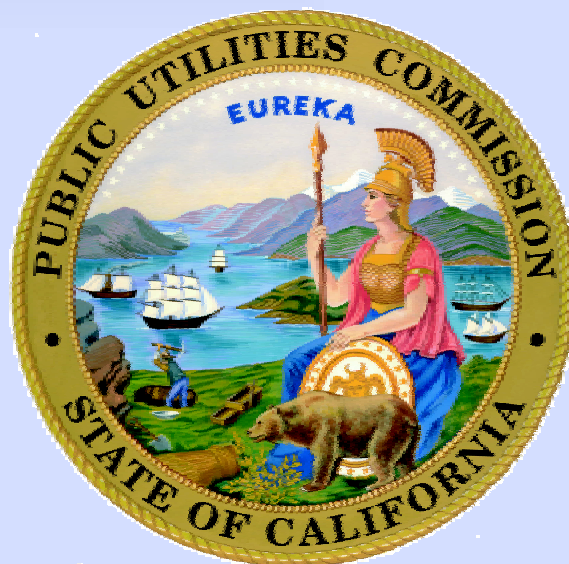


California
Public Utilities Commission
Annual Report

July 1, 2002 to June 30, 2003



In 1911, the people of the State of California voted in favor of a constitutional amendment that created a state agency responsible for protecting their interests. Originally named the Railroad Commission, and years later renamed the California Public Utilities Commission, the agency works diligently to ensure that consumers are charged reasonable rates for services provided by privately owned utilities, passenger transportation companies and household goods movers. The Commission establishes policies that contribute to a strong California economy and strives to assure that the utility, transportation companies and rail services it regulates are safe.

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Honorable Arnold Schwarzenegger, Governor of the State of California, and distinguished members of the California State Legislature:

Fiscal year 2002-2003 was another eventful year for the California Public Utilities Commission (CPUC) in its continued efforts to enhance utility services for Californians:

- We developed programs that focus on improving California's economy, environment and utility reliability.
- We ordered major rate reductions for consumers of California's electric utilities.
- We continued assisting the electricity utilities in securing financial health so that they may continue to provide quality services to Californians.
- We represented California's interests before Federal agencies and Federal and State courts, as a lead agency in securing rate reductions for ratepayers.
- We continued assisting consumers by mediating complaints, monitoring utility service and practices, and taking enforcement and redress actions as necessary to protect consumers if abuses occur.
- We ensured that various rail transit extensions would be built and operated with public safety in mind.

Despite these accomplishments and ongoing responsibilities, impending budget cuts, staffing cuts, and the hiring freeze, as well as reductions to funding for services and public programs, threaten to undermine some of our progress.

Because the CPUC is funded by user fees on utility bills, which are not available for state general use, we hope to retain our budget and resources, to the extent possible, in order to carry out our constitutional charter. Looking forward, the Commission faces critical challenges in the year ahead as it continues to work to improve the economy and to assure that utility infrastructure and consumer needs are met, for example:

- Lights are kept on.
- Electric utilities recover their financial stability.
- Telecommunications networks accommodate various technologies at reasonable prices for consumers and competitors.
- Water companies meet water quality standards.
- Rail and transportation companies operate safely.
- Consumers are treated with fairness and respect.

This report highlights activities during the fiscal year July 1, 2002, to June 30, 2003, and includes overviews of the CPUC's operation. In addition to this report, we provide 24-hour access to all our reports, decisions, rulings, notices and other documents on our website at www.cpuc.ca.gov. Please feel free to contact our agency if you have any questions or need assistance with the industries or issues over which we have regulatory oversight.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael R. Peevey". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Michael R. Peevey
CPUC President



Michael R. Peevey

*March 2002 through December 2002
January 2003 through December 2008*

Michael R. Peevey was appointed President of the California Public Utilities Commission (CPUC) on December 31, 2002. He was originally appointed as a commissioner by Governor Davis on March 5, 2002, to complete a former commissioner's term and then re-appointed by Davis for another term.

Mr. Peevey is dedicated to establishing the CPUC as a leader among state regulatory agencies and making the CPUC a strong and viable entity on behalf of the citizens and businesses of California.

As President of the CPUC, Mr. Peevey works to protect the public interest by promoting consumer needs, as well as healthy utilities providing quality services, and a viable economy in which businesses thrive.

Mr. Peevey is committed to maximizing energy efficiency and demand response opportunities and ensuring that California's environment is protected. He is a strong supporter of renewable energy and renewable procurement requirements for utilities.

Mr. Peevey has made it a priority to work closely with sister agencies in which the CPUC has complementary responsibilities -- such as the California Department of Water Resources, the Independent System Operator, the California Energy Commission, and the California Power Authority -- and in which closer coordination can maximize limited resources.

Prior to joining the Commission, Mr. Peevey was Chief Executive Officer of TruePricing Inc., a technology company focused on assisting companies and government entities to better control their energy costs. He also recently served on the Board of Directors of the Excelergy Corporation, an energy software company, and ElectroRent Corporation.

From 1995 until 2000, Mr. Peevey was President of NewEnergy Inc., then the nation's largest energy service provider. He also was a Public Affairs Consultant to Winner & Associates, Los Angeles, from 1993 until 1995. Prior to that, Mr. Peevey was President of Edison International and Southern California Edison Company from August 1990, through March 1993, and a senior executive there beginning in 1984. Mr. Peevey has served on the boards of several corporations and non-profit organizations.

Mr. Peevey holds both a Bachelor and Master of Arts degree in economics from the University of California, Berkeley. He is married to Assemblymember Carol J. Liu (D-La Cañada Flintridge). They have three children.



Carl Wood

June 1999 through December 2004

Carl Wood was appointed as a commissioner by Governor Gray Davis in June 1999.

Carl Wood attended the University of California, Riverside, and served as student body president in 1967-8 and as Regional Chairman (CA-NV-HA) of the National Student Association. He was active in movements for civil rights and against the war in Vietnam.

Wood, who worked as an industrial electrician in the steel and power generation industries for nearly 20 years, held local and national offices in the Utility Workers Union of America, AFL-CIO. As National Deregulation Coordinator of that union, he testified before Congressional and state legislative committees, warning of the likely harmful impacts of deregulation on reliability and consumer prices.

From 1994 to 1999, Wood served as Secretary of the Coalition of California Utility Employees, a coalition of unions representing electrical utility workers that was formed in 1994 to deal with the challenge of deregulation in their industry. From 1998 to 1999, he also served as Chairman of the Southern California Gas Workers Council, a coalition of unions formed in 1998 to fight deregulation in California's natural gas industry.

As a commissioner, Wood has been an outspoken critic of utility deregulation and liberalization of energy markets. He has played a key role in guiding and implementing California's recovery from its disastrous experiment with electrical deregulation, and serves as Chairman of the California Electricity Generation Facilities Standards Committee, responsible under state law for setting maintenance and operations standards for large generating facilities.

