

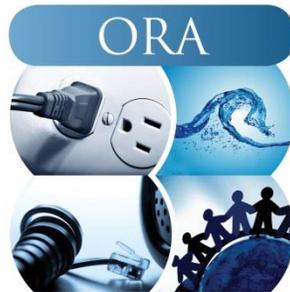


2015 ANNUAL REPORT



ORA's Statutory Mission

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



Edited by Cheryl Cox

with contributions by Charmian Desales and Dan Hartmann



2015 Annual Report

Submitted to the Legislature January 10, 2016

www.ora.ca.gov/AR2015.aspx



ORA

*Office of Ratepayer Advocates
California Public Utilities Commission*

JOSEPH P. COMO
Acting Director

505 Van Ness Avenue
San Francisco, California 94102
Tel: 415-703-2381
Fax: (415) 703-2057
www.ora.ca.gov

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

I am pleased to present the 2015 Annual Report of the Office of Ratepayer Advocates (ORA). This Annual Report highlights ORA's major accomplishments and activities in 2015 and offers some insights, from a consumer advocate's perspective, into the current challenges and issues facing California's utility customers. ORA's statutory mandate is primarily to represent and advocate on behalf of the interests of investor-owned utility customers to obtain the "lowest possible rate for service consistent with reliable and safe service levels."¹ This mandate requires ORA to examine and provide recommendations on many complex issues of utility service. These include, but are not limited to, safety of operations, environmental effects of energy production and use, communications availability and quality of service, and planning for water scarcity.

In 2015, ORA's staff of 147 analysts, engineers, economists, scientists, and auditors examined hundreds of thousands of pages of data from utilities, ran complex computer programs to simulate utility operations, and audited hundreds of utility accounts to ensure that customer funds were properly spent. ORA's \$27.7 million budget represents a small fraction of total benefit to ratepayers compared with the more than \$5.3 billion in savings ORA helped to achieve on behalf of ratepayers in 2015. This savings was realized in the form of lower utility revenues and avoided rate increases. For every one dollar customers spent on ORA in 2015 through user fee funding, they saved approximately \$191 across their utility bills.

Safety of utility operations continues to be a major focus area for the California Public Utilities Commission (CPUC), and for ORA as well. We continue to support necessary safety related spending by utilities. ORA's role is not only to analyze such spending for cost-effectiveness, but to suggest mechanisms to help ensure that utilities spend customer money appropriately.

In 2015, ORA culminated a 4-year process to create a new branch called Energy Safety & Infrastructure, to better manage ORA's significant workload in utility safety. This branch, composed mainly of engineers, will review the safety aspects of CPUC proceedings and contribute to safety risk assessment filings as required by the CPUC's new General Rate Case process.

This Annual Report for 2015 summarizes major work areas, positions taken, and accomplishments of ORA. Most of the real benefits to utility customers come from ORA's formidable commitment to analyzing utility General Rate Case (GRC) applications. That work underlies most of ORA's cost savings for customers. In addition to the GRC work in 2015, I highlight the following specific issues of importance:

1. **San Bruno Investigation** – This multi-year case culminated with a \$1.6 billion penalty for PG&E, with a majority of the penalty to be used to pay the costs of pipeline safety upgrades and compensation to customers.
2. **San Onofre Nuclear Generating Station (SONGS)** – ORA urged the return of \$648 million to customers to penalize Southern California Edison for gains resulting from secret conversations between CPUC decision-makers and Edison executives that had violated the law.
3. **Electricity Rate Reform** - ORA promoted the benefits from Time-of-Use pricing, with the option to opt-out if a customer wishes. Time-of-Use strategies give customers greater flexibility to adjust consumption to reduce bills. ORA did not support the concept of fixed charges because it would disproportionately harm customers that use the least amount of energy per month and be a disincentive to conserve.

¹ Public Utilities Code Section 309.5(a).

4. **Safety** – ORA continues to push utilities to comply with federal and state gas pipeline standards. ORA’s new Energy Safety & Infrastructure branch will focus on the plans, specifications, and costs for new safety programs.
5. **Renewable Portfolio Standard (RPS)** - ORA continues to support the greenhouse gas (GHG) reduction target embodied in the 50% renewable energy goal. This should be accomplished through an analysis of the best alternatives and technologies for achieving GHG reductions, considering cost and feasibility.
6. **Electric Vehicles** - ORA collaborated with Southern California Edison and other consumer, low-income, environmental, and industry representatives to develop a charging infrastructure pilot framework. Key provisions of this pilot include third-party private ownership of charging stations and a regulatory process to transition from pilot to full-scale roll-out. ORA supports adoption of this model for other utilities.
7. **Energy Storage** - ORA advocated for an Energy Storage strategy and evaluation plan that will clearly account for greenhouse gas emission reductions.
8. **Net Energy Metering** – ORA proposed a fiscal plan to support long-term and widespread growth of rooftop solar by slowly reducing the solar customer subsidy over a number of years and protecting the cost recovery expectations of customers.
9. **Energy Efficiency** - ORA recommends that the CPUC place more emphasis on Energy Efficiency programs that are administered by third party implementers, selected via competitive solicitation.
10. **Energy Imbalance Market and Regionalization of the Independent System Operator** - ORA supports the concept of regional electric grid management as a new framework that will benefit ratepayers by providing greater grid flexibility and reliability at a lower cost, while promoting the state’s climate goals.
11. **Drought Related Issues** – ORA has focused on helping water utilities conserve water and reduce associated energy use by petitioning the CPUC to open a proceeding to develop partnerships between energy and water utilities. We also supported rate design reforms that align the appropriate price signals with the state’s conservation policy goals to eliminate discretionary outdoor water use.
12. **Communications Mergers / Acquisitions** - ORA analyzed three merger and acquisition applications for their impact on millions of customers of telephone and broadband services. This work continues ORA’s objective that mergers and acquisitions do not diminish reliability, public safety, competition, or deployment of advanced communications.
13. **California Teleconnect Fund** - ORA supported goals to make broadband more accessible and affordable to underserved communities, hospitals, and pre-kindergarten school programs.

This Annual Report also fulfills ORA’s legislative requirement to provide the following information as required by statute:²

1. The number of personnel years assigned to ORA and a comparison of the staffing levels for a five-year period.
2. The total dollars expended by ORA 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 ORA.

More in-depth information on ORA is available at www.ora.ca.gov, including Annual Reports from previous years. ORA’s dedicated and talented staff of professionals will endeavor to continue its role as both an important resource for decision-makers and a key voice for residential and small business utility customers.

Sincerely,



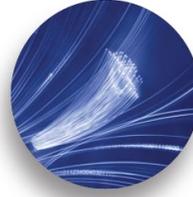
Joseph P. Como

² Public Utilities Code Section 309.5 (g).

Table of Contents

1	ORA's 2015 Advocacy Work	
	Energy	2
	Water	11
	Communications	14
17	ORA Report to the Legislature	
25	ORA in Sacramento	

ORA's 2015 Advocacy Work



ORA - The Office of Ratepayer Advocates - is the independent consumer advocate within the California Public Utilities Commission (CPUC) that advocates solely on behalf of investor owned utility customers (aka ratepayers). As the only state entity charged with this responsibility, ORA plays a critical role in ensuring that the customers of California's energy, water, and communications utilities are represented at the CPUC and in other forums that affect customers' utility bills, environmental benefits, and the reliability and safety of those services.

ORA has a staff of 147 professionals consisting of engineers, economists, scientists, and auditors with expertise in regulatory issues related to the electricity, natural gas, water, and communications industries in California. ORA's staff performs in-depth review and analyses of regulatory policy issues and utility proposals, for funding that totals in the tens of billions of dollars, in order to determine whether utility requests are in the interest of the ratepayers who fund utility activities through their utility bills. ORA also supports environmental policies that benefit customers and seeks to ensure that utility actions comport with CPUC rules and California environmental laws and policy goals.

In 2015, ORA participated in 192 CPUC proceedings and filed approximately 605 pleadings to aid the CPUC in developing the record from which commissioners formulate their final decisions. ORA met with decision-makers on behalf of ratepayers 112 times in 2015 to ensure that the consumer perspective was heard. ORA's \$27,745,000 budget represents a small fraction of ratepayers' investment as compared to the \$5.3 billion in savings that ORA helped to achieve on behalf of ratepayers in 2015. This savings was realized in the form of lower utility revenues and avoided rate increases. For every dollar customers spent on ORA in 2015, they saved approximately \$191 across their utility bills. Additionally, ORA influenced the outcome of numerous CPUC policies, decisions, and California legislation that will positively impact ratepayers.

About O R A

In 1984, the CPUC created ORA, 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) made ORA independent with respect to policy, advocacy, and budget. SB 960 made the ORA Director a gubernatorial appointee subject to Senate confirmation. In 1997, the CPUC implemented its reorganization plan, "Vision 2000," which significantly diminished the size of ORA staff, but the ratepayer advocacy responsibilities and workload remained the same. In 2005, SB 608 (Chapter 440, Statutes of 2005) strengthened the organization by providing it with autonomy over its budget and staffing resources, and authorizing the appointment of a full-time Chief Counsel. In 2013, SB 96 provided ORA more autonomy by making it an independent program within the CPUC.



Energy

ORA represents approximately 80 percent of California's energy customers with an emphasis on residential and small business customers. ORA evaluates utility and other stakeholder proposals for both electricity and natural gas in the areas of Customer Rates, Procurement, Renewables, Climate Initiatives, Distributed Energy Resources, Transmission and Distribution, and Consumer Protection. ORA reviewed utility proposals for accountability and keeping rates affordable, while supporting California's energy goals and promoting the safety and reliability of the state's energy infrastructure. ORA scrutinized the requests of California's investor owned utilities seeking to significantly increase customer rates. In 2015, ORA reviewed utility requests related to energy revenue increases and programs that totaled more than \$96 billion statewide. ORA's advocacy efforts on energy issues aided in saving ratepayers approximately \$5.3 billion.

Pacific Gas and Electric Company (PG&E)

San Bruno Investigation

ORA participated in the CPUC's San Bruno investigation to address what penalties should be determined for PG&E's role in the 2010 natural gas explosion. The CPUC's decision to penalize PG&E \$1.6 billion largely comports with ORA's recommendation that a majority of the PG&E penalty be used to pay the costs of pipeline safety upgrades, yet require a sufficiently significant fine to incent PG&E to keep its pipelines safe. Customers will see compensation in the form of a bill credit in February 2016.

Natural Gas: Transmission & Storage

ORA analyzed PG&E's request to increase its revenue requirement by \$2 billion dollars for Gas Transmission and Storage, including plans for pipeline upgrades

between 2015 and 2017. ORA's analysis shows that PG&E only needs half of its requested increase to safely and reliably operate its natural gas system. ORA's examination found that PG&E over-estimated costs of pipeline pressure testing and the vintage pipeline replacement program, system expansions (primarily in the San Joaquin Valley), and corrosion control and mitigation efforts. The proceeding was delayed into 2015 in order for the CPUC to investigate PG&E's inappropriate communications with CPUC decision-makers, and resumed with hearings in February and March 2015. A proposed decision has not yet been issued.

