

**ANNUAL BUDGET AND STAFFING REPORT  
OF THE  
DIVISION OF RATEPAYER ADVOCATES**

For the

Joint Legislative Budget Committee

Senate Budget and Fiscal Review Committee

Assembly Budget Committee

January 2006

*California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, California 94102*

## Executive Summary

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This report is submitted pursuant to Public Utilities Code section 309.5 (g).

The Division of Ratepayer Advocates (DRA) at the California Public Utilities Commission (CPUC) is the only state agency charged with advocating on behalf of the customers of regulated public utilities. In so doing, DRA plays a critical role in ensuring that consumers are represented and their voices are heard at the CPUC and in other proceedings, when the outcome can determine how much consumers pay for utility services and their quality.



There are approximately 18 million electric customers, 24 million natural gas customers, 6.8 million water customers, and over 40 million wireless and landline telephone customers for whom DRA advocates. To enable it to effectively represent these customers, DRA's budget for Fiscal Year (FY) 2005/2006, is \$22.3 million, including 122 authorized positions, legal services, and administrative overhead.

Dana Appling was appointed DRA Director by Governor Schwarznegger on August 30, 2004.

DRA workload standards and measures are based on the number of proceedings in which it participates and the number of pleadings filed in those proceedings. In 2005, DRA filed 746 pleadings, participated in 196 proceedings, and responded to hundreds of other utility requests. DRA's recommendations during FY 2004/2005 have resulted in hundreds of millions of dollars in reductions or avoided cost increases in utility consumer rates.<sup>1</sup>

### History

The Division of Ratepayer Advocates (DRA) function was codified in 1985 to represent the interests of public utility customers in CPUC proceedings. In 1996, SB 960 (Leonard) revised Public Utilities Code section 309.5, renaming the organization the "Office of Ratepayer Advocates" (ORA), and while keeping ORA within the CPUC for mutually beneficial purposes, made it independent with respect to policy, advocacy and budget. SB 960 also made the Director of ORA a gubernatorial appointment subject to Senate confirmation. Subsequent bills removed the SB 960 sunset provision, deleted the limitation that ORA represent consumers only in CPUC proceedings (SB 201, Speier, 2001); and added to ORA's responsibilities the requirement to primarily consider the interests of residential and small commercial customers for revenue allocation and rate design matters (SB 521, Bowen, 2003).

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<sup>1</sup> 2005 DRA activities in energy, telecommunications and water regulation are summarized on pages 9-13.

## **SB 608 (Escutia)**

Effective January 1, 2006, SB 608 (Escutia) restored the name *Division of Ratepayer Advocates* to the organization and provides for the following additional significant changes to strengthen DRA:

- Authorizes DRA's director to develop the division's budget, subject to final approval by the Commission;
- Provides DRA's director with explicit budgetary spending authority;
- Authorizes DRA's director to appoint a lead attorney that will represent the division; and
- Requires the Commission to provide DRA with sufficient attorneys and legal support to ensure that customer and subscriber interests are effectively represented.

## **Mission and Goal of the Division of Ratepayer Advocates**

DRA is an independent division of the CPUC and advocates solely on behalf of utility ratepayers. Our statutorily designated mission and goal, as set forth in Public Utilities Code section 309.5, is to “*represent and advocate on behalf of the interests of public utility customers and subscribers,...to obtain the lowest possible rate for service consistent with reliable and safe service levels.*” To fulfill this mission and goal, DRA participates, as a party representing consumers in CPUC proceedings, including rate settings, investigations, and rulemakings. DRA also participates in CPUC-sponsored working groups, advisory boards, workshops, and other forums. Among its many responsibilities, DRA evaluates utility proposals, investigates issues, presents findings and formal testimony, litigates complaints, and makes recommendations that would result in the lowest possible rates consistent with reliable and safe service levels, to the Administrative Law Judges and Commissioners.

DRA has a staff of professional engineers, auditors, economists, and financial and policy analysts who are experts in regulation of the electric, natural gas, telecommunications, and water industries in California.

The energy crisis and rapid changes in the telecommunications industry serve to highlight the need for effective advocacy to protect utility consumers. In the water industry, contamination, aging infrastructure, utility mergers, and district consolidation efforts call for a strong voice on behalf of water utility customers. Safe, reliable and lowest cost utility service is critical to economic recovery and is the focus of DRA's work.

