

SECTION 9

OFFICE OF RATEPAYER ADVOCATES

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

FIVE TO TEN YEAR OUTLOOK

In accordance with SB 960, the Commission organized the Office of Ratepayer Advocates in 1997. ORA's director is appointed by the Governor, subject to confirmation by the Senate. ORA represents the long-term interests of consumers, and advocates on their behalf in energy, telecommunications, and water matters that come before the Commission and in a variety of external forums including the Legislature. ORA currently has 96 filled staff positions and 113 authorized positions, an 85 percent occupancy ratio. ORA made strides in filling vacancies and promoting staff in 1998-99, and will again make this one of its priorities in 1999-2000.

The electric, gas, and telecommunications markets will continue to evolve competitively. This calls for a flexible and informed regulatory response by the CPUC and independent representation of the broad classes of ratepayer interests on the part of ORA.

At least two trends will continue. First, regulation and facilitation of the relationships between new market entrants and incumbent monopolies will take up more of the Commission's attention while less regulatory oversight is necessary for the traditional end-user – monopoly relationship. Second, competition has not evolved equally among customer groups in any of the regulated industries. There are threshold questions that must be answered about whether the full fruits of competition are completely achievable for small residential and commercial customers, and if so, what steps can be taken to encourage, or "incentivize" such competition. Simultaneously, what measures are necessary to prevent "backsliding" into traditional monopoly service?

ORA will analyze these issues and advocate changes and reforms at the CPUC and other forums. ORA's fundamental role can be defined as: advocate to ensure that consumers share in the "downstream" benefits of the emerging, competitive markets, that service quality standards are maintained as competition evolves, that accurate and timely information is available to consumers, and that consumers continue to be protected from monopoly abuses in non-competitive markets, as well as abuses by entrants in competitive markets.

ORA's goal is to participate in all proceedings that affect its clients: from unbundling, cost allocation, and rate design to the determination of who pays to implement competition; from service quality proceedings to distributed generation; from mergers and acquisitions to affiliate relations. ORA will seek lower costs, increased choices for consumers, and protection of those consumers who lag behind others in receiving the benefits of competition. As the monopoly elements of traditional utility service erode, ORA will spend less time in traditional rate cases, incentive ratemaking proceedings and cost of capital cases as these are replaced by competitive pricing.

Great promises have been made about the speed with which competition would develop if only regulators would step out of the way. Thus far, except for large customers in the various industries, competition has developed rather slowly. This could change, however under a scenario in which rapid technological change and innovation spawn faster market penetration, increased competitive pressures on incumbent firms, and quicker erosion of the remaining monopoly elements of service. Regulatory institutions, including ORA, will have to respond expeditiously not only to facilitate the competition that is developing, but to ensure consumers are kept informed of their rapidly developing choices. Nevertheless, even under a "rapid development" scenario, there will be a question of how, or whether the benefits percolate down to smaller customers. Customers remaining without meaningful options will need regulatory protection.

Such trends as convergence among industries, geographic "deaveraging" of prices and even services could accelerate. The obligation to connect, to serve, and public purpose obligations such as low income protection and universal service, will need to be reexamined to accommodate to the new markets. ORA will be actively engaged in those issues.

Under either scenario, ORA must be prepared to change as markets develop and mature by constantly reviewing the venues in which it is involved and the quality and training of its staff. ORA will continue to advocate the long-run interests of ratepayers before the CPUC and in other appropriate forums such as the Legislature, North American Numbering Council, National Association of State Utility Consumer Advocates, and the ISO and PX as they become regional entities.

Regional decision-making that directly affects California ratepayers is an intriguing emerging issue, especially with regard to how residential and small commercial consumers will be represented.

ORA's unique contribution is to analyze and apply information (e.g., from utilities, markets, and consumers) for the benefit of its broad classes of clients. ORA will develop better tools for monitoring market developments to ensure that there is, indeed real competition. ORA will also develop new, sophisticated tools, including the use of customer surveys, to analyze and advocate remedial action based on broad patterns of consumer complaints. Access to ORA will be increasingly user-friendly via continued enhancements to its website and in terms of communication with the staff. In line with its mandate, ORA will continue to inform consumers of product choices and options in ways that allow for easy comparison.