Well known in California and nationally as an aggressive consumer advocate and a champion of low-income consumers, Commissioner Wood chairs the Consumer Affairs Committee of the National Association of Regulatory Utility Commissioners.

Commissioner Wood has been married to Anne Patrice Wood since 1973. The Woods have an adult son and daughter, who both reside and work in California.



Loretta M. Lynch

January 2000 through December 2004

Loretta Lynch was appointed by Governor Gray Davis as a commissioner in January 2000 to fill out the remaining term of a prior commissioner.

When Ms. Lynch was president of the Commission, from 2000 through 2002, she guided it through the California energy crisis and fought against gouging and manipulation by energy sellers. Commissioner Lynch was an early critic of energy deregulation and is a strong advocate of keeping rates reasonable and affordable.

During the energy crisis, Commissioner Lynch worked extensively with the financial community regarding creditworthiness issues in California's energy market, led the CPUC component of the State team to develop the largest California bond deal to repay the State's General Fund while protecting California ratepayers, and advocated the need for additional state regulatory controls to ensure system stability and credibility. Ms. Lynch is a member of the FCC's Joint Accounting Standards Board formed in 2002 to evaluate current accounting requirements in the telecommunications industry and to suggest reforms. Commissioner Lynch chairs the Service Quality Subcommittee of the NARUC telecommunications committee and is a past board member of the NRRI – the National Regulatory Research Institute. Since 2000, Ms. Lynch has served on the NANC – the North American Numbering Council – that advises the FCC on numbering management issues to determine policy related to area codes.

Prior to her appointment, Ms. Lynch was the director of the Governor's Office of Planning and Research. Before entering state service, Ms. Lynch was a partner at the San Francisco Law firm of Kecker and Van Nest where she defended clients in the technology and industrial sectors as well as other Fortune 500 companies against securities, intellectual property and criminal lawsuits.

Ms. Lynch has worked in key roles in political campaigns, including Van de Kamp for Governor, 1990; Clinton for President, 1992; Dianne Feinstein for U.S. Senate, 1992; and Delaine Eastin, California Superintendent of Public Instruction, 1994. She volunteered for Ellen Taucher's 1996 congressional campaign and for Gary Davis' 1998 campaign for Governor.

Ms. Lynch holds a degree from Yale University and clerked for the Honorable Dorothy Nelson, U.S. Court of Appeals for the Ninth Circuit. She is a graduate of the University of Southern California and was born in Independence, Missouri.



Born May 20, 1943, in San Francisco, Mr. Brown attended schools both in San Francisco and Marin Counties. He graduated from the University of California at Berkeley in 1964 and San Francisco Law School in 1970. He served two stints in the U.S. Air Force (1965 and 1968-1969) as an enlisted man.

Mr. Brown was admitted to the Bar in January 1971 and practiced with his father until joining the San Francisco Public Defender's Office in October of 1971. In 1978, he was elected Public Defender of San Francisco and was re-elected five times. During Mr. Brown's tenure, the Public Defender's Office grew to a staff of 83 attorneys and 40 support personnel.

He is married to Wai Yung Brown and has three grown daughters, Miranda, Simone and Olivia.

Geoffrey F.

Brown

January 2001 through December 2006

Geoffrey F. Brown was appointed by Governor Davis as a commissioner in January 2001 and confirmed in March by the state Senate.



Susan P.

Kennedy

January 2003 through December 2008

Susan Kennedy was appointed by Governor Gray Davis as a commissioner on January 10, 2003 and confirmed in April 2003 by the state Senate.

Commissioner Kennedy is a leading voice for regulatory consistency, infrastructure investment, and promoting economic development. A strong supporter of consumer protection and choice, Kennedy is an advocate for competition and regulatory restraint, particularly as it relates to emerging telecommunications technologies. She was among the first state regulators in the nation to speak out against regulation of Internet telephony, and proposes that competition in wireless communications drive the development of new technologies and services.

As a CPUC commissioner, Kennedy serves on the Board of Governors of the National Regulatory Research Institute, and is a member of the Committee on Water and Resources, and the Committee on Finance and Technology of the National Association of Regulatory Utility Commissioners.

Prior to joining the CPUC, Kennedy served as Cabinet Secretary and Deputy Chief of Staff in the administration of Governor Gray Davis. She served as principal liaison for the Governor to his cabinet and over 100 state agencies, departments, boards and commissions. She coordinated the development and implementation of major policy initiatives for the Governor, including all regulatory oversight, legislation, and development of the \$100 billion state budget.

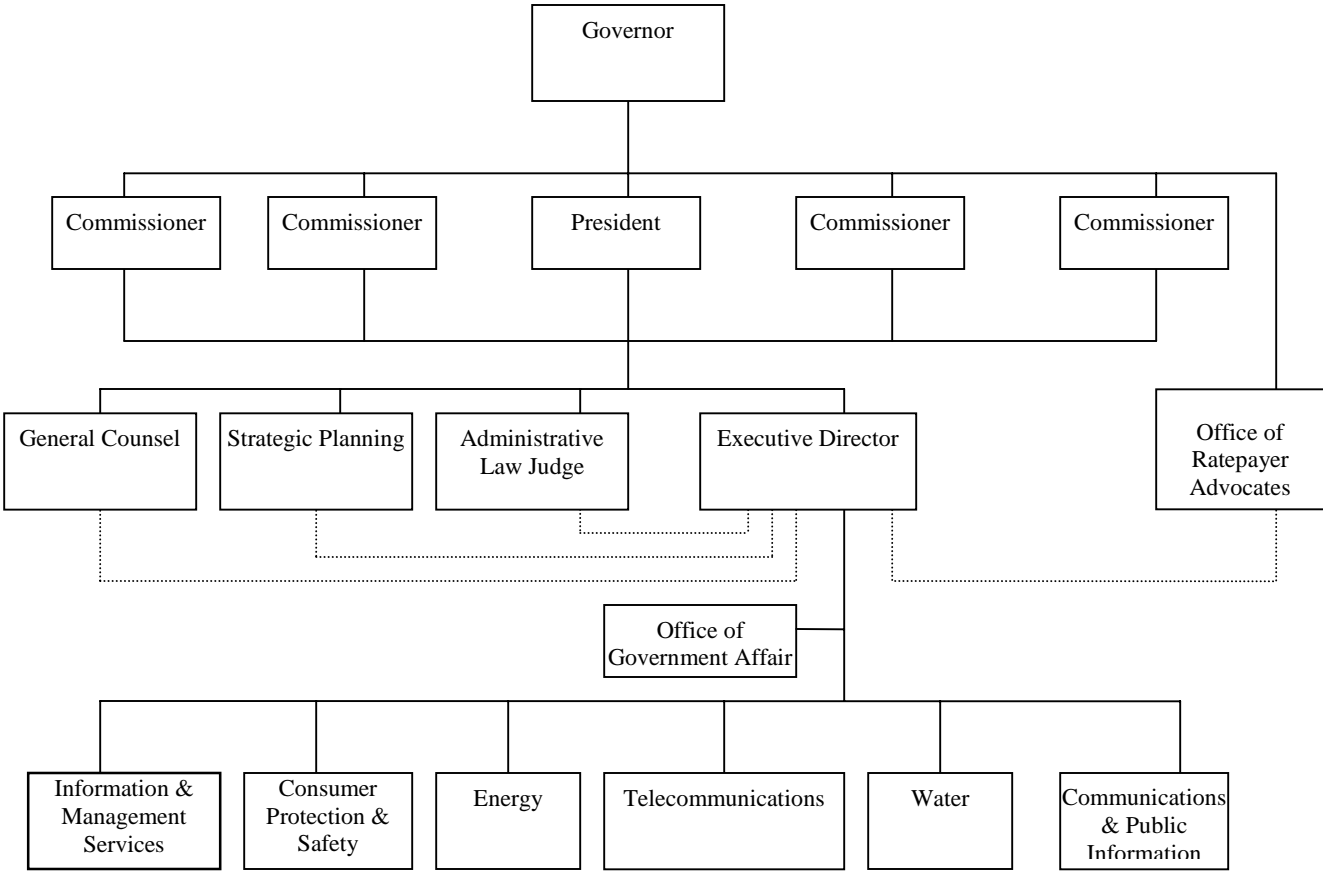
During the energy crisis, Kennedy coordinated the activities of more than a dozen state agencies to simplify the power plant permitting process, reducing the time required to obtain a permit from 12 months to 21 days. Under her direction, California launched the most successful, energy conservation campaign ever conducted - "Flex Your Power" - which saved more than 4,000 megawatts of electricity each day during the crisis, and has received national recognition and numerous awards.