## **DRA Role at the CPUC**

Organized within the CPUC, DRA is uniquely positioned to assist California's regulated utility consumers by analyzing and evaluating information (e.g., from utilities, markets, and consumers) for the benefit of its broad constituency of ratepayer clients. Unlike other consumer interest groups, DRA has statutory rights to obtain information from utilities through discovery and other means.<sup>2</sup>

DRA is recognized for its thorough analysis of complex issues – something other consumer groups often rely on in representing their specific constituencies before the CPUC. DRA works collaboratively with other consumer groups, but due to the increase in the number of proceedings in recent years, DRA is often the only voice representing consumer interests in a number of these proceedings.<sup>3</sup> Since the CPUC relies on a formal evidentiary record in rendering its decisions, DRA's participation ensures that the CPUC has a record that reflects the interests of California consumers.

## **DRA Scope of Work**

California consumers spend approximately \$50 billion annually for services from industries regulated by the CPUC. DRA provides analysis and advocacy to inform decision makers about the effects of regulated utility actions on California's consumers. DRA's recommendations have resulted in savings of hundreds of millions of dollars in rates annually. DRA focuses on systematic abuse and problems affecting the body of ratepayers it represents rather than addressing individual customer complaints. DRA's work has resulted in significant changes in utility practices and rates, in adjustments to rate base, and in marketplace controls.

**In 2005, DRA filed 746 pleadings and participated in 196 proceedings.**<sup>4</sup> In addition to formal Commission proceedings, DRA also conducts a substantial amount of work outside of the hearing room. DRA reviews hundreds of smaller utility requests not requiring evidentiary hearings, and protests those that are adverse to ratepayers. DRA reviews consumer complaints to monitor problems customers encounter with providers of utility services to identify trends and protect consumers from unreasonable actions.

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<sup>2</sup> Public Utilities Code section 309.5(e).

<sup>3</sup> For example, DRA is the only consumer advocate assessing whether Southern California Edison, PG&E and SDG&E are managing their power purchase contracts and dispatching utility owned generation in the most efficient and least cost manner. DRA is also the only party that reviews the gas utilities' natural gas procurement costs, and audits these costs. Further, DRA is the only party that conducts regulatory audits in General Rate Cases (GRC) and actively participates in small energy utility GRCs.

<sup>4</sup> These statistics are an attempt at quantifying the DRA workload, but still fall short of telling the full story. There are substantial differences in significance of and effort invested in participating in various proceedings. For example, in a General Rate Case proceeding that scrutinizes utility costs, operations, practices and requested rates, DRA typically assigns 20 or so full time staff members. Such a proceeding often requires weeks of evidentiary hearings, the filing of extensive testimony, cross-examination, briefs and so on. In contrast, a proceeding that investigates what is needed to make broadband more ubiquitous in California would not require any hearings, testimony or cross examination. Instead, such a proceeding would likely solicit only written comments from parties and require the assignment of only one DRA analyst. The same differences apply to utility requests filed as "advice letters". Some advice letters require the attention of several staff people working full time for several weeks, while others may require only one person working part time for a couple of days.

DRA conducts CPUC-ordered periodic monitoring of utility performance and operation, and brings to CPUC attention any problems that are harmful to ratepayers. In addition, DRA monitors the marketplace to discern broader industry trends and their effect on consumers.

Over the last decade, deregulation efforts in the telecommunications, natural gas, and electricity industries by state and federal regulators have brought a huge increase in complex regulatory proceedings to the CPUC. In addition to the traditional tension between consumers and regulated utilities over the costs and quality of their services, the CPUC and DRA are engaged in new proceedings to establish rules implementing fair competition and preventing market abuses.

While California's Class A water utilities are not facing deregulation, recent legislation has substantially increased DRA's work load in this area. In 2002, Assembly Bill (AB) 2838 was enacted, requiring the Commission to perform a comprehensive analysis of the rates charged by Class A water utilities every three years. Prior to the adoption of AB 2838, California's Class A water utilities had the option, but were not required, to file periodic general rate case (GRC) applications for their 64 separate ratemaking districts. With this new statutory requirement, DRA must evaluate and the Commission must process an average of 21 GRC applications per year, a 60% increase in workload compared to the 13 GRC applications analyzed on average in recent years. Without a commensurate increase in staff, this severely increased workload causes a significant strain on DRA resources.

### **DRA Budget**

The CPUC is required to provide sufficient resources, including attorneys and other legal support, for DRA to effectively represent consumer interests.<sup>5</sup> DRA's budget is statutorily designated as a separate account into which monies are annually transferred in the annual Budget Act from the Public Utilities Commission Utilities Reimbursement Account, to be used exclusively by DRA in the performance of its duties. DRA's \$22.3 million budget for fiscal year 2005/2006 includes staff, legal services, and administrative overhead. The DRA budget is less than 1/10<sup>th</sup> of 1 percent of the approximately \$50 billion in revenues for California's regulated utilities, and represents a small fraction of the savings DRA brings to Californians in the form of lower utility rates or avoided rate increases.

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<sup>5</sup> Public Utilities Code section 309.5 (c): "The commission shall, by rule or order, provide for the assignment of personnel to, and the functioning of, the division. The division may employ experts necessary to carry out its functions. Personnel and resources, including attorneys and other legal support, shall be provided to the division at a level sufficient to ensure that customer and subscriber interests are effectively represented in all significant proceedings."

## **DRA's Consumer Advocacy Priorities**

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In deciding the proceedings in which DRA participates, DRA looks at:

- Legislative intent and direction;
- The potential impact on utility consumers' rates or service quality;
- The number of Californians affected;
- Proceedings that deal with insuring fair treatment of utility customers;
- Proceedings that support the development of affordable infrastructure and promote universal service;
- The needs of those who are most vulnerable - low income, disabled, and seniors.

In advocating on behalf of California's energy, natural gas, telecommunications and water consumers, DRA is dedicated to ensuring:

- **Lowest possible rates:** Provides analysis and advocacy to inform decision-makers through the record of proceedings about the impacts of regulated company proposals on consumers; performs audits, reviews company finances and operations to ensure the lowest possible rates.
- **Consumer protection:** Monitors utility billing and marketing practices to prevent consumer abuses;
- **Service quality:** Monitors utility services to promote good service at the lowest possible rates;
- **Safety and reliability:** During general rate case proceedings, DRA reviews utility practices to prevent outages and accidents; assure compliance with water quality standards.
- **Access to essential utility services:** Advocates for affordable access for all to essential utility services, particularly for low-income consumers;
- **Trustworthy information:** Advocates to ensure that customers have access to useful information about choices and options.

## **Staffing and Resources**

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Public Utilities Code section 309.5 (g) requires that specific information concerning DRA be submitted to the Legislature by January 10, each fiscal year.

Section 309.5 (g) requires the following information:

1. *“The number of personnel years assigned to the Division of Ratepayer Advocates”*

DRA currently has 122 authorized positions.<sup>6</sup> The table below provides a comparison with prior and projected staffing levels.

### DRA Staffing

Fiscal Year	Total DRA Staff	Explanation
2002/03	138	
2003/04	123	<ul style="list-style-type: none"> <li>• 1 position expired 6/30/03 (AB 1973)</li> <li>• 14 positions lost to Section 4.10 reductions.</li> </ul>
2004/05	121	<ul style="list-style-type: none"> <li>• 2 positions re-assigned to other CPUC divisions.</li> </ul>
2005/06	122	<ul style="list-style-type: none"> <li>• 1 position added to the Water Branch by the Department of Finance.</li> </ul>

2. *“The total dollars expended by the Division of Ratepayer Advocates in the prior year, the estimated total dollars expended in the current year, and the total dollars proposed for appropriation in the following budget year.”*

### DRA Budget

Fiscal Year	Total Direct Dollars Including Reimbursable Contracts <sup>7</sup>	Total Direct Dollars Plus Legal and Administrative Support
2003/2004	\$15,177,000	\$20,540,000
2004/2005	\$16,286,000	\$21,819,000
2005/2006	\$16,718,000	\$22,296,000
2006/2007	\$17,067,000	\$22,716,000

<sup>6</sup> Except for the Lead Attorney position which was authorized by SB 608, the CPUC Legal Division assigns attorneys to support DRA’s staff in litigation matters. These attorneys are technically not members of DRA’s staff, though the cost for legal support is included in DRA’s budget.

<sup>7</sup> The DRA annual budget includes an authorization for reimbursable contracts. For FY2005-2006, that amount is \$3,848,000. Actual expenditures for reimbursable contracts occur only if there are proceedings that allow for reimbursable contracts. Examples include mergers and major resource additions.

3. *“Workload standards and measures for the Division of Ratepayer Advocates”*

DRA measures its workload in two ways:

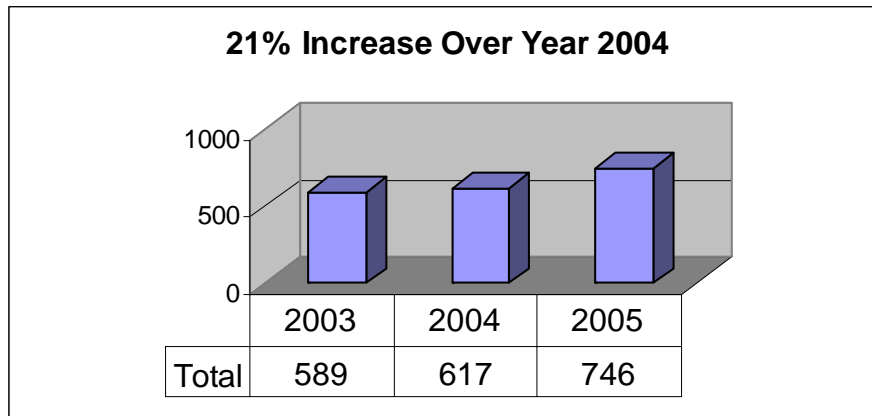
1. The number of pleadings<sup>8</sup> filed by DRA before the Commission each year.
2. The number of proceedings<sup>9</sup> DRA participates in on behalf of ratepayers.

DRA’s work product involves investigation and analysis to provide expert testimony and briefs for Commission proceedings.

DRA staff and attorneys file hundreds of pleadings annually on behalf of customers covering issues related to electricity, natural gas, telecommunications, and water. Pleadings are filed in various proceedings such as utility applications to increase rates, special investigations by the CPUC and formal complaints.

In 2005, DRA filed 746 pleadings and participated in 196 proceedings. (See Tables 1 and 2 below.) This represents a 21% increase in the number of pleadings and a 9% decrease in proceedings over 2004.

**Table 1: Number of DRA Legal Pleadings per Year**

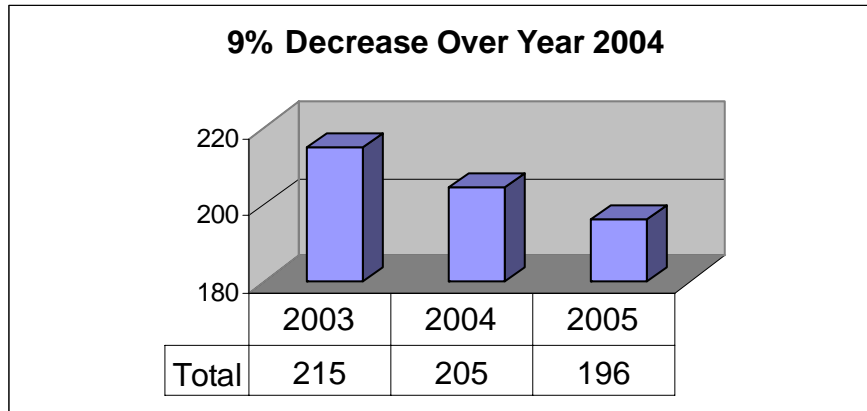


<sup>8</sup> A pleading is a legal brief filed in a formal proceeding before the CPUC. This would include proceedings such as applications to raise rates, Commission investigations, or complaint cases. In a typical proceeding there is an application, a review of the application that may result in a protest, a Prehearing Conference where DRA may be required to file a Prehearing Conference statement, independent analysis prepared by DRA (usually in the form of a report and expert witness testimony) that is served to proceeding participants, opening and reply briefs, and opening and reply comments on the Commission’s proposed decision.

<sup>9</sup> A proceeding before the CPUC is a formal case before the Commission in which a legal record is developed. It may consist of sworn testimony and legal briefs.



**Table 2: Number of Proceedings DRA Participated In**



## **DRA's Commitment**

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DRA is dedicated and committed to continually achieving the goal of its statutory mandate, “to obtain the lowest possible rate for service consistent with reliable and safe service levels,” by means of strenuous and vigorous review, investigation, and analysis, both technical and legal, of utility proposals and presenting high quality and credible arguments and recommendations in CPUC and other appropriate proceedings.

## **DRA Activities for 2005**

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DRA's resources are focused on three distinct objectives: Energy Matters (Electric and Gas), Water Rates and Services, and Telecommunications.

### **Energy Matters**

#### **Pursuing Lower Energy Rates**

DRA participated in essentially all Commission proceedings for major energy utilities such as Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), San Diego Gas and Electric Company (SDG&E), Southern California Gas (SoCalGas) and Sierra Pacific Power Company (Sierra Pacific). DRA's most recent efforts in these areas are described below.

- DRA seeks to drop SCE's proposed GRC rate increase by \$750 million. Edison filed for a \$569 million increase in its base rate revenues (excluding adjustments) for 2006 and further increases of \$225 million in 2007 and \$207 million for 2008 (A.04-12-014). DRA conducted an extensive review, analysis and investigation of Edison's request and proposes increases of \$106 million in 2006, \$67 million in 2007 and \$76 million in 2008. The case has been submitted to the Commission and a decision is expected in early 2006.
- Sierra Pacific filed for authority to increase its rates by \$8.1 million or 12.7% in its California service territory (A.05-06-018). DRA recommends a rate increase of \$1.7 million or 2.7%. DRA also recommends that residential customers' rate increase be capped at 2.5% of the system average increase, which amounts to 5.2%, in contrast to Sierra Pacific's proposed 16.6% residential rate increase.
- PG&E, DRA and other parties filed a settlement agreement with the Commission in A.05-06-029 which proposes to grant a certificate of public convenience and necessity for PG&E to resume construction of the Contra Costa 8 generation facility. The settlement would establish an initial non-fuel revenue requirement of \$67.5 million based on a capital cost of \$295 million in contrast to PG&E's requests of \$70.5 million and \$310 million, respectively. There are also financial incentives for PG&E to minimize the construction cost of the project because if capital costs exceed a threshold of \$305 million, then shareholders would incur 10% of the excess costs.
- DRA reduced incentive payments to PG&E, SCE and Sempra Utilities by over \$30 million. DRA initiated settlements with these utilities to reduce the amount of incentive payments the utilities would receive regarding historic energy efficiency programs. (These are payments made to utilities in compliance with prior CPUC efforts to provide utilities incentives to invest in efforts to reduce energy usage by customers) Through these settlements, DRA obtained savings for ratepayers of over \$30 million and brought to a close no less than 20 existing proceedings.

- DRA opposed the requested rate of return increases proposed by PG&E, SCE and SDG&E for the 2006 period. In December 2005 (D.05-12-043), the Commission granted more modest increases than those proposed by the utilities, by incorporating DRA's analyses. This resulted in savings to electric and gas customers of these three major utilities.
- In June 2005 the Commission issued D.05-06-029 addressing PG&E's Biennial Cost Allocation Proceeding (BCAP), which allocates gas costs among customer classes and established throughput forecasts upon which to base those rates. The decision adopted a settlement negotiated by DRA and other parties which resolved many of the issues (including throughput forecasts, minimum monthly residential bills, tier differential, core deaveraging, etc.). Some remaining issues were litigated and the decision ruled in DRA's favor on the two most significant: the allocation of CARE costs and the allocation of SGIP costs, saving core customers \$28 million. Core residential rates increased by only 1.9%, as compared to PG&E's proposed 3% increase.
- DRA conducted an audit of Edison's Catastrophic Events Memorandum Account (CEMA) for the recovery of costs associated with the 2003 firestorms. Based on its audit, DRA proposed adjustments of \$3.8 million to capital and \$250,000 to expense. DRA and Edison filed a settlement which adopted the majority of DRA's adjustments and was approved by the Commission.
- DRA prevented a rate increase for South Lake Tahoe gas customers. Avista Corporation and Southwest Gas Corporation filed for authority for Avista to sell its South Lake Tahoe district to Southwest. DRA protested the application seeking protection against a rate increase for the current Avista customers. In D.05-03-010, the Commission approved a settlement agreement among DRA, Avista and Southwest which authorized the acquisition on the conditions that Southwest could not recover the acquisition premium in rates and current South Lake Tahoe customers' base rates would continue unchanged for four years through 2009.
- DRA supported a proposal by SoCalGas to reclassify 4 billion cubic feet of cushion gas to working gas and transfer the gas in-kind to SoCalGas' CARE customers at its low cost book value. This proposal was adopted by the Commission in D.05-11-027 and the net benefits of about \$48 million will flow to CARE customers in the 2005-2006 winter season bills.
- DRA submitted its annual monitoring and evaluation reports pertaining to the gas procurement incentive mechanisms and costs for SoCalGas, PG&E and SDG&E. DRA proposed a \$1.2 million adjustment to PG&E's requested incentive reward.
- DRA has opposed the proposed acquisition of PacifiCorp by MidAmerican Energy Holding Company on the basis that there are no net economic benefits to consumers associated with the transaction.
- DRA successfully negotiated changes with SDG&E and Edison regarding their proposals for installing advanced meters. Initial utility requests for funding were

decreased by millions of dollars. In addition, these settlements established processes to ensure that the utilities fully consider and include all the economic features and benefits of advanced meters in their programs.

- DRA entered into a settlement with agricultural interests to provide incentives to convert from diesel to less polluting electric pumping. This settlement balances environmental interests with impacts on non-participating ratepayers who will pay for these incentives. The incentives are sized to minimize the negative contribution to margin caused by adding this new load to the electric system.
- DRA successfully represented residential ratepayers in the SDG&E Rate Design Window. In this case the allocation to the residential class was limited to a 2% increase. ORA entered into a settlement that adopted the class revenue allocation proposed by ORA, and the Commission adopted this settlement in D.05-12-003.
- DRA was an important participant in PG&E's General Rate Case Phase II. DRA entered into a settlement that limited the increase to the residential class. DRA further entered into settlements on residential and commercial rate design that protected low income customers from rate increases, and limited the increases of fixed charges for small commercial customers.
- DRA reviewed and conducted a reasonableness assessment of PG&E's Settlement and Termination Agreement with Tin Inc. pursuant to the RALF procedure adopted in D.98-12-066. DRA concluded that the agreement provides benefits to ratepayers and supports a finding of reasonableness for the proposed restructuring advice letter filing but recommends that PG&E receive a 10% incentive reward based on DRA's calculation of the expected savings which resulted to additional ratepayer savings of about \$1.1 million. PG&E's AL 2715-E accepted DRA's recommendation. The Commission approved the agreement and accepted DRA's recommendation in Resolution E-3961.
- DRA served on the advisory groups providing input to the utilities in developing their 2006-2008 energy efficiency program portfolios.
- DRA served on the technical advisory committee that provides guidance to the utilities and their consultant in the completion of the 2004-2005 Database of Energy Efficiency Resources (DEER) update.
- In the CPUC's Energy Efficiency Rulemaking (R.01-08-028), DRA actively contributed to (i) the development of the post-2005 Energy Efficiency Policy Rules; (ii) the protocols governing the evaluation, measurement and verification of utility administered energy efficiency programs; and (iii) the reporting requirements for post-2005 energy efficiency programs.

## **Assuring Consumer Interests In Electricity And Natural Gas Regulation**

### ***Electric Resources***

DRA participated in the Commission's OIR on Electric Utility Resource Planning (R.04-04-003) to ensure adequate supplies of energy generation resources at reasonable cost. DRA has argued against policies that would inequitably assign system reliability costs, overstate reliability needs, and prematurely remove market power mitigations prior to the market redesign protections being fully implemented. The Commission agreed with DRA that liquidated damage energy contracts should be phased out gradually rather than immediately avoiding millions of dollars of unnecessary replacement contracts. DRA also argued that an initial commission proposal to base resource adequacy requirements for all hours of the year on a single annual peak load forecast would expose ratepayers to hundreds of millions of dollars of "excess" reliability insurance. DRA agreed with the large load serving entities that there was a long-term need for new generation.

### ***Gas Resources***

DRA actively participates in the Interstate Pipeline Capacity Acquisition process established by the Commission in September 2004 (D.04-09-022). In 2005, SoCalGas re-negotiated its long-term interstate gas pipeline capacity contracts with El Paso Natural Gas Company and Transwestern Pipeline Company, and also entered into an agreement for Kern River capacity. PG&E and SDG&E also renegotiated their El Paso contracts. All contracts were pre-approved by DRA and were ultimately approved through the expedited advice letter process. Most contracts were negotiated at discounts to the pipeline tariff rates. These contracts will ensure that gas procurement customers of the utility will have firm, reliable access to diverse gas supplies in the short and long-term.

DRA entered into an agreement with PG&E to set forth an updated planning objective for meeting core customers' peak gas requirements and the criteria for obtaining incremental storage to meet these future needs. These issues are being addressed by the Commission in A.05-03-001.

### ***ERRA Proceedings***

DRA has testified before the Commission on ERRA compliance and forecast issues. Based on its review and analysis in the ERRA compliance proceedings DRA recommended rate disallowances (i.e., rate reductions) for PG&E and Edison customers totaling about \$19 million. These are typically rejected by the Commission.

### ***Procurement Review Groups***

DRA actively participates in the Procurement Review Groups (PRGs) that oversee the power procurement activities of Edison, PG&E and SDG&E. PRGs provide input on utilities' contracting and Requests For Proposals for various short and mid-term power products, estimates of net-short and net-long positions, risk management strategies, quarterly reviews, renewable contracts, as well as other procurement activities. DRA's input ensures informal review of utility procurement occurs in a timely manner, thereby improving reliability and regulatory certainty.

### ***Renewables***

DRA was active in the Renewable Portfolio Standard rulemaking (R.04-04-026) and has argued for Time of Day payments, revisions to the Market Price Referent, and for limiting Renewable Energy Certificates, which if adopted, would both promote efficient renewable deployment and minimize the assignment of costs to ratepayers. DRA has argued for only building cost-effective transmission to wind and geothermal resource areas in Southern California. DRA was active in renewable issues in other proceedings and forums as well, including the Resource Adequacy proceeding, workshops regarding air quality, green house gas reduction, the Energy Action Plan and the Integrated Energy Policy Report of the Energy Commission.

## **Water Rates and Services**

DRA represents consumers in scrutinizing the costs of service of California's 9 large investor-owned water companies (Class A companies with over 10,000 customers). These companies have 63 geographically separate ratemaking districts, each with their 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 company's accounts, reviews past and projected expenses, revenue forecasts, cost of capital, plant additions, and rate design. In 2006, DRA expects to issue 21 reports for water ratemaking districts of Golden State Water, San Jose Water, California American Water, Park Water, California Water Service, and Valencia Water companies.

### **Keeping Rates Affordable**

- DRA is working with the water industry, the CPUC's Water Division, and other interested parties to develop a program that provides assistance to low-income customers of water utilities. DRA's goal is to help establish a statewide program to streamline administration, minimize costs and make water accessible and affordable to water utility customers in greatest need.
- In 2005, DRA scrutinized applications for general rate increases in 22 districts of large water utilities, advocating for the elimination of unjustified expenses. DRA's efforts helped reduce authorized increases to less than half the \$53 million requested.
- DRA successfully obtained a Commission ruling preventing Park Water Company (Apple Valley Ranchos District) from passing on the costs of installing special facilities for new growth to existing customers. DRA argued that existing customers should be held harmless. The Commission concluded that "...the cost of all necessary facilities to serve new customers, including wells, tanks and treatment facilities, when clearly attributed to new customers, should be recovered in the facilities charge, and not imposed on the existing customer base." The Commission further ruled that the utility would be at risk for any shortfalls it was not able to collect from developers, and would not be able to pass those on to existing ratepayers.
- DRA collaborated with, and successfully advocated on behalf of, ratepayers in Felton and Monterey to prevent California American Water Company from consolidating these geographically distinct districts. Ratepayers of both districts unanimously

opposed this proposal which would have resulted in a loss of local control in Felton and the unfair imposition of an additional \$500,000 per year in costs on Monterey – a district itself facing steep rate increases in coming years to support a proposed desalination plant. DRA also was successful in opposing a similar proposal to consolidate Cal Am’s Sacramento and Larkfield districts.

### **Water Quality**

- DRA participated in the CPUC’s rulemaking proceeding (R.04-09-002) on the ratemaking treatment of Proposition 50 funds used by regulated water utilities. DRA supports the efforts by regulated water utilities to seek Proposition 50 funding for water infrastructure projects. DRA proposed various safeguards regarding the ratemaking treatment of these funds to protect public resources and prevent any windfall profits from the use of these funds by water utilities. The final adoption of the rules is pending a CPUC decision.
  
- DRA advocated on behalf of ratepayers in the Southern California Water Company’s request to recover \$22 million in water contamination litigation costs resulting from the Aerojet perchlorate plume in Rancho Cordova. The final decision did not adopt DRA’s position, but DRA will continue its efforts to protect ratepayers from bearing a disproportionate share of the risk for these types of expenditures in future cases.

### **Water Action Plan**

DRA represented ratepayer interests in the development of the Commission’s Water Action Plan. This plan identifies the policy objectives that will guide the Commission in its regulation of investor-owned water utilities along with associated action items.

## **Telecommunications**

The telecommunications landscape in California has dramatically changed in the last year. The acquisition of the two largest long distance companies, AT&T and MCI, by the two largest incumbent local exchange carriers, SBC (now the “new” AT&T) and Verizon, solidified the dominance of the latter throughout the state. It is likely that the incumbent domination of local phone service will extend itself to internet access, voice services over broadband, and even video services. The challenges for consumer advocates remain to ensure that existing monopolies comply with pricing rules for regulated services, follow the rules for allowing competitive carriers access to their facilities, while maintaining standards for customer service, and sharing excess profits with consumers. DRA’s advocacy efforts in 2004/2005 focused on: (i) the conditions of Commission approval for the mergers; (ii) the stay of consumer protection rules and the uncertain future of the Consumer Bill of Rights; (iii) the pricing of unbundled network elements; (iv) the comprehensive review of the current telecommunications regulatory framework; and (v) the need for improvements in service quality for the residential and business customers of SBC and Verizon.

- Telecommunications Consumer Bill of Rights: in 2004 DRA worked with consumer groups and the California Attorney General to draft and pass California's groundbreaking telecommunications consumer-protection rules, adopted by the CPUC in May 2004. For the first time, consumer-protection rules would cover wireless service. As 2005 ended, the Assigned Commissioner, having stayed enforcement of the rules, issued a proposed decision that, if adopted, would roll back the adopted rules and instead emphasize consumer education.
- The CPUC reaffirmed DRA's authority to audit Verizon and modified some of the terms of the audit, such as focusing DRA's attention on the more recent years of 2002-2004, rather than 1999-2001. This is a follow-on to DRA's Verizon audit for the years 1997-99.
- DRA's major testimony in the SBC-AT&T merger proceeding resulted in adoption by the Administration Law Judge of most of the conditions DRA and its witnesses had recommended as conditions for approval of the merger. The Commission chose instead to approve the merger largely without conditions and with no sharing of the admitted merger savings. DRA has petitioned the Commission for modification of the decision approving the merger.
- In the Verizon-MCI merger proceeding, DRA filed testimony regarding merger synergies, their sharing as required by the Public Utilities Code, and other conditions for the merger's approval, including stand-alone DSL. DRA's request for evidentiary hearings in advance of a Commission vote was denied. DRA has, as with the SBC-AT&T merger, petitioned for modification of the merger decision so that synergies are shared and consumers benefit from the merger.
- DRA reached a settlement with SureWest that gives certain yearly surcredits to SureWest's ratepayers in place of the more variable benefits that may or may not result from the New Regulatory Framework (NRF) "sharing" mechanism.
- DRA filed testimony and briefs in the proceeding to review the pricing of Verizon's unbundled network elements (UNEs) according to Federal rules regarding wholesale pricing. DRA supported the cost model originally submitted by the old AT&T and the old MCI. At the end of the year, the Commission had before it a Draft Decision that adopted that cost model and would approve permanent rates for Verizon.
- DRA made a major contribution to the Commission's Rulemaking for Broadband over Power Lines (BPL), which seeks to encourage BPL deployment. DRA has argued that the Commission should refrain from exempting BPL projects from critical regulatory oversight. DRA supports BPL as an alternative to cable and DSL, which now dominate broadband access, but not at the expense of ratepayer protections. Finally, DRA maintains that ratepayers should be compensated via revenue sharing and gain on sale requirements for the use of the electrical system and other ratepayer-funded assets in provisioning BPL service.
- In the proceeding devoted to the Uniform Regulatory Framework, the possible replacement for the New Regulatory Framework, the Commission proposes to adopt new rules that would apply to all telecommunications carriers equally, regardless of



size or type, and that would affect rates and services for all California consumers. DRA filed extensive comments on the Commission's proposed rules and recommended retention of the minimally necessary protections for customers of essential basic services. Hearings are scheduled for early 2006 to consider the impact of any rule changes on what survives of competition after the mergers.

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