2017 PG&E General Rate Case

ORA is currently conducting an in-depth review and analysis of PG&E's request to increase its revenue requirement from a current level of \$7.92 billion to \$8.4 billion in 2017, \$8.9 billion in 2018, and \$9.3 billion in 2019. PG&E's request amounts to a 3-year cumulative increase of \$2.74 billion in revenues. ORA expects to submit its full analysis via testimony in April 2016.

Southern California Edison Company (Edison)

2015 Edison General Rate Case

ORA performed an in-depth analysis of Edison's initial request to cumulatively increase its revenue by \$1.65 billion for 2015 – 2017. ORA's detailed review found that Edison over-estimated its capital costs for transmission and distribution, and information technology costs. ORA recommended that the CPUC should instead *decrease* Edison's revenue requirement by \$1.1 billion for 2015 - 2017. Pursuant to ORA issuing its recommendation, Edison reduced its proposed increase to \$841 million - or 12.4%. The CPUC ultimately approved a decrease of \$663 million for 2015 – 2017, which is closer to ORA's recommendation. ORA estimates that customers will save about \$2.3 billion, compared with Edison's initial proposal. Edison's total revenue requirement will decrease by 4% for 2015 – 2017 from its previous cycle, which will provide Edison with sufficient funds to operate its system safely and reliably, including continuation of pole replacement projects. The CPUC decision reflects ORA's recommendations regarding more reasonable timing of expenditures for

deteriorated pole replacements and overloaded poles, as well as reduced ratepayer funding for executive and short-term incentive compensation.

ORA opposed Edison's proposal to establish separate baseline allowances for all-electric single-family and multi-family homes given that multi-family customers, who tend to be lower energy users, are likely to be impacted by severe cumulative bill impacts due to residential rate reforms. ORA supports Edison's proposed delay in the transition date for defaulting small business customers to Critical Peak Pricing ("CPP") rates to ensure that Edison is able to provide adequate information to customers about how these new rates may increase utility bills, as a result of times when the electrical system is under extreme stress. ORA participated in an all-party settlement agreement which would retain the same baseline allowance for single-family customers as for multi-family customers, which will prevent bill increases for apartment dwellers at a time when these customers face steep bill increases from residential rate redesign. The settlement is pending before the CPUC.

San Onofre Nuclear Generating Station (SONGS)

In April 2015, ORA's director issued a public statement urging the CPUC to penalize Edison \$648 million and return these funds to customers given the secret conversations between CPUC decision-makers and Edison executives that had violated the law. This illegal and unethical behavior undermined ORA's ability to negotiate the best outcome on behalf of customers. The amount of the suggested penalty represents the difference between ORA's initial litigation position, based on its analysis, and the CPUC's final decision. ORA did not initially recommend scrapping the SONGS deal, in which customers realized significant relief, but instead sought a more simple solution to compensate customers. A significant penalty in the form of a refund would avoid the risk of protracted litigation where customers could be on the hook for additional costs. Given that the CPUC's proposed decision chose not to appropriately penalize Edison for their deceptive behavior, ORA determined that it could no longer support the settlement agreement. In December 2015, the CPUC approved the proposed decision and penalized Edison \$16.7 million for failure to report its

ex parte communications in a timely manner, which will be paid to the state's general fund.

In the wake of SONGS Units 2 and 3 closures, ORA performed an in-depth review of Edison and SDG&E's (a 20% minority owner) request for the CPUC to approve over \$5 billion in decommissioning cost estimates. ORA recommended the CPUC require greater transparency of the utilities' spending and reject Edison's proposal to shift the burden of proof to intervenors for decommissioning costs. The CPUC should instead continue its current process for decommissioning oversight. Additionally, the CPUC should not make a final determination regarding the reasonableness of Edison's costs based solely on the utility's estimates. A CPUC decision is expected in 2016.

ORA additionally protested Edison and SDG&E's request to recover more than \$250 million in 2014 SONGS-related costs in order for ORA to have sufficient time to perform an audit and evaluate the reasonableness of the utilities' 2014 recorded expenditures. The CPUC intends to consider this request after it has concluded review of the SONGS decommissioning costs.

Sempra Companies: San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas)

SDG&E and SoCalGas 2016 General Rate Case

SDG&E and SoCalGas had initially requested CPUC approval to increase their revenue requirements for 2016 – 2018 by \$688 million and \$1.1 billion, respectively. ORA's analysis shows that both SDG&E and SoCalGas had over-estimated their costs in the areas of employee incentives / awards, medical benefits, forecasts of distribution operations and maintenance expenses, customer service, and the escalation rates for 2017 and 2018. ORA worked with SDG&E, SoCalGas, and other intervening parties to negotiate a settlement agreement that would provide SDG&E with a cumulative increase of \$256 million for 2016 – 2018 and SoCalGas a cumulative increase of \$602 million for that 3-year period. If the CPUC adopts the settlement, SDG&E's and SoCalGas' customers

will save \$432 million and \$498 million, respectively, compared with Sempra's original request. ORA anticipates that the CPUC will issue a proposed decision in the first quarter of 2016.

Natural Gas: SoCalGas and San Diego Gas & Electric North-South Project

Based on its detailed review and analysis, ORA recommends that the CPUC deny SoCalGas and SDG&E's request to implement its proposed North-South Project that purports to address reliability concerns on the southern gas system. The proposal would ultimately cost customers \$2.78 billion over the life of the project, and \$133.6 million in the first year of service. ORA's analysis shows that the Sempra companies failed to demonstrate that the pipeline is necessary. ORA recommends that Sempra first seek a broad range of non-physical "no-build" alternatives and allocate these costs across all SoCalGas and SDG&E customers, consistent with current practices. ORA anticipates a CPUC decision in the first half of 2016.

Liberty Utilities

Liberty has requested a \$13.6 million (or 17.3%) increase for 2016 over its current authorized revenue requirement. ORA's analysis shows that Liberty has over-estimated its revenue needs in the areas of general and administrative expenses, operations and maintenance expenses, capital additions, and its rate of return. ORA recommends that the CPUC instead should approve an increase of \$7.0 million for 2016 (or 8.2%). ORA also recommends a Return on Equity (ROE) of 9.71% compared with Liberty's request of 10.5%, over its current 9.875%, in order to be more appropriately aligned with market conditions.

Statewide Rate Reform and Programs

ORA supports the need for California to address the unintended consequences of the 2001 legislation that froze volumetric electricity rates during the energy crisis, by reducing tier rate differentials. Accordingly, ORA generally supports the CPUC's 2015 residential rate reform decision which favors minimum bills over fixed charges in the near-term, balancing the need to carefully design rates over time in order to avoid

customer rate shock as lower-tier rates necessarily increase.

ORA successfully advocated for Time-of-Use pricing to become the default rate for residential customers, while allowing customers who do not wish to be on Time-of Use pricing to opt-out to a different rate schedule. ORA supports the CPUC's plan to implement Time-of-Use pricing for residential customers in order to efficiently target the most expensive and polluting hours of the day for generating electricity, while giving customers greater flexibility to adjust consumption to reduce bills. ORA does not support the concept of fixed charges because they reduce a customer's incentive to manage their energy use and would disproportionately harm customers that use the least amount of energy per month. The CPUC might reconsider the imposition of fixed charges again in 2019.

Safety

ORA supports the CPUC's objectives to make improvements to its General Order 112, which guides gas pipeline safety standards in California. While ORA generally supports the CPUC's proposed modifications, its primary concern is that the CPUC has not yet made updates that reflect changes to the pressure testing requirements that resulted from its San Bruno investigation proceedings. Those rules require utilities to pressure test pipelines installed prior to 1970 that had not been previously pressure tested -- or for which records are missing. These orders should be specifically included in General Order 112 to ensure that both requirements and enforcement are clear. Accordingly, on July 13, 2015, ORA along with the City of San Carlos filed an Application for Rehearing, requesting that the CPUC update General Order 112 to be consistent with its own rules, as well as with federal minimum safety codes. ORA's filing is pending CPUC action.

In December 2015, the CPUC adopted ORA's recommendations that SDG&E and SoCalGas – not ratepayers - should be required to pay for the costs of pressure testing its natural gas pipelines which were installed between 1956 and 1961, where the utilities have no pressure test records. If pipeline segments need to be replaced, the decision orders the utilities to pay the cost of replacement equal to the average cost

of pressure testing, or if the pipeline is abandoned then the utility must pay the remaining investment. ORA's evidence showed that the utilities should be responsible for these costs because ratepayers had already paid for pressure testing between 1956 and 1961. ORA estimates that this will result in savings of \$50 - 200 million for ratepayers.

Additionally, on December 16, 2015, ORA filed a motion showing that PG&E is in violation of federal gas safety regulations and requesting the CPUC impose fines against PG&E for filing misleading information regarding its compliance with those regulations, and for failure to have a comprehensive gas safety plan in place in violation of state law. The ORA motion demonstrates that PG&E has been intentionally misleading the CPUC for over two years regarding its compliance with federal regulations in order to create confusion and avoid further enforcement actions. ORA's objective in filing the Motion is to protect public safety by ensuring that PG&E is required to comply with state and federal safety rules.

This year, ORA also created a new branch called Energy Safety & Infrastructure in order to better manage ORA's significant workload in these two important areas. The branch is organized into two sections. The Energy Safety section is comprised of engineers who will review the safety aspects of the CPUC proceedings, as well as assess the energy utilities' (chiefly PG&E, Edison, SDG&E, and SoCalGas) safety risk assessment filings as required by the CPUC's new General Rate Case process. The Infrastructure section was moved from another branch and will continue to review projects and proceedings related to Transmission Planning and Distributed Energy Resources, including the Distribution Resources Plan and Electric Vehicles.

Procurement

Long-Term Procurement Plan

ORA reviewed the utilities' procurement plans, which forecast their load and energy resource needs for the 2014 - 2024 period. ORA advocated that the utilities' procurement plans should comport with state law as well as with CPUC rules and guidelines. This includes implementing a risk management policy, and

establishing an independent review of the utilities' hedging plans to enhance regulatory oversight. Given the CPUC's desire to continue to rely on modeling outputs for resource planning, ORA supports the CPUC's proposed plan to shift focus to refining modeling assumptions and definitions in preparation for the 2016 process. The CPUC should build stakeholder consensus and standardize modeling definitions, inputs, and assumptions in order to achieve modeling results that are the most useful in procuring the right amount of resources for actual need.

Local Capacity - Edison

ORA generally supports the CPUC's decision to approve procurement of local capacity in Edison's Western Los Angeles Basin subarea to ensure reliability in the wake of the SONGS closure. The CPUC adopted ORA's recommendation to deny six Demand Response contracts because they rely on gas-fired generation and do not comport with the state's goals to use preferred resources to achieve load reduction, such as demand-side strategies, which can reduce greenhouse gas emissions.

