread deployment of plug-in hybrid and electric vehicles. The CPUC initiated the Plug-in Electric Vehicle (PEV) proceeding in August 2009 to consider alternative-fueled vehicle tariffs, infrastructure and policies to support California's greenhouse gas emissions reduction goals as well as to ensure investor-owned electric utilities are prepared for the market growth of light-duty passenger plug-in hybrid electric vehicles and battery electric vehicles throughout California.*

### Plug-in Electric Vehicles (PEV)

DRA participated in the CPUC's Electric Vehicle proceeding (R.09-08-009) to represent ratepayers on issues related to infrastructure.

Pursuant to SB 626, an Assigned Commissioner issued a Scoping Memo on January 12, 2010, setting the procedural schedule and scope of the proceeding. The CPUC divided the PEV proceeding into two phases:

#### **DRA Influenced PEV Rules to Include Ratepayer Protections**

**Phase 1: Determination of whether a corporation or person that sells electric vehicle charging services to the public is a public utility.** DRA provided legal and policy analysis demonstrating that the CPUC should assert some oversight of third-party charging providers for the purpose of ensuring grid reliability and efficient management of the state's electricity resources including on-peak charging, which would be inconsistent with California's GHG policy goals.

The CPUC approved a decision on July 29, 2010 that adopts DRA's recommendations for oversight.

The decision concludes that the CPUC has regulatory authority to address the potential impacts of electric vehicles in achieving the state's greenhouse gas goals, but that the legislature did not intend that the CPUC should regulate electric vehicle charging services as public utilities pursuant to §§ 216 and 218.

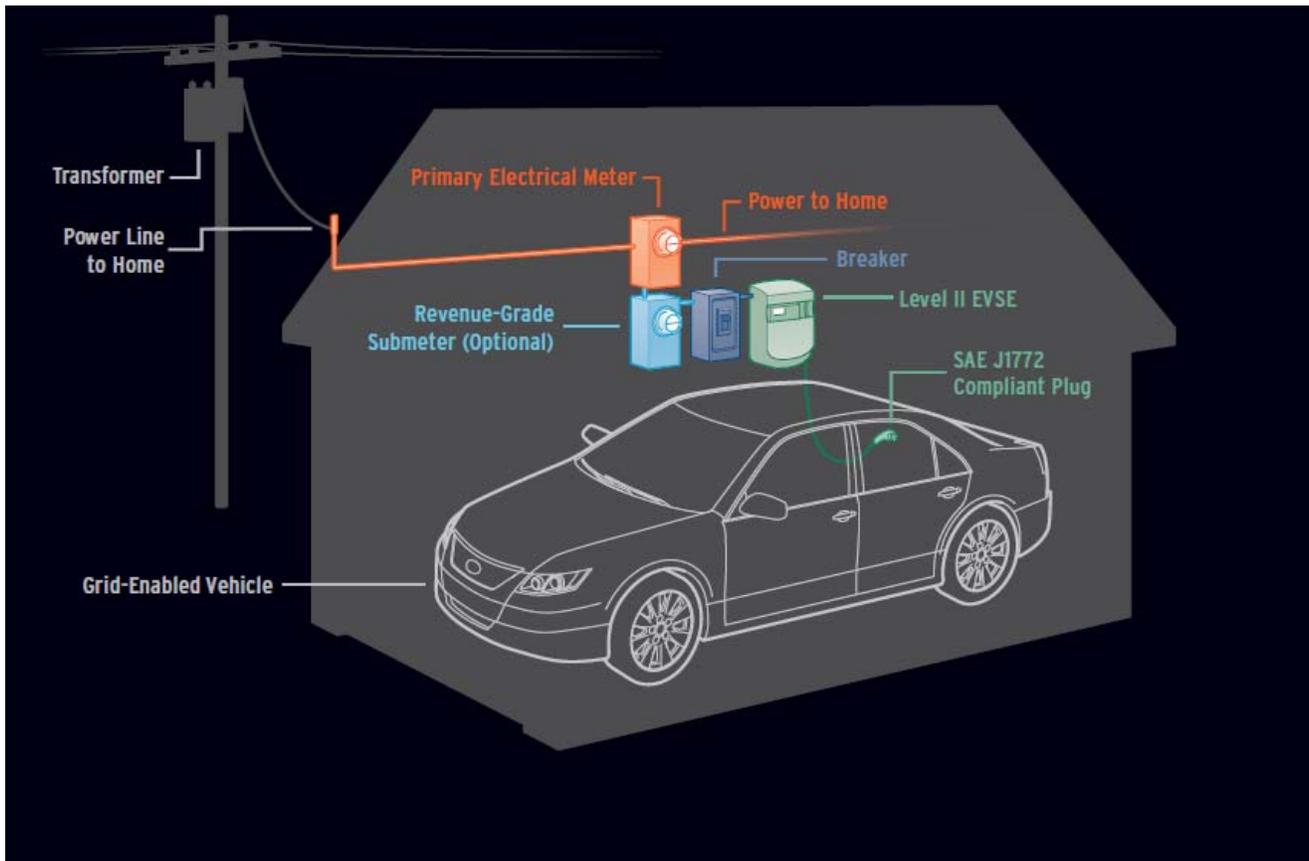
**Phase 2: Addressing policies to overcome barriers to the widespread deployment of electric vehicles, costs, and rate design.** DRA is currently advocating for the fair treatment of all ratepayers as the utilities upgrade their facilities and establish

rates for PEV charging. DRA is conducting research on the impact of PEVs on the distribution and transmission grid, including corresponding costs over the next 20 years.

The Proposed Decision on Phase 2 is expected in January 2011. DRA plans to file comments on the Proposed Decision. The final decision is expected in late February.

DRA expects that follow-up proceedings related to PEVs will be initiated to continue the work in this area.

### Depiction of Plug-in Electric Vehicle in a Residence



## DEMAND-SIDE MANAGEMENT STRATEGIES

### Energy Efficiency

DRA's efforts in 2010 built upon the strengthened oversight and cost controls that DRA sought and achieved in 2009, with the CPUC's adoption of 2010-12 Energy Efficiency programs. Efforts in 2010 largely focused on advocating for the CPUC to enforce its own rules for independent evaluation of the utilities' energy efficiency programs and the associated utility shareholder bonuses that should only be based on independent evaluation that determines superior performance.

<b>\$3.1</b> billion	<i>cost of 2010-12 EE statewide programs</i>
<b>\$6</b> billion	ratepayer investment in energy efficiency since 2006
<b>\$200</b> million	<i>Total bonuses paid to utility shareholders for unverified 2006-08 program result, and poor performing programs</i>

In 2010, DRA sought to make policy improvements across a broad range of areas for Energy Efficiency in order to realize optimal energy savings for ratepayers' significant investment.

- Independent Verification
- Utility Shareholder Bonus Program
- Long-term Procurement Planning
- Market Transformation
- New Energy Efficiency Marketing Brand

### **Independent Verification of Energy Efficiency Program Results:**

In 2010, DRA advocated for the CPUC to use its own independent verification findings to shape future efficiency program design and the basis for which to determine whether the utilities deserved shareholder bonuses for running the programs. DRA opposed the utilities' attempt to relax CPUC-established rules for evaluating, measuring and verifying utility energy savings from efficiency programs. Independent verification is an essential tool to monitor that ratepayers are receiving the full benefit of their investment. This prevents the utilities from inflating their results. DRA's analysis shows that the utilities continue to promote outdated market assessment data and program design. For example, compact fluorescent lamps (CFLs) and refrigerator recycling are examples of programs that no require ratepayer subsidized because the private sector has already adopted these practices.

DRA advocated that the CPUC enforce independent program verification as well as devise methodologies that demonstrate that energy efficiency is having an impact on

decreasing energy consumption in California. For this reason, in 2010 DRA supported the CPUC's decision (D.10-10-033) to improve energy efficiency evaluation methodologies to

include consumption metrics. Simply counting aggregate savings from efficiency measures does not ensure that consumers are not increasing net energy use by increasing their consumption.

