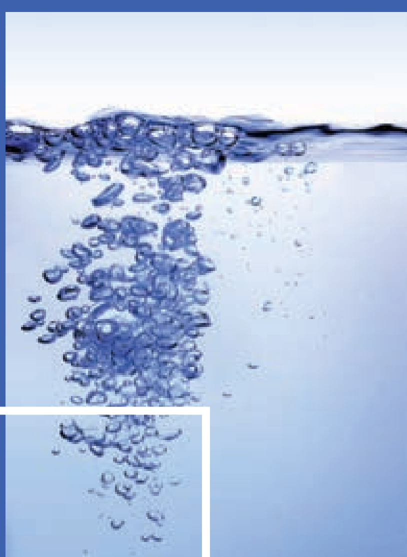
California Public Utilities Commission

COMMUNICATIONS

TRANSPORTATION



WATER

ENERGY

Annual Report 2008

Letter to the Governor and Legislature

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

I am pleased to present to you the California Public Utilities Commission's 2008 Annual Report and Work Plan. This report highlights major accomplishments and activities of the CPUC in 2008, and offers a view towards what is ahead in 2009 and beyond.

The CPUC is a national leader on many frontiers of important policy change for the industries we regulate, and 2008 was witness to a number of great strides in this regard. The CPUC gave significant policy recommendations in designing a program to reduce greenhouse gas emissions in the electricity sector. This work is a vital step towards achieving statewide emissions reductions goals and protecting our consumers against the risk of high carbon prices and environmental degradation in the future. We also established the California Energy Efficiency Strategic Plan, setting the most ambitious energy efficiency program targets to date. This was done while we continued to green our energy sources through the nation's most ambitious renewable energy goals. We also approved new transmission lines designed to bring renewable energy to California consumers. In addition, we focused attention on ensuring that low-income customers are receiving information about available discounts and services during these difficult economic times.

The CPUC is focused on educating and protecting telecommunications consumers. In 2008, the CPUC implemented new in-language rules so that consumers will receive information about their service contracts in the language in which the services were sold. The CPUC implemented a new program to bring wireless text devices to low-income deaf persons and extended our Teleconnect discount program to community colleges, California Telehealth Network participants, and 2-1-1 service providers. We have been working to close the digital divide with: our California Advanced Service Fund program to bring broadband to underserved areas; our work with the California Telehealth Network to bring telemedicine to rural healthcare sites; and the California Emerging Technology Fund projects assisting rural areas and disadvantaged and disabled communities. In addition, we continued in our new role granting video franchises, bringing competition to the video services market and encouraging the deployment of advanced broadband infrastructure throughout the state.

Confronted by the threat of a serious drought, the CPUC forwarded the objectives laid out in our Water Action Plan and initiated the design of a comprehensive water conservation program. We also continue to emphasize the replacement of aging infrastructure to ensure access to clean water to the California consumers served by water companies we regulate.

The CPUC also leads the states in increased rail and rail transit safety. Freight and passenger traffic on rails is on the rise, increasing the importance of safety, prevention, and early detection of danger zones before accidents occur.

In addition to all of this work, the CPUC continues to work to make the California utility sector as diverse and inclusive as California itself. In addition, over the past year, the CPUC has undertaken new initiatives to improve its internal operations and efficiency. We underwent organizational strategic planning aimed at enhancing the effectiveness of the agency in accomplishing its diverse work and responsibilities. The CPUC worked down backlogged complaints and achieved a 65% improvement in response time to consumer complaints. In addition, increased use of E-filing has streamlined regulatory processes dramatically at the CPUC.

These are just a few examples of the ground-breaking work happening at our agency over the past year. However, we believe that they indicate the course we have charted combining innovation, efficiency, and foresight as a new regulatory approach in years to come.

Sincerely,

Michael R. Peevey

PUC President

A digital copy of this report can be found at
http://www.cpuc.ca.gov/PUC/aboutus/docs_etc/ann_report/

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Table of Contents

COMMISSIONERS

Michael R. Peevey

Michael R. Peevey was appointed President of the California Public Utilities Commission by Governor Gray Davis on December 31, 2002 and re-appointed by Governor Schwarzenegger on November 28, 2008.

As President of the Commission, Mr. Peevey is committed to protecting the public interest by promoting consumer needs, while challenging utilities to embrace new technologies and provide safe, high-quality services.

Mr. Peevey is committed to maximizing energy efficiency and demand response opportunities and ensuring that California's environment is protected. He is also a strong supporter of renewable energy and renewable procurement requirements for utilities, and is a leader in implementing California's Solar and Greenhouse Gas Initiatives.

Mr. Peevey has made it a priority to work closely with sister agencies, such as the California Department of Water Resources, the Independent System Operator, the California Energy Commission, and the Air Resources Board-- agencies in which the CPUC has overlapping or complementary responsibilities, to assure that California has adequate energy resources and transmission facilities to support its growing population and improving economy.

From 1995 until 2000, Mr. Peevey was President of NewEnergy Inc. Prior to that, Mr. Peevey was President of Edison International and Southern California Edison Company, and a senior executive there beginning in 1984. Mr. Peevey has served on the boards of numerous corporations and non-profit organizations.

Mr. Peevey has received many awards recognizing his leadership in developing energy policy and promoting recognition of California's diverse population, including a "Distinguished Citizen Award" from the Commonwealth Club of California for achievements in green and sustainable energy in 2007; the Pat Brown Legacy Award in 2003; named "Man of the Year" by the Power Association of Northern California; recognized with the Climate Action Champion Award by the California Climate Action Registry in 2004; and leadership recognition from American Council for Energy Efficiency (2005), the Utility Minority Access Program (2006), and the California Solar Energy Industries Association (2006).

Mr. Peevey holds Bachelor and Master of Arts degrees in economics from the University of California, Berkeley. He is married to Carol J. Liu, who serves in the California state senate representing the 21st District. They have three children.

Dian M. Grueneich

Dian M. Grueneich was appointed to the California Public Utilities Commission (CPUC) by Governor Arnold Schwarzenegger in January 2005 and unanimously confirmed by the State Senate in May for a six year term.

Commissioner Grueneich is a nationally recognized expert in energy and environmental issues, with over 30 years of experience in the field. At the CPUC, she focuses on energy efficiency, transmission planning and permitting, climate change, renewable energy resources, and low income consumer issues.

Commissioner Grueneich is the lead Commissioner on energy efficiency and oversees the 3-year, $2.7 billion energy efficiency program of the California investor-owned utilities. She provided leadership for the development of the California Long-Term Energy Efficiency Strategic Plan and in August 2008, received the national Champion of Energy Efficiency Award by the American Council for an Energy-Efficient Economy for outstanding career-long leadership in the energy efficiency field and innovation in utility regulation.

Addressing the utility needs of low-income consumers is a top priority for Commissioner Grueneich. She has served as the Commission-appointee to California's Low Income Oversight Board since 2005. She is the Assigned Commissioner on low-income energy cases and is an active supporter of the California Lifeline Telephone Program.

Commissioner Grueneich has raised state and region-wide awareness on the significance of transmission issues and the need to construct transmission to reach renewable-rich areas. She is the Assigned Commissioner on all of the CPUC's high-priority transmission cases and has been a leader in establishing both the California Renewable Energy Transmission Initiative and the parallel Western Renewable Energy Zone Initiative. She also serves on the U.S. Department of Energy's Electricity Advisory Committee and the Transmission Expansion Planning Policy Committee of the Western Electricity Coordinating Council.

Commissioner Grueneich strongly supports the development of the "smart grid" and has been the lead Commissioners on two critical California cases, ensuring that cost-effective advanced metering infrastructure, with robust functionality requirements, will be installed in Southern California investor-owned utility service areas beginning in 2008.

Commissioner Grueneich is committed to building partnerships nationally and internationally that advance best practices in clean energy and policies to achieve maximum energy savings. She serves on the U.S. Department of Energy Smart Grid Advisory Committees, the Leadership Council of the China-US Energy Efficiency Alliance, and the International CHP/DHC Collaborative sponsored by the International Energy Agency.

Commissioner Grueneich helped develop the Western Public Utility Commissions' Joint Action Framework on Climate Change, now adopted by the California, Washington, Oregon, and New Mexico Commissions, and is a member of Governor Schwarzenegger's Climate Action and Green Action Teams. She serves on the National Association of Regulatory Commissioners' Task Force on Climate Change and its Energy and Environment Committee and International Committee.

Prior to her appointment, Commissioner Grueneich served as a Board member of the American Council for an Energy-Efficient Economy and is a past-President of the California League of Conservation Voters. She is a graduate of Stanford University and holds a J.D. from Georgetown University.

John Bohn

Commissioner John Bohn currently serves as a Commissioner of the California Public Utilities Commission. Governor Schwarzenegger appointed Commissioner Bohn to the Commission in May 2005, and the California State Senate confirmed his appointment in April 2006.

In addition to his duties at the CPUC, Commissioner Bohn was recently elected as a Director of the National Endowment for Democracy in Washington, D.C. and to the Advisory Board of the Yale Institute for Corporate Governance and Performance. He also serves as Trustee of Northern Trust Multi-Advisor Fund, an international multi-advisor investment fund of the Northern Trust Company, and is a member of the Capital Markets Reform Commission, chartered by the U.S. Chamber of Commerce to re-evaluate the operation of U.S. capital markets in light of globalization. Commissioner Bohn is a principal in GlobalNet Partners, N.A., LLC, a global advisory and consulting firm that provides market focus, strategic advisory and active client development services as well as management and capital to U.S. and foreign firms. Commissioner Bohn is also a member of The Council on Foreign Relations in New York, and a director of the World Affairs Council in San Francisco. He recently stepped down as Chairman of the Center for International Private Enterprise and as a member of the Executive Committee of the U.S. Chamber of Commerce in Washington, D.C.

Prior to his present position, Commissioner Bohn was a co-founder and Executive Chairman of CheMatch.com (now Chemconnect), an Internet based trading exchange for petrochemicals. He spent 1-1/2 years at Burson-Marsteller, the world's largest public relations firm, where he served as Managing Director, focusing on international markets, and economic resources issues, and was special advisor to the Government of Korea during the Asian financial crisis. From 1989-1996, Commissioner Bohn served as President and Chief Executive Officer of Moody's Investors Service, the world's leading credit rating and financial analysis company, and a major publisher of financial information.

In 1981, Commissioner Bohn was asked to join President Reagan's administration. He served first as special assistant to Treasury Secretary Don Regan and was subsequently appointed by President Reagan as U.S. Ambassador and Executive Director of the Asian Development Bank. In 1984, President Reagan appointed Commissioner Bohn to the post of Vice Chairman of the Export Import Bank of the United States, a U.S. Government corporation that finances and insures the sale abroad of American produced goods, and thereafter to the position of Chairman and President of the Bank, in which capacity he served until 1989.

Commissioner Bohn began his career practicing law in California and the Pacific, and subsequently spent 13 years as an international banker with Wells Fargo, which included 4-1/2 years in Tokyo, with responsibility for the bank's Asian activities. Later he served as Division Manager for Trade Finance, private banking, and multinational banking.

A graduate with honors from Stanford University, Commissioner Bohn attended the London School of Economics as a Fulbright scholar, and received his JD from Harvard Law School. He is a member of the California State Bar and the Bar of the Supreme Court of the United States. Commissioner Bohn resides in San Francisco.

Rachelle Chong

A native of Stockton, California, Rachelle Chong graduated Phi Beta Kappa from UC Berkeley in 1981 with degrees in Journalism and Political Science. In 1984, she received her law degree from UC Hastings College of the Law and was admitted to the California State Bar. She was the editor-in-chief of Comm/Ent Law Journal at Hastings College of the Law.

She began her legal career in Washington, D.C. in 1984, practicing before the Federal Communications Commission (FCC) representing broadcasters and early cellular telephone applicants. She returned to California in 1986 and practiced communications law with Graham & James before the California PUC in San Francisco. She became a partner of Graham & James in 1991.

In 1993, President Bill Clinton nominated Ms. Chong to the Federal Communications Commission. She is proud to be the first Asian American to serve as an FCC commissioner. She was confirmed by the U.S. Senate in May 1994 and served until November 1997. Commissioner Chong served at the FCC during the passage and implementation of the historic Telecommunications Act of 1996, the first wireless spectrum auctions, finalization of digital television rules, children's television proceeding, and the provision of many new wireless and satellite services. She also represented the FCC at numerous international diplomatic meetings, including the World Radio Conference and APEC, particularly in the Asia region. She also served on the Joint Board on Universal Service to implement E-rate and other universal service program changes contained in the 1996 Act.

After her FCC service, Ms. Chong practiced law with Coudert Brothers in San Francisco and Palo Alto. In 2000, she joined a start up venture in Silicon Valley as General Counsel and Vice President, Government Affairs. She next became an entrepreneur, starting a retail Italian jewelry store and an ecommerce website from 2001-2006 with her husband.

In January 2006, Governor Schwarzenegger appointed Ms. Chong to be a Commissioner. The first Asian American Commissioner, she began her three year term on January 12, 2006. In November 2008, Governor Schwarzenegger re-appointed Ms. Chong for a second term. The CPUC regulates privately owned electric, telecommunications, natural gas, water and transportation companies, in addition to household goods and rail safety. In November 2006, Commissioner Chong was nominated by the Governor to his Broadband Task Force. She is the Chair of the Board of Expert Advisors of the California Emerging Technology Fund. She serves on the Advisory Board of the California Telehealth Network. She is a member of the NARUC Telecommunications Committee.

She is married and has two school age twin daughters.

Timothy A. Simon

Timothy Alan Simon was appointed to the California Public Utilities Commission by Governor Arnold Schwarzenegger on February 15, 2007, and confirmed by the California State Senate on February 28, 2008.

Commissioner Simon is a securities and banking lawyer and law professor. He uses his background to facilitate balanced public policy in utility regulation.

Commissioner Simon firmly supports investment in California's utility infrastructure as being critical to California's economic future. He is active in the National Association of Regulatory Utility Commissioners (NARUC) as Co-Vice-Chair of the Natural Gas Committee, and member of: the Critical Infrastructure Committee; the Consumer Affairs Committee; the Liquefied Natural Gas Subcommittee; the Gas Speculation Task Force, and; the Wireless Task Force.

Prior to joining the CPUC, Commissioner Simon was an appointment secretary to Governor Arnold Schwarzenegger, and was the first African American in California history to hold the post. Previously, Commissioner Simon served as a legal advisor on complex financial products, and has held positions at Global Crown Capital, LLC, PreferredTrade, Inc., Robertson Stephens Investment Banker, Bank of America, and Wells Fargo.

Commissioner Simon received his Bachelor's degree in Economics from the University of San Francisco, and his law degree from the Hastings College of the Law, University of California.

As an active member of the Bay Area community, Commissioner Simon serves on several non-profit boards including Catholic Charities/CYO of the San Francisco Bay Area, the Megan Furth Academy, Junior Achievement, and California ALL (Aspire-Learn-Lead). He works to actively promote and encourage workplace, procurement, and educational diversity.

Currently, Commissioner Simon is an adjunct professor of Securities Regulations at Golden Gate University School of Law, as well as an advisor on international securities in the U.S. Legal Studies Program. He is engaged and is the proud father of three children

THE CALIFORNIA PUBLIC UTILITIES COMMISSION

History, Role, Responsibilities

In 1911, voters passed a constitutional amendment establishing the Railroad Commission, which since 1946 has been known as the California Public Utilities Commission.

The CPUC has broad powers to regulate privately-owned and operated natural gas, electric, communication, transportation and water companies in California. It grants operating authority, regulates service standards, sets rates, and monitors utility operations for safety, environmental stewardship, and public interest.

CPUC policies benefit consumers through lower rates for monopoly services and protecting consumers where competition otherwise does not. In its decision-making, the CPUC balances the need for reliable, safe utility services at reasonable rates with the need to assure that utilities operate efficiently and remain financially viable. The CPUC encourages ratepayers, utilities, and consumer and industry organizations to participate in its proceedings and seeks their assistance in resolving the complex issues before it. Any public member may address the CPUC on an item before it at any public agenda meeting.

Above all, the CPUC is responsible for ensuring that California utility customers have safe, reliable utility service at reasonable rates, with a strong commitment to environmental stewardship and a strong economy. Throughout its history, the CPUC has been recognized for its forward-looking regulatory practices, and today is a national leader among state regulatory bodies.

The Commission is headquartered in San Francisco with offices in Los Angeles and Sacramento.

Decision-making

Five commissioners are appointed for a term of six years by the Governor, with confirmation by the State Senate. Terms are staggered to assure that the CPUC always has the benefit of experienced members. The appointed commissioners serve as the governing body of the agency, and make all final decisions.

The CPUC meets publicly twice a month to carry out the business of the agency, which may include the adoption of utility rate charges, rules on safety and service standards, implementation of conservation programs, investigation into unlawful or anticompetitive practices by regulated utilities, and intervention into federal proceedings which affect California ratepayers.

The CPUC acts in both a quasi-legislative and quasi-judicial capacity. It establishes and enforces regulations, and like a court may take testimony, issue decisions, cite for contempt, and subpoena witnesses and records. It holds hearings and workshops, and encourages participation in its proceedings of all affected parties, including the customers of the utilities it regulates.

Traditionally, general rate cases have been the major form of regulatory proceeding at the CPUC. General rate case applications may be filed every three years, and take about a year to complete. The utility bases its revenue request on its estimated operating costs and revenue needs for a particular future year. Customer rates will be based on the CPUC's determination of how much revenue the utility reasonably requires to operate.

The CPUC can also initiate investigations and rulemakings to explore broad policy issues, resolve procedural matters, investigate allegations of illegal utility activity or respond to legislative requirements. Typically, a proceeding begins with a prehearing conference which all interested parties and participants attend. The issues to be addressed are identified and often a schedule for proceeding process is set.

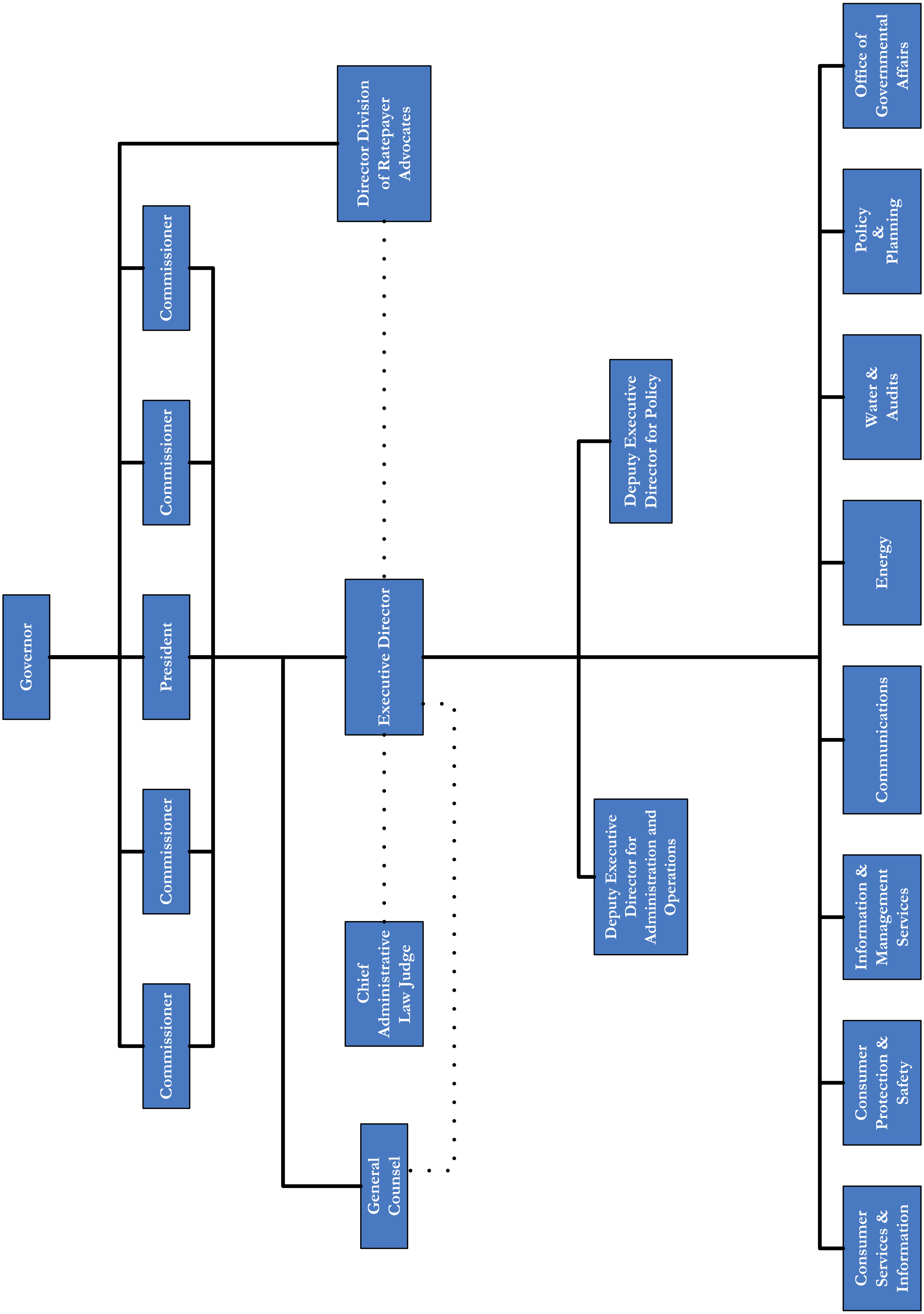
The CPUC has a variety of fact-finding tools it uses to inform its policy choices. It relies on evidentiary hearings when material issues of fact are in dispute, legislative-style hearings and workshops for policy considerations. Workshops supplement the formal decision-making process by providing an informal forum for the exchange of ideas and information, which is particularly useful in complex or contentious proceedings to establish fact and discover and define issues, to foster agreements and stipulations, and to work out ways to implement policy decisions made by the CPUC.

Based on testimony and evidence submitted over the course of a proceeding, an administrative law judge (ALJ) prepares a draft decision within 90 days after submission of the case and serves it by mail or email on all parties. Parties then have 20 days to file comments. The ALJ replies to the comments and may revise the proposed decision based on them, and submits the proposed decision to the assigned commissioner for review. The assigned commissioner then places it on the agenda for consideration and vote by all commissioners at one of the twice-monthly public CPUC meetings. The commissioners may adopt, modify, or reject any proposed decision and any commissioner may offer an alternate decision for vote by all commissioners.

Organization

In support of Commissioner decision-making and ongoing regulatory activities, the CPUC employs a staff of approximately 1,000 professionals. They include engineers, economists, attorneys, administrative law judges, accountants, auditors, safety inspectors, customer service representatives and administrative personnel.

The personnel is organized into several industry advisory units, along with other independent divisions focused on outreach, ratepayer advocacy, consumer protection, due process and other specialty functions.


Governor
President
Commissioner
Commissioner
Commissioner
Commissioner
Director Division of Ratepayer Advocates
Executive Director
Chief Administrative Law Judge
General Counsel
Deputy Executive Director for Policy
Deputy Executive Director for Administration and Operations
Office of Governmental Affairs
Policy & Planning
Water & Audits
Energy
Communications
Information & Management Services
Consumer Protection & Safety
Consumer Services & Information

THE LEADERSHIP TEAM

Executive Office – Paul Clanon, Executive Director

The Executive Office has overall responsibility for assuring that the CPUC's decisions and policies are implemented, working in conjunction with commissioners, directors, and staff to coordinate and facilitate the handling of procedural matters and the internal operations of the CPUC. The Executive Division also houses the News and Public Information Office and the Office of Performance Excellence. The News and Public Information Office raises the awareness of the Commission by informing and educating the media about the Commission's services, policies, procedures, and decisions. The Office of Performance Excellence, an internal organization that supports all the operational divisions by providing expertise in strategic planning, process improvement, and project management.

Legal Division – Frank Lindh, General Counsel

The Legal Division provides legal advice to the CPUC and its staff. Staff attorneys represent the CPUC and the State of California before state and federal courts and agencies. Staff attorneys also represent the Division of Ratepayers Advocates and the Consumer Protection and Safety Division in proceedings before the CPUC . In addition, the Legal Division is responsible for reviewing and providing recommendations to the CPUC on all Applications for Rehearing of CPUC decisions. The CPUC's lawyers address the full range of issues before the CPUC including energy procurement, electricity and natural gas distribution, transmission facilitating the development of renewable resources and green house gas reduction, communications including video franchising, prepaid phone cards and traditional phone service, water including regulation of private water companies, transportation including rail safety, public safety and enforcement of CPUC orders and decisions.

Administrative Law Judge Division – Angela Minkin, Chief Administrative Law Judge

The Administrative Law Judge (ALJ) Division provides just, reasoned, efficient, and innovative resolution of complex matters in a manner that ensures due process and respects the dignity of all participants. The ALJ Division supports the decision-making process by receiving all formal filings, preparing and updating service lists, maintaining a database of all formal proceedings, ensuring that the CPUC's files are complete and accurate, and preparing and coordinating the agendas for the CPUC's bi-weekly decision-making meetings. The Division emphasizes the use of Alternative Dispute Resolution techniques, including mediation, early neutral evaluation, and settlements. By participating in voluntary alternative dispute resolution efforts, parties can reach creative solutions that both satisfy their interests and reduce litigation costs. Starting January 2009, the Chief Administrative Law Judge will be Karen Clopton.

Policy and Planning Division – Julie Fitch, Director

The Policy and Planning Division provides the CPUC with independent analysis and advice focusing on emerging policy issues. It identifies important regulatory issues not addressed by other industry divisions and examines how the CPUC can best adjust its role to address these trends. The Division takes on projects that are comprehensive in scope and long-term in nature, focused on the sound development of CPUC policy in the long-run. Projects also often cross industry lines and Division staff are regularly called upon to serve as liaisons with other agencies and key stakeholders on major policy issues.

Energy Division – Sean Gallagher, Director; Ken Lewis, Acting Director

The Energy Division assists CPUC activities in the electricity, natural gas, steam, and petroleum pipeline industries. The Energy Division advises the CPUC 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 CPUC about major developments affecting energy utilities. It assists the CPUC 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. Starting January 2009, the new Energy Division Director will be Julie Fitch.

Communications Division – Jack Leutza, Director

The Communications Division assists the CPUC in developing and implementing policies to promote competition in all telecommunications markets and to address regulatory changes required by state and federal legislation. The division assists the CPUC'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.

Division of Water and Audits – Raminder Kahlon, Director

The Division of Water and Audits investigates rate increase requests from investor-owned water and sewer service utilities, tracks compliance with CPUC orders, and assists the public in resolving technical problems with water and sewer companies. In addition, the Division of Water and Audits processes financing authorization requests from water, telecommunication and energy utilities, as well as advises on water conservation and water low-income programs. In the CPUC's effort to provide improved oversight of the various industries it regulates, the advisory audit functions from three industry divisions (Water, Telecommunications and Energy) were consolidated into the Division as of October 2005. Auditors assigned to the Division of Water and Audits perform accounting, auditing, and financial analysis as requested.

Division of Ratepayer Advocates – Dana Appling, Director

The Division of Ratepayer Advocates participates as an independent advocate for all ratepayers in CPUC proceedings, workshops, and other forums that cover issues that have significant dollar impact on consumers or address consumer protection issues. DRA aggressively pursues development of fair rules for competition, good service quality, fair rates, and other significant policy issues. The Division'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."

Consumer Protection and Safety Division – Richard Clark, Director

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

Consumer Service and Information Division – Rolundia Mitchell, Director

The Consumer Service and Information Division (CSID) acts as the liaison between the community and the CPUC. Its primary role is to respond to individual ratepayer needs and inquiries. These services range from assisting consumers in resolving disputes with their utility companies, to explaining how to participate in CPUC proceedings. CSID also leads CPUC's efforts in educational services, and provides in-language translation and interpretation services. Through its outreach efforts, the division also takes the lead in working with utilities to diversify procurements pursuant to General Order 156, and promote business opportunities and educational efforts with California small businesses. Finally, its Outreach officers attempt to reach consumers in remote areas of the State to ensure that all ratepayers are represented and heard in its processes.

Information Technology and Management Services Division – Ravi Subramanian, Director

The Information Technology and Management Services Division (IMSD) is responsible for the CPUC's information technology, finance, contracts, facilities, and administrative services functions. The division is also responsible for helping the CPUC achieve its environmental sustainability goals.

Office of Governmental Affairs – Pamela Loomis, Director

The Office of Governmental Affairs represents the CPUC before the State Legislature and Executive Branch and oversees representation of the CPUC and State of California before the United States Congress and federal agencies.

THE WORK OF THE COMMISSION




ENERGY

The CPUC regulates investor-owned electric and gas utilities within the state of California, including Pacific Gas & Electric (PG&E), Southern California Edison (SCE), San Diego Gas and Electric (SDG&E), and Southern California Gas (SCG). Collectively, these utilities serve over two thirds of total electricity demand and over three quarter of natural gas demand throughout California. Through its oversight of these utilities, the CPUC has played a key role in making California a national and international leader on a number of energy-related initiatives designed to benefit consumers, protect the environment and support California's economy in difficult times.

The CPUC develops and administers energy policy and programs to serve the public interest and ensures compliance with decisions and statutory mandates. The CPUC staff provides objective and expert analyses that promote reliable, safe and environmentally sound energy services at lowest reasonable rates for the people of California. In 2008, energy supply was adequate to serve the needs of Californians but many residents faced challenges in meeting financial obligations including their energy utility bills. Thus programs to provide support for low-income ratepayers gained even greater importance. In addition, any additional costs for ratepayers were scrutinized with a keen awareness of the challenges to the family budgets of California residents and the bottom lines of Golden State businesses. In 2008, the CPUC continued to support the California Air Resources Board in the ambitious implementation of global warming mandates enacted in AB 32.

These goals and related policy directives are described in the Energy Action Plan (EAP) II, adopted by the CPUC and California Energy Commission in 2005, and updated in February 2008. In guidance towards achieving its stated goals, the Energy Action Plan established a "loading order", or priority sequence for actions to address increasing energy needs. The EAP's loading order identifies energy efficiency and demand response as the State's preferred means of meeting growing energy needs. After cost-effective efficiency and demand response, the loading order next identifies renewable resources and distributed generation as a preferred means of meeting new demand. To the extent that the preferred resources are unable to satisfy increasing energy and capacity needs, clean and efficient fossil-fired generation is to be used.

Assisting Low-Income Energy Consumers

The current economic crisis creates a tremendous amount of financial pressures on Californians, including job insecurity, accelerating foreclosures on their homes, and an overall greater burden in paying utility bills, including their energy bills. The CPUC's Low-Income Energy Programs look to improve efforts to reach all eligible low-income customers and thereby lessen the impact of the present economic situation. The programs also strive to provide lasting residential energy efficiency improvements. While increasing assistance to low-income households, the Commission is also actively exploring ways to leverage its program with outside sources of federal funding, other state programs and local efforts.

The CPUC's low-income energy programs include the Low-Income Energy Efficiency (LIEE) program, which offers weatherization and energy-efficient appliances for customers with household earnings at or below 200 percent of Federal Poverty Level. The California Alternate Rate for Energy (CARE) program provides a 20 percent discount on energy rates for residential customers and is designed to serve customers meeting the same income criteria. In 2008, a total of 191,208 homes were treated under the LIEE program and approximately 3.9 million households were enrolled in CARE.

In 2008, the CPUC held a series of public workshops on the Low Income Residential segment of the California Energy Efficiency Strategic Plan (CEESP). A final version of the CEESP was adopted in September 2008. The CEESP adopted certain goals for the Low Income Residential segment, including the goal to provide all eligible and willing customers the opportunity to participate in the LIEE program. Another goal set forth under this segment included the goal to transform the LIEE program into an energy resource by delivering increasingly cost-effective and longer-term savings.

The CPUC approved the budgets for the IOU's 2009-11 LIEE/CARE program in November 2008. In this decision, the CPUC mandated a new path forward for the low income energy programs. For CARE, the CPUC approved approximately $2.6 billion in funding and set the goal of 90 percent penetration rate of eligible CARE customers. The CPUC approved nearly $1 billion for the 2009–11 LIEE Programs, resulting in a substantial increase over previous budget cycles. The CPUC tasked the IOUs with treating a total of approximately 1 million households during 2009–11; to accomplish this goal, the CPUC called for the IOUs to adopt a "Whole Neighborhood Approach" when conducting program delivery. Additionally, the CPUC directed the IOUs to focus outreach efforts on customers with high-energy use, financial burden and insecurity as well as customers with disabilities. The CPUC also called for the promotion of Workforce, Education, and Training programs, designed to coincide with LIEE program goals. As part of the emphasis to improve the efficiency and effectiveness of the LIEE and CARE programs, the CPUC directed the utilities to increase their efforts to leverage with resources serving these same households and to better integrate with each utilities' internal departments.

In the current economic crisis, low-income programs have taken on an added importance. The CPUC is currently exploring ways in which the low income energy efficiency program can be leveraged with the federal economic stimulus package and proposed block grants to be administered through the Department of Energy to promote energy efficiency at the city and community level, to create jobs, and to contribute to economic recovery.

Low Income Oversight Board

The Low Income Oversight Board (LIOB) advises the CPUC on the energy and water low-income assistance programs of utilities and serves as liaison for the CPUC to low-income ratepayers and their representatives. The Board held quarterly meetings throughout the State in 2008, and will continue its efforts in 2009 to solicit community input and to develop initiatives to improve enrollment of qualified customers.

Climate Change

Climate change continues to be the most serious threat to our environmental future and California continues on its groundbreaking path to address this threat. In AB 32, the state has set a goal of reducing its greenhouse gas (GHG) emissions to 2000 levels by 2010 and to 1990 levels by 2020. Achieving these goals will demand significant changes to the manner in which we produce and consume energy in the state.

In 2008, the CPUC continued to serve as a leader in the climate change policy arena. The CPUC, in concert with the Energy Commission, conducted

significant work culminating in several key recommendations to the Air Resources Board. In March 2008, the CPUC and Energy Commission jointly recommended a strategy of both markets and mandates to achieve the electricity sector's GHG reduction goals. Energy efficiency and renewables continue to be the cornerstone to reducing GHG. The two agencies also stated that the "first deliverer" of the electricity to the California grid should be the point of regulation in the state. The CPUC and the Energy Commission also recommended that a cap-and-trade system be used for the distribution of allowances in order to reduce overall compliance costs in the electric sector.

These recommendations were followed up with a second major decision in October 2008. In its recommendations, the CPUC and the Energy Commission outlined how the cap-and-trade system should distribute allowances. The revenues from these auctions should be returned to the electricity sector for AB 32 purposes. These recommendations were complemented by modeling results showing ratepayer impacts, the costs and magnitudes of various different GHG reductions measures. The agencies also gave recommendations on offsets and other flexible compliance mechanisms unique to the electric sector. The October 2008 decision re-affirmed the CPUC's commitment to pursue all cost-effective energy efficiency and to achieve 33% renewables by 2020.

The CPUC and the Energy Commission's recommendations to the Air Resources Board supported the Board's adoption of its Scoping Plan to reduce GHG adopted in 2008. The CPUC actively participated and coordinated with the Board to ensure that proper and effective strategies were being pursued in the Scoping Plan. This included close coordination of the CPUC's Energy Efficiency goals and its Long-Term Energy Efficiency Strategic Plan. In addition, the CPUC played an active role in the Western Climate Initiative – a process intended to link several different US western states and Canadian territories, focusing on regional market-based mechanisms to reduce GHG.

Promoting Energy Efficiency

Energy efficiency is the least cost, most reliable, and most environmentally sensitive resource available to meet growing demands for energy services in California. Building on California's proud history in energy efficiency, the CPUC has accelerated its efforts to create the most ambitious energy efficiency and conservation campaign in the history of the utility industry in the U.S.

2006-2008 Utility Energy Efficiency Programs

The four largest investor-owned utilities have completed the implementation of their 2006-2008 energy efficiency portfolio plans. The CPUC significantly increased the level of funding for the utilities' energy efficiency program portfolios to a total of $2.1 billion for the three-year program cycle that began in 2006.

The 2006-2008 energy efficiency programs are currently being evaluated under the management of CPUC staff, and if the utilities achieved their targets, are expected to have cut energy costs for homes and businesses by more than $5 billion, eliminated the need to build the equivalent of three large power plants, and reduced global warming pollution by an estimated 3.4 million tons of greenhouse gas emissions.

2006-08 Energy Efficiency Program Cycle IOU-Reported Expenditures and Achievements (as of September 2008)

	Expenditures (In Millions)	Installed Savings		
		GWH	MW	MMTH
PG&E	$723	4,532	712	49
SCE	$581	3,430	600	-
SDG&E	$159	879	144	5
SCG	$93	-	-	54
Total	$1,556	8,841	1456	108

Risk/Reward Incentives for Achieving Energy Efficiency Targets

In September 2007, the CPUC adopted a "risk/reward incentive mechanism" for the utilities tied to their achievement of energy savings. This mechanism allows the utilities to view energy efficiency as a core part of operations and capable of producing meaningful revenue, while still providing an estimated return to ratepayers of over 100 percent of their investments in energy efficiency. In December 2008, the CPUC approved the first reward to the utilities of $82.5 million, based on 2006-2007 program efforts.

Long-term Energy Efficiency Strategic Plan

In October 2007, the CPUC launched the development of a comprehensive, long-term energy efficiency strategy to achieve the ultimate goal of making energy efficiency "a way of life" in California. The CPUC established a collaborative process for achieving and exceeding the aggressive energy efficiency and emissions reduction goals the state has set.

This strategic framework will maximize the effectiveness of utility programs through consumer outreach to save energy and reduce emissions across energy efficiency, demand-response, advanced metering and California Solar Initiative programs. The CPUC also initiated a process for widespread collaboration with over 500 key businesses, consumer groups, and governmental organizations in California, throughout the West, nationally and internationally. The effort incorporates industrial, commercial and residential sector efforts, with a specific focus on local government and private industry.

In addition, the strategic plan sets forth ambitious longer-term program initiatives and goals to be pursued by the CPUC, Energy Commission, IOUs, and other stakeholders:

- All new residential construction in California will be zero net energy by 2020;
- All new commercial construction in California will be zero net energy by 2030;
- The Heating, Ventilation, and Air Conditioning (HVAC) industry will be reshaped to ensure optimal system performance;
- All eligible low-income customers will be given the opportunity to participate in the low-income energy efficiency program by 2020.

With significant input from the regulated energy utilities and stakeholders, the CPUC developed and adopted a Strategic Plan in September 2008 to achieve the ambitious goals set forth in October 2007. The Plan sets forth a roadmap for energy efficiency in California through 2020 and beyond, by articulating a long-term vision and goals for each economic sector and by identifying specific near-term, mid-term and long-term strategies to achieve the goals. The strategic plan affirms market transformation as a unifying objective; the CPUC identifies demand-side management coordination, innovative financing mechanisms, marketing, education and outreach, and Low Income Energy Efficiency programs as critical components in achieving the Plan's vision. The CPUC requires that the plan's strategies be incorporated into the utilities' energy efficiency program planning and implementation starting in 2009.

2009-2011 Utility Energy Efficiency Programs

In 2008, CPUC staff commenced work with the utilities and stakeholders to develop innovative and comprehensive utility energy efficiency portfolios for the 2009-2011 program period that will meet increased energy savings goals, achieve demand reduction and reduce greenhouse gas emissions. Programs include rebates and incentives, process optimization, audits, education and training, financing, emerging technology promotion, and coordination with other demand-side reduction programs. The portfolios will be finalized in mid-2009 with new programs to commence shortly thereafter.

Facilitating the Green Building Initiative

The CPUC continues its commitment to the goals set forth in the Governor's Executive Order establishing the Green Building Initiative (GBI), and has taken a number of steps to facilitate the GBI objectives, including:

- Embracing GBI objectives for commercial buildings in the Energy Efficiency Strategic Plan
- Requiring the utilities to submit their best estimates of forecast savings in state-owned and commercial buildings
- Requiring reporting on GBI achievements quarterly on a publicly accessible website
- Improving cross-program reporting to aggregate across energy efficiency, distributed renewables, and demand response.

Identifying Water-related Energy Use Savings Potential

By saving water or developing and treating it more efficiently, it is possible to produce significant energy savings. The CPUC has identified embedded energy savings associated with water efficiency as an untapped resource. The CPUC approved pilot programs, starting January 2008, for the largest regulated energy utilities through which they have developed partnerships with water agencies, undertaken specific water conservation programs, and measure the results. The pilot program runs mid-2009. Concurrently, the regulated energy utilities are funding studies to understand more accurately the relationship between water savings and the reduction of energy use, and the extent to which those reductions may vary for different water agencies. The studies will be completed in 2009.

Deploying Demand Response, Advanced Metering and the "Smart Grid"

Demand Response is the reduction in electric usage by end-use customers from their normal consumption patterns in response to changes in the price of electricity, incentive payments, or when system reliability is jeopardized. Demand Response enhances electric system reliability, reduces power purchases and individual consumer costs, and minimizes the environmental impact of energy infrastructure. The IOUs operate a suite of demand response programs, which have an aggregated impact of 3,100 MWs, the equivalent of six large power plants. The CPUC is currently developing both short-term and long-range goals for demand response.

A key component of the CPUC's Demand Response policy is the implementation of "dynamic pricing." Dynamic pricing is essentially retail electricity rates that vary by time (typically on a hourly basis) and better reflects the true cost of electricity. Customers on these rates will have the opportunity to lower their bills by reducing their electricity use during the most expensive time of the day when the least efficient and most-polluting power plants would otherwise be operating. In 2008, SDG&E implemented a default dynamic pricing rate for its medium and large customers; the CPUC directed PG&E to implement a similar rate starting in 2010 for its medium and large customers. SCE's proposed dynamic rate for its large customers is currently being reviewed by the CPUC.

Advancing Demand Response Awareness and Technology

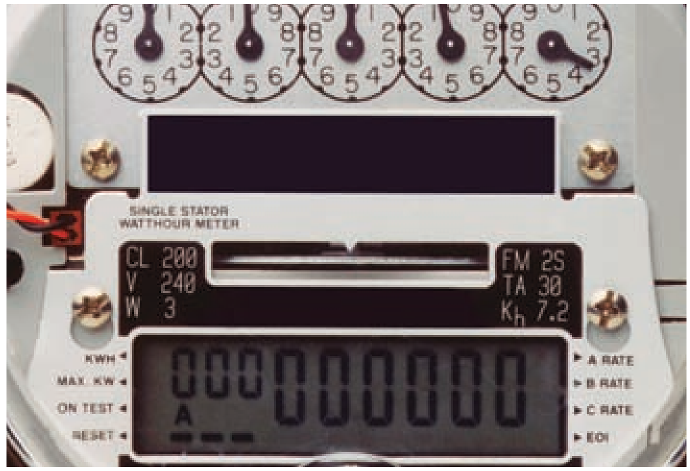
To help customers understand the benefits of demand response, the CPUC has authorized substantial utility budgets for demand response marketing and customer education programs. The CPUC has also directed the utilities to improve their customer outreach by integrating information about all demand-side programs (demand response, energy efficiency, distributed generation). This will provide customers a complete understanding of their options managing their demand and utility bills. The CPUC, recognizing the important role technology plays in enabling customers to be active demand response participants, authorized programs that provide rebates to offset the cost of customer-owned deploying demand response technology.

Integrating Demand Response Programs with CAISO Wholesale Energy Markets

The CPUC is in the process of ensuring that utility demand response programs are aligned with the CAISO's wholesale energy markets so that demand response resources can actively compete with supply-side resources. Aligning retail demand response resources with CAISO market design requires an accurate understanding of the 'product' – the shape and nature of the demand reduction provided by the programs. To address this need, the CPUC has adopted a "demand response load impact protocol", a measurement tool by which the CPUC can forecast the amount of demand response that can be expected when the programs are dispatched. The CPUC also recently authorized pilot DR programs that are designed to 'bid' participants' load reductions into the wholesale energy market as part of the process of broadening the IOUs', CAISO's and the CPUC understanding as to how DR resources can be best positioned for market participation.

Deploying Advanced Metering Infrastructure (AMI) throughout California

Advanced meters give consumers more information and control over their energy usage and enable customers to take advantage of new rate



options to better manage their energy bills and reduce greenhouse gas emissions. A key component of AMI is the ability of the meter to communicate to in-house appliances so that customers can receive information about their usage in real-time, as well as being able to program their appliances to respond automatically to pricing or emergency signals from the meter. Implementation of AMI will further the CPUC's goal of encouraging more demand response, a key component of the state's Energy Action Plan. It will also provide overall savings for utility ratepayers by reducing utility operational costs. By 2012, all three investor-owned utilities are expected to complete the deployment of AMI throughout their respective territories.

Developing the "Smart Grid"

California's electric grid is composed of thousands of miles of transmission lines, distribution lines and substations designed to move electricity from generating facilities to end-use customers. In 2007 the Federal government passed the Energy Independence and Security Act to encourage the states to modernize the grid for the purpose of encouraging demand response, energy efficiency, renewable power, distributed generation and energy storage.

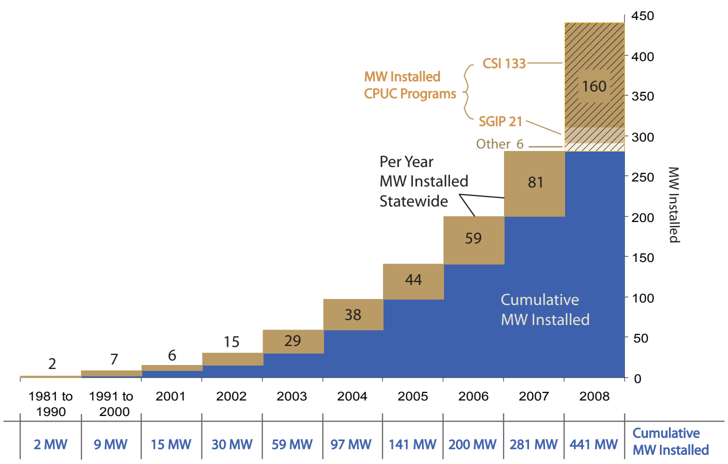
In December 2008, the CPUC initiated a rulemaking that will consider policies for IOUs to modernize the grid to support important policy goals including reducing greenhouse gas emissions, increasing energy efficiency and demand response, expanding the use of renewable energy, and improving reliability. The CPUC will consider setting policies, standards and protocols to guide the development of a smart grid system and facilitate integration of new technologies such as distributed generation, storage, demand-side technologies and electric vehicles.

Advancing the California Solar Initiative

Explosive Market Growth in 2008

The California Solar Initiative has made California the fourth largest solar market in the world – after Germany, Spain and Japan. The California Solar Initiative started on January 1, 2007 and has a goal of installing 1,750 MWs of solar PV systems sized to meet onsite load by the end of 2016.

The California Solar Initiative saw explosive growth in 2008, with over 150 MW of new installed capacity coming online in 2008 as a result of the program, a significant increase over the 81 total MWs installed statewide in 2007.



The program has approximately 300 MW in the pipeline or completed, representing over 18,000 applications. From January 1 through December 31 2008, the California Solar Initiative received 10,658 incentive applications for new distributed solar photovoltaic (PV) systems, compared with 7,541 applications in 2007. The greatest demand for CSI incentives occurred in the last five months of year – including a record-setting 1,316 applications received in December – despite a significant economic downturn that has challenged the ability of homeowners and businesses to make new investments.

Low Income Programs for Solar Homes

The CPUC considers it to be a priority to ensure that low-income utility customers are able to take advantage of the incentives offered under the California Solar Initiative. Subsequently, 10% of the total CSI budget is reserved for low-income programs – the Single-Family Low Income (SFLI) program and the Multi-Family Affordable Solar Housing (MASH) program. Both programs made substantial progress in 2008. In July 2008, the CPUC selected a program manager to administer the SFLI program; program design details were close to being finalized by the end of 2008. In October 2008, the CPUC established the MASH program with a $108 million budget. That program will begin offering incentives in 2009.

Solar Hot Water Pilot Program Also Launched

In 2008, the CPUC moved forward in evaluating solar hot water as a potential technology for a statewide subsidy program. In July 2008, the CPUC extended through the end of 2009 the Solar Water Heating Pilot Program. The program, currently underway in SDG&E's territory, was also opened to new residential and commercial construction. The CPUC expects to consider whether to proceed with a $250 million statewide program to promote the technology in 2009.

Research, Development, Demonstration and Deployment

In July 2008, the CPUC made program decisions regarding the CSI Research Development, Demonstration and Deployment (RDD&D) Program. The $50 million RDD&D Program will begin making grants in early 2009 to fund research and development of innovative solar and energy storage technologies.

Distributed Generation

Feed-in Tariffs

A feed-in tariff presents a simple mechanism for distributed generators to sell power to the utility at predefined terms and conditions, without contract negotiations. The CPUC currently has two separate efforts to develop and administer feed-in tariffs.

Combined Heat and Power

Facilities employing Combined Heat and Power (CHP) will be eligible to sell electricity back to the investor-owned utilities under a new feed-in tariff approved via AB 1613. In June 2008, the CPUC started the program design of the tariff. The program is designed to maximize the usage of waste heat in order to reduce GHG emissions. In 2009, the CPUC will consider proposals for the implementation of the tariff, while working cooperatively with the Energy Commission, which is assigned to define the types of facilities that qualify for the tariff.

Small Renewable

In February 2008, the CPUC established its small renewable feed-in tariff to all renewable technologies up to 1.5 MW in size. The CPUC expects that participating small facilities will sell their renewable power to utilities and help contribute to California's ambitious climate mitigation and renewable energy goals. The power that is sold to the utilities under the feed-in tariffs will contribute to the utilities ability to meet their Renewable Portfolio Standard goals.

Self-Generation Incentive Program

The Self-Generation Incentive Program (SGIP) offers incentives for wind and fuel cell generation larger than 30 kW. The CPUC enacted two program modifications in 2008. In April 2008, the CPUC increased the incentive cap for qualifying technologies from 1 MW to 3 MW in size. In November 2008, the CPUC added advanced energy storage as a technology eligible for incentives when used in combination with wind turbines or fuel cells. More work in advanced storage will be done in 2009. Since its inception in 2001, SGIP has funded 1,274 distributed renewable energy sources for a total of 323 MW of installed capacity.

Ensuring Energy Procurement and Resource Adequacy

Reliable electric service is of vital importance to the health and welfare of all Californians. To this end, the CPUC ensures that utilities plan for and make investments in energy resources necessary to make sure that California consumers receive reliable service at low and stable prices. These plans must be consistent with the goals of the Energy Action Plan and its loading order. In December 2004, the CPUC adopted a procurement policy framework under which the IOUs plan and invest in energy resources. The CPUC has adopted as part of this framework a resource adequacy requirement which includes a 15-17 percent planning reserve.

This requirement has two main objectives: (1) to ensure that there is adequate, cost-effective investment in electric generation capacity for California; and (2) to identify that such capacity is made available to the California Independent System Operator (CAISO) when and where it is needed for reliable transmission grid operations.

In 2009, the CPUC's procurement efforts will be focused on:

- Continued implementation of the Resource Adequacy framework;
- Implementing changes in the way capacity is traded in coordination with the CAISO;
- Examining the Planning Reserve Margin and associated resource counting conventions;
- Integration of the long-term procurement plan process with the Energy Commission's Integrated Energy Policy Report process;
- Ensuring new capacity is needed and cost-effective;
- Analysis of long-term procurement strategies to enable 33% renewables;
- Monitoring utility procurement activities to ensure compliance with CPUC policies and loading order; and
- Implementing a long-term policy framework for Qualifying Facilities

Renewable Portfolio Standard

The CPUC is committed to statewide environmental goals and the role of renewable power in achieving them. The state's adopted Renewable Portfolio Standard (RPS) program, which has the most ambitious renewable goals in the country, requires electric utilities to supply 20 percent of their retail electricity from eligible renewable generation by 2010.

In 2008, the program reached an important milestone – 1,000 MW of new capacity began to deliver energy since the start of the program in 2002. The CPUC also continued to implement California's RPS program through a variety of activities:

- Reviewed and approved 24 power purchase agreements for nearly 3,000 MW;
- Opened a new proceeding to continue implementation and enforcement of RPS;
- Adopted RPS rules for the participation of small and multi-jurisdictional utilities;
- Defined the attributes of a Renewable Energy Credit (REC) for compliance with the RPS program;
- Updated the market price referent (MPR) methodology to evaluate the reasonableness of an RPS contract price and made a greenhouse gas adder a permanent component of the MPR;
- Initiated an analysis to determine the cost, rate impact, barriers, and transmission needs for a 33% by 2020 RPS policy;
- Completed Phase I of the Renewable Energy Transmission Initiative (RETI), identifying and ranking the most competitive renewable resource zones in California and neighboring states.

Applying Lessons Learned to Reach Higher RPS Goals

In 2008, both the California Air Resources Board and Governor Schwarzenegger's Executive Order S-14-08 called for a 33% by 2020 RPS mandate. The CPUC and the Energy Commission declared their support of 33% renewables as a key strategy to reducing greenhouse gas emissions. To begin to answer the question "how will the state achieve 33% renewable energy by 2020?" the CPUC initiated a 33% Implementation Analysis. Through this analysis, CPUC staff will identify plausible resource mixes and develop reasonable implementation pathways to achieve a 33% RPS by 2020.

Evaluating Transmission Plans and Expansions

The CPUC evaluates whether utilities can build new transmission lines in the state or upgrade existing lines. Since 2001, the CPUC has approved over 10,000 MW of transmission expansion projects and is working closely with the CAISO to coordinate decision-making on the need for additional upgrades and new projects. The CPUC's top transmission priorities include planning for and permitting transmission needed to meet the State's RPS goals and to expand and reinforce California's aging energy infrastructure. Streamlining the permitting process is critical to achieve these priorities.

Streamlining and Improving Permitting Processes

In 2008, in order to further support investment in California's transmission infrastructure and ensure access to RPS-eligible resources, the CPUC continued its focus on streamlining and improving its permitting processes. The CPUC has implemented a "no surprises" permitting process that includes:

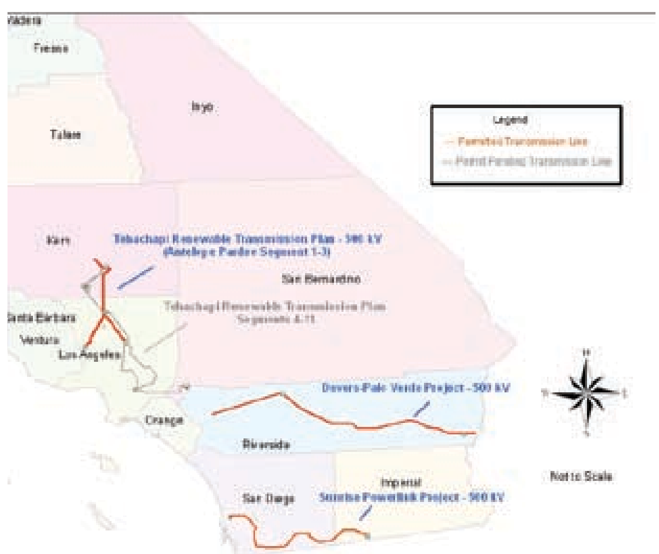
- Pre-filing consultations with applicants;
- Participation in CAISO planning process;
- Regular meetings between CPUC staff and applicants.

This approach to permit processing saves all sides' time and money by avoiding lengthy review, deficiency, and correction periods.

In 2008, the CPUC conducted a mitigation measures workshop to aid in streamlining the permitting process and resulted in the mitigation measures guidelines.

Transmission Project Approvals

In 2008, the CPUC approved four transmission projects totaling approximately $2 billion in investment and adding approximately 1610 MW of capacity or comparable reliability to the grid.



Sunrise Transmission Line Approved

In August 2006 SDG&E filed an application for the Sunrise Powerlink Transmission Project, a 150 mile, 500kV and 230kV, $1.3 billion transmission line from the Imperial Substation near El Centro to the Penasquitos Substation in the City of San Diego. The proposed line would have crossed the Anza Borrego Desert State Park. The CPUC examined more than 6000 pages of oral testimony from a number of stakeholders. In addition, the environmental effects of the project were evaluated in an 11,000 page joint CPUC and BLM Environmental Impact Review/Environmental Impact Statement for compliance with the California Environmental Quality Act and the National Environmental Policy Act. There were 27 alternatives analyzed in the EIR/EIS that included a "no-project" alternative, non wires alternative, and various alternative routes. In December 2008, the CPUC approved Sunrise Transmission Line based on the "Environmentally Superior Southern Route," which avoids the stele park, with a cost cap of $1.9 billion. The CPUC believes that the Sunrise transmission line will stimulate additional renewable energy development in the renewable rich Imperial Valley.

Reviewing Transmission Line Applications

Over the next three years, the CPUC anticipates reviewing at least twenty-five applications projected at approximately $7 billion worth of planned transmission investment. Pending transmission line applications, comprising approximately $4 billion in transmission investment, are already before the CPUC. The CPUC plans to complete five of these applications in 2009.

The Eldorado-Ivanpah Transmission Project is likely be submitted to the CPUC for review in mid 2009. The project is proposed to provide the electrical facilities necessary to integrate up to 1400 MW of new renewable generation in the Ivanpah Dry Lake Area. The CPUC staff was active in pre-filing activities since early 2008. Also likely to be submitted to the CPUC for review in late 2009 is PG&E's Central California Clean Energy Transmission Project. This project will upgrade the PG&E system to facilitate delivery of Tehachapi wind resources; it will increase the transfer capability of Path 15 by approximately 1250MW. The line is estimated to cost between approximately $800 million to $1 billion. Staff has been actively participating in the CAISO planning process as well as engaging in pre-filing meetings with the applicant since early 2008.

Transmission Planning Process

CAISO Process Reforms Critical for Accessing Renewable Generation

In order for generators to connect to the CAISO-controlled transmission system, they must go through an interconnection process, including joining the interconnection queue, as mandated by the Federal Energy Regulatory Commission (FERC). The CAISO has addressed some barriers to this process through two major innovative tariff reforms: implementing Location Constrained Generator Interconnection policy and Large Generator Interconnection Procedures (LGIP) reform. The CPUC was a very active promoter of these reforms and an active participant throughout the stakeholder and FERC processes. The CPUC initiated proactive discussions among itself, the CAISO and the IOUs, providing a valuable head start on the complex formal steps.

Transmission Planning for Renewables

In order to ensure that California is able to meet its renewable goals, the CPUC initiated the formation of the California Renewable Energy Transmission Initiative (RETI). RETI began as a collaborative between the CPUC and the Energy Commission, but quickly evolved to include the CAISO, municipal utilities, and a broad range of stakeholders, to design a statewide RPS planning process. Its purpose is to identify the major transmission projects needed to access the most cost-competitive and least environmentally harmful renewable resources in the state and along its borders.

In 2008, RETI initiated and completed the identification of competitive renewable energy zones (CREZs) in California and neighboring states. The identified zones can provide significant renewable energy to California consumers by 2020. In December, 2008, the RETI Stakeholder Steering Committee launched the process to design a statewide conceptual transmission plan to be issued March 2009. With this plan, RETI will move from "concept" to "reality" by preparing detailed plans of service that result in transmission permitting applications to the CPUC, federal land use agencies, and the governing boards of municipal utilities.

Integrating Renewable Generation into California's Electric System

Adding large amounts of renewable generation will greatly change the composition and operating characteristics of California's electric system. This will require extensive and complex adjustments to generation and transmission. There will be changes needed in operating practices and in infrastructure investments, including advanced technology. To address these challenges, the CPUC is working closely with the CAISO, the Energy Commission, the IOUs and other stakeholders. The CPUC expects that renewable generation integration issues and measures will increasingly factor into the CPUC's involvement in market design, transmission and energy resource issues at the FERC and western regional levels.

Western Renewable Energy Zone Initiative

In order to instill better cooperation across permitting agencies and encourage a more regional view of RPS-related transmission, the CPUC has been participating in the formation of a "Western Renewable Energy Zone Initiative" through the Western Governor's Association and will continue these efforts in 2009. The CPUC has spearheaded the efforts to form this initiative, which will seek to identify renewable energy zones throughout the West, and the transmission needed to bring resources in those zones to consumers.

State Energy Corridors and Solar Environmental Study

The US Department of Energy (DOE) and the Bureau of Land Management (BLM) are preparing a Programmatic Environmental Impact Statement (PEIS) for solar energy development. The PEIS will evaluate impacts associated with the development and implementation of agency-specific programs for utility-scale solar energy development in six western states. The Energy Commission has organized an interagency working group of Federal, State, and local government agencies to coordinate their participation in the PEIS process. CPUC staff will be active ongoing members of the working group. The CPUC expects a draft PEIS in Spring 2009 and to be completed in 22 months.

Representing California in Federal and Regional Forums

The CPUC participates in federal energy proceedings and regional issues forums to advocate California's interests, including utility customers' rates or services. These activities include transmission rates, planning and policy, electric reliability, and market design.

Monitoring and Litigating Transmission Rate Cases

The CPUC intervenes in transmission rate cases at FERC to ensure just and reasonable rates by providing testimony, negotiating and litigating. In 2008, CPUC staff settled PG&E's tenth transmission rate case and SDG&E's capital additions update to their third transmission owner filing. Additionally, CPUC staff is actively litigating two transmission owner rate cases involving Startrans and Atlantic Path 15, two transmission only merchant utilities.

Facilitating Regional Transmission Planning

The CPUC participates in and monitors western transmission planning and related energy policy activities, including responses to federal policy, at the Western Electricity Coordinating Council and its Transmission Expansion Planning Policy Committee, and also within activities sponsored by the Western Governors' Association. These efforts will be increasingly important with growing importance of west-wide renewable energy resources and their transmission needs.

Key Ongoing Transmission Initiatives Emerging

Three major initiatives within the 2005 Energy Policy Act (EPAct) have especially strong and continuing impacts on access to and planning of electric transmission in California. The CPUC continues to monitor and participate in these developments. In 2009, the CPUC will continue to monitor the advantages and disadvantages of a broad "southwest" National Interest Electric Transmission Corridor that would cover all of southern California. The CPUC was intensively involved in 2008 in the designation of multi-purpose energy corridors on federal lands. These corridor designations should facilitate planning and permitting of important transmission projects in California and across the west. Coinciding with efforts already underway to meet California's planning challenges, the CPUC was an active participant in the effort to reform the CAISO's transmission planning process. The resulting process will be a valuable focal point for transmission planning in support of California's renewable and other energy goals.

Ensuring Electric Reliability for California and the Nation's Bulk Power System

The CPUC actively engaged in the rules to assure the reliability of the nation's bulk-power system. The CPUC staff has actively participated in the process of developing reliability; new standards are discussed and proposed on a monthly basis. The CPUC continues to actively monitor and participate in this process by analyzing Standards on a case by case basis.

Reforming California's Wholesale Market Design

As the CAISO prepares to implement the complex multi-year Market Redesign and Technology Upgrade (MRTU) in 2009, the CPUC continues to participate to ensure reliability, provide more efficient use of resources and provide adequate market mitigation to protect consumers. The CPUC was instrumental in obtaining an order from FERC for the CAISO to implement congestion revenue rights gradually and in ways that can be coordinated with new development of renewable resources. After implementation of MRTU in 2009, the CPUC will help shape future design features and proactively engage in market monitoring activities.

Energy Crisis Litigation

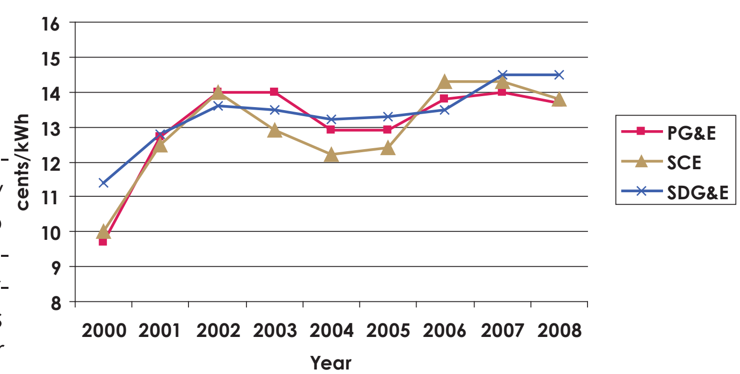
The CPUC participates as one of the "California Parties" seeking to obtain refunds of wholesale overcharges paid by ratepayers during the energy crisis of 2000-01. To date, the California Parties have obtained over $2 billion in settlements to resolve overpayments in short-term electricity transactions alone. In 2008, settlements valued at over $189 million were reached. In addition to claims pending before FERC, litigation to obtain refunds is currently pending in Los Angeles Superior Court and the federal Court of Claims. In 2008, the California Parties prevailed on preliminary motions to terminate these cases; both actions are moving forward.

The CPUC is the only party seeking to obtain ratepayer relief from the excessive rates in long-term contracts that the California Department of Water Resources entered into during the energy crisis. The CPUC reached several settlements, resulting in ratepayer savings of over $6 billion. Over $ 1 billion still remains at stake.

In 2008, the US Supreme Court affirmed the Ninth Circuit's reversal of FERC order denying relief in a companion case; subsequently, proceedings in the CPUC's case recently resumed before FERC. The CPUC continues to challenge the long-term contracts as failing to meet the statutory requirement that rates must be just and reasonable.

Deciding Utility General Rate Cases

The CPUC strives to balance electric utility customers' needs for safe, reliable, and environmentally responsible service, while achieving the lowest possible electric rates. Since energy services are



essential, the CPUC ensures that access is universal and affordable. The CPUC ultimately serves as an intermediary, balancing the public interest with utility stockholders' expectations of a fair profit on investment.

Commission processes rate cases for PG&E, SCE, and SDG&E. Major issues at stake in each utility's

2007 general rate case (GRC) application are presented below.

Pacific Gas & Electric

In March 2007, the CPUC granted PG&E a 1.4% revenue requirement increase. The additional revenues permit PG&E to make necessary repairs and upgrade its electricity and natural gas systems. The CPUC approved a 0.8% revenue requirement increase for 2008 to account for escalation in the costs of providing service. In addition, the CPUC approved several settlement agreements addressing: marginal costs and revenue allocation; rate design for residential, commercial, industrial, agricultural, and streetlight customers; and metering for commercial buildings, which will allow building tenants to participate in the CPUC's dynamic pricing and energy efficiency programs.

San Diego Gas & Electric and SoCalGas

In February 2008, the CPUC approved a settlement agreement in the GRC applicable to SDG&E's electric rates. In approving the settlement, the CPUC implemented electric revenue allocation and rate design for all customer classes, critical peak pricing for commercial and industrial customers to advance the CPUC's dynamic pricing goals, and a new tariff applicable to renewable distributed generation customers. The CPUC also approved a sub metering program for commercial buildings to further the CPUC's energy efficiency and dynamic pricing goals.

In July 2008, the CPUC issued a decision in SDG&E and SoCal Gas GRC addressing base revenue requirements for test year 2008 and attrition years 2009 through 2011. The CPUC adopted settlement agreements, which allowed an increase of $150 million for SDG&E's combined gas and electric revenue requirements for 2008. This resulted in a 12.4% increase in base, or non-fuel related revenues, and an approximate increase of 5% in total revenues. The CPUC authorized a revenue increase of $59 million for SoCalGas resulting in a 3.6 % increase in base revenues and an approximate 1 % increase in total revenues.

Southern California Edison

In November 2007, SCE filed the first phase of its 2009 GRC application, requesting about an 8% increase in its revenue requirement. At issue in the case are:

- Need to build facilities and reinforce the network to accommodate growth;
- Replacement of aging distribution infrastructure and business systems;
- Increased expenses for system operations and maintenance;
- Increased expenses to meet regulatory requirements in generation and electricity procurement; and
- Increased costs to recruit, and retain a well-trained workforce.

The CPUC conducted hearings on these issues, and proposed a decision in November 2008. A final Commission decision is expected during the first quarter of 2009. In 2008, SCE and interested parties submitted testimony in the second phase of SCE's GRC, covering marginal costs, revenue allocation, and rate design. The CPUC is scheduled to conduct hearings and issue a decision in 2009.

Rate of Return for all Utilities

In May 2007, SCE, SDG&E, and PG&E filed their cost of capital applications, requesting approval of capital structures and return on equity used to establish their 2008 cost of capital. An appropriate return on equity (ROE) for a utility is often controversial. The CPUC attempts to set the ROE at a level of return commensurate with market returns on investments having comparable risks, and adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation.

In May 2008, the CPUC established a uniform multi-year cost of capital mechanism for the IOUs to replace annual cost of capital applications in order to reduce ROE proceedings, workload requirements, and regulatory costs. The adopted uniform CCM employs a three-year cycle. The ROE and cost of capital values adopted by the CPUC for 2008 will apply in 2009.

Customer Billing Related Issues

In 2007, the CPUC approved new redesigned bills for SCE, SDG&E, and SoCalGas that are more readable and easier for customers to understand. The CPUC also approved a simplified bill format for PG&E. In 2008, SCE rolled out its new format to all its customers. SCE enhanced its bill format for residential customers by adding a bar graph on the bill showing the average cost per kilowatt hour by electricity usage level to help residential customers better manage their usage. SDG&E and SoCalGas are expected to roll out its new bill format in 2009; PG&E is expected to file a revised customer bill format for Commission approval in 2009.

Cost Recovery Associated with Catastrophic Events

Utilities face costs as a result of a catastrophic event such as wildfires, floods, and earthquakes. The costs for restoring service, restoring damaged facilities, and complying with governmental agency orders in connection with declared disasters. Costs that utilities face are subject to CPUC review prior to its recovery in rates. In 2008, the CPUC addressed cost recovery in the following instances related to catastrophic events:

- In January 2008, the CPUC approved PG&E's request to recover costs from damage to facilities caused by the 2005-06 New Year's storms. The CPUC allowed PG&E to collect $12 million to restore and repair damaged facilities resulting from these storms. The CPUC authorized PG&E to collect $9 million of this amount from customers in 2008, and recover the remaining revenues in 2009 and 2010.
- In November 2008, the CPUC approved PG&E's request to recover costs from damage to facilities caused by January 2008 storms. The CPUC allowed PG&E to collect $15 million in electric revenues to restore and repair damaged facilities resulting from these storms; $12.6 million will be recovered from customers in 2009 and the remaining amount will be recovered in 2010.

The June 2007 Angora fire in the South Lake Tahoe area damaged Sierra Pacific Power Company's facilities and affected service to its customers in that region. In September 2007, the CPUC requiried Sierra to provide for the removal of dead and dying trees and vegetation that could affect its power lines.. Sierra Pacific is seeking to recover costs associated with the 2007 Angora fire in its 2009 general rate case application filed with the Commission in June 2008.

In late 2007, severe wildfires in Southern California damaged facilities and affected service to customers of SCE, SDG&E, and SoCalGas. The CPUC will address recovery of these costs in 2009.

Direct Access and Community Choice Aggregation

Direct Access

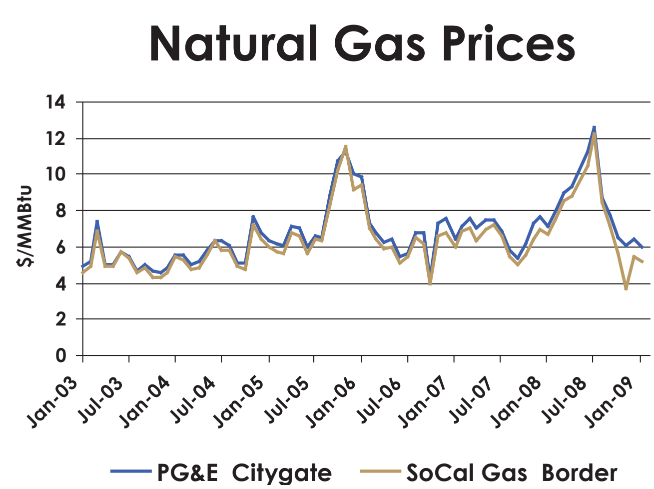
The option for consumers to enter into new Direct Access arrangements is currently suspended, until the California Department of Water Resources (DWR) no longer supplies power under the contracts it entered into during the 2001 electricity crisis. However, in 2007 the CPUC started a process to formally consider whether it would be in the interest of ratepayers to pursue avenues to remove DWR from this role sooner than these contracts would normally expire. In 2008, the CPUC issued a decision that found that there may, in fact, be such benefits. Thus, in 2009 the CPUC will facilitate a process whereby the IOUs and DWR will endeavor to transfer the responsibility for the contracts from DWR to the IOUs. If successful, this would create a condition where the CPUC could then consider whether to lift the suspension on new Direct Access arrangements.

Community Choice Aggregation

In 2002, the Legislature established a program that would allow localities to aggregate and serve the electric loads of customers within their jurisdictions. These new entities will be called "Community Choice Aggregators" (CCAs). Since 2002, the CPUC has issued a number of decisions to facilitate creation of CCAs within the service territories of PG&E, SCE and SDG&E. In 2008, CPUC staff provided technical assistance to several localities that are considering becoming CCAs. The CPUC also adopted a settlement resolving a complaint by a potential CCA regarding PG&E's marketing practices, and initiated a proceeding to determine the size of a surety bond or self-insurance policy that must be posted by a prospective CCA in order to protect utility customers in circumstances where a CCA returns large numbers of customers to utility service.

Natural Gas

Natural gas commodity prices were very volatile in 2008, steadily rising for the first six months of the year to very high levels, and then steadily fall-



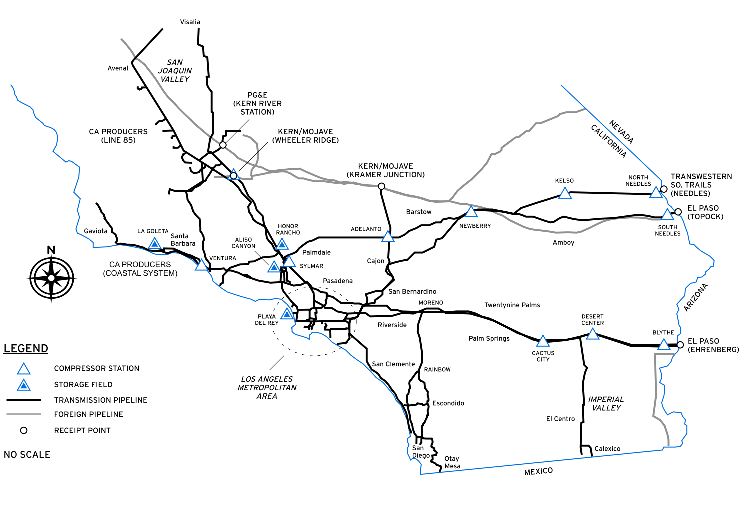
ing for the second half of the year. The CPUC does not have the authority to regulate natural gas commodity prices, but has taken several steps to:

- Allow utilities to gain better access to new sources of supplies and develop a diverse supply portfolio
- Reduce natural gas demand, which helps to moderate prices and has environmental benefits
- Authorize natural gas hedging programs to reduce the potential impact of unexpectedly large increases in prices
- Ensure adequate natural gas infrastructure, which helps assure delivery of supplies, reduces the likelihood of price spikes, and allows more gas to be stored when prices are low.

Assuring adequate infrastructure and supplies

The CPUC authorized expansion of natural gas storage capacity in 2008, and has been reviewing other storage expansion requests.

- In February 2008 , the CPUC authorized that Lodi Gas Storage to expand its authorized natural gas storage capacity.
- In December 2008, the CPUC authorized the expansion of the storage capacity of SoCalGas' storage fields.
- The CPUC is reviewing Sacramento Natural Gas Storage (SNGS) request to construct natural gas storage facilities as a public utility.
- In July 2008, Gill Ranch Storage, along with PG&E, requested authorization to construct natural gas storage facilities. The CPUC will be reviewing the Gill Ranch/PG&E request in 2009.



- The CPUC in November 2008 held that the expansion of the storage facility at Wild Goose Storage served the public interest.

In October 2008, the CPUC decided liquefied natural gas supplies should compete with domestic supplies and that no new guidelines or procedures were needed for utility procurement of LNG supplies.

The CPUC approved PG&E's request in December 2008 to establish firm interstate pipeline capacity rights on the Ruby Pipeline, in order to obtain natural gas deliveries from the Rockies for both its gas customers and its electric generation requirements. The Ruby Pipeline will deliver substantial volumes of natural gas from the Rockies to California and the Northwest. The Ruby Pipeline is expected to be in operation in 2011.

Encouraging Natural Gas Efficiency

The CPUC is adopting additional natural gas efficiency programs and standards to reduce the reliance on natural gas. The CPUC is implementing natural gas energy efficiency as a part of the utilities' energy efficiency portfolios. All available natural gas efficiency and demand reduction measures that are cost effective, reliable, and feasible, as required by statute are being utilized.

Examining Natural Gas Contribution to Greenhouse Gas Emissions

In 2008, the CPUC continued its investigation of greenhouse gas emissions from the natural gas sector. In March 2008, the CPUC defined the nature of the natural gas sector under consideration for purpose of regulating GHG emissions, determined that programmatic efforts such as energy efficiency and solar water heating would be the best means to minimize emissions from the natural gas sector, and found programmatic efforts were the most appropriate for the natural gas sector in the state's AB 32's efforts.

Setting reasonable natural gas utility operational costs and rates

The CPUC considers the reasonable operational costs of several natural gas utilities.

- In July 2008, the CPUC authorized revenue requirements for SoCalGas' and SDG&E's 2008 forecasted operational costs.
- Southwest Gas filed a GRC application in late 2007 to request approval of a 2009 revenue requirement. In November 2008, the

CPUC approved a Southwest Gas revenue requirement.

- In April 2008, West Coast Gas filed a GRC application, and in November 2008 the CPUC approved a settlement reached with DRA on the utility's 2009 revenue requirement.
- In September 2008, Southern California Edison filed a GRC application to request approval of a 2009 revenue requirement for its Santa Catalina Island gas distribution system. The CPUC will be reviewing this request in 2009.

Re-examining Gas Cost Incentive Mechanisms

In previous years, the CPUC has adopted "gas cost incentive mechanisms." The mechanisms provide the gas utilities with an incentive to procure natural gas supplies at low cost instead of relying on "reasonableness reviews" which examined the prudence of gas procurement costs after the purchase. In June 2008, the CPUC began to re-examine these mechanisms to determine whether they are working as intended. The CPUC's focus is whether natural gas hedging costs incurred for core customers should be included under the framework of the utilities' gas cost incentive mechanisms. The proceeding is underway and is expected to be concluded in 2009.

Implementing the Transmission Capacity Rights Framework in Southern California

In December 2006, the CPUC established a system, similar to the framework already adopted in the 1990s for northern California, and authorized the off-system delivery of gas from southern California to northern California. In 2007, the Commission formally adopted the implementation details associated with the new framework.

SoCalGas and SDG&E began implementation of the new system of firm tradable gas transmission capacity rights ("firm access rights") in southern California in October 2008. The CPUC's decision in this case was the subject of a formal complaint at FERC and in the California Court of Appeals filed by the Southern California Generation Coalition (SCGC). The CPUC successfully defended its decision and FERC dismissed the complaint in February 2008 and the Court of Appeal denied SCGC's petition in May 2008.

SoCalGas Cost Allocation and Rate Design

In February 2008, SoCalGas and SDG&E filed a major application with the CPUC called the Biennial Cost Allocation Proceeding, or BCAP. The two utilities proposed options about the allocation of the costs of natural gas service to different customer classes, the design of natural gas rates, and the terms of natural gas service available to customers. In December 2008, the CPUC adopted a settlement on storage issues, which detailed the allocation of SoCalGas storage capacity to customer classes, the risk of revenue recovery, and the expansion of storage capacity. The CPUC will consider the remaining issues in 2009.

"Off-System Delivery" by SoCalGas

In June 2008, SoCalGas requested authorization from the CPUC to make deliveries of natural gas to points outside the state after in-state needs have been met. The proposed off-system service will be provided on an interruptible basis after in-state needs have been met. The CPUC will consider SoCalGas' request in 2009.

Developing Biogas and Landfill Gas

Biogas/landfill gas projects help to reduce greenhouse gas emissions. They also can develop alternative sources of natural gas supplies. In 2008, the CPUC approved several electric generation contracts that use biogas, landfill gas or digester gas. The CPUC also approved the use of PG&E ClimateSmart funds for projects that would inject, flare, or use for electric generation landfill gas or biogas.

Investigating Gas-Only Advanced Metering Infrastructure

Advanced Metering Infrastructure (AMI) allows customers to monitor their energy usage on a real-time basis. The CPUC has previously approved AMI proposals for electric utilities. In September 2008, SoCalGas filed an application requesting $1.1 billion to install and operate a gas-only AMI. SoCalGas's proposal is the first gas-only AMI. In 2009, the CPUC will consider whether or not to allow SoCalGas to install and operate its AMI.

Examining Allocation of Costs for Gas Public Purpose Programs

The costs of natural gas public purpose programs (PPP) are collected in a surcharge on natural gas utility bills. In December 2007, the state's natural gas utilities proposed to the CPUC a different methodology that would shift more PPP costs to residential gas customers. The CPUC reviewed the utility proposal in 2008, and is expected to issue a decision in early 2009.