ORA also supports local capacity procurement in the Moorpark subarea with the exception of a long-term contract for the *existing* Ellwood peaker plant, which is at above-market prices. If Moorpark is approved, it would contradict the CPUC's rules that are designed to allow higher prices for *new* resources because, unlike existing resources, they require substantial investment. As a result, ratepayers would pay more than they should to replace SONGS capacity. A CPUC decision on Moorpark is expected in early 2016.

Carlsbad Power Plant – SDG&E

ORA reviewed SDG&E's request to contract with the Carlsbad Energy Center for 600 megawatts (MW) of power, which SDG&E asserted is necessary to meet reliability due to the planned 2017 retirement of the Encina Power station. ORA's analysis showed that based on approved CPUC long-term procurement plans that SDG&E does not need additional resources until at least 2022. Moreover, the CPUC originally ordered SDG&E to first seek needed resources through a competitive process, yet SDG&E sought to contract directly with Carlsbad without any transparent

vetting process. ORA's analysis shows that, through a Request for Offer bidding process, clean energy resources are competitive with traditional resources, and can keep ratepayer costs lower. The CPUC's approval of the Carlsbad contract will result in decades of reliance on a gas-fired power plant rather than fulfilling future need with clean energy resources, which would be a more effective strategy to achieve the state's aggressive climate goals. In its final decision, the CPUC reduced the Carlsbad contract from 600 MW to 500 MW, which will save customers hundreds of millions of dollars.

Resource Adequacy

ORA advocates that the Resource Adequacy program, a one-year ahead look to ensure a reliable and cost-effective supply of electricity generation in California, will work best when all electric energy resources are allowed to participate in the Resource Adequacy market. Such a competitive market will reduce costs for customers. ORA's objective for the Resource Adequacy process is for the state to maintain electricity reliability in the most cost-effective manner. In 2015, ORA urged the CPUC to create Resource Adequacy policies for non-polluting resources that both contribute to system reliability and reduce greenhouse gas emissions. ORA advocated for changes to the Resource Adequacy program that will calculate the full contributions of Energy Storage, Demand Response programs, and renewable resources. The CPUC should utilize stakeholder input and robust analysis to ensure that all resources are fully counted toward the Resource Adequacy requirement. Additionally, the CPUC should relax Resource Adequacy restrictions against resources that cannot operate for four continuous hours due to their unique production characteristics, which will allow for greater participation from resources such as energy storage and demand response. This approach may lower ratepayer costs and will assist in meeting California's environmental goals.

Renewable Portfolio Standard (RPS)

ORA supports a higher renewable energy target to support the state's immediate greenhouse gas (GHG) emission reduction goals for 2020, as well as to address more aggressive goals to reduce GHG

emissions to 80% below 1990 levels by 2050. ORA advocates for a holistic approach to achieve these significant goals by counting GHG reductions from all clean energy programs, such as energy efficiency and zero-emission vehicles.

In 2015, ORA advocated for policies that are consistent with SB 350's mandate to contain costs for Renewable Portfolio Standard (RPS) compliance strategies, which will both protect ratepayers and promote sustainable program success. ORA analyzed RPS programs and policies to ensure that they comport with the least cost / best fit criteria that guides selection of the most optimal, viable renewable projects. ORA worked with other stakeholders across all related proceedings to develop an RPS Calculator that will provide accurate and timely information. This information will feed into the CPUC's Long Term Procurement Plan in order to ensure that resources are available, safe, reliable, and comply with state policies, at the least possible cost to ratepayers. ORA supports the efforts of the CPUC, the California Air Resources Board, the Energy Commission, and the Independent System Operator to coordinate development of a 2050 GHG framework where program performance and costs are optimized.

Distributed Energy Resources (DER)

Distributed Energy Resources (DER) are small-scale generation and customer load-modifying technologies, such as renewables, energy efficiency, energy storage, electric vehicles, and demand response. DER can be managed and integrated with conventional energy resources to achieve a reliable and resilient electric grid. ORA supports the state's goal of integrating 12,000 megawatts (MW) of DER onto the distribution system to promote consumer choice, spur investment in distributed resources, and help meet the state's ambitious climate goals.

Distributed Resources Plan (DRP)

The purpose of the Distributed Resources Plan (DRP) is to integrate Distributed Energy Resources (DER) into utility distribution system planning. In 2015, the CPUC adopted ORA's recommendations to guide the utilities' DRP plans, including requiring consistency across utility plans to promote uniform Distributed Energy Resources valuation. ORA advocated that the

utilities' proposed Distributed Resources Plans should have a transparent interconnection process and utilize Distributed Energy Resources integration tools that will maximize the usefulness of grid modernization investments. These requirements are necessary to achieve significant ratepayer savings and attain SB 350's greenhouse-gas reduction goals.

Electric Vehicles

ORA supports the deployment of an Electric Vehicle infrastructure as foundational to achieving the Governor's goal of placing 1.5 million Electric Vehicles on California roads by 2025, which is an important strategy for reducing greenhouse gas emissions. In 2015, ORA worked on developing policies and strategies to deploy the charging infrastructure needed to achieve this goal. ORA advocated for plans that would test assumptions regarding charging infrastructure deployment and utilization in the most effective and cost-efficient manner. Testing strategies prior to full infrastructure roll-out is the best way to maximize the potential to achieve the state's goals and to minimize the risk of stranding ratepayer investments. ORA developed a plan that would address these objectives, including a process to identify strategies for meeting charging station siting and technology safety and reliability requirements, while assuring robust market competition.

ORA collaborated with Edison and other consumer, low-income, environmental, and industry representatives to develop a charging infrastructure pilot framework. Key provisions of this pilot include third-party private ownership of charging stations and a regulatory process to transition from pilot to full-scale roll-out. The pilot would also require regular reporting to identify lessons-learned prior to full deployment, protect ratepayers by capping the initial budget at \$22 million, utilize an advisory board to provide guidance on program design and implementation, and clearly define Edison's and Electric Vehicle service providers' respective roles in outreach and education efforts. On December 15, 2015, the CPUC issued a proposed and an alternate proposed decision, both which essentially approve the settlement agreement for Edison's Electric Vehicle charging infrastructure pilot. However, each proposed decision makes minor modifications to the rebate levels for the base cost of charging stations.

ORA asserts that all of the state's investor owned utilities should implement a similar pilot roll-out

in order to first test strategies, promote robust market competition, and keep costs low. ORA does not support PG&E's and SDG&E's proposals which are more costly than Edison's (PG&E requests \$604 million and SDG&E requests \$103 million) and would allow the utilities to own both the electric distribution infrastructure and the charging stations, which would stifle competition at ratepayers' expense, and could impede meeting the Governor's goal of increasing Electric Vehicles in California.

ORA's advocacy in 2015 was successful in achieving a CPUC ruling that requires PG&E to deploy its program in phases in order to provide lessons-learned prior to full deployment. These modifications ensure that PG&E tests the efficacy of its program before investing an additional \$570 million in ratepayer funds into a full program. This pilot phase will still allow PG&E to essentially double the number of available charging stations in its service territory.

Energy Storage

ORA supports the CPUC's efforts to improve the efficiency of the Energy Storage solicitation process, using clear guiding principles. In 2015, ORA advocated for objectives to reevaluate the Energy Storage framework based on lessons-learned that will promote cost-effective Energy Storage procurement by allowing the utilities to shift up to 80% of their storage targets between transmission, distribution, and customer-sited storage requirements. ORA advocated for an Energy Storage strategy and evaluation plan that will account for greenhouse gas emission reductions met by Energy Storage, and which demonstrates accurate costs and benefits to ratepayers. Additionally, the CPUC should approve Energy Storage plans that identify need and deploy projects based on locational system needs in order to promote cost-effectiveness.

Net Energy Metering (NEM)

ORA strongly supports the growth of roof-top solar as a means of achieving the state's clean energy goals by reducing greenhouse gas emissions. In order to achieve this goal, it is important that all customers not only pay their fair share of the grid that they utilize, but that the framework creates a financial structure that is sustainable for both solar and non-solar customers over the long-term.

To balance these objectives, ORA proposed a successor Net Energy Metering (NEM) Proposal that would continue the existing NEM program at the full retail rate and introduce a small monthly fee (based on the installed capacity of the generator), which would gradually increase as solar adoption grows. The low fee would start at \$2 per installed kilowatt, or approximately \$10 per month for a typical rooftop solar system, which would be grandfathered at that rate for ten years. The fee would increase as the amount of solar penetration increases. Existing customers who invested in rooftop solar prior to an updated CPUC decision, will be grandfathered for 20 years.

This plan would continue to provide a cost-effective means for utility customers to generate their own electricity, yet limit subsidies to only what is necessary to preserve a value proposition for customers who generate their own electricity with a renewable generator. ORA's proposal would also continue consumer protections from the California Solar Initiative Program, as well as potentially expand the existing Single-Family Affordable Solar Homes third party financing program to disadvantaged communities.

On December 15, 2015, the CPUC issued a NEM proposed decision, which takes an incremental step towards reducing program subsidies by increasing the one-time interconnection fee for new installations. The CPUC proposal would also require NEM customers to pay non-bypassable charges related to public benefit activities. Additionally the proposed decision would require systems installed after January 1, 2018 to be on a default Time-of-Use rate schedule, and would re-examine the NEM issue in 2019. Although the proposed decision makes incremental progress, ORA remains concerned that the subsidy will continue to significantly grow, resulting in increased rates for customers.

Energy Generation Interconnection Rules (Rule 21)

ORA supports the adoption of the CPUC's Rule 21 reforms for interconnection of distributed energy resources to the utilities' distribution systems. Specifically, ORA supports the CPUC's guidelines and reporting processes that serve to provide greater cost transparency for interconnecting energy resources to the utilities' distribution system. ORA opposes requiring

ratepayers to pay for distribution system infrastructure upgrades. Those costs should be borne by the generators who trigger the upgrades, given that they make a profit from these transactions. ORA advocates for the Massachusetts-style model, which provides interconnection cost certainty by requiring cost increases of up to 10% of the utility's estimated costs be paid by the interconnecting applicants. Any cost increases in excess of the 10% cap should be paid by utility shareholders. This approach provides an incentive to the utilities to maintain accountability for cost-effective interconnection of generation resources.

Integrated Demand-side Energy Resources

ORA supports the CPUC's goal of meeting energy needs by first reducing the need for additional generation and infrastructure. ORA advocates for policies and programs that effectively reduce pollution and system costs through programs that encourage conservation, efficiency, and reduction of peak energy demand, which reduce greenhouse gases without unduly burdening ratepayers.