In 2011, DRA will actively advocate for development and implementation of consumption metrics to ensure that the billions of ratepayer dollars spent on energy efficiency programs are actually having an impact on decreasing energy consumption.

### Energy Efficiency Shareholder Bonus Program:

DRA opposed the Commission's December 2010 award to the investor-owned utilities of an additional \$68 million as part of the final adjustment for 2006-08 programs, even though the CPUC's own independent report demonstrated that none of the utilities met the bar of superior performance the CPUC had set. At least two of the utilities did not produce cost-effective energy efficiency programs.

### DRA Opposed \$68 Million CPUC Bonuses Awarded Despite CPUC Report Showing Utilities Deserved Penalties

DRA's analysis shows that possibly no utility produced cost-effective programs, since some costs which ratepayers paid for were excluded from the CPUC's calculation, including shareholder bonuses, incremental measure costs and additional administrative costs included in the utilities' General Rate Cases. An administrative law judge decision had determined that no additional bonuses should be paid.

While the CPUC awarded the four investor-owned utilities \$68 million in 2010, it has approved over \$200 million in total shareholder bonuses for the utilities' underperforming 2006-2008 efficiency programs.



*In 2007, the CPUC determined that shareholder bonuses of up to \$450 million were necessary to motivate the IOUs to run Energy Efficiency programs. Instead, the CPUC has continued to lower the performance bar it set in order to award the utilities \$143.7 million in undeserved bonuses based on the utilities' claimed yet unverified Energy Efficiency performance.*

## ENERGY: DEMAND-SIDE MANAGEMENT

### CPUC Bonus Awards to Investor Owned Utilities vs. CPUC Original Standards

Utility	Initial Bonuses Paid	Additional Bonuses to Be Paid: Proposed Decision	Additional Bonuses to be Paid: Alternate Proposed Decision	2006-2008 Total Bonuses Paid	Earned Bonuses or Penalties, per CPUC Evaluation	Total That Should Be Returned to Ratepayers Based on CPUC Rules and Evaluation
PG&E	\$74.9 million	\$0	\$29.1 million	\$104.0 million	\$1.3 million penalty	\$76.2 million
SCE	\$50.4 million	\$0	\$24.1 million	\$74.5 million	\$125,000 penalty	50.5 million
SDG&E	\$11.1 million	\$0	\$5.1 million	\$16.2 million	Penalty TBD	\$11.1 million
SoCalGas	\$7.3 million	\$0	\$9.9 million	\$17.2 million	\$0	\$0
<b>Total</b>	<b>\$143.7 million</b>	<b>\$0</b>	<b>\$68.2 million</b>	<b>\$211.9 million</b>	<b>\$1.4 million penalties</b>	<b>\$137.8 million</b>

The CPUC's decision in December 2010 also opened the door for the utilities to seek additional shareholder bonuses for program year 2009, even though no independent verification of programs was undertaken for that time period.

### DRA Supports Current Proposal for Improved Incentive Mechanism that Recognizes Ratepayer Risk

In November 2010, an administrative law judge issued a proposed decision to improve the energy efficiency shareholder bonus mechanism. While DRA continues to believe that a bonus mechanism has not been demonstrated to incent the utilities to maximize energy efficiency savings, the judge's proposed decision did take a step in the right direction by:

- Lowering the rate of earnings to 5.4% (previously 9-12%), recognizing that there is little utility risk.
- Capping maximum earnings at \$189 million (previously \$450 million).
- Freezing key values (called ex ante assumptions) in order to prevent contentious disagreement over results.

In 2010, DRA also opposed the utilities' petition to modify the CPUC's previous decision on 2010-12 energy efficiency programs. DRA asserted that a mechanism will only work if the key values which are frozen are based on independently determined values. The December 2010 decision adopted by the CPUC freezes independently established ex ante values, as DRA had advocated for. However, the CPUC will determine the most

crucial ex ante values related to energy efficiency custom programs in early 2011. DRA supports only ex ante values that are independently determined by the CPUC's own \$100 million evaluation program and will actively participate in that proceeding to protect ratepayer investment.

### Energy Efficiency in Long-Term Procurement Planning:

In 2010, DRA advocated for an energy efficiency mid-case scenario to be used in long-term procurement planning that:

- Values the CPUC's long-term strategic plan for energy efficiency and the savings projected to result from its big, bold strategies as articulated in the CPUC's Energy Efficiency Long-term Strategic Plan.
- Requires the utilities to back-fill energy efficiency savings deficits that resulted from utility program design that relied heavily on short-term energy savings measures.

DRA believes that enforcement of the CPUC's objectives is essential to energy efficiency investment resulting in savings that offset the need for new power plants. As demonstrated in the CPUC's verification report, the utilities' 2006-2008 Energy Efficiency program cycle achieved only 60-70 percent of its energy savings goals due to poor program design focusing on investment in high free-ridership programs. DRA believes that well-designed efficiency programs should achieve long-lived net energy savings and decrease energy consumption.

### DRA Demonstrated that Utilizing Short-term Energy Efficiency Savings Measures Can Result in the Paradox of Building More Power Plants

Short-term strategies, such as CFLs, are used up by the time a new energy efficiency program cycle begins. The current 2010-12 program cycle is already forecasted to achieve at least 50 percent of its energy savings from short-lived CFLs. Such strategies also do nothing to relieve California's increases in peak energy use.

### Market Transformation:

DRA advocated for the CPUC to implement Market Transformation criteria and measurement. Greater emphasis on market transformation strategies would expand the potential for energy savings and increase the



**Free-ridership:** Program participants who would have invested in the efficiency measure without subsidy. Optimal program design will only target participants who will only take action because of the subsidy. These result in "net" energy savings.



**Market Transformation:** Market Transformation is both a result and a process of introducing new technologies into the market that create sustained changes in behavior and consumption even after ratepayer subsidies have been removed. Ratepayer subsidies are used to break market barriers, and then are removed once a measure or strategy has hit a tipping point of market adoption. This approach allows ratepayer funded subsidies to be transitioned to new strategies that expand energy savings potential.

adoption of new technologies and consumer behaviors in order to achieve California's environmental goals. A Market Transformation approach to energy efficiency should seek to remove market barriers for customers to adopting cost-effective energy efficiency that creates lasting behavior changes. DRA believes that employing market transformation strategies will maximize ratepayers' investment in energy efficiency programs and technologies.

### New Energy Efficiency Marketing Brand – Engage 360:



DRA's advocacy over the past several years, for the CPUC to develop a California statewide energy efficiency brand and an increased sophisticated marketing approach, finally resulted in the 2010 launch of *Engage 360* in 2010. Engage 360 is a California-owned brand, funded by ratepayers, which employs a centralized approach to educating California residents and businesses about energy and ways to use energy more efficiently.

In 2010, DRA participated in the selection process for the competitively bid marketing contractor to implement the new brand, which resulted in selecting advertising agency DraftFCB and its diverse marketing team. The new approach reflects DRA's position for improved, targeted, and cost-effective strategies in reaching Californians. Going forward, DRA will advocate that the Engage 360 brand be used for outreach for other energy programs in order to reach customers with consistent energy messages and solutions that will create cost efficiencies through integration.

## Demand Response

As currently structured, most of the emergency Demand Response programs (also known as interruptible programs) cannot be employed to assist the CAISO in reducing demand during critical peak incidents.

In the CPUC's Demand Response Rulemaking (R.) 07-01-041, DRA asserted that these emergency response programs should be modified so that they could be triggered before the CAISO declares a serious system emergency that could cause forced outages. DRA worked diligently with the CAISO, utilities and other stakeholders to reach a settlement agreement on how to resolve the deployment of emergency programs.