Menu

COMMUNICATIONS

As communications technologies are rapidly evolving from legacy landline telephone services to new Voice over IP and broadband technologies, the CPUC's role has been adapting to promote market-based competition. The CPUC has been revising legacy regulatory frameworks to support and encourage competitive markets for new innovative services, while simultaneously crafting and managing programs that ensure universal access to affordable communication services.

The CPUC is actively involved in many different aspects of the rapidly changing communications and broadband markets. For example, the CPUC is:

- Continued price caps on basic rate phone service for largest incumbent phone carriers for two years to avoid rate shock to basic rate consumers, along with continuing to monitor the competitive markets for communications in the state;
- Assisting at Advisory Committee level for the California Telehealth Network consisting of over 500 health care sites connected by broadband facilities to enhance telemedicine applications and services for rural, disadvantaged and tribal health care sites in the state;
- Assisting at Advisory Committee level for the California Telehealth Network (CTN) consisting of over 500 health care sites connected by advanced broadband facilities to enhance telemedicine applications and services for rural, disadvantaged and tribal health care sites in the State
- Accelerating the deployment of broadband infrastructure in unserved and underserved areas by awarding California Advanced Service Fund grants to rural service providers;
- Distributing over $46 million to libraries, schools, health care organizations, community colleges and community based organizations to provide 50% discounts on telecommunications services;
- Adopting policies and rules to streamline regulation and bring more regulatory symmetry between California's four largest incumbent local exchange carriers (AT&T, Verizon, SureWest, and Frontier) and competitive carriers;
- Fostering competition in video and broadband markets throughout the state by granting state-issued video franchises to video service providers;
- Driving efforts in emergency preparedness and bringing expertise to statewide emergency response and disaster recovery planning efforts;
- Providing specialized equipment, including wireless text pagers, and communication services to people with hearing, vision, mobility, speech and cognitive disabilities to help them communicate;
- Ensuring that low income households that receive discounted basic landline telephone service meet federal certification guidelines, and considering updates to such programs to reflect advances in technology and the competitive regulatory framework;
- Considering whether our low income phone programs should be updated to include advanced services such as wireless devices and VoIP.

Consumer Protections

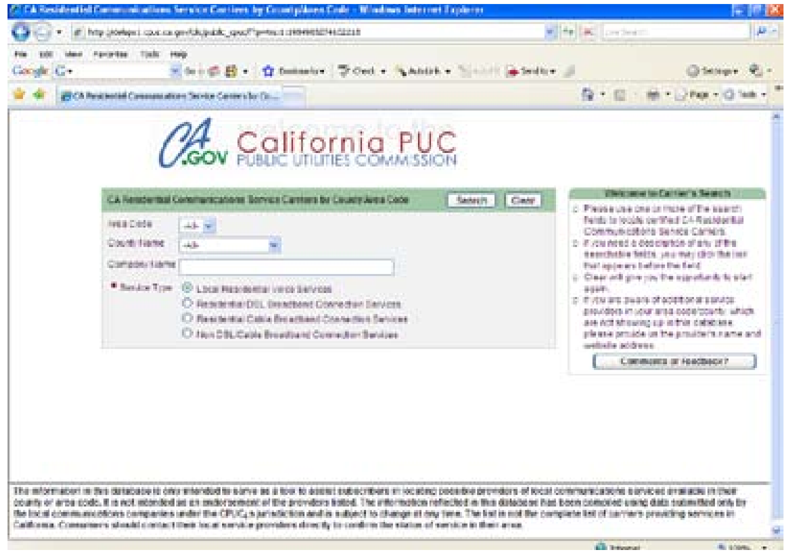
Customer Information Management

The CPUC successfully developed and installed of a new Consumer Information Management System (CIMS) for use at the CPUC as part of the Consumer Protection Initiative. CIMS allows for the entry of all inquiries and complaints received by the CPUC's in real time as they are received from consumers, whether by phone or via a new online complaint filing feature at the CPUC's website. Comments capturing consumer concerns can be included and associated with multiple descriptive categories and subcategories, and consumer-provided documents can be electronically attached to each case and readily retrieved for later reference. CIMS went online in early November 2008; its estimated cost is $3.9 million.

CIMS has already improved the CPUC's ability to respond to inquiries, to resolve complaints, and to enhance enforcement efforts; it has significantly upgraded data gathering and analysis capabilities throughout the CPUC. CIMS has its own built-in search and reporting tool and is being integrated into the CPUC's own data analysis and reporting application. CIMS also gives the utilities the ability to respond electronically to complaints and inquiries and have those responses automatically attached to the relevant case files. Other capabilities include improved case tracking and resolution, a new GIS component for address verification and mapping, more finely tuned categorization of inquiries and complaints by industry, more efficient internal case assignment and work-load balancing, and more complete datasets for use in complaint appeals and enforcement efforts. In 2009, the CPUC will develop, review and test change orders and other improvements to the application.

Empower Consumers with Alternative Service Provider Information

In May 2008, the CPUC launched an online database of telecommunications service providers to assist residential customers in finding alternative companies that provide various communications services in their area code or county. The new online database provides information and tools to consumers so that they are able to choose wisely among companies and services to meet their needs. Consumers can find the providers for local voice services, DSL broadband connection services, Cable broadband connection services, and non DSL/Cable Broadband connection services.



Since the database became available, there were 1,253 visits to the site in 2008. The CPUC will continue to update the service provider information to facilitate consumer choices.

Detariff – Reduce Regulatory Filings

As part of the URF's streamlining regulation effort, the CPUC also adopted a policy that made detariffing permissible by the URF carriers. If a carrier chooses to detariff their phone services, the carrier would enter into a service agreement with consumers. These service agreements would replace tariff and must contain the prices, terms, and conditions for the services they provide to consumers.

The telephone company must still file tariffs for basic residential telephone service with the CPUC, but can detariff the other types of services, such as Call Waiting, Call Forwarding, Caller ID, or toll calls. AT&T and Verizon started filing their detariffing requests in Fall 2008. The CPUC reviewed their service agreements and the information they intended to post on their websites. The CPUC emphasized that consumer protection rules continue to be in place. The CPUC also directed that carriers' website information and the service agreements be written in plain English, generally fair to consumers, and provide adequate information for the consumers to make informed choices. Based on this consumer protection criteria, Verizon's detariff filing was approved in December 2008, while the CPUC has so far suspended AT&T's filing and is requiring changes.

Participating in Federal Communications Issues

The FCC and the Congress make many decisions that affect California's interests in communications. The CPUC collaborates closely with the Legislature and the California Congressional delegation, as well as many interest groups, to influence the shape of federal legislation. The Commission also participates in the FCC's proceedings as it crafts new regulations. During 2008, the Commission filed comments in eleven different proceedings at the FCC, including proceedings concerning the following policy areas:

- Reform of the inter-carrier compensation scheme;
- Reform of the federal Universal Service programs;
- Development of a national strategy for the gathering and mapping of broadband communications deployment data;
- Interconnection rights of voice over Internet protocol (VoIP) service providers;
- Deployment of 911 services by VOIP service providers;
- Carrier reporting requirements;
- Reform of the FCC's practices and procedures; and
- Requests by dominant carriers for forbearance from common carrier regulations.

In 2009, the CPUC will continue to engage in federal and state telecommunications policy debates with the goals of encouraging deployment and accessibility of advanced communications technology, including ensuring California receives its fair share of any federal economic stimulus broadband grants; promoting technological neutrality in regulation; ensuring effective emergency communications services; and protecting the interests and rights of California consumers.

Mass Migration

In 2006, the CPUC adopted customer migration guidelines applicable to competitive local exchange carrier (CLEC) applications to discontinue providing local exchange service, in order to ensure that service interruptions to the CLEC's customers are minimal. In 2008, the Commission reviewed and approved four mass migration applications. One application was for AT&T to migrate over 250,000 customers. Two of the four mass migration applications were from cable operators seeking to transition their telephony customers from the traditional switched circuit technology to the new digital Voice over Internet Protocol (VoIP) technology. Approximately 40,000 customers were affected. In 2009 the Commission is expected to consider proposed changes to the CLEC mass migration procedures, and as well as the adoption of guidelines for other situations where a local voice provider stops providing service to its customers.

Consolidation of Frontier Small Incumbent Local Exchange Carriers (ILECs) into Frontier California Uniform Regulatory Framework (URF) ILEC

In October 2008, The CPUC approved the request of Frontier California to merge its three Rural Telecommunications Companies into Frontier Telecommunications Company of California, which is regulated under URF. The primary reasons for the merger were to provide the small telephone companies with the ability to respond to developing competition in their respective service areas and to realize increased operational efficiencies.

California Advanced Services Fund

In December 2007, the CPUC established the two-year California Advanced Services Fund (CASF) program to provide matching funds for the deployment of broadband infrastructure in unserved and underserved areas in California. The CASF program funding approved is limited to a total of $100 million to be collected over two years funded by a 0.25% surcharge on consumers' telephone bills. Through SB 1193 (Padilla, Chapter 393, 2008), CASF was established in the State Treasury through January 1, 2013. SB 1193 requires the Commission to develop, implement, and administer the CASF to provide for transfer payments to telephone corporations to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies.

Twenty three project proposals were received in 2008 seeking $24 million in CASF funding for unserved areas. Of these proposals, six unprotested projects amounting to $373,000 were approved by the CPUC in November 2008. Other applications that were subject to protest are under review and will be addressed in early 2009. The CPUC received 30 applications for projects in underserved areas, for approximately $11 million in CASF funding. CPUC staff are evaluating these applications and the CPUC will decide on any resulting grants in 2009.

The CPUC approved grants for the following broadband projects in unserved areas in 2008: Grenada , Hopland , Blanchard, Mount Wilson, Pinyon, Prattville. The map identifies the location of the approved unserved CASF projects.

After pending proposals are evaluated and those approved receive awards, the CPUC anticipates that program dollars will still be available to fund additional projects under the CASF program. Thus, in 2009 the CPUC will consider ways to make the CASF program funding process more effective in promoting California's broadband deployment goals.

Rural Carriers & Cost Support

Rural Telecommunications Infrastructure Grant Program

The Rural Telecommunications Infrastructure Grant Program (RTIGP) was established in 2001 to aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers. The total amount available for grants was $10 million annually. In 2008, the Governor signed SB 1149 which extended RTIGP to January 1, 2013. The CPUC can now grant $40 million over a four year period and can issue individual grants of $5 million.

There are five approved projects with funding totaling just over $10 million. These five projects will be completed in 2009 and 2010. There are two projects approved for California Environmental Quality Act (CEQA) review totaling $666,000. Upon completion of CEQA review, the projects may be approved for construction. Three projects are under consideration for CEQA review. Several additional projects are awaiting initial review and the CPUC is working with some communities to bring forward viable projects.

Processing Traditional Rate Case Filings

General Rate Case (GRC) filings for small local exchange carriers (LECs) are currently reviewed by the CPUC. The GRC process requires review of the company's revenues, expenses and rate base estimates in order to establish a CPUC authorized rate of return. In 2008, the CPUC conducted a review of the GRC filings of five small LECs: Calaveras, Cal-Ore, Ducor, Ponderosa and Pinnacles. The CPUC will set forth their total intrastate revenues, expenses and rate base amounts, as well as authorize CHCF-A funding to minimize rate disparity for basic telephone services. There are no new GRC's scheduled for 2009. The next GRC is expected in 2010.

Small Local Exchange Carriers

The California High Cost Fund (CHCF-A) provides supplemental revenues to small local exchange carriers (LECs) to minimize disparities between basic telephone service rates in rural versus metropolitan areas. The CHCF-A is funded by an all-end-user surcharge billed and collected by telecommunications carriers. There are 17 small LECs that are eligible to receive CHCF-A funding, although only ten receive this funding. CHCF-A funding is decreased in steps by a provision known as the "waterfall" provision, with the purpose of encouraging the LECs to file general rate applications. Unless a new GRC is filed and completed, the CHCF-A funding levels are 100 percent for the first three years, 80 percent the fourth year, 50 percent the fifth year, and zero percent thereafter.

Small LEC Fund Facts

The funding for CHCF-A was scheduled to sunset on January 1, 2009. In September 2008, the

Total Small LECs	17
Small LECs receiving CHCF-A	10
Total Small LECs access lines	124,550
Surcharge Rate	0.13%
Fiscal Year (FY) 2008-09 Budget	$64.866 million
FY 2009-10 Budget	$64.713 million
Calendar Year (CY) 2008 small LEC payments	$29.992 million
CY 2009 small LEC payments (estimated)	$36.483 million

Yurok Tribe Project –Along the Wild and Scenic Klamath River
Tribe members receive telephone service and electricity for the first time. After power poles and electricity are installed crews install telephone lines and service to Tribe members homes.

Governor signed SB 780, which extends the CHCF-A program until January 1, 2013.

Large Local Exchange Carriers

The California High Cost Fund-B (CHCF-B) provides subsidies to Carriers of Last Resort (COLRs). A COLR provides local exchange service, and stands ready to provide basic service to any customer requesting such service within a specified area. CHCF-B subsidies provide basic local telephone service to residential customers in high-cost areas that are currently served by AT&T, Verizon, Frontier, SureWest, and Cox.

During 2008, the following CHCF-B program changes were enacted to reduce the size of the CHCF-B surcharge balance and to reduce the number of areas that qualify for High Cost Fund-B support:

- A reduction to the CHCF-B surcharge from 1.3% to 0.25% effective January 1, 2008.
- An increase in the high cost threshold benchmark at which COLRs are subsidized. Beginning January 1, 2009, the threshold level is $32.08.

The funding for the CHCF-B program was scheduled to sunset on January 1, 2009. In September 2008, the Governor signed SB 780, which amended the CHCF-B program and requires the Commission to develop, implement, and maintain the program until January 1, 2012. This bill also requires the CPUC to prepare and submit a report to the Legislature by July 1, 2010 on the affordability of basic telephone service in areas funded by CHCF-B.

Total served by program	Surcharge Rate	FY 08-09 Budget	FY 09-10 Budget
1.1 million subsidized lines	0.25%	$419 million	$51 million

Basic Rate Transition for the Four Major Large Telephone Companies

In September 2008, the CPUC extended the rate caps on basic telephone service for two more years until December 31, 2010. In extending the rate cap, the CPUC permitted a phase-in of rate adjustments of a maximum of $3.25 a year for basic telephone service beginning January 1, 2009, in order to encourage a viable competitive telephone industry while preserving affordability for consumers. The rate adjustment authority approved is directed to the four larges incumbent carriers in California who have operated under existing rate restrictions for the past decade. Some of the ILEC basic rates have not been changed since 1995 and the new rate caps track inflation since 1995 until the present. In 2006, after careful review of the changing telecommunications market, the CPUC determined that the market was highly competitive and that the price cap regime should be ended in favor of allowing market forces to set prices. In addition, the Legislature in the Digital Infrastructure and Video Competition Act of 2006 (DIVCA) restricted basic rate increases through the end of 2008. CPUC rate restrictions were scheduled to expire January 1, 2009, at which time basic rates would have been completely deregulated. The September 2008 decision continues a rate cap for two additional

Basic Residential Rates (2009)

	Flat Rate	Measured Rate	LifeLine FR	LifeLine MR
AT&T	$13.50	$7.28	$6.11	$3.27
Verizon	$19.91	$11.80	$6.03	$3.21
SureWest	$19.99	$13.99	$5.47	$2.91
Frontier	$17.85	$9.60	$5.47	$2.91

Excludes federal charges

years and thus protects consumers from sudden high rate increases, while allowing flexibility for the four ILECs to meet current market conditions. The affected carriers are now free to raise or lower their rates as long as their rate remains below the cap. Rates have remained relatively unchanged since the mid 1990's due to CPUC oversight. According to the FCC , monthly rates for AT&T customers in California are the lowest in the nation and more than $8 per month lower than the nationwide average. Assuming that AT&T increased its basic rate up to the full amounts authorized, their basic rate would still be lower than the national average and lower than the current rate of Verizon in California.

Reverse Auction Mechanism to Select Carrier of Last Resort

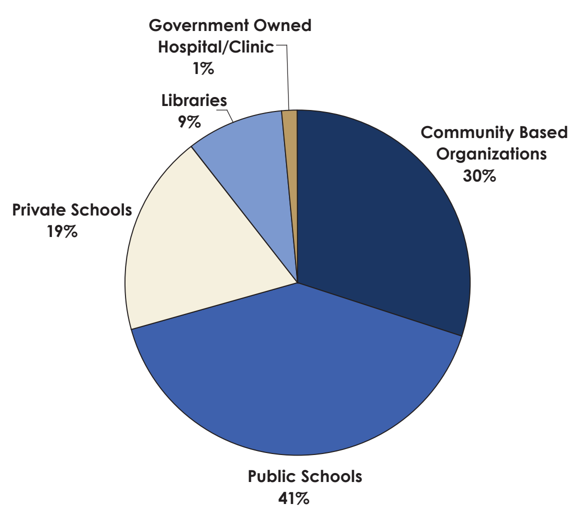
Because of the changes in the market structure for telecommunications, the incumbent wireline telephone companies are no longer the only providers that can qualify as a Carrier of Last Resort. There are now competitors (i.e., cable companies, VoIP carriers and wireless providers) that offer telephone service to these high cost areas. The threshold to qualify as a high cost area has been increased in a series of four steps to better target the support to only the highest cost areas. The CPUC endorsed the concept of investigating the feasibility of a market-based process using reverse auctions to determine the COLR. The reverse auction process is one in which the *lowest* bid wins the right to offer subsidized services. In a reverse auction, the lowest bidder wins which occurs in situations where there is one buyer and many sellers. While reverse auctions have been discussed in concept at both the state and federal levels to determine the provider of service, this will be the first time that a reverse auction process will be used to determine high-cost support in any state jurisdiction.

In January 2008, the CPUC established two working groups which spent several months discussing the minimum level of basic service and examined reverse auction procedures. In May 2008 the CPUC also began considering other issues including methods of nomination of areas to be auctioned and other procedures for conducting an auction. The CPUC is currently considering these procedures; however the complexity and unique issues in setting up a reverse auction will likely require workshops and possibly hearings to be held in 2009. Ultimately, the Commission's goal is to design a reverse auction process that is fair to all carriers providing telephone service and does not favor only existing wireline carriers and ensures the availability of telephone service.

California Teleconnect Fund

The California Teleconnect Fund (CTF) provides a 50% discount on telecommunications services to schools, libraries, health care organizations, California Community Colleges, and Community Based Organizations. The CTF program has a budget of $46.554 million for FY 2008-09 and $60.340 million for FY 2009-10. The program is financed by a 0.079% surcharge assessed on intrastate telecommunications services charges incurred by all end-users. As of the end of 2008, a total of 3,330 organizations participate in the CTF program. However, the total number of CTF participants is expected to

Distribution of CTF Participants



Total Participants 3,330

increase tremendously as a result of the CTF program expansion mandated by the CPUC in June 2008.

In 2008, the CPUC ordered several significant changes to the CTF program as follows:

- Inclusion of California Community Colleges, California Telehealth Network participants, and non-profit Community Based Organizations providing 2-1-1 information and referral services;
- Inclusion of broadband Internet access service providers in partnership with CPUC's certificated or registered carriers;
- Removal of the CTF tariff requirements for all carriers that provide CTF-eligible services on a detariffed basis or non-regulated basis.

New CTF Participants Approved in 2008					
CBOs	Public Schools	Private Schools	Libraries	Govt-Owned Hospital/ Clinics	Total
221	33	37	15	0	306

California Community Colleges

The CPUC extended CTF to community colleges because they serve approximately 2.5 million adults per year, 30% of which are low-income students. In addition, increased access to advanced telecommunications technology will help better train and serve community college students and thus bridge the digital divide in these communities. The budget for this new added entity type is $7.2 million.

California Telehealth Network

In 2006, the FCC established a Rural Health Care Pilot Program to examine how the universal service rural health care funding mechanism can be used to enhance public and non-profit rural health care providers' access to advanced telecommunications and information services. In November 2007, the FCC approved $22.1 million over three years to help develop the California Telehealth Network (CTN). The California Emerging Technology Fund contributed $3.6 million to the CTN as matching funds for the FCC grant. Over the course of the three-year pilot program, the CTN will connect more than 500 heal care sites with each other, with a network of specialty providers at academic medical centers and other non-profit and for-profit-health providers statewide. The CPUC is participating on the Advisory Committee that will oversee the CTN, to help California develop an effective, sustainable and forward-looking Telehealth network, focusing on rural and tribal land communities. The CTF will fund a portion of the CTN program that is not otherwise paid for by the FCC.

2-1-1 Information and Referral Services

In 2008, the Commission clarified that since non-profit CBOs providing 2-1-1 dialing services provide Californians easy access to information concerning child care services, housing assistance, physical and mental health resources, aging and hospice services, educational and other programs, they should be qualified to participate in the CTF program. As a result, the CPUC now extends the CTF discount to these organizations.

Internet Access and CTF De-Tariffing

The CPUC now allows broadband Internet service providers, such as cable Internet providers, to participate in the CTF program. CTF participants can now subscribe to any number of Internet access modalities at discounted rates. In addition, the CPUC streamlined regulation by eliminating the CTF tariffing requirements for detariffed and non-regulated/jurisdictional services.

CTF Marketing Outreach

The CPUC is working closely with the CTF Administrative Committee to develop CTF marketing outreach. This outreach will disseminate CTF information to the public, specifically in rural areas that are hard-to-reach, with the goal to increase CTF participation.

Access Charge Reform (ICC)

Access charges are rates paid by a carrier for the use of another carrier's network. These charges have evolved in federal and state jurisdictions, sometimes resulting in different rates for essentially same service. Historically access charges were set at above costs in order to maintain low rates for basic telephone service. Both the CPUC and the FCC have undertaken initiatives to reduce artificially high access rates to their appropriate levels, while recognizing the need to maintain affordable basic service.

State Access Charge Reform

In December 2007, the CPUC required all competitive local exchange carriers to reduce their intrastate access charges to $0.025 per minute of use effective April 1, 2008. Effective January 1, 2009 this charge will change to the higher of AT&T's

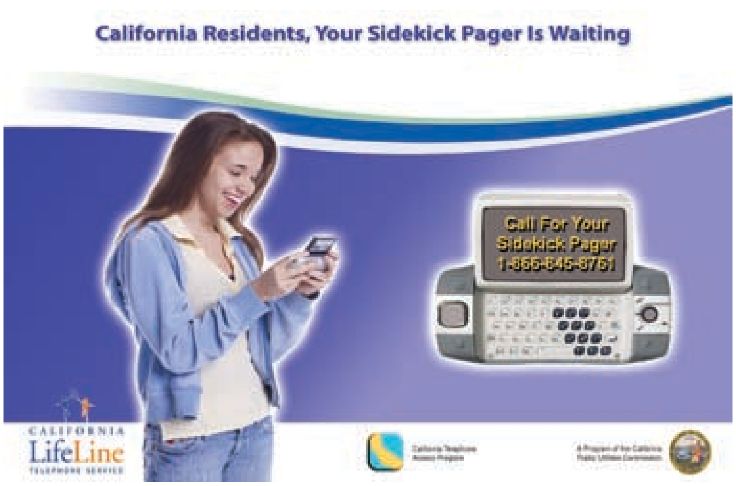
or Verizon's intrastate access charges, plus 10%. Through this specific effort and other intrastate access decisions, adjudications, and general rate cases, the CPUC continues its efforts to reduce and harmonize intrastate access charges among California communications providers.

Federal Access Charge Reform

The CPUC is also active in federal access charge reform. The CPUC filed comments in the FCC's Further Notice of Proposed Rulemaking on Developing a Unified Intercarrier Compensation Regime. The CPUC actively participates in FCC's Intercarrier Compensation (ICC) proceedings, so that carriers are compensated appropriately and reasonably for their services, and that consumers are protected and not adversely impacted by the ICC rate changes.

Deaf and Disabled Telecommunications Program (DDTP) & Public Policy Payphones

The Deaf and Disabled Telecommunications Program (DDTP) serves Californians who are deaf and disabled with specialized equipment and relay services through the California Telephone Access Program (CTAP) and California Relay Service (CRS). CTAP assists California's consumers with hearing, vision, mobility, speech and cognitive disabilities by providing free specialized equipment. CRS provides a relay service where operators will relay messages between a person using a telephone typewriter (TTY) device and a person who does not use a TTY. Speech-to-Speech service, a relay service that provides assistance for people with speech disabilities, is also a part of CRS. The CTAP equipment is provided to the qualifying community for free. The relay service itself is available 24 hours a day and is free; however the caller would pay the standard charge for calling the other person. The caller would dial 711 to reach the relay service. The DDTP is funded through a small surcharge on all telephone bills.



Highlights and Updates

In 2008, the CPUC initiated a wireless pilot program for the DDTP. The first phase focused on providing a wireless text-messaging pager. Participants are required to be CTAP-certified and California LifeLine eligible. As of November 2008, 115 "Sidekicks text pagers" were distributed to low income deaf persons eligible for the program, so they could have the benefit of a communications device that was not tethered to their home. The CPUC is surveying pilot project users to better understand whether to make this a permanent program.

California Relay Service Call Volumes	Fiscal Year 07/08
Traditional Relay Calls	
Conversation Minutes	7,352,212
# of Calls	2,222,928
% of Total Calls	71%
California Telephone Calls (CapTel)™	
Conversation Minutes	2,506,671
# of Calls	897,115
% of Total Calls	28%
Speech to Speech (STS) Calls	
Conversation Minutes	211,891
# of Calls	38,647
% of Total Calls	1%
Total Calls	**3,158,690**

The DDTP program also conducted marketing campaigns, using various media advertisements in local newspapers, on public transportation and radio and television stations. The ads to promote the DDTP program are made in English and Spanish.

In 2008, the number of traditional relay calls continued to decline; however, captioned telephone call volumes rose. Decline in traditional CRS usage is attributable to increase usage of video relay usage and Internet relay, instant messaging and text messaging. Total relay calls (including traditional relay calls, captioned calls and Speech-to-Speech calls) totaled 3.2 million in fiscal year 2007-08, down from 4.4 million in FY 2005-06.

Additional equipment added to DDTP/CTAP in the last year included a talking corded telephone,

cordless amplified telephone, photograph dialer, weak speech telephone, bed shaker and wireless lamp flasher, enhanced amplified cordless telephone, voice-activated telephone dialers, cordless telephone amplifier, 2.4 GHZ cordless headset telephone, amplified handset to enhance outgoing speech and a corded amplified telephone.

Upcoming Activities

With the advice of three boards (Telecommunications Access for the Deaf and Disabled Committee, California Relay Service Advisory Committee and Equipment Advisory Committee), the CPUC is continually looking to increase equipment offerings needed by DDTP constituents.

DDTP Advisory Chairs

The CPUC is planning the next phase of the Wireless Pilot, focusing on distributing wireless equipment to meet the needs of persons with mobility, vision, and/or cognitive disabilities.

CCAF Management

California LifeLine Program

The California LifeLife Program provides discounted basic local telephone (landline) service to eligible California households. As of the end of 2008, 2.1 million telephone subscribers were receiving LifeLine discounts. Beginning 2008, the flat and measured rates increased to $6.11 and $3.27, respectively. Eligibility for LifeLine service is based on income (approximately 150% of the Federal poverty guidelines) or participation in one of twelve public assistance programs.

In 2008, a number of major and minor changes were put in place to support the implementation of the LifeLine program. The CPUC now tracks customer response rates on a weekly basis, and reports customer denial reasons and LifeLine participant counts on a monthly basis. The bi-monthly conference calls now incorporate the marketing and call center updates. The CPUC implemented an interactive website that allows customers to enroll and recertify online, dramatically cutting down on errors and application delays. The site has been used so far by over 100,000 LifeLine customers.

In September 2008, the CPUC hosted a workshop to discuss the implementation of "pre-qualification" of all LifeLine applicants. Starting July 1st, 2009 a customer who applies for LifeLine is kept at regular rates; if they are approved, they begin receiving LifeLine discounts from that date and receive a retroactive credit.

Total LifeLine Customers

January 2008	**2,686,847**
November 2008	**2,116,070**
Average 2008 Customer Count	**2,380,866**
Surcharge Rate	**1.15%**
FY 2008/09 Program Budget	**$307,715,000**
FY 2009/10 Program Budget	**$331,303,000**

Marketing and Outreach Efforts

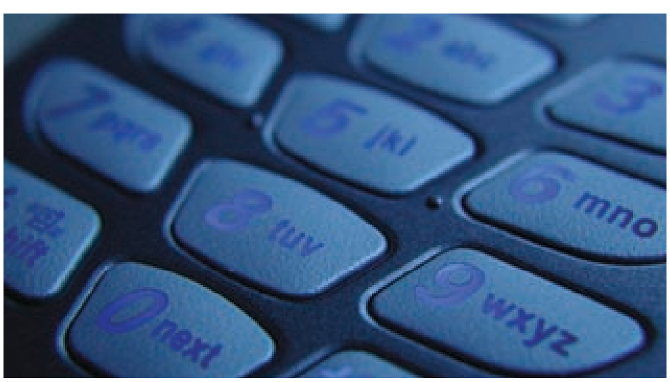
In July 2008, the CPUC began a marketing and outreach campaign for the LifeLine program, intending to increase program awareness and participation. The target audience of the campaign was expanded to all eligible low-income households in California. Moreover, the campaign encourages consumers to directly contact their preferred service provider to enroll in LifeLine if they deem themselves to be eligible. The CPUC ensures the dissemination of reliable, accurate, and integrated information about LifeLine. The campaign's first wave had over 2,300 television and radio spots, 29% of which were free. This media campaign had an estimated reach of about 9.3 million people. In upcoming media buys, the CPUC intends to also use other mediums such as print and outdoor advertising. The FY 2009-10 budget for LifeLine marketing and outreach is $5 million.

LifeLine Call Center

Call center services for LifeLine provide complimentary in-language customer information in the following languages: English, Spanish, Cambodian, Cantonese, Hmong, Korean, Laotian, Mandarin, Tagalog, Vietnamese, Japanese, and TTY. The call center has telephone numbers specifically set up for all of these required languages. If a consumer wants in-language help for a non-required language, then they can request for interpretation services. In the year 2008, the LifeLine call center received more than 33,000 calls. In August 2008, the CPUC added Japanese as one of the required languages, extended the evening hours by an hour, streamlined the optional consumer survey, and augmented the telephone system functionality. The FY 2009-10 budget for the LifeLine call center is $700,000.

Future Improvements

The CPUC is considering a number of initiatives to further increase LifeLine participation. One option is to increase the income eligibility requirement from its current level that approximates 150% of the Federal Poverty Guideline (FPG). Current enrollment in LifeLine is about 2.1 million, whereas the CARE energy program (which has a 200% FPG enrollment criteria) has about 3.6 million participants. Another issue being considered is to change the LifeLine reimbursement process.



Numbering Implementation Changes

Telephone Numbering

The CPUC continues to address area code issues. In August 2008, the 657 area code was overlaid with the 714 area code . The CPUC also approved the introduction of two additional area codes in 2009. These are the 747 area code to be overlaid over the 818 area code in April 2009 and the 442 area code to be overlaid over the 760 area code in November 2009. The CPUC continues to take an active role in number conservation. The CPUC regularly examines service provider numbering records. As part of this routine examination, service providers are requested to donate unused telephone resources back to the national numbering pool. Continued conservation of numbering resources delays the introduction of new area codes for as long as possible.

2-1-1

The CPUC approved two "2-1-1" applications in 2008. These approvals, for Sonoma and Monterey counties, are expected to result in service in 2009. The CPUC expects that Kings County to submit a 2-1-1 application early in 2009. The CPUC anticipates more applications later in the year as eleven other counties are in the planning stages for 2-1-1 services. According to the 2-1-1 California August 2008 report, nineteen counties, reaching 84% of Californians, have launched 2-1-1 service. All major cell phone providers have 2-1-1 capability where 2-1-1 is available. There are 20 counties that have not begun the planning process to implement 2-1-1. These counties are located in the most sparsely populated areas of the state. The CPUC hosted a high level meeting of key officials from state agencies and the 2-1-1 leadership to caucus in 2008 to discuss how to reach the goal of 2-1-1 in every county in California, and highlighting how 2-1-1 services can push out information about critical state services (housing, child care, suicide hotlines, jobless benefits, health care) to residents, in addition to playing an important role in disaster scenarios (e.g. wildfires) getting critical evacuation and aid information to residents.

Incumbent Local Carriers	Competitive Local Carriers	Competitive Local Resellers	Long-Distance Carriers and Resellers	Wireless Carriers	Wireless Resellers
22	204	149	627	69	105

Regulatory and Reporting Changes

Update of Commission's Support of Competitive Market

The CPUC's Uniform Regulatory Framework (URF) adopts policies and rules to streamline regulation and bring more regulatory symmetry between California's four largest incumbent local exchange carriers (ILECs) (which are AT&T, Verizon, SureWest, and Frontier) and competitive carriers. In the two years since the implementation of URF, the CPUC has been monitoring the market and ILECs' pricing behavior to ensure that consumer interests are protected. After ILECs were given maximum pricing flexibility through URF, the CPUC observed some price competition on the bundled services but also saw various rate increases for stand-alone telephone services. During 2007 and 2008, AT&T made 90 filings to raise service rates, Verizon made 25, while Surewest and Frontier each made 6 rate increase filings, respectively. The CPUC will continue to monitor the telecommunications market to assess these rate change impact and take any necessary action. In addition, the CPUC is going to conduct an affordability study in year 2009 asses the affordability of essential telecommunications services to Californians.

Communications Director Leutza with Commissioner Chong

Update On Symmetric Regulation Rules and AT&T Tariff Rule 12

In September 2006, AT&T sought to eliminate some of its customer disclosure requirements in Tariff Rule 12, which were specifically imposed on AT&T due to consumer groups' complaints and a CPUC investigation. In April 2008, the CPUC ordered AT&T to modify its consumer disclosure requirements so that customers are informed of the lowest-cost basic service options and so that such information be clearly posted on the same web page as the descriptions of AT&T's bundled service offering.

Licensing and Compliance Filings

Licensing

The CPUC continues to license and register wireline, wireless, two-way paging, cable telephony, and mobile radio providers serving residential and business customers. The CPUC issued 108 new licenses during 2008. The CPUC in 2009 will consider whether bonding requirements should be employed as a condition of licensing.

Addressing the Needs of Limited English Proficiency Customers

In July 2007, the Commission adopted in-language rules to improve services to California's Limited English Proficiency (LEP) telecommunications consumers. When telephone companies market their service to LEP customers in a language other than English, they are now required to provide critical information about the services purchased in the same non-English language. The CPUC continues to support activities to make consumer information available in multiple languages. This support includes implementing ongoing compliance requirements, and convening a workshop to develop recommendations on scope, parameters, and specifications for a customer satisfaction survey of LEP customers during 2009.

Emergency Preparedness and Planning

The CPUC contributes communications expertise to statewide emergency response and disaster recovery planning, facilitating interactions among communications service providers, advocacy groups, emergency service agencies such as the Office of Emergency Services (OES) and the 9-1-1 Office of the Department of General Services (DGS), cities, counties and the FCC. The major emergency preparedness projects in 2008 were as follows:

Backup Power for Services at Customer Premises

The CPUC investigated major emergency preparedness with extended research into backup power at the customer premises of residential and small commercial customers, and emergency notification system standards. The CPUC also investigated backup battery technological standards, as well as customer education and outreach.

Enabling Emergency Alert and Warning Technologies

The CPUC was an active participant in California's statewide Alert and Warning Workgroup, as established by AB 2231, with OES as the lead agency. A final report was finalized in December 2008, detailing recommendations for implementation of a statewide emergency alert and warning program enabling emergency alerts to be sent to residents' home phones, mobile phones, and/or email addresses. Further workgroups and studies are planned for 2009 as the Alert and Warning Workgroup begins to consider refinement and implementation of these recommendations, which could result in the nation's first statewide public warning system. Additionally, the CPUC will continue to explore policies, procedures and guidelines that enable advanced emergency communications and ensure that California is adequately prepared for disasters.

Evaluation of Network Performance during 2007 Southern California Firestorm

The CPUC issued a report titled 'Communications System Performance During the 2007 Southern California Firestorm' in September 2008. This report is an evaluation of the impact of the Southern California Firestorm on the communications networks in the area covered by the Governor's October 21, 2007 State of Emergency Declaration. The CPUC evaluation focused on networks in San Diego and San Bernardino counties, and provides information on network impacts in Los Angeles, Orange, Riverside, Santa Barbara, and Ventura counties. The CPUC examined the performance of two county emergency notification systems, utilization of telecommunications priority services, telecommunication network performance, network congestion issues, and carrier response and restoration efforts.

Video Franchising and Broadband Deployment

In 2006, the California Legislature passed the Digital Infrastructure and Video Competition Act (DIVCA). Among DIVCA's goals are:

- Increasing competition in the provision of video programming services;
- Fostering the deployment of broadband infrastructure and services throughout California, particularly to unserved and underserved areas;
- Ensuring a lack of discrimination or denial in the provision of services.

To carry out these goals, DIVCA replaced the previous system of locally-granted cable franchises with a system of state-issued video franchises. DIVCA named the CPUC as the sole franchising authority for issuing state video franchises as of January 2007.

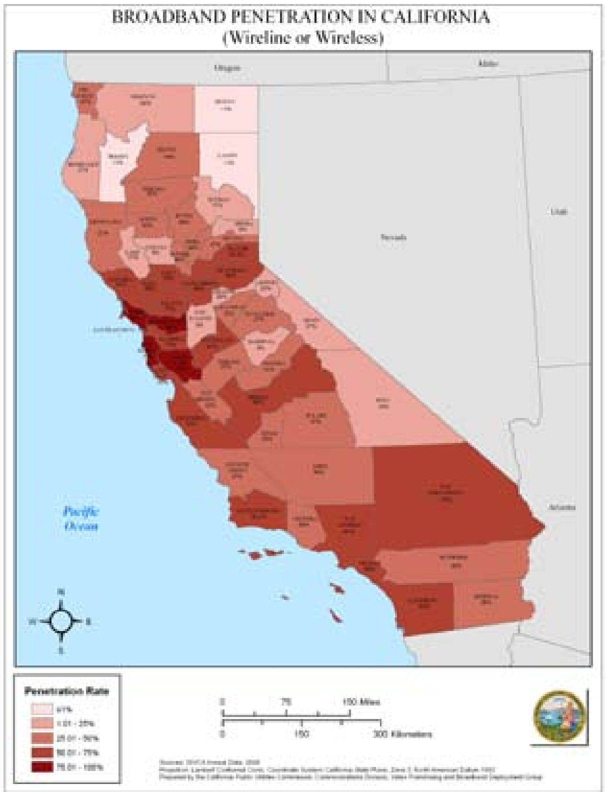
In 2008, the CPUC required video franchise holders to include broadband speed "tiers" and technologies used to deploy broadband services, to be included in the annual data they submit. This will enable the CPUC to monitor the speed of broadband services being offered to consumers in California.

The CPUC granted forty-seven applications for video franchises, including 37 amended franchises, bringing the total number of franchises issued from March 2007 to December 31, 2008 to 68. Among the amended franchises, all but one amendment increased the holder's video service area.

Applications for Video Franchise or Amendment Received IN 2008	Number Granted In 2008	Total Applications Granted 2007-08
47	47	68

Based on DIVCA Data, the CPUC created maps to better describe the changes taking place in California's broadband and video markets.

The highest broadband penetration levels occur in urban areas and penetration rates tend to drop as counties become less densely populated and more rural in nature. Six counties have broadband penetration rates over 70% and ten have penetration rates of below 10%. The exception to this trend is San Bernardino County, which has a 51% broadband penetration rate and encompasses both large urban areas in the west and vast low density, expensive-to-reach, areas in the east.



In 2009, we anticipate that AT&T, Verizon and other service providers will increase video and broadband deployment and marketing efforts throughout the state. This should increase the competition in some video and broadband markets in California.

SAFETY

California's transportation and energy infrastructure and services are vital components of California's economy and well-being. It is essential that these industries remain safe and propitious to Californians and the state as a whole. To this end, the CPUC has safety oversight over a number of utility industries, including railroads, railroad crossings, rail transit systems, gas, electric, and telecommunications.

Railroad Safety

Coordinating with the Federal Railroad Administration (FRA), the CPUC employs federally certified staff inspectors to ensure that railroads comply with federal railroad safety regulations. The CPUC's railroad safety federal/state participation program is the largest in the nation. The CPUC also enforces state regulations, investigates railroad accidents and responds to safety related inquiries made by community officials, the general public, and railroad labor organizations.

The CPUC's railroad operations safety work responsibilities include:

- Inspecting railroads for compliance with state and federal railroad safety; regulations and pursuing enforcement actions when required;
- Investigating rail accidents and safety-related complaints;
- Recommending safety improvements to the CPUC and federal government;
- Ensuring efficient enforcement of safety requirements.

Major Accident Investigations

September 12, 2008, Metrolink, Chatsworth

A westbound passenger train traveling at 42 miles per hour (mph) collided head-on with an eastbound freight train traveling at 40 mph. The collision resulted in 25 fatalities and more than 130 injuries. Two locomotives and 10 rail cars were derailed on the freight train and one locomotive and one passenger car derailed on the passenger train. CPUC staff jointly investigated this accident with the NTSB investigation team that included the Federal Railroad Administration, Metrolnk and local public service agencies. CPUC Rail Safety Inspectors specializing in signal control systems, operating practices and mechanical equipment responded immediately to the accident along with senior staff, and worked to gather crucial information. Seven CPUC staff members participated jointly with other railroad safety professionals inspecting the equipment involved, reviewing maintenance records, interviewing witnesses, recreating the accident, conducting field tests, downloading data, interviewing passengers, reviewing employee testing/training records, and interviewing first-responders.

The NTSB's investigation is still active, but the investigative team preliminarily determined that the Metrolink engineer was using his mobile phone to send and receive text messages proximate to the time the Metrolink train passed through a red signal and collided with the Union Pacific freight train.

In response to this accident, under its emergency powers, within a week the CPUC passed Resolution SX-88 prescribing a temporary ban on the personal use of cell phones and similar devices while operating a train or light-rail transit vehicle.

In response to the Chatsworth accident, the CPUC issued two rulmakings. The first seeks to adopt a permanent prohibition of cell-phone use. The second rulemaking was opened to determine what collision avoidance technology could be installed in the short or long-term to prevent accidents such as occurred at Chatsworth.

The Rail Safety Improvement Act of 2008

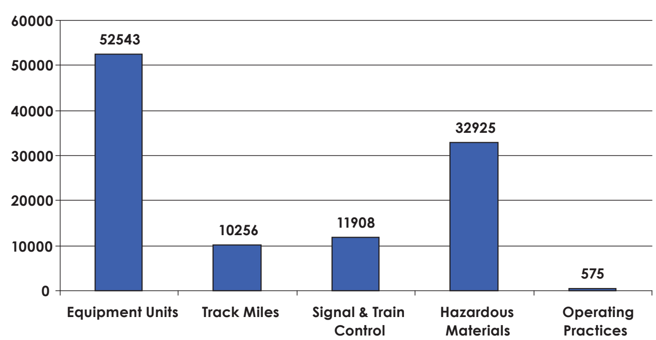
Following the Chatsworth accident, a significant change in rail safety oversight occurred when Congress passed, and the President signed, the Rail Safety Improvement Act of 2008. Among other things, the Act requires the installation, by December 31, 2015, of Positive Train Control on all freight and passenger trains that share trackage, all freight mainline over which poison- or toxic-by-inhalation hazardous materials are transported, and such other tracks as the Secretary of Transportation my prescribe. The Act also makes significant changes to the law regarding railroad safety management, railroad safety risk reduction strategies, hours of service, and much more. PUC staff will be working very closely with the Federal Railroad Administration in the implementation of this very significant piece of legislation.

Railroad Inspections

The CPUC's railroad inspection program is guided by its State Railroad Inspection Plan and AB 1935. Taken together, these rules require the CPUC to ensure that all railroad locomotives, equipment, and facilities in Class I railroad yards in California are inspected at least every 120 days and all rail tracks at least once every 12 months.

During 2008, staff inspected 52,543 units of equipment and 10,256 miles of track. In addition, staff made 639 inspections at facilities that handle hazardous materials (32,925 hazardous materials inspection units); operating practices staff made 575 inspections (3,334 units); and signal and train control staff inspected 11,908 units of signal and train control systems. CPUC staff also responded to 33 informal complaints from railroad employees and/or the general public during the same time period.

CPUC Railroad Inspections, 2008

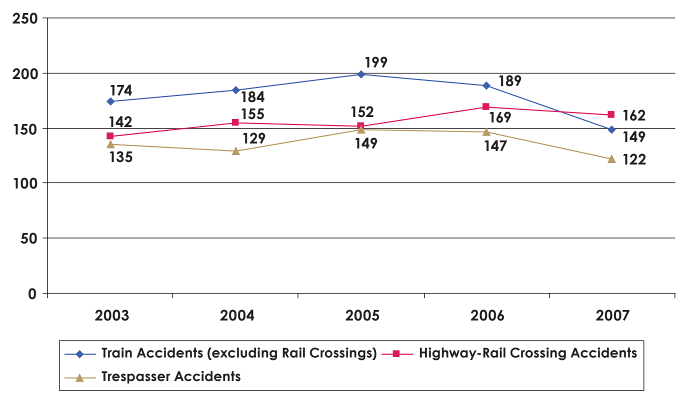


Ensuring Safe Shipments of Hazardous Materials

The CPUC implements the State Participation Program regarding regulation of rail transportation of hazardous materials as authorized by the Hazardous Materials Uniform Safety Act of 1990. According to the U.S. Department of Transportation statistical figures (year 2000), more than 50 million rail shipments originate or terminate in California annually. Approximately 25 percent of these shipments are estimated to involve hazardous materials.

The CPUC employs six federally certified Railroad Safety Inspectors to fulfill this mission. Inspectors conduct a variety of activities, including the investigation of accidents and incidents involving the actual and/or threatened release of hazardous materials as reported by the Governor's Office of Emergency Services' (OES) 24-hour Warning Center. Inspectors also conduct unannounced inspections at shippers, consignees, freight forwarders, intermodal transportation companies, and railroads.

California Railway Accidents, 2003-2007



Branch Successes: Citation Process & General Order Training

In 2008, the CPUC continued to pursue adoption of a citation program for deviations from state safety rules and regulations. In November 2008, the CPUC prescribed a citation process as well as quarterly meetings between the state's railroads and the CPUC staff. The citation program will enable CPUC staff to solicit railroad compliance with State regulations within a timely and well-defined formal process. CPUC staff is currently scheduling presentations to railway workers regarding General Order compliance, particularly the General Orders that are involved in the new citation process.

Additionally, the CPUC has developed internal training regarding guidance, interpretation, and application of all pertinent State General Orders and Public Utility Codes applicable to heavy freight railroad operations in California. This training was recently rolled out to the entire division staff, satisfying CPUC goals and objectives in its Strategic Work Plan.

CPUC staff and managers continue to refine current training practices while developing new training strategies, consistent with the growing needs for monitoring and enforcing safe railroad operations to better serve and protect the People of California.

Safety Inspector Attrition

An unusually high rate of attrition in personnel (25 percent over five years) is due to the disparity in pay that exists between CPUC Railroad Safety inspectors and their FRA counterparts performing the same work. FRA inspectors based in California earn an average of 20 percent higher wages for performing essentially the same duties.

CPUC has hired 46 Inspectors and Operations Supervisors since 2000. Of those, 33 have left - a 72% attrition rate over 8 years. CPUC continues to lose staff nearly every month. Based upon exit interviews with staff, management believes that the vast majority of those losses could have been avoided had the proposed equity pay scale upgrade been in place. With the passage of recent federal legislation that provides funding and hiring authority to the FRA for dozens of new California-based positions, management fears that this trend will increase from its current rate.

OPERATION LIFESAVER

CPUC employees continue to show their support for Operation Lifesaver (OL) by educating the public through presentations and manning OL booths at special events. CPUC presenters include inspectors, administrators, and analysts, all interested in spreading the word on railroad safety. CPUC employees in Northern California gave presentations to 808 people in 2008. An additional 1662 people were reached through community events. Groups that have received the OL message include driver's education classes, elementary schools, and community organizations. Bilingual presenters are able to connect with Spanish speaking residents, and can cater their presentation to the needs of the group, with content and materials available for interacting with kindergarten ages and older. At the San Francisco headquarters an annual Halloween event is staged in which rail safety is addressed as part of the event, and elementary school students visit and learn about Operation Lifesaver. CPUC staff took part in other events as well.

Addressing Railroad Security Risks

LOCAL COMMUNITY RAIL SECURITY ACT OF 2006

Effective January 1, 2007, AB 3023 requires all rail operators to provide annual risk assessments to the CPUC, the Director of Homeland Security, and the Governor's Office of Emergency Services that describes the following:

- The location and function of each rail facility;
- Types of cargo stored at or typically moved through the facility;
- Hazardous cargo stored at or moved through the facility;
- Frequency of hazardous movements or storage;
- A description of sabotage/terrorism countermeasures;
- Employee training programs;
- Emergency response procedures;
- Emergency response communication protocols.

The CPUC entered into a Memorandum of Understanding (MOU) with the Governor's Office of Homeland Security (OHS) to establish a cooperative understanding of roles and responsibilities relative to security protocols. Utilizing OHS personnel and expertise, the CPUC and OES representatives reviewed the 2008 risk assessments from the two major rail carriers in California, and determined that those assessments had satisfactorily met the requirements of the Local Community Rail Security Act. In addition, OHS is assisting the CPUC to obtain the necessary security clearances for employees with need-to-know requirements relative to rail infrastructure security.

CPUC staff developed an inspection schedule for the required security documentation review and site visits for short-line and major railroads. Site visits began in October 2007 and were completed in 2008.

Staff participated on a Special Railroad Safety Task Force; worked with OHS on security clearance requests for designated staff members; investigated Critical Infratstructure/Key Resource grant opportunities; participated on a working group developing background investigation policy; and attended OHS/DHS and Caltrans CI/KR related meetings and conferences as CPUC representatives.

Rail Crossing Safety

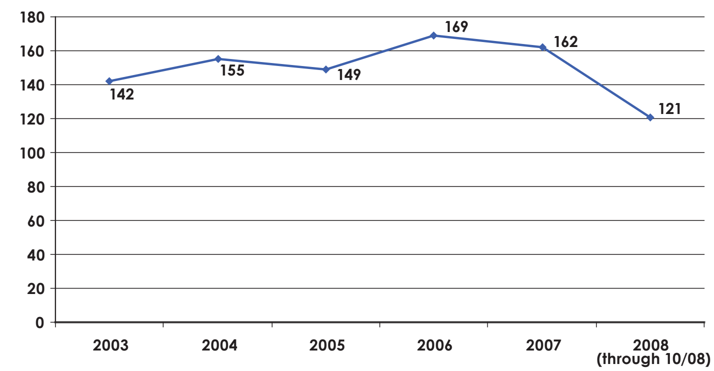
The CPUC has exclusive jurisdiction over the safety of railroad crossings in California, including the power to determine their design, location, terms of installation, operation, maintenance, use, and warning devices. The CPUC currently has safety oversight responsibility for approximately 12,250 crossings, of which 10,000 are at-grade. The CPUC's responsibilities include:

- Performing safety inspections of crossings;
- Preparing recommendations to enhance safety at specific crossings;
- Developing CPUC policies to enhance safety of all crossings in the state;
- Participating in state and national committees that recommend rule changes to improve crossing safety;
- Analyzing new crossing safety technology;
- Reviewing and processing applications for CPUC authorization to construct new or to alter existing crossings;
- Reviewing and responding to public complaints (e.g., rough or unsafe crossings, noise issues, etc.);
- Jointly administering with Caltrans Federal Section 130 program funds intended to eliminate hazards at existing public crossings;
- Administering the State's Grade-Separation Fund program;
- Administering the State's Automatic Railroad Crossing Warning Device Maintenance Fund program;
- Administering and maintaining the CPUC's existing crossing inventory and accidents database;
- Performing field reviews of crossings to update the crossing inventory database;

- Administering and maintaining the CPUC's crossing accident database;
- Investigating collisions involving trains or light rail transit vehicles at crossings;
- Reviewing environmental impact review documents regarding the potential effects of proposed development projects on the safety of crossings in or near the project areas; and
- Using strategic planning to increase effectiveness of the rail crossing safety program.

The CPUC's rail crossings responsibilities play a critical role in ensuring the safety of the state's residents. CPUC staff is taking a number of steps to improve rail crossing safety throughout the state.

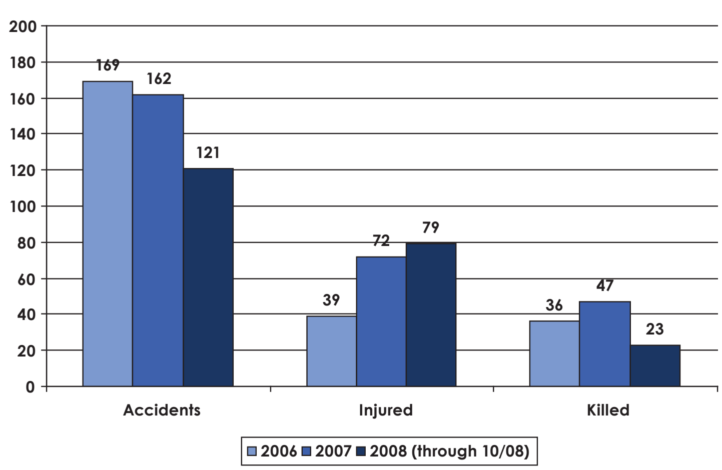
January 1, 2003-October 31, 2008 California Reported Highway-Rail Crossing Accidents/Incidents (Source: Federal Railroad Administration)



Rail Crossing Accident Investigations and Evaluations

Rail crossing accidents continue to be a major source of railroad-related casualties, averaging 150 highway-rail crossing accidents annually since 2002. Identification and investigation of crossings accidents, and the subsequent thorough evaluation of the crossings involved, are necessary to proactively take steps to allocate funding to improve crossings or otherwise urge local agencies to fund improvements to problem crossings. A total of 162 crossing incidents, which resulted in 47 fatalities and 72 injuries, were reported to the CPUC in 2007. From January through October 2008, there were 121 highway-rail crossing accidents, resulting in 23 highway-rail grade crossing fatalities and 79 injuries.

FRA-Reported Highway-Rail Crossing Accidents, 2006-2008



Evaluating Crossing Applications and Modification Requests

CPUC staff anticipates an increase in the number of new crossing applications and modification requests due to the implementation of the 2006 Bond Act, which will fund many transportation projects. A significant portion of the funding is eligible to fund crossing improvements and grade separations. Dozens of projects have been allocated Bond funds: 22 projects have already been selected for funding under the Highway Rail Crossing Safety Account and more than 30 crossing projects have been scheduled to receive a Trade Corridors Improvement Fund allocation. A significant increase in crossing modification requests has already begun, with 111 cases opened in Fiscal Year 2008, approximately twice the number experienced in the prior fiscal year.

Crossing Inventory and Rail Programs Databases

The CPUC has established and maintained an electronic database that houses an inventory of all the railroad crossings in the state. Additionally, a rail and light rail transit accidents database has been developed. The databases were created in-house, and are currently operating very slowly and have limited ability to share data and to make queries. Additionally, while meeting the CPUC's basic needs, the databases have experienced faults and on occasion have suffered some data loss. Therefore, the CPUC has begun a process to upgrade the databases. CPUC staff drafted a Feasibility Study Report (FSR) to support the development and acquisition of a data solution that meets the needs of the three rail programs and enhances the CPUC's ability to carry out its statutory mandates and protect public safety. The FSR has been submitted and approved. The improved databases will allow the CPUC to meet new Federal Railroad Administration rules requiring states to update Federal rail crossing data with State data at least every third year.

Rail Corridor Safety Enhancement Program

CPUC staff continues to develop and refine its rail corridor safety enhancement program, which provides in-depth technical reviews of environmental review documents for proposed development projects, in an effort to eliminate or mitigate any potential rail safety impacts. Review of rail crossing impacts while development projects are still in the planning stages allows staff to be proactive in seeking corrective measures rather than reactive after an incident has occurred. Staff reviews hundreds of documents each month to identify impacts resulting from development and growth in and around rail lines throughout California. Staff meets with public agencies and project proponents to address identified concerns and impacts.

Fiscal Year 07-08 Statistics				
Type	Carry-over	Opened	Closed	Pending 7/08
Formal Applications	23	13	24	12
Modification Requests	6	111	113	4
Complaints	16	22	26	12

Public Education

The CPUC conducts a variety of safety outreach efforts, including sponsoring and participating in grade crossing educational programs to educate local agencies about crossing safety, developing and maintaining web pages to provide public agencies with links to rail safety information, and participating in public safety education programs such as Operation Lifesaver. This outreach activity is very labor intensive; however, staff believes it has great potential to result in improved crossing safety.

Grade-Separation Fund Program

The CPUC administers the State's Grade-Separation Fund Program, which provides funds to help local agencies finance the high cost of grade-separating rail crossings. The CPUC is responsible for establishing criteria to be used to determine the priority of projects nominated for grade separation, and establishing a prioritized listing of crossings most in need of grade separation. The CPUC considers and adopts the priority list. The current prioritization list was used to allocate Bond funds in addition to Section 190 funds.

Rail Transit Safety

The CPUC has safety and security regulatory authority over all rail transit agencies (RTAs) in California and works in cooperation with the Federal Transit Administration (FTA) and the RTAs to enhance public safety and security. CPUC staff focus on verification of the System Safety and Security Plans of each RTA to ensure that these plans meet all state and federal rules and regulations.

CPUC staff ensures that all rail transit system extensions and new construction projects comply with safety certification requirements. Staff audits each RTA once every three years. This goal is accomplished through comprehensive rotating triennial audits of all RTAs operating within the state.

The CPUC has jurisdiction over the following eleven rail transit agencies:

1. Bay Area Rapid Transit District (BART)
2. San Francisco Municipal Transportation Agency (SFMTA)
3. Los Angeles Metropolitan Transportation Authority (LACMTA)
4. Sacramento Regional Transit District (SRTD)
5. San Diego Trolley Inc (SDTI)
6. Santa Clara Valley Transportation Authority (VTA)
7. San Francisco International Airport (AirTrain), connection to BART
8. North County Transit District (NCTD), SPRINTER
9. Angels Flight Railway Company, funicular system in Los Angeles (closed February

2001 due to accident. Scheduled to be re-opened in 2009)
10. San Pedro Red Cars (POLA)
11. Los Angeles Farmer's Market and Americana at Brand Trolleys

Comprehensive Triennial Audits

Staff conducted two comprehensive RTA triennial audits during 2008:

1. SRTD, Commission Resolution ST-99
2. SFMTA (Staff is in the process of writing the report and draft Resolution)

In 2009, staff plans to conduct three RTA triennial audits:

1. BART
2. SDTI
3. NCTD

Staff ensures all triennial audit recommendations are addressed by the RTAs with corrective action plans and implementation.

Safety Certification

Staff verifies the safety certification of new projects and extensions. Additionally, for FTA-funded projects, staff cooperates with FTA personnel to ensure compliance with federal mandates. Over the last few years, the RTA operations have expanded enormously, resulting in several new projects, which staff is in the process of safety certifying. Staff completed the safety certification of the following projects in 2008:

- NCTD SPRINTER. Revenue service operation began in March 2008
- LACMTA P2550. New rail transit vehicles began service in March 2008
- Americana at Brand in the City of Glendale, a privately funded project. Revenue service operation began on May 2008.

Staff anticipates completing safety certification of the following projects in 2009:

- Angels Flight Railway Foundation
- LACMTA East Side Extension
- SFMTA MME Maintenance Facility

Additional safety certification projects in various stages with expected completion dates beyond 2009 include:

- BART-VTA Silicon Valley Rapid Transit
- VTA Capitol Expressway Extension
- LACMTA Expo Line
- LACMTA Expo Line Phase II
- Pasadena Gold Line Foothill Extension
- LACMTA Regional Connector
- LACMTA Harbor Division
- LACMTA Westside Extension
- SFMTA Central Subway
- SRTD South Line Phase II
- BART Warm Springs Extension
- BART Oakland Airport Connection
- BART West Dublin Station
- BART Earthquake Safety Program and Trans Bay Tube Seismic Retrofit Project
- eBART
- SDTI Mid-Coast
- POLA Sampson Way and Beach Extension
- Phase II South Line and the Downtown-Natomas-Airport
- Sacramento International Airport Automatic People Mover

Internal Safety Audits

RTAs are required to conduct on-going internal safety and security audits. Staff participated in the following internal safety audits in 2008:

- SRTD
- SFMTA
- SDTI
- BART
- POLA
- LACMTA
- VTA

In 2009, staff plans to participate in eight internal safety and security audits.

Accident Investigations

Staff participated in accident investigations and/or directly investigated 85 rail transit accidents in 2008. Staff directly investigated accidents at SFMTA, BART, SRTD, and LACMTA. Twenty-one fatalities occurred on RTA properties in 2008.

In 2009, staff will continue to participate in accident investigations conducted by RTAs and/or will directly investigate accidents. Staff will also continue to participate in accident investigation task forces with members from all railroads and transit agencies, including CPUC, FRA, Caltrans, and local law enforcement representatives. Staff will also continue to improve internal investigation procedures, policies, and processes. Staff ensures all accident investigation recommendations are addressed by RTAs with corrective action plans and implementation.

Complaints

All informal complaints submitted in 2008 have been resolved except an ongoing formal complaint from the LACMTA Pasadena Avenue Monterey Road Committee (PAMRC).

Revision to General Orders

In 2009, staff plans to propose revisions to GO 143-B to incorporate current industry standards in the GO. The CPUC will also consider in early 2009 adopting a GO prescribing rules and safety standards for RTA roadway workers.

Rail Transit Security

Staff ensures that RTAs have developed integral System Security Plans. Accordingly, staff independently audited SFMTA Security as part of the Triennial Audit. Previously, the federal Transportation Security Administration (TSA) personnel performed the RTA security audits.

Staff conducted a feasibility study on RTA Cyber Security. The study included LACMTA, NCTD and SDTI. In 2008 staff participated in the following rail transit security meetings and training sessions:

- 9th Annual Transit and Security Roundtable, sponsored by Department of Homeland Security (DHS) and FTA;
- Cyber Security conference, sponsored by Data Connectors;
- Strategic Counter Terrorism Training, sponsored by DHS;
- Strategy Planning and Metrics, sponsored by Office of Homeland Security (OHS);
- Private Sector Counterterrorism Awareness conference, sponsored by OHS;
- Transit Security Workshop, sponsored by the state Department of Transportation.

In 2009, staff will continue to enhance its partnerships with FTA, TSA, and DHS and continue to conduct state security oversight of all RTAs to improve public security and comply with state and federal mandates.

Safety and Security Inspections and Reviews

Staff will continue random safety inspections of RTAs to ascertain compliance with statutory mandates, rules, and regulations. Staff will also continue to review and monitor RTA-developed safety programs, security plans, and operating practices.

In 2009, staff will participate in inspections at BART, SDTI, and NCTD.

Expanding Community Outreach with Operation LifeSaver

In 2009, staff will expand the CPUC's commitment to the national Operation Lifesaver Program on a statewide basis to assist localities, schools, law enforcement units, and fire departments in creating a safer environment around rail transit properties.

Utility Safety and Reliability

The CPUC oversees programs involving the safety of gas, electrical, and telecommunication systems. These programs ensure that these systems are designed and maintained at acceptable levels of operational safety and reliability for the protection of the general public and utility employees. The CPUC conducts compliance inspections, accident investigations, reviews of utility reports and records, construction inspections, and special studies. The CPUC also initiates action in response to complaints and inquiries from the general public and utility employees on issues regarding gas pipeline, electrical, and telecommunication safety.

New Antenna Rules

California has experienced an increase in the number of antennas on utility poles. In October 2008, the CPUC ordered that new rules be added to address safety issues that develop as a result of antennas being placed on utility poles, such as clearance requirements between utility equipment, working and climbing space for utility workers, and safety factors involving the integrity of utility poles and attached equipment.

Electric Substation Inspection Program

In December 2003, a fire at a Pacific Gas and Electric Substation caused an outage to more than 100,000 customers in San Francisco. At the time of the incident, there was not a complete oversight program for electric substations in California. This outage led the CPUC to develop a Substation Inspect Program (SIP) to ensure the reliability of electric service and safety of the general public and utility employees. In 2008, the CPUC met with the electric utilities to present a proposed General Order for electric substation operation and maintenance and to resolve any disagreements in regards to its application. To address unresolved matters, the CPUC and the utilities agreed to appoint special groups to develop solutions. The groups will meet in 2009 to present their proposals for resolving differences. CPUC proposes to implement the proposed General Order by 2010.

Transformer Loading Study

Much of California experienced heat storms during July 2006 and September 2007. During these periods, the demand for electricity increased, resulting in outages in the service areas of investor-owned utilities. In 2008, CPUC completed its study which examines the impact the increased demand had on distribution transformers during the heat storms. The CPU prepared a report on its findings with analyses and recommendations which it plans to issue in 2009.

Propane Safety Program

The CPUC's Propane Safety Program oversees the safety of approximately 700 propane systems throughout the state. As part of the Program, CPUC engineers inspect propane systems for safety and compliance with Commission General Order 112-E. In some cases, CPUC has experienced difficulty in achieving compliance from propane operators. In 2008, the Commission introduced new rules to improve compliance and enforcement of its Propane Safety Program. The new rules will include procedures for issuing citations to non-compliant propane operators. The CPUC plans to start issuing citations in 2009 against non-complaint propane operators.

Enforcement of Communication Utility Code Requirements

To reinforce its efforts in ensuring that communication systems in California, such as telephone and cable companies, are operated and maintained in compliance with Commission General Orders, the CPUC instituted the Communication Infrastructure Provider Audit Program (CIPAP) in 2008. The core of the CIPAP focuses on communication providers, that operate their facilities on utility poles shared with electric utilities. CPUC is concerned that improper maintenance of shared utility poles could result in communication and electric utilities overloading the poles with their equipment; thus, jeopardizing the integrity of the poles and the safety of utility workers and the general public. CPUC is evaluating the first phase of inspections that were completed in 2008.

Firestorms

In October 2007, several fires erupted in Southern California. The fires caused electric outages and displaced thousands of residents from their homes for days. The CPUC staff completed its investigations of the causes of these fires in 2008, and determined that three fires (the Witch, Rice, and Guejito Fires) were directly related to lack of compliance with Rules for Electric Overhead Line Construction. In November 2008, the CPUC issued orders to institute formal investigations to determine whether the San Diego Gas and Electric Company or Cox Communications violated any provisions of the Public Utilities Code, General Orders, or other rules. The CPUC plans to have hearings on the results of these investigations in 2009.

Clarifying Regulations to Enhance Safety

In November 2008, the CPUC started to consider revising and clarifying regulations designed to protect the public from potential hazards, including fires, which may be caused by facilities owned and operated by electric and communication operators providing service in California. Regulations for clarification include immediate reporting of fire related incidents for maintenance and inspection to communication providers and electric transmission facilities, pole overloading, prompt reporting and resolution of violations discovered by pole tenants, vegetation management on high fire risk areas, and mitigating high speed wind dangers to overhead utility facilities.

National Pipeline Safety Representative Conference

California was selected as the host for the 2008 National Pipeline Safety Representative (NAPSR) Conference. The CPUC hosted the conference at the Millennium Biltmore Hotel in downtown Los Angeles during the week of May 19-23, 2008. Pipeline experts from the NAPSR Western Region, which is comprised of ten western states, and the Federal Government attended the conference to discuss damage prevention, public awareness programs, and other important pipeline safety issues. Conference activities included a visit to the Southern California Gas Company "Situation City" training facility. The attendees were impressed with the work CPUC staff did in preparing the Conference.

CONSUMER PROTECTION

The CPUC's role in protecting California's utility customers takes many forms. In addition to the activities described above, the Commission administers substantial programs devoted to enforcement of consumer protection laws and maintaining reliable electric generation.

Utility Enforcement

The CPUC protects utility customers in California by ensuring service providers' compliance with consumer protection laws and regulations. The CPUC has an enforcement program that promotes compliance, deters fraud, and prosecutes unlawful behavior. Staff investigates and prosecutes fraud and abuse both through CPUC proceedings and through collaboration with outside law enforcement agencies. Staff works closely with federal and state agencies, community organizations and trade associations. Staff also receives calls through the toll-free Telecommunications Fraud Hotline that was established in 2006 as part of the Consumer Protection Initiative to allow consumers to report suspected telecommunications fraud directly to Commission enforcement analysts. In 2008, the CPUC successfully pursued telecommunications carriers and energy companies for a number of violations of the Public Utilities Code, CPUC orders, and utility tariffs.

SCE Performance Based Refunds to Consumers

The CPUC, in Phase I of its investigation of SCE's administration of certain Performance Based Ratemaking (PBR) programs, ordered SCE in September 2008 to pay a fine of $30 million to the General Fund for submitting false and manipulated data in requesting certain PBR rewards. In addition, the CPUC ordered SCE to refund to ratepayers a total of $81 million ($48 million in PBR rewards for the period 1997-2000 and $32.7 million associated with results sharing incentives and bonuses for the years 2003-2005). SCE was also ordered to forego an additional $35 million in pending requests for PBR rewards. The CPUC is in the process of resolving the remaining issues in second phase of this case.

Slamming Cases

The CPUC continues to protect consumers from providers who illegally switch consumers' phone carriers without their authorization, also known as slamming. In September 2008, the CPUC incorporated the Federal Communications Commission's (FCC) new third party verification requirements concerning verification of a consumer's intent to switch carriers, which enhances existing Slamming Citation Program. Under that Program, telecommunications providers can be penalized up to $1,000 fine for each violation of the Commission's third-party verification requirements. The CPUC issued 18 slamming citations in 2008 under the Slamming Citation Program. On the CPUC's consumer website, www.calphoneinfo.com, and through out TEAM program using community based organizations, the CPUC educates consumer on how to avoid slamming and cramming in 12 languages.

Certificates of Public Convenience and Necessity Application Review

The CPUC performs background reviews to detect the fitness, truthfulness, and any misleading elements of telecommunication providers' applications for transfers of ownership or control, Wireless Identification Registration Numbers, and Certificates of Public Convenience and Necessity (CPCNs). The CPUC performed background reviews for 64 applicants seeking authority and protested 9 of them for Rule 1.1 violations in 2008.

Prepaid Calling Card Enforcement

The CPUC continues to work with the State Attorney General's Office in pursuing prepaid calling card providers who are defrauding consumers. Investigations of certain providers are ongoing.

The CPUC worked with the authors of AB 2136 and 2885 to strengthen prepaid calling card consumer protection laws and empower the CPUC's enforcement program. Both bills were signed into law in 2008 and become effective January 1, 2009. AB 2136 sets forth consumer disclosure requirements by sellers of prepaid calling cards. AB 2885 provides the CPUC with additional authority to more aggressively pursue prepaid calling card abuses independent of the State Attorney General's Office.

Priorities for 2009

In 2009, the CPUC will pursue a number of initiatives designed to augment its enforcement activities and increase its collaborative enforcement efforts with other law enforcement agencies.

- Staff will develop and implement a more robust prepaid calling card enforcement program and utilize the broader authority provided in AB 2885.
- Staff will continue to work on identifying companies which are 1) operating in California without CPUC-granted authority and bringing them into compliance; 2) placing unauthorized charges on consumers' phone bills, and 3) changing consumers' carrier of choice without proper authorization.
- Staff will work to ensure that Load Serving Entities comply with the CPUC Resource Adequacy Requirements and will issue citations where violations are found.
- Staff will actively pursue opportunities to work closely with federal, state and local agencies, community organizations and trade associations in identifying telecommunications and energy consumer issues.

Electric Generation Performance

542 MW Sutter Energy Center

The CPUC is responsible for ensuring that generation companies maintain and operate their power plants reliably and responsibly. During the 2000/2001 energy crisis, non-utility power plants broke down at high rates, forcing the CAISO to order several rotating electric blackouts. Subsequent legislation required the CAISO and the CPUC jointly to adopt Maintenance and Operation standards for all of the state's power plants, exempting Nuclear, Municipal, and Qualifying Facilities. For plants 50 megawatts and above, the CPUC enforces and implements detailed standards through inspections, extensive audits, and informal investigations. Among other things, the standards require prioritization of work, comprehensive training of plant staff, and making plants ready when needed. Plants are required to report mothballing, retirement, or other changes in the plant's status; such changes require CPUC approval under some circumstances. To target audits and to detect any trends in reliability, the CPUC collects and analyzes data on power plants, and requires power plants to report reliability data to a national power plant performance database. In 2008, the CPUC:

- Completed two comprehensive power plant audits, resolved most issues in two ongoing audits, and began three new audits;
- Inspected 240 power plant outages;
- Conducted four informal investigations;
- Closely monitored plant performance on peak days;
- Improved a program for issuing enforcement citations.

Audits

In 2008, the CPUC completed the audits of two power plants, and published the resulting Final Reports on the CPUC's web site. For each audit, a staff team researched the operating history of the plant, visited the plant for a week, and prepared an extensive Preliminary Report focusing on potential violations of power plant standards. The plant then submitted a corrective action plan. In all audits so far, the plant and the CPUC staff have resolved all potential violations without formal enforcement action. Staff documented the resolution of each issue in its Final Report, which the CPUC approved by resolution. Below are some important issues from the audits completed in 2008.

- *Etiwanda:* CPUC found that the plant deferred 164 needed maintenance repairs, failed to maintain proper water chemistry level, and used an obsolete work management program. In response to the audit, the plant hired a new maintenance manager, developed new procedures, performed much of the high priority repairs, refurbished the chemistry lab, installed new instrumentation systems, and updated its work management program.
- *Alamitos:* CPUC and the plant resolved 9 out of 16 findings. For the unresolved findings, the plant agreed to develop and implement comprehensive programs for six critical areas to prevent corrosion, maintain high-energy piping, manage hydrazine, chemically clean the boiler, manage boiler chemistry control and alarms, and implement a complete program to test circuit breakers and relays. In mid-2009, EGPB will re-audit the plant to evaluate the comprehensive programs, assess the plant's implementation of these programs, and review furnace repairs records and work orders.

CPUC staff and the plants resolved most of the issues in the audits of Delta and La Paloma, and will issue Final Reports for CPUC approval in early 2009. Staff began new audits at Encina, Pittsburg, and Sutter, and will send Preliminary Reports to the plants in 2009. The CPUC will conduct four new audits in 2009, beginning with Metcalf in February.

Inspections of Power Plant Outages

In 2008, the CPUC conducted 240 power plant inspections statewide. Staff inspects "forced" outages caused by mechanical or other breakdown, as well as "planned" outages which plants schedule periodically for maintenance work. Through those inspections, staff verified that outages were legitimate, observed the progress of repair and maintenance work, and maintained contact with plant staff. In general, CPUC staff inspected outages in which plants lose 50 megawatts of capacity or more. In 2009, staff plans to continue its inspection program, and will explore the feasibility of expanding the program to generators of renewable energy.

Special Investigations

Staff informally investigates outages or groups of outages when evidence suggested a significant violation of Operation and Maintenance standards. During 2008 investigations, CPUC staff:

- Tracked four plants' compliance with Federal water discharge limits for copper and/or mercury, as enforced by State Regional Water Quality Control Boards. In 2008, all four plants generally met the discharge limits;
- Following a fire at the plant, staff recommended improvements to a San Diego plant's emergency procedures for better communication with local responders during an emergency;
- Determined that a plant failed to adequately document daily inspections of its transformers. Over the summer, a transformer exploded and knocked the entire plant offline for several days. Since then, the plant implemented additional procedures, periodic inspections, and more stringent testing;
- Determined that the prolonged outages of two different plants were due to the lack of coordination between the plants and the utility in performing needed repairs or maintenance. CPUC staff found that the utility did not properly communicate with the generator and did not uphold its responsibility to maintain utility-owned equipment on plant property. To address the problem, staff identified each entity's respective maintenance responsibilities for plant substation equipment.

Emergency Reporting

When the CAISO declares Stage 1, 2, or 3 emergencies due to electrical capacity shortages, CPUC staff issues special, same-day inspection reports. The CPUC uses this information to brief other state and federal officials and agencies.

Priorities for 2009

- CPUC staff will begin a multi-step initiative to incorporate renewable energy generation into the Electric Generator Performance Program. In 2009, staff will expand its data collection and analysis efforts to assess the reliability and performance of renewable generation.
- CPUC staff will pursue opportunities to support resource planning and procurement efforts with the branch's practical expertise in power plant operations, where appropriate.
- Staff will actively pursue opportunities to work closely with federal and state entities to identify and support technical and regulatory mechanisms to improve generator reliability.
- Staff will design a program to implement the enhanced generator citation regulations recently approved by the CPUC. The new regulations 1) require staff to follow prescribed steps in issuing a citation and 2) establish an appeals process for generators.
- Due to increased concern about the security of power plants, CPUC staff will formally propose detailed guidelines for plants to establish and continuously monitor a perimeter.

Passenger Carriers

The CPUC is responsible for licensing carriers that transport passengers for compensation, and for enforcing the statutes and regulations that apply to these carriers' operations.

Passenger Carrier Inspection Program

CPUC staff continued its program of conducting surprise passenger carrier inspections at the state's major airports. For the safety of travelers and others who visit or conduct business at the airports, CPUC staff, and the carrier industry want to ensure that all limousines, shuttles, and other ground transportation services that operate on airport property are properly licensed and insured. In 2008, CPUC staff joined airport police, airport ground transportation personnel, and CHP commercial vehicle inspectors to conduct 11 inspections at the Los Angeles, San Francisco, Sacramento, Oakland, San Jose, San Diego, John Wayne, and Palm Springs Airports. The joint agency team inspected The joint agency team inspected 1,111 vehicles. The CHP issued 50 citations and placed 41 vehicles out of service for safety violations. Staff issued 30 misdemeanor warnings for unlicensed operations and 244 notices to correct violations of CPUC rules and regulations.

Another area that continued to receive special attention was the U.S.– Mexico International Border crossing at San Ysidro. Ongoing problems with unlicensed carriers and transportation solicitors at this location have required regular visits by staff. In addition, two major surprise inspections were conducted. Participating with CPUC staff were the San Diego Police Department, San Diego Transit Enforcement Division, and Customs and Border Patrol agents of the U.S. Department of Homeland Security. The outcomes were issuance of two misdemeanor warnings for operations without a license, four buses placed out of service for safety violations, and 12 arrests for unlawful solicitation of transportation services. Four vehicles were impounded.

Inspections were also conducted at venues that attract a significant number of transportation service providers. These included Disneyland Theme Park in Anaheim, U.S. Open Tournament at Torrey Pines Golf Course in San Diego, and Del Mar Race Track in San Diego County.

Increased Airport Enforcement Presence

Airports and the carrier industry supported the CPUC's belief that an increased enforcement presence is necessary to curtail the number of transportation companies that operate without a CPUC-issued license. Funding is provided by limousine and shuttle van operators through payment of an increased regulatory fee to the CPUC.

In April, the CPUC established a satellite office at Los Angeles International Airport (LAX) where two enforcement staff are stationed to work jointly with airport police and airport ground transportation officials to target unlicensed carriers. Between April and December, LAX Airport Police issued 436 citations, 298 of which were for operations without a CPUC-issued permit and 138 were for violations of CPUC and LAX rules and regulations. In 239 of the unlicensed carrier cases, the vehicle involved was impounded. During the same nine-month period, CPUC staff assigned to LAX issued 111 administrative citations and collected $109,500 in administrative and court-imposed fines.

Joint Agency Limousine/Taxicab Enforcement

Staff worked with San Francisco city officials to address the problem of limousine services operating like taxicabs. This practice is a source of constant complaint from city officials and taxicab operators alike. Limousine services are required by law and CPUC regulations to operate only on a pre-arranged basis and to have a "waybill" for each trip to show that the passenger arranged the service in advance. Taxicabs, on the other hand, are permitted to transport passengers who walk up and request service or who hail the cab on the street. In June 2008, working with the San Francisco Taxicab Commission, Office of the District Attorney, and Police Department, CPUC staff conducted a sting operation targeting (1) limousine carriers that solicit passengers without pre-arrangement and fail to have a waybill for the service and (2) carriers that operate without a license. Staff investigators acted as decoy passengers in need of airport transportation. They stationed themselves at major hotels and other points where the targeted operators would likely be searching for passengers. Seven limousine operators were cited for various violations and one vehicle belonging to a repeat offender was towed. Staff's reports were used in support of the arresting police officers' citations for municipal code violations and for operations without a permit issued by the CPUC. In addition, one hotel employee was cited by police for illegal solicitation.

Looking Forward

A satellite office will be opened in 2009 at San Francisco International Airport (SFO), from which staff will operate a program similar to the current one at LAX. Staff will also increase its presence at other airports to address the unlicensed carrier problem. Staff will endeavor to expand its inspection program by including Indian casinos and other additional locations where passenger carriers frequently operate.

Moving Companies

The CPUC is responsible for licensing moving companies, known as "household goods carriers." Enforcement staff acts against companies that operate without a permit, ensures that licensed companies comply with CPUC rules and regulations, and investigates consumer complaints.

Disconnection of Telephone Service

Some household goods carriers operate without holding a permit from the CPUC. Unlicensed companies may lack liability insurance for their trucks or workers' compensation insurance to cover their employees. The absence of coverage places their customers, employees, and the motorists with whom they share the public highways at serious risk. Failure to pay insurance premiums enables an unlicensed household goods carrier to charge lower rates and thereby unfairly compete and take away business from legal, licensed companies.

Telephone service is essential to operate a household goods moving company because the companies place ads in Yellow Page directories, newspapers, Internet Web sites and elsewhere in an effort to gain business. Staff has found the disconnection of telephone service to be an effective enforcement tool to abate an unlicensed carrier's operation. In its ongoing efforts to clamp down on illegal moving companies, staff obtained 16 court orders directing that telephone service be shut off to unlicensed moving companies operating in California without a household goods permit.

Protecting Consumers from Unscrupulous Movers

CPUC staff has utilized various enforcement tools to protect consumers from the abusive practices of some household goods moving companies. Often operating without a permit issued by the CPUC, the worst offenders hold the consumer's goods hostage as leverage to collect additional, unjustified charges, use excessive amounts of packing materials in the course of the move, charge exorbitant prices for those materials; ignore the legitimate claims for reimbursement for lost or damaged goods. In 2008 staff issued 111 cease and desist orders, 30 notices to correct violations, and 14 administrative citations with total fines of $31,250. Additionally, it intervened on behalf of individual consumers to secure 71 refunds totaling $69,210.

WATER

The CPUC is responsible for ensuring that the investor-owned water utilities deliver clean, safe, and reliable water to their customers at reasonable rates. There a 129 investor-owned water utilities and 13 investor-owned sewer utilities under CPUC jurisdiction, providing water serve to approximately 20 percent of California's residents.

The CPUC has developed a challenging yet achievable 3-5 year plan that addresses critical water utility and auditing/finance issues facing the CPUC and its stakeholders. During 2008, the CPUC addressed a number of the plan components, including supply shortage, water quality, water and energy conservation, consumer outreach, and performance of audits in-house. In the years to come, the DWA will continue to fulfill the objectives it has set out in this plan.

In particular, water and energy conservation, as well as drought preparation, have been and continue to be imperative front-burner issues for the CPUC. Given the Governors Executive Order in 2008 regarding water supply constraints, the CPUC has made water conservation and drought preparation a very high priority; working with other state agencies, water utilities, and interested parties, to achieve the Governor's goal of 20% reduction in water use by 2020. In addition, the CPUC is dedicated to:

1. Developing conservation rate designs that promote water conservation;
2. Providing and improving assistance programs for water utility low-income customers, in particular, during these difficult economic times;
3. Revising and updating the rules that govern the minimum standards for operation, maintenance, and design and construction of water systems;
4. Assisting small water utilities in their efforts to comply with CPUC reporting and filing requirement;
5. Processing advice letters of small and large water utilities in an efficient and professional manner; and
6. Processing of water, energy, and communication utilities financing applications and audits in a timely and thorough manner.

Three to Five Year Plan

The CPUC has developed a challenging yet achievable 3-5 year plan that addresses critical water utility and auditing/finance issues facing the CPUC and its stakeholders. In particular, the CPUC is addressing:

A. Development of policies and regulatory mechanisms to effectively address water shortages caused by drought, infrastructure failures, and natural disasters;
B. Implementation of procedures to ensure a safe high quality water supply that meets all applicable water quality standards, and development of in-house water quality expertise;
C. Development and implementation of rules for more efficient use of water and energy in the use and production of water by utilities and their customers;
D. Addition of more consumer outreach in coordination with CPUC outreach efforts, to educate consumers about water rates, tariff rules, water conservation, and low-income eligibility.

E. Development of uniform enforcement rules to ensure compliance with Commission directives.
F. Enhancement of our accounting and auditing services provided to our industry divisions, in order to ensure timely compliance with CPUC orders. In particular, the CPUC plans to conduct affiliate transaction and energy procurement audits in house to improve the objectivity of these audits and increase our oversight of these programs.
G. Strengthening our oversight of the utilities' use of authorized long-term debt by auditing the quarterly reports the utilities file with the CPUC.

The CPUC has already begun achieving these goals: 1) by working with utilities and interested parties in the revision to and streamlining of our standard drought tariffs; 2) by working with utilities and interested parties in the revision to General Order (GO) 103 3) through authorization of water conservation rates and revenue recovery mechanisms in the Water Conservation Order Instituting Investigation (OII); 4) through authorization of energy efficiency dollars to fund water/energy conservation efforts by our regulated water utilities; and 5) performing energy utility affiliate transaction rule and energy procurement audits in house.

Water Conservation

As part of its effort to promote water conservation in 2008, the CPUC continued an investigation to explore programmatic elements of a comprehensive water conservation program. As part of this proceeding, the CPUC has authorized conservation rate designs as part of its overall effort to improve the water conservation programs in place for regulated water utilities in California. To unlock financial disincentives for efficiency savings faced by electric utilities, the CPUC instituted Revenue Adjustment Mechanisms, designed to make utilities indifferent to their customers' conservation of electricity. In the face of increasingly scarce water supplies, the Commission has authorized a similar mechanism for water utilities, including the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA), to decouple water sales from revenues and remove the financial disincentives for investor-owned water utilities to institute the water conservation rates. Under the authorized WRAM, utilities are made whole for any revenue shortfalls from authorized revenues that result from water conservation by their customers. The MCBA makes the utility whole if production costs (including purchase power, purchase water, and pump tax) go up and allows for any reduction in these costs to be passed on to the ratepayers.

This investigation is being processed in stages, with most of Phase I occurring in 2007 and 2008, and Phase II in 2009. As part of Phase II, the CPUC will address non-rate design water conservation measures, such as implementing Best Management Practices (BMPs), establishing performance metrics and reporting requirements for price and non-price conservation programs, integrated water resource management, advanced metering programs and billing, and water shortage event planning. The CPUC's Water Action Plan recommended means to achieve the stated objective of strengthening water conservation programs to a level comparable to those of energy utilities, and the investigation expanded upon this principle. The CPUC plans to examine water conservation targets in Phase II of the investigation, as well as application of the conservation targets to all customer classes.

In June 2008, the CPUC issued a report to the legislature titled, Progress and Achievements Towards Water Conservation Goals Public Utilities Code § 2714.5, documenting the CPUC's progress toward the development and implementation of select water conservation policy objectives contained in the Water Action Plan. These efforts include developing conservation measures through ratemaking mechanisms and rate design for water utilities and coordinating with other agencies to develop and meet conservation goals. Specifically, this report details the proceedings that authorized conservation rates and financial mechanisms to decouple water sales from revenues for six Class A Utilities under CPUC jurisdiction, as well as the development of pilot programs that measure the impact of water conservation measures on energy conservation. On February 29, 2008, Governor Schwarzenegger proposed a water conservation plan to achieve a 20% reduction in per capita water use statewide by 2020. The CPUC has been and will continue to monitor, respond to, and incorporate the Governor's proposals into CPUC policies and proceedings, in order to meet these vital water conservation goals. The CPUC will also continue to work with other state agencies in the development of strategies to achieve the Governor's water conservation goals, the reduction of greenhouse gas emissions (GHG) through water conservation and recycling, and the reduction of energy use in the production and distribution of water.

Water/Energy Nexus

Upwards of 20% of California's electric energy usage is used for the conveyance and delivery of water. To identify potential energy and water savings at this critical nexus, the CPUC has authorized several pilot programs that the regulated electric and water utilities are currently engaged in. Our objective for the pilot programs is three-fold; (1) conserve water, (2) use less energy intensive water, and (3) make delivery and treatment systems more efficient. Our end goal is to be in a position to determine whether water conservation and less energy intensive water measures should be funded with utility energy efficiency dollars.

The CPUC is responsible for the implementation and evaluation of several operational energy efficiency programs. These programs are designed to demonstrate potential improvements in wire-to-water operational efficiency when the appropriate combination of induction motors, pumps, variable frequency drives, and Supervisory Control and Data Acquisition systems are operated at their optimal efficiency levels. The overall goal is to achieve and document at least a 10% differential optimal energy efficiency, in line with the goal set forth in the Water Action Plan. These operational energy efficiency pilot programs are to commence March 1, 2009 and run for a period of one year.

The CPUC is also examining the potential for operating water production systems at reduced production levels; particularly at peak energy demand periods. The CPUC is also examining the opportunity for water utilities to engage in self- generation of energy using renewable energy sources.

Low-Income Assistance Programs

Low-income customers often struggle with payments for basic monthly water service. Public Utilities Code allows the CPUC to consider and implement rate assistance programs for low-income water utility ratepayers. The CPUC has developed rate assistance programs to increase affordability of water service for these customers.

Currently, all of the large water utilities have instituted a low-income water rate assistance program. The CPUC continues to work with the Low-Income Oversight Board (LIOB), as well as interested parties, in the development of new and effective programs to assist low-income water ratepayers and more inclusive assistance programs that address not only residents of single family homes, but also those living in multi-family housing, where water service is not individually metered.

Revision of Rules Governing Water Service

- In 2009 the CPUC will implement an updated General Order 103—Rules Governing Water Service, Including Minimum Standards for the Design and Construction for Water and Wastewater Systems

In 2008 the CPUC undertook an extensive effort to revise and update General Order 103, which sets the rules for water service and the minimum standards for operation, maintenance, and design and construction for water systems. GO 103 was last revised in March 1994. The review and evaluation process of the existing and proposed new GO 103 standards involved the participation of subject matter experts, representatives from Class A and B water utilities, the Division of Ratepayer Advocates (DRA), The Utility Reform Network (TURN), and other stakeholders.

The updated GO 103 standards are expected to go into effect in the first or second quarter of 2009, and will apply on a going forward basis to new water and wastewater system(s), or to a an existing water utility when it makes a major modification to its system(s). The applicability of GO 103 standards were also expanded to wastewater systems, which include sewer and recycled water systems associated with services that regulated water and/or sewer utilities are providing or may provide in the future.

Updated Standards of Design and Construction for Water and Wastewater Systems

The standards of design and construction for water and wastewater systems have been updated to the most current industry standards and also made consistent with the California Department of Public Health's (CA DPH) recently adopted Waterworks standards. These standards include specifications for the design and construction of distribution systems such as water system capacity, minimum pipe sizes, layout of water mains, depth of service lines, etc. The design and construction of a utility's water and wastewater system(s) must conform to acceptable engineering standards and practices and also be approved by a professional engineer registered in the state of California.

Updated Operation and Maintenance Requirements for Water and Wastewater Systems

Under the new GO 103 requirements, water utilities must have detailed O&M procedures for all of their water facilities, and submit a summary of these procedures to the Commission. These O&M procedures include O&M schedules for each treatment plant or ground water source, and schedules and procedures for inspecting, repairing, and replacing water mains, etc.

Wastewater system utilities are also required to submit a copy of their O&M plans to the Commission. Water and wastewater utilities must also have on file at their principal office, plans, maps, drawings, or other records of all system facilities. Water and wastewater utilities must also conduct regular reviews of their asset management system to help achieve and maintain quality service, business performance requirements, manage risks, and improve efficiency. Water and wastewater utilities must report any major plans to retrofit existing facilities to the CPUC.

New Water Quality Compliance Requirements to Ensure Safe, High Quality Water

Water utilities are explicitly required to comply with all applicable State and Federal laws pertaining to water quality and applicable regulations from the CA DPH and United States Environmental Protection Agency (US EPA.) New notification provisions have been incorporated that require water utilities to notify the CPUC when a water utility is found out of compliance by the CA DPH or US EPA, or when a water utility notifies its customers of a water quality issue. The CPUC also has the authority to appoint a water quality expert to assist in the review of water quality compliance of any water utility. The CPUC also continues to work closely with CA DPH to monitor and address water quality issues associated with small water utilities.

New Customer Service Performance Standards and Reporting Requirements

The updated GO 103 establishes new customer service performance and reporting standards for telephone, billing, metering reading, work completion, and customer complaint response. These customer service performance measures were developed with input from customer service representatives from the Class A and B water utilities and representatives from DRA and TURN. The CPUC expects that these performance standards to evolve over time, as the utilities gain experience implementing the standards, and the performance results are evaluated. All water and wastewater utilities are required to provide emergency telephone access for their customers, and respond to urgent service issues within 24 hours. New standards have been added for responding to customer and regulatory complaints.

Water Utility Advice Letter Processing

During 2008, the CPUC processed 353 advice letters, of which 19 were small water and sewer General Rate Cases (GRC). This represents a significant increase of approximately 37% in the workload over 2007, when the CPUC processed a total of 258 advice letters, 19 of which were GRC's. In 2008, the CPUC also processed 7 transfer of ownership filings, as compared to 6 in 2007. The CPUC is currently processing 78 advice letters, of which 23 are small water and sewer GRC's.

Small Water Assistance and Cost of Capital

As part of a strategic plan to assist the smaller utilities, the CPUC conducted an outreach program during the summer of 2008. Representatives investigated 12 utilities in order to assist them in the development of GRC filings and annual Consumer Price Index (CPI) filings. Some of these utilities have been operating with negative cash flows in recent years and have not filed for GRCs in more than 15 years. The CPUC also assisted 7 small water utilities in the completion of their Annual Reports to the CPUC. In 2009, the CPUC plans to visit at least 13 more small water utilities as part of its outreach program. The CPUC issues a memorandum each year in which it provides recommended rate of return and rate of margin for the smallest water utilities. Rate of return for medium-sized water utilities are determined on a case by case basis.

Financing Applications and Audits

Public Utilities Code requires CPUC authorization before a utility can issue long-term debt. In 2008, the CPUC processed filings totaling approximately $43 million in authorization. Three water utilities received financing authorizations totaling $8 million, and 2 telecommunications utilities received financing authorizations totaling $35 million.

The CPUC also contains auditors to conduct financial audits of all types of utilities. Pursuant to Public Utilities Code direction and CPUC decisions, staff performed 11 audits on approximately $863 million of funds in 2008, which is a 120% increase over the total funds audited in 2007 of approximately $391 million.

In 2008, CPUC also performed audits of: 1) The first and second quarter 2008 energy procurement quarterly compliance reports (QCR) of PG&E, SCE, and SDG&E; and 2) Asia Inc., a clearinghouse for the certification of applications by Women/Minority Business Enterprises (WMBE), in order to determine whether Asia, Inc. complied with the rules set out in GO 156.

All of the audits performed by DWA are staffed by multiple team members, taking many months to perform, consisting of the field audit, analysis of the data, development of recommendations, and writing and presentation of the reports on their findings and conclusions. In 2009, the CPUC staff plans to conduct audits of the 2008 Energy Efficiency Programs, energy procurement QCR's, and several water utilities.

The following table provides a description of the major audits performed in 2008, including the amount of funds subject to each audit.

Utility/Program/Fund/Contract Audited	Funds Subject to Audit (In Millions)
PG&E's 2006 Low Income Energy Efficiency (LIEE) Program	$88.0
SCE's 2006 LIEE Program	31.4
SDG&E's 2006 LIEE Program	14.4
SCG's 2006 LIEE Program	27.3
PG&E's 2007 Energy Efficiency (EE) Program	298.0
SCE's 2007 EE Program	261.0
SDG&E's 2007 EE Program	77.7
SCG's 2007 EE Program	42.5
Cox Communications Public Program Funds	21.5
Cellco Partnership Public Program Funds	1.0
Accessline Public Program Funds	.2
Total Funds Audited in 2008	$ 863.0

CONSUMER SERVICES & INFORMATION

The Consumer Service & Information Division (CSID) acts as the liaison between the community and the CPUC. Its primary role is to respond to individual ratepayer needs and inquiries. The CPUC assists consumers with questions and informal complaints regarding utility billing and services. In addition, CAB staff processes Universal Lifeline Telephone Service (Lifeline) appeals for consumers. CSID also works with the public through its Community Relations & Education Branch (CREB) to provide procedural information and advice to individuals and groups who want to participate in formal CPUC proceedings. Lastly, ongoing efforts to communicate with our diverse consumers, small businesses, and outreach to rural communities occur through other CSID programs. CSID staff keeps the CPUC informed of issues being raised by consumers, as well as barriers that prevent effective public participation.

Accomplishments - Improving Customer Service

In response to the CPUC's 2006 Consumer Protection Initiative for telecommunications consumers, a number of projects were launched in an effort to improve customer service. The successful planning and development of these projects were realized in 2008 during implementation of a new database and procedures manual. As a result of these and other changes, backlogs significantly decreased and the average response time to consumers improved.

- **Gaining Efficiencies with new Database:** Implementation of our new Consumer Information Management System (CIMS) database, including web interfaces for both consumers and utilities, increased efficiencies in processing informal complaints, and increased data integrity and audit ability. The launch and use of CIMS is enhancing the ability to serve our stakeholders.
- **Standardizing Processes:** Institution of our new "CAB Procedures Manual" provides clear written processes, step-by-step procedures, and reference materials to promote the consistent, efficient and effective handling of consumer inquires and informal complaints. The manual was developed to work specifically with the CIMS database and borrows "best practices" from industry as well as other public agencies.
- **Reducing Backlog:** The CPUC had a goal to resolve and respond to all informal complaints within 90 days. All cases over 90 days are considered backlogged. The CPUC reduced the number of backlog cases by 73%, from 5,949 in 2007 to 1,627 in 2008.
- **Responding Quickly to Consumers:** The CPUC also significantly decreased the average time it takes to respond to written complaints. In 2007, the average complaint took 228 days to resolve;

How Do Consumers Resolve a Complaint or Get Involved in a CPUC Proceeding?

The Consumer Affairs Branch assists consumers with their complaints, and endeavors to informally resolve disputes between customers and utilities. Customers with unresolved questions about telephone, gas, water or electric utility service or bills should contact the CPUC Consumer Affairs office at:

CPUC Consumer Affairs Branch
800-649-7570
www.cpuc.ca.gov

The Public Advisor's Office assists consumers by explaining how to file a formal complaint, how to use CPUC procedures, and how to participate in CPUC proceedings. The Public Advisor's Office also coordinates Public Participation Hearings on selected CPUC proceedings around the state, and receives, circulates within the CPUC, tabulates and responds to public comments on various proceedings.

CPUC Public Advisor —
San Francisco

505 Van Ness Avenue,
Room 2103
San Francisco, CA 94102
1-866-849-8390

public.advisor@cpuc.ca.gov

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Los Angeles

320 W. 4th Street,
Suite 500
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when compared to only 79 days response time in 2008, the CPUC achieved a 65% improvement in response time.

- **$2.5 Million in Customer Refunds:** In 2008, the CPUC helped residential customers receive $2.5 million in refunds and/or bill credits as a result of the with consumers and the utility companies to resolve their billing complaints.

Other Customer Service Programs/Efforts

Category	2006	2007	2008
Phone Inquiries	100,692	103,032	106,591
Complaints Filed	36,415	33,942	20,597
Complaints Resolved	48,545	34,888	28,976
Total Cases Open (as of Year End)	11,417	10,471	5,500
Cases Backlogged*	2,704	5,949	1,627
Average Days Cases Open**	195	228	79
Refunds	$4,014,345	$2,581,380	$2,457,519

A number of other program efforts improved services to our consumers, and allowed the CPUC to reach more consumers, through both new and existing programs. Two new programs were established: the Telecommunication Education and Assistance in Multiple languages (TEAM), and the Senior Awareness program. The LifeLine program began to stabilize in 2008 while other existing programs reached more consumers through additional language documents, and community outreach efforts.

- **LifeLine Appeals:** The Lifeline program began to stabilize in 2008 as the program completed its first full cycle of approvals and appeals. Appeals filed decreased by almost 20 percent in 2008 and related billing complaints decreased by over 75 percent.

Public Advisor's Office

The Public Advisor's Office (PAO) provides procedural information and advice to individuals and groups who want to participate in CPUC proceedings. The PAO provides support at hearings and workshops and assists those who seek compensation through the CPUC's Intervener Compensation Program.

LIFELINE APPEALS			
Calendar Year	2006*	2007	2008
Appeals Filed	10,445	7,737	6,332
Appeals Granted	3,674	1,428	1,499
Assoc. Billing Complaints	10,445	7,737	1,801

* The CA Lifeline program substantially changed with the amendment of General Order 153, effective June 2006. Data for 2006 is partial year, July 1, 2006 to December 31, 2006.

The PAO also keeps the CPUC informed of barriers that prevent effective public participation. The CPUC reviews and approves utility bill inserts and fact sheets on issues that generate significant consumer interest. In 2008, the CPUC supported 60 events, including Public Participation Hearings, workshops, public meetings, press events, evidentiary hearings or oral argument conferences.

Telecommunication Education & Assistance in Multiple languages

The Telecommunication Education & Assistance in Multiple language (TEAM) program provides in-language telecommunications education and complaint resolution assistance to consumers through community based organizations. The program began July 1, 2008 and provides assistance across the state in 22 languages. Through this program, the CPUC resolved 433 complaints that resulted in over $21,000 in refunds to individual residential customers. The top three complaints were cramming, overbilling, and LifeLine. The primary languages we received these complaints in were Cantonese, Spanish, Vietnamese, Farsi, & Hmong.

Bi-Lingual Services Program

In 2008, approximately 230 documents were translated for consumers' use, into 19 different languages. The languages, in order of the most documents to the least documents, were: Spanish; Chinese; Tagalog; Korean; Arabic; Armenian; Farsi; Russian; Hmong; Khmer; Thai; Vietnamese; Portuguese; Laotian; Burmese; Japanese; Punjabi; Hindi; and Urdu.

Small Business Program

The Small Business group is continuing its effort to empower small businesses across the State on regulatory issues impacting their bottom line. A dedicated hotline was instituted in 2008 for the small business community to ensure that their needs are being met. The group also participated in various Chamber events to inform small businesses about the State's policy to procure up to 25% from this sector.

There were increased efforts dedicated to supporting small business owners. The CPUC held and/or participated in over 15 small business expositions to assist this group in obtaining State and utility procurements. In 2008, the CPUC sponsored two Small Business expositions where hundreds of small businesses gathered to learn about regulation, and how to do business with the CPUC and utility companies. The two CPUC sponsored events brought together over 400 businesses and 50 exhibitors. In addition, 15 firms held over 1,000 matchmaking sessions between small businesses and utility companies to discuss procurement opportunities.

Helping the Senior Community

In 2008, the CPUC started a Senior Awareness Campaign to visit Senior Centers and communities throughout the State to raise awareness on Public Purpose Programs such as CARE, LIEE, LifeLine, and to explain how to prevent and report telecommunication fraud. Since October 2008, the inception of the program, the program has held 8 events, reaching approximately 400 seniors.

Outreach

The goal of the Outreach program is to create and foster sound relationships with our clients and allow two-way communication that will facilitate the implementation of CPUC's policies externally, and help shape policy internally. As part of building relationships in 2008, each of the four Outreach officers had a goal of adding 25 new clients each month. Outreach officers also worked with their communities to provide feedback to the CPUC on an array of issues such as Public Purpose Program surcharges, renewable energy (solar panel specifically), and concerns over water rates and future AB32 impacts on businesses.

Utility Supplier Diversity Program

The Utility Supplier Diversity Program (USDP) promotes diversity to increase participation of Women, Minorities, and Disabled Veteran Business Enterprises (WMDVBEs) in the procurement of contracts from utilities. In 2008, USDP staff held five joint utilities workshops to improve procurement goals with DVBEs; and actively participated in utility matchmaking and other community based events focused on WMDVBEs.


CALIFORNIA REPUBLIC
RAIL ROAD CROSSING
THE GREAT SEAL OF THE STATE OF CALIFORNIA
EUREKA

DIVISION OF RATEPAYER ADVOCATES

The Division of Ratepayer Advocates (DRA) is an independent division of the CPUC that advocates solely on behalf of utility ratepayers. DRA's Director is appointed by the Governor. DRA has its own independent budget. Its statutory mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, DRA also advocates for customer and environmental protections.

As the only state agency charged with this responsibility, DRA plays a critical role in ensuring that consumers are represented at the CPUC on matters that affect how much consumers pay for utility services and the quality of those services. DRA is often the only voice representing consumer interests in a number of these proceedings. Since the CPUC relies on a formal evidentiary record in rendering its decisions, DRA's participation is essential to ensure that the CPUC has a record that reflects the interests of California consumers.

DRA also participates in numerous informal proceedings before the CPUC in which utilities often seek authority via an "Advice Letter" process to undertake certain actions, which may have significant impacts on ratepayers. Utility requests via Advice Letters are typically authorized by a CPUC decision adopted in a formal proceeding which sets certain parameters for determining whether the Advice Letter request is valid and should be granted.

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

DRA Budget

Fiscal Year	Total Direct Dollars Including Reimbursable Contracts	Total Direct Dollars Plus Legal and Administrative Support
2008/2009	$19,904,850	$26,778,000
2009/2010	$20,790,850 Proposed	$27,664,000

Number of Proceedings DRA Participated in 2008 by Industry Area

	Communication	Electric	Gas	Water
No. of Proceedings	13	90	25	57

Number of pleadings filed by DRA by industry group in 2008

	Communication	Electric	Gas	Water
No. of Pleadings	63	347	71	288

CPUC-related lobbying activity by DRA throughout 2008

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
No. of Lobbying Contacts	77	106	138	80

Currently, DRA has five branches: the Communications Policy Branch; the Water Branch; and three energy branches. The energy branches are Energy Cost of Service & Natural Gas, Electricity Planning & Policy, and Electricity Pricing & Customer Programs.

Communications

In 2008, changes dominated the telecommunications landscape in California, resulting in a deregulated marketplace with more telecommunications offerings for consumers. While technological advancements underscore the State's progressive leadership, these options introduce consumers to an increasingly sophisticated, expensive and confusing market. DRA advocated improving consumer safety, information, service, and treatment in 2008, raising awareness and initiating actions that directly benefit all Californians. A few examples of this work include:

- Initiating efforts to require emergency back-up power systems for alerting the state in major emergencies
- Improving product/service information for all consumers
- Preserving public television resources and the video franchising process

DRA Directs Attention to Critical Emergency Back-Up Power System Needs

AB 2393 required the CPUC to prepare the State for large-scale emergencies by evaluating telecommunications companies' back-up power facilities and plans for emergency notification of citizens in California. DRA has identified the need for extremely well-organized and reliable communication systems in the event of catastrophic events, such as earthquakes or wildfires. In response to the Legislature's request, DRA successfully convinced the CPUC to convene series of workshops to examine and review the reliability and effectiveness of emergency power systems. DRA is committed to improving the safety of all Californians by ensuring that communication systems will be in place and functional during emergencies.

Improving Consumer Information and Advancing Social Equity

In this newly deregulated communications environment, consumers are more on their own when choosing services. In response, DRA provides consumer education via DRA's website.

In 2008, DRA advocated on behalf of consumers with limited English skills to protect them from fraud and deceptive marketing. Staff built upon successes of the previous year, when requirements were instituted for customer support in languages other than English, then joining other consumer groups to lobby successfully for even more protections. These additional protections include requirements publishing limited English consumer complaints on the Commission's website, and conducting a statewide survey is to be conducted in 2009 to determine if these customers are receiving adequate service and quality.

Preserving Public Television and Making Video Franchising More Effective

In 2006, the Digital Infrastructure and Video Competition Act (DIVCA) authorized the CPUC to grant statewide franchises for cable television services, with the objective of increasing the competitive choices that all Californians have for video and broadband services. In 2008, DRA worked with representatives of city and county governments to highlight the public's needs for continued Public Access, Educational and Government Channels in their franchise agreements. DRA also helped a coalition of community groups in lobbying at the Commission on behalf of their interests.

WATER

Water Rates and Services

DRA represents consumers by scrutinizing the costs of service of California's nine large investor-owned water utilities. These utilities have 61 geographically separate ratemaking districts, each with its own system costs. Most of DRA's work in this area concerns applications for rate increases. In these General Rate Case applications, DRA audits the utilities' accounts and reviews past and projected expenses, revenue forecasts, cost of capital, plant additions, and rate design. In addition to advocating on behalf of ratepayers in these General Rate Cases, DRA takes an active role in broad policy projects whose outcomes will impact ratepayers and California's water resources as a whole.

DRA Keeps Water Rates Affordable for Customers Served by Investor Owned Utilities

DRA carefully scrutinizes Class A (10,000 or more service connections) water utility requests for rate increases for reasonableness with a focus on keeping overall rates affordable. Water utility rates are primarily impacted by the need for water infrastructure replacement/improvement and meeting water quality standards.

DRA's dedicated staff of analysts and engineers continue to effectively represent California water customers in rate case proceedings. For 2008, on a Person Year (PY) basis, DRA staff was able to reduce water utilities' request for rate increases by an average of \$3.1 million per PY. Currently, DRA is participating in general rate cases representing over 22 water utility service districts. In these cases, DRA either will be submitting testimony or has submitted the case to the CPUC for a decision. The total increases in rates represented by these cases exceed \$105 million, with new rates going into effect in 2009 and 2010.

In 2008, the CPUC adopted rate increases for San Gabriel Water Company eight districts and a rate increase for the California Water Service Company. These water utilities requested increases in rates of over \$57.8 million in total. DRA reviewed and actively participated in these proceedings. In both rate cases, DRA reached settlement agreements that reduced the requested increases to customers. In the San Gabriel Water rate case, the company's request was reduced from \$13.4 million to \$3.8 million, a 70% reduction. Based on the company's request an average customers' monthly water bill would have increased by over \$23 per month, or 28%. DRA's active participation in the case limited the average monthly bill increase to 8.1% or about \$7 per month.

California American Water (Cal Am) requested a rate increase of nearly \$25 million or 80% for 2009. Hearings have been completed and this case is being submitted for a Commission decision.

- DRA opposed over \$60 million in proposed infrastructure that was inadequately justified and could have been phased in over a longer period of time. These costs would have significantly burdened Monterey Peninsula customers.
- DRA opposed ratepayer funding of a \$75 million seismic retrofit of the San Clemente Dam because this excessively expensive proposal would not likely receive federal environmental regulatory approval. After DRA submitted its testimony, California American Water withdrew its request.
- DRA also opposed ratepayer funding of a desalination plant in Sand City which would unfairly burden existing customers. DRA found that the proposal was a poorly negotiated public-private partnership whose improper costs should be borne by others.

Due to the significant water supply constraints in the Monterey Peninsula, over time these customers may face rate increases of up to 300% and DRA will continue to vigorously fight to ensure that future rate increases are kept to reasonable levels that support worthy projects.

DRA also was successful in obtaining a refund of nearly \$1.5 million for San Jose Water customers representing profit from the sale of San Jose Water's office building. The CPUC found in this case that ratepayers where entitled to 100% of the profit from the sale of the office building, because the building continues to be used and useful, and was considered depreciable property under the CPUC rules.

DRA Negotiates Water Conservation Rate Design and Water Conservation Programs Settlements

In 2008, DRA negotiated settlement agreements to implement conservation rates and revenue decoupling mechanisms through trial programs with California Water Service, Park Water, Suburban Water, San Jose Water, Golden State

Water Company, and California American Water Company. The CPUC adopted these agreements in 2008. Additionally, in 2008, DRA negotiated settlement agreements to implement cost-effective conservation programs such as rebates for water saving devices with Park Water Company, San Gabriel Valley Water Company, and California American Water Company.

DRA and Water Utilities Complete the process of Establishing Low Income Rate Assistance Programs

DRA has worked with water utilities to establish and improve upon existing low-income water rate assistance programs to increase affordability of water among qualifying low-income residential customers. As of 2008, all nine large water utilities have implemented low-income assistance programs. DRA reached a settlement with Suburban Water Company on low-income ratepayer assistance program; the CPUC adopted this settlement in 2008. Additionally, DRA reached a settlement with California American Water Company to enhance and expand its existing low income rate assistance program in the Monterey District. This program will provide a fixed dollar discount to customers depending on the number of people living in the residence and expands the program to include customers in additional subdivisions.

Energy

Investigation of Southern California Edison Company Results in Significant Ratepayer Refunds

DRA actively participated in the CPUC investigation of Southern California Edison Company's (SCE) Performance Based Ratemaking (PBR) Program. The CPUC decision ordered SCE to make ratepayer refunds totaling $80.7 million, to forego $35 million in requested PBR rewards, and imposed a $30 million fine. The specific refunds of $32.7 million associated with results sharing payments and $28 million in customer satisfaction rewards were based entirely upon evidence presented by DRA as was the requirement to forego $20 million of requested customer satisfaction rewards.

General Rate Case Proceedings

DRA actively participated in a number of general rates cases (GRC) to ensure the lowest possible rate consistent with safe and reliable service levels.

- SCE is requesting GRC increases of $871 million in 2009, $288 million in 2010 and $362 million in 2011. DRA conducted a comprehensive investigation and analysis of SCE requests and issued an extensive report recommending a $162.4 million increase in 2009, $135.8 million in 2010, and $139.9 million in 2011. The case is currently pending before the CPUC.
- In 2008, the CPUC adopted a settlement agreement between DRA, SoCalGas and other parties limiting SoCalGas' GRC rate increase to $29 million in 2008 in contrast to the utilities request of $139 million. The increases for 2009-2011 were limited to 3.1% annually which was significantly lower than the utility request.
- In 2008, the CPUC adopted a settlement agreement between DRA, SDG&E and other parties limiting SDG&E's GRC rate increase to $147 million in 2008 as compared to the utilities request of $232 million. The increases for 2009-2011 were limited to 3.1% annually which was significantly lower than the utility request.
- In 2008, the CPUC adopted a settlement agreement negotiated between DRA and Southwest Gas Company limiting its rate increases to $3.2 million in 2009, and about $2.3 million annually for 2010-2013. This agreement will save Southwest Gas ratepayers approximately $16 million as compared to the utility's requested increase for the five year period.
- Bear Valley Electric Service requests a GRC increase of $6.8 million in 2009, $878,000 in 2010, $391,000 in 2011, and $$315,000 in 2012. In December 2008, DRA issued its report recommending increases of $2.2 million in 2009, $1.1 million in 2010, $619,000 in 2011, and $807,000 in 2012 which would save ratepayers $16.5 million.
- DRA negotiated a settlement agreement with PG&E reducing its request for $27 million in costs for restoring facilities damaged by the January 2008 winter storms by $4 million.
- The CPUC approved a settlement between DRA and West Coast Gas Company granting the utility a rate increase of $202,116 for 2009 which was 2% less than its request.

Evaluation of New Power Procurement

Through active participation in the Procurement Review Groups (PRGs) and other related CPUC proceedings, DRA evaluates the price of all power procurement proposals pursued by California's investor owned utilities. DRA's evaluation always seeks to ensure that the utilities energy procurement plans meet state energy policy goals in the most cost effective way. To achieve its goals, DRA weighs the cost and benefits of new resource options, comparing each to state energy policy goals such as the Renewable Portfolio Standard, current market conditions, and alternatives resources to building new power plants.

Greenhouse Gas (GHG) Reduction Proceedings

DRA actively participated in both GHG proceedings at the CPUC and California Energy Commission (CEC) and also filed comments with the California Air Resource Board (ARB). DRA also filed comments to ARB in response to the ARB's Draft Proposed Scoping Report. DRA requested that the ARB provide cost estimates for each reduction method, then create an economic loading order of emissions reduction strategies across all emission producing sectors. This would result in the lowest-cost reduction strategies being implemented first. DRA advocated that the ARB consider methods other than a cap and trade system for the electric sector, arguing that it may not be the most cost-effective or effective method of emissions reduction. DRA suggested that the ARB also consider a carbon fee system.

Ensuring California's Renewable Portfolio Standard (RPS) Goals Are Achieved In The Most Cost-Effective And Meaningful Manner

DRA is the primary representative of ratepayers in renewable energy development. In order to protect ratepayers from any unnecessary costs or overcharges in the utilities efforts to meet the RPS goals, DRA:

- Reviews RPS contracts before the commission for approval;
- Meets regularly with utilities to review their anticipated renewable resource procurement activities in order to streamline the process, thereby making it more efficient and cost-effective;
- Evaluates transmission plans and projects for renewable resource integration;
- Provides technical expertise and support for developing reliability criteria for renewable resources integration and the Market Price Referent (MPR) for support of renewable resource development;
- Evaluates and provides technical support in workshops and rulings regarding renewable energy Feed-in Tariffs.

Representing the Most Vulnerable Ratepayers

DRA successfully advocated on behalf of low income customers to expand and improve the California Alternative Rates for Energy Program (CARE), rate discount program, and the Low Income Energy Efficiency Programs for low income customers. Among other benefits gained for low income customers, DRA's advocacy led to a 35,000 increase in eligible households for energy efficiency assessments and retrofits. An additional one million eligible households will be offered the 20 percent CARE discount on their energy bills.

Advocating for the Lowest Rates through Rate Design and Rate Allocation

DRA continues to support rate design protections, including the rate caps imposed by AB 1X of 2001 for residential usage, and limited rate increases for low income customers under the California Alternative Rates for Energy (CARE) program.

DRA recommends caution and moderation in granting utility proposals to increase their revenue requirements, and also recommends small changes to the revenue allocation process to limit increases to the residential customer class.

Ensuring Utility Energy Efficiency Investments to Benefit Ratepayers

DRA continues its strong advocacy on behalf of consumers regarding energy efficiency policies and programs. DRA actively participated in the development of a statewide Strategic Plan for Energy Efficiency, which provides a roadmap through 2020 for collaboration across jurisdictions and industries to optimize energy efficiency in California. DRA has also aggressively advocated that the energy utilities earn monetary rewards based on independently-verified energy savings.

Supporting Cost-Effective Demand Response Programs

DRA continues to aggressively advocate for cost effective Demand Response programs that integrate successfully with the California Independent System Operator's wholesale markets. Most recently, DRA has taken this position in the consolidated proceeding focusing on the utilities' 2009-11 Demand Response proposals.

Supporting Cost Effective Modernization of the Electric System

DRA is vigorously advocating that the utilities employ cost effective advanced metering infrastructure (AMI) systems. AMI technology is evolving at a fast pace, and DRA wants to ensure that if existing systems grow obsolete, ratepayers will not be unnecessarily burdened with the continuous cost and risk of new technology upgrades.

Insisting that Ratepayers Benefit from the Accelerated Re-Opening of Direct Access

DRA advocates that there must be factual evidence that ratepayers will benefit from re-opening retail competition (otherwise known as the Direct Access Program). Any changes to energy policy in order to re-open Direct Access should be consistent with energy policy developments on electric resource wholesale market re-design, renewable power procurement, and long term procurement plans, among other considerations. DRA is concerned about re-opening Direct Access while implementation of these other important policies is still in flux.

Certificate of Public Convenience and Necessity (CPCN) for Sunrise Powerlink

DRA actively participated in San Diego Gas & Electric's (SDG&E's) application for a Certificate of Public Convenience and Necessity (CPCN) for the 150-mile, 500 kV, $1.7 billion Sunrise Powerlink transmission project. DRA remained concerned over the cost and need for the proposed transmission line throughout the proceeding.

Natural Gas Cases

Public Purpose Programs

DRA has contested the proposals of the gas utilities to modify the current cost allocation for various Public Purpose Program costs that would reduce the allocation of costs to large customers while increasing the allocation of costs to residential and small commercial customers.

SoCalGas/SDG&E Biennial Cost Allocation Proceeding

In 2008, the CPUC issued a decision adopting a settlement agreement in Phase 1 of this case in which DRA played a primary role. The agreement ensures that core residential and commercial customers have adequate storage inventory to ensure relaible winter gas supplies and provides for future increases in inventory. The agreement also allocates about $10 million more of annual revenues generated from unbundled storage to customers consistent with DRA's proposal.

Ruby Pipeline

DRA supported PG&E's request to contract for long-term capacity for its gas and electric customers on the proposed Ruby Pipeline which will deliver natural natural gas from the Rocky Mountains to PG&E's service territory.

Liquified Natural Gas (LNG)

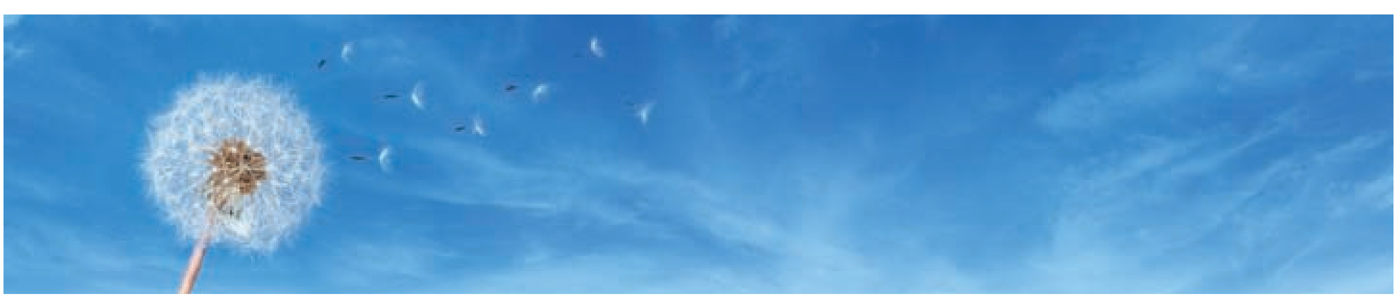
The CPUC issued a decision determining procedures for utilities procuring LNG supply which agreed that it should compete head-to-head with other domestic supply sources as proposed by DRA.

LIST OF 2009 PRIORITY PROCEEDINGS

NUMBER	SHORT TITLE	UTILITY	COMMISSIONER
C0809001	WILLIAM LETTIS & ASSOCIATES, INC. VS. TELEKENEX INC. - DISPUTE ON TERMINATION FEES.	Communications	Simon
R0212004	CPUC - SERVICE QUALITY STANDARDS - OIR INTO THE SERVICE QUALITY STANDARDS FOR ALL TELECOMMUNICATIONS CARRIERS	Communications	Chong
R0504005	CPUC - PAC BELL, VERIZON, SUREWEST TELEPHONE, FRONTIER COMM. - OIR TO ASSESS AN REVISE THE REGULATION OF TELECOMMUNICATIONS UTILITIES	Communications	Chong
R0605028	CPUC - OIR TO REVIEW THE TELECOMMUNICATIONS PUBLIC POLICY PROGRAMS	Communications	Chong
R0610006	CPUC - TELECOMMUNICATION - OIR INTO THE APPLICATION OF THE CALIFORNIA ENVIRONMENTAL QUALITY ACT TO APPLICATIONS OF JURISDICTIONAL TELECOMMUNICATIONS UTILITIES TO OFFER SERVICE AND CONSTRUCT FACILITIES	Communications	Bohn
R0704015	CPUC - OIR INTO RELIABILITY STANDARDS FOR TELECOMMUNICATIONS EMERGENCY BACKUP POWER SYSTEMS & EMERGENCY NOTIFICATION SYSTEMS	Communications	Simon
A0603005	PG&E - TO REVISE ITS ELECTRIC MARGINAL COSTS, REVENUE ALLOCATION, AND RATE DESIGN	Energy	Chong
A0608010	SDG&E - CPCN FOR THE SUNRISE POWERLINK TRANSMISSION PROJECT	Energy	Grueneich
A0706031	EDISON - CPCN CONCERNING THE TEHACHAPI RENEWABLE TRANSMISSION PROJECT (SEGMENTS 4 THROUGH 11).	Energy	Grueneich
A0707015	PG&E AND SDG&E - FOR APPROVAL OF THEIR EMERGING RENEWABLE RESOURCE PROGRAMS	Energy	Simon
A0710005	THE NEVADA HYDRO CO. - CPCN FOR THE TALEGA-ESCONDIDO/ VALLEY-SERRANO 500-KV INTERCONNECT	Energy	Grueneich
A0711011	EDISON - TO INCREASE ITS AUTHORIZED REVENUES FOR ELECTRIC SERVICE IN 2009	Energy	Peevey
A0712009	PG&E - TO INCREASE REVENUE REQUIREMENTS TO RECOVER THE COSTS TO UPGRADE ITS SMARTMETERTM PROGRAM	Energy	Chong
A0802001	SDG&E AND SOCAL GAS - FOR AUTHORITY TO REVISE THEIR RATES EFFECTIVE JANUARY 1, 2009, IN THEIR BCAP PROCEEDING	Energy	Simon

NUMBER	SHORT TITLE	UTILITY	COMMISSIONER
A0803002	EDISON - TO ESTABLISH MARGINAL COST, ALLOCATE REVENUES, AND DESIGN RATES	Energy	Peevey
A0803015	EDISON - FOR AUTHORITY TO IMPLEMENT AND RECOVER IN RATES THE COST OF ITS PROPOSED SOLAR PHOTOVOLTAIC PROGRAM	Energy	Peevey
A0805039	EDISON - CPCN FOR THE SAN JOAQUIN CROSS VALLEY LOOP TRANSMISSION PROJECT	Energy	Grueneich
A0806001	EDISON - FOR APPROVAL OF DEMAND RESPONSE PROGRAMS, GOALS AND BUDGETS FOR 2009 - 2011.	Energy	Chong
A0806002	SDG&E - FOR APPROVAL OF DEMAND RESPONSE PROGRAMS AND BUDGETS FOR YEARS 2009 THROUGH 2011.	Energy	Chong
A0806003	PG&E - FOR APPROVAL OF 2009 - 2011 DEMAND RESPONSE PROGRAMS AND BUDGETS.	Energy	Chong
A0807017	SDG&E - FOR APPROVAL OF THE SDG&E SOLAR ENERGY PROJECT	Energy	Peevey
A0807021	EDISON - FOR APPROVAL OF ITS 2009 -2011 ENERGY EFFICIENCY PROGRAM PLANS AND ASSOCIATED PUBLIC GOODS CHARGE AND PROCUREMENT FUNDING REQUESTS	Energy	Grueneich
A0807022	SOCAL GAS CO - FOR APPROVAL OF NATURAL GAS ENERGY EFFICIENCY PROGRAMS AND BUDGETS FOR YEARS 2009 THROUGH 2011.	Energy	Grueneich
A0807023	SDG&E - FOR APPROVAL OF ELECTRIC AND NATURAL GAS ENERGY EFFICIENCY PROGRAMS AND BUDGETS FOR YEARS 2009 THROUGH 2011.	Energy	Grueneich
A0807031	PG&E - FOR APPROVAL OF THE 2009-2011 ENERGY EFFICIENCY PROGRAMS AND BUDGET	Energy	Grueneich
A0809023	SOCAL GAS CO. - FOR APPROVAL OF ADVANCED METERING INFRASTRUCTURE	Energy	Grueneich
A0812021	SDG&E - FOR REVIEW OF ITS PROACTIVE DE-ENERGIZATION MEASURES AND APPROVAL OF PROPOSED TARIFF REVISIONS	Energy	Simon
I0801026	CPUC - OII INTO THE RATES, OPERATIONS, PRACTICES, SERVICES AND FACILITIES OF EDISON	Energy	Peevey
I0803010	CPUC - OII TO PROMOTE THE DEVELOPMENT OF TRANSMISSION INFRASTRUCTURE TO PROVIDE ACCESS TO RENEWABLE ENERGY RESOURCES	Energy	Grueneich
I0811006	CPUC - OII INTO THE OPERATIONS AND PRACTICES OF SDG&E REGARDING THE UTILITY FACILITIES LINKED TO THE WITCH AND RICE FIRES OF OCTOBER 2007	Energy	Simon
I0811007	CPUC - OII INTO THE OPERATIONS AND PRACTICES OF COX COMMUNICATONS AND SDG&E REGARDING THE UTILITY FACILITIES LINKED TO THE GUEJITO FIRE OF OCTOBER 2007	Energy	Simon
R0512013	CPUC - OIR TO CONSIDER REFINEMENTS TO AND FURTHER DEVELOPMENT OF THE RESOURCE ADEQUACY REQUIREMENTS PROGRAM	Energy	Peevey
R0602012	CPUC - PG&E, SDG&E, AND EDISON ET. AL. OIR TO DEVELOP ADDITIONAL METHODS TO IMPLEMENT A CALIFORNIA RENEWABLES PORTFOLIO STANDARD PROGRAM	Energy	Peevey
R0604009	CPUC - PG&E, SDG&E, SOCAL GAS, AND EDISON - OIR TO IMPLEMENT THE PROCUREMENT INCENTIVE FRAMEWORK AND TO EXAMINE THE INTEGRATION OF GREENHOUSE GAS EMISSION INTO PROCUREMENT POLICIES	Energy	Peevey
R0604010	CPUC - PG&E, EDISON, SDG&E, SOCALGAS - OIR TO EXAMINE THE COMMISSION POST -2005 ENERGY EFFICIENCY POLICIES AND RELATED ISSUES	Energy	Grueneich

NUMBER	SHORT TITLE	UTILITY	COMMISSIONER
R0701041	CPUC-PG&E, SDG&E, EDISON - OIR REGARDING POLICIES AND PROTOCOLS FOR DEMAND RESPONSE LOAD IMPACT ESTIMATES ET AL. WITH CALIFORNIA SYSTEM OPERATOR MARKET DESIGN PROTOCOLS	Energy	Chong
R0705025	ORDER INSTITUTING RULEMAKING - SUSPENSION OF DIRECT ACCESS	Energy	Peevey
R0801025	CPUC - OIR TO CONSIDER ANNUAL REVISIONS TO LOCAL PROCUREMENT OBLIGATIONS ADN REFINEMENTS TO RESOURCE ADEQUACY PROGRAM	Energy	Peevey
R0802007	CPUC - OIR TO INTEGRATE AND REFINE PROCUREMENT POLICIES UNDERLYING LONG-TERM PROCUREMENT PLANS	Energy	Peevey
R0803008	CPUC - PG&E, SCE, SDG&E AND SOCALGAS - OIR REGARDING POLICIES, PROCEDURES, AND RULES FOR THE CALIFORNIA SOLAR INITIATIVE, THE SELF-GENERATION INCENTIVE PROGRAM AND OTHER DISRIBUTED GENERATION ISSUES	Energy	Peevey
R0803009	CPUC - OIR TO ACTIVELY PROMOTE THE DEVELOPMENT OF TRANSMISSION INFRASTRUCTURE TO PROVIDE ACCESS TO RENEWABLE ENERGY RESOURCES	Energy	Grueneich
R0804012	CPUC - OIR TO CONSIDER REVISIONS TO THE PLANNING RESERVE MARGIN FOR RELIABLE AND COST-EFFECTIVE ELECTRIC SERVICE	Energy	Peevey
R0808009	CPUC - OIR TO CONTINUE IMPLEMENTATION AND ADMINISTRATION OF CALIFORNIA RENEWABLES PORTFOLIO STANDARD PROGRAM	Energy	Peevey
R0811005	CPUC - OIR TO REVISE AND CLARIFY COMMISSION REGULATIONS RELATING TO SAFETY OF ELECTRIC UTILITY AND COMMUNICATIONS INFRASTRACTURE PROVIDERS FACILITIES	Energy	Simon
R0812009	CPUC - OIR TO CONSIDER SMART GRID TECHNOLOGIES PURSUANT TO FEDERAL LEGISLATION	Energy	Chong
R0810007	CPUC - OIR TO DETERMINE WHETHER THE TEMPORARY MEASURES ADOPTED IN RES SX-88 BANNING PERSONAL USE OF ELECTRONIC DEVICES BY RAIL TRANSIT PERSONNEL SHOULD BE ADOPTED IN A PERMANTENT BASIS	Railroad/Grade Crossings	Bohn
R0811017	CPUC - OIR TO CONSIDER IMPLEMENTATION OF COLLISION-AVOIDANCE SYSTEMS ON COMMUTER RAIL LINES	Railroad/Grade Crossings	Bohn
I0701022	CPUC - CLASS A WATER CO. - OII TO CONSIDER POLICIES TO ACHIEVE THE CONSERVATION OBJECTIVES OF THE COMMISSION FOR CLASS A WATER UTILITIES	Water	Bohn
R0712015	CPUC - OIR TO REVISE GENERAL ORDER 103	Water	Bohn



CPUC ENVIRONMENTAL SUSTAINABILITY

The CPUC is a leader in setting environmental regulations; it is now going to lead by example by exploring ways to reduce its own environmental footprint. In November 2008, the CPUC assembled the Environmental Sustainability Branch to administer its own environmental efforts.

Program Purpose & Goals

The CPUC is taking a holistic look at its operations and administrative activities; the program is guided by the following core objectives:

- Adopt environmentally-responsible principles to guide policies;
- Establish environmental leadership by going beyond mere compliance;
- Encourage and assist employees' reduction of their own environmental footprints;
- Reduce CPUC energy and water usage;
- Reduce the amount of garbage the CPUC sends to the landfill;
- Lessen the environmental impact of work-related transportation, product-purchasing, and business processes; and
- Encourage green IT principles, practices, and procurement.

Program Scope

The CPUC Building

The CPUC's initial focus will be on the San Francisco headquarters, making the building a healthy and environmentally-sustainable structure. The CPUC is seeking Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB) certification as part of a statewide effort to certify all state buildings. The CPUC will apply for certification in Spring 2009.

CPUC Operations

The CPUC will reduce the environmental impact of its operations by focusing on:

- **Energy:** The CPUC will minimize the waste of unnecessary lighting, heating/cooling and electronics use, and ensure that its energy needs are met in the most efficient way possible;
- **Water efficiency:** The CPUC uses water for its restrooms, drinking fountains, cafeteria, and grounds maintenance. The program will implement water efficiency measures to make sure the CPUC uses only what it really needs;
- **Waste management and recycling practices:** The CPUC will ensure to the greatest extent possible that waste is reused, recycled, and/or composted;
- **Work-related transportation:** With a state fleet of more than 80 vehicles, the CPUC is making sure the vehicles purchased are fuel-efficient and that they are used as efficiently as possible. Also, the CPUC is exploring new ways to reduce employees' commuting-related driving;
- **Sustainable business and administration practices:** The CPUC will modify its business processes in order to consume less paper and other resources. The CPUC will transition to purchasing more environmentally-friendly products, such as higher post-consumer recycled content paper;
- **Information Technology (IT):** Proper IT systems can reduce the need for paper, travel, and energy. Because computers and other IT systems are so integral to daily operations, the CPUC will ensure that IT equipment is as energy efficient as possible.