

**Keynote Address of Commissioner Rachelle Chong  
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Thank you very much for inviting me here to lovely Squaw Valley. As the last speaker of the conference, I am just grateful there are live bodies in the room.

The CCPUC is a wonderful group that performs many important functions for its lawyers. I was a CCPUC member when I practiced before the PUC in the late Eighties, early Nineties. I represented wireless carriers at the time and worked for a law firm. I naturally spent most of my time with the telecom practitioners. At that time, we were chattering about MFJs, Judge Harold Greene and the Computer II decision.

Also in the CCPUC, there was this whole group of other practitioners who spoke a foreign language called energy law, something about transmission lines, the FERC, and lots of rate of return jargon. Quite frankly, I steered clear of that crowd. I could never quite figure out what they were talking about. Yesterday Peter Hanschen said he is working again on an energy matter that he worked on 35 years ago as an associate fresh out of law school.

Well, those energy guys finally caught up with me. So what's my biggest complaint about becoming a PUC commissioner? Death by acronyms! As a commissioner, it's considered bad form to recuse yourself from an entire industry's matters because of the acronyms.

I knew I was in trouble when some large energy users came in to lobby me a few weeks after I arrived. I was a complete energy law neophyte. After half an hour, there were more acronyms flying around than Net Neutrality definitions. My head was spinning. All I remember is that they complained about the ISO wanting reliability at any cost, and they were unhappy about something called AB1X.

Lesson One: Learn about the energy crisis right away so you don't think AB1X is a new car model or video game.

Five months later, the July heat storm hit. As a new commissioner, I was literally sweating it out all week. Thank goodness for the ISO and everybody else who pitched in to avoid rolling blackouts. I now have an appreciation for the ISO's ardent desire for reliability.

Lesson Two: It is important to keep the lights on.

Now raise your hand if you've seen that round PG&E glowing energy orb in the lobby of the PUC that tells us the state of the electric load. I think the energy orb is charmingly retro – kind of the “lava lamp of lights” of the PUC.

When the energy orb is blue, it means the electric load is meeting demand.  
When the orb is red, it means a demand response program has been called.  
When the orb turns into the AT&T “Your World. Delivered” logo, it means Ed Whitacre has bought another Baby Bell.

In order to decipher energy acronyms, I decided to go through a number of energy briefings. First the staff trooped through. My staff then brought over a Berkeley professor to beat it into my head. Some take a vitamin a day to stay healthy. For ten months, I have been on an energy-acronym-a-day regime to stay sane: RA, EE, DR, RPS, GHG, AMI, IOUs, LSEs, ESPs, CEC, and the MRTU proposed by the CAISO to the FERC.

Lesson Three: Between the MRTU and the Missoula Plan, one can be overwhelmed at the PUC. Now I know why former Commissioner Shumway not only left the state, but left the country after he ended his term.

Former Commissioner Jessie Knight and I were commiserating about this point recently. Just when you learn enough to really know what you are doing, your term ends. The next victim arrives, staff members brush up the briefing papers, and the cycle begins all over again.

Acronyms aside, my FCC experience has made entry into the unique world of the PUC easier for me. The Bagley-Keene open meeting rules are not too different that the FCC ones.

I come with a regulatory philosophy, honed during my FCC days. I have always been an advocate for what I call simple pragmatic regulation. In reviewing a regulation, I ask, “Is the regulation necessary, that is, is there a real problem that needs to be addressed as opposed to anticipatory regulation? If so, is this the most narrowly tailored regulation to accomplish this goal?”

I have other concerns too. I think things move too slowly at the CPUC, and so I have been encouraging speedier decision-making. My CCPUC buddies literally begged, “Please make a decision, even if it’s a wrong decision, just make a decision so business isn’t stopped in its tracks by regulatory inertia.”

Well, I can never agree that we should make a bad decision, but I do agree that the PUC should be working harder to get decisions out faster. In the Information Age, all business runs at a faster pace.

My office is doing our part. After 10 months of PUC service, we’ve been busy with Consumer Protection Initiative implementation. We put out the Broadband over Power Lines decision, two universal service OIRs, the Uniform Regulatory Frameworks decision (affectionately known as URF), and the Video Franchise OIR. Team Chong is rockin’ and rollin’, and yes, we are still having fun.

Another point I wanted to raise is that I believe that the issues should be addressed with intellectual rigor. I was a little bit shocked that at the PUC, an OIR may propose new rules, but may have little or no text explaining why the PUC believes the rules are good or necessary.

I believe that the PUC should make a case that every proposed rule is necessary and wise from the get go. That kind of intellectual rigor keeps everyone honest about the need for that regulation.