### **DRA's Efforts Resulted in Activating Demand Response Programs Before the CAISO Calls an Emergency**

DRA worked with the CAISO, the utilities, and other stakeholders to reach a settlement to transition all emergency demand response programs to become price-responsive over a 4-year period through 2014. Once fully transitioned, these programs will be used by the CAISO to aid in avoiding emergency situations that can cause rotating black-outs. The proposed settlement was approved by the CPUC in September 2010.

## **SMART METERS**

### PG&E Smart Meter Program

The CPUC has authorized over \$2 billion for PG&E's Smart Meter program to date, with the expectation that this investment will provide even greater benefits from increased billing efficiency and more efficient operation of the electric grid.

2010 was challenging as PG&E Smart Meters came under increased scrutiny. DRA as well as customers have questioned the accuracy, cost, safety and health impacts of Smart Meters. Some entities, including the City and County of San Francisco, formally requested that the CPUC suspend PG&E's deployment of Smart Meters.

When PG&E changed meter vendors and technologies, it also requested that ratepayers foot the bill for new features PG&E had previously not foreseen, but which the CPUC had authorized for the other California utilities.



#### **Emergency Demand**

**Response:** *A set of actions taken to reduce electric loads during times of local transmission emergencies or shortage of operating reserves, in order to avoid rotating black-outs.*



**CAISO:** *The California Independent System Operator is a not-for-profit public-benefit corporation charged with operating the majority of California's high-voltage wholesale power grid. The CAISO balances the supply and demand for electricity and ensures safe and reliable operation of the grid.*



**Smart Meter Program:** *New utility metering hardware and software designed to automate utility billing, optimize utility resources and empower consumers by providing greater information on their patterns of use.*

## ENERGY: DEMAND-SIDE MANAGEMENT

DRA has actively engaged in the development of PG&E's Smart Meter program since it was first proposed to advocate for cost-effectiveness and increased ratepayer benefits. In 2010, DRA continued to advocate for reduced program costs, multiple means of increasing the benefits and supported the resulting cost-effective system from the original application. DRA did not support the subsequent upgrade since it was not cost-effective.

### **DRA Hires Independent Consultant To Assess Smart Meter Report and Smart Meter-Related Complaints**

Numerous customer complaints in 2009 emerged from the Bakersfield and Fresno areas due to sudden high bill increases and other issues they believed arose from PG&E's deployment of Smart Meters. In March 2010, the CPUC initiated an investigation, conducted by The Structure Group, to evaluate the accuracy of the new Smart Meters. In September, The Structure Group issued a report with its findings and concluded that PG&E's Smart Meters were accurate, but that PG&E did a poor job of addressing and resolving customer complaints.

In December, DRA hired its own independent consultant to review The Structure Group report as well as the root causes of Smart Meter-related complaints, such as high bills and interference with household wireless devices. DRA recommended that the CPUC initiate a public process to review and validate The Structure Group report, but the CPUC rejected this request in its final business meeting of 2010.

### **DRA's Advocacy for Transparency Revealed the Cost of Suspending Deployment**

DRA responded to formal petitions and applications to temporarily suspend PG&E's Smart Meter deployment because of alleged high bills, excessive costs, safety concerns and health effects from radio frequency (RF) emissions. DRA was successful in advocating that PG&E make publicly available the cost of a suspension. PG&E estimated the cost of suspension for three months to be at \$17 million and \$87 million for a nine-month suspension, but these costs were disputed.

### **DRA Urged the CPUC to Investigate Smart Meter Health and Safety Concerns**

Due to strong public outcry over health concerns related to Smart Meters, DRA has recommended that the CPUC directly address and investigate the potential health impact of PG&E's RF Smart Meter communication systems. DRA also recommended a process for calculating the relative magnitude of RF emissions from Smart Meters and other existing sources. While the CPUC dismissed an application seeking a moratorium on Smart Meter deployment based on RF concerns, multiple CPUC Commissioners expressed interest that the CPUC pursue the evaluation of RF health concerns.

DRA is participating in PG&E's recently formed technical advisory panel (TAP) where it will continue to lobby for cost controls and maximization of realized Smart Meter operational and energy conservation benefits.

**DRA Work in 2011:** DRA will continue to work on the PG&E Smart Meter issues in 2011. Two of PG&E's applications remain open to address Smart Meter costs, safety, health and accuracy (A.10-09-012 and A.10-09-015). A report on the health impacts of RF emissions is expected from

the California Council on Science and Technology in January 2011. Additionally, there is pending California legislation that would require the CPUC to find alternatives to RF communication for Smart Meters (AB 37 Huffman).

DRA is in the process of gathering data to determine whether and how PG&E's changing vendors and technologies in the middle of its original meter system deployment has impacted its overall costs. In 2011, DRA will work with its consultant to review the cause of Smart Meter complaints, and will work to provide results of its review in the first quarter. DRA will also be actively involved in the ongoing discussions regarding the safety and health impacts of Smart Meters. Finally, DRA will remain engaged in all proceedings related to Smart Meters to ensure that promised benefits are realized, and program costs are minimized.

### SoCalGas Smart Meter Program

DRA opposed SoCalGas' Smart Meter - advanced metering infrastructure (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 (IT) and contingency costs were overstated.

DRA's primary recommendation was to deny the project until it could be demonstrated to be cost-effective. However, as an alternative, DRA recommended a \$35-million reduction in project funding, including \$20 million in contingency reductions and \$15 million in IT cost reductions.

### **DRA Convinced CPUC Judge to Deny SoCalGas Smart Meters**

In February, 2010, an assigned administrative law judge issued a proposed decision denying the SoCalGas Smart Meter application. In the PD, the judge agreed with DRA that SoCalGas had failed to meet its burden of proof that its AMI proposal was cost-effective.

### **CPUC Approved Smart Meters with DRA's Recommended \$30 Million Reduction**

Simultaneously, an alternate proposed decision was issued, approving the project at a slightly reduced level of funding. Despite considerable lobbying efforts by DRA, the CPUC adopted the alternate decision by a 3-2 split vote. The final decision (D.10-04-027) is similar to DRA's secondary recommendation. The decision reduced funding by about \$30 million, primarily by reducing SoCalGas's contingency request.



*In September 2008, SoCalGas filed an application for approval of \$1.08 billion to deploy Smart Meter technology to its 6 million customers. In this application, SoCalGas rejected the alternative of sharing network facilities with Southern California Edison (SCE) in overlap areas, claiming that it would be uneconomical to do so.*

*SoCalGas argued that operational benefits (primarily from automated meter reading) would cover 85 percent of the project's costs. SoCalGas also claimed nearly \$150 million 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.*



**Smart Grid:** *The CPUC has thus far declined to formally define "Smart Grid." According to the Federal Smart Grid Task Force, "A Smart Grid is an automated, widely distributed energy delivery network that is characterized by a two-way flow of electricity and information, and enhanced monitoring. A Smart Grid incorporates the benefits of advanced communications and information technologies to deliver real-time information and enable the near-instantaneous balance of supply and demand on the electrical grid."*



*In December 2008, the CPUC opened a Smart Grid rulemaking to consider setting policies, standards and protocols to guide the development of a Smart Grid system and facilitate integration of new technologies such as distributed generation, storage, demand-side technologies and electric vehicles.*

*The American Recovery and Reinvestment Act (ARRA) of 2009 appropriated \$4.5 billion to modernize the electric grid nationwide. Senate Bill (SB) 17 was signed into law October 11, 2009, compelling the CPUC to determine requirements for the utilities' Smart Grid deployment plans by July 1, 2010.*

## Smart Grid

Energy usage data collected by smart meters has increased granularity that carries inherent privacy concerns. It can reveal intimate personal information about a customer:

- Presence in or absence from the home
- Ownership of particular appliances
- Purchasing preferences
- Health profile
- Cohabitation arrangements

Privacy rules must be adopted that limit uses of energy usage data to purposes for meeting the energy policy goals of the state, and are equally applicable to all entities seeking to use such data. If not, large loopholes will exist that undermine any attempts to protect consumer privacy.

