SECTION 3

LEGAL DIVISION

The **Legal Division** is directed by statute to represent and appear for the people of the State of California, the Commission, and the Commission staff in all actions and proceedings involving any question under the Public Utilities Code or under any order or act of the Commission. We are committed to providing high quality, timely legal services to all of our clients.

FIVE TO TEN YEAR OUTLOOK

Attorneys in the Legal Division provide a full spectrum of legal services to the Commission, its staff, the Office of Ratepayer Advocates, and the general public. Our priorities are largely reflected in the goals and strategies set forth by our clients throughout the Commission's Business Plan, as we work to assist them in meeting their goals. Entering the new millennium, there are several major developments and trends that promise to significantly impact our current practice:

1. Continuing federal preemption of traditional state jurisdiction over utility issues.

California's jurisdiction over economic and service aspects of transportation utilities has been largely preempted by federal law. Congressional legislation in 1996 curtailed California's comprehensive jurisdiction over telecommunications rates and services in order to promote uniform and innovative services on a competitive basis in an industry that is becoming increasingly global in reach. Similar reforms are occurring in the energy services markets. Once clear lines that divided utility services between interstate, intrastate, and local commerce will continue to be redrawn in the next decade, with potentially dramatic impacts on traditional utility/regulator roles. We will be proactive in assisting our clients to assure that the interests of California and its consumers are well represented as the role of government regulators in competitive marketplaces continues to evolve.

2. Traditional rate regulation will continue to diminish in favor of marketplace reforms and reduced regulatory oversight in telecommunications and energy services sectors.

As discussed more fully in the outlooks for specific industries, the Commission and its staff will continue to transition out of the era of "command and control" regulation and move into a period of experimentation with techniques which seek to accommodate competition where it is effective, while also developing appropriate means to intervene where services are provided on a non-competitive or partially competitive basis. We expect to work with our clients to craft new laws and procedures which will position the Commission to remain on the leading edge in this rapidly changing environment; and to develop advocacy practices which assure effective participation in policy and adjudicatory settings.

3. The Commission's consumer protection role will fundamentally change.

As highlighted throughout this Business Plan, the Commission will use different tools to provide consumer protection in competitive markets. Based on experience from the last few years, the Commission will strengthen its efforts to evaluate competing service providers to detect and deter improper or unfair business practices. The next decade will almost certainly see a continued high level of merger and acquisition activity among new and established utility service providers. This activity will place an increased emphasis on antitrust and market power issues, and require greater coordination with state and federal agencies which share jurisdiction over these areas. Similarly, consumers will require educational outreach programs to learn about innovative utility services and rate offerings, and effective governmental intervention to resolve consumer complaints. Lawyers will enter an era of new strategies to protect consumers at the retail level, multiple forums to resolve consumer complaints, and a continuing array of new marketing practices. Finally, the Commission will play a key role in developing policies to assure universal access to utility services, including new definitions of basic service for competitive telecommunications and energy utilities.

4. The Commission will continue to simplify its regulatory processes and become more efficient and accountable to the Governor and the Legislature.

The Commission has undergone significant procedural reform during the last half of this decade, including the introduction of intermediate appellate review to assure effective judicial review of Commission decisions. Several other procedural reforms discussed herein signal the end of an era earmarked by an independent regulator exercising comprehensive control over monopoly utility providers. These reforms emphasize an awareness by state government that the mission of the Commission is undergoing fundamental change. The Legal Division will continue to play an important role in moving the Commission into the next century as a leader among "next generation" state regulators, helping to develop new approaches and procedures to maintain the enduring core mission and goals of the Commission.

LEGAL DIVISION ORGANIZATION

To best serve the new Commission structure arising out of *Vision 2000* and the reforms in SB 960 (Ch. 856, Stats. 1996), the Legal Division completely reorganized itself during 1996-97. After some experience under the new organization, we further refined our organization in 1998 to clarify advisory and advocacy roles and clearly separate ORA advocacy from our Commission advisory responsibilities, thereby improving the clarity of roles emphasized by SB 960. Our current organization consists of the following six sections:

Advisory Sections:

Advocacy Sections:

- Energy
- Telecommunications, Transportation and Water
- Enforcement
- Ratepayer Advocacy