Kennedy previously served as Communications Director for U.S. Senator Dianne Feinstein, as Executive Director of the California Democratic Party, and as Executive Director of the California Abortion Rights Action League. She managed two of the most successful Get-Out-The-Vote campaigns in recent California history, including the 1992 Clinton/Gore campaign and the 1998 Gray Davis campaign.

A resident of Marin County, California, Kennedy attended San Francisco State University.

California Public Utilities Commission

December 2002



More information about the Commission organization is available on the website under "About CPUC" at: www.cpuc.ca.gov

Commissioners

The Commission board is comprised of five commissioners who serve six-year terms, which are staggered to assure experience on the board. The governor appoints the commissioners; the California Senate confirms them. The governor chooses one of the five commissioners to serve as the Commission President. The commissioners make all CPUC policy decisions, meeting usually twice a month to discuss and vote on issues noticed on an agenda that is distributed, and posted on the CPUC website, 10 days before the meeting.

Executive Office

The Executive Office has overall responsibility for assuring that the Commission's decisions and policies are implemented, and works in conjunction with commissioners, directors and staff to coordinate and facilitate the handling of procedural matters and the internal operations of the Commission.

Legal Division

The Legal Division advises commissioners and agency staff. Staff attorneys review filings by public utilities, appear in a wide variety of proceedings before the Commission and represent the Commission and the State of California before state and federal courts and agencies.

Administrative Law Judge Division

The Administrative Law Judge (ALJ) Division supports the Commission's decision-making process by conducting hearings, developing an administrative record, proposing decisions for Commission approval, and preparing and coordinating the agendas for the Commission's bi-weekly decision-making meetings.

Division of Strategic Planning

The Division of Strategic Planning assists the Commission in analyzing problems and adapting regulatory policies to meet the needs of California's citizens and regulated industries by identifying important regulatory, industry or organizational problems not addressed by other divisions, and reviewing industry trends, developments and associated regulatory impacts.

Communications and Public Information

The Commission formed the Communications and Public Information Division to centralize its community outreach, consumer assistance and public information functions to provide more efficient and effective service. It helps consumers resolve billing and service disputes and works with enforcement staff to identify patterns of fraud and other abuses. It advises the public and consumer organizations with participation in formal proceedings and provides outreach to local government and community groups.

Energy Division

The Energy Division advises the Commission on whether to approve, deny, or modify all electric and natural gas utility requests not assigned for hearing, oversees compliance of orders, provides technical assistance, and advises the Commission about major developments affecting energy utilities. It assists the Commission in developing and monitoring competitive services, economic regulation of remaining monopoly services, and implementing regulatory objectives and programs for California's electricity and natural gas industries. It emphasizes protection for consumers and those with special needs, assurance of safe and reliable service, and consideration of environmental issues.

Telecommunications Division

The Telecommunications Division assists the Commission in developing and implementing policies and procedures in the interest of consumers in all telecommunications markets, and in addressing regulatory changes required by state and federal legislation. The division assists the Commission's oversight of a competitive market by ensuring: that consumers are protected from fraud and abuse and receive affordable and universal access to necessary services; that the telecommunications networks can accommodate many competitors using different technologies; and, that competition rules are clear and allow flexibility without compromising due process.

Water Division

The Water Division investigates rate increase requests from investor-owned water and sewer service utilities, tracks compliance with Commission orders and assists the public in resolving technical problems with water and sewer companies. Auditors assigned to the Water Division also perform accounting, auditing, and financial analysis as requested by other industry divisions.

The Consumer Protection and Safety Division

The Consumer Protection and Safety Division (CSPD) protects consumers' interests by ensuring that transportation providers (rail, passenger and household good movers) and public utilities operate safely, legally and are necessary for the public interest. CPSD also enforces consumer protections in all regulated industries and alerts the Commission about consumer problems it needs to prevent or address. CPSD monitors and enforces operation, maintenance and performance standards for electric power plants to ensure safe and reliable electric service.

Office of Ratepayer Advocates

The Office of Ratepayer Advocates (ORA) independently participates as an advocate for all ratepayers in Commission proceedings, workshops and other forums that cover issues that have significant dollar impact on consumers or address consumer protection issues. ORA aggressively pursues development of fair rules for competition, good service quality, fair rates, and other significant policy issues. ORA's mission, as defined by Senate Bill 960 in 1996 and embodied in the California Public Utilities Code Section 309.5, is to "obtain the lowest possible rate for service consistent with reliable and safe service levels."

Information and Management Services Division

The Information and Management Services Division integrates and facilitates CPUC employee and external stakeholder access to Commission information and documents, maintains and improves the Commission's technological information resources, and provides administrative, fiscal and budget services to CPUC management.

Public Assistance Highlights:

Improved Consumer Assistance

Assisted Participation

Compensated Participation

Renewed Our Commitment to Diversity

Reached Communities

Improving consumer assistance. The Commission assisted more than 58,000 consumers with their complaints regarding utility billing and service issues. The CPUC is also expanding its ability to assist limited English-speaking people with their complaints and inquiries. Whenever possible the Commission no longer uses third party translators when assisting Spanish-speaking consumers. Staff are available to directly speak to them.