As a result of the broad policy foundation set for implementation of Smart Grid, a number of California projects were selected for American Recovery and Reinvestment Act (ARRA) funding. PG&E and SCE requested the use of ratepayer funds to match federal funding for two projects. DRA reviewed the utility proposals for consistency with California's clean energy policies and successfully advocated that any benefits be shared with ratepayers.

## DRA Influenced California Requirements for Smart Grid

The CPUC issued a decision setting requirements for utilities' deployment plans in June 2010 as required by SB 17. Many of DRA's recommendations were adopted, including:

- An inventory of current Smart Grid infrastructure which will serve as a baseline against which to measure progress.
- Confirmation that deployment plans will offer guidance rather than prematurely create rigid requirements.
- Assurance that individual Smart Grid investments be determined cost-beneficial and reasonable in order to receive CPUC authorization.
- Estimates of costs and benefits .
- Clarification that the CPUC will not mandate third-party access to customer energy usage information until privacy rules are implemented.

## DRA Defends Privacy of Customer Energy Usage Data and Seeks to Define Smart Grid Progress

As part of the CPUC's implementation of Smart Grid, it held policy workshops in March and October of 2010. DRA represented ratepayers on issues of deployment plans and privacy and advocated for strong privacy protections surrounding customer

energy usage data, including adequate cyber security protocols to protect the grid and customer information. DRA also seeks to ensure that the adoption of meaningful and streamlined metrics with which to track Smart Grid progress.

**DRA Work in 2011:** Proposed Decisions are expected to be published in early 2011 that:

- Adopt privacy rules related to customer energy usage data.
- Clarify which entities CPUC rules will apply.
- Establish metrics to be used for tracking Smart Grid progress through deployment plan submissions.

DRA will continue its advocacy activities in 2011 including review and analysis of proposed decisions to develop the record and inform Commissioners and the public on the need to protect customers and their privacy.





*DRA published its Report on the Status of Energy Utility Service Disconnections in November 2009. DRA's investigation revealed that disconnections were on the rise, particularly for low-income customers. PG&E's disconnection rates had more than doubled from the previous year.*



**Benchmark:** *A benchmark of a threshold number of disconnections set lower than national and state averages can serve to drive down disconnections within a utility's reach, based on historical operations. When the CPUC (or the utilities voluntarily) establishes a disconnection benchmark, there is an incentive to minimize the use of disconnections as a revenue collection tool. A benchmark may also be a least-costly solution because it allows the utility to determine the best mix of strategies to manage its credit and collections efforts.*

### AT-RISK CUSTOMERS

#### Service Disconnection of At-Risk Customers

DRA worked throughout 2010 to reverse the troubling trend of increasing energy utility service disconnections. Energy and gas service is a life necessity and even short interruptions of service endanger health and safety. Disconnection should only be used as a last resort.

In January 2010, the CPUC hosted a workshop where DRA urged that the CPUC and energy utilities immediately to protect at-risk customers (such as disabled, elderly, or low-income customers) by taking such actions as waiving credit deposit requirements and extending terms of payment arrangements. In February 2010, the CPUC adopted DRA's recommendations and ordered these actions in its Order Instituting Rulemaking to Reduce Energy Utility Service Disconnections (R.10-02-005).

During the course of the proceeding, DRA's primary recommendation was that the CPUC adopt a disconnection benchmark to signal to investor-owned utilities that only very low disconnection rates are acceptable. DRA also recommended that the CPUC not permit the utilities to seek cost recovery from ratepayers for strengthening consumer protections and reducing disconnections. In July 2010, the CPUC issued Decision 10-07-048 which extended credit deposit waivers and longer payment terms, deferred consideration of costs and cost recovery until each utility's general rate case proceeding, but also declined to adopt a disconnection benchmark. These protections will expire at the end of 2011.

Concurrently, DRA worked together with SDG&E, SoCalGas and a broad group of consumer organizations such as The Utility Reform Network (TURN), the Greenlining Institute, Disability Rights Advocates and the National Consumer Law Center to reach a settlement agreement to reduce service disconnections. The settlement implements a best practices approach.

#### **DRA's Efforts Shaped Innovative Benchmark Approach to Keep Disconnections Low**

The settlement features disconnection benchmarks of 2.08 percent and 3.36 percent for SDG&E and SoCalGas, respectively. In addition to including the same consumer protections adopted in D.10-07-048 (the CPUC's disconnection decision), the stakeholder disconnection settlement includes additional features:

- A limited provision for utility cost recovery
- A moratorium on disconnection during extreme temperatures
- Protocols for phasing in remote disconnections via smart meters
- In-person visits before disconnection for the elderly, disabled, and seriously ill customers

The CPUC adopted the settlement on December 16, 2010.

### DRA Worked to Secure Federal Funding to Prevent At-Risk Customer Disconnections

DRA also worked with all investor-owned utilities and the California Department of Social Services to secure \$40 million of federal funding from the American Recovery and Reinvestment Act (ARRA). The funds were specifically granted to assist customers with overdue utility bills avoid disconnection. The funds became available in August 2010 and were distributed by the Salvation Army in August and September.

### DRA Continues to Advocate for Statewide Benchmark Approach to Protect All At-Risk Customers

**DRA Work in 2011:** While PG&E and SCE declined to join the disconnection settlement, DRA believes that the benchmark approach continues to be the one that all utilities should be taking to minimize service disconnections for at-risk customers. Given that the protections provided to customers for disconnections in D.10-07-048 will expire at the end of 2011, DRA will continue to advocate that the benchmark approach become the statewide standard so that PG&E and SCE customers will continue to be protected beyond 2011.

### Low-Income Energy Programs

DRA advocated to ensure that ratepayer funding for the CPUC-authorized low-income programs were spent in 2010 as previously directed.

As program administrators, the utilities requested changes during the three low income program cycles, including:

- PG&E requested authorization to transfer its excess electric Low-Income Energy Efficiency (LIEE) funds from 2008 to its 2010 gas LIEE budget.
- PG&E requested permission to expand its Microwave Installation Pilot program prior to the CPUC-ordered evaluation of the pilot.

SDG&E and SoCalGas proposed to deliver more energy savings to LIEE customers at no additional cost.

### DRA Efforts Ensured Low-Income Program Funds are Spent Wisely

While DRA supported SDG&E and SoCalGas' proposal to achieve greater energy savings, DRA did not support PG&E's requests as beneficial to ratepayers. DRA was able to successfully convince the CPUC as well as PG&E that its proposed changes to the LIEE budget were not warranted, but the CPUC has not yet ruled on the Microwave Installation program.



*The CPUC authorized the low income programs in late 2008, incorporating much of DRA's recommendations at that time.*

**CARE:** *California Alternate Rates for Energy provides an ongoing discount (between 20-40%) on electric and gas bills for customers with incomes at or below 200% of the Federal Poverty Level. For a family of four, the family would have an annual income of \$44,400 or less.*

**LIEE:** *The Low-Income Energy Efficiency program provides no-cost, energy-saving home improvements (insulation, weather-stripping, energy efficient appliances and lighting, etc.) for customers with incomes at or below 200% of the Federal Poverty Level.*

**FERA:** *Family Electric Rate Assistance provides an electric bill discount for families of three or more with incomes at or below 250% of the Federal Poverty Level.*

## ENERGY: CUSTOMER PROTECTION

**Excess LIEE Funds:** PG&E ultimately accepted DRA's recommendation to apply the 2008 excess funds in a way that will lower future surcharges to electric ratepayers.

**Microwave Installation Pilot:** The pilot evaluation will reveal whether the pilot achieved cost-effective energy savings and generated improvements to health, comfort and safety. DRA recommended that the CPUC only expand the Microwave Pilot program upon receiving positive evaluation results. The CPUC may issue a resolution deciding the merits of DRA's position.