Energy Efficiency

In 2015, ORA advocated for utility and program administrators to submit Energy Efficiency business plans as part of the CPUC's newly approved "rolling portfolios" approach, which will have longer and more flexible program cycles. ORA recommended that business plans should define program goals and demonstrate how implementers will achieve those goals for the \$1 billion annual program administered by the utilities. The CPUC has endorsed the "business plan" approach, and in 2016, ORA will participate in a CPUC working group to help shape the final business plan framework.

ORA recommends that the CPUC place more emphasis on Energy Efficiency programs that are administered by third party implementers selected via competitive solicitation, and managed by the utilities. This approach would result in more innovative and cost-effective energy saving programs. Energy Efficiency programs should be required to demonstrate clear cost benchmarking, largely based upon "pay for performance." In 2015, ORA worked on developing policy guidelines for evaluating the effectiveness of

Energy Efficiency programs to ensure that ratepayers do not fund programs that do not yield energy savings.

Demand Response

Demand Response is an important strategy to avoid expensive and polluting generation in support of achieving the state's climate goals.

ORA supported the CPUC's proposal to develop a pilot program for a Demand Response Auction Mechanism (DRAM) as a method to procure more cost-effective Demand Response and encourage its integration into the Independent System Operator (ISO) markets. The DRAM pilot will allow utilities to competitively procure Demand Response, similar to supply-side resources, and will encourage competition. The CPUC adopted ORA's recommendation to prevent polluting back-up-generation from participating in this program. ORA also advocated that DRAM pilots should meet full resource adequacy requirements to ensure that the pilots provide real system benefits.

ORA performed an in-depth analysis on the utilities' Demand Response programs and found that they are highly under-utilized. Instead, the utilities' used other non-preferred / more expensive resources despite the availability of Demand Response opportunities. Such under-utilization of Demand Response could result in customers paying for more expensive resources. Based on ORA's findings and recommendations, the CPUC adopted utility reporting requirements to improve transparency and effectiveness of the Demand Response program.

ORA also advocated to ensure that funding for Demand Response programs leads to reductions in the procurement of fossil-fueled generation resources so that ratepayers are not paying twice for the same capacity, which ensures the resource is available. ORA joined the Independent System Operator (ISO) in advocating that Demand Response resources should be integrated into ISO markets or reflected as a reduction in the California Energy Commission's forecast of electric demand in order to assure reduction in procurement obligations. The CPUC ultimately chose to achieve this goal by determining that such Demand Response resources have no capacity value because there is no certainty that they will reduce procurement obligations. This will ensure that Demand Response provides real benefits to ratepayers by reducing procurement obligations.

Greenhouse Gas Cap-and-Trade

ORA generally supports the CPUC's decision adopting procedures for natural gas corporations to comply with the Cap-and-Trade program. This decision includes ORA's recommendations to maintain the California Air Resource Board's (CARB) minimum requirements for committing allowances to CARB's Cap-and-Trade auction. These requirements, which gradually increase the amount of allowances that must be committed, are essential for sending appropriate market signals to reduce greenhouse gas (GHG) emissions, while preventing abrupt increases in customer rates. ORA also succeeded in ensuring that the proceeds from natural gas GHG allowances will be returned to customers, rather than diverted to already well-funded clean energy programs. Returning the proceeds from GHG allowances sold at CARB's auction to customers will mitigate the increased price of goods and services associated with the cost of GHG emissions.

Transmission

Energy Imbalance Market (EIM)

In 2015, ORA participated in the Independent System Operator's (ISO) stakeholder initiatives to represent the interests of ratepayers in the development of the Energy Imbalance Market (EIM), which will extend the ISO real-time market to other balancing authorities in the western United States. The Energy Imbalance Market automatically balances supply and demand for electricity every fifteen minutes, dispatching the least-cost resources every 5-minutes. ORA engaged in the ISO's process to develop a long-term governance structure for the EIM board for the purpose of ensuring that all entities, both inside and outside California, are given a voice in the decision-making process going forward. The ISO is launching several other initiatives related to regional electric grid management. ORA will participate in those processes to examine the impact to California ratepayers.

South Orange County Reliability Enhancement Project (SOCREP) – SDG&E

ORA reviewed SDG&E's \$400 - 600 million SOCREP proposal which would make technical upgrades to its Capistrano Substation so it can supply power to the South Orange County area from two 230

kV sources, the Talega and Capistrano substations. SDG&E asserts this upgrade is needed for greater transmission reliability. ORA's analysis shows that the project is not needed and that SDG&E had not considered more reliable and cost-effective alternatives. ORA proposed a more efficient alternative, transmitting the power through the Trabuco substation, which would improve power supply reliability and cost ratepayers significantly less. Subsequently, the CPUC's Energy Division recirculated for public comment the Draft Environmental Impact Report with ORA's recommended Trabuco Substation alternative. If approved, the Trabuco alternative would save ratepayers \$300-500 million, in comparison to SDG&E's original capital proposal.

Riverside Transmission Reliability Project - Edison

ORA performed a detailed review of Edison's request to construct the Riverside Transmission Reliability Project (Riverside Project). Edison asserted that the 10-mile Riverside Project is needed for system reliability and to establish a second power supply for Riverside at an estimated cost of \$234 million. ORA's preliminary analysis indicated that the project route may not be feasible and that the project cost may be too high. ORA will review the CPUC's draft Environmental Impact Report upon its release.

Coolwater-Lugo Transmission Project - Edison

ORA reviewed Edison's proposal to construct the \$1 billion Coolwater-Lugo transmission project (Coolwater-Lugo), which it asserts is necessary to provide additional transmission capacity for the purpose of alleviating a bottleneck in San Bernardino County. Edison explained that Coolwater-Lugo is necessary to facilitate interconnection of current and future renewable generation projects, including the Mojave Solar Project.

ORA opposed the Coolwater-Lugo project because the Independent System Operator (ISO) has not studied or approved required components of the project. Furthermore, Edison did not demonstrate that it had considered other available alternatives that are less expensive.

The retirement of the Coolwater Generating Station will free up transmission that can be used by

the Mojave Solar Project. ORA asserted that such retirements should be considered by the ISO when it conducts transmission planning studies in order to avoid transmission over-planning, which can lead to stranded ratepayer costs. In May 2015, the CPUC dismissed Edison's application to build the Coolwater-Lugo Project, which will save ratepayers approximately \$1 billion.

West of Devers Upgrade Project – Edison

ORA performed a detailed analysis on Edison's 2013 request for CPUC approval of a Certificate of Public Convenience and Necessity (CPCN) to implement its West of Devers Upgrade Project. Edison asserts that the \$950 million upgrade is needed to enable full deliverability (i.e., ability to transmit the entire amount of power that is generated to the load center) of new electric generation resources being developed in Riverside County. However, for 2016 and beyond, the ISO's transmission planning will only focus on forecasted need, and *not* full deliverability of the power, which would include additional resources for Resource Adequacy. Thus, ORA's analysis finds that the current West of Devers transmission lines have sufficient capacity to accommodate electric generation in the county, and no upgrade is needed at this time. A final CPUC decision is expected in 2016.

Consumer Protection

Energy Savings Assistance (ESA) Program

ORA supports a robust Energy Savings Assistance (ESA) program to implement energy efficiency and conservation strategies for low-income households. ORA advocates for a program that will both save energy as well as provide for the health, comfort, and safety of California's low-income residents. In 2015, ORA performed a detailed review of the energy utilities' individual ESA program proposals that totaled more than \$1 billion for program years 2015 – 2017. ORA recommended that the CPUC should require the utilities to use a cost-effectiveness test that demonstrates that costs are at least equal to benefits, in order to promote the most effective programs that optimize energy savings. Maximizing energy savings will also maximize greenhouse gas reductions and make a significant contribution to the state's aggressive climate goals. The Energy Savings

Assistance program should focus on targeted program design that prioritizes underserved customers, and reject utility proposals to revisit all households in a scattershot manner. The utilities should use customer energy usage reports in coordination with customer education.

ORA urged the CPUC to update its policies and program criteria to ensure that they do not hamper energy savings, and to review appropriate program measures regularly. Program evaluations should consider methods for improving energy savings, particularly from high users. To demonstrate program success, ORA recommends that the CPUC perform an audit at the end of each program year in the areas of financial, management, and regulatory compliance.

The utilities should employ effective communication strategies with low-income customers, which is an essential component of a successful ESA program. Such outreach strategies include clearly explaining to customers that they may prove program eligibility by demonstrating eligibility in other public assistance programs. The CPUC should require the utilities to demonstrate their outreach effectiveness every six months in a public forum. A CPUC proposed decision is pending.

California Alternative Rate for Energy (CARE)

ORA supports the CARE discount program as an important tool to promote affordable electricity for basic usage. ORA reviewed the utilities' \$30 million annual budget proposals to administer the CARE program from 2016 - 2018 and recommended that the utilities should use uniform and transparent reporting practices in order for all stakeholders to clearly understand the basis for utility costs. To enhance reasonableness, utility administrative costs should be reduced by establishing best practices for program delivery, including sharing appropriate costs among utilities statewide. ORA recommended that the CPUC should use past expenditures and program outcomes as benchmarks to determine CARE administrative budgets, rather than base funding on prior authorized budgets, which may have been inappropriate. Accordingly, utility administrative budgets should be frozen until the CPUC conducts its reasonableness review of all expenditures.

Additionally, ORA supports utility best practices in setting goals and strategies to keep disconnections for California's vulnerable customers to a minimum. In order to promote fairness in verifying qualifying income level for CARE participants, ORA recommends that verification procedures be updated for high energy use customers within a 12-month period in order to balance extreme weather conditions. High usage customers should be targeted with the Energy Savings Assistance (ESA) program to help reduce their energy usage. A CPUC CARE proposed decision is pending, in conjunction with the ESA program decision.



WATER

ORA advocates for affordable, safe, high-quality, and reliable water service, as well as for robust low-income water programs. ORA supports cost-effective conservation programs and long-term water supply solutions. In fulfilling this mission, ORA represents over 6 million customers of California investor owned water utilities with more than 10,000 service connections, approximately 20 percent of all of California's urban water usage customers.

Water Rate Cases

In 2015, ORA examined approximately \$40 million in water utility requests to increase revenues across four general rate cases. If the CPUC adopts ORA's recommendations for all four rate cases, water ratepayers would save over \$9 million – or approximately \$1.50 per customer per month on their water bills. Three of the rate cases are pending before the CPUC, and include partial settlements that ORA negotiated with water utilities. Unlike the energy general rate cases, the savings above are only for the first year when new rates are established. The implementation of increases for the subsequent two

years will reflect changes in inflation, which are determined at the time the water utility files its advice letter requests with the CPUC.

ORA is also currently examining two additional rate cases that have not yet been submitted for a CPUC decision, representing a total combined revenue increase of \$143.6 million.

Of particular importance this year, ORA reviewed water utility costs and operations, financial records, and other documents to ensure they are reasonable and consistent with the Governor's Executive Order mandating water consumption reductions in response to the drought.