Consumer Complaint Statistics for Fiscal 02-03

Top five Complaints	Amount	Percent
Billing	35,127	68
Service	8,348	16
Rates/Rules	6,485	13
Abusive Marketing	1,180	2
Installation	266	1

Industry	Complaints	Percent
Telecom.	37,350	64
Electric	11,647	20
Gas	2,150	4
Water	868	2
Transportation	556	1
Other	5,719	9
Total	58,290	100

Assisting public participation. Staff continued meeting with consumers and consumer advocacy groups to assist them with formal complaints and to answer any questions they had about the formal proceeding process.

The Commission held 58 hearings in communities statewide to provide the public an opportunity to hear, to ask questions and to provide comments on numerous issues, such as applications to increase rates, an upgrade of electrical transmission facilities or a request to shut down a coal-fired generating station in Laughlin, Nevada that supplies power to California.

The Commission assisted 58,290 consumers with complaints.

Need help? Call us:

Utilities
800-649-7570

Household goods
800-366-4782

Limos or shuttles
800-894-9444

Or use the online complaint form at www.cpuc.ca.gov

To learn about CPUC formal procedures, call:

San Francisco
866-849-8390

Los Angeles
866-849-8391

(TDD)
866-836-7825

Want someone to speak at your group meeting? Call:

San Francisco
415-703-2074

Los Angeles
213-576-7058

San Diego
619-525-4309

Reimbursing costs to participate. The Commission compensates parties (known as intervenors) that participate in and contribute to CPUC decisions. The Public Advisor's office can assist those who wish to apply for intervenor compensation.

This fiscal year, 44 decisions were issued on compensation requests; 15 intervenors were granted compensation, which totaled \$3.4 million.

Renewing our commitment to diversity. The Commission encouraged utilities to achieve more diversity in employment and procurement practices. The Commission scheduled a full panel hearing in July 2003, which focused on utility workforce diversity and utility procurement activities with women-, minority- and disabled veteran-owned businesses (the WMDVBE program). The chief executive officers representing the largest energy, telecommunications and water utilities participated in the hearing.

The Commission is considering a proposal that requires standardized reporting of utility procurement from WMDVBE, which would make it easier to assess utility performance.

Also, the Commission is re-invigorating its efforts to respond to the needs of non-English speaking people who interact with the Commission. This effort includes providing CPUC information in English and other languages for print or Website use and addressing diversity issues related to CPUC employment.

Reached out to communities. Staff visited community centers, civic centers and community based organizations, discussing consumer programs such as low-income programs. Staff also had booths at consumer fairs, for example, the Better Business Bureau's "Scam Jam" where consumers learned about various scams. Nearly 3,000 people attended the event.

The Commission expands its outreach by networking with partner agencies, community-based organizations (CBOs) and through NACAA (the National Association of Consumer Agency Administrators).

Energy Highlights:

Energy Action Plan

Developed the “Energy Action Plan.” The CPUC, the California Power Authority (CPA), and California Energy Commission (CEC) jointly developed a plan that proposes actions to ensure that adequate, reliable, and reasonably priced electricity and natural gas supplies are achieved and provided through policies, strategies, and actions that are cost-effective and environmentally sound for California..

Renewables

Encouraged use of renewables. The CPUC implemented the California Renewables Portfolio Standard (RPS) program established by Senate Bill 1078, which set a goal of 20 percent of California's energy coming from renewable sources. California's investor-owned utilities will increase their procurement of renewable energy by at least one percent per year to reach the goal by the year 2017. The CPUC and the CEC jointly developed and implemented the program, a partnership that will continue and bring California its first RPS solicitation process in 2004.

Protecting the Environment

Protecting the environment. The Commission is looking at using incentives to encourage electric utilities to use responsible environmental management practices. Utilities that undertake approved projects in land management, site remediation and technology development may be eligible for an increased rate of return on expenditures as an incentive.

Energy Efficiency and Low-income Programs

Approved energy efficiency programs. The CPUC approved \$200 million in funding for statewide and local energy efficiency programs, including appliance recycling, single- and multi-family energy efficiency rebates and \$3 million for statewide marketing and outreach to the non-English-speaking community and rural customers.

Guarding Against High Gas Prices

Improved efforts to enroll low-income customers. The Commission's goal is to reach *100 percent* of low-income customers that are eligible for, and desire to participate in the California Alternate Rates for Energy (CARE) program. More than one million eligible customers are not enrolled in the program. The Commission is looking into automatically enrolling customers who participate in various California agency programs.

Transmission Improvements

Guarding against high, volatile natural gas prices. Natural gas and large electric utilities were directed to reserve additional natural gas pipeline capacity on the El Paso system to preserve California's access to natural gas producers in the United States southwest basin. This will assure enough natural gas to meet California's needs without having to pay high costs for purchasing capacity when demand is high in the winter.

Power Procurement

Reducing Rates

PG&E Bankruptcy

Restructuring the Market

Pursuing Manipulators through FERC

El Paso Settlement

The CPUC-regulated electricity market in California serves 10.2 million customers with 33,347 miles of transmission lines and 162,768 miles of distribution lines for a total economic value of \$17.8 billion.

Improving the transmission system. The Commission continues to oversee significant improvements to California's system. For example, this year the Commission approved several key transmission substations and lines, allowing more access to the grid. The Commission also approved the Supplemental Environmental Impact Report for upgrades to Path 15 - a crucial path for electricity to move between Northern and Southern California. More transmission projects are expected for Commission approval next year.

Electric utilities procuring power. The Commission established procedures that enabled Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric to resume procuring power on January 1, 2003. During the energy crises, the state had to step in and buy power for the utilities. As a part of the process of returning electrical procurement back to the utilities, the Commission adopted Operating Orders and Agreements that specify the terms and conditions by which the three utilities will administer the contracts that the California Department of Water Resources secured on their behalf during the energy crisis.

Reducing Edison's rates. This year Southern California Edison Company (Edison) completely recovered the debt accrued during the energy crisis and the Commission ordered a \$1.25 billion reduction in its rates.

Litigating PG&E bankruptcy - In September 2002, Pacific Gas and Electric Company (PG&E) won its appeal to a decision that ruled that the bankruptcy code does not permit the preemption of state laws contemplated by PG&E's plan. That decision has been appealed to the Ninth Circuit Court of Appeals; a decision is pending.

The Commission's alternative reorganization plan for PG&E leaves the utility intact, subject to state regulation and pays PG&E's creditors. We believe this was the first time a state regulatory agency has filed a plan of reorganization for a regulated entity. The Official Committee of Unsecured Creditors (OCC) supported both the PG&E and the CPUC plans and later as the CPUC plan was amended, the OCC became a co-proponent of what is now referred to as the "Joint Plan."