**LIEE Program:** DRA supported changes proposed by SDG&E and SoCalGas to more specifically include LIEE services in its list of authorized services. Some programs had been inadvertently excluded when the CPUC approved them in 2008. Including these services now will deliver more energy savings to LIEE customers at no additional cost.

DRA also supported changes proposed by the CPUC's Consumer Services and Information Division to direct more outreach funding to comprehensive utility bill counseling for limited English speaking customers, rather than returning unspent funds to ratepayers.

The Low-Income programs will be considered for re-authorization in 2011. DRA will provide analysis of whether the 2009-2011 programs were successful, and what should be continued or changed in the 2012-2014 programs.



*Under a previous tariff, a utility was able to bill non-residential customers for up to three years of undercharges resulting from utility billing and/or metering errors. If additional, sometimes significant charges resulted in a late or non-payment, the customer would be subject to additional deposit requirements of up to twice the maximum monthly bill in a 12-month period, even if the customer had been paying their bill on-time. If a utility overcharged a customer due to a billing error, the customer would be provided a refund of up to three years. However, if the overcharge was due to a meter error, the customer would only receive a refund of up to six months.*

## SMALL BUSINESS CUSTOMERS

### Refunds and Deposits for Small Business Customers

In May 2010, the CPUC initiated a new proceeding to consider whether it was necessary to revise utility tariff rules regarding billing/metering errors and deposit requirements for small businesses.

#### **DRA Took Leadership Role to Protect Small Businesses with Improved Billing and Deposit Practices**

DRA asserted that such billing and deposit practices created undue financial burdens on the utilities' small business customers. Consequently, DRA advocated for rules that would reduce the back-billing period to three months, eliminate the resulting re-establishment of credit deposit and reduce the required deposit levels.

DRA demonstrated that rules similar to the ones DRA advocated for were established in other states and had low costs and risks associated with them. This information provided a foundational record for the CPUC.

In October 2010, the CPUC adopted DRA's recommendations for revised rules for small businesses in D.10-10-032 that:

- Reduced the maximum utility back-bill period to three months.
- Expanded the maximum utility refund period to three years.
- Reduced the maximum allowable deposit to twice the average monthly bill.

DRA believes these changes will lift some of the financial burden that California's small businesses are currently experiencing without transferring that burden to other ratepayers. It will also help to promote and foster an environment where small businesses can succeed and thrive.

On October 28, 2010, the utilities were ordered within 60 days to file Advice Letters with the CPUC. These revised tariff rules are effective until otherwise changed by the CPUC.

**DRA Work in 2011:** DRA foresees many opportunities to advocate on behalf of small business customers in 2011, particularly in the numerous rate design proceedings discussed in the Rate Design section.

### PG&E Gas Transmission and Storage Rate Case

In 2010, DRA protested PG&E's application for its 2011 Gas Transmission and Storage Rate Case, which had been filed in September 2009. PG&E requested revenue requirements of \$529.1 million for 2011; \$561.5 million for 2012; \$592.2 million for 2013; and \$614.8 million for 2014. The increases are significantly above current 2010 estimates of \$461.8 million. Based on DRA's initial analysis and PG&E's extensive proposals pertaining to operations, policy, market structure, cost allocation, and rate design, DRA submitted extensive discovery requests to PG&E.

On August 20, 2010, DRA, PG&E and approximately 23 intervening parties filed a settlement agreement with the CPUC which proposes to resolve nearly all issues in the proceeding.

### **DRA Negotiations Resulted in Settlement Savings of \$207 Million to Ratepayers**

The agreed upon revenue requirements in the settlement are:

Year	Revenue Requirement
2011	\$514.2 million
2012	\$541.4 million
2013	\$565.1 million
2014	\$581.8 million

If adopted, the settlement will result in substantial savings in contrast to PG&E's initial proposal, totaling cumulative savings of approximately \$207.1 million over the 4-year period. It will likewise provide a reasonable increase over current revenues allowing PG&E to operate its gas system in a safe and reliable manner.

The settlement allows for 2011 expense level for integrity management of \$22.0 million with annual escalation through 2014. A one-way balancing account for these expenses during the term of the settlement provides an incentive for PG&E to properly fund this activity since any accumulated balance will be returned to customers. The settlement also provides funding for specific projects, up to a cost cap, only if the project is actually built and operational.



## Gas Hedging Costs

In 2010, DRA finalized a settlement with investor owned gas utilities and other parties on the treatment of gas hedging costs, which concluded a proceeding opened by the CPUC in 2008.

### **DRA Negotiations Resulted in Improved Cost Management and Potential Savings for Gas Customers**

On January 21, 2010, the Commission adopted parties' settlement (D.10-01-023) which integrated 20 percent of PG&E's gas hedging costs into its core procurement incentive mechanism. This places hedging costs at some risk, providing PG&E a greater incentive to prudently manage gas costs because customers will not bear all the risk associated with hedging costs and utility shareholder will bear some of the costs of its heading activities. The decision also places 25 percent of the hedging costs of SoCalGas and SDG&E at risk within its gas cost incentive mechanism.

## Biennial Cost Allocation Proceedings (BCAP)

DRA was an active participant in the recent Biennial Cost Allocation Proceedings (BCAPs) for gas utilities. On June 28, 2010, the CPUC adopted the partial BCAP Settlement Agreement (D.10-06-035) that DRA, PG&E, and other parties had finalized and submitted to the CPUC in December 2009.

### **DRA Negotiations Resulted to Savings of Nearly \$10 Million for Residential Gas Customers**

The partial settlement will result in savings for residential customers of \$9.6 million compared to PG&E's request. The settlement agreement also provides ongoing benefits to residential customers in future years due to limitations on future residential customers' rate increases because of a less aggressive timing of "de-averaging" of rates that will occur more slowly than PG&E requested.

In 2011, DRA will be conducting discovery and audit on SoCalGas' Gas Cost Incentive Mechanism (GCIM) for year 16. DRA's Monitoring and Evaluation Report for SoCalGas GCIM Year 16 is due May 2011. SoCalGas and SDG&E are set to file testimony for its next BCAP cycle (now called *TCAP* because it is a 3-year cycle) no later than September 2011.



**Gas Hedging:** Costs incurred by the utility to establish a set price for natural gas in order to protect customers from excessive changes in price. It is commonly compared to a form of price insurance.



**BCAP:** Addresses the proper allocation of gas distribution, transmission, storage, and other costs among customers as well as other provisions related to gas operations.



**Physical Gas** that is held in gas storage facilities are a form of hedging when gas injections are made at times when natural gas prices are low and gas withdrawals are made during times when natural gas prices are higher.



On June 12, 2009, Lodi Gas Storage (Lodi), an independent natural gas storage owner and operator filed A.09-06-011 requesting a waiver to the CPUC requirement that it retain a \$10 million surety or performance bond to ensure its ability to meet the costs of certain obligations under its Certificate of Public Convenience and Necessity granted in 2000. DRA protested the application proposing that the CPUC requirement be retained.

### Gas Storage Projects

A number of new applications for gas storage projects in both Northern and Southern California were filed with the CPUC in 2010:

- Central Valley Gas Storage for a new storage project of 5.5 Bcf
- Wild Goose Storage proposal to expand its facilities
- SoCalGas Aliso Canyon and Honor Rancho facilities
- The new Gill Ranch Storage project

### **DRA Supports New Gas Storage for Cost and Reliability for All Gas Ratepayers**

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

DRA has proposed, and the independent gas storage providers have agreed, that periodic reporting requirements be followed by all new storage projects to ensure that the operations can be appropriately monitored.

### Lodi Gas Storage Project

DRA worked throughout 2010 to negotiate a resolution to Lodi Gas' request to waive the CPCN bond. These efforts resulted in a private letter agreement in which Lodi committed that the surety or performance bond requirement would continue without modification as DRA had asserted was the appropriate course of action. This will assure that customers are protected from the potential risks that development and operation of the gas storage project may pose in the local area.

On November 19, 2010, the CPUC dismissed Lodi Gas' application (D.10-11-005) as recommended by DRA.