Objective A: Continue to Represent Consumers in Ongoing Proceedings:

- **New Regulatory Framework reviews** (NRFs are the performance-based ratemaking mechanisms of the large and medium-sized incumbent telecommunications providers) for PacBell, GTE California, Roseville, and Citizen's. ORA will seek the lowest possible rates and good service quality for consumers in these proceedings.
- **PG&E General Rate Case**, where an ALJ proposed decision is pending on PG&E's request for an \$800 million revenue increase. Once that is settled, the focus will turn to revenue allocation between customer classes and rate design, including PG&E's proposal to charge exit fees to customers who may leave the distribution system.
- **Electric utility post-transition ratemaking proceeding and the distributed generation rulemaking.** Both proceedings bear significantly on the role of the electric utility distribution companies as the competitive wholesale electricity market matures and the retail market continues to evolve. Major issues to ORA are ensuring competitive benefits to "bundled" utility customers and ensuring that bundled customers are not subsidizing a competitive infrastructure that will mainly benefit unbundled customers.

1999 - 2000 OFFICE OF RATEPAYER ADVOCATES OBJECTIVES

Objective A: Consumer Protection

ORA's presence in a variety of forums before the Commission (sometimes as the only consumer representative) helps to ensure that consumer interests are adequately represented and considered. ORA closely follows informal and formal complaints before the Commission to monitor patterns of individual consumer concerns. ORA intends to monitor individual electric service provider (ESP) service offer disclosures for internal consistency and reasonableness. ORA will attempt to resolve with ESPs any inconsistencies or stated claims or policies that cannot reasonably be accomplished. ORA will act on emerging consumer issues or trends that have policy implications. (Ongoing)

Other examples of ORA participation in consumer protection issues include:

- being an active party in implementing the Commission's mandate to adopt standards for operation, reliability, and safety during periods of emergency and disaster for the state's electric utilities. (1999 - 2000)
- participating in scheduled hearings to litigate the remaining unresolved issues in R.96-11-004 such as call center response and time of restoration standards in an emergency. (1999 - 2000)

- examining the books and records of the Roseville Telephone Company and Citizens Utilities Company of California for possible cost-shifting and cross-subsidization of unregulated by regulated services, and submitting testimony recommending specific service quality standards. (1999 - 2000)
- analyzing affiliate transactions to prevent cross-subsidies that harm consumers of monopoly services and impede real competition. (1999 - 2000)
- being an active party in Application 99-02-004. This is an application for the merger of two large Class A water companies, California Water Service Company and Dominguez Water Company, and is the first subject to SB 1268's new rules for the valuation of merged water utilities for ratemaking purposes. SB 1268 requires the Commission to value acquired entities at purchase price (subject to certain limitations) rather than book value, which has been the historical practice. The Legislature enacted the new provision of the code to encourage cost-effective consolidation in the water industry. ORA will work to ensure that any increases in rates that result from the merger come with commensurate benefits. (1999 - 2000)
- participate in forums related to low income programs, universal service issues, and annual expenditures by electric utilities to help employees affected by restructuring. (1999 - 2000)

Objective B: Advocate for Lowest Possible Rates for Consumers

Strategy There is a continuing need to monitor the activities of the remaining monopolies or dominant market players to ensure captive customers are treated fairly with regard to price, service quality and reliability. Throughout 1999 - 2000, ORA will use its expertise in traditional and evolving proceedings to protect the long-term interests of California consumers.

Examples of planned 1999-2000 activities include:

- Participate in many of the traditional cost of service proceedings including general rate cases, biennial cost allocation proceedings, buy out/buy down of QF contracts, and cost of capital. (1999 - 2000)
 - PG&E GRC Phase 1: comment on the Proposed Decision of this \$800 million case
 - PG&E GRC Phase 2: rate design/revenue allocation/exit fees
 - PG&E PBR
 - Mountain Utility GRC
 - SCE PBR mid-term review

- Roseville Telephone and Citizens Telephone NRFs

- Participate in all Section 851 applications dealing with the sale or encumbrance of utility assets. Pacific Bell will file numerous applications for leasing space and transferring office equipment to its affiliates. Pacific Bell may also seek approval of a streamlined process for authorizing leases and transfers. Gas and electric utilities will continue to sell off excess land and facilities. (1999 - 2000)
- Participate in proceedings to adopt, for Edison and PG&E, revenue sharing mechanisms for offering non-tariffed products and services pursuant to Rule VII for Energy Affiliates Transactions. (1999 - 2000)
- Minimize the overall level of transition costs by participating in proceedings affecting transition cost revenues and entries into the Transition Cost Balancing Account (TCBA), including the Rate Adjustment Proceeding (RAP), the Annual Transition Cost Proceeding (ATCP), and in proceedings to market value utility generating assets which are not divested. (1999 - 2000)
- ORA will participate in a proceeding that concerns payments to existing QFs. At stake are possibly hundreds of millions of dollars as the Commission examines conversion of short-run QF payments to PX prices and the revision of obsolete loss factors. (1999 - 2000)

Objective C: Help Shape Rules for a Fair, Efficient, and Effective Market

Strategy Participate in electric, gas and telecommunication proceedings relating to the future structure of these marketplaces and rules that lay out the framework for interaction of market players including:

- Open access cost unbundling and pricing for telecommunications. (1999 - 2000)
- Post-transition ratemaking for electric utilities: buy/sell requirement out of PX; procurement unbundling; role of UDC in procurement. (1999 - 2000)
- Natural gas strategy rulemaking. (1999 - 2000)
- Rule 22 working group for direct access. (1999 - 2000)
- Load profiling, data quality and integrity, and metering standards. (1999 - 2000)
- Revenue cycle service unbundling for electric utilities.(1999 -2000)

- Telecom IntraLATA equal access and number administration. (1999 - 2000)
- Utility role in distributed generation. (1999 - 2000)
- Distribution competition. (1999 - 2000)
- Convergence, e.g., an electric utility entering the telephone business. (1999 - 2002)

Objective D: Promote Competition

Strategy Participate in Commission proceedings to open markets to competition. As utility industries evolve they will contain both competitive and monopolistic elements. ORA will be an active participant in proceedings and forums to assure that Commission policies promote competition where warranted and that resulting benefits are realized by *all* consumers. Some examples of ORA's 1999-2000 activities are:

- Continue its participation in Pacific Bell's 271 proceeding in which the Commission is inquiring into whether PacBell meets the requirements of the Telecommunications Act of 1996 for entrance into the interLATA (long distance) market.
- Selectively participate in ISO and PX issues focusing on structural improvements and the continued success of the markets the ISO and PX administer. An ORA staff member sits on the governing board of the PX.
- Continue to commit resources to direct access and revenue cycle unbundling to ensure cost-effective and well-integrated communications among the parties involved in direct access.
- Continue to represent consumer interests in the Open Access Network Architecture Development (OANAD) proceeding to determine service and compensation levels for network access.
- Continue to participate in the telecommunications local competition docket working to ensure all consumers benefit from competition at the local level.
- Continue to participate in the natural gas strategy rulemaking.
- Participate in proceedings in which utilities are seeking more effective use of regulated assets, to the benefit of ratepayers and shareholders, by using them in unregulated activities.

- Remain involved in the Commission's (in association with the Energy Commission and Oversight Board) rulemaking on distributed generation.
- Continue to participate at the Commission and the Legislature regarding the sale/transfer of PG&E's and Edison's hydroelectric generation facilities, working to ensure that transition costs are minimized and any market power concerns are addressed.
- ORA will closely review utility offerings of non-tariffed products and services pursuant to Rule VII for Energy Affiliates Transactions to assure proper accounting and allocation of costs and revenues between shareholders and ratepayers.

Objective E: Provide Consumer Information

Strategy 1 Energy: SB 477 (PUC Code 392.1) codified ORA's role in providing consumer information. It requires ORA to review the standard service plans offered by registered electric service providers and to prepare "easily understandable information guides or other tools to help residential and small commercial customers understand how to evaluate competing electric options." ORA will:

- update and continue to provide a written and website version of a consumer's guide outlining what customers need to know and questions customers should ask potential service providers. The hard copy of this "Shopper's Guide" is a brochure available in 10 languages in addition to English. (1999 - 2000)
- contact individual, registered Energy Service Providers (ESPs) periodically and maintain a list of ESPs who actively market to residential and small commercial customers. (1999 - 2000)
- compile and analyze new and revised standard service plan disclosures filed by registered ESPs and will update and maintain its published matrix of ESP offers, entitled, "Guide to Residential Electric Service Provider Options". For ESP service offers in SDG&E's service territory, ORA will revise its matrix to reflect the end of SDG&E's rate freeze and 10% rate reduction. (July 1999/February 2000)
- compile and analyze standard service plan disclosures filed by registered ESPs for small commercial customers and create a matrix similar to our residential service matrix comparing service offerings. (July 1999/February 2000)
- ORA will develop illustrative bills showing bundled UDC and direct access billing formats and explaining line items. (1999 - 2000)

- To disseminate its educational material, ORA plans to use:
 - its website
 - community-based organizational outreach of the Electric Education Trust
 - the governmental outreach of CSD's education program
 - Electric Education Call Center
 - press releases
 - and to mail copies of its material to the public upon demand.

In addition to ORA's role in satisfying the informational mandate of SB 477, ORA intends to monitor individual ESP service offer disclosures for internal consistency and reasonableness. ORA will attempt to resolve with ESPs any inconsistencies or claims or policies that cannot reasonably be accomplished.

Strategy 2 Provide information about the telecommunications industry that will assist and caution consumers navigating the competitive marketplace. (1999 - 2000)

Strategy 3 Monitor industry trends and individual carrier services for changes of significant policy import or consumer impact. (1999 - 2000)

Strategy 4 Assess changes and prepare and publish consumer advisories as needed. (1999 - 2000)

Objective F: Ensure Appropriate Funding for Public Purpose Programs

Strategy 1 ORA actively participates in all proceedings dealing with the administration and allocation of funds for public purpose programs. Examples include collection and disbursement of funds for universal service, direct assistance with energy efficiency, rate assistance for low income customers, energy efficiency, RD&D, and the Deaf Trust Fund. (1999 - 2000)

Strategy 2 ORA actively participates with the Commission –established advisory boards and committees. In several cases, ORA staff sit on boards or advisory groups. For example, ORA is a member of the advisory board for the Low Income, the advisory board for the California Board for

Energy Efficiency, the Deaf Trust, the Payphone Service Providers committee, and committees related to Universal Service. (1999 -2000)

KEY PERFORMANCE INDICATORS

- ◇ **Distribution of staff time over proceedings** This allows ORA to evaluate the actual time invested, for example, in casework, training, and staff leave time. The distribution is about 33 percent to telecommunications with the balance dedicated primarily to energy proceedings. Staff may also be involved in major water proceedings. This is fairly constant over a year cycle.
- ◇ **Number of cases by case category** This information represents raw workload. It varies, and is directly related to the implementation of Commission policy decisions. ORA is typically engaged in 75 - 100 energy cases, 60-70 telecommunications cases, and 1-2 water cases each quarter. Analysts typically carry several cases, and each case usually contains numerous issues to be addressed.
- ◇ **Review of, and ORA response to, advice letter filings** This is a measure of resources tied to implementation of Commission decisions. ORA typically reviews about 95 telecommunications and 45 - 55 energy advice letters each month, and files protests on 2-3 of them. ORA files comments on proposed resolutions when it has actively participated.
- ◇ **Number of filings by category** The ORA litigation team includes staff counsel who represents ORA in proceedings. Formal filings, such as opening and reply briefs, protests to applications, and petitions for modification, reflect the work product of the litigation team. Filings range typically from 15 – 20 each month, depending in part on whether the Commission is more intensely engaged in ratesetting or policy-setting proceedings.
- ◇ **Resources in the decision process outside of litigation** This is a measure of the increasing percentage of ORA resources invested in advisory groups, working groups, meetings with Commissioners, and with boards that affect consumer rates.

ORA ORGANIZATIONAL STRUCTURE

ORA is organized into the following branches each of which deal with telecommunications, electricity, natural gas, and to a limited extent, water issues.

1. **Utility Performance and Analysis** - key issues include cost of capital, financing applications, mergers, Performance-Based Ratemaking (PBRs), balancing accounts such as Biennial Cost Allocation Proceedings (BCAPs) for natural gas, water issues, section 851 applications including divestiture, and nuclear issues.
2. **Monopoly Regulation** - key issues include: General Rate Cases (GRCs), forecasting of utility costs and productivity, cost allocation, rate design, monitoring, auditing, taxes, affiliate transactions, plant analysis, hazardous waste filings, advice letters, and telecommunications New Regulatory Framework (NRF) filings.
3. **Market Development** – key issues include transition ratemaking issues; direct access implementation; rules and protocols for competitive services; natural gas policy; and unbundling in both telecommunications and energy; providing consumer representation in forums such as the ISO and PX.
4. **Consumer Issues Programs** -key issues include energy efficiency, universal service, consumer protection, consumer information, consumer education, reliability, service quality, low income, QF issues, and legislation.

RESOURCES

Personnel issues: ORA currently has 113 authorized positions, however, because of salary savings and a position loan, ORA can fill only 105 positions. As of July 1, 1999 ORA had 96 staff on board. ORA will hire five staff immediately, and expects to fill remaining vacancies with the next round of the PURA 1,2,3 exams as well as a new Financial Examiner 3 exam.

Impacts

In order to represent its clients well in proceedings, ORA focuses its efforts carefully on the highest priority issues in deciding on the scope and level of involvement.

Managers have specific oversight responsibilities in proceedings and supervisors maintain a direct role (project coordination/witness) in all major proceedings. ORA also relies heavily on a team approach with matrix management being key to sharing resources as necessary. That team approach carries over to working with other consumer groups to coordinate our activities in major cases. Finally, for critical, unique tasks, ORA relies on consultant services.

The following charts show the proceedings ORA anticipates for 1999-2000, and how ORA will participate in those proceedings to carry out our various strategies. ORA has also summarized its anticipated level of resource commitment by strategy. It would be difficult to assign our vacancies to particular strategies. However, there are illustrative examples of projects in which ORA struggles with scarce resources: the current PG&E general rate case that will extend well into 2000, and telecommunications competition and infrastructure access issues. These are important proceedings for ORA's clients. Water is another example, as ORA has only one person assigned to water activities. Filling vacancies and redirection of staff from lower priority proceedings will ensure adequate representation where the issues call for ORA participation.

ORA believes that representation of consumer interests requires not only a presence in workshops and formal hearings before the CPUC, but also in other forums where key decisions affecting consumers are being made. An ORA staff member represents end-users on the governing board of the Power Exchange and for most of 1998-99, on the board of the Independent System Operator. ORA also represents consumers as a member of the national organization that assigns area codes. ORA staff actively participate in a number of subcommittees that provide input to the governing boards. ORA will continue and likely expand its participation in forums outside of the formal hearing process.

ORA has increased its presence before the California legislature. ORA's objective is to be a credible source of information regarding the consumer perspective. ORA staff provide comments to Commission staff and the Office of Governmental Affairs on legislative issues to assist the Commission in developing legislative positions. In addition, ORA has taken independent positions on several telecommunications and energy related bills, providing direct input to the Legislature. In addition, ORA staff have been called upon to be panel witnesses in a number of informational hearings before legislative committees to give both a consumer perspective and contribute to technical dialogues. ORA staff will continue to participate in legislative hearings as well as informal briefings with legislators and their staffs. ORA plans to continue to work closely with the Legislature and the Governor's Office to provide the consumer perspective on legislative issues.

ORA is a member of the National Association of State Utility Consumer Advocates (NASUCA). Membership provides ORA with an opportunity to participate in forums and policy discussions that have national level interests and often have significant impact on California consumers. ORA managers sit on many of the key policy committees of NASUCA.

The Commission is required to annually report ORA's 5 year levels of staffing to the legislature. The following table provides this five year history of staffing levels for ORA and its predecessor the Division of Ratepayer Advocates.

Fiscal Year	Total Authorized Positions	Adjustments	Comments
1999-00	113	-1	One position transferred to support Oversight Board
1998-99	115	-2	Reduction due to miscount of authorized positions at time of Vision 2000 reorganization.(7/98)
1997-98	116	2	Positions added as a result of SB 477(1/98)
1996-97	114	18	Final Vision 2000 Reorganization (1/97)
	98	-84	Initial Vision 2000 Reorganization (10/96)
	182	-19	Water Branch moved from DRA to form Water Division, 9/96)
	201	-3	Transfer of positions to other divisions
	204	-1	Limited Term position expired
1995-96	205		

7-30-99