The bankruptcy trial commenced in November 2002. In March 2003, parties were ordered to attend a Court-supervised settlement process. On June 19, 2003, a Proposed Settlement between CPUC staff and PG&E was reached which restores PG&E to financial health and keeps the utility under CPUC regulation. Objections have been filed. Evidentiary hearing on the Proposed Settlement were held at the Commission, and parties and the public are able to comment on the Proposed Settlement. The Commission will decide whether to support it in December 2003.

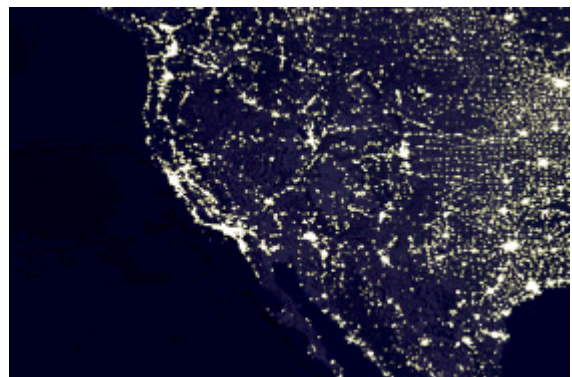
Restructuring the electricity market. The California Independent System Operator (ISO), which operates the wholesale electric market under the Federal Energy Regulatory Commission's (FERC) oversight, is restructuring the market. The CPUC has represented California in the design. Also, the CPUC has been involved in FERC's Standard Market Design rulemaking, and monitors pending legislation. The federal activities propose significant changes in wholesale energy market operations and changes in state and federal oversight of the electric industry.

Fighting for refunds from the manipulated electricity market. The CPUC, other agencies and two utilities provided evidence to the FERC that generators, traders and municipal power entities withheld electricity, engaged in collusion and market manipulation during the energy crisis, and should be compelled to return \$7.5 billion in profits to the state. The case continues in the next fiscal year.

Settling the El Paso complaint. In June 2003, the Commission and others entered into a settlement with El Paso Natural Gas Company (El Paso). It resolves the Commission's complaint filed at the FERC and numerous lawsuits in state and federal courts alleging El Paso manipulated natural gas prices during the energy crisis in 2000-2001. Under the settlement, El Paso agrees to provide \$1.5 billion (over 15 to 20 years) to California natural gas and electric customers and to the Attorney Generals of three other states on behalf of their customers. Also, El Paso will make more capacity on its interstate pipeline available to California, so that more natural gas can supply California in the future. The settlement is pending before the FERC, the San Diego Superior Court, and a federal court. The Commission is actively involved in supporting the settlement and has a major role in implementing it, including ordering how California public utilities will credit their customers with the revenues they will receive from El Paso.

Keeping the Lights on in California!

This is a satellite photo of the western United States, which shows the bright lights in California that the CPUC works to keep on. Thanks to NASA for permission to copy it from their photo of "Earth's City Lights," and to the Visible Earth Team for providing it at: <http://visibleearth.nasa.gov/>



Tele-communications Highlights:

SBC's Long Distance Service

SBC commenced long-distance service in California. In September 2002, the Commission determined that the Federal Communications Commission (FCC) should allow SBC to provide long distance service in California. In late December 2002, the FCC approved the service and SBC established its presence in the long distance market shortly thereafter.

Complaint Review Streamlined

Streamlined carrier complaint review. To streamline review of complaints between SBC and its local phone service competitors, the Commission developed an expedited dispute resolution process. It also directed SBC to report to the Commission the feasibility of separating its local operations into wholesale and retail entities, and raised the possibility of appointing a neutral third-party to replace SBC as the administrator who facilitates consumer requests for changes in long distance companies.

Work with FCC

Bill of Rights

Participated in FCC activities to facilitate competition. The Commission is participating in a number of significant proceedings at the FCC in order to facilitate competition and increase consumer choices for high quality, reliable and lowest priced services. Among these are federal proceedings that impact the provision of broadband, universal service, and the 1996 Telecommunications Act.

Revising Service Standards

SBC Audit

CTF Enhanced

Area Code Growth Under Control

Development continues on the Telecommunications Consumer Bill of Rights. A report by the CPUC Telecommunications Division found that consumers and the competitive market, including wireline and wireless carriers, would benefit from clearer rules, tariffs, consumer protection policies and a review of carriers' limited liability language. This fiscal year, the Commission issued a draft of the new rules and conducted workshops for all telecommunications carriers in anticipation of finalizing the rules in the next fiscal year.

Number Pooling

Revising telecommunications service standards. In December 2002, the Commission initiated a proceeding to revise the ten-year old telecommunications service standards it has been using to judge service quality. New measures and revisions are being considered in response to increasing consumer complaints, new technologies and wireless services that should be included in the standards, and changes in business conditions.

California has 36 million access lines with \$14.5 billion in revenue.

Completed audit of SBC. The Commission completed a three-year audit of SBC from 1997 through 1999, which uncovered \$2 billion dollars in adjustments. Hearings were conducted in 2002, and proposed decisions that may order refunds to customers, are pending for next fiscal year.

Expanded CTF to hospitals and health clinics. The California Teleconnect Fund (CTF) was enhanced to add more hospitals and health clinics to the list of entities to receive funds to buy high-speed telecommunications services, such as DSL. Also the CPUC now allows the highest discount, 50 percent, for all qualifying services, and has streamlined the application process.

Keeping area code growth in check. The CPUC monitors phone number usage, especially in the 310 and 909 area codes where number supplies are the lowest. Two proposals for 310, one mandating a split and one that only requires monitoring it, were issued in May 2003. The Commission plans to decide on whether to split both the 310 and the 909 area codes in late 2003.

Number pooling now used statewide. Number pooling promotes the efficient use of phone numbers by allocating 1,000 numbers to telephone companies rather than issuing a whole block of 10,000 numbers (referred to as a prefix). Pooling has been phased in; wireless carriers began number pooling in November 2002, and as of April 2003, all area codes in California were under the number pooling process. Since March 2001, when pooling began, 1,037 prefixes, or 10,370,000 phone numbers, have been conserved.



Water Highlights:

New Earnings Test

Lawsuit Proceeds

Rate Study

Participation in Advice
Letter Requests

Desalinization Project

Low Income Assistance
ProgramThames/Cal-Am
Merger

Implemented an earnings test. The Commission reviewed its 20 year old practice of allowing water companies to track and recover expenses recorded in balancing accounts, such as changes in costs to purchase power and water and to pay pump taxes. The practice allows the utilities to use the streamlined advice letter process rather than a lengthy general rate case to request recovery of the expenses. As a result of the review, the Commission instituted an earnings test that must be passed before water companies can recover these costs from ratepayers.

Handling lawsuit proceeds. Bakman Water Company received a \$1,316,617 settlement in two water contamination lawsuits in the 1990s. To remediate the contamination, the company also received a Safe Drinking Water Bond Act loan, which ratepayers pay for directly. The proceeds from the settlements have disappeared, but to assure that the water company's customers benefit from them, the Commission's Water Division applied the proceeds in a way that would reduce rates and benefit ratepayers. Bakman filed an application in July of 2002, to have these adjustments removed. The issue will be resolved in fiscal year 2003-2004 and will set standards for handling lawsuit proceeds when setting rates.