## Firm Access Rights (FAR)

DRA protested SoCalGas and SDG&E's 2010 Firm Access Rights (FAR) application (A.10-03-028) based on the reasonableness of the utilities' requests. DRA filed testimony with the CPUC on October 2010 recommending rejection of the key application requests demonstrating that the utilities' FAR proposals may not be reasonable for:

- Cost allocation
- Rate design
- Cost recovery proposals
- Separation of costs between local and backbone transmission
- Collection of in-kind fuel charge rather than collecting a charge in end-use rates for compressor fuel
- Full unbundling of backbone transmission costs from rates

DRA subsequently worked with the utilities and other parties to develop a Joint Rate Recommendation. The agreement would result in a reduction of \$20 million in costs to residential and small commercial customers.

A proposed decision is currently pending.

## San Bruno Explosion

DRA has been closely following the San Bruno investigation and has reviewed two preliminary NTSB reports. DRA has also participated in Legislature panels and town meetings held in both Sacramento and San Bruno.

In 2011, DRA plans to review the NTSB's final report findings to ascertain whether PG&E customers should be responsible for costs related to the San Bruno event.

DRA will also review the NTSB's recommendations to determine whether DRA should revise the way in which it reviews gas rate cases, the resources that would entail and whether stronger oversight is required to determine the manner in which ratepayer dollars are spent, yet still provide the needed flexibility to gas utilities to implement pipeline upgrades that protect the physical safety of ratepayers.



**Firm Access Rights (FAR)** is a system adopted by the Commission in D.06-12-031 for the integrated gas transmission system of SDG&E and SoCalGas. The FAR system allocates the capacity at the various receipt points of SDG&E/SoCalGas that receive and deliver gas into their gas transmission system and gas is delivered at those points at the unbundled non-cost based FAR rate. The FAR Update proceeding in A.10-03-028 is for purposes of the review process of the FAR system and to update the unbundled non-cost based FAR rate. The FAR update proceeding will unbundle the backbone transmission cost of SDG&E/SoCalGas integrated gas transmission system based on the actual cost of the backbone gas transmission system.



On September 9, 2010, a large PG&E gas line exploded in a residential neighborhood of San Bruno, killing eight people. The ultimate cause of the explosion is currently under investigation under the leadership of the National Transportation and Safety Board (NTSB).

# Water

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DRA strives to ensure water rates are kept reasonable and affordable for customers – and advocates for the lowest possible rates consistent with safe and reliable water service..

DRA believes water policy should be focused on four key areas including reasonable level for infrastructure investment for safe and reliable water, financial protections for ratepayers, conservation rates, low-income and programs, and evaluation and need for alternate water supplies for water such as recycling and desalination.

Water utilities should strive to achieve increasing levels of conservation while continuing to supply high quality, reliable water. DRA supports strategies that offer verifiably cost-effective programs and rate designs that induce conservation from high volume users.

In 2011, DRA Water's priorities will focus on the following areas including: revenue decoupling mechanisms for conservation, advocating for rules that will advance cost-effective water recycling projects, continuing to support reasonable projects and expenses in general rate cases, and developing a rate design for costs of the Monterey Regional Desalination project.

## WATER: INTRODUCTION

DRA advocates on behalf of water ratepayers in Commission proceedings and participates in state-wide planning processes such as the Department of Water Resources' Water Plan Update Advisory Committee and the Air Resources Board's Water and Energy Team. DRA represents customers of investor owned water utilities throughout the state of California. Privately held water utilities serve water to approximately 1.1 million customers.

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

In general rate case (GRC) proceedings, DRA performs detailed analysis of water utility requests and financial plans. DRA advocates for needed and cost-effective replacement of aging infrastructure and for balanced funding of employee pension and benefit programs. Policy development is undertaken in CPUC rulemaking proceedings, in which DRA Water advocates on behalf of ratepayers on such issues as conservation, desalination, water recycling, affiliate transactions, contamination, and low-income customer data sharing.

### **DRA Advocacy Saved Water Ratepayers \$100 per Customer Annually, on Average**

In 2010, DRA had many successes including articulate affiliate transaction rules, and ratepayer protections related to utility contamination litigations, and saved water ratepayers approximately \$73 million dollars or on average \$100 per customer annually.



DRA has continuing concerns about some CPUC decisions in 2010, which fail to protect water customers including the recently authorized Regional Desalination project in the Monterey Peninsula.

**California Water Service Company (CWS):  
Statewide Rate Case**

On December 2, 2010, the CPUC adopted a settlement (D.10-12-017) between DRA, CWS, and other parties to set 2011 customer water rates across CWS’s districts statewide. In July 2009 CWS had filed a General Rate Case for all of its twenty-four districts and its General Office seeking to increase customer rates for 2011 by more than \$71 million – nearly a 17 percent increase. The requested increases varied by district, from 6.3 percent in Palos Verdes to 154.8 percent in the Coast Springs service area.

<b>\$71</b> million	CWS increase request
<b>\$25</b> million	CPUC approved settlement

DRA recommended an overall increase of approximately \$10,604,000, or 2.2 percent based on lower capital spending, lower estimates of expenses, reduced staffing for the Cross-Connection Control Program, and a smaller pilot program for energy efficiency projects.

**DRA Saved CWS Ratepayers \$44 Million**

In September of 2010, parties filed a settlement recommending a total increase of \$25,444,800, or 5.6 percent. The settlement decreased CWS’s request by 65% and included increased funding for conservation programs, cross connection control programs, and numerous storage tank, well, and treatment facility projects.

DRA’s detailed analysis and advocacy resulted in the CPUC adopting settlement agreement filed by the parties. Rates for 2011 will go into effect in January of 2011. The revenue changes vary by district from a decrease of 1.1 percent to an increase of 50 percent.

**California American Water (CalAm) Company 2009  
Rate Case**

In 2010, DRA negotiated a partial settlement with Cal Am for their 2009 rate cases. The disputed issues related to taxes. DRA achieved strong ratepayer policies and customer protections in the Settlement, such as:

- Licensed Professional Engineer must now stamp and sign each Comprehensive Planning Study and Condition Based Assessment to justify capital investment plans.