Water Rate Cases Approved in 2015

Apple Valley Ranchos Water Company

Apple Valley initially requested CPUC approval of a cumulative increase of \$7.3 million for 2015 – 2017. ORA's analysis found that Apple Valley had over-estimated its revenue needs, particularly in the area of its Main Replacement Program. ORA worked with the utility to resolve many of the contested issues, resulting in a settlement agreement of a \$5.7 million revenue increase for 2015-2017, which allows Apple Valley to continue to provide safe and clean water service in an efficient and cost-effective manner. The CPUC adopted the settlement proposal, which will save Apple Valley customers \$1.8 million in 2015.

Water Rate Cases Pending CPUC Decision

Golden State Water Company

Golden State initially requested to *decrease* its 2016 revenues by \$1.6 million. ORA's analysis found that Golden State had over-estimated its revenue needs in the areas of operations & maintenance expenses, administrative and general expenses, and certain capital additions. ORA reached a partial settlement with Golden State which includes lower sales estimates due to the drought. ORA continues to litigate an additional \$15 million in 2016 revenues due to unresolved issues over general office costs, company-wide capital expenditures, and employee compensation expenses. ORA's recommended revenues of \$285 million results in zero increase in 2016 revenues and are sufficient for Golden State to

operate its systems safely and reliably. A CPUC decision has not yet been issued.

Park Water Company

Park Water initially requested to increase its cumulative fiscal revenues for 2016 – 2017 by approximately \$7 million. ORA's analysis determined that Park's revenue increase is largely driven by necessary capital additions, purchased water expenses, operation & maintenance, administrative costs, and taxes. ORA worked with Park to come to a partial settlement agreement which would reduce the utility's 2016 increase by approximately \$860,000. ORA supports the CPUC's proposed decision issued in November 2015. A final decision is expected by early 2016.

San Jose Water Company

San Jose initially proposed a \$62.4 million revenue requirement increase for 2016 – 2018. ORA's analysis showed that San Jose over-estimated its revenue need in the areas of plant additions and operating expenses. Some of San Jose's need to increase rates is driven by lower consumption due to water conservation, which will result in the collection of less revenue from customers. ORA negotiated with San Jose to resolve some of the contested issues, which resulted in a partial settlement agreement that would reduce San Jose's request by more than \$11 million.

ORA continues to litigate approximately \$24 million in the areas of conservation expenses, taxes, capital investment, and 33 new staff positions. The settlement agreement and ORA's additional recommended reductions will provide San Jose with sufficient revenue to reliably provide safe water service to its customers. A CPUC decision is expected in early 2016.

Water Rate Cases in Process

California Water Service

Cal Water requested to increase its revenues for 2017 – 2019 by a cumulative total of \$140.4 million, with the largest increase of \$94.8 million (or 16.5%) occurring in 2017. ORA's initial review found that the utility's proposal requires greater scrutiny in the areas

of sales forecast, operation & maintenance expenses, administrative & general expenses, and capital investment. ORA is currently performing an in-depth analysis of Cal Water's application to determine whether the requested rate increases are reasonable and in the best interest of ratepayers. ORA expects to issue its full report of findings and recommendations in the first quarter of 2016.

Great Oaks Water Company

Great Oaks requested to increase its 2016 – 2017 fiscal revenues by \$1.4 million – or 8.5%. ORA performed a detailed analysis of Great Oaks' request and found that the utility has over-estimated its need, particularly in the areas of payroll, pension, and other operating expenses. ORA recommended that the CPUC should *decrease* Great Oaks' 2016 - 2017 fiscal revenue request by \$2.2 million. A CPUC decision is expected by summer 2016.

Water Rate Design

California American Water - Rate Design for Monterey District

Due to severe water constraints and the complexity of required solutions in the Monterey Water district, the CPUC established a separate proceeding for this water district to address rate design issues, including how steeply increasing water revenue requirements will be allocated to various customer classes. Cal Am has proposed:

- A pilot program to forecast water rates by using the most recent recorded consumption data.
- Simplified conservation and rationing plans by consolidating into fewer stages.
- Changes to rate design that no longer provide individual customer allotments.

Cal Am proposes to modify its basic water allotment system and treat all single-family residential customers in the same manner. To do this, Cal Am would compress rate tiers in order to decrease the disparity in per unit water rates between low- and high-volume water consumers. Additionally, Cal Am proposes to collect a greater portion of its revenues through fixed charges to mitigate under-collection.

ORA supports Cal Am's request to eliminate the water allocation for outdoor landscaping based on its analysis that the current water allotment model effectively serves as a discount for residential customers with larger lot sizes. This solution also serves to create a rate design that aligns the appropriate price signal with the state's conservation policy goals to eliminate discretionary outdoor water use in response to the drought. In order to avoid customer rate shock, ORA recommends that Cal Am be required to provide customized, understandable notices to customers that will explain how this change to outdoor water allotment will impact their water bills. In 2016, this proceeding will address the remaining water allotment issues.

Water Policy Issues

Affordability in Water Rates

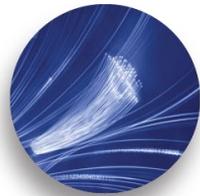
In 2015, the CPUC initiated a proceeding to consider the existing framework for rates, charges, and cost recovery for water utilities, within the context of the drought. The proceeding will evaluate current policies and potential improvements for rate structures, accounting mechanisms, and the role and use of data and technology to assist in smart conservation.

ORA supports mechanisms to make water more affordable, as well as strategies to cost-effectively improve water conservation and efficiency. Affordability is a function of the price of water service, the quantity of water consumed, and the ability of households to pay for that service. ORA advocates for a revenue adjustment mechanism that will better align with water companies' risk and reward profile to ensure that utilities do not recover unjustified revenues. Such a mechanism should prioritize and track conservation in order to avoid shifting normal business risks onto ratepayers. It is also essential for the water utilities to better communicate with their customers to educate ratepayers to understand the impact of conservation upon water rates.

Water-Energy Nexus

ORA supports deployment of targeted Water-Energy partnership programs as a key strategy to further the state's initiatives for energy efficiency and water conservation. To support these objectives, ORA

successfully petitioned the CPUC to open a proceeding to develop partnerships between energy and water utilities. ORA participated in stakeholder working groups to shape tools for estimating the embedded energy in water and the cost that would be avoided in building additional capacity to generate energy. ORA supports the CPUC's decision adopting these new tools, which is largely consistent with ORA's recommendations. The decision allows Energy Efficiency program administrators to use the tools to demonstrate tangible benefits of water-saving programs to energy ratepayers, thereby encouraging sustainable voluntary water-energy partnerships. ORA has urged the CPUC to evaluate the lessons-learned from the tools within a year of adoption in order to optimize energy and water savings.



COMMUNICATIONS

ORA advocates for the fair treatment of wireline and wireless telephone service customers, as well as to ensure universal access to affordable broadband services. ORA supports programs that promote greater access to services across a variety of technology platforms, because communications is a basic societal necessity.

ORA's Communications efforts in 2015 primarily focused on affordability, consumer protection, service quality, and the reliability of voice and broadband Internet services. This year ORA evaluated several merger and acquisition requests to ensure they were in the public interest. ORA also worked to shape the CPUC's new Rate Case Plan for small telephone companies, which will guide the review of setting rates and subsidies in high cost regions of California. Additionally, ORA advocated for enhanced customer protections to ensure customers receive consistent high-quality services.

Mergers and Acquisitions

In 2015, ORA performed in-depth analysis and then developed recommendations on three merger and acquisition applications that would further consolidate the communications industry in California, and impact millions of customers for telephone and broadband services. ORA examined these industry requests to ensure that they comport with state and federal laws, would benefit customers, and are not harmful to competition.

Comcast-Time Warner Sale and Transfer

The proposed sale and transfer of Time Warner Cable, Charter, and Bright House to Comcast would have impacted 10.6 million households in California. If approved, the combined companies would have been the largest provider of broadband Internet access service in California. The CPUC's 2015 proposed decisions found that ORA's analysis and recommendations were convincing in the potential harmful consequences that would occur as a result of this sale and transfer. Comcast ultimately motioned the CPUC to withdraw the application. ORA successfully persuaded the CPUC to preserve the year-long litigation record to serve as an important foundation to understanding the state of the communications industry in California.

Frontier-Verizon Sale and Transfer

The sale and transfer of Verizon California's wireline assets, operations, and customers to Frontier impacts 2.8 million households, primarily in Southern California. ORA proactively worked with other consumer groups to reach a partial settlement agreement with Frontier. The agreement will expand and improve broadband services to more than 827,000 households, offer broadband service to Lifeline customers for \$13.99 per month, cap current rates for residential Verizon telephone service, and meet certain service quality standards. The CPUC adopted this agreement.

Charter-Time Warner Cable Sale and Transfer

The proposed sale and transfer of Time Warner Cable and Bright House to Charter Communications would impact 6.4 million households,

primarily in Southern California. If approved, the combined companies would become one of the largest providers of broadband Internet access service in California. ORA's preliminary review found that the proposed transaction is not in the public interest and would likely reduce competition and consumer choice in both the markets for telephone and broadband Internet access services.

In 2016, ORA will continue to contribute to the CPUC's record on this sale and transfer to advocate that this merger does not diminish reliability, public safety, competition, or deployment of advanced communications. ORA also recommends the cable companies should provide sufficient detail to demonstrate that this merger would be in the public interest. The CPUC should hold hearings throughout the companies' combined service territories to gather public input.

Small Telephone Company Rate Cases

Rate Case Plan

In 2015, the CPUC embarked on a new procedural process to review rate cases for small telephone companies. Small telephone carriers in California that receive a subsidy to aid affordability for rural, high-cost areas must receive CPUC approval in order to increase customer rates. ORA supports such assistance as part of the basic concept that telephone service should be affordable and ubiquitously available. Based on its extensive experience in rate cases, ORA participated in shaping a Rate Case Plan that supports the Governor's directive to process these cases in a timely manner. The CPUC's adopted plan to review a company's rates every three years is largely consistent with ORA's recommendations, including requiring telephone companies to adhere to a list of minimum data requirements.

Cost of Capital

ORA persuaded the CPUC to adopt its proposal to first determine telephone companies' rates of return prior to commencing rate case review, which will promote increased efficiency in the rate case process. ORA is currently analyzing the telephone companies' proposals that focus on three components

that will determine Cost of Capital: Return on Equity, Debt-to-Equity Ratio, and Debt Cost. From these three elements, the Weighted Average Cost of Capital is derived.

Ten small carriers jointly filed an application requesting the CPUC approve an 18.50% Return on Equity, a 30 / 70 percent Debt-to-Equity Ratio, and Debt Cost to be determined on an individual company basis. Alternatively, the small carriers propose a uniform Weighted Average Cost of Capital of 14.6 percent (an increase from its current 10%) that would apply to all companies. ORA expects to issue its recommendations in early 2016.