Study completed for Union Pacific water system. Union Pacific operated a whistle stop near Bakersfield. The surrounding residents, including the United Farm Workers compound, share the water supply developed for steam locomotives. In the late 1990s the railroad tried to abandon the water system, known as Keene Water Company, but the Commission determined that it was operating a water system that served the public and must be regulated. A cost of service study was completed this fiscal year, which estimates the rates Union Pacific can charge for water.

Participation in advice letter requests. Small water companies may request rate changes through the Commission's advice letter process. The Water Division analyzes the requests and submits recommendations to the Commission for their decision. Point Arena, a small water company in Mendocino County, had made such a request, which was objected to by the mayor of Point Arena city, where the utility provides some service. To provide the mayor a chance to view her concerns, the company's request was reclassified. This proceeding will terminate next fiscal year and may define the involvement of outside parties in the streamlined rate case process.

As part of its outreach efforts, this year Commission staff assisted four small water companies with system improvement requests, which will result in better service to their customers.

Desalination water plant to be built. California American Water Company (Cal-Am) was ordered by the State Water Resources Control Board to reduce the amount of water it takes from the Carmel River. The company plans to build a desalination plant near the Moss Landing Power Plant to make up for this reduction. The Commission will be the lead agency under the California Environmental Quality Act (CEQA) for the project. Once the Proposed Environmental Assessment is complete, the company will file for approval to construct the facility. It is likely that many Monterey County agencies and legislators will be involved in this proceeding.

Developing a low-income assistance program. The large water companies have been directed to develop low-income programs as provided in California's Public Utilities Code, Section 739.8 (b). So far, no proposal has been deemed adequate to be implemented. In 2002, the Commission's water division took over the design and scheduling of this effort and is working with Cal-Am and San Gabriel Valley Water companies on a prototype that will accomplish this objective.

Cal Am merges with Thames. In December 2002, the Commission approved the acquisition of California American Water Company (a subsidiary of American Water Works Company) by RWE Aktiengesellschaft. Cal-Am asked to become part of Thames Water Aqua U.S. Holdings Inc., the water company subsidiary of RWE. The approval contained three benefits for Californians. First, Cal-Am was to divest itself of its Montara District, which has water supply problems and the Montara Sanitary District wanted to buy it. Second, Cal-Am agreed to spend \$50,000 per year for five years to help the CPUC develop a low-income program for water customers. Third, Cal-Am agreed to spend \$50,000 for five years to help the CPUC address the problems faced by its 138 smaller water systems, which include deteriorating infrastructure, water quality problems and lack of employees that are qualified to meet the federal Safe Drinking Water Act requirements. Cal-Am reached agreement with the Montara Sanitary District on the sale and is working with the Water Division on the other two programs.



Rail Safety Highlights:

Rail Expansions Safety Review

Local Safety Hazard Litigation

New Technologies – AHS and In-Roadway Lights

Cajon Grade Safety

Track Improvements

GO 164

Angel's Flight

Rail Transit Audits

Crossing Safety

Investigating Accidents

AirTrain and BART pass safety review. In February 2003, the Commission gave the San Francisco International Airport (SFO) approval to begin using “AirTrain” after approving the safety of its design and construction. AirTrain is an automated peplemover that takes people to and from airport terminals, the BART station, the parking lot, and rental car area. On June 6, 2003, the Commission approved the safety design and construction of the Bay Area Rapid Transit District’s (BART) West Bay Extension that delivers people directly to SFO.

Litigating local safety hazard. The Ninth Circuit Federal Court of Appeals upheld a lower court’s decision that the CPUC’s identification of the Cantara Loop as a local safety hazard site was invalid. The CPUC has appealed the decision to the U.S. Supreme Court.

Implementing AHS pilot. Senate Bill 1491 authorized the Commission to implement the Automated Horn System (AHS) at highway-rail crossings as a pilot program designed to reduce noise along approaches to railroad crossings. Roseville and Riverside cities are participating in the pilot. The Commission worked closely with the cities and railroads in the design and implementation of the AHS and will continue evaluating it in the next fiscal year.

Testing in-roadway warning lights. The Commission is leading an experiment to determine if flashing lights in the roadway at railroad crossings can be effective to alert motorists of approaching trains. The Commission selected the crossing at Poplar Avenue in Kern County to conduct the project. Evaluation will continue into next fiscal year.

Evaluating BNSF safety measures at Cajon Grade. Burlington Northern Santa Fe (BNSF) asked the Federal Railroad Administration (FRA) to discontinue the emergency order that includes directions on the use of airbrakes on the grade. The order was issued after a devastating derailment in 1996 that killed two railroad employees, seriously injured another, released hazardous materials that required evacuations, and closed the I-15 corridor. CPUC staff is working with the FRA to evaluate BNSF’s request.

Improved track in upper Sacramento River Canyon area. The Commission discussed with Union Pacific (UP) the dire need for track repair in this area. As a result, UP spent \$36 million installing concrete ties and new rail in the canyon. More work is scheduled to ensure safety in this environmentally sensitive area.

There are 8 existing rail transit systems and 15 more new systems or line extensions underway in California.

There are 11,000 grade crossings on more than 8,500 miles of railroad track in California.



Revising GO 164. The Commission revised General Order (GO) 164 after a series of workshops to hear parties' suggestion. The new GO (now GO 164-C) includes significant changes concerning the safety certification of rail transit agencies' major projects.

Submitted findings on Angel's Flight. The Commission forwarded its findings on the February 2001 Angel's Flight accident to the National Transportation Safety Board (NTSB). Staff attended the NTSB hearing on it and met with FRA staff to discuss Remote Control Locomotives, whistle bans and the waiver request on the Escondido light-rail project.

Audited rail transit systems' safety. The Commission completed comprehensive safety audits of the San Francisco Municipal Railway and the San Diego Trolley, Inc.

Evaluated the safety of rail projects' crossings:

- Sacramento Regional Transit District South Line Extension that will take people from Downtown to South Sacramento.
- San Francisco Municipal Railroad 3rd Street Extension that will run from PacBell Park to the San Mateo County border.
- Los Angeles County Metropolitan Transportation Authority Pasadena Gold Line from Pasadena to Los Angeles' Union Station and the extension from Union Station to Montebello.
- The North County Transportation District Oceanside to Escondido Sprinter Rail Project.
- Alameda Corridor East Rail Project that will improve rail service from East Los Angeles to Pomona.

Investigating accidents. This year were 192 accidents at highway-rail crossings in California with five of them involving passenger trains on the San Fernando Valley Rail Corridor. The Commission is working with the railroads and cities along the corridor to improve crossing safety.