Further, I believe every PUC decision should be well reasoned. The decision should set forth a clear rationale, cite to the record, and explain why some proposals were rejected. The decision should be transparent and defensible in court. Everyone spends a lot of time debating the merits of a particular course of action and the PUC's decision should reflect that debate and the parties' input. This is the practice at the FCC, and I have attempted to follow it at the PUC. I ask that your pleadings be equally precise and exacting, to help us achieve a quality decision together.

I also run an open office, meaning I try hard to be accessible. I like to hear or read all views before deciding a major issue. Within the constraints of the ex parte rules, I encourage you to see me and my advisors. When you come, please be clear about what you are asking for and why. It's also handy if you have a little summary of your argument to leave behind so we don't forget your major points. We see a lot of folks come through and it helps us to remember your key points at the critical moment.

Finally, I keep my customers firmly in mind. These customers are our regulated entities, other interested parties, most importantly, California consumers. Having a customer service attitude as a commissioner has always helped me keep my priorities straight.

## **Energy**

Now that I am starting to get the hang of the lingo, I have some goals in the Energy area that I would like to share with you today.

Like my colleagues, I support aggressive pursuit of the state's Energy Action Plan goals. I believe the Energy Action plan is well balanced. It prioritizes environmental-friendly policies, including energy efficiency, demand response and renewables. I have just picked up the demand response docket, and look forward to working with the CEC and affected utilities on the recent filings.

At the same time, the EAP recognizes that we need to maintain the reliability of our electric infrastructure, and that may require efficient, traditional resources.

Within a few hours after I was sworn in as PUC Commissioner, I cast the deciding vote in favor of the California Solar Initiative. The CSI will result in 3,000 megawatts of new solar power capacity by 2017. In August, we established performance-based incentives

for solar installations. The incentives are intended to encourage efficiency and innovation. It is important to me is that this program produce real megawatts of solar energy for California.

Around the same time, the Governor signed SB 1 which demonstrates strong support in Sacramento for the CSI program.

Where possible, we should try and use market-based approaches to achieve our EAP goals. I believe market-based approaches will lower the costs to California consumers. I particularly have an interest in the development of a cap and trade framework to cut green house gas emissions.

With the signing of AB 32, the state has committed itself to tackling global warming. The PUC has already begun to develop rules so that the state's power sector meets the law's goals. Worldwide, California is a leader in this area with innovative policies. I believe we should use market based policies to minimize costs to the economy.

I also believe our regulations should encourage investment in California's energy infrastructure. Wall Street has already looked askance at the California market during the electric crisis. To rebuild confidence, the California PUC must put in place a stable regulatory framework that encourages long-term investment, particularly in renewable and conventional generation and transmission.

For example, in the natural gas area, the PUC established new gas quality standards for the state's pipelines last month. Liquefied natural gas, or LNG, is one of the few new sources of natural gas available to California. The new standards adopted by the PUC establish clear access terms around which LNG developers may plan their projects. An area that I have particular interest in is encouraging energy companies to empower their consumers to reduce their energy bills, whether through conservation, energy efficiency or demand response. I have encouraged the utilities to give consumers more information about their energy usage on a real time basis, so consumers can help us conserve in addition to reduce their bills. In this vein, I will be advocating innovative tariff approaches that allow consumers to benefit from smart energy management.

In July, the PUC authorized PG&E to upgrade all nine million electric and gas meters in its service territory to Smart Meters.

For the first time, customers will be able see how their energy usage varies on an hourly basis, or even more frequently for commercial customers. Armed with this information and new technologies, customers are empowered to manage their energy usage in new ways. I think this will transform the relationship between the energy company and its customers.

I make no secret that I am a big fan of advanced technology. It allows energy utilities to operate more efficiently and lower costs.

I think it's time the electric and gas utilities marched into the Twenty First Century and updated their aging infrastructure to take advantage of technology.

By this, I don't just mean advanced metering and smart grid applications. I also mean looking at how technology can enhance their daily relationship with customers, and how technology can help us recover from a natural disaster or terrorism scenario.

I hope they consider applications like broadband over power lines, broadband over gas lines, WiFi and WiMax opportunities. Rights of ways are valuable things and the energy utilities have them. What more can these utilities do with rights of ways? I encourage utilities to think boldly about new business opportunities that may provide benefits to Californians.

## **Water**

In the Water area, I also believe we need to implement the Water Action Plan that was set by the PUC just before I arrived. It seems to me that standards and policies may need to be set in broader proceedings so they are more consistent throughout the industry. So far, the water industry, relying on a general-rate-case by general-rate-case approach to change has progressed very slowly.