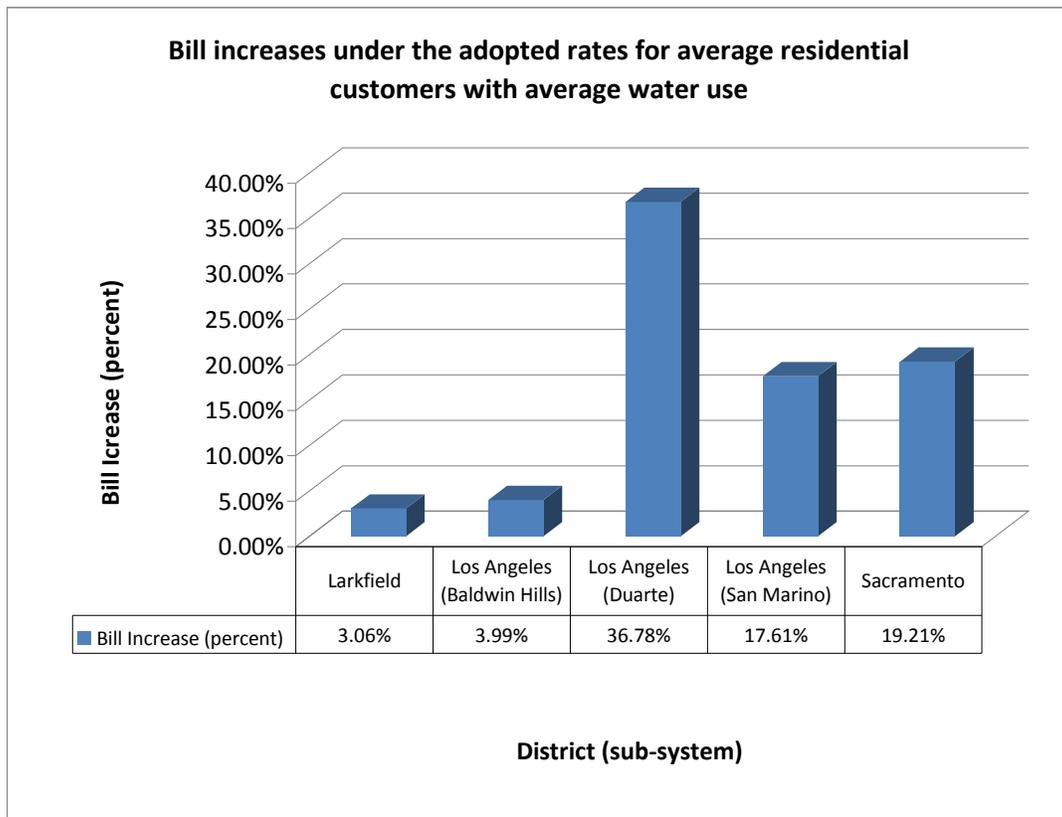
**CWS Districts:**

- Antelope Valley*
- Bakersfield*
- Bear Gulch*
- Chico*
- Dixon*
- Dominguez South Bay*
- East Los Angeles*
- Hermosa Redondo*
- Kern River Valley*
- King City District*
- Livermore*
- Marysville*
- Mid-Peninsula District*
- Oroville*
- Palos Verdes*
- Redwood Valley-Coast Springs*
- Redwood Valley-Lucerne*
- Redwood Valley-Unified*
- Salinas*
- Selma District*
- South San Francisco*
- Stockton*
- Visalia*
- Westlake*
- Willows*
- General Office*

## WATER: CUSTOMER RATES

- Significant capital project overruns will have comprehensive project cost variance explanations to be submitted with next GRC.

### DRA Saved Cal Am Ratepayers \$5.14 Million



### 2009 Cal Am Requested Revenue Increase vs. Authorized

Cal Am	Requested Increase (July 2009 update)		DRA Recommendation		Final Decision	
	\$	%	\$	%	\$	%
Districts						
Larkfield	\$335,800	12.08%	\$308,400	11.6%	\$207,600	7.26%
Los Angeles	\$6,550,600	34.19%	\$4,182,100	21.5%	\$5,494,500	26.99%
Sacramento	\$12,833,000	37.53%	\$8,237,300	24%	\$8,873,000	24.27%

**DRA Work In 2011:** DRA will continue to analyze and make recommendations regarding CalAm's statewide 2010 GRC (A. 10-07-007) described below.

**California American Water Company (CalAm): Statewide Rate Case**

In July 2010, Cal Am filed an application with the CPUC to raise customer rates in 2012. DRA is currently evaluating CalAm’s requests to increase its revenue in all of its districts combined by over \$58 million. If authorized, it could result in bill increases ranging from at least 8 percent to 36.99 percent, depending on service area. Key drivers asserted by Cal Am for the rate increase include:

- Changes in the return on rate base
- Increases in California corporate expenses
- Costs of purchased water
- American Water Service Company cost allocations
- Decreases in water sales

<b>\$58</b> million	CalAm Increase request
<b>37%</b>	proposed increase to customer bills

**DRA work in 2011:** DRA will file its written testimony during January 2011; evidentiary hearings are scheduled for May 2011.

**Golden State Water Company (GSWC): Regions II and III**

In November 2010, the CPUC issued a decision (D.10-11-035) on Golden State Water Company’s (GSWC) application to set customer rates starting January 1, 2010. GSWC had requested to increase 2010 customer rates for water service by more than \$20 million or approximately 20 percent in Region II and by more than \$30 or nearly 33 percent in Region III. The revenue requirement for Region III excludes the updating of supply expenses for purchase water, purchase power, and pump taxes which are direct a pass through to customers.

**DRA Saved GSWC Ratepayers \$15.6 Million**

DRA recommended a lower revenue requirement based on its analysis of lower expense need for Operation, Maintenance, Administrative, and General categories as well as a lower level of capital expenditure. The resulting CPUC decision decreased the revenue requirement GSWC’s request, authorizing an increase in GSWC revenue requirement of 14.2 percent for Region II and 22.3 percent in Region III.

This represents a decrease in revenue requirement of for Region II \$6 million and for \$9.6 million Region III, compared to the company’s request.



**Region:** San Jose

**Customers:** 20,000



### **Monterey Style WRAM:**

*A balancing account that ensures neither the utility nor ratepayers gain or lose as a result of conservation rate design.*

*The Monterey style WRAM will track the difference in Great Oaks' revenues collected due to implementing a increasing block rate structure.*

## Great Oaks Water Company Rate Case

One of the most hotly contested General Rate Cases (GRC) in 2010 involved Great Oaks Water Company, the smallest of the Class A water companies. Great Oaks filed its GRC Application to increase rates in September 2009 for 2010-2011.

**\$1.8**

million

**\$820**

thousand

Great Oaks  
increase  
request  
CPUC  
approved  
increase

The most contentious issues litigated were the sales forecast, executive salaries, conservation rate design, and implementation of a Monterey style WRAM.

### **DRA's Efforts Saved Great Oaks Ratepayers More Than \$1 Million**

The CPUC adopted DRA's recommendation for a two-tiered conservation rate structure and the Monterey style WRAM, as well as a reduction to executive salaries. Through DRA's advocacy efforts, the CPUC reduced Great Oaks' rate increase request and authorized an increase of approximately 7 percent, or \$820,250.

### **DRA's Investigation Revealed Lack of Disclosure by Great Oaks**

Additionally, DRA's thorough investigation of Great Oaks business practices found that the company had failed to disclose its lack of payment of groundwater pumping fees to the Santa Clara Valley Water District, even though the fees had been collected from ratepayers. Alerted to this discrepancy by DRA, the CPUC's Division of Water and Audits performed a review and verification.

Consequently, the CPUC found that good cause exists to further investigate Great Oaks' actions and whether fines should be imposed. DRA expects that in the first quarter of 2011, the CPUC will issue an Order Initiating Investigation of Great Oaks Water Company.

Great Oaks' next general rate case will be filed in 2012.

**Valencia Water Company Rate Case**

In January 2010, Valencia Water Company, in Southern California, filed an application requesting to increase its customer rates by nearly 19 percent for 2011.

<b>\$4.8</b> million	Great Oaks increase request
<b>\$1</b> million	PUC approved increase

DRA recommended an overall revenue requirement of \$27,134,500, an increase of \$1,415,800 or 5.5 percent over present rates. After extensive negotiations, DRA and Valencia were able to reach a settlement agreement, as well as a supplemental settlement agreement on rate design and revenue decoupling. The rate design is an increasing rate block structure based on water allocation budgets for each residential customer. Business customers maintain a single volumetric rate. The final decision adopted the settlement agreements which resolved the majority of the revenue requirement issues disputed by DRA in its Report on Results of Operations.

**DRA's Advocacy Reduced Valencia  
Rate Request by Nearly 80 Percent**

On December 16, 2010, the CPUC authorized \$1.03 million in revenues for 2011, which amounts to an overall increase of approximately 4.1 percent in general rates. This increase is even lower than DRA's initial recommendation because it took into account the recently adopted lower rate of return for Valencia Water Company.

DRA litigated only one issue which was the ratemaking treatment of litigation proceeds related to perchlorate contamination. The CPUC's final decision on this issue in December 2010 was not favorable to ratepayers. The CPUC chose to credit to ratepayers only a portion of the contamination proceeds received by Valencia's lawsuit instead of the full amount of the \$2.4 million proceeds it received for mitigating the contamination problem, as recommended by DRA. As a result, the amount credited to ratepayers in the formula is lower and will increase customers' rates. This treatment of net proceeds is inconsistent with the CPUC's recently issued decision (D.10-10-018) in the Contamination Rulemaking proceeding.