Enforcement Highlights:

Transportation Regulation

Clear World Permit Revoked

Qwest Fined

Cingular Investigated

SBC Penalized

Verizon Penalized

Regulating transportation companies. The CPUC registers many forms of transportation in the state, including passenger ships, hot air balloons and instate airlines. It issues operating authorities to limousines, shuttle and bus companies and household goods movers. Staff assists consumers with complaints and pursues illegal or inappropriate operators. Companies are required to file insurance coverage and proof that vehicles meet safety requirements. Those that do not are suspended and can be later reinstated if they demonstrate they meet requirements.

This year the Commission registered 3,213 private carriers, 194 commercial air operators, 566 for-hire vessels, and 4,463 interstate carriers. It granted operating authority to 1,837 limousines and shuttles, and 216 household goods movers. The Commission suspended 3,413 companies for lapses in insurance or other documentation. It reinstated 2,203 companies once records were up to date. However, it revoked 853 companies' operating permits, mainly for failure to file insurance records or failure to pay regulatory fees.

Denied Clear World's request to provide local phone service. The Commission denied Clear World Communications' application to provide local phone service. As a long distance phone company it had switched customers' services without authorization. The Commission is also considering revoking Clear World's long distance permit.

Fined Qwest \$20 million in penalties. In October 2002, the Commission fined Qwest Communications \$20,340,000 payable to the general fund for slamming and cramming customers.

Investigating Cingular Wireless' service and early termination fee. Enforcement staff revealed that more than 1,000 customers complained about the company's inadequate network, and more than 144,000 customers complained to the company about its service. A Commission decision is expected next fiscal year.

SBC penalized \$27 million. The Commission adopted a settlement between Pacific Bell Telephone Company, Pacific Bell Internet Services, SBC Advanced Solutions, Inc., Utility Consumers' Action Network and the Commission's enforcement staff, in which the companies acknowledged billing problems and complaint reporting deficiencies.

Verizon to pay penalty. In May 2003, Verizon agreed to pay a \$4.8 million penalty for signing 80 contracts that violated Commission's rules.

This year the Commission ordered phone companies to pay \$65 million in fines to the general fund and \$526,000 as restitution, for abusing consumers or failing to follow laws or CPUC rules.

Utility Safety Highlights:

Utility Safety Inspections

Gas Release

Revising Underground and Overhead Line Rules

Inspecting Power Plants

The Commission inspects utilities' facilities. Electric, telecommunications, natural gas, and propane facilities are checked for compliance with general orders and federal regulations. Certain gas or electric incidents and safety-related complaints from the public are also investigated. Investigations this year include:

- Investigated 271 electric incidents and 39 gas incidents.
- Performed 24 electric overhead inspections, finding 4,370 violations; 12 electric underground inspections found 309 violations.
- Performed 26 gas inspections and found 182 violations
- Inspected 315 master-metered mobile home parks and found 1,312 violations.
- Inspected 186 propane entities and found 1,025 violations
- Investigated and resolved 115 safety related electric complaints and 67 natural gas complaints from the public.

Gas released into the air. The Commission is investigating a natural gas and a liquid petroleum release into the air at Playa del Rey at a Southern California Gas Company's storage facility. A complaint was also filed about the release. Concerns and inquiries from Playa del Rey residents and the Grassroots Coalition continue. Staff has met with the residents and the coalition and samples of the material released is being analyzed to determine if other action is warranted.

Revisions to GO 95 and 128. The Commission concluded workshops that considered sixty-three changes to General Orders 95 (overhead utility lines) and 128 (underground utility lines). Consensus was reached on most of the rule changes. A report has been prepared summarizing the proposal and parties' positions.

Enforcing SB39x2 – The bill gives the Commission authority to implement and enforce maintenance and operation standards for power plants in California, primarily fossil fuel and hydroelectric power plants. The CPUC has assisted the California Electric Generation Facilities Standards Committee in adopting maintenance and logbook standards. Progress continues on developing operations standards. In the meantime, staff continues inspecting power plants that have forced and scheduled outages.



More information about utility safety is available on the website under "Regulated Areas" at:

www.cpuc.ca.gov

Office of Ratepayer Advocates Highlights:

Advocated Ratepayer
Interest for New
Energy Rules and
Service

Challenged Energy
Rate Increase
Requests

Audited Water
Companies

Advocated That
Telecommunications
Companies Follow
Rules

Focused on new energy rules. In 2002-03, the Commission moved forward with establishing new rules for the electricity and natural gas markets, and allocating the costs of the electricity crisis. As a key player in that effort, the Office of Ratepayer Advocates (ORA) brought into focus ratepayer interests in reducing costs, ensuring reliable service, promoting energy efficiency and renewable energy technologies, protecting low-income households through rate discounts, and providing for a fair allocation of costs among customers.

Challenged rate increases. ORA challenged the merits of rate increase requests filed by Southern California Edison (Edison), Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCal Gas), San Diego Gas and Electric Company (SDG&E), PacifiCorp, and Sierra Pacific Power Company (Sierra). ORA issued expert witness testimony in each case recommending substantial reductions in the proposed requests:

- **Edison** asked for an \$818 million increase for years 2003 to 2005. ORA recommended a \$280 million reduction in revenues for the 2003 and 2004, and a \$44.5 million increase in 2005.
- **PG&E** filed for a \$447 million increase in electric distribution costs, \$105 million increase in gas distribution costs, and \$149 million in utility retained generation costs. ORA's challenge ultimately led to a settlement with PG&E, which provides for a \$236 million increase in electric distribution costs, \$52 million in gas distribution costs, and \$38 million in utility retained generation expenses.
- **SoCalGas** filed for a \$100 million rate increase and ORA has recommended a \$140 million rate decrease.
- **SDG&E's** application seeks an \$84.7 million increase in rates for electric distribution service with a \$21.4 million jump in gas distribution costs. ORA's analysis showed that the Commission should cut the electric rates by \$42.3 million, with gas rates reduced by \$10.1 million.
- **PacifiCorp** filed for a \$12 million rate increase and ORA entered into a settlement in June 2003, which provides for a \$2.8 million rate increase.
- **Sierra** initially asked for an \$8.9 million increase, but subsequently reduced it to \$4.5 million. ORA agreed to a negotiated settlement in May 2003, which limits Sierra's rate increase to \$3 million.

On behalf of ratepayers, ORA critically examines utility rate increase requests to eliminate excess costs and advocates for services that directly benefit consumers.

Audited water companies. ORA represents consumers by scrutinizing the costs of service of California's 10 large investor-owned water companies (water companies with more than 10,000 customers). These companies have 63 geographically separate ratemaking districts, each with their own system costs. Most of ORA's work in this area concerns applications for rate increases. ORA audits the company's accounts, reviews past and projected expenses, forecasts of revenues, cost of capital, plant additions, and rate design. This fiscal year, ORA issued reports on 33 districts.