Kerman Telephone Company – General Rate Case

ORA reviewed Kerman's request for a \$6 million subsidy and a Weighted Average Cost of Capital of 13.63% applied to its ratebase (an increase from its current 10%). Kerman's rate case had been submitted to the CPUC prior to the commencement of the Cost of Capital proceeding. Therefore its Cost of Capital requests will be considered in its rate case proceeding. ORA does not support Kerman's request to apply the results of the Cost of Capital proceeding, given that the CPUC had already ruled that it would consider Kerman's Cost of Capital separately in its general rate case, where this issue has already been litigated.

ORA's review seeks to ensure that Kerman's request complies with providing safe and reliable telephone service at the lowest rates. The subsidy should not be excessive, in order to keep telephone service affordable for all Californians. ORA's in-depth analysis determined that Kerman has over-estimated its need, given that its corporate expense request far exceeds the Federal Communications Commission's corporate expense cap, which the CPUC has adopted. The Weighted Average Cost of Capital proposed by Kerman is also too high relative to industry benchmarks. Therefore, ORA recommends that Kerman should receive about \$1.9 million in subsidy from the California High Cost Fund A Program, with a Weighted Average Cost of Capital of 5.44% applied as a return on its ratebase, which will allow it to operate reliably and provide affordable service to its customers.

Consumer Protection

Competition

ORA supports the CPUC's November 12, 2015 action to initiate an investigation that will assess the state of competition among communications providers in California. The CPUC should ascertain whether necessary competition exists in order to deliver dependable, high-quality communications services that are vital to California consumers and the economy. This investigation is particularly appropriate in light of the CPUC's heightened focus on the safety and reliability of the state's essential infrastructure. In 2016, ORA will work to provide evidence and in-depth analysis to contribute to shaping a robust CPUC record.

Service Quality

ORA supports the CPUC's Service Quality and reliability standards that require communications providers to ensure public safety, health, comfort, and public convenience. The CPUC's General Order 133 requires specific minimum standards for network technical quality, customer service, installation, repairs, and billing. ORA supported key elements of the CPUC's February 2015 staff report, such as requiring:

- Customer refunds for excessive service outages.
- Penalties for failing to meet minimum standards.
- More extensive reporting.
- Extension of such standards to wireless and all interconnected VoIP service providers.

ORA made additional recommendations in order to promote optimal Service Quality standards and customer protections, including setting more reasonable thresholds for reporting major outages and requiring telephone corporations to report outages.

ORA urged the CPUC to actively gauge the condition of California communications infrastructure and facilities. Completion of this evaluation is necessary to ascertain the ability of the current infrastructure to support a level of service consistent with public safety and reliability. In August 2015, the CPUC reaffirmed the need to expeditiously complete the network evaluation study.

Broadband

ORA supports the state's goal to bridge the "digital divide" and encourages the CPUC to ensure that subsidy programs that advance deployment and adoption of broadband advance this goal cost-effectively. Ubiquitous broadband access is essential to economic growth and provides social benefits for all Californians.

California Technology Fund

ORA supports the goals of the California Teleconnect Fund to make broadband more accessible to underserved communities. The CPUC adopted ORA's recommendation to expand eligibility to include non-profit, government-run critical access hospitals, and pre-kindergarten school programs, as well as to remove the funding cap for community colleges and to retain the current 50% discount structure.

ORA Report to the Legislature



On or before January 10 of each year, the Office of Ratepayer Advocates (ORA) is required to provide to the Legislature:³

- **Staff:** The number of personnel years assigned to ORA and a comparison of the staffing levels for a five-year period.
- **Budget:** The total dollars expended by ORA in the prior year, estimated total dollars expended in the current year, and the total dollars proposed for appropriation in the following budget year.
- **Metrics:** Workload standards and measures for ORA.

ORA's Staff

ORA currently has 147 authorized positions.⁴ At its peak, ORA was comprised of eleven branches with over 200 employees. The table below provides a comparison of current staffing levels with those over the past five years.

ORA Staffing Levels for a 5-Year Period

Fiscal Year	Total ORA Staff	Explanation
2012 / 2013	137	Reduction by Executive Order
2013 / 2014	142	4 Financial Examiners = (2) Water; (1) Gas Safety; (1) Electricity Resource Recovery Accounting 1 Utility Engineer – Gas Safety
2014 / 2015	142	No new positions
2015 / 2016	147	2 Utility Engineers 1 PURA ⁵ 1 Sr. Utility Engineer 1 PURA V
2016 / 2017	147	No new positions

³ This report is submitted in compliance with Section 309.5 (f) and (g) of the Public Utilities Code.

⁴ Except for the Chief Counsel position which was authorized by Senate Bill 608, the CPUC Legal Division assigns attorneys and support staff to aid ORA's staff in litigation matters. These legal resources, including their overhead, salaries, and benefits are paid for out of ORA's Program Account 3089, but are not ORA staff. ORA's budget amount includes the anticipated overhead cost for these legal resources, but does not include the anticipated cost for salaries and benefits.

⁵ Public Utilities Regulatory Analyst.

ORA is led by an executive management team, which oversees ORA's six branches covering the issues of energy, water, and communications. ORA is served by an acting director pending a decision of the governor on a permanent appointment.

Acting Director, Joe Como: Joe Como served as ORA's acting director starting in August 2010 and retired from state service at the end of 2015. The director manages the activities of four Energy branches, the Water branch, and the Communications & Water Policy branch.

Deputy Director / Energy, Linda Serizawa: Linda Serizawa oversees the activities of ORA's four Energy branches: Electricity Planning and Policy, which focuses on electric procurement and climate change activities, including renewables; Electricity Pricing and Customer Programs, which works on rate design, demand-side management programs, and low-income assistance programs; Energy Cost of Service, which works on ratemaking activities including Natural Gas; and Energy Safety and Infrastructure Branch, which works on energy safety and infrastructure, including transmission, energy storage, and electric vehicles.

Deputy Director / Water, Communications, and Governmental Affairs, Matthew Marcus: Matthew Marcus oversees the activities of ORA's Water and Communications & Water Policy branches. The Water branch primarily works on general rate cases to ensure monthly utility bills are affordable and service is safe and reliable. The Communications & Water Policy branch works on communications and broadband issues to help ensure that customers have access to high-quality, reliable, and affordable services, as well as on water policy issues to prudently achieve the state's laudable water policy goals, including conservation, recycling, and the water-energy nexus. Matthew is also responsible for ORA's activities in Sacramento and leads ORA's legislative outreach and educational efforts, as well as responding to inquiries from Assembly and Senate offices and the office of the Governor.

Policy Advisor, Cheryl Cox: Cheryl Cox is responsible for leading ORA's outreach and external communications. She manages ORA's efforts to educate and persuade policymakers on ratepayer issues for energy, water, and communications. Cheryl also oversees ORA's efforts to educate the public via the press, internet, social media, and working strategically to collaborate with community stakeholders.

Acting Chief Counsels, Mary McKenzie and Philip Weismehl: The Chief Counsel position is responsible for overseeing all of ORA's legal issues and managing attorneys as assigned by the CPUC, pursuant to SB 608.

ORA's 147 authorized staff positions, including management and administrative staff, are allocated across the six ORA branches and Administration (10).

ORA branches are managed by its program managers:

- **Energy Branches (86 Staff):**
 - ▶ **Electricity Planning and Policy (EPP)** - To be Filled
 - ▶ **Electricity Pricing and Customer Programs (EPCP)** - Mike Campbell
 - ▶ **Energy Cost of Service & Natural Gas (ECOS-NG)** - R. Mark Pocta
 - ▶ **Energy Safety and Infrastructure Branch (ESI)** - Chloe Lukins
- **Water Branch (27 Staff)** - Danilo Sanchez
- **Communications & Water Policy Branch (24 Staff)** - Chris Ungson

ORA's staff consists of technical, policy, and financial analysts with professional backgrounds as engineers, auditors, and economists with expertise in the regulatory issues of electricity, natural gas, water, and communications. ORA's staff increased by 5 positions in both 2013 / 2014 and 2015 / 2016 due to a need for analysts and greater expertise in financial auditing and engineering in the areas of natural gas pipeline safety, water rate cases, and true-up of electricity procurement. ORA's staff remained the same in 2014 / 2015, with no new positions requested for 2016 / 2017.

ORA's Budget

Each year ORA reports to the Legislature the total dollars expended by ORA in previous budget cycles, estimated total dollars expended in the current year, and the total dollars proposed for appropriation in the upcoming budget year.

ORA's Budgets over Five Fiscal Years

Fiscal Year	Total Budget (excluding Reimbursable Contracts ⁶)
2012 / 2013	\$22,537,000
2013 / 2014	\$24,903,000
2014 / 2015	\$26,282,000
2015 / 2016	\$27,745,000 ⁷
2016 / 2017	\$29,901,000 ⁸

ORA develops its budget internally,⁹ including the cost of shared resources with the CPUC such as infrastructure, human resources, and information services. ORA's budget is statutorily designated as a separate account into which funds are annually transferred, via the annual Budget Act, to the CPUC Ratepayer Advocate Account, to be used exclusively by ORA in the performance of its duties. ORA's \$29,901,000 million proposed budget for fiscal year 2016 / 2017 is a small increase over the previous year due to adjustments applicable to all state agencies. The total budget includes staffing, administrative overhead, and CPUC / ORA shared resources.

⁶ ORA has additional budget authorization for reimbursable contracts. ORA is reimbursed for these costs by the relevant utilities. For FY 2016 / 2017, the proposed amount for reimbursable contracts is \$3,000,000. 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 ORA may need to contract for expert consultant services to assist ORA in analyzing the utility request or application. In addition, the Department of Finance is currently auditing the CPUC and may have adjustments to the costs ORA is actually incurring that could impact the total budget requirements of ORA.

⁷ ORA's 2015 / 2016 budget increased due to the addition of five (5) new positions, which were required to adapt to the expanded and anticipated safety analysis related to utility programs and proceedings.

⁸ Preliminary 2016 / 2017 proposed governor's budget.

⁹ Public Utilities Code Section 309.5 (c): The director shall develop a budget for the office that shall be subject to final approval of the Department of Finance. As authorized in the approved budget, the office shall employ personnel and resources, including attorneys and other legal support staff, at a level sufficient to ensure that customer and subscriber interests are effectively represented in all significant proceedings. The office may employ experts necessary to carry out its functions. The director may appoint a lead attorney who shall represent the office, and shall report to and serve at the pleasure of the director. The lead attorney for the office shall obtain adequate legal personnel for the work to be conducted by the office from the commission's attorney appointed pursuant to Section 307. The commission's attorney shall timely and appropriately fulfill all requests for legal personnel made by the lead attorney for the office, provided the office has sufficient moneys and positions in its budget for the services requested.