- Trials and Appeals
- Office of Governmental Affairs

We believe, based on client and attorney feedback, that this organization provides an excellent fit for our clients' needs over the next few years because it:

- Offers a clear separation between advisory and advocacy services, as required by SB 960 and recommended by parties and decision-makers.
- Provides both diversity of legal practice opportunities and centers of industry expertise to handle all requests for expert legal assistance.
- Establishes a separate enforcement unit to assure adequate legal support for the Consumer Services Division and the Commission's expanding consumer protection role.
- Creates a separate Trials and Appeals Section in recognition of the Legislature's preference for expanded judicial review of Commission decisions, pursuant to SB 1322 (1996) and SB 779 (1998).

CHANGES IN PRIORITIES

Several significant changes occurred as a result of legislative directives and developments that have either taken effect or arose during the1999 session:

- The 1998 enactment of SB 779 (Calderon) expanded judicial review by applying intermediate appellate court review to all Commission decisions beginning in January 1999. The Trials and Appeals Section estimates this will result in significant additional appeals, and will require significant additional legal resources. In addition to the increased workload of the Trials and Appeals Section, Legal Division's Energy Section and Telecommunications, Transportation and Water sections have greatly expanded their advisory efforts and early review to assure the legal sufficiency of decisions subject to these statutes.
- Continuing coordination with the California Electricity Oversight Board (EOB) with regard to FERC representation and coordination with both the California Energy Commission (CEC) and the EOB with respect to energy agency reorganization issues. Major legislation to reorganize these agencies (SB 110) is currently pending.
- New consumer protection legislation in the telecommunications area ("cramming" practices and pre-paid phone cards) directs the Commission to perform additional licensing and enforcement activities.
- Continuing significant legal support work is being devoted to assuring the effectiveness of several Commission-established advisory boards in the electricity and telecommunications sectors, including taking on more responsibilities within the CPUC and preparing for the possible movement of energy efficiency program responsibility out of the agency.

1999 - 2000 LEGAL DIVISION OBJECTIVES

Objective AMeet the Challenges of Restructuring the Energy Industry, as
well as Traditional Mandates

The Legal Division's Energy Section serves multiple client interests in the energy field: (1) the Commission itself; (2) the ALJ Division; (3) the Energy Division; and (4) the general public. Energy Section attorneys provide advice and counsel to these clients in state energy matters and, in consultation and coordination with the Governor, Legislature and California Electricity Oversight Board, also represent the Commission in federal energy agency proceedings.

In addition, Energy Section provides advice and counsel to the Commission with respect to (1) state and federal legislation; (2) employment law; (3) California Environmental Quality Act matters; (4) California Public Record Act requests; and (5) Subpoenas. Legal support for state and federal Legislation is coordinated with the Office of Governmental Affairs. Discharging the responsibilities outlined above will be particularly challenging in 1999-2000 due to the extremely heavy workload involving complex issues of significant importance to California's residents, businesses and industries, including:

- Numerous state administrative proceedings involving the restructuring of the electric industry.
- Federal Energy Regulatory Commission proceedings involving the restructuring of the electric and natural gas industry.
- New initiatives to increase oversight of market power issues in regulated markets such as the secondary market for interstate natural gas pipeline capacity, and in emerging competitive markets such as electric service metering and billing.
- State initiatives to develop a new long term strategic plan for the natural gas industry.
- Pending Congressional electric restructuring legislation.
- Pending state energy legislation and state energy agency reorganization.
- **Strategy 1 Provide Advisory Services and Legal Support** for the Commission, and the ALJ and Energy Divisions in electric and natural gas proceedings and with respect to state and federal legislation. Priorities in these areas are client-driven and are reflected in the ALJ and Energy divisions' portions of this Business Plan.

Priorities include:

- Implementing AB 1890 and California State policy on electric industry restructuring through CPUC proceedings.
- Advising on development of a new state strategic plan for the natural gas industry.
- Fulfilling traditional mandates, particularly concerning consumer protection and distribution service reliability.
- Coordinating with the Office of Governmental Affairs activities.
- Advising the Commission in state electric and natural gas proceedings.

- Advising and representing Commission management on employment law matters, including personnel transactions, labor law issues, equal employment, civil rights and affirmative action, and proceedings before the State Personnel Board.
- Handling Subpoenas and Public Record Act requests.