The next general rate case for Valencia customer will be 2012.

## WATER: CUSTOMER RATES

### Alco Water Company Rate Case

In February 2010, Alco Water Company, based Salinas, California, filed its application to increase 2010 customer rates by more than a 62 percent.

<b>\$3.7</b> million	Alco increase request
<b>62%</b>	

DRA filed its Report in May 2010 and recommended a decrease of 73 percent of Alco's requested rate base and a 13 percent decrease in its request for total operating expenses.

### **DRA Advocated to Protect Alco Ratepayers from 62 Percent Rate Increase**

DRA negotiated with Alco on behalf of ratepayers and was able to successfully settle on a number of contested issues including operating expenses as well as some plant investment requests. Additionally, Alco agreed to withdraw several of its requests including a 3 percent of additional rate of return on energy efficiency projects. The settlement agreement was filed on September 15, 2010.

DRA chose to litigate these issues; Alco's proposed addition of five wells, equipment and vehicle replacements, and cost of debt and return on equity.

The CPUC is expected to issue its Proposed Decision on Alco's rate increases in January 2011.

### San Clemente Dam Removal

In September 2010, Cal Am filed its application for the Carmel River Reroute and San Clemente Dam Removal project. DRA supports CalAm's efforts to partner with the California State Coastal Conservancy to secure grants for the increased costs associated with the Reroute and Removal Project. However, DRA is concerned with the overall cost of the proposed Project.

<b>\$110</b> million	estimated project costs
<b>\$76</b> million	cost to CalAm ratepayers

The total cost of the Project is estimated to be \$110,310,121, of which \$76,310,121 is to be paid by CalAm's ratepayers over a 20-year period.

**DRA Work in 2011:** DRA will closely scrutinize CalAm's application to ensure that ratepayer-provided funds are only used for prudent and reasonable costs associated with the project implementation.

**Monterey Region Desalination Project**

Throughout 2010, DRA proactively educated elected officials, the public, and Commissioners about the impacts of the proposed desalination project and how its costs could be contained, how its governance could be improved, and how its project partners could share equitably in the costs.

<b>\$500</b> million	estimated construction costs
<b>\$15</b> million	annually to run

DRA had vigorously protested the settlement due to its:

- Insufficient cost controls
- Lack of ratepayer representation
- Lack of CPUC jurisdiction over the 94 year Water Purchase Agreement contained in the settlement

Instead, on December 2, 2010, the Commission chose to approve the settlement of the California American Water Company, Monterey County Water Resources Agency, and Marina Coast Water District for the Monterey Regional desalination project.

DRA believes that the Commission’s decision failed to adopt sufficient safeguards to protect CalAm customers and could end up doubling or tripling customer water bills.

In 2011 the CPUC will address the rate design for the desalination project. DRA will focus on protecting residential and small commercial customers.



*In 2010, the State Water Resources Control Board issued a Cease and Desist Order for Monterey water companies to stop taking water from Carmel River by 2016. This order instigated a controversial and contentious process across a wide variety of stakeholders to find a solution to the water-constrained Monterey Peninsula. In 2007, DRA initiated the regional dialogues that led to the selection of a regional solution in 2009. Settling parties of Cal Am and Monterey Municipal Water Districts devised a public-private partnership that would require Cal Am Ratepayers to pay for a major portion of the project, but have not ownership or cost protection. Accordingly, DRA took an opposing position which would better protect Cal Am ratepayers by capping costs, promoting accountability and oversight, and providing Cal Am ratepayers with representation on the project board.*

### Water Conservation and Low-Income Customer Dating Sharing Investigation

In 2010, DRA participated in the CPUC's Water Conservation Investigation and Low-Income Customer Data Sharing Investigation.

DRA participated in a series of workshops to develop data reporting requirements for conservation programs under OII 07-01-022. These workshops included strategy sessions to coordinate conservation reporting with low income programs and compliance with the Water Conservation Act of 2009.



**Recycled Water** is defined by California Water Code Section 13050(n) as "water which, as a result of treatment of waste, is suitable for a direct beneficial use or a controlled use that would not otherwise occur and is therefore considered a valuable resource."

### Water Recycling

In late 2009, DRA began its lobbying efforts to persuade the Commission to open a rulemaking proceeding to develop policy and guidelines for encouraging investor owned water utilities to pursue recycle water opportunities to develop other sources of water supply.

### **DRA Successfully Lobbied for Recycled Water Rulemaking**

On November 23, 2010, the Commission issued its rule making R.10-11-014 on Recycled Water. In particular, the Commission recognized the State's long-term need for augmenting local water supplies. The Commission opens rulemaking will establish a comprehensive policy framework for recycled water which will address water use efficiency, local water supply development and prioritization, water supply reliability, and greenhouse gas (GHG) emissions reductions. Over the next twelve months, DRA along with other parties will be submitting comments and participating in workshops to help shape the Commission framework on recycled water.



### New Contamination Rules

In October 2010, the CPUC adopted rules regarding contamination proceeds.

The central issue in the proceeding was whether water utilities should share the litigation proceeds it receives from polluters before or after fully repairing and replacing damaged plants due to contamination. Water utilities insisted that it should be before and DRA argued that it should be after so that ratepayers would not end up paying more for the damaged plants that the litigation proceeds is intended to replace and remediate.

### **DRA Influenced Rules that Prevent Utilities from Profiting from Contamination Clean-up**

The final outcome of the CPUC's decision adopted many of DRA's recommendations and was highly favorable to ratepayers:

- Before any sharing can occur, litigation proceeds must first be used to pay the legal cost, to repair and replace damaged plants, and to pay for all other reasonable costs and expenses that are the direct result and would not have to be incurred in the absence of such contamination, including all relevant costs already recovered from ratepayers.
- Plants funded by contamination litigation proceeds, government loans and grants should not be included in a utility's rate base and earn a rate of return.
- Includes rules for accounting of contamination litigation proceeds, government loans, and grants related to contamination remediation.

This decision is a positive outcome for ratepayers if the rules are uniformly and appropriately applied. For instance, DRA does not believe that the net proceed rules were appropriately applied in the Valencia Water Company case, decided by the CPUC shortly after these contamination rules were established. A continuing DRA issue will be how any remaining net proceeds after remediation should be shared between ratepayers and shareholders.

**DRA Work in 2011:** DRA will monitor the California Water Service Company's application to address Methyl tert-butyl ether contamination proceeds. A resolution is expected in 2011.



#### **Net Proceed**

**Contamination Rules:** *The purpose is to prevent Water utilities from recovering an "unreasonable return on investments financed by contamination proceeds."*



## **Affiliate Transaction**

**Rules:** Establish 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.



## **Impacts to Ratepayers:**

The new affiliate transaction rules provide ratepayer protections to ensure customers of regulated utilities do not cross-subsidize parent companies, and ensure a consistent set of rules for affiliate transactions in the water industry.

## **Affiliate Transaction Rules**

On October 19, 2010, the CPUC unanimously voted to approve the adoption of standard rules for all Class A and B water and sewer utilities regarding affiliate transactions, including the use of regulated assets and personnel for non-tariffed utility products and services (D.10-10-019).

## **DRA Influenced the Establishment of Affiliate Transaction Rules that Protect Ratepayers**

The approved Decision establishes consistent rules that protect both ratepayers and water and sewer utilities. Additionally, because there is a strong relationship between non-tariffed products and services and affiliate transaction, the CPUC integrated the existing non-tariffed products and service rules that had been governed under D. 00-07-018 with the affiliate transaction rules to ensure consistency.

The approved rules adopt many of the ratepayer protections that DRA has advocated throughout this proceeding:

- Apply a uniform and consistent set of rules for affiliate transactions and for non-tariffed products and services
- Protect utility from holding company abuse
- Prevent cross subsidy
- Protect utility from parent company bankruptcy or other financial hardship
- Provide for monitoring and audit requirements
- Prevent anti-competitive behavior