Consistent with the Water Action Plan, water conservation measures must be addressed more aggressively. Although the current cost of water resources are low, these costs are driven by the low costs of investments made long ago. As we attempt to expand California water infrastructure to meet the needs of our growing population, we are finding that adding more water is much more expensive than plugging leaks.

Finally, as Legal practitioners, I would advise you to look closely at the law as it develops in water cases. For example, in 2002, the California Supreme Court, (*Hartwell Corporation et al. v. The Superior Court of Ventura County*) limited the private right to sue water companies for alleged health effects caused by the drinking of water that met state standards. The PUC persuaded the Court this type of private right of action would undermine the regulatory program designed to produce safe water at reasonable rates.

As many of you know, the issue of private right of action also arises in the telecommunications and energy industries as well, but in slightly different forms. In the telecommunications industry, the issue arises in the form of class action consumer complaints and in the energy industry, the issue arises in the form of safety suits over EMF radiation.

## **Telecommunications**

Of course, my focus has been on information infrastructure and telecommunications regulatory reform at the PUC.

Governor Schwarzenegger and I share an important goal, which is to provide incentives for the world's best broadband infrastructure to be built in our great State.

It has taken just two decades for the US to go from one national monopoly phone company to a fiercely competitive market characterized by hundreds of phone companies competing for consumers' business. This rough-and-tumble phone competition has brought good things to our state's consumers -- high quality voice services at reasonable rates and a huge menu of rate plans.

Change in the phone marketplace also has caused some customer confusion as the phone market makes this transition from monopoly to competition. This is why the PUC's June Consumer Education Initiative is so important to educating consumers about today's choices.

In August, my office put out the Uniform Regulatory Framework decision. URF killed NRF, the PUC's New Regulatory Frameworks initiative that was launched 18 years ago. In those 18 years, the telecom world has been turned on its ear:

- \* a multi player competitive wireless telephone market was created by the federal government;
- \* the 1996 Telecom Act passed, bringing local phone competition;
- \* the Internet has become a voice platform, and will be the principal infrastructure over which voice may ride in the future;
- \* cable has entered the voice market on upgraded infrastructure; and
- \* new Voice over Internet Protocol (VoIP) voice providers have joined the voice fray and some of them give service away for free.

Thus, there is now incredible intermodal competition, some of it quite unanticipated by Congress members when it passed the historic Telecom Act of 1996. That '96 Act is now outdated and it does not look like another national reform act will pass this year. I see regulatory reform for California as a three-legged stool. The first leg is to establish a fair and level playing field. Establishing this playing field is largely accomplished through removal of outdated and unnecessary rules imposed only one market segment. Our URF decision removes most such rules, and grants local phone carriers the pricing freedoms needed to compete with their competitors who do not have such restrictions..

The next leg of reform is to update the Universal Service programs to recognize the new telecom competition and make Universal Service programs more technology neutral. This work is underway in two Universal Service rulemakings that we kicked off in May and June.

The third leg of reform is to reduce the high prices of switched access services. Access charges subsidize high cost rural companies in both California and the nation. Currently, these access charges shift billions of dollars from urban to rural communities. We overpay as to wireless and long distance rates to subsidize landline phone rates in high cost areas. Where those subsidies are really needed, we should make them explicit and collect them from a broad base of customers.

President Peevey led the first efforts for state level reform in our access charge docket. As to the national access charge reform scene, with the filing of the Missoula Plan at the FCC, the ball now is in the FCC's court. The PUC will be filing comments at the FCC on October 25<sup>th</sup>, commenting on the Missoula Plan.

We do see some benefits to the Missoula Plan. For example, the fix to the problem of Phantom Traffic is very good and should be implemented promptly. The requirement that carriers must establish "edges" for interconnection purposes is fine. However, the Missoula Plan is not perfect and we plan to point out some potential negative impacts on our state Universal Service plans and other areas where it could be improved. Telecom competition and related regulatory reform is undeniably the right path. With the passage of the Consumer Protection Initiative and URF, California now is following that path. While we have hardly been a leader in telecom reform over the past decade -- 21 states have deregulated before us -- California can be a leader again in innovative telecom policy.

One thing that has been very important to me is to shift the PUC from its focus on command and control regulation to a lighter touch more in line with a competitive marketplace. I am glad to see the PUC renew its focus on serving phone consumers. It is critical that we educate consumers about the new telecom competition so consumers will make purchases that best meet their needs. The PUC also wishes to inform consumers about where to file a complaint should a phone company do them wrong.