Strategy 2 Represent the Commission in Federal Proceedings in

coordination and consultation with the Governor, Legislature and California Electricity Oversight Board, in federal agency proceedings and in appeals of federal agency decisions involving electric and natural gas issues. Priorities in this area are client-driven and reflected primarily in the Energy Division section of this Business Plan. They include:

- Implementing AB 1890 and California state policy on electric industry restructuring through participation in FERC electric restructuring proceedings.
- FERC electric and natural gas rate proceedings.
- FERC proceedings to reexamine the natural gas industry structure.
- Market and operational issues related to the availability and rates for interstate natural gas pipeline capacity, including the release and resale of firm capacity rights.
- **Strategy 3 Early Involvement in Decision-making.** With the enactment of SB 1322 and SB 779, which expand appellate review of Commission decisions, Legal Division's Energy Section continues to be attentive to providing early legal advice to decision-makers to assure full compliance with the new review standards. Legal Division will work with ALJ Division to establish procedures for early, timely legal review of decisions.

Objective B:Meet the Challenges of Changing Telecommunications, Waterand Transportation Industries, as well as TraditionalMandates

The Legal Division's Telecommunications, Transportation and Water Section serves multiple client interests: (1) the Commission itself, (2) the ALJ Division, (3) the Telecommunications Division, (4) the Water Division, (5) the Rail Safety and Carriers Division, and (6) the general public. Discharging the responsibilities outlined above will be particularly challenging in 1999-2000 due to the heavy workload involving complex issues of significant importance to California's residents, businesses and industries in numerous state and federal proceedings:

- Continuing State administrative proceedings to open up California's telecommunications markets to competition.
- Federal Communication Commission proceedings opening intrastate and interstate markets to increased competition and continuing implementation of the Telecommunications Act of 1996.
- New initiatives related to water company consolidation and Commission investigation into water quality of Class A and B water utilities.
- Major water supply applications.
- Licensing and compliance issues concerning airport shuttles.
- Litigation concerning local railroad safety hazards.
- Fulfilling traditional regulatory mandates concerning rates and service quality for monopoly services.

Strategy 1 Provide Advisory Services and Legal Support for the

Commission, the ALJ and Telecommunications, Water, and Rail Safety and Carriers divisions in telecommunications, water and transportation proceedings. Priorities in these areas are client-driven and are reflected in the ALJ, Telecommunications, Water, and Rail Safety and Carriers divisions' portions of this Business Plan.

Priorities include:

- Assisting the Commission's efforts to open up California's telecommunications markets to competition.
- Addressing CPUC implementation of the federal 1996 Telecommunications Act.
- Addressing CPUC implementation of FCC rules regarding universal service, customer education, arbitration, access charge reform, pay phone regulation, interconnection rules, number portability, CMRS/wireless services, and competitive entry into small and mid-size LEC markets.

- Addressing the complex federal and state issues surrounding area code proliferation and number administration.
- Providing advice on appropriate procedures and operations to be used by advisory boards.
- Defending Commission telecommunications decisions in federal jurisdictions.
- Coordinating with the Office of Governmental Affairs.
- Developing Commission policy concerning water contamination litigation in Southern California and the Sacramento area.
- Providing legal advice and counsel on special priority advisory projects, and assignments from the General Counsel and Commissioners (such as California energy agency reorganization; legislative proposals to revise laws concerning CPUC decisionmaking processes; conflict of interest matters; and representations of the Commission before the California Law Revision Commission).
- Coordinating responses to discovery requests made to the Commission for documents or witnesses.
- **Strategy 2 Represent the Commission in Federal Proceedings**, both in federal agency proceedings and in appeals of federal agency decisions involving telecommunications and transportation issues. As federal statutes and regulations pre-empt state regulatory authority over telecommunications and transportation, a greater need has arisen to represent California interests before such agencies as the Federal Communications Commission, Federal Trade Commission, and Federal Railroad Administration. Priorities in this area are client-driven and reflected primarily in the Telecommunications and Rail Safety and Carriers divisions' sections of this Business Plan.

Priorities for 1999-2000 are:

• Deployment of advanced telecommunications networks, universal access to necessary services, protecting consumers from marketing abuses, examining barriers to entry, unauthorized changes to consumers' long distance carriers, intraLATA presubscription, open access, unbundling, and service reliability issues.