ORA Workload Standards and Measures

ORA measures its workload in three ways:

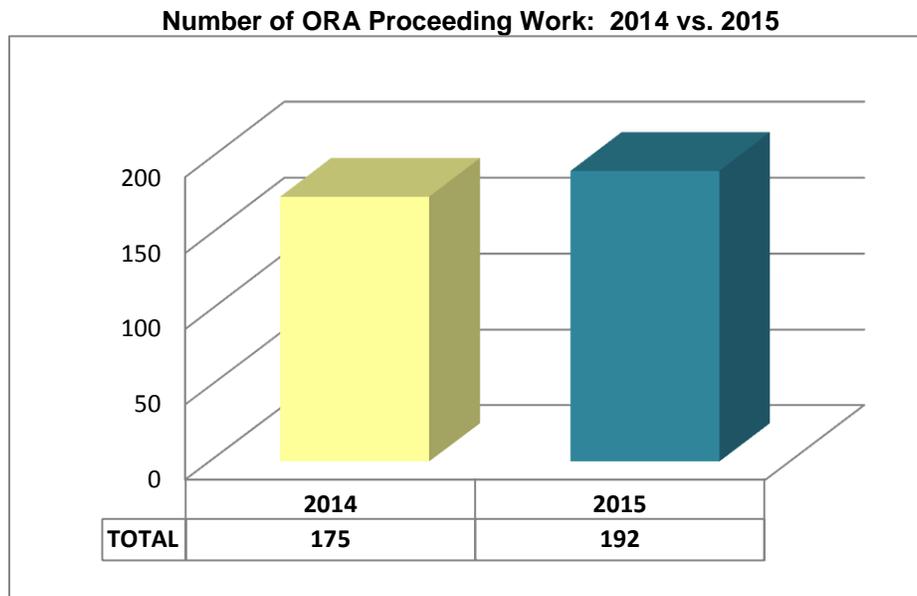
- The number of proceedings¹⁰ in which ORA participates.
- The number of pleadings¹¹ filed by ORA with the CPUC.
- The number of outreach and education contacts.

ORA’s Proceeding Work

In 2015, ORA participated in 192 formal CPUC proceedings. These numbers do not reflect the greater complexity of the issues being addressed by ORA in omnibus proceedings addressing greenhouse gas emissions, renewable resource development, procurement and transmission working groups, water conservation, and other major initiatives. ORA is often the only voice representing customers’ interests in a number of these proceedings. Since the CPUC relies on a formal evidentiary record in rendering its decisions, ORA’s participation is essential to ensure that the CPUC has a record that reflects the interests of California’s customers.

The following charts represent the total number of formal CPUC proceedings in which ORA participated in 2015 in comparison to 2014, as well as broken out by industry group.

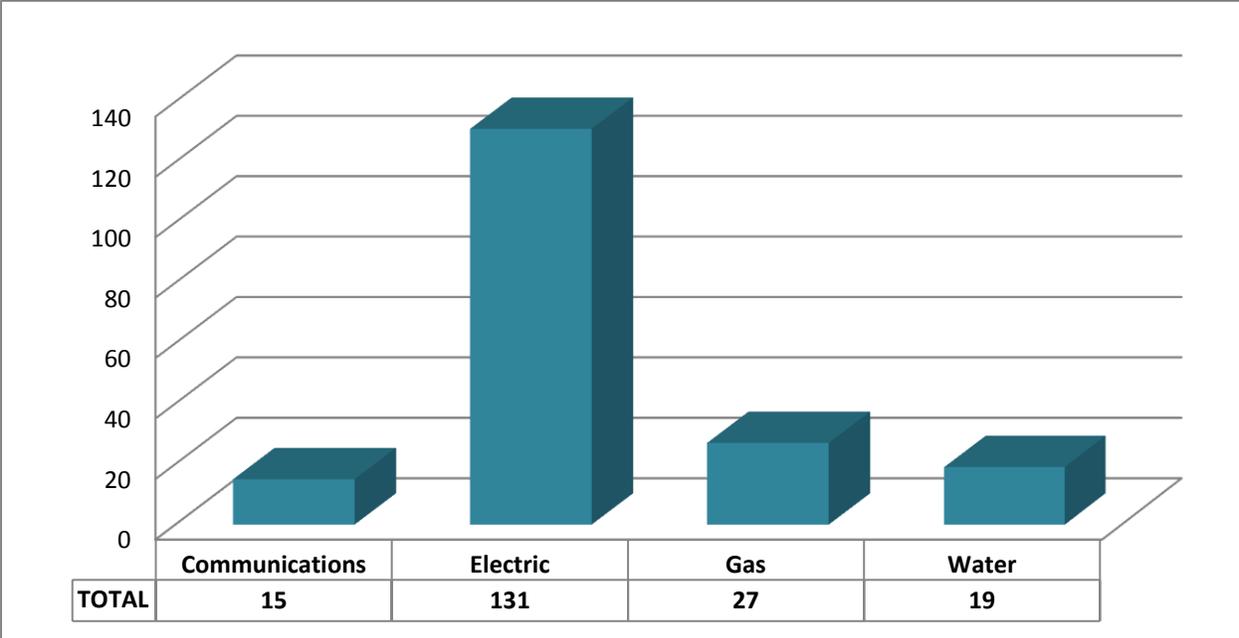
The number of Proceedings that ORA worked on in 2015 = 192



¹⁰ 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.

¹¹ A Pleading is a legal document filed in a formal proceeding before the CPUC. The CPUC conducts proceedings regarding a wide variety of matters such as applications to raise rates, CPUC investigations, CPUC rulemakings, or complaint cases. In a typical proceeding, pleadings filed by ORA 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 2015 ORA Proceeding Work by Industry

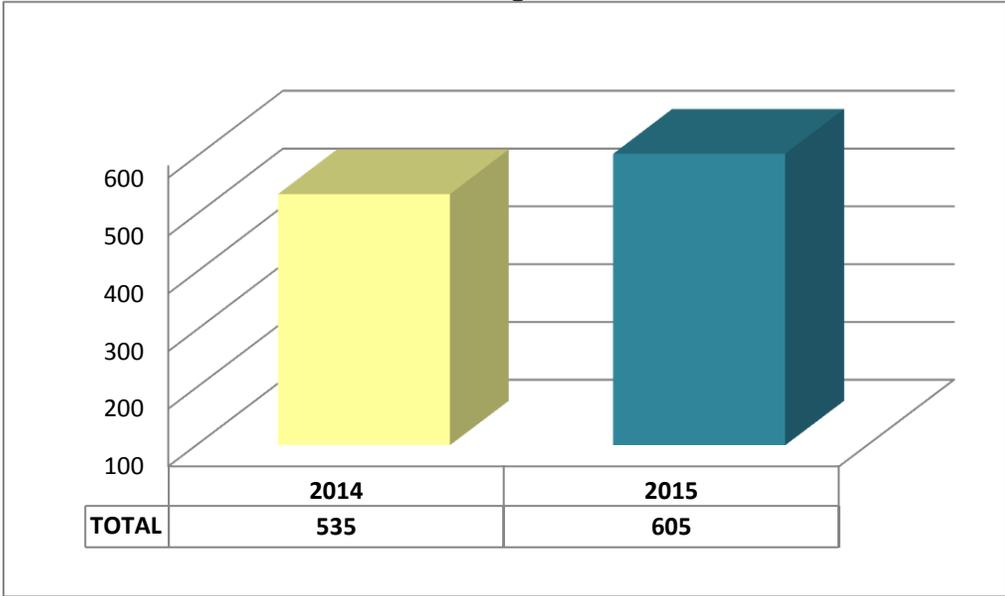


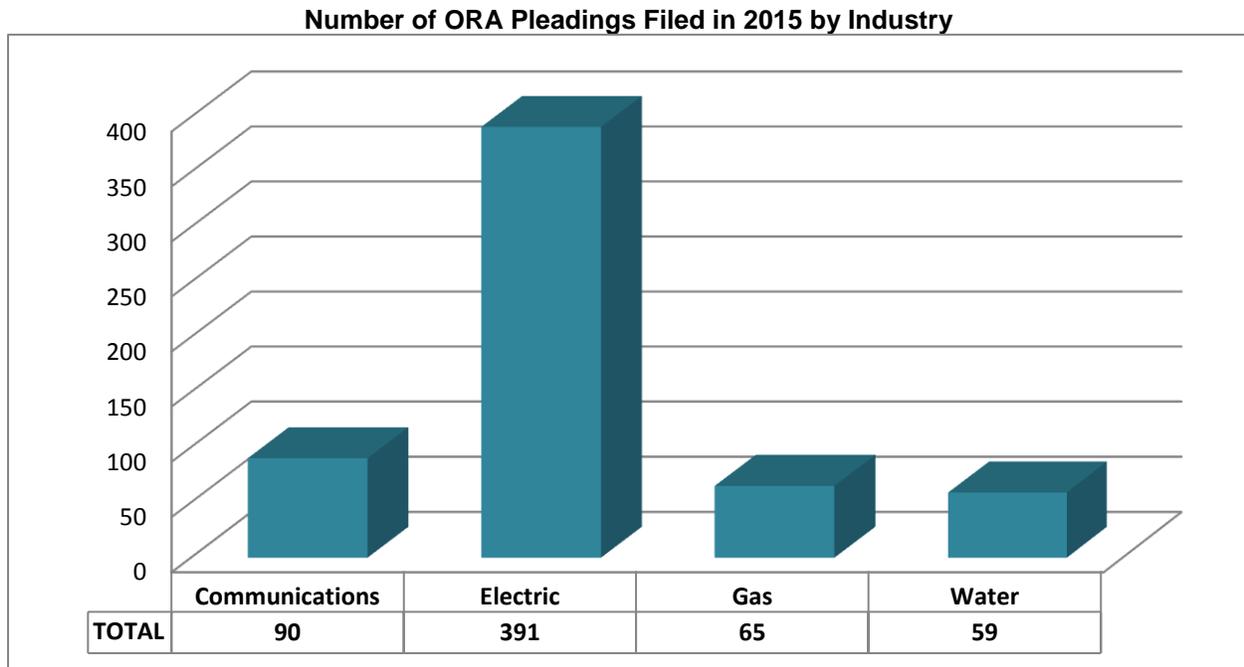
ORA’s Pleading Work

ORA staff and attorneys file hundreds of pleadings annually on behalf of customers, covering issues related to electricity, natural gas, water, and communications. In 2015, ORA filed 605 pleadings in formal CPUC proceedings. The following charts represent the comparison of the number of pleadings ORA filed in 2015 in comparison to 2014, as well as broken out by industry group, respectively.