To that end, I am proud that our Consumer Education Initiative has been such a success. The phone industry, consumer groups, community-based organizations and the PUC collaborated to develop some outstanding educational brochures which are available at [www.calphoneinfo.com](http://www.calphoneinfo.com). These brochures are consumer friendly and written at a sixth grade reading level. This information will be up in 12 languages ultimately; I think we have seven languages up on the website now. When we launched [www.calphoneinfo.com](http://www.calphoneinfo.com), we received 21,000 hits in the first few weeks, and 7,000 hits the following month. The PUC has more planned for 2007. I am told that consumer groups are using our CalPhoneInfo website as an example of what could be done for other state agencies and federal agencies.

I am also pleased about our related efforts to improve our Consumer Affairs Bureau (called CAB for short). These are the PUC staffers who answer the phone at the PUC to respond to consumer complaints and inquires. This group was understaffed with a serious complaint backlog when I arrived. I am happy to report that we have doubled the size of CAB by more than 50 percent. Many of our new hires are bilingual. We expect to have the complaint backlog cleared up by the end of next month. We have improved our CAB rep training and are also updating CAB's antiquated database as of next year to give CAB reps better tools to do their jobs.

It has also been enlightening to be talking to consumers via two other communications dockets, our Universal Service docket on our Public Policy Programs, and our In Language workshops. I've been all over the state listening to phone consumers. I've learned many things.

First, our neediest consumers, the disabled and senior consumers, want advanced communications devices to enhance their personal safety, and connect more easily with friends, coworkers and family. It is clear we need to update our Universal Service programs to accommodate these needs, while keeping an eye on costs.

Second, consumers are often confused by charges on their phone bills. This Thursday in Fresno, the PUC's Consumer Safety and Information Division will hold the first "Bill Clinic" to help consumers with questions or complaints on their utility bills. Taking place throughout the state, the Bill Clinics will facilitate contacts between the affected phone company and the unhappy customer. I thank the utilities who have stepped up to the plate to provide customer representatives (many of whom are bilingual) to participate in these Bill Clinics.

Third, there are many challenges to serving limited English proficient phone communities. In our In Language workshops, it's been troubling to learn about bad actors such as shady dealers or agents preying on these communities. Cultural issues sometimes keep the customer from bringing complaints to the utility or the PUC.

In response to these problems, the PUC is going to establish specific contacts for community-based organizations to get assistance for their LEP communities. We are looking at whether new rules may be necessary for phone companies that market to consumers in a language other than English. A related OIR may launch at year's end.

Fourth, we must be vigorous in enforcing our rules. I have encouraged staff to work with industry and other law enforcement agencies to keep bad actors out of the market. Our new consumer fraud unit is being formed. I urge you to work with it in policing the industry and ensuring consumers get the protections they deserve.

### **Video Services**

Now, here is a quick word about the new Video Franchise law AB 2987. The PUC will be the sole state video franchising authority. At the last PUC public meeting, the PUC issued an OIR with a proposed General Order and application form.

We are on a tight timeframe to get the final order out. My hope is that new video competitors can apply for a statewide video license by January 2007, the month the law becomes effective. I am very excited about the state video franchising law, and its commitment to bring state-of-the-art broadband and video service to the state. I look forward to working with the cities and counties in a partnership under this new law. I am taking meetings on the OIR and urge you to come in sometime in the next few weeks. There will be no delays granted in the briefing schedule.



## **VoIP, IP Telephony, and Web 2.0**

Finally I am watching IP Telephony and VOIP developments with interest. The two terms are synonymous, but the term VOIP is often used for the actual services offered, while IP telephony often refers to the technology behind it.

Starting in the late Nineties, VOIP and IP telephony have begun turning the data and telephone worlds upside down. IP has become the universal transport for most data and video communications worldwide. Voice traffic is now switching over to an IP backbone on a global basis, mostly due to economic factors.

This development is of interest because IP telephony is changing the dynamics and economics of the landline phone companies. Line losses for the incumbents are increasing, as noted in the URF decision. The incumbent phone companies are faced with stiff competition from wireless companies, cable companies and VoIP. I also have been watching with interest the Web 2.0 economic boomlet. Developments like MySpace, YouTube, Vonage, Skype, blogs, iTunes and free radio streaming websites are turning many traditional industries – like telephone, cable, broadcasting, music, publishing, and advertising -- on their ears.

These new web-based technologies and applications are challenging old paradigms. Consumer habits are hard to change but they do change. It took the nation about 15-20 years to fully embrace wireless phones. How long will it take consumers to embrace Internet-based phones? Or for consumers to receive video and music programming on demand on their laptop or mobile device? Or having news pushed at them onto their wireless device or laptop?

I bring this topic up not because I am an expert, but just to say, the best is yet to come. In my twenty two years of being involved in the communications industry, the issues keep getting more complex, but at the same time, better and better. We are living after all, in an Information Revolution. Some might even say we are some of the architects of this Revolution.

Thank you for having me.