Strategy 3 Early Involvement in Decision-making. With the enactment of

SB 1322 and SB 779, which expand appellate review of Commission decisions, Legal Division's Telecommunications, Transportation and Water Section will be attentive to providing early legal advice to decision-makers to assure full compliance with the new review standards. Legal Division will work with ALJ Division to establish procedures for early, timely legal review of decisions.

Objective C: Represent the Commission in State and Federal Court <u>Proceedings</u>

The Legal Division Trials and Appeals Section represents the Commission and defends Commission decisions in state and federal trial and appellate courts.

- **Strategy 1 Analyze and make recommendations** on applications for rehearing of Commission decisions in all industry areas.
- **Strategy 2 Continue to devote a high level of effort to expeditious treatment of rehearing applications,** and report to the Commission quarterly.
- **Strategy 3 Defend the Commission and its authority** when Commission decisions are challenged in state or federal trial and appellate courts.
- **Strategy 4 Handle appeals from court decisions** in cases challenging Commission decisions, such as appeals from federal district court decisions to the U.S. Court of Appeal and the U.S. Supreme Court, and from the California Supreme Court to the U.S. Supreme Court.
- Strategy 5 With enactment of SB 1322 and SB 779, the Trials and Appeals Section now has the added responsibility of representing the Commission in state Courts of Appeal when a party appeals a Commission decision, and in handling appeals of State Court of Appeal decisions to the California and the U.S. Supreme Courts.

Objective D:Priorities for Legal Division's Enforcement and LitigationSection

The **Enforcement and Litigation Section** typically provides legal services for the Commission staff in connection with enforcement proceedings and other matters where positions are advanced before the Commission. These matters involve electric, natural gas, telecommunications, water, rail, household goods and passenger service. This Section coordinates cooperation with district attorneys and other law enforcement agencies involved with prosecutions or enforcement activity consistent with the enforcement goal of ensuring compliance with the Public Utilities Code and Commission orders. (Note: ratepayer representation on issues with broad economic impact on ratepayers is handled by the Ratepayer Representation Section.)

- **Strategy 1 Support Consumer Services Division enforcement on compliance issues** either referred by an industry division or as a result of CSD analysis. Represent CSD and work with industry division staff who have been detailed to assist with case prosecution of energy utilities, telecommunications utilities, and household goods carriers.
- Strategy 2 Represent the Rail Safety and Carriers Division in rail and passenger adjudicatory proceedings. Assist staff with: investigative or discovery issues, preparing cases to advance in formal dockets, presenting cases at hearings, and with filing pleadings, settlement discussions/drafting and advising client divisions' management on legal issues stemming from these cases.
- **Strategy 3** Represent in proceedings before the Commission various divisions when they have positions or recommendations to advance in formal proceedings. Assist staff with advancing positions, ensuring that their positions and recommendations are legally solid, confer as necessary with division management to assess the goal, handle settlement negotiations and, when necessary, proceed with hearing room advocacy and follow-up briefs, comments on proposed decisions, etc.

Strategy 4 Support consumer protection enforcement initiatives:

- Against companies engaging in "slamming" a violation of P.U. Code Section 2889.5.
- Against bill "cramming" a new form of marketing abuse whereby consumers are billed on their local phone company bill by other entities for services the consumer did not order. Recent legislation strengthened the Commission's jurisdiction to halt these abuses and this is a high priority activity.
- To help assure energy utility compliance with regulations designed to maintain electric distribution system reliability and safety.
- Recent legislation prescribes a clear consumer protection role for the Commission concerning new non-utility electric services providers (ESP) who market to residential and small commercial

consumers. We continue to monitor these providers and pursue action whenever there are abusive marketing practices or company failure to honor service agreements with customers.

Objective E: Priorities for the Legal Division's Ratepayer Advocacy Section

The Ratepayer Advocacy Section provides legal services for the Office of Ratepayer Advocates in connection with ratepayer matters involving electric, natural gas, telecommunications, and water issues, and for the Ratepayer Representation Branch of the Water Division in connection with water utility matters.

- Strategy 1 Represent the Office of Ratepayer Advocacy and Ratepayer Representation Branch (RRB) of the Water Division. Represent ORA and RRB in litigation, and work with division staff to assist in the development of policy and evidence to represent and support ratepayer interests in matters before the Commission. Assist staff with analysis, discovery issues, and preparing testimony to present at hearings; represent clients in hearing, in filed pleadings, and in oral presentations to the Commission; represent clients in settlement discussions/drafting and advising client divisions' management on legal issues.
- **Strategy 2 Support and clarify ORA rights and responsibilities as the State's designated advocate for California ratepayers.** The PU Code prescribes a clear ratepayer advocacy role for ORA (section 309.5), and continues to provide for ORA's right to access utility information (section 314) subject to the protection against the unauthorized release of confidential information (section 583). We will assist ORA in clarifying and defining these rights and responsibilities in the review and refinement of protocols and procedures for managing consultant contracts, handling of confidential information provided by regulated entities, and protecting litigation work product.

Objective F: Represent the Commission before State and FederalGovernment Agencies

The Office of Governmental Affairs (OGA), in Sacramento, represents the Commission 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. OGA maintains daily communications with legislators, executive agency managers, and other regulatory stakeholders.

- Strategy 1 In conjunction with other Legal Division personnel, prepare legislative memos with recommendations for positions on legislative measures for consideration by the Commission. Advise and assist the Commission in formulating proposed legislation. Prepare Commission position papers and disseminate them to the legislative policy and fiscal committees. This Strategy includes both state and federal legislative activity.
 - Increase Commissioner involvement in the legislative process by (1) working closely with the Commissioner Legislative Subcommittee, (2) including Commissioners in OGA lobbying and testifying, and [3) setting up individual meetings with Commissioners and members of the Legislature.
 - In coordination with Division staff, provide timely analyses of proposed legislation taking into consideration prior, ongoing, or anticipated Commission proceedings. In coordination with Division staff, prepare CPUC legislative proposals to resolve deficiencies in the law; these proposals will then be initially "screened" by the Commissioner Legislative Subcommittee, and keep other Commissioners informed about them.
 - Produce a year-end legislative summary describing the Commission's involvement in legislative initiatives, the text of tracked legislation, and Commission positions on legislative proposals. Expand the year-end summary to include Congressional activity. [Ongoing]
- Strategy 2 Ensure Commissioners are kept informed of legislative developments. Keep the Legislature and Administration aware of developments at the Commission as we work together toward 1999 - 2000 CPUC Business Plan priorities, including streamlined utility regulation. Continue to build upon the Commission role in the state legislative process by coordinating annual/semi-annual meetings with key legislators.
 - Compile bi-weekly Hot Bills List to provide summary and status information on legislative initiatives that are of significant importance to the Commission. This List allows Commissioners and Division personnel to keep up to date on changes being made to legislation of interest.
 - Compile bi-weekly Hot Proceedings List to provide summary and status information on Commission proceedings of interest to the Legislature or individual Legislators. Items appear on this list either through notification of their existence through the Daily

Calendar or through direct communications between OGA and CPUC Staff or Legislative offices.

 Distribute Commission consumer advisories, press releases, proposed decisions, resolutions, and reports to legislative and Administration offices to keep them informed of Commission activities. (Ongoing)

Strategy 3 Work with the Executive Office to ensure approval of the Commission's annual budget.

(March - July 2000)

- Strategy4 Act as a liaison to coordinate relations with control agencies
and other federal and state agencies, and attend legislative
coordinator meetings with other state agencies' personnel when
requested.(Ongoing)
- Strategy 5 Compile and maintain a list of legislatively-mandated reports, and rules and standards the Commission must adopt. Report annually on the Commission's success in meeting legislative deadlines. (Ongoing Annual Report due in December 1999)

Objective G: Give Decision-makers Advice Early in the Decision-making Process

With the enactment of SB 1322 and SB 779, which expand appellate review of Commission decisions, the Legal Division advisory sections will be attentive to providing early legal advice to decision-makers to assure full compliance with the new review standards.

KEY PERFORMANCE INDICATORS

 Client Satisfaction Surveys A strong measure of success in meeting Legal Division objectives is the level of client satisfaction with our services. We conducted our first survey in 1997 and obtained specific feedback on a Section-by Section basis as to levels of satisfaction and performance areas in need of improvement. This survey will be repeated in 1999 in lieu of specific Key Performance Indicators for all sections. (Annually)

- Measuring Attorney, Section, and Legal Division Workload Use the new workload data system recently developed to record the increasing workload due to new process and procedure reforms, the volume of advisory requests from Commissioners, staff, and the general public, and workload due to expanded judicial review. This information also will be fed into and support general time reporting and performance appraisal reforms. (Annually)
- Performance Appraisal Process For non-represented attorneys, use the complete Dreiford performance appraisal process, including a detailed evaluation of manager performance during the record period, and adopt specific performance and training objectives which will be reviewed and updated frequently. For represented attorneys and support staff, use existing state rating and workplan forms, augmented with comprehensive reviews of assignments and adoption of employee-specific development plans.

(Annually)

Status of Applications for Rehearing

Fiscal <u>Year</u>	<u>Filed</u>	<u>Granted</u>	Denied	Action <u>Pending</u>	Withdrawn/ <u>Dismissed</u>
1993/94	66	8	40	17	1
1994/95	105	5	51	48	1
1995/96	93	3	49	40	1
1996/97	94	5	31	58	0
1997/98	84	8	38	35	3
1998/99	127	34	60	29	4

Rehearing Backlog - Significantly Reduced

♦ As of June, 1999, there were 29 applications for rehearing, with 25 pending for more than 60 days.

Status of California Supreme Court Cases

Fiscal				Action	Withdrawn
Year	Filed	<u>Granted</u>	Denied	<u>Pending</u>	Dismissed
1993/94	7	0	8	0	0

1994/95	9	1	8	0	(0
1995/96	7	1	5	1		0
1996/97	14	0	9	5	(0
1997/98	12	0	12	2	(0
1998/99	13	0		9	4	0

Status of Court of Appeal Activity

Fiscal <u>Year</u>	<u>Filed</u>	<u>Granted</u>	Denied	Withdrawn <u>Dismissed</u>	Pending
1998/99	5	0	1	1	2

Status of Federal Court Activity

The frequency of federal lawsuits filed against the Commission has reached new heights. As of July, 1999, we were involved in several major federal lawsuits, as litigants seek access to a federal forum as a means to appeal CPUC decisions. We will continue to watch this trend in 1999-2000 given the increasing number of competing providers of energy and telecommunications services.

RESOURCE ALLOCATION

Staffing (PYs)

Objectives	Authorized	Filled	Vacancies
Energy	10	10	0
Telecommunications,	7	7	0

Transportation, and Water			
Trials and Appeals	191	11	8
Enforcement	82	6	2
Ratepayer Advocacy	12	12	0
Office of Governmental Affairs	3	3	0
Support Staff	23 ³	19	4
Administration	7	6	1
Totals	89	74	15
			7-30-99

Addressing Resource Constraints

⇒ To meet the legislative mandates of SB 779 (expanded judicial review), effective July 1, 1999, Legal Division received three permanent and six limited-term (24month) attorney positions, one permanent Assistant Chief position, one permanent Support Staff position and four limited-term (24-month) Support Staff positions. To meet the legislative mandates of AB1424 (Telco Prepaid Debit Cards) effective July 1, 1999, we received one limited term (24-month) attorney position and one limited term (24-month) Support Staff position. To meet the legislative mandates of SB 378 and AB 2142 (Telco Truth in

¹ Six of these positions are 2 year limited term positions and will expire on June 30, 2001, as a result of SB 779.

² These positions are 2 year limited term positions and will expire on June 30, 2001, as a result of AB 1424, SB 378 and AB 2142.

 $^{^3\,}$ Five of these positions are 2 year limited term positions and will expire on June 30, 2001, as a result of SB 779 and AB 1424.

Billing/Cramming) we received one limited-term (24-month) attorney position. Finally, to support Legal Division's ongoing responsibilities related to the Commission's Low Income Governing Board, effective July 1, 1999, we received one permanent attorney position.

⇒ Much of this increase in resources are limited term (24 month) positions. Considering Legal Division's increased workload due both to expanded judicial review as well as to increased consumer protection enforcement cases, we anticipate that there will continue to be a need to make these limited term positions permanent, in order to serve the needs of the Commission and of California.