The number of Pleadings ORA filed in 2015 = 605

Number of ORA Pleadings Filed: 2014 vs. 2015





Additionally, ORA filed numerous responses to utility advice letters in which the utilities often seek CPUC authority via a more informal process.¹² Beyond its participation in formal and informal CPUC proceedings, ORA is an active participant in proceedings at the California Energy Commission, the Independent System Operator (ISO), and the California Air Resources Board (CARB), where policy-making will impact ratepayers. ORA also provides consumer representation in other forums related to the CPUC’s proceedings such as meetings to review utility procurement decisions, the Low-Income Oversight Board (LIOB), communications public policy committees, industry committees of the National Association of State Utility Consumer Advocates (NASUCA), and the Pacific Forest and Watershed Stewardship Council.

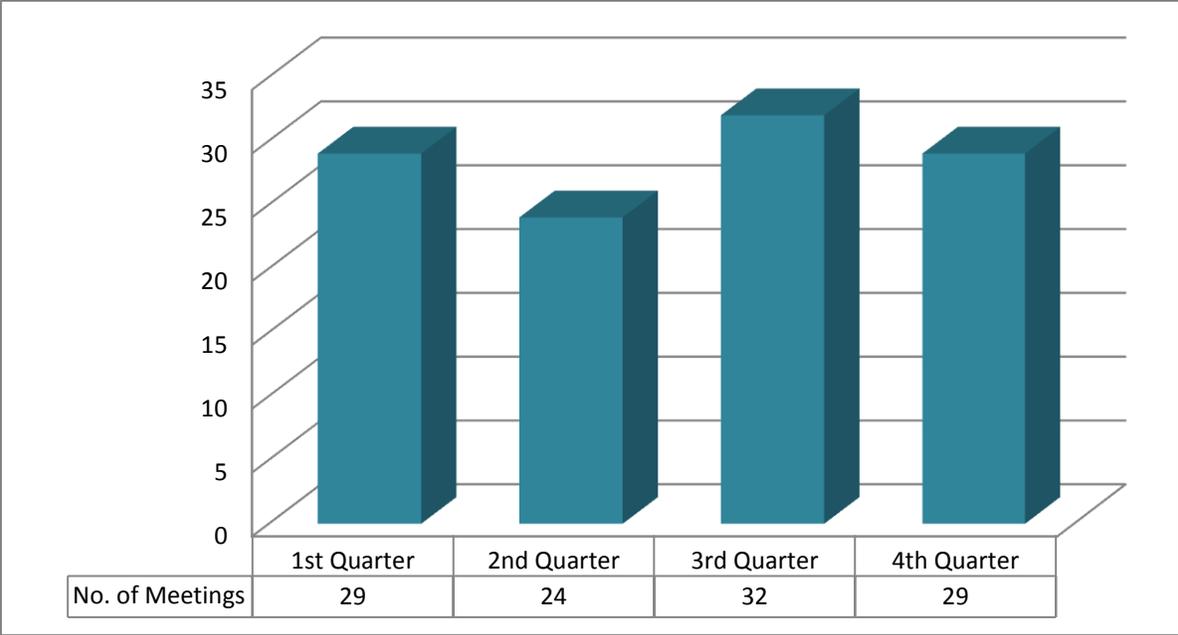
ORA Outreach and Education

ORA has also developed measures to improve the quality of its work product and increase the effectiveness of its advocacy efforts. In this regard, ORA also measures its CPUC outreach efforts by tracking the number of contacts it has with commissioners and their advisors in connection with CPUC proceedings. The contacts include appearances before commissioners in All Party meetings and Oral Arguments.

ORA conducted educational and informational meetings with Commissioners and/or their Advisors 114 times.

¹² 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 CPUC decision adopted in a formal proceeding, which sets certain parameters for determining whether the Advice Letter request is valid and should be granted.

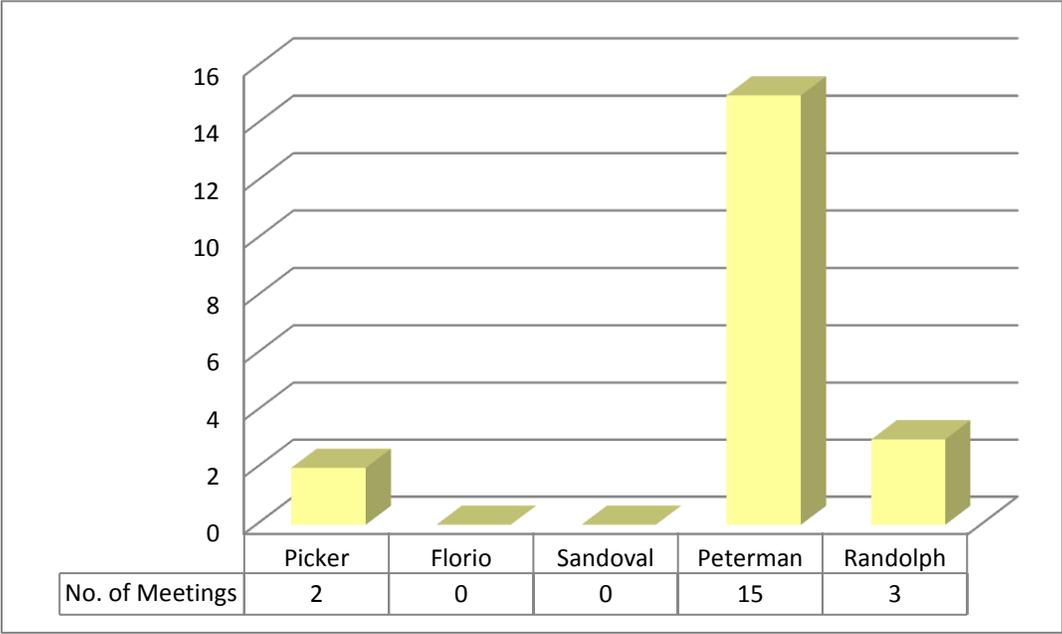
Number of ORA Outreach Visits with Commissioner Offices in 2015¹³



ORA met directly with Commissioners 20 times.

ORA requests meetings with CPUC commissioners to discuss important ratepayer issues. The following are the number of individual meeting requests that were granted by each commissioner.

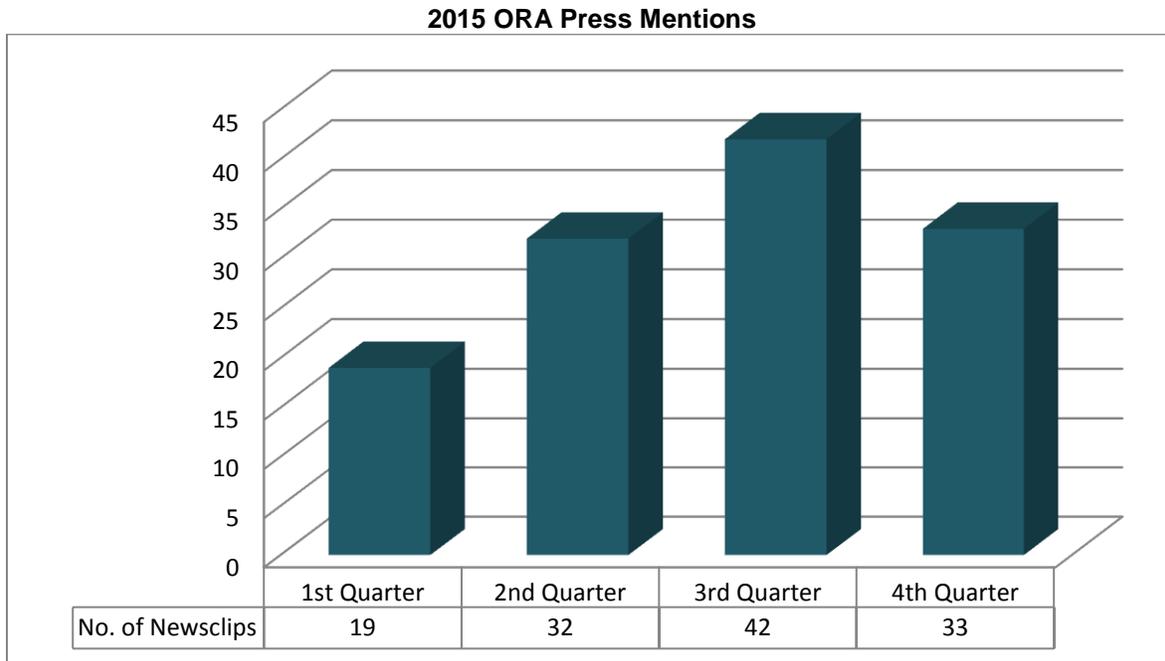
Number of ORA Outreach Visits with Commissioners Directly in 2015



¹³ This figure reflects the number of meetings between ORA representatives and CPUC commissioners or their advisors.

ORA reached the public through the media 126 times.

In an effort to create greater transparency of ORA's advocacy work in the CPUC decision-making process and the outcomes which will affect the daily lives of Californians, ORA reaches out to the public via the press, internet, and social media. ORA's efforts resulted in 101 press mentions in large and small California media outlets across the state. Additionally, ORA aided in providing the ratepayer perspective in numerous other news stories.



ORA also 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 customers before the CPUC and in other forums.

ORA in Sacramento



ORA maintains a full-time presence in Sacramento, actively participating in the Legislative and Budget processes by working directly with the Governor's office, Legislature, Department of Finance, Legislative Analyst's Office, and other related entities. In 2015, ORA worked directly with Member offices and testified on many public utilities bills. ORA achieves its statutory mission to represent the customers of investor owned utilities for energy, natural gas, water, and communications in Sacramento by:

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

ENERGY

Assembly Bills

AB 645 (Williams, Rendon) - would have set incremental renewable procurement targets in years 2023, 2026, and 2030.

AB 674 (Mullin) - would have exempted large utility customers using on-site distributed generation from certain non-bypassable charges.

AB 793 (Quirk) - requires the CPUC to promote customer adoption of in-home energy management solutions using advanced meter data.

AB 895 (Rendon) - would have required the CPUC to direct any proceeds resulting from any litigation or settlement regarding the 2001 - 2002 electricity crisis back to ratepayers.

AB 1266 (Gonzalez) - requires energy utilities to receive CPUC approval in order to claim executive bonuses as an expense eligible for rate recovery, for a period of 5 years after a major state or federal safety violation.

AB 1331 (Oberholte) - would have provided that CARE program participants who fail to respond to an income verification request shall be permanently barred from self-certified reenrollment in the CARE program.

ENERGY (cont'd)

Senate Bills

SB 350 (de León) - increases California's renewable energy generation to 50%, and increase energy efficiency in existing buildings by 2030.

SB 723 (Pavley) - would require the CPUC to expedite implementation of energy efficiency measures on military bases.

SB 765 (Wolk) - would allow the CPUC to select an independent California Market Transformation Administrator to implement energy efficiency market transformation initiatives.

SB 793 (Wolk) - allows utility customers participating in Green Tariff Shared Renewable Program to enroll for multiple years at a time for up to 20 years.

WATER

AB 401 (Dodd) - requires the Department of Community Services and Development, the State Board of Equalization, and other stakeholders to develop a statewide Low-Income Water Rate Assistance Program plan.



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