Advocated telecommunications compliance with rules and good service. Local and long distance telephone service is available from many carriers; however, the original monopolies continue to dominate so regulatory efforts focus on ensuring that the original monopolies, SBC (formerly Pacific Bell) and Verizon, comply with pricing rules for certain services, follow the rules for allowing competitors to access their system, maintain standards for customer service, and share excess profits with consumers. ORA's advocacy efforts in 2002-03 focused on the Commission's audit and periodic review of the current regulatory framework, and the need for improvements in service quality for residential and business customers of SBC and Verizon.

ORA recommended that SBC refund \$900 million to correct for accounting irregularities, inappropriate cost allocations and affiliate transactions.

ORA's survey of SBC's customers showed serious problems in residential and small business customers' perceptions of service quality.

As a result of ORA and TURN's efforts, the Commission required SBC to provide service quality information to compare the utility's current performance to its performance before its layoffs.

ORA sought a reduction in SBC's monthly charges for its residential Inside Wire Maintenance Plan. The Commission placed a cap on the current rate of \$2.99 per month and required SBC to justify any further increases. ORA also opposes Verizon's request to eliminate price regulation of its inside wire services.

In response to Verizon's request to allow affiliates to use Verizon's regulated assets, ORA recommended consumer protections and cost provisions to compensate ratepayers and prevent affiliate abuse.



Formal Proceedings Highlights:

Hearings and Decisions Statistics

Petitions for Rulemaking

Holding hearings and issuing decisions. The Commission held 515 days of hearings and issued 887 decisions on issues ranging from complaints about overcharges to developing programs to improve the economy. A breakdown of these decisions and hearing days are shown on the following pages.

Receiving Petitions for Rulemaking. Complaints filed by consumers or interested parties, Applications filed by utilities or transportation companies, and Investigations opened by the Commission’s own motion usually are the tofu and rice of the Commission’s formal proceeding process. This year saw an increase in a relatively new proceeding enacted by statute in January 2000 – Petitions for Rulemaking. The state legislature added Section 1708.5 to the California Public Utilities Code, allowing utilities and third parties to file these petitions. In August 2001, the Commission received nine such petitions and all nine of them were active during the 02-03 fiscal year.

Filers to date include Starline Tours of Hollywood, the Statewide 211 Steering Committee of the California Alliance for Information Referral, AT&T Communications, BNSF, PG&E, Edison, Cal Am Water, Verizon, Californians for Renewable Energy, Latino Issues Forum and the Greenlining Institute, and the Professional Balloon Pilots Association joined by several named individuals.



Decisions Issued – 2002 - 2003

(by industry and subcategory)

Communications

AGREEMENT APPROVAL	4	
CERTIFICATE	62	
COMMISSION INVESTIGATIONS	18	
COMPLAINT	61	
DISCONTINUANCE	7	
EXPANSION OF SERVICE	3	
LEASE OF PROPERTY	4	
MISCELLANEOUS	11	
MORTGAGE/ISSUE NOTES	1	
REGISTRATION	93	
PROGRAMS	1	
PROJECT	1	
RATE REQUEST	1	
RULEMAKING	26	
TRANSFER	30	
	Total	323

Electric

AGREEMENT APPROVAL	6	
CERTIFICATE	4	
COMMISSION INVESTIGATIONS	11	
COMPLAINT	49	
LEASE OF PROPERTY	14	
MAJOR RATE REQUEST	1	
MISCELLANEOUS	45	
MORTGAGE/ISSUE NOTES	1	
PROGRAMS	1	
PROJECT	4	
RATE REQUEST	55	
RULEMAKING	55	
TRANSFER	1	
	Total	247

Decisions Issued – 2002 - 2003

(by industry and subcategory)

Gas

COMMISSION INVESTIGATIONS	8
COMPLAINT	5
FINANCIAL REVIEW	1
MISCELLANEOUS	18
PETITION TO MODIFY/REHEARING OF RESOLUTION	2
PROGRAMS	1
PROJECT	1
RATE REQUEST	7
RULEMAKING	5
TRANSFER	3
Total	51

Water

CERTIFICATE	1
COMMISSION INVESTIGATIONS	8
COMPLAINT	10
MISCELLANEOUS	7
MORTGAGE/ISSUE NOTES	1
PETITION TO MODIFY/REHEARING OF RESOLUTION	1
PROGRAMS	2
RATE REQUEST	14
RULEMAKING	3
TRANSFER	7
Total	54

Railroad/Grade Crossings

COMPLAINT	1
GRADE CROSSING	35
MISCELLANEOUS	26
RULEMAKING	1
Total	63

Decisions Issued – 2002 - 2003

(by industry and subcategory)

Miscellaneous

COMMISSION INVESTIGATIONS	1	
COMPLAINT	6	
FINANCIAL REVIEW	1	
GRADE CROSSING	3	
LEASE OF PROPERTY	1	
MAJOR RATE REQUEST	1	
MISCELLANEOUS	15	
MORTGAGE/ISSUE NOTES	2	
MULTIPLE TYPES	10	
PROJECT	1	
RATE REQUEST	2	
RULEMAKING	9	
TRANSFER	2	
	Total	54

Transportation

CERTIFICATE	3	
COMMISSION INVESTIGATIONS	6	
COMPLAINT	6	
DISCONTINUANCE	1	
EXPANSION OF SERVICE	5	
GRADE CROSSING	8	
HOUSEHOLD GOODS CARRIER	2	
MISCELLANEOUS	7	
PASSENGER STAGE	30	
RATE REQUEST	10	
TRANSFER	16	
	Total	94

Grand Total 887

Hearing Days – 2002 - 2003

(by industry and subcategory)

Communications

AGREEMENT	5
CERTIFICATE	3
COMMISSION	25
COMPLAINT	30
DISCONTINUANCE	1
LEASE	1
MISCELLANEOUS	14
RATE REQUEST	4
RULEMAKING	17
TRANSFER	3
TOTAL	103

Electric

CERTIFICATE	4
COMMISSION	23
COMPLAINT	11
MISCELLANEOUS	19
RATE REQUEST	100
RULEMAKING	71
TRANSFER	3
TOTAL	231

Gas

COMMISSION	2
COMPLAINT	2
MISCELLANEOUS	16
RATE REQUEST	10
RULEMAKING	10
TRANSFER	1
TOTAL	41

Miscellaneous

COMPLAINT	1
GRADE	1
MISCELLANEOUS	2
PROGRAMS	2
RULEMAKING	1
TRANSFER	1
TOTAL	8

Railroad/Grade

COMPLAINT	2
GRADE	9
MISCELLANEOUS	6
RULEMAKING	1
TOTAL	18

Transportation

COMMISSION	9
COMPLAINT	3
HOUSEHOLD	1
MISCELLANEOUS	2
PASSENGER	2
TOTAL	17

Water

CERTIFICATE	6
COMMISSION	7
COMPLAINT	2
MISCELLANEOUS	3
RATE REQUEST	68
RULEMAKING	1
TRANSFER	9
CERTIFICATE, SEWER	1
TOTAL	96

Total Hearing Days 515

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