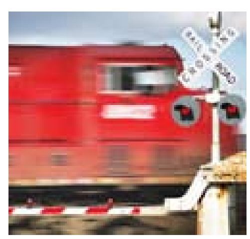
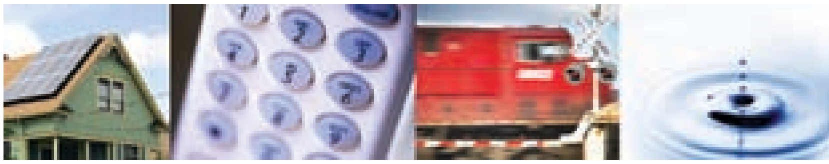
California Public Utilities Commission



Annual Report 2007



Letter to the Governor and Legislature

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

I am pleased to present to you the California Public Utilities Commission's 2007 Annual Report. This report highlights major accomplishments and activities of our Commission in 2007, and offers a view towards what is ahead for the Commission in 2008 and beyond.

The Commission is a national leader on many frontiers of important policy change for the industries we regulate, and 2007 was witness to a number of great strides in this regard. We adopted the nation's first emissions performance standard for electric utilities, a vital step towards achieving statewide emissions reductions goals. We also established the Commission's most ambitious energy efficiency program targets to date, along with an innovative new framework for achieving and exceeding the state's aggressive goals. In addition, we forwarded the objectives laid out in our Water Action Plan and initiated the development of a comprehensive conservation program for water utilities, designed to relieve stress on water supplies and to capture embedded energy savings. Finally, we took on a new role in granting video franchises, bringing competition to the video services market and encouraging the deployment of advanced broadband infrastructure throughout the state.

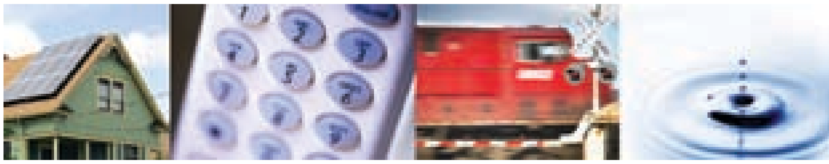
The Commission has also undertaken new initiatives over the past year to improve its internal operations and overall efficacy. In July, we initiated organizational strategic planning aimed at enhancing the efficiency and effectiveness of the agency in accomplishing its diverse work and responsibilities. Meanwhile, increased use of E-filing has streamlined regulatory processes dramatically at the Commission over the past year.

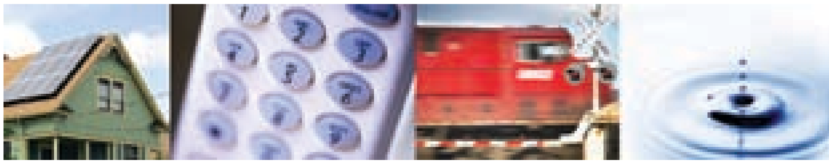
These are just a few examples of the groundbreaking work happening at our agency over the past year.

However, we believe that they indicate the course we have charted combining innovation, efficiency, and foresight as a new regulatory approach in years to come.

Sincerely,

Michael R. Peevey
CPUC President





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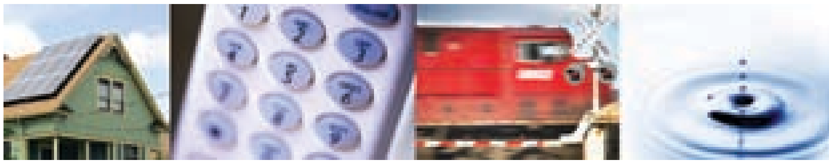
COMMISSIONERS



Michael R. Peevey

Michael R. Peevey was appointed President of the California Public Utilities Commission by Governor Gray Davis on December 31, 2002. Originally appointed to the Commission by Governor Davis in March 2002, his term expires December 31, 2008.

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

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

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

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

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

Mr. Peevey holds Bachelor and Master of Arts degrees in economics from the University of California, Berkeley. He is married to Carol J. Liu, who served three terms representing the 44th Assembly District (La Canada Flintridge) in the California legislature. They have three children.

Dian M. Grueneich

Dian M. Grueneich, a national expert in energy and environmental issues, was appointed to the California Public Utilities Commission by Governor Arnold Schwarzenegger and was sworn in on January 18, 2005. Commissioner Grueneich was unanimously confirmed by the State Senate on May 19, 2005, and will serve a full six year term that ends on January 1, 2011.

With more than 27 years of experience in energy and environmental issues, Ms. Grueneich recognizes the complex issues facing the Commission and the importance of strong public policy. She understands in detail the difficult economic choices facing families and businesses with regard to utility costs and is a strong advocate of ensuring reliable energy service, addressing climate change, implementing energy efficiency and renewable energy programs, and offering customer choice.

Ms. Grueneich is an environmentalist who realizes the importance of forging broad-based agreements that will endure. She has served on the Board of the American Council for an Energy Efficient Economy and was a past President of the Board of the California League of Conservation Voters (CLCV), where she oversaw development of CLCV's strategic plan and its evolution into a bipartisan spokesperson for California environmental groups. She has also served on the Board of the Mono Lake Committee.

In 1986, Ms. Grueneich founded her own law and consulting firm, known as Grueneich Resource Advocates (GRA) since 1993. She was the principal of GRA until her appointment to the Commission. In addition to assisting clients on strategic energy planning, rate analysis, utility negotiations, and energy efficiency opportunities, she has analyzed the State's energy and environmental problems, assisted in the implementation of energy efficiency programs and is the author of energy reports on energy efficiency to the California State Legislature and others.

From 1982-1985 Ms. Grueneich was a Senior Associate at Heller, Ehrman, White & McAuliffe, a major San Francisco law firm, specializing in West Coast energy issues, including Pacific Northwest matters. From 1977-82, she was Staff Counsel at the California Energy Commission.

While at the Commission, Ms. Grueneich is committed to making California not only a national but international leader in demonstrating that energy efficiency and demand management, a sound economy, and reliable energy supplies at a reasonable and predictable cost, go hand-in-hand. Ms. Grueneich is also committed to working closely on telecommunication and water issues, particularly with regard to the interplay between competition, support for business growth, and consumer protection.

Ms. Grueneich earned a Juris Doctorate from Georgetown University Law Center in 1977 and a Bachelor of Arts degree in Human Biology from Stanford University in 1974. She is a Democrat and resides in Berkeley with her husband, Steve Passek, and their two children.

John Bohn

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

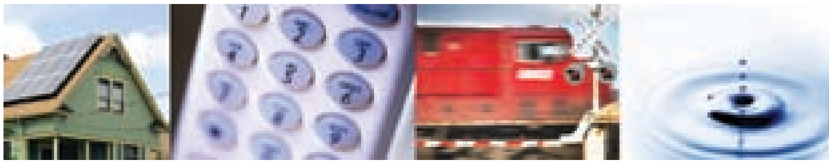
In addition to his duties at the Commission, Commissioner Bohn was recently elected as a Director of the National Endowment for Democracy in Washington, D.C. and to the Advisory Board of the Yale Institute for Corporate Governance and Performance. He also serves as Trustee of Northern Trust Multi-Advisor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

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

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

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

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



Rachelle Chong

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

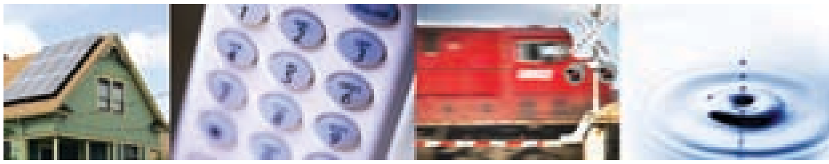
She began her legal career in Washington, D.C. in 1984, practicing before the Federal Communications Commission (FCC) representing broadcasters and early cellular telephone applicants. She returned to California in 1986 and practiced communications law with Graham & James before the California PUC in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

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

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

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

She is married and has two school age twin daughters.



Timothy A. Simon

Timothy A. Simon was appointed as a Commissioner on the California Public Utilities Commission (PUC) by Governor Arnold Schwarzenegger on February 15, 2007.

Commissioner Simon previously served as the first African American appointments secretary in the Office of the Governor. In that position, he was responsible for gubernatorial appointments to more than 300 boards and commissions and approximately 200 exempt positions. Commissioner Simon oversaw recommendations for more than 1,000 completed appointments during his tenure in the Governor's Office.

Prior to joining the Office of the Governor, Commissioner Simon served as a legal advisor to financial institutions on development of complex financial products offered through multiple distribution channels, including banks, broker-dealers, investment advisors, and secondary market trading.

Commissioner Simon served as general counsel and chief compliance officer for Global Crown Capital, LLC. He was responsible for development and implementation of legal and compliance polices for the investment firm.

From 2002 to 2005, Commissioner Simon was vice president and chief compliance officer for PreferredTrade, Inc., an online financial securities and futures broker. This position built upon his prior experience as a consultant to Barclays Global Investors and his three years of service at Robertson Stephens Investment Bankers, which included directing new business development in its financial services division.

From 1995 to 1999, Commissioner Simon was senior counsel in the Office of the General Counsel for Bank of America. He served as vice president and managing compliance director for the Wells Fargo Bank Savings and Investment Group from 1993 to 1995.

Commissioner Simon is an active member of the Bay Area community. He serves on several boards, including Catholic Charities/CYO of the San Francisco Bay Area, the African American Interest Free Loan Association, and the Megan Furth Academy.

Commissioner Simon is an adjunct professor of securities regulation at Golden Gate University School of Law. He also serves as an advisor on international securities in the U.S. Legal Studies Program at the law school. Previously Commissioner Simon taught at University of California, Hastings College of the Law. He is a member the Lawyers Committee for Civil Rights Under the Law.

A resident and native of San Francisco, Commissioner Simon has deep roots in the Bay Area community. He earned degrees from Saint Ignatius College Preparatory in San Francisco, University of San Francisco, and University of California, Hastings College of the Law. Commissioner Simon is a member of the California Bar Association.

Commissioner Simon is engaged to Kimberly Brandon and is the proud father of three children Nahel, 24; Jamal, 22; and Suphia, 14.

THE CALIFORNIA PUBLIC UTILITIES COMMISSION

History, Role, Responsibilities

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

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

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

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

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

Decision-making

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

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

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

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

The Commission can also initiate investigations and rulemakings to explore broad policy issues, resolve procedural matters, investigate allegations of illegal utility activity or respond to legislative requirements. Typically, a proceeding

begins with a prehearing conference which all interested parties and participants attend. The issues to be addressed are identified and often a schedule for proceeding process is set.

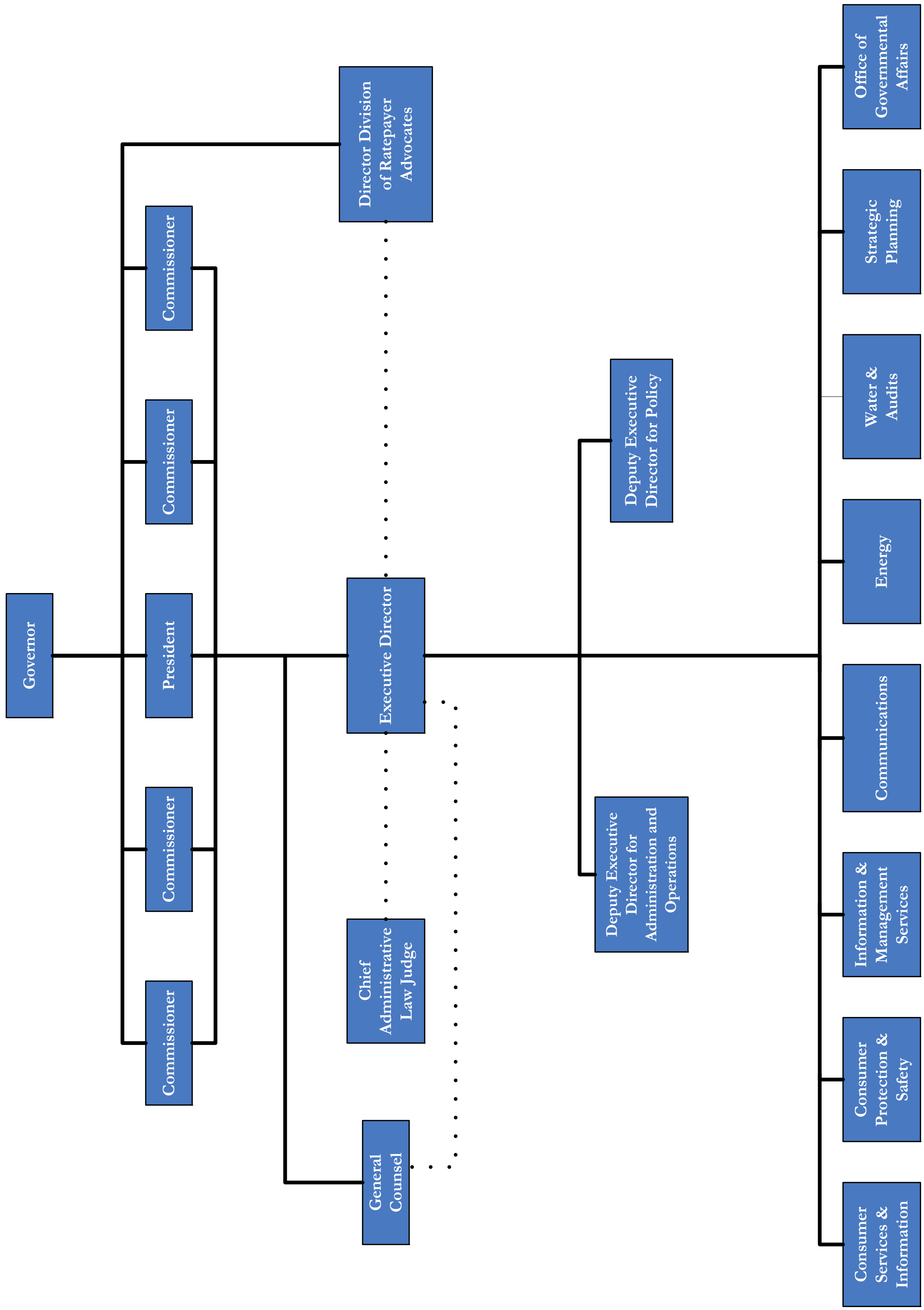
The Commission has a variety of fact-finding tools it uses to inform its policy choices. It relies on evidentiary hearings when material issues of fact are in dispute, legislative-style hearings and workshops for policy considerations. Workshops supplement the formal decision-making process by providing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

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

Organization

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

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



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

Executive Office – Paul Clanon, Executive Director

The Executive Office has overall responsibility for assuring that the Commission's decisions and policies are implemented, and works in conjunction with commissioners, directors, and staff to coordinate and facilitate the handling of procedural matters and the internal operations of the Commission. The Executive Division also houses the News and Public Information Office and the Office of Performance Excellence. The News and Public Information Office raises the awareness of the Commission by informing and educating the media about the Commission's services, policies, procedures, and decisions. The Office of Performance Excellence, an internal organization that supports all the operational divisions by providing expertise in strategic planning, process improvement, and project management, was added in 2007.

Legal Division – Randy Wu, General Counsel

The Legal Division advises commissioners and agency staff. Staff attorneys review filings by public utilities, appear in a wide variety of proceedings before the Commission, and represent the Commission and the State of California before state and Federal courts and agencies. The many issues and cases the Commission's lawyers handle include energy procurement, electricity and natural gas distribution and transmission, enforcement and safety, telecommunications, transportation, and water.

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

The Administrative Law Judge (ALJ) Division supports the decision-making process by receiving all formal filings, preparing and updating service lists, maintaining a database of all formal proceedings, ensuring that the Commission's files are complete and accurate, and preparing and coordinating the agendas for the Commission's bi-weekly decision-making meetings. The ALJ Division provides just, reasoned, efficient, and innovative resolution of complex matters in a manner that ensures due process and respects the dignity of all participants. The Division emphasizes the use of Alternative Dispute Resolution techniques, including mediation, early neutral evaluation, and settlements. By participating in voluntary alternative dispute resolution efforts, parties can reach creative solutions that both satisfy their interests and reduce litigation costs. The ALJ Division has also implemented electronic filing for formal matters, and approximately 85% of formal documents are now filed electronically and published on the web.

Policy and Planning Division – Julie Fitch, Director

The Policy and Planning Division (PPD) provides the Commission with independent analysis and advice focusing on emerging industry policy issues. PPD takes on projects that are comprehensive in scope and long-term in nature. Projects also often cross industry lines. In addition, PPD staff are regularly called upon to serve as liaisons with other agencies and key stakeholders on major policy issues.

Energy Division – Sean Gallagher, Director

The Energy Division assists Commission activities in the electricity, natural gas, steam, and petroleum pipeline industries. The Energy Division advises the Commission on whether to approve, deny, or modify all electric and natural gas utility requests not assigned for hearing, oversees compliance of orders, provides technical assistance, and advises the Commission about major developments affecting energy utilities. It assists the Commission in developing and monitoring competitive services, economic regulation of remaining monopoly services, and implementing regulatory objectives and programs for California's electricity and natural gas industries. It emphasizes protection for consumers and those with special needs, assurance of safe and reliable service, and consideration of environmental issues.

Communications Division – Jack Leutza, Director

The Communications Division assists the Commission in developing and implementing policies to promote competition in all telecommunications markets and to address regulatory changes required by state and federal legislation. The division assists the Commission's oversight of a competitive market by ensuring that consumers are protected from fraud and abuse and receive affordable and universal access to necessary services, that the telecommunications networks can accommodate many competitors using different technologies, and that competition rules are clear and allow flexibility without compromising due process.

Division of Water and Audits – Raminder Kahlon, Director

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

Division of Ratepayer Advocates – Dana Appling, Director

The Division of Ratepayer Advocates (DRA) participates as an independent advocate for all ratepayers in Commission proceedings, workshops, and other forums that cover issues that have significant dollar impact on consumers or address consumer protection issues. DRA aggressively pursues development of fair rules for competition, good service quality, fair rates, and other significant policy issues. DRA's mission, as defined by Senate Bill (SB) 960 in 1996 and embodied in the California Public Utilities Code, Section 309.5 is to "obtain the lowest possible rate for service consistent with reliable and safe service levels."

Consumer Protection and Safety Division – Richard Clark, Director

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

Consumer Service and Information Division – Karen Miller, Acting Director

The Consumer Service and Information Division's (CSID) provides information and assistance to the general public, including bilingual communication and outreach to better serve California's diverse population. CSID helps consumers resolve billing and service disputes and identifies patterns of consumer problems, fraud, and other abuses. CSID's Public Advisor's Office advises the public and consumer organizations regarding how to participate in formal proceedings and provides outreach to local government and community groups. CSID also monitors the utilities' women-owned, minority-owned, and disabled veteran-owned business enterprise programs.

Information and Management Services Division – Ravi Subramanian, Director

The Information and Management Services Division is responsible for the Commission's computer, website, and telecommunications and technology systems, as well as document management. IMSD integrates and facilitates Commission employee and external stakeholder access to Commission information and documents, maintains and improves the Commission's technological information resources, and provides administrative, fiscal, and budget services to Commission management.

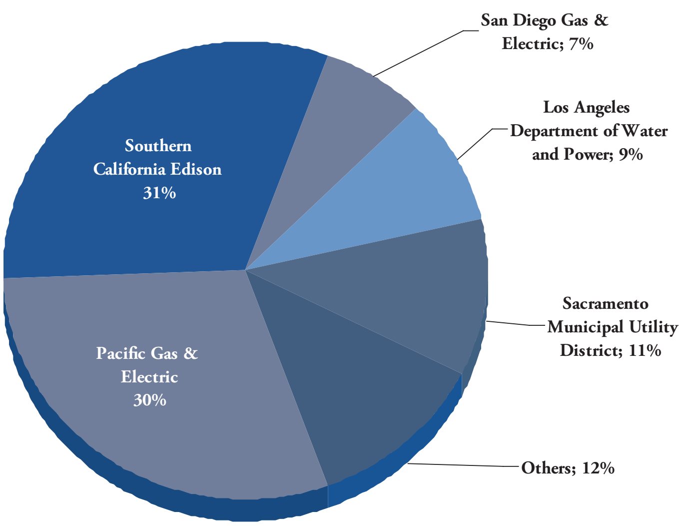
Office of Governmental Affairs – Delaney Hunter, Director

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

ENERGY

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

California Electric Utilities, By Share of Statewide Load



The overarching goal of the Commission's energy work is to ensure adequate, reliable, and reasonably-priced electrical power and natural gas supplies through policies that are cost-effective and environmentally-sound. These goals and related policy directives are described in the Energy Action Plan (EAP) II, adopted by the CPUC and CEC in 2005.

In guidance towards achieving its stated goals, the Energy Action Plan established a "loading order", or priority sequence for actions to address increasing energy needs. The EAP's loading order identifies energy efficiency and demand response as the State's preferred means of meeting growing energy needs. After cost-effective efficiency and demand response, the loading order next identifies renewable resources and distributed generation as a preferred means of meeting new demand. To the extent that efficiency, demand response, renewables, and distributed generation are unable to satisfy increasing energy and capacity needs, clean and efficient fossil-fired generation is to be used.

Climate Change

Climate change is the most serious threat to our environmental future and California is taking groundbreaking action to address this threat. The state has set a goal of reducing the its greenhouse gas emissions to 2000 levels by 2010, to 1990 levels by 2020, and to 80 percent below 1990 levels by 2050. Achieving these goals will demand significant changes to the manner in which we produce and use energy throughout the state.

The Commission is taking a multitude of steps to meet the state's climate change goals

Cleaner electricity production is an essential factor in solving the climate change issue.

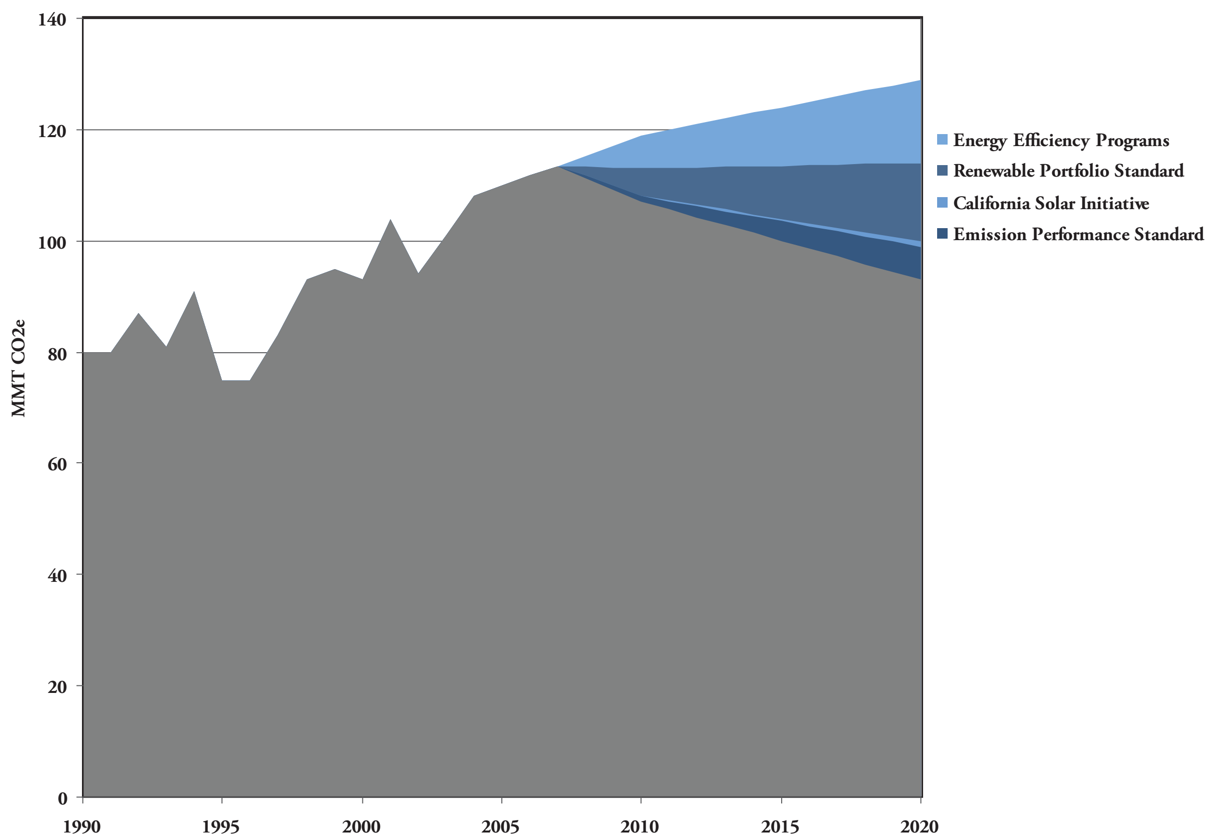
Significant reductions are anticipated from the electric sector en route to meeting statewide emission reduction targets. A number of existing and proposed programs administered by the Commission are expected to play a major role in achieving the state's targeted reductions in greenhouse gas emissions:

- **Utility Energy Efficiency Programs:** Current efforts to improve end-use energy efficiency throughout California center around electricity and natural gas savings targets set by the Commission to be met by the electric utilities through annually funded programs. Savings targets for these programs, which were adopted September 2004 and run through 2013, are designed to capture on the order of 70% of the economic potential and 90% of the maximum achievable potential for energy savings identified for the ten-year period.
- **Renewable Portfolio Standard:** In 2002, Senate Bill 1078 established California's Renewable Portfolio Standard program, requiring California utilities to increase the share of renewables within their portfolios to 20 percent by the year 2020. In 2006, the program was accelerated to require achievement of 20 percent by 2010. The investor-owned utilities

are required to contract for additional renewable generation each year through a solicitation process overseen at the Commission.

regulation restricts utilities from buying or signing contracts of longer than five years with new baseload coal plants and other high-emitting resources.

Expected Greenhouse Gas Reductions from Existing CPUC Policies



- **California Solar Initiative:** In 2006, the Commission opened a proceeding to develop rules and procedures for the California Solar Initiative and to continue consideration of policies for the development of cost-effective, clean and reliable distributed generation. The California Solar Initiative is designed as a market transformation program, to initiate the development of a self-sustaining market for rooftop photovoltaics in California, through the installation of 3,000 MW of new distributed solar generation by 2016.
- **Emissions Performance Standard:** On January 25, 2007, the Commission adopted a Greenhouse Gas Emissions Performance Standard, requiring that all new long-term commitments for baseload generation to serve California consumers be with power plants that have emissions no greater than a combined cycle gas turbine plant. That level is established at 1,100 pounds of CO2 per megawatt-hour. In effect, the

The Commission will issue recommendations on the implementation of AB32 within the electricity and natural gas sectors

In September 2006, the Governor signed Assembly Bill 32 which requires the California Air Resources Board to implement a binding cap on all major sources of greenhouse gas emissions within California in order to meet the goal of reducing overall emissions to 1990 levels by 2020. In 2007, the Commission agreed, in cooperation with the California Energy Commission (CEC), to develop recommendations to the California Air Resources Board (CARB) for inclusion of the electricity and natural gas sectors under a statewide cap on emissions.

In the first of a series of expected decisions en route to establishing a comprehensive framework for greenhouse gas regulation in the electricity and natural gas sectors, in September the Commission and CEC issued a joint recommendation for tracking and reporting greenhouse gas emissions by electric utilities.

Throughout 2007 the CPUC and CEC conducted several workshops and hearings with the intention of developing a recommendation to CARB in early 2008 regarding point of regulation and distribution of GHG allowances under a potential cap and trade program. Additional recommendations will be provided to CARB later in 2008 following the completion of detailed economic modeling of emissions reduction opportunities and costs in the electric and natural gas sectors.

Assembly Bill 32 Implementation Timeline	
Publish List of Early Actions	2007
Mandatory Reporting and 1990 baseline	2008
CPUC Decision on Recommended Approach to Energy Sector Emission Reductions	2008
Adopt Scoping Plan	2009
Adopt Enforceable Early Action Regulations	2009
Early Action regulations Enforceable	2010
Adopt GHG Reduction Measures	2011
GHG Reduction Measures Enforceable	2012
Reduce GHG Emissions to 1990 Levels	2020

The California Institute for Climate Solutions

In 2007, the Commission also initiated consideration of a proposal for the establishment of a California Institute of Climate Solutions (CICS). CICS is proposed as a partnership between academia and the public and private sectors to benefit utility ratepayers and Californians by working to find practical technological and policy solutions to the problems posed by climate change.

The proposal, with a proposed budget of $600 million over 10 years, is currently under consideration by the Commission. A decision is expected in early 2008 on whether to authorize CICS to be established and funded via a ratepayer surcharge.

Energy Procurement and Resource Adequacy

Reliable electric service is of vital importance to the health and welfare of all Californians. To this end, the Commission must ensure that utilities plan for and make investments in energy resources necessary to make sure that California consumers receive reliable service at low and stable prices, in a manner consistent with the goals of the Energy Action Plan and its loading order.

In December 2004, the Commission adopted a procurement policy framework under which the IOUs plan and invest in energy resources. The Commission has adopted as part of this framework a resource adequacy requirement which includes a 15-17 percent planning reserve. This requirement has two main objectives: (1) to ensure that there is adequate, cost-effective investment in electric generation capacity for California; and (2) to identify that such capacity is made available to the California Independent System Operator (CAISO) when and where it is needed for reliable transmission grid operations.

In 2008, the Commission's procurement efforts will be focused on:

- Continued implementation of the Resource Adequacy framework;
- Implementing changes in the way capacity is traded;
- Examining the Planning Reserve Margin;
- Integration of the long term procurement plan process with the CEC's Integrated Energy Policy Report process;
- Ensuring new capacity is needed and cost-effective;
- Monitoring utility procurement activities to ensure compliance with Commission policies and loading order; and
- Implementing a long-term policy framework for Qualifying Facilities

Energy Efficiency

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

2006-2008 Utility Energy Efficiency Programs

The four largest investor-owned utilities are midway through their implementation of their 2006-2008 energy efficiency portfolio plans and have been instituting program modifications in order to best achieve the Commission-adopted energy savings. The Commission significantly increased the level of funding for the utilities' energy efficiency program portfolios to a total of $2.1 billion for the three-year program cycle beginning in 2006.

2006-2008 Energy Efficiency Budget and Projected Savings				
	Budget (In Million)	Projected Savings		
		GWH	MW	MTH
PG&E	$ 936	3,020	562	51,756
SCE	$ 729	3,292	714	-
SDG&E	$ 278	1,022	213	9,537
SCG	$ 182	-	-	60,696
Total	**$ 2,125**	**7,334**	**1,489**	**121,989**

2006-2008 Energy Efficiency Program Cycle Expenditures and Achievements (as of October 2007)				
	Expenditures (In Million)	Installed Savings		
		GWH	MW	MTH
PG&E	$512	2,104	373	26,600
SCE	$298	1,838	311	-
SDG&E	$88	451	74	4,027
SCG	$48	-	-	23,693
Total	$946	4,393	757	54,320

The 2006-2008 energy efficiency programs are expected to cut energy costs for homes and businesses by more than $5 billion, eliminate the need to build the equivalent of three large power plants over the three year program cycle and reduce global warming pollution by an estimated 3.4 million tons of greenhouse gas emissions by 2008.

Risk/Reward Incentives for achieving energy efficiency targets

In September 2007, the Commission adopted a new "risk/reward incentive mechanism" for the utilities tied to their achievement of energy savings. The new mechanism allows the utilities to view energy efficiency as a core part of operations and capable of producing meaningful revenue, while still providing an estimated return to ratepayers of over 100 percent of their investments in energy efficiency.

Long-term Energy Efficiency Strategic Plan

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

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

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

- All new residential construction in California will be zero net energy by 2020;
- All new commercial construction in California will be zero net energy by 2030; and
- The Heating, Ventilation, and Air Conditioning (HVAC) industry will be reshaped to ensure optimal equipment performance.

Facilitating the Green Building Initiative

The Commission is wholly committed to the goals set forth in the Governor's Executive Order establishing the Green Building Initiative (GBI), and has taken a number of steps to facilitate the GBI objectives, including:

- requiring the utilities to submit their best estimates of forecast savings in state-owned and commercial buildings;
- Requiring reporting on GBI achievements quarterly on a publicly accessible website; and

- Improving the cross-program reporting process to facilitate aggregation across GBI initiatives including energy efficiency, distributed renewables, and demand response.

Identifying water-related energy use savings potential
By saving water or developing and treating it more efficiently, it is possible to produce significant energy savings. The Commission is identifying embedded energy savings associated with water efficiency as an untapped resource. In December 2007, the Commission approved pilot programs for the largest regulated energy utilities through which they will develop partnerships with water agencies, undertake specific water conservation programs, and measure the results. Concurrently, the energy utilities will fund studies necessary to understand more accurately the relationship between water savings and the reduction of energy use, and the extent to which those reductions may vary for different water agencies. The pilot program period begins on January 1, 2008, and runs for 18 months.

Low Income Programs

The Low Income Oversight Board (LIOB) advises the Commission on the energy and water low-income assistance programs of utilities under the jurisdiction of the Commission and serves as liaison for the Commission to low-income ratepayers and their representatives. The LIOB also solicits community input and develops initiatives to enroll qualified customers for rate discounts.

Continue Assistance for Low-Income Energy Consumers
The low-income programs include the California Alternate Rate for Energy (CARE), which provides a 20 percent discount on energy rates for residential customers with household earnings at or below 200 percent of Federal poverty guidelines levels; and the Low-Income Energy Efficiency (LIEE) program, which offers weatherization and energy-efficient appliances for customers meeting the same income criteria. In 2006, over 3.7 million households were enrolled in CARE and a total of 170,645 homes were treated under the LIEE program.

The Commission issued a decision to expand and update LIEE programs with the intent of improving cost-effectiveness, making the program a reliable energy resource, and integrating the program with other energy efficiency programs. The adopted initiative aims to provide all eligible LIEE households with the opportunity to obtain all cost-effective energy efficiency measures by 2020. Direction for the implementation of these goals will occur collaboratively in utility applications for their 2009-2011 LIEE portfolios and overall energy efficiency strategic plan. Workshops are scheduled for early 2008 and will address portfolio composition; strategic approaches to program development and delivery; marketing, education, and outreach; and cost-effectiveness tests.

The Commission held a series of workshops in 2007 to examine LIEE program access for customers who rent their living spaces; natural gas appliance testing; and processes for improving outreach to tenants at master-metered properties. The low-income program evaluation and assessment studies completed in 2007 include the Impact Evaluation of the 2005 LIEE program and a Low Income Needs Assessment, which provides information on the energy related needs of California's low income population.

Advanced Metering and Demand Response

Demand Response enhances electric system reliability, reduces power purchases and individual consumer costs, and minimizes the environmental impact of energy infrastructure. The investor-owned utilities operate a suite of demand response programs which have an aggregated impact of 2,700 MW, which is equivalent to approximately five large power plants. The Commission is currently in the process of developing both short-term and long-range goals for demand response.

In addition, the Commission is in the process of developing 'dynamic pricing' rates. Dynamic pricing is essentially offering time-differentiated rates that reflect the true cost of electricity. Customers on these rates will have the opportunity to lower their bills by reducing their electricity use during the most expensive time of the day when the least efficient and most-polluting power plants would otherwise be operating.

Advancing Demand Response awareness and technology

To help customers understand the benefits of demand response, the Commission has authorized substantial utility budgets for demand response marketing and customer education programs. The Commission has also recognized the important role technology plays in enabling customers to be active demand response participants by authorizing programs that provide rebates to offset the cost of deploying demand response technology.

Integrating Demand Response programs with CAISO wholesale energy markets

The Commission is in the process of ensuring that utility demand response programs are aligned with the CAISO's wholesale energy markets so that demand response resources can actively compete with supply-side resources. Aligning retail demand response resources with CAISO market design requires an accurate understanding of the 'product' – the shape and nature of the demand reduction provided by the programs. To address this need, the Commission is developing a "demand response load impact protocol", a measurement tool by which the Commission can forecast the amount of demand response that can be expected when the programs are dispatched.

Deploying Advanced Metering Infrastructure (AMI) throughout California

Advanced meters and communication infrastructure gives consumers more information and control over their energy usage and enable customers to take advantage of new rate options to better manage their energy bills and reduce greenhouse gas emissions. Implementation of AMI will further the Commission's goal of encouraging more demand response, a key component of the state's Energy Action Plan. It will also provide overall savings for utility ratepayers by reducing utility operational costs.

The Commission has approved PG&E's $1.7 billion full-deployment AMI plan (July 2006) and SDG&E's $572 million full-deployment AMI plan (April 2007). PG&E began installing meters in November 2006 in Bakersfield and SDG&E is in the process of finalizing contracts with its vendors for deployment to begin in 2008. The Commission is currently evaluating SCE's $1.7 billion full-deployment AMI plan, which if approved, would enable SCE to begin deployment in 2009.

Renewable Portfolio Standard

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

In 2007, the Commission continued to implement California's RPS program through a variety of oversight activities:

- Approved the IOUs' annual procurement plans and solicitation protocols
- Reviewed and approved 23 contracts for over 1400 megawatts
- Conducted an enhanced analysis of the viability of each RPS project submitted
- Updated RPS contract terms and conditions to reflect lessons learned in the renewable energy market
- Incorporated a greenhouse gas adder into the pricing benchmark used to evaluate RPS contracts
- Pursued proactive transmission planning for renewables through the establishment of the Renewable Energy Transmission Initiative (see transmission section below for greater detail)

Increasing Flexibility for RPS Compliance

To promote compliance with the 2010 goal, the Commission will decide whether to approve the use of tradable renewable energy credits (RECs) and will consider approving solicitations for short-term contracts. Additionally, in order to implement SB 1036, which transferred authority of awarding supplemental energy payments from the CEC to CPUC, the CPUC will develop methodologies for evaluating and approving above-market contract costs. The Commission will also be considering an Emerging Renewable Resource Program (ERRP) for PG&E and SDG&E. The ERRP is intended to accelerate the development of pre-commercial new renewable resources and technologies by demonstrating their viability. Lastly, the Commission will consider ways to increase renewable energy procurement to meet climate change goals, such as an accelerated RPS goal of 33 percent by 2020.

Distributed Generation

Distributed generation (DG) refers to small-scale power generation facilities designed to serve the on-site loads of a customer, and offset demand for traditionally delivered grid electricity. Particularly attractive in its ability to reduce the costs and environmental impacts of operating the grid, the Commission supports increased distributed generation penetration in California.

California Solar Initiative

The California Solar Initiative (CSI) launched on January 1, 2007, setting a goal to install 3,000 MW of new, customer-side solar photovoltaic projects by 2017. The CSI had over 7,000 applications for more than 200 MW of projects in its inaugural year.

Throughout 2007 numerous other program components were added to the CSI, including a Research and Development program ($50 million) added in September, and a Low-Income program for single family dwellings added in November. Additionally, non-photovoltaic solar technologies became eligible for incentives in December.

In addition, the CSI saw a number of program refinements throughout the year designed to enhance the program and address concerns about the usability of the program. Refinements included delaying the introduction of mandatory time-of-use rates for solar customers, introducing new metering standards to facilitate ease of measuring system performance, developing interim marketing and outreach budgets and plans, and modifying the California Solar Initiative Program Handbook to streamline program participation.

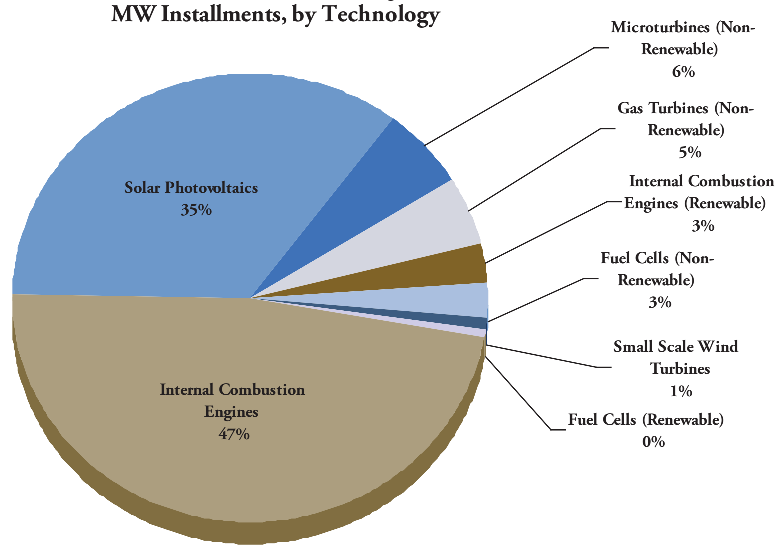
In 2008, the Commission will continue to coordinate with the CEC to revise the CPUC program's eligibility requirements in accordance with the legislatively mandated CEC eligibility guidelines report, including energy efficiency requirements. The CPUC will continue to refine and develop the program, including work on a low income multifamily program, a cost-benefit methodology, measurement and evaluation methodology and a long-term integrated marketing and outreach strategy.

Self Generation Incentive Program (SGIP)

The Self Generation Incentive Program (SGIP) is the largest non-solar DG incentive program in the United States, with over 940 projects on-line. The program underwent a dramatic change in 2007 when the California Solar Initiative launched and the SGIP program no longer offered subsidies for photovoltaics. Remaining in the program throughout 2007 were wind, fuel-cell, and combined heat and power technologies.

Since inception of the SGIP in 2001, the on-line capacity of DG technologies has grown at an average rate of 37 MW per year. At the end of 2006, the total on-line capacity of the SGIP represented 223 MW; 56 MW were added in 2006.

Self-Generation Incentive Program MW Installments, by Technology



Note: all gas-fired technologies funded by SGIP operate in combined heat and power mode.

Natural Gas Savings through Solar Water Heating

In October 2007, Governor Arnold Schwarzenegger signed the Solar Water Heating and Efficiency Act of 2007, in order to target natural gas savings, the primary energy source used for water heating in California. The Act requires the Commission to evaluate data from its current pilot program for solar water heating in the San Diego area for possible design and implementation of a broader statewide program. The pilot program, which runs through 2008, offers incentives for solar water heating systems, and has an installation target of 750 residential systems and 30-50 commercial systems.

The program focuses on understanding what the market most needs to take off in California in terms of equipment, installer certification and training, performance warranties, and targeted advertising. If the pilot is favorable, the Commission expects to design and implement a new program of incentives for the installation of at least 200,000 solar water heating systems in homes and businesses throughout the state by 2017.

Improving Utilization to Combined Heat and Power Resources

In 2007, the Governor signed Assembly Bill 1613 authorizing the PUC to require utilities to purchase excess electricity of combined heat and power (CHP) systems. The Commission will establish, in consultation with CAISO, standard tariff provisions that electric corporations must make available to all eligible customer-generators (that own, lease, or operate a CHP system) within their service territory. The Commission will also require utilities' procurement plans to assess the reliability of incorporating CHP to the maximum degree that is cost effective, technologically feasible, and environmentally beneficial.

Small Renewable Generation Feed-In Tariff

In compliance with Assembly Bill 1969, in 2007 the Commission required investor-owned utilities to develop feed-in tariffs and standard contracts for the purchase of eligible renewable generation from public water and wastewater facilities. The tariffs are expected to go into effect in early 2008. Customers that participate in the SGIP or the CSI are not eligible for the Feed-In Tariff. In a 2007 Decision, the Commission authorized two expansions of the tariffs, to include entities other than public water and wastewater agencies and to include the option for the utility to purchase either all of the renewable generation or that portion not used on site.

Transmission Planning and Expansions

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

Streamlining and Improving Permitting Processes

In 2007, in order to further support investment in California's transmission infrastructure and ensure access to RPS-eligible resources, the Commission continued its focus on streamlining and improving its permitting processes. The Commission's Energy Division has implemented a "no surprises" permitting process that includes:

- Regular meetings between Commission staff and applicants
- A "Proponents' Environmental Assessment checklist" for required information in the application

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

Transmission Project Approvals

In 2007 the Commission approved five transmission projects totaling approximately $800 million in investment and adding approximately 1960 MW of capacity or comparable reliability to the grid.

The largest of these projects include:

- SCE's Tehachapi Renewable Transmission Project Segments 1, 2, and 3; and
- SCE's Devers Palo Verde 2

Reviewing Transmission Line Applications

Over the next three years the Commission anticipates reviewing at least fourteen applications for over $4 billion worth of planned transmission investment. Eight transmission line applications, comprising approximately $3.7 billion in transmission investment, are already pending before the Commission. The Commission plans to process all of these applications in 2008.

The largest of these applications are:

- SDG&E's Sunrise Powerlink Transmission Project (Sunrise);
- Remaining Segments of SCE's Tehachapi Project; and
- Talega-Escondido/Valley Serrano 500 kV Interconnect

Likely significant additional transmission investment is not yet planned, but will seek to bring RPS-eligible resources to market as California seeks to meet the greenhouse gas reduction goals set forth in AB32. One project that is currently being developed, and which is likely be submitted to the Commission for review in late 2008, is PG&E's Central California Clean Energy Transmission Project. This project is proposed to upgrade the PG&E system to facilitate delivery of Tehachapi wind resources and is planned to increase the transfer capability of Path 15 by approximately 1250MW. The line is estimated to cost between approximately $800 million to $1 billion.

Transmission Planning for Renewables

Inadequate transmission infrastructure remains one of the largest barriers to meeting California's ambitious renewables goals. In order to ensure that California's investor-owned utilities are able to meet ambitious renewable goals, the Commission initiated the formation of the California Renewable Energy Transmission Initiative (RETI). RETI began as a collaborative between the CPUC and the CEC, but quickly evolved to include the CAISO, municipal utilities, and a broad range of stakeholders, to design a statewide RPS planning process. Its purpose is to identify RPS resources in the state and along its borders, and the transmission projects needed to bring those resources to load centers.

In the next eight months RETI will assess all competitive renewable energy zones (CREZs) in California and neighboring states that can provide significant electricity to California consumers by the year 2020 or earlier. RETI will also identify those CREZs that can be developed in the most cost effective and environmentally benign manner and will ultimately prepare detailed transmission plans for those CREZs identified for development. This will be followed by expedited transmission permitting applications to the Commission, federal land use agencies, and the governing boards of municipal utilities.

Transmission Delays Caused by Non-CPUC Permitting Agencies

Delays caused by non-CPUC Permitting Agencies can be a significant impediment to permitting and constructing of transmission facilities. A barrier to the construction of the Devers Palo Verde 2 line, which was approved by the Commission in January of 2007, is the Arizona Corporation Commission's (ACC's) denial of a permit for the Arizona portion of that transmission line. Similarly, the Commission approved Segment 1 of the Tehachapi project on March 1, 2007, but construction has been delayed as a result of lack of final approval by the U.S. Forest Service.

The Commission regularly executes Memoranda of Understanding containing explicit compliance schedules with federal agencies, when a transmission project requires both state and federal environmental review and approval. In addition, the Commission stays actively engaged with federal agencies and seeks assistance from high-level officials within the relevant federal agencies including the U.S. Department of Energy, the U.S. Bureau of Land Management, the U.S. Department of Interior, the U.S. Department of Agriculture, and the U.S. Department of Fish and Wildlife. The goal of these communications is to convey California's RPS transmission priorities and ensure compliance with agreed-upon schedules. This proactive approach has ameliorated delays to some extent. The Commission will continue these coordinated efforts with the federal agencies in 2008.

Western Renewable Energy Zone Initiative

In order to instill a sense of urgency across permitting agencies and encourage a more regional view of RPS-related transmission, the Commission has been participating in the formation of a "Western Renewable Energy Zone Initiative" through the Western Governor's Association and will continue these efforts in 2008. The Commission has spearheaded the efforts to form this initiative, which will seek to identify renewable energy zones throughout the West, and the transmission needed to bring resources in those zones to consumers.

Addressing Infeasible Projects in the Interconnection Queue

In order for generators to connect to the CAISO-controlled transmission system, they must go through an interconnection process mandated by the Federal Energy Regulatory Commission (FERC), which includes joining the interconnection queue. There are approximately 70,000 MW of active interconnection applications in the CAISO queue, which represents more than the CAISO's current system peak load. Over half of these requests represent renewable generation projects, and while only a portion of such projects could reasonably be expected to reach commercial operation, the sheer magnitude of the queue-processing challenge hinders viable projects. The CAISO cannot study all of these interconnection requests serially in a reasonable time frame, as required by the current process. The Commission, CAISO, utilities, and other stakeholders are engaged in a collaborative effort to prepare one or more FERC filings in 2008 to reform the interconnection process and support the RETI process described above.

State Energy Corridors and Solar Environmental Study

The Commission is actively participating in the CEC's efforts to designate energy corridors on state-owned lands in California pursuant to Senate Bill 1059. The CEC adopted implementing regulations in December 2007 and the two Commissions will continue to coordinate on these issues in 2008. Additionally, the Commission intends to participate actively in the U.S. Department of Energy's programmatic environmental impact study to permit solar facilities on federal lands. This study is in the preliminary stages of development and will be coordinated with the RETI effort.

Representing California in Federal Forums

The Commission participates in federal energy proceedings and regional issues forums to advocate California's interests, including utility customers' rates or services. As summarized below, these activities can be broken into several major categories: transmission rates, federal transmission planning and policy, electric reliability, and market design.

Interstate Gas Pipeline Rate Cases

Commission staff served as expert witnesses and analysts before FERC on three major interstate natural gas pipeline rate cases in 2007, including for the El Paso Natural Gas Pipeline, the Transwestern Pipeline Company, and the Gas Transmission Northwest Company. El Paso is expected to file another rate case before the FERC in mid-2008. Commission staff will remain active in these proceedings.

In addition, the Southern California Generation Coalition challenged the Commission's adoption of the firm gas transmission access rights framework in southern California in an October 2007 Complaint filed with the FERC. The Commission has opposed the Complaint.

Monitoring and Litigating Transmission Rate Cases

Commission staff intervene in transmission rate cases at FERC to ensure low and justifiable revenue requirements for utilities. Transmission rate cases without Commission intervention would likely increase retail electric transmission rates. At present, Commission staff are actively participating in PG&E's and SDG&E's transmission rate cases, protesting high requested rates and returns on equity.

Facilitating Regional and Federal Transmission Planning

Commission staff participate in and monitor western transmission planning and related energy policy activities at the Western Electricity Coordinating Council (WECC) and its Transmission Expansion Planning Policy Committee (TEPPC). As mentioned above, the Commission has also been actively supporting CAISO and multi-stakeholder initiatives to develop transmission for desirable remote renewable generation resource areas, including through the RETI process. This activity also complements the Commission's policies allowing "backstop" cost recovery to FERC's to facilitate renewable transmission.

In addition, the 2005 Energy Policy Act created two key areas for Commission involvement in transmission planning policy at the federal level: the "National Interest Electric Transmission Corridors" which gave FERC preemptive siting authority, and the "Open Access Transmission Tariff" reform, which requires enhancements to transmission planning processes at the transmission provider and regional levels. The Commission is participating in the CAISO's stakeholder process and related tariff proposals to FERC on these matters.

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

The Energy Policy Act of 2005 also entrusted FERC with the authority to approve and enforce rules to assure the reliability of the nation's bulk-power system. All users, owners, and operators of the bulk-power system are subject to nearly 150 FERC-approved Reliability Standards. FERC has existing rulemakings addressing the Reliability Standards, for the entire bulk-power system and emphasizing cyber and physical security, in which the Commission is actively participating.

Reforming California's Wholesale Market Design

As the CAISO prepares to implement the complex multi-year Market Redesign and Technology Upgrade (MRTU) in 2008, Commission staff continues to participate in numerous stakeholder discussions to ensure reliability, provide more efficient use of resources and provide adequate market mitigation to protect consumers. The Commission has filed informal comments on such issues as Backstop Procurement, coordination of MRTU and Resource Adequacy programs, and various aspects of the CAISO MRTU tariff. Comments by the Commission were instrumental in obtaining an order from FERC for the CAISO to implement congestion revenue rights gradually and in ways that can be coordinated with new development of renewable resources. After MRTU implementation in 2008, the Commission will help shape future design features through the stakeholder process, and more proactively engage in market monitoring activities. The Commission also plans to intervene in an emerging FERC rulemaking on the proper role of market monitoring among various federal and state governmental agencies.

Utility General Rate Cases

The Commission strives to balance electric utility customers' needs for safe, reliable, and environmentally responsible service, while achieving the lowest possible electric rates. The trends in electric rates since the year 2000 are shown in the charts below for California's major investor owned electric utilities.

Producing and delivering vital services such as gas and electricity costs money, so utilities have a right to charge consumers for what they use. Moreover, the owners and stockholders of these utilities expect a return on their investments. Meanwhile, since energy services are essential, the Commission ensures that access is universal and affordable. The Commission ultimately serves as an intermediary, balancing the public interest with utility stockholders' expectations of a fair profit on investment.

The Commission processes rate cases for PG&E, SCE, and SDG&E. Major issues at stake in each utility's 2007 general rate case (GRC) application are presented below.

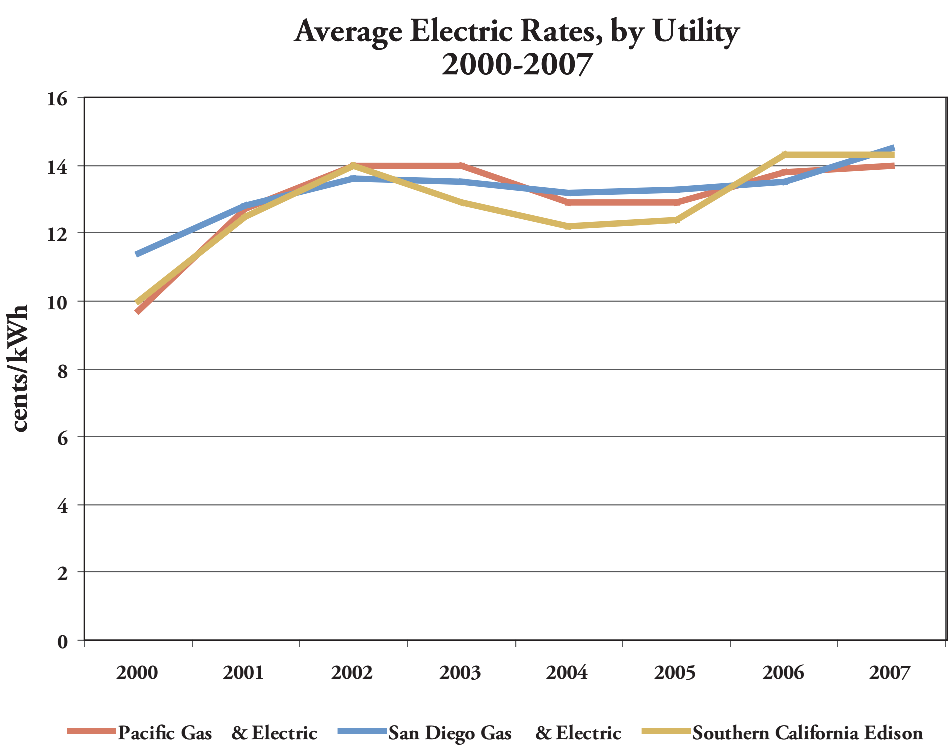
Pacific Gas & Electric

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

San Diego Gas & Electric and SoCal Gas

The major issues included in this GRC, filed in 2007, include:

- SDG&E proposal to increase electric revenue 3% and natural gas revenue 7%;
- SoCalGas proposal to increase revenue increase 4%;
- Need to upgrade distribution facilities;
- Increased costs for maintaining a skilled workforce;
- Employee retirement benefits; and
- SDG&E electricity rate design, including critical peak pricing proposal for commercial and industrial



customers, a peak-time rebate for residential and small commercial customers, and a new distributed generation-renewable tariff

Southern California Edison

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

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

The Commission will consider parties' testimony and conduct hearings on these issues, as well as the second phase application (covering marginal costs, revenue allocation, and rate design) during 2008 in this proceeding.

Rate of Return for all Utilities

In May 2007, SCE, SDG&E, and PG&E filed their cost of capital applications, requesting approval of capital structures and return on equity used to establish their 2008 cost of capital. There is usually controversy in cost of capital proceedings about the appropriate return on equity (ROE) for a utility. The Commission attempts to set the ROE at a level of return commensurate with market returns on investments having comparable risks, and adequate to enable a utility to attract investors to finance the replacement and expansion of a utility's facilities to fulfill its public utility service obligation. The Commission adopted return on equity and the resulting cost of capital (return on rate base) for the major electric utilities in December 2007 as shown below.

	Return on Equity (ROE)	Cost of Capital*	Change in Revenue Requirement
SCE	11.50%	8.75%	$9.6 million (0.1%) decrease
SDG&E	11.10%	8.40%	$9.6 million (0.1%) increase
PG&E	11.35%	8.79%	No change

* Cost of Capital is a weighted average return on common equity, preferred stock and long-term debt

Customer Billing Related Issues

In 2007 the Commission approved new redesigned bills for SCE, SDG&E, and SoCalGas that are more readable and easier for customers to understand. The Commission also approved a simplified bill format for PG&E, which is expected to be used for customer billing beginning in 2008.

Cost Recovery Associated with Catastrophic Events

The utilities are authorized to record in catastrophic event memorandum accounts (CEMA), the costs for restoring service, restoring damaged facilities, and complying with governmental agency orders in connection with declared disasters such as wildfires, floods, and earthquakes. Costs that utilities record in these accounts are subject to Commission review prior to their recovery in rates. In 2007 the Commission addressed cost recovery in the following instances related to catastrophic events:

- In July 2007 the Commission considered and denied PG&E's proposal to recover $39 million through its CEMA associated with failure of distribution transformers in parts of its service territory due to extremely hot weather occurring in July 2006. PG&E also requested cost recovery through CEMA for damage to facilities caused by the 2005-2006 New Year's storms. The Commission is considering a settlement filed by parties in the proceeding which would allow PG&E to recover about $12 million associated with restoring service and repairing facilities damaged by these storms.
- The June 2007 Angora fire in the South Lake Tahoe area damaged Sierra Pacific Power Company's facilities and affected service to its customers in that region. In September 2007, the Commission approved a resolution requiring Sierra to cooperate with the appropriate agencies and to provide for the removal of dead and dying trees and vegetation that could affect its power lines. The resolution allowed Sierra to record in its CEMA costs for restoring service to customers and additional costs to comply with a Governor's Order. Southwest Gas Company is also recording costs to its CEMA associated with the Angora fire.

- In late 2007 severe wildfires in Southern California damaged facilities and affected service to customers of SCE, SDG&E, and SoCalGas. The utilities are recording costs associated with these fires to their CEMA accounts, and the Commission will address recovery of these costs in 2008 or 2009.

Natural Gas

Natural gas prices remain high, 3 to 4 times higher than in the 1990's, and subject to considerable volatility. The Commission does not have the authority to regulate natural gas prices, but we have taken several steps to:

Allow better access to new sources of supplies and a diverse supply portfolio;

Reduce natural gas demand, which not only helps the environment but also can help to moderate prices; and

Ensure adequate natural gas infrastructure, which helps assure delivery of supplies, reduces the likelihood of price spikes, and allows more gas storage when prices are low.

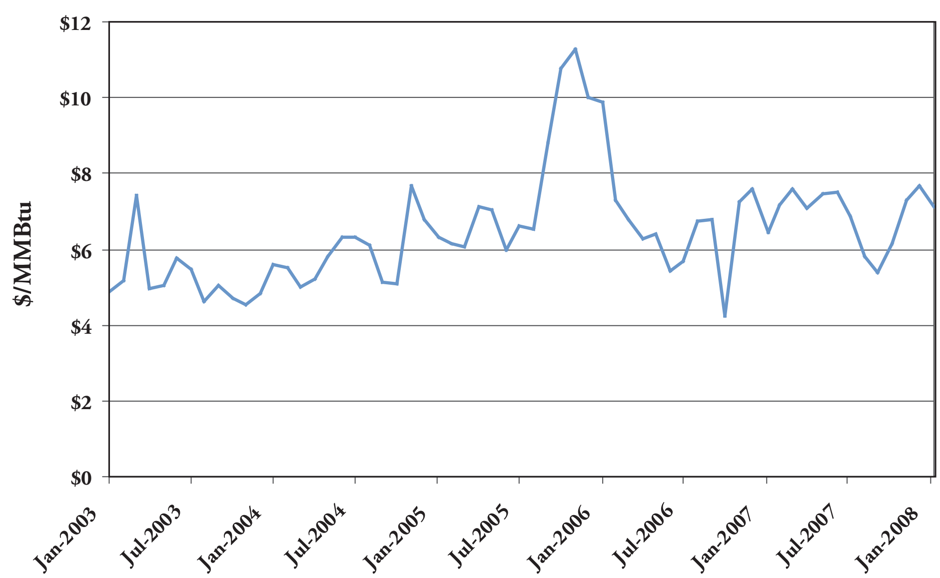
Assuring adequate infrastructure and supplies
In 2007, Lodi Gas Storage requested authorization to expand its natural gas storage capacity. Sacramento Natural Gas Storage also requested authorization in 2007 to construct natural gas storage facilities as a public utility and to charge market-based rates. Decisions on both requests are expected in 2008. In addition, Gill Ranch Storage is expected to request authorization to construct natural gas storage facilities as a public utility.

In November 2007, the Commission issued a rulemaking to determine whether and how California utilities should enter into contracts for liquefied natural gas supplies. The Commission will be receiving and evaluating evidence in 2008 in this proceeding.

Examining Utility Gas Procurement Plans
Electric utilities in California procure large amounts of natural gas for their own electric generation units, and are also responsible for managing the gas procurement activities associated with Department of Water Resources electric contracts. As part of its review of the 2006 electric utility procurement plans, the Commission reviewed the natural gas procurement plans of these utilities for their electric generation needs, including plans for hedging electric and gas price risk using natural gas-related financial instruments. In 2008, the Commission is expected to issue a decision addressing these issues for current and future procurement cycles.

Encouraging Natural Gas Efficiency
The Commission is identifying and adopting additional natural gas efficiency programs and standards to reduce the reliance on natural gas for various end uses through all available natural gas efficiency and demand reduction

**Natural Gas Price on Spot Market
2003-2008**



resources that are cost effective, reliable, and feasible, as required by statute. The Commission is implementing natural gas energy efficiency as a part of the utilities' energy efficiency portfolios described above.

Examining Natural Gas Contribution to Greenhouse Gas Emissions

In 2006, the Commission began to examine the impact on greenhouse gas emissions of electric generation and develop policies related to such emissions. In 2007, the Commission expanded its inquiry into the emissions due to: a) natural gas combustion by non-electric generation consumers and b) the operation of natural gas transmission and storage facilities. Commission staff issued a preliminary report on the impact on greenhouse gas emissions resulting from the natural gas sector in 2007. In 2008, the Commission expects to continue its investigation of emissions of the natural gas industry in collaboration with the CEC, and to develop joint recommendations for the Air Resources Board to assist that agency in its implementation of AB 32.

Setting Reasonable Natural Gas Utility Operational Costs And Rates

The Commission has and will be considering the reasonable operational costs of several natural gas utilities. In 2007, the Commission approved an all-party settlement between PG&E and interested parties of PG&E backbone gas transmission and storage costs and the rates PG&E will charge for a three-year term.

In 2007, the Commission reviewed SoCalGas' and SDG&E's 2008 forecasted operational costs in a general rate case, and is expected to issue a decision in early 2008 adopting an authorized revenue requirement for those utilities.

Southwest Gas is expected to file a GRC application in late 2007 or early 2008 to request approval of a 2009 revenue requirement. SCE is also expected to file a GRC application to request approval of a 2009 revenue requirement for its Santa Catalina Island gas distribution system.

SoCalGas/SDG&E/SCE "Omnibus" proceeding

In August 2006, SoCalGas, SDG&E, and Edison requested Commission approval of two settlement agreements in what has been referred to as the "omnibus" proceeding, because it involves numerous significant operational, structural, and regulatory changes by SoCalGas. The Commission received and evaluated testimony in 2007, and in December 2007 issued a decision that adopted some proposals of the settlements, and modified several of the proposals. The Commission will adopt implementation details in 2008.

Re-examining Gas Cost Incentive Mechanisms

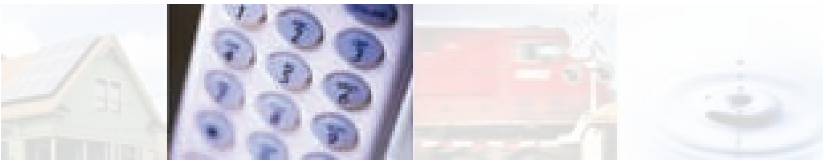
In previous years, the Commission has adopted "gas cost incentive mechanisms" for each of the four largest natural gas utilities. The mechanisms provide the utilities with an incentive to procure natural gas supplies at low cost instead of relying on "reasonableness reviews" which examined the prudence of gas procurement costs after the purchase. In 2008, the Commission will issue a rulemaking to re-examine these mechanisms to determine whether they are working as intended, and whether adjustments to the mechanisms are needed.

Transmission Capacity Rights in Southern California

In December 2006, the Commission established a system of firm tradable gas transmission capacity rights ("firm access rights") in southern California, similar to the framework already adopted in the 1990s for northern California, and authorized the off-system delivery of gas from southern California to northern California. In 2007, the Commission formally adopted the implementation details associated with the new framework. SoCalGas and SDG&E are expected to begin implementation of the new system in 2008. As mentioned above, this case is also the subject of a formal complaint at FERC.

Investigating Performance Based Ratemaking Manipulation

In 2006, the Commission began a formal investigation into allegations that SCE had fraudulently manipulated the results of its performance-based ratemaking mechanism in order to gain higher incentive rewards for shareholders. The Commission received and evaluated evidence in 2007 and will issue its findings in the first phase of that investigation and continue its investigation in a second phase of the proceeding in 2008.



COMMUNICATIONS

The Communications Division drives efforts in emergency preparedness, universal service, and video franchising and broadband deployment. In 2008, the Communications Division will monitor markets, promote consumer protection and education, and help oversee technological developments as Californians increasingly utilize non-wireline technologies such as wireless, cable, and Voice Over Internet Protocol (VoIP) to access communications services. As communications technologies evolve, the Commission's role adapts so that regulations ensure optimal functioning of markets together with universal access to affordable communications.

Licensing

The Commission continues to license and register wireline, wireless, two-way paging, cable telephony, and mobile radio providers serving residential and business customers. The Communications Division issued 65 new licenses during the first eleven months of 2007. Although not licensed, Communications reported 40 VoIP providers operating in California in its August 2007 Telephone Penetration Report. In 2007, the Commission began issuing state franchises to companies providing video service. Twenty-two video franchises were granted in 2007.

Universal Service

The Communications Division carries out the Commission's charge of ensuring universal access to affordable and necessary communications services through five universal service programs funded by a surcharge on all intrastate wireline and wireless telephone bills:

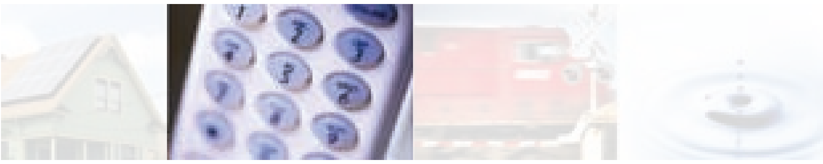
- California Lifeline (ULTS) provides discounted telephone rates for low-income customers;
- The Deaf and Disabled Telecommunications Program (DDTP) provides both assistive equipment and relay services;
- The California Teleconnect Fund (CTF) provides a 50% discount on telecommunications services to schools, libraries, health care organizations, and Community Based Organizations (CBOs);
- The California High Cost Fund-A (CHCF-A) minimizes rate disparities of basic telephone service between rural and metropolitan areas by providing a source of supplemental revenues to small incumbent local exchange carriers (ILECs) meeting CHCF-A revenue draw requirements; and
- The California High Cost Fund-B (CHCF-B) provides subsidies to carriers of last resort for providing basic local telephone service to residential customers in high-cost areas that are currently served by AT&T, Verizon, Frontier, and SureWest.

Additionally, the Communications Division administers the Rural Telecommunications Infrastructure Grant Program, which makes $10 million available annually for unserved rural and/or low-income California communities to build telecommunications infrastructure. The Commission has approved five projects which are in the site location or construction phase, with nine additional projects in various stages of approval and three potential projects ready for review in 2008.

The Communications Division also provides marketing and outreach to hard-to-reach residents and a call center to provide assistance in ten languages to low income customers with limited English proficiency. The call center prescreens about 40,000 program applicants per year, of which 87% are determined to be eligible and are transferred to a carrier for service. Most of the callers have no existing phone service.

Licensed Carriers by Type December 2007

Incumbent Local Carriers	Competitive Local Carriers	Competitive Local Resellers	Long-Distance Carriers and Resellers	Wireless Carriers	Wireless Resellers	DIVCA (Video)
22	221	151	726	70	100	22



Universal Service Programs				
Program	**Total served by program**	**Surcharge**	**FY 07-08 Program budget (millions)**	**FY 08-09 Annual program budget (millions)**
Lifeline	2,960,000 low-income customers (monthly average)	1.15%	$287.05	$306.59
DDTP	497,227 (91,471 pieces of equipment distributed 06-07)	0.37% (becomes 0.20% in 2008)	$69.03	$69.03
CTF	3,017 organizations (161 new in 2007)	0.13%	$25.06	$33.20
CHCF-A	124,550 exchanges	0.21%	$66.66	$64.87
CHCF-B	3.5 million lines	1.3% (becomes 0.5% in 2008)	$436.98	$419.46

Telephony and Broadband Service Penetration

California continues to meet its goal of 95% statewide telephone penetration. As of March 2007 the penetration rate for household telephone service in California is 96.2%, up from 95.5% in 2006, and 94.8% in 2005. Although the 2006 penetration rate for low-income households was 92.7%, it is nearly the same as the national penetration rate overall. The 2006 residential broadband penetration rate in California is 55%, up from 42% in 2005. In its August 2007 report, the Communications Division describes the continuing trend of subscribers substituting wireless service for residential wireline service in California.

In the most recent data released by the Federal Communications Commission (FCC), carriers reported 21.8 million local phone subscribers, 12.6 million long-distance phone subscribers, and 9.4 million broadband subscribers.

California Communication Subscribers June 2006 (in thousands)							
	Residential Local Phone	**Business Local Phone**	**Residential Long-Distance**	**Business Long-Distance**	**Mobile Phone**	**Residential Broadband**	**Business Broadband**
ILEC & ILEC affiliate	12,162	7,789	7,403	3,703	16,771	3,692	2,172
Competitive Local Exchange Carrier (CLEC)	24	997	12	764	6,378	275	210
CLEC (cable)	752	107	634	74	0	2,900	50
Other	0	0	0	0	0	79	24
TOTAL	**12,938**	**8,893**	**8,050**	**4,541**	**23,150**	**6,946**	**2,455**

Broadband Access and Adoption

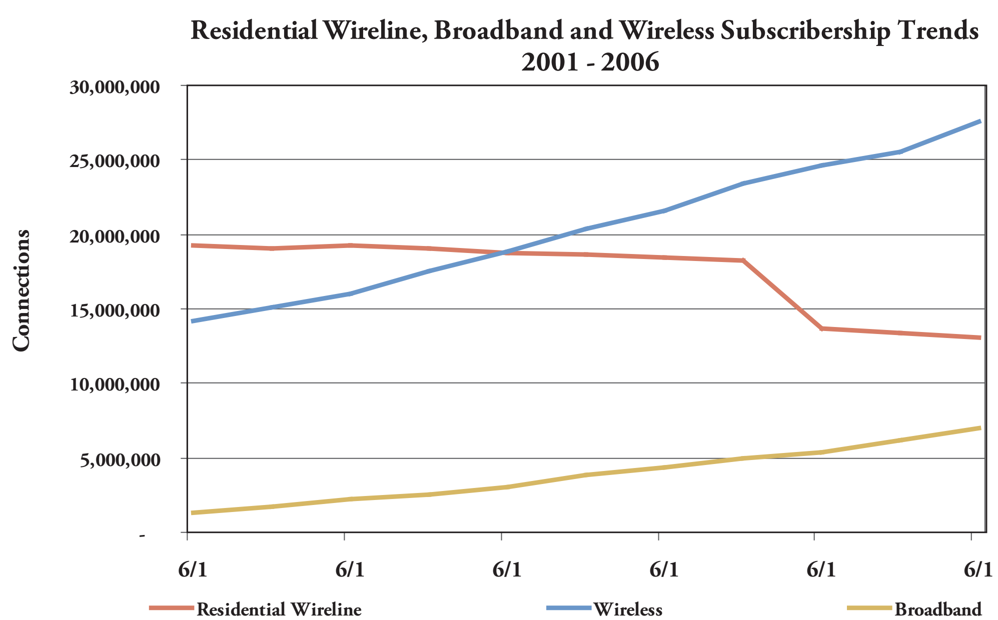
Pursuant to Governor Schwarzenegger's Executive Order S-23-06, the Broadband Task Force was established with representatives of the broadband industry, local and state governments, non-profit organizations, foundations, the legislature, urban and rural organizations, research institutions and broadband applications developers. The Broadband Task Force solicited data on the location and speed of their broadband service offerings that the industry provided on a voluntary basis. Major providers of telephone, cable, wireless, Digital Subscriber Line (DSL) and fiber-to-the-home (FTTH) services responded to the data request. In January 2008 the Broadband Task Force will publish their final report. In its studies, the Broadband Task Force has found that 96% of California households have access to broadband communications technologies. It was also found that the speeds of broadband service offerings varied widely from under 1 mbps to as much as 100 mbps and even higher in selected areas with half of Californians having access to speeds greater than 10 mbps (upstream and downstream combined).

Studies also showed that slightly more than half of California households have chosen to adopt broadband services at home. Household income levels were significant in the choice to adopt these advanced technologies. There could be a number of reasons for this effect, including a belief that broadband does not provide value, lack of relevant content, computer literacy, and affordability of services and computers. The Broadband Task Force also found that rural areas were much more likely than urban areas to be without access to broadband services altogether, with 1.4 million mostly rural Californians lacking access.

The Commission supports the efforts of the Governor's California Broadband Task Force by providing analysis of broadband access and availability in California. According to broadband subscribership data from the FCC, there are 6.95 million residential broadband connections in California, of which 54% are DSL, 42% are cable, 2% are mobile, and 1% each for satellite and Fiber-to-the-Home FTTH. Residential subscribership has grown between 8% and 15% every six months since 2004. Overall, California broadband subscribership has grown at least 12% every six months since 2000, with business growth driving the rate up to 28% in the last period ending June 2006.

California Advanced Services Fund (CASF)

In December, the Commission unanimously adopted a decision establishing the California Advanced Services Fund (CASF) to encourage broadband deployment of advanced services in primarily unserved areas of California. The decision reduced the CHCF-B surcharge from 1.30% to 0.50% beginning in January 2008. It also further modified the surcharge beginning in 2008 to be 0.25% for the CHCF-B program and 0.25% to fund the newly established CASF program.



The CASF program funding approved in the decision will be limited to a total of $100 million to be collected over two years. Applicants for CASF funds will be evaluated, ranked, and selected for funding of projects to serve primarily unserved areas with broadband service based on how well they meet the prescribed criteria. The applicant may seek reimbursement of up to 40% of a proposed project's cost with funding from the CASF and will have to provide the remaining 60%. Workshops will be scheduled to consider the appropriate scoring weight to be assigned to the applicable eligibility and evaluation criteria and other mechanisms for the CASF program. The Commission will adopt the scale of scoring weights to be assigned to each of the evaluation criteria by resolution. CASF funding requests are due by June 2008. The CASF establishes a program to directly address the Legislative finding that the availability of high-quality telecommunications and advanced information and communication technologies are important for the future prosperity of California.

Although the law governing CHCF-B is scheduled to sunset in 2009, there will be a continuing need to insure that access to affordable basic service in high cost areas remains available after that date.

The Commission is also currently seeking legislation to amend the law to add the CASF to the other existing universal service programs handled by the State Treasury. All CASF surcharge revenues collected by carriers prior to the issuance of legislation amending existing law will be held by the carriers in a memorandum account, with interest accruing at the 3-month commercial paper rate. Carriers will be directed by the Commission when to transfer the CASF monies as well as the associated interest to the State Treasury. CASF application requests, once approved by the Commission, would be disbursed under the CASF program guidelines from the Treasury. The process would be similar to that for the CHCF-A, CHCF-B, and other state universal service program payments.

Consumer Protection Initiative

In March 2006, the Commission issued its landmark Telecommunications Consumer Protection Initiative (CPI), which commits the Commission to improve consumers' awareness of their rights in the telecommunications marketplace and provide protections and enforcement against telecommunications fraud. The decision ordered consumer education and outreach.

Consumer education is a key component of the Consumer Protection Initiative, and the Communications Division is working in concert with the Commission's Consumer Services and Information Division (CSID) to ensure effective consumer education.

The CPI-driven accomplishments for 2007 and additional goals for 2008 are as follows:

- **Education and Outreach:** In 2007, the Public Advisor's office implemented a Long Term Education and Outreach Program, building upon and expanding the initial phase of the program. Two contracts that provided expanded outreach and media work were established in 2007. In addition, a second version of brochures, greatly simplified to appeal to consumers with low literacy skills, were made available in English, Spanish and Chinese, and by November of 2007 the original four brochures and four more were developed and were available in 13 languages. Additional advisories and alerts on recent issues were created and posted to the CalPhoneInfo.com website.
- **In-Language Report and Order Instituting Rulemaking:** Based on the issuance of a staff report entitled "Challenges Facing Consumers with Limited English Skills in the Rapidly Changing Telecommunications Marketplace," the Commission opened a formal rulemaking in January 2007. In July 2007, the Commission issued a decision requiring CSID to add a program providing outreach, education and in-language complaint resolution for Limited English proficiency (LEP) consumers. The Commission approved a resolution in December 2007 that outlines the outreach program. A Request for Proposal will be issued in early 2008 to select a contractor which has a network of Community-Based Organizations (CBOs) in place to carry out the program, under Commission guidance.
- **Community Utility Bill Information Fairs:** The concept of Community Utility Bill Information Fairs (Bill Information Fairs) was derived from input from In-Language workshops held as a result of the CPI. Bill Information Fairs provide a neutral forum for both LEP and other communities such as low-income, seniors and disabled consumers to

discuss billing issues with Commission and utility representatives in a comfortable, non-threatening atmosphere. Low-income consumers are also provided an opportunity to enroll in programs such as the Universal Lifeline Telephone Service. Language interpretation is provided so consumers can communicate in their preferred language. Participation in these activities is completely voluntary on the part of utility companies; however, participation is high as the utilities recognize the positive benefits resulting from these forums. In 2007, the Commission held Bill Information Fairs in Oakland, San Francisco's Chinatown, San Bernardino, San Ysidro and Salinas, with support and assistance from CBOs which not only helped spread the word and provided the facilities, but also invited other community organizations to join in providing information and assistance to consumers in the area.

The Communications Division will continue to develop the state's consumer information website at www.calphoneinfo.com. The division will also launch annual consumer surveys to track the impact of regulatory changes on the market.

In addition, in January 2007, the Commission began investigating whether it should implement education and other assistance services for consumers who communicate solely, or are more confidant expressing themselves, in languages other than English (referred to as Limited English Proficient, or LEP).

Customer Information Management System

Because the vast majority of complaints received by the Commission involve communications services, the Communications Division is working with the Consumer Service and Information Division, the Division of Ratepayer Advocates, and the Consumer Protection and Safety Division on the development and installation of a new Consumer Information Management System (CIMS) for use at the Commission as part of the Consumer Protection Initiative. The estimated cost for CIMS is $3.9 million, and CIMS is expected to come online in the Consumer Affairs Branch (CAB) in July 2008.

CIMS will improve the Commission's ability to respond to inquiries, to resolve complaints, and to enhance enforcement efforts, and will significantly upgrade data gathering and analysis capabilities throughout the Commission. New management capabilities will include improved case tracking and resolution, more finely tuned categorization of inquiries and complaints, more efficient internal case assignment, and more robust data for use in complaint appeals and enforcement efforts.

Addressing the Needs of Limited English Proficiency (LEP) Customers

In July 2007, the Commission adopted in-language rules to improve services to California's LEP telecommunications consumers. When telephone companies market their service to LEP customers in a language other than English, they are now required to provide critical information about the services purchased in the same non-English language. These rules become effective late January 2008. The Communications Division will continue to support activities to make consumer information available in multiple languages.

Emergency Preparedness and Planning

The Commission contributes communications expertise to statewide emergency response and disaster recovery planning, facilitating interactions among state emergency service agencies such as the Office of Emergency Services (OES), the Department of General Services (DGS), cities, counties and the FCC.

In 2007, the CPUC opened Rulemaking 07-04-015 to investigate four major emergency preparedness issues:

- backup power on the premises of residential and small commercial customers;
- emergency notification system standards;
- implementation of best practices by different telecom industry segments; and
- the feasibility of zero greenhouse gas emission fuel cell systems for backup power within telecommunications service provider facilities.

The report "Reliability Standards for Telecommunications Emergency Backup Power Systems and Emergency Notification Systems" was issued to the California Legislature in December 2007. Further workshops and studies regarding emergency preparedness are planned for 2008, including a January workshop in San Diego focusing on communications issues and best practices resulting from the 2007 rash of wildfires in Southern California.

The Commission will continue to explore policies, procedures and guidelines that ensure California is adequately prepared for disasters. For example, the Communications Division is investigating statewide emergency alerting capabilities--the ability to send geographically targeted emergency notifications to a wide range of wireline, wireless and text devices

Video Franchising and Broadband Deployment

In 2006, the California Legislature passed the Digital Infrastructure and Video Competition Act (DIVCA). Among DIVCA's goals are increasing competition in the provision of video programming services, ensuring a lack of discrimination or denial in the provision of services, and fostering the deployment of broadband infrastructure and services throughout California. To carry out these goals, the previous system of locally-granted cable franchises was replaced with a system of state-issued video franchises. The Communications Division was tasked with implementing DIVCA, and the division's Video Franchising and Broadband Deployment Group was formed.

Twenty-two applications for video franchises were granted in 2007, including one for an amended franchise territory. Although DIVCA provides for a processing period of forty-four days from receipt of completed franchise applications, the average process time was actually twenty-six days.

Supporting Competitive Markets: Uniform Regulatory Framework (URF)

In August 2006, the Commission adopted a Uniform Regulatory Framework (URF) which substantially changed price regulation for California's four largest ILECs: AT&T, Verizon, SureWest, and Frontier. 2008 is the final year these ILECs will be governed by price-cap regulation. Beginning January 2009, the ILECs will set basic residential rates in a deregulated environment within guidelines to be established in Phase II of the URF proceeding. In addition, the URF decision simplified tariff procedures for competitive carriers and granted them broad flexibility for rates and terms of service.

In October 2007 the Commission sought input on a process for a phase-in of any increases to basic residential rate levels to provide an orderly transition to full pricing flexibility over a limited time period and avoid rate shock for consumers. As a basis for calculating the applicable level of rate increases, the Commission will examine whether to establish a target cap for each Carrier of Last Resort (COLR). Once the targeted cap is reached, the cap restrictions may be removed and the COLRs may be granted full pricing flexibility to make any subsequent adjustments in basic rates based on competitive market forces.

In addition, the URF decision simplified tariff procedures for competitive carriers and granted them broad flexibility for rates and terms of service.

During 2007, in Phase II of the URF proceeding, the Commission adopted policies and rules that continue its efforts to streamline regulation, bring more regulatory symmetry between incumbent carriers and competitive carriers, and add consumer protection rules.

Clarifying Asymmetric Regulation Rules (AT&T Tariff Rule 12)

The Commission directed AT&T to establish Tariff Rule 12 disclosure in a consolidated series of cases against AT&T's predecessor, Pacific Bell (Pacific), filed by two public interest groups and the union representing Pacific's customer service representatives. Specifically, the Commission required that Rule 12 shall provide that service representatives who answer inbound customer service calls must first fully address and resolve the customer's request. The service representative must describe the lowest-priced option for purchasing the requested services. After completely addressing all the customer's requests, the service representative shall summarize the customer's order including itemized prices, and inform the customer that the order is finished. After that, the service representative may inquire whether the customer is interested in hearing about other optional services. If the customer responds in the affirmative, only then may the service representative engage in unsolicited sales or marketing efforts.

After the Commission, in URF Phase 1, adopted policies to simplify tariff procedures and adopted some rules to allow symmetric regulation for incumbent and competitive carriers in 2006, AT&T filed an advice letter to eliminate substantial part of its Tariff Rule 12. AT&T argued that its Tariff Rule 12 was specifically eliminated by the URF Order. the order, for the most part, eliminated all asymmetric requirements between four major ILECs and CLECs concerning marketing, disclosure, and administrative processes. Consumer parties, UCAN, Latino Issues Forum, Centro La Familia Advocacy, DRA and TURN protested AT&T's revision to its Tariff Rule 12.

Consumer parties disputed that the decision's elimination of asymmetric requirements do not extend to Rule 12, which was adopted as a specific remedy to deceptive marketing and disclosure practices committed by AT&T. They further noted that UCAN and other parties involved in the earlier proceeding were not given notice in the new one when the Commission decided to eliminate asymmetric marketing and disclosure requirements.

The Commission later stayed this portion of the decision and asked parties to file comments and testimony on the matter in URF Phase II. arties are to file opening briefs in January 2008. The Commission will continue to address this issue.

Mass Migration and Telephone Numbering

The Commission continues its work to support the mass migration proceeding by developing policies that diminish service interruptions in the event of service provider technology shifts.

The Commission also continues to address area code issues. Four numbering plan areas (NPAs) have been determined to require the addition of a new area code to ensure adequate numbers for telephone customers. One of these, the 310 area code, was completed in 2006. The remaining NPAs are in various stages of introducing a new area code. The NPAs still in process are 714 in the Orange County area, 760 in parts of Imperial, San Diego, Riverside, Mojave, Mono, Inyo, San Bernardino counties, and 818 in the San Fernando Valley area of Los Angeles County. `

Over the past few years, the Commission has also approved several requests to initiate 2-1-1 service, an abbreviated dialing code to be used by an authorized information and referral provider in a given area to provide social service information such as housing or food assistance and non-urgent health questions. To date, the Commission has approved 2-1-1 service in 19 counties in California and has provided extensions to several other counties. More requests are expected to be approved in 2008.

Processing Traditional General Rate Case Applications

In 2007 the Commission approved three resolutions for three small ILEC general rate case filings, adopting an overall rate of return of 10% on rate base for each. In 2008 the Communications Division anticipates reviewing five new general rate case filings from small ILECs.

Access Charge Reform

On December 12, 2007 the Commission issued a decision in the third phase of its intrastate carrier access charge rulemaking. Through adjudications and general rate cases, the Commission continues its efforts to reduce and harmonize interstate access charges among California communications providers.

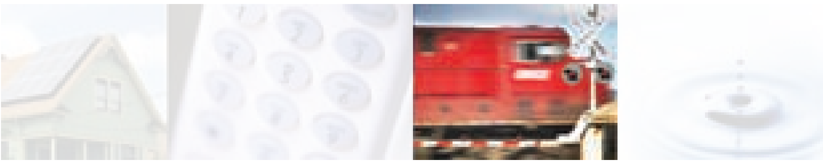
Participating in Federal Communications Issues

The FCC and the Congress make many decisions that affect California's interests in communications. The CPUC collaborates closely with the Legislature and the California Congressional delegation, as well as many interest groups, to influence the shape of federal legislation. The Commission also participates in the FCC's proceedings as it crafts new regulations.

During 2007, the Commission filed comments in twelve different proceedings at the FCC, including proceedings concerning the following policy areas:

- Reform of the Federal Universal Service Programs;
- Development of a national strategy for deployment of broadband communications services data gathering;
- Reform of the federal inter-carrier compensation scheme;
- Development of federal and state emergency communications services and deployment of state 911 services; and
- Requests by dominant carriers for forbearance from common carrier regulations

In 2008 the Communications Division will continue to engage in federal and state telecommunications policy debates with the goals of promoting technological neutrality in regulation, encouraging deployment and accessibility of advanced communications technology, ensuring effective emergency communications services, and protecting the interests and rights of California consumers.



TRANSPORTATION

California's transportation infrastructure and services are vital components of California's economy and well-being. It is essential that transportation industries remain safe and propitious to Californians and the state as a whole. To this end, the Commission has regulatory and safety oversight over a number of transportation industries, including railroads, moving companies and for-hire passenger carriers.

Rail Transportation

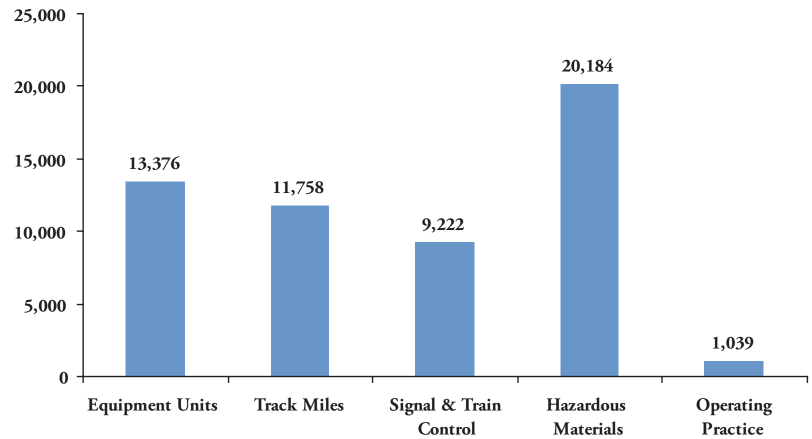
Fifty railroad corporations operate in California. There are 11,000 public grade crossings located within 52 counties and 400 cities in California. The Commission employs federally certified staff inspectors and coordinates with the Federal Railroad Administration (FRA) and is the largest participating state agency in the nation to ensure that railroads comply with federal railroad safety regulations. The Commission also investigates railroad accidents and responds to safety related inquiries made by community officials, the general public, and railroad labor organizations.

The Commission's rail transportation work is carried out by the Consumer Protection and Safety Division (CPSD), whose responsibilities include:

Inspecting railroads for compliance with state and federal railroad safety; regulations and pursuing enforcement actions when required;

- Improving rail crossing safety using a combination of the three "E's" of, engineering, education, and enforcement;
- Investigating rail accidents and safety-related complaints;
- Recommending safety improvements to the Commission and federal government; and
- Ensuring efficient enforcement of safety requirements

CPUC Railroad Inspections, 2007



Railroad Inspections

The Commission's railroad inspection program is guided by its State Railroad Inspection Plan and Assembly Bill 1935. Taken together, these rules require the Commission to ensure that all railroad locomotives, equipment, and facilities in Class I railroad yards in California are inspected at least every 120 days and all rail tracks at least once every 12 months. In addition, starting in July 2008, Commission staff is responsible for conducting focused inspections targeting railroad yards and track that pose the greatest safety risk based on inspection data, accident history, and rail traffic density.

During 2007, Commission staff inspected 13,376 units of equipment, 11,758 miles of track, 9,222 units of signal and train control systems, 491 facilities that handle hazardous materials, and 282 operating practices. They also responded to 34 informal complaints from railroad employees and the general public.

Staff inspectors were unable to fulfill the inspection mandate in 2007 but expect to meet all inspection mandates in 2008 due to the new inspectors hired as a result of AB 1935 and AB 3023, who will be fully trained and deployed throughout the state.

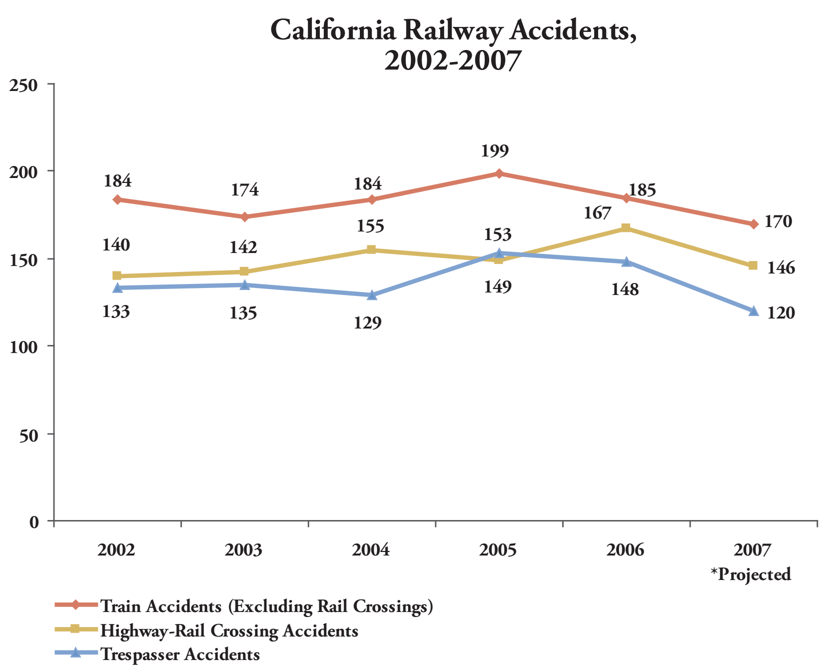
Ensuring Safe Shipments of Hazardous Materials

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

The Commission's federally-certified railroad safety inspectors conduct unannounced inspections at shippers, consignees, freight forwarders, inter-modal marketing companies and railroads, and investigate accidents involving the actual or threatened release of hazardous materials as reported by the Office of Emergency Services (OES) 24-hour Warning Center. In 2008, staff will continue to enforce hazardous materials safety regulations.

Proposed Rail Carrier Citation Program

In 2007, Commission staff proposed a rail carrier citation program designed to expedite the enforcement of certain Commission General Orders and other rules. The proposed citation program will allow Commission staff to issue citations and levy penalties for violations of certain Commission General Orders and other rules such as safety requirements for walkways, clearances, notification of hazardous materials release, and certain other railroad operating rules. In many cases, violations such as these persist simply because of the time-consuming and labor intensive nature of the full administrative process currently required to penalize violators. The proposed citation program will encourage prompt action by staff and the railroads by avoiding the need for long, protracted Commission proceedings in specific circumstances, thereby proving better protection for railroad employees and the public. If adopted, staff will implement the citation process in 2008.



Safety Inspector Attrition

The Commission's Rail Safety Operations Branch is experiencing significant and harmful staff attrition (25 percent over five years) due primarily to the disparity in pay that exists between CPUC Railroad Safety inspectors and their federal counterparts. Federal inspectors based in California earn on average 20% higher wages for performing essentially the same duties. Commission management submitted a pay-parity justification to the State Department of Personnel Administration in early 2006 and is awaiting a response. In 2008, the Commission will propose a Legislative fix to this very serious problem.

Major Accident Investigations

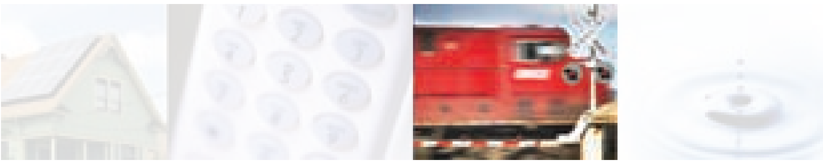
The Commission's Rail Safety Action Plan requires the investigation of every rail crossing/trespasser accident in an effort to identify the cause and recommend corrective action. For major accidents, staff conducts on-site investigations based on casualties, property damage, and interruption to commercial/community services. Staff investigators examine pertinent evidence at the accident site, interview train crews, analyze recorded radio transmissions, and observe test signal demonstrations, brake tests, and accident simulations. Accident investigations typically involve interaction with the railroads, railroad employee unions, and other regulatory and safety agencies, such as the Federal Railroad Administration and the National Transportation Safety Board.

In 2006, the Office of Emergency Services reported a total of 437 heavy rail accidents in California. There were 55 main track derailments, 23 yard track derailments, 3 railroad employee fatalities, 17 railroad employee injuries, 44 highway-rail grade crossing fatalities, and 52 trespasser fatalities.

In addition, Commission staff collected "near miss" data from the major rail freight and passenger carriers in an effort to identify problem areas. The analysis of more than 1300 reports of unsafe motorists, trespassers, and broken gates between January 1, 2006 and July 31, 2007 enabled staff to identify grade crossings and other locations that present the highest risks. In 2008 staff will develop and execute action plans to implement corrective actions at these identified locations.

Operation Lifesaver

The Commission is an active participant in Operation Lifesaver, a grade crossing awareness training program committed to reducing accidents and incidents at

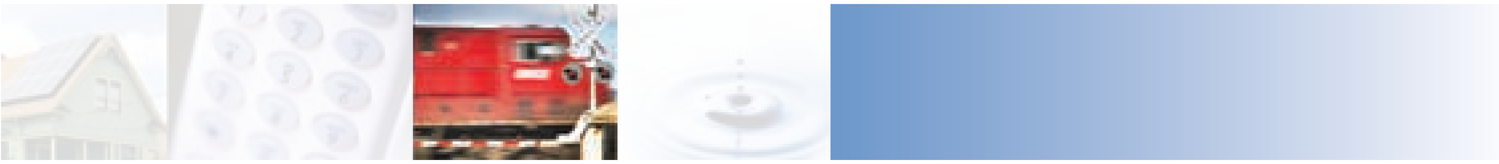


highway-rail crossings and along railroad rights of way. Commission staff supports Operation Lifesaver by providing Commission employees to make presentations in English and Spanish to local cities, schools, law enforcement, fire departments, and professional drivers. Staff conducted 59 presentations in 2007. In 2008, this outreach program will expand to other languages as resources become available.

Addressing Railroad Security Risks

As critical infrastructure, it is essential that rail systems are secure from outside threats and have effective emergency response procedures. The Commission is taking a number of steps to ensure the security of the state's railroad infrastructure:

- **Local Community Rail Security Act of 2006:** Pursuant to Local Community Rail Security Act of 2006, effective January 2007, all rail operators are required to provide infrastructure risk assessments to the Commission, the Director of Homeland Security, and OES. The risk assessments will report on the location and function of each rail facility; types of cargo stored at or typically moved through the facility; hazardous cargo stored at or moved through the facility; frequency of hazardous movements or storage; and a description of sabotage/terrorism countermeasures; and emergency response procedures and communication protocols. In 2008, staff will review all railroad infrastructure security risk assessments and monitor all railroad infrastructure protection plans.
- **Special Railroad Safety Task Force:** In addition, during 2007, the Commission staff facilitated and participated in the Special Railroad Safety Task Force comprised of representatives from railroads, emergency responders, and regulators to identify deficiencies and formulate recommendations regarding vandalism/terrorism, land use planning, and emergency response. The task force will submit its findings and recommendations to the Commission in March 2008 and to the legislature in July, 2008.
- **Balancing Railroad Safety Authority between Federal and State Governments:** The Commission continues to advocate in favor of an amendment to the Federal Railroad Safety Act (FRSA) to delegate more authority to states to regulate railroad safety locally. The 2005 California legislature passed Senate Joint Resolution 13 in support of CPUC's proposed FRSA amendments, and the National Association of Regulatory Utility Commissioners and Association of State Railroad Safety Program Managers both endorsed the amendment with their own resolutions. In 2007, Congresswoman Grace Napolitano of California's 38th congressional district, a member of the Transportation and Infrastructure subcommittee, authored California's amendment to the FRSA reauthorization bill for US House of Representatives. The FRSA bill awaits US Senate approval, although the amendment sponsored by Congresswoman Napolitano has not been adopted as part of that legislation. The Commission will continue to advocate for this amendment in 2008.



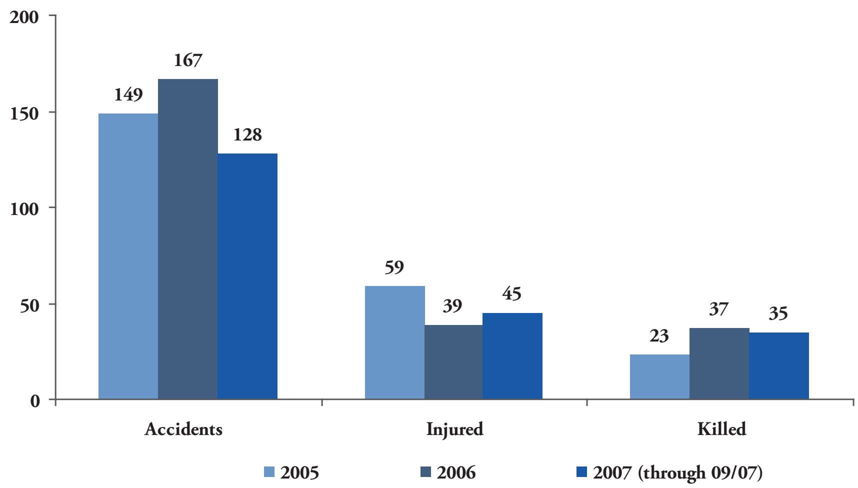
Rail Crossing Safety

The Commission has exclusive jurisdiction over the safety of railroad crossings in California, including the power to determine their design, location, terms of installation, operation, maintenance, use, and warning devices. The Commission currently has safety oversight responsibility for 12,250 crossings. The Commission's rail crossings responsibilities play a critical role in ensuring the safety of the state's residents.

concerted effort to follow-up on accident reports, and for that reason the number of accident report investigations has increased almost five fold from 21 in 2006 to 99 in 2007.

Beyond inspections, CPSD staff is taking a number of steps to improve rail crossing safety throughout the state:

FRA-Reported Highway-Rail Crossing Accidents, 2005-2007



Rail crossing accidents continue to be a major source of railroad related casualties, averaging 154 highway-rail crossing accidents annually since 2002. 206 crossing incidents (which resulted in 52 fatalities and 72 injuries) were reported to the Commission in 2006. In 2007 there were 46 highway-rail grade crossing fatalities, and 79 trespasser fatalities.

Identification and investigation of crossings accidents is necessary to proactively urge local agencies to improve problem crossings. The Commission has made a

- **Evaluating applications for new rail crossings and requests for modification to existing crossings:** Staff anticipates an increase in the number of new crossing applications and modification requests due to the implementation of the 2006 Bond Act, which will fund many transportation projects. A significant portion of the funding could be eligible to fund crossing improvements and grade separations. An early indication of the increased interest in rail crossings applications due to the alternative funding sources offered by the Bond Act is the significant

Rail Crossings Engineering Section Fiscal Year 06-07 Statistics

Type	Carry-over	Opened FY	Closed FY	Pending 7/01/07
Formal Applications	19	31	27	23
Modification Requests	5	53	52	6
Complaints	6	22	12	16

increase in the number of crossing nominations submitted in the Section 190 proceeding. Staff also processes informal complaints filed by the public and other interested parties pertaining to rail crossings.

- **Upgrading Crossing Inventory and Rail Programs Databases:** The Commission has established and maintained an electronic database that houses an inventory of all the railroad crossings in the state. During FY06-07, approximately 950 crossings were inventoried specifically, or were inventoried during other work at the crossing. In 2008, CPSD intends to continue its efforts to upgrade the rail databases. The databases are currently operating very slowly and have limited ability to share data and to make queries. The databases have experienced faults and on occasion have suffered some data loss. As such, they are inadequate to support the Commission's rail and transit safety programs. CPSD's three rail safety branches have jointly begun the process to upgrade the databases. Bids were solicited for a Feasibility Study Report (FSR) to support the development and acquisition of a data solution that enhances the Commission's ability to carry out its statutory mandates and protect public safety.
- **Public Education:** Staff conducts a variety of safety outreach efforts including sponsoring and participating in grade crossing educational programs to educate local agencies about crossing safety, developing and maintaining web pages to provide public agencies with links to rail safety information, and participating in public safety education programs such as Operation Lifesaver. This outreach activity is very labor intensive; however, it is believed to have the highest potential to result in safer crossings.
- **Grade-Separation Fund Program:** Staff administers the State's Grade-Separation Fund Program, which provides funds to help local agencies finance the high cost of grade-separating rail crossings. The Commission is responsible for establishing criteria to be used to determine the priority of projects nominated for grade separation, then establishing a prioritized listing of crossings most in need of grade separation. The Commission conducts a formal proceeding to consider and adopt the priority list. In the current proceeding, in addition to the usual funding, 2006 Bond Act funds will also be allocated under the program. Thus, the level of interest from local agencies was high, and resulted in 120 applications to evaluate (typically the number is around 70), an early indication of the effects of the 2006 Bond Act.

Working with Rail Transit Agencies

The Commission is the designated State Oversight Agency for both safety and security of all rail transit systems within the state. The Commission works in cooperation with the Federal Transit Administration (FTA) and the rail transit agencies in order to enhance public safety. The Commission's oversight responsibility extends to ten existing rail transit systems, three new systems currently planned to open for revenue service in 2008, and a multitude of new projects in the construction and conceptual stages. These rail transit systems encompass 672 route miles and serve more than 275 million passengers annually.

Rail Transit Agencies under Commission Oversight

The rail transit agencies under Commission oversight:

- Bay Area Rapid Transit District (BART);
- San Francisco Municipal Transportation Authority (SFMTA);
- Los Angeles Metropolitan Transportation Authority (LACMTA);
- Sacramento Regional Transit District (SRTD);
- San Diego Trolley Inc (SDTI);
- Santa Clara Valley Transit Authority (VTA);
- San Francisco International Airport (AirTrain), connection to BART;
- Angles Flight Railway Company, funicular system in Los Angeles (closed February 2001 due to accident);
- San Pedro Red Cars (POLA); and
- Los Angeles Farmer's Market Trolley

Staff audits rail transit systems at a minimum interval of once every three years. This goal is accomplished through comprehensive rotating audits of all systems operating within the state.

Staff conducted four comprehensive triennial audits during 2007. In 2008, staff plans to conduct two triennial audits. Rail transit agencies are also required to conduct on-going internal safety and security audits and reviews. A primary staff concern is the aging infrastructure and equipment maintenance of certain rail transit systems.

Staff participated in seven internal safety audits in 2007, and plans to conduct eight additional internal safety and security audits in 2008. Beyond regular audits, Commission staff is taking a number of steps to carry out its responsibilities in ensuring safety and security on rail transit systems:

- **Transit Accident Investigations:** Staff participated in 140 rail transit accident investigations in 2007. In 2008, Commission staff will continue to conduct accident investigations in conjunction with the Rail Transit Agencies.
- **Cross-agency Coordination on Security Issues:** Commission staff and the Transportation Safety Administration (TSA) work together to evaluate rail transit system security plans. This partnership is the first step in shoring up compliance with the National Infrastructure Protection Plan (NIPP), as required by the Department of Homeland Security.
- **New Project Oversight:** Staff verifies safety certification of new rail transit projects and extensions. Additionally, the projects funded by FTA require Commission staff to cooperate with FTA staff to ensure compliance with federal mandates. The expansion of rail transit operations over the last few years has resulted in projects in various stages of safety certification. Projects completed in 2007 include the San Francisco Municipal Transportation Authority (SFMTA) Third Street Extension.

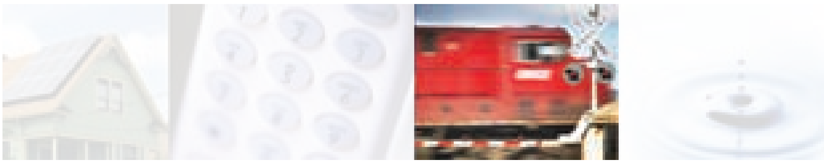
Rail Transit Project Safety Certifications in Progress

Safety certification projects scheduled for completion in 2008 include:

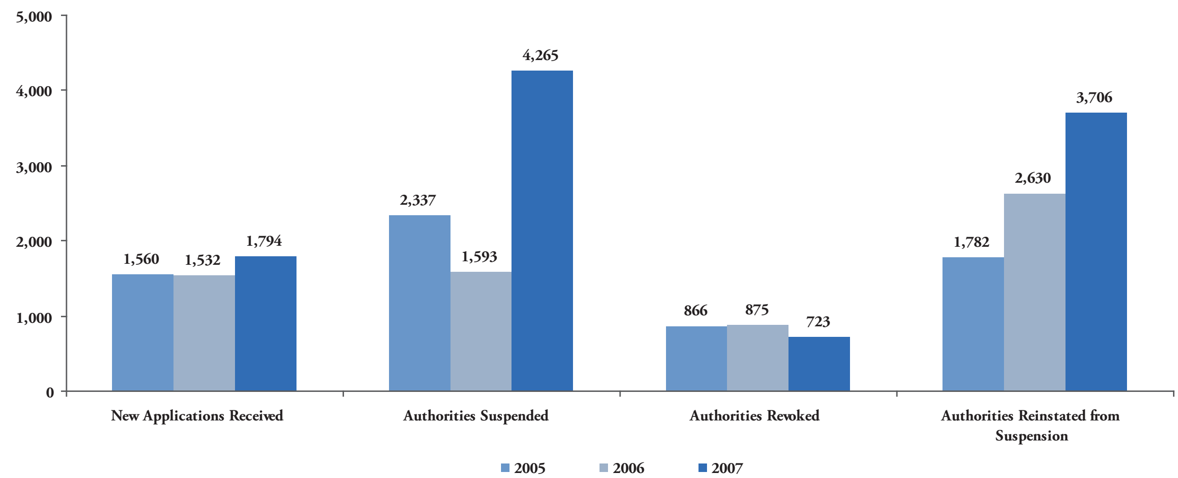
- North County Transit District SPRINTER
- Angels Flight Railway Foundation
- Los Angeles Metropolitan Transportation Authority East Side Extension

Additional safety certification projects in various stages with expected completion dates beyond 2008 include:

- Santa Clara Valley Transit Authority Silicon Valley Rapid Transit Project
- Santa Clara Valley Transit Authority Capitol Expressway extension
- Los Angeles Metropolitan Transportation Authority Expo Line
- Los Angeles Metropolitan Transportation Authority Expo Line Phase II
- Pasadena Gold Line Foothill Extension Project
- Americana on Brand in the City of Glendale
- San Francisco Municipal Transportation Authority Central Subway Project
- Sacramento Regional Transit District South Line Phase II
- Bay Area Rapid Transit District Warm Springs Extension
- Bay Area Rapid Transit District Oakland Airport Connection
- Bay Area Rapid Transit District West Dublin Station Project
- Bay Area Rapid Transit District Earthquake Safety Program and Trans Bay Tube Seismic Retrofit Project
- San Diego Trolley Inc., Mid-Coast Project



CPUC Liscencing Activity, 2005-2007: Passenger Carriers



Passenger Carriers

The Commission is responsible for enforcing consumer protection regulations that apply to passenger carriers. The Commission fulfills its responsibilities by investigating and prosecuting carriers who violate the law, making use of a series of a number of enforcement tools ranging from administrative actions such as cease and desist letters, field citations and OIIs, to civil and criminal penalties such as temporary restraining orders and criminal prosecutions.

Passenger Carrier Inspections

In 2007, Commission staff stepped up its program of conducting surprise passenger carrier inspections at various locations. Staff focused its efforts on the state's major airports in response to concerns expressed by the airports and other parties regarding unlicensed passenger carriers operating at those facilities.

For the safety of travelers, especially in today's climate of heightened airport security, CPSD and airport staff believe it is essential that all limousines, shuttles, and other ground transportation service providers that operate on airport property are properly licensed, insured and in compliance with all applicable Commission and airport licensing requirements. To this end, Commission staff teamed up with airport police, airport ground transportation personnel, and California Highway Patrol (CHP) commercial vehicle inspectors to conduct inspections at Los Angeles International, San Francisco International, Oakland International, San Jose International, San Diego International, and Palm Springs Airports. A total of 628 vehicles were inspected. The CHP issued 53 citations for safety violations and placed 34 vehicles out of service. Staff issued 26 misdemeanor warnings for unlicensed operations and 185 notices to correct violations of Commission rules and regulations.

In 2008, five new investigator positions will be assigned exclusively to airport enforcement duties. The state's major airports and the limousine industry supported inclusion of these positions in the FY 2007-08 budgets and agreed to fund these new positions through an increase in the regulatory fee paid to the Commission. The Commission anticipates assigning staff full-time to the largest airports and covering others on a rotating basis. The Commission, the carrier industry, and the airports believe this increased enforcement presence is necessary to curtail the number of limousine services that operate without a Commission-issued license. Because providing airport transportation service is an integral part of most limousine businesses, stationing enforcement staff at those locations is the most efficient way to detect, deter, and sanction unlicensed carriers.

Staff also conducted inspections at other centers of passenger carrier activity including the U.S. – Mexico International Border crossing at San Ysidro, a community within the city limits of San Diego. Citizens and businesses in the area voiced complaints about excessive traffic congestion and other quality of life issues arising from the many unlicensed carriers and their solicitors operating in the vicinity of this heavily used border crossing. Staff joined with the San Diego City Attorney's office, the San Diego Police Department, and other city officials to address these concerns. In 2007, staff conducted three surprise inspections at the San Ysidro crossing and issued 14 citations and 12 warning notices to various carriers for operating without a license, unlawful solicitation of transportation services, and violation of Commission regulations.

Other inspection venues during 2007 included Muir Woods National Monument, the Viejas Indian Casino in Alpine, the Barona Casino in Lakeside, and the Pala Casino in Temecula.

Joint Agency Limousine/Taxicab Enforcement

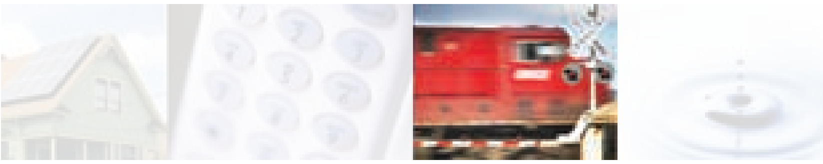
In December 2007 Commission investigators joined with the San Francisco Taxi Commission, San Francisco District Attorney's Office, and San Francisco Police Department in a sting operation that targeted charter-party limousine operators who act as taxicabs by soliciting passengers or providing transportation that has not been prearranged. In "Operation Bandit," staff were stationed at major hotels and other San Francisco locations and posed as prospective passengers in need of transportation to the airport. Twelve limousine operators were cited by police for various violations. Staff investigators prepared detailed reports in support of the arresting officers' citations, which subsequently were of value in the successful prosecution of 10 of these 12 cases. The remaining two cases will go to trial in 2008.

Investigation of Unlicensed Bus Companies Transporting School Children

In 2007, Commission staff commenced priority investigations of a group of charter bus services in the Los Angeles area who were suspected to be operating without licenses. Staff found that most of the involved companies were being engaged by private schools to transport pupils on field trips. In the absence of a Commission-issued license, there was no evidence that the buses were either insured, had undergone a safety inspection by the CHP, or were being operated by qualified drivers. Staff immediately notified the schools of the unlicensed status of the operators. Following an investigation, staff filed criminal complaints with local prosecutors against six companies and issued administrative citations with fines totaling $19,000 to seven others.

Successful Prosecution of Illegal Bus Operator

In one of the criminal complaint cases, staff, working in conjunction with the Los Angeles City Attorney's Office, was successful in securing a jail sentence and fines against the owner of a bus company who was found to be transporting passengers illegally without a license or insurance, or having the buses undergo a safety inspection by the CHP. The conviction followed a seven-day jury trial, at which witnesses from the Commission, CHP and school administrators presented evidence to show that Dandy Lion Transit had repeatedly used its several buses to take school age children on field trips across Southern California. While each bus transported on average 60 persons, none of the buses had the minimum $5 million in liability and property damage insurance required by law. The company owner was sentenced to 30 days in jail, 36 months probation, and a $1,000 fine. Additionally, the court ordered the owner to divest ownership of all commercial vehicles currently in her possession.



Moving Companies

The Commission is also responsible for enforcing consumer protection regulations that apply to household goods movers. Moving companies obtain permits from the Commission after showing financial and safety fitness. They must also prove to the Commission that they have adequate insurance and they are subject to criminal background clearance by the California Department of Justice and Federal Bureau of Investigation.

Protecting Consumers from Abusive Practices

The Commission protects consumers from the abusive practices of household goods carriers. Generally, the enforcement program for household goods carriers is complaint-driven, that is, most resources are devoted to responding to individual complaints filed by consumers or licensed carriers.

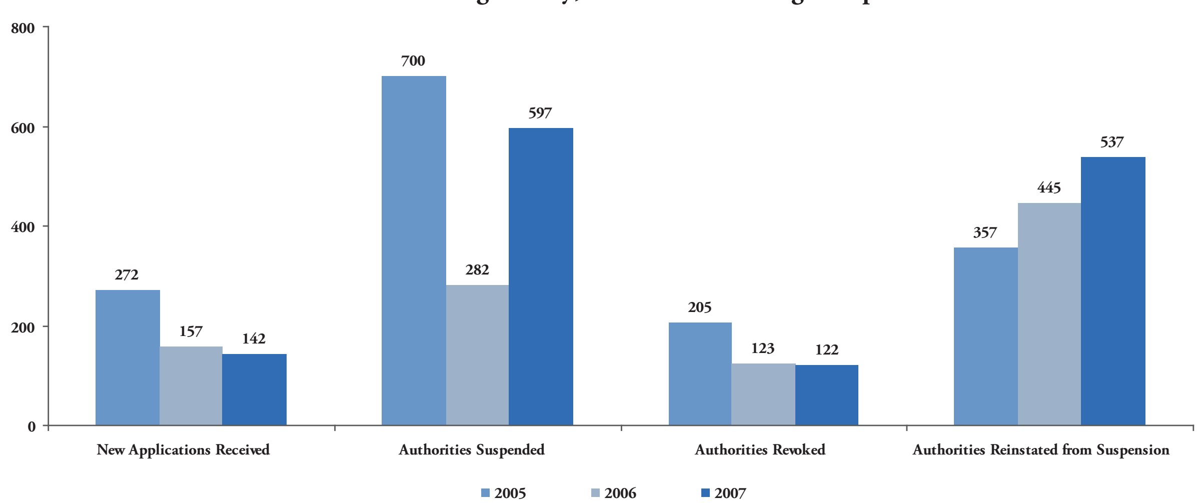
Historically, the complaints have involved allegations of overcharging, failing to adequately resolve loss or damage claims, operations without a permit, or service issues. Recently, however, more egregious practices have emerged such as holding the consumer's goods hostage as leverage to collect additional, unjustified charges, using excessive amounts of packing materials in the course of the move and charging exorbitant prices for those materials.

In 2007, staff issued 30 administrative citations with total fines of $76,250 for violations of statutes and Commission regulations. Additionally, staff intervened on behalf of individual consumers to secure 29 refunds totaling $20,676. In the most flagrant cases, staff filed criminal charges or obtained a court order to disconnect the mover's telephone services.

Expanded Outreach to Prosecutors

During 2007, staff has been contacting local prosecutors throughout the state to explain the Commission's passenger carrier and household goods carrier regulatory programs. The goal is to make county district attorneys and city attorneys aware of the statutes and regulations that govern these businesses and the Commission's vital role in protecting consumers. Staff has found that in some cases, nothing short of criminal prosecution or civil injunction will stop a carrier from violating the law. Efforts in this area will continue in 2008.

CPUC Licensing Activity, 2005-2007: Moving Companies



WATER

The Commission is responsible for ensuring that the investor-owned water utilities deliver clean, safe, and reliable water to their customers at reasonable rates. There are 135 investor-owned water utilities and 12 investor-owned sewer utilities under Commission jurisdiction, providing water service to approximately 20 percent of California's residents.

Broad water quality and water supply issues are governed by a variety of federal and state agencies, with whom the Commission collaborates in the course of its operations. In light of increasing statewide concerns about water quality and supply, the Commission is exploring innovative solutions to water problems and emerging regulatory approaches such as those the Commission is implementing in the energy and communications sectors.

In December 2005, the Commission approved a Water Action Plan that sets policy goals and objectives in regulating investor-owned water utilities within California. Building off key Water Action Plan principles, the Commission's Water Division has developed the following objectives for future water regulatory activities:

- Strengthen water conservation programs to a level comparable to those of energy utilities;
- Maintain highest standards of water quality;
- Assist low income ratepayers;
- Set rates balancing investment, conservation, and affordability concerns; and
- Promote water infrastructure investment
- Water Conservation

Water conservation is critical in California to extend limited water resources as far as possible and allow for future growth. The Commission continues to research the development of a standard water conservation program that:

Complies with current laws;

- Incorporates the Best Management Practices of the California Urban Water Conservation Council;
- Balances costs and benefits across programs; and
- Institutes a rate design that encourages water conservation while preserving revenue stability for the regulated water utility

As part of its effort to promote water conservation in 2007, the Commission initiated an investigation to explore programmatic elements of a comprehensive water conservation program.

This proceeding will develop conservation rate design and set policy regarding the changes needed to institute real water utility-supported conservation programs in the state. To unlock disincentives for efficiency savings faced by electric utilities, the Commission instituted Revenue Adjustment Mechanisms, designed to make utilities indifferent to their customers' conservation of electricity. In the face of increasingly scarce water supplies, the Commission is now considering implementing a similar mechanism for water utilities, in the context of the current investigation.

This investigation is being processed in stages, with most of Phase I occurring in 2007 and Phase II in 2008. Phase II will address general policy issues. As part of the Phase II, the Water Division will work with interested parties and the Low Income Oversight Board in the development of water conservation programs for low-income customers.

Water/Energy Nexus Pilot Programs

In December 2007, the Commission issued a decision to fund a $6 million pilot program to measure the impact of water conservation on energy savings. In an effort to facilitate the implementation of the Water Action Plan and the Energy Action Plan, the Commission is pursuing the following "water/energy nexus" projects:

Energy Efficiency in Water Operations

The Commission is examining the potential for improving the energy efficiency of water utility induction motors and well pump systems by utilizing electric variable speed drives. By using variable speed drives and properly operating the water system, it is anticipated that water utilities will be able to conserve a significant amount of energy.

Operating Water Infrastructure Off-Peak

The Commission is examining the potential for operating water utility water pumps at reduced production rates during peak energy demand periods and at increased production rates during off-peak hours in order to reduce peak power demand. By adding storage capacity, the water utility would have the ability to meet its water storage requirements during off-peak hours. The cost effectiveness of building additional water storage capacity to further reduce the energy consumption during peak hours will also be addressed.

Time-of-use Water Meters
The Commission is examining the cost and efficacy of using time-of-use water meters to document and charge higher rates for water consumption during peak hours of energy consumption.

Self-generation for Water Utilities
Water utilities are required by California law to have back-up generation equipment. Commission-regulated water utilities will be encouraged to purchase and operate self generation using renewable energy sources, including, but not limited to, ethanol as a fuel for micro-turbines. It is expected that this measure could significantly reduce demands on the electric grid, thereby making electricity available for other uses during peak demand hours.

Low Income Assistance Programs

Low-income customers often struggle with payments for basic monthly water service. Public Utilities Code allows the Commission to consider and implement rate assistance programs for low-income water utility ratepayers. The Commission is developing options to increase affordability of water service for these customers as well as provide specific emphasis on water conservation programs for low-income water customers.

Currently, pursuant to Commission orders, all but one of the large water utilities have instituted a low-income water rate assistance program. The Water Division continues to work with the Low-Income Oversight Board (LIOB), as well as interested parties, in the development of new and effective programs to assist low-income water ratepayers and more inclusive assistance programs that address not only residents of single family homes but also those living in multi-family housing, where water service is not individually metered. In October, 2007, Water Division staff issued a research paper, entitled "Assessment of Water Utility Low-Income Assistance Programs" summarizing and comparing current utility low-income assistance programs and exploring alternatives to improve the programs available to private water utility customers in California.

Working With Utilities to Ensure Quality Service

A core responsibility of the Water Division is to investigate water and sewer system service quality issues and analyze utility rate change requests. The Division works directly with water utilities to track and certify compliance with Commission requirements.

During 2007, the Water Division processed 258 Advice Letters, of which 85 involved a rate increase. Of the 85 advice filings that involved a rate increase, the Division processed 19 small water and sewer General Rate Cases. In addition to processing the Advice filings, the Division reviewed thirty water utilities' state-funded loan accounts and notified six companies to reduce their surcharge rates, due to customer growth and processed six transfer of ownership filings. The Water Division is currently processing 18 small water and sewer rate cases and 56 Advice Letters.

Small Water Assistance and Cost of Capital
The Water Division assisted five small water utilities in the completion of their Annual Reports to the Commission and assisted four small water utilities in the development of their General Rate Case filings.

The Water Division issues a memorandum each year in which it provides recommended rates of return and rates of margin for the smallest (Class C and D) water utilities. Rates of return for medium-sized (Class B) water utilities are determined on a case by case basis.

Long-Term Debt Financing Applications
Public Utilities Code requires Commission authorization before a utility can issue long-term debt. In 2007, the Water Division processed filings totaling approximately $6 billion in authorization. Three water utilities received debt authorization totaling $50.9 million, one telecommunications utility received authorization for $1.97 billion, and two energy companies received authorization for a total of $3.97 billion. Currently, pending debt authorization filings before the Commission include one water utility application for $8 million, one water utility filing for $100,000 and one telecommunications utility for $7.7 million.

Investigating Water System Service and Quality

In June 2007, the Commission opened an investigation into the service quality of Alco Water Company (a wholly owned subsidiary of Alisal Water Company), to determine if Alco should be allowed to provide water service in an area adjacent to its existing service territory in Salinas, CA. The company was already under investigation by a Committee consisting of members of the Salinas City Council and the County Board of Supervisors of Monterey County. This investigation consolidates an application submitted by California Water Service Company to serve the contiguous area claimed by Alco. The results of the decision, resulting from this investigation, could be precedent-setting for systems looking to extend service in state.

In addition, a 2007 Commission decision authorized the transfer of Arrowhead Manor Water Company to the County of San Bernardino. Arrowhead Manor had been put into receivership by the Commission due to malfeasance by the owner in using monies that should have been paid to the Department of Water Resources to service a State Safe Drinking Water Bond Act Loan for other utility obligations. After the devastating fires in southern California in 2003, Arrowhead Manor lost over half of its active customers. Through the good efforts of the Superior Court and the Commission-appointed receiver, the company was transferred to the County. The County will supervise the rebuilding of the system and the installation of a sewer system to replace the existing septic tanks for property owners in the area.

In 2007, Matt Dillon Water Corporation received a citation for improperly maintaining its water system and its customers each received a Boil Water Notice. In October of 2007, a filing was submitted, to the Commission, to transfer the ownership of Matt Dillon Water Corporation to the Tuolumne Utilities District. In 2008, the Water Division will process this filing.

Revisions to General Rate Case Practices and Procedures

On December 14, 2006, the Commission issued a rulemaking to consider revisions to the practices and procedures for processing Class A water companies' (utilities with over 10,000 service connections) General Rate Cases. The Water Rate Case Plan defined issues to be addressed by the Commission in 2007.

The major issues considered in this proceeding were as follows:

- **Single Rate Case for Multi-District Utilities:** The current practice of having multi-district water utilities file rate cases at different times during the three-year cycle under the existing Rate Case Plan has proved burdensome for the water utilities and the Commission. The Commission instead adopted a schedule to require multi-district companies to file a comprehensive GRC application for all districts at the same time.
- **Notice of Rate Increases for Utilities With Bimonthly Billing:** The existing Rate Case Plan schedule did not provide sufficient time for the applying utility using bimonthly billing to notify customers of a proposed rate increase in a GRC. In the rulemaking, the Commission modified the schedule to hold Public Participation Hearings later, allowing utilities sufficient time to notify customers using a bimonthly bill while still complying with the overall schedule.
- **Addition of Technical Conference:** The Commission added a requirement for a technical conference, hosted by the Commission, in order to ensure that the Commission and all parties have a full understanding of the ratemaking models utilized by the company and other parties and can adequately prepare tables when necessary.
- **Cost of Capital Proceeding:** The Commission established a separate cost of capital proceeding for all Water utilities. The first consolidated cost of capital proceeding for Water Utilities will occur in early 2008.
- **Water Quality Review:** In 2002, the California Supreme Court ruled that the Commission has constitutional and statutory responsibilities to ensure that regulated water utilities provide water that protects the public health and safety. The Commission authorized the assigned Commissioner and Administrative Law Judge to appoint, at the utility's expense, an independent expert witness to offer evidence in the GRC concerning the water utility's water quality compliance. Additionally, the Commission requires that the proposed decision in a general rate case, whether resulting from an evidentiary hearing, settlement, or both, will make specific findings

and recommendations concerning the utility's water quality compliance.

In 2008, the Commission plans to develop ways to streamline the process for review of cost of service and rate of return for all classes of water utilities.

AUDITS

The Water Division also contains auditors who work on behalf of the entire Commission staff to conduct financial audits of all types of utilities.

Pursuant to public utilities code direction and Commission decisions, staff performed 11 audits on approximately $391 million of funds in 2007.

In 2008, staff plans to conduct audits of the four large energy companies' 2007 Energy Efficiency Programs, two audits of water companies in conjunction with GRCs, audits of four telecommunication utilities' public program remittances and claims and a few audits of energy procurement quarterly compliance reports (QCR).

Utility/Program/Fund/Contract Audited	Funds Subject to Audit (In Millions)
PG&E's 2006 Energy Efficiency Program	$142.2
SCE's 2006 Energy Efficiency Program	121.0
SDG&E's 2006 Energy Efficiency Program	33.9
SCG's 2006 Energy Efficiency Program	19.4
Bear Valley's 2005-2006 Low Income Energy Efficiency Program	.3
Telescape's 2006 Public Program Funds	1.0
Edge's 2005 Public Program Funds	.8
Solix Contract #05PS5522, As Amended1	30.5
Kenwood's SDWBA Loan Surcharges and Payments	.4
Fruitridge Vista's SRF Surcharges, Service Charges and Fees	1.5
Alco's 2004 and 2005 Annual Reports and Financial Compliance	39.9
Total Funds Audited in 2007	**$390.9**

CONSUMER PROTECTION

The Commission's role in protecting California's utility customers takes many forms. In addition to the activities described above, the Commission administers substantial programs devoted to Utility Enforcement and Utility Safety.

Utility Enforcement

The Commission protects utility customers consumers in California by ensuring service providers' compliance with consumer protection laws and regulations. These functions are carried out by the Utility Enforcement Branch (UEB) of the Commission's Consumer Protection and Safety Division. UEB's primary mission is to develop and sustain an enforcement program that promotes compliance, deters fraud, and prosecutes unlawful behavior. Staff investigates and prosecutes fraud and abuse both through Commission proceedings and through collaboration with outside law enforcement agencies. Staff works closely with federal and state agencies, community organizations and trade associations. Staff also monitors the toll-free Telecommunications Fraud Hotline that was established as part of the Consumer Protection Initiative to allow consumers to report suspected telecommunications fraud directly to Commission enforcement analysts. In 2007, the Commission successfully pursued telecommunications carriers and energy companies for a number of violations of the Public Utilities Code, Commission orders, and utility tariffs.

PG&E Back Billing Case

In September 2007, the Commission ordered PG&E to refund $35 million to its customers for violating its tariffs by back billing customers for time periods exceeding those permitted by its tariffs. PG&E is currently in the process of providing the ordered refunds to its customers. The refund process will continue into early 2008.

Cingular Early Termination Case

In March 2007, the Commission adopted a mechanism by which Cingular (now AT&T Wireless) will issue reparations to over 100,000 customers amounting to at least $18.5 million. This followed the Court of Appeal, Fourth Appellate District's dismissal in June 2006 of Cingular's petition for a writ of review of the Commission's 2004 decision. The Commission ruled that from January 1, 2000 through April 30, 2002, Cingular Wireless improperly imposed Early Termination Fees ("ETF") without a grace period for early service cancellation on many customers who signed up for their wireless service. The Commission ordered Cingular to refund all ETFs paid to Cingular or a Cingular retailer (such as those operating in mall kiosks).

Pre-Paid Calling Card Cases

As a result of its work with the California Attorney General (AG), the Superior Court of California issued a ground-breaking judgment that requires California prepaid calling card companies Devine Communications, Inc. and Megalink Telecom, Inc. (Devine) to clearly disclose all fees, surcharges, and other costs (including "maintenance fees") associated with the use of their prepaid calling cards, and prohibits misleading advertising. The judgment also imposed civil penalties of $118,000 on Devine. Devine sold cards in California under numerous brands, including "Suertang Dagat Lucky Sea," "Buong Mondo," "Tipid Na Tipid," "Pinoy Ilocano," "Coast to Coast," "Pacman," "People Power," and "Viva Latina."

Slamming Cases

During FY 2007, the Commission issued 15 slamming citations under its newly adopted slamming citation program. The slamming citation program adopted by the Commission allows staff to penalize telecommunications providers up to $1,000 fine for each violation of its third-party verification requirements.

SCE Performance Based Ratemaking Case

The Commission is investigating SCE for its administration of certain Performance Based Ratemaking programs. In October 2007, the assigned Administrative Law Judge (ALJ) issued a Presiding Officer's Decision finding that SCE employees and management manipulated and submitted false customer satisfaction data for seven years of Performance Based Ratemaking claimed by the company. This case is on-going.

Priorities for 2008

In 2008, the Commission will be pursuing a number of initiatives designed to streamline its enforcement activities and increase its collaborative enforcement efforts with other law enforcement agencies:

- Utility Enforcement staff will expand its work on identifying companies who are operating in California without Commission-granted authority and bring them into compliance;

- Staff will pursue other joint prosecutions with the Attorney General's Office, building on its success with the Devine prepaid phone card case;
- Staff will actively pursue opportunities to work closely with federal and state agencies, community organizations and trade associations in identifying and pursuing telecommunications and energy consumer issues; and
- In support of case management automation, Staff will bring its work module on-line in early 2008. This system will help to streamline case management and increase the effectiveness of enforcement activities.

Utility Safety and Reliability

The Commission is responsible for ensuring the safety and reliability of gas, electric, and communication systems. These responsibilities are carried out by the Utility Safety and Reliability Branch (USRB) of the Commission's Consumer Protection and Safety Division.

The USRB mission is to ensure that these systems are designed and maintained at acceptable levels of operational safety and reliability for the protection of the general public and utility employees. Staff conducts compliance and construction inspections, accident investigations, reviews of utility reports and records, special studies, and responds to complaints and inquiries from the general public on issues regarding gas pipeline, electrical, and communication system safety.

Electric Substation Inspection Program

Electric Substations are critical to electric system and infrastructure reliability. During the past ten years, there has been an increase in substation-related accidents and outages. For example, in 2003, a fire at a PG&E Substation caused an electric outage to more than 100,000 customers in San Francisco. This event led the Commission to develop a Substation Inspection Program (SIP) to ensure the reliability of electric service and safety of the general public and utility employees. During 2007, staff met with the electric utilities to observe and learn how the utilities inspect and maintain their substations. In 2008, staff proposes to establish a new General Order addressing substation inspection and maintenance. The staff plans to implement the SIP by 2009.

Southern California Fire Storm Investigation

Commission staff is investigating seven fires that occurred in October 2007 in Southern California to determine if the utilities were in compliance with general orders on maintenance and operation of their systems. Four of the fires occurred in SCE's service territory and three occurred in SDG&E's service territory. Staff is collecting evidence and interviewing witnesses. Staff met with several government agencies, US Dept of Forestry and Cal Fire, who are also independently investigating. Staff has visited all the fire sites to examine evidence. I n 2008, staff will continue to pursue this investigation and plans to complete its report by July 2008.

Heat Storms

Much of California experienced a heat storm for two weeks during July 2006. During this period, the demand for electricity increased, resulting in outages in the service areas of electric utilities. The staff initiated a review to examine the distribution transformers that failed during the heat storm and prepared a report on its findings with analyses and recommendations. After analyzing data from the recent heat storm that occurred in September 2007, staff proposes to combine the results of both heat storms and issue its final report in 2008.

Wireless Antenna Rule

Due to an increase in the number of wireless antennas on utility poles, the Commission opened a rulemaking that proposed revisions to one of its General Orders to establish uniform construction standards for attaching wireless antennas to jointly used utility poles and towers. Over the course of the proceeding, USRB staff participated in evidentiary hearings and workshops on matters pertaining to the proposed rule. A final settlement was achieved and adopted in February 2007. The settlement ordered that new rules be added to the General Order to address the issue of antennas on joint utility poles. In 2008, staff will participate in additional Commission proceedings on this matter that specifically address the installation of antennas on-top of utility poles.

Propane Inspection Program

The Commission oversees the safety of approximately 700 propane systems throughout the state. In 2007, staff introduced new rules to improve compliance and enforcement of the Commission's Propane Safety Program. The new rules will include procedures for issuing citations to non-compliant propane operators. Staff plans to implement the citation procedures in 2008.

Mobilehome Park and Propane Gas Safety Programs
Commission staff reviewed the Mobilehome Park and Propane Gas Safety Programs from 1997 to 2007. Staff noted great strides in the success of these programs. The rate of critical compliance deficiencies has steadily decreased from 1.66 infractions cited per inspection in 1997 to 0.87 in 2007. The staff attributes the success of these programs to its proactive approach in educating mobile home park and propane operators on gas safety and ongoing regulatory requirements. Staff will continue these efforts in 2008.

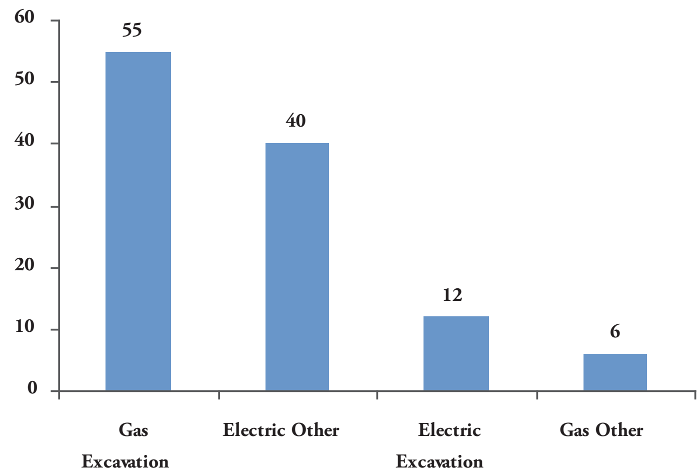
During FY 2006-07, staff conducted 23 gas and electric safety audits of the major investor-owned utilities. Staff also inspected 556 Mobilehome Park and 222 propane gas systems, thereby exceeding their respective goals of 518 and 140 inspections for each Program. Staff investigated 135 electric and 95 gas reported incidents.

Master-metered Mobilehome Park Conversions
Pursuant to existing law, owners of Mobilehome Parks with master-metered gas or electric systems may transfer the ownership and operational responsibility of the systems to the gas or electric corporations providing service in the area. In 2007, staff met with the utilities in an effort to streamline the process of transferring gas and electric facilities to utility ownership. A case involving this issue is now before the Commission. Staff has taken an active advisory role in the case, which may set a precedent for future mobile home park conversions.

Integrity Management Programs
In 2005, the Commission began a comprehensive review of utility gas transmission pipeline Integrity Management programs. Staff completed the review of the Integrity Management Programs in early 2007. Staff plans to issue its report in 2008. In addition, the Federal Department of Transportation is planning on extending the Programs to include distribution pipelines and the USRB staff will be involved with its safety enforcement.

Reduce Underground Facility Damage
The majority of underground gas and electric incidents reported to the Commission involve excavations, or "dig-in" incidents. Dig-in incidents cause substantial damage to utility facilities each year and are extremely dangerous. Staff is currently analyzing excavation data to determine methods to improve utility reporting and the capability of its Excavation Database to identify and monitor the most frequent violators. In 2008, staff will work with utilities to implement the 811 "Call before You Dig" initiative to further reduce the damage and danger caused by dig-in incidents.

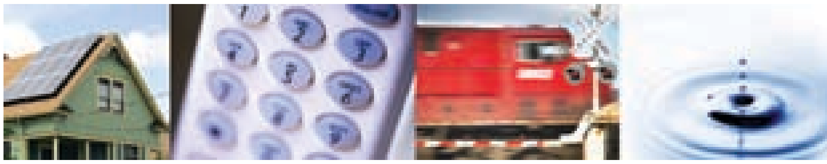
Dig-In Incidents Involving Underground Gas and Electric Facilities, 2007



Increase Public Awareness of Utility Hazards
The Commission will increase its efforts to inform the general public of the hazards associated with gas and electric facilities. Staff plans to participate in training seminars, presented in English and Spanish, to educate contractors and workers of the hazards associated with working near gas and electric facilities. Staff will also distribute pamphlets and air public radio announcements to educate the general public regarding common utility hazards.

Enforcement of Communication Utility Code Requirements
Staff met with the communication utilities in 2007 to evaluate their maintenance programs. The goal was to establish procedures to streamline its inspection program of communication facilities to ensure compliance with Commission General Orders 95 and 128. Staff completed its preliminary evaluation and is in the process of developing audit procedures for communication utilities that it plans to implement in 2008.

Electric Generation Performance Program
The Commission is responsible for ensuring that generation companies maintain and operate their power plants reliably and responsibly. During the 2000/2001 energy



crisis, power plants broke down at high rates, forcing the CAISO to order several rotating electric blackouts. Subsequent legislation required the CAISO and the Commission jointly to adopt Maintenance and Operation standards for all of the state's power plants, exempting Nuclear, Municipal, and Qualifying Facilities.

For plants 50 megawatts and above, the Commission enforces and implements detailed standards through inspections, extensive audits, and informal investigations. Among other things, the standards require prioritization of work, comprehensive training of plant staff, and making plants ready when needed. Plants are required to report mothballing, retirement, or other changes in the plant's status; such changes require Commission approval under some circumstances.

To target audits and to detect any trends in reliability, the Commission collects and analyzes data on power plants, and requires power plants to report reliability data to a national power plant performance database.

In 2007, the Commission:

- Completed four comprehensive power plant audits, settled most issues in two ongoing audits, and began three new audits;
- Inspected 269 power plant outages;
- Conducted four informal investigations;
- Closely monitored plant performance on peak days; and
- Proposed and received comments on changes to guidelines on power plant security and on a revised program for issuing enforcement citations.

Audits

As mentioned above, in 2007, the Commission completed the audits of four power plants, and published the resulting Final Reports on the Commission's web site. For each audit, a staff team researched the operating history of the plant, visited the plant for a week, and prepared an extensive Preliminary Report focusing on potential violations of power plant standards. The plant then submitted a corrective action plan. In all audits so far, the plant and the Commission staff have settled all potential violations without formal enforcement action. Staff documented the resolution of each issue in its Final Report, which the Commission approved by resolution. Below are some important issues from the audits completed in 2007.

- **Potrero:** The plant agreed to strengthen the plant's security system in several ways to prevent intruders from entering the plant area (one past intruder managed to shut the plant down). The plant changed the way it manages contractors, to improve safety at the plant. Ongoing improvements to the plant's fuel system reduced the rate of combustion turbine outages. The plant corrected various fire and electrical hazards around the plant.
- **Moss Landing:** The plant agreed to institute a comprehensive program to detect and correct corrosion in high-pressure steam piping, a crucial step in prevention of potentially fatal explosions. The plant repaired corroded pipe supports and aligned the repaired supports properly. The plant improved evacuation procedures and agreed to hold more regular safety drills. The plant improved the library in which it stores technical drawings of plant equipment. The plant corrected a number of trip-and-fall hazards. The plant installed automatic equipment to detect shorts in electric motors. The plant made improvements to security equipment.
- **El Segundo:** Among other things, the plant replaced missing bolts on a heat exchanger, adopted safe storage methods for chemicals in various parts of the plant, and updated plant procedures.
- **Oakland:** The plant agreed to hold regular emergency drills, to improve plant drawings to reflect existing equipment, and to improve and expand various plant procedures to preserve knowledge as current staff near retirement.

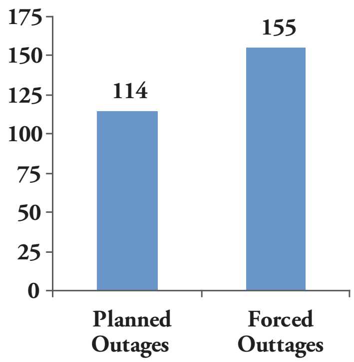
Commission staff, also settled issues in the audits of Alamitos and Etiwanda, and began new audits at Pittsburg, Delta, and La Paloma. In 2008, the staff plans to issue Final Reports for Etiwanda and Alamitos, issue Preliminary Reports for Pittsburg, Delta, and La Paloma, and to start three new audits.

Inspections of Power Plant Outages

In 2007, the Commission conducted a total of 269 inspections of power plants. Staff inspects "forced outages," caused by mechanical or other breakdown, as well as "planned" outages which plants schedule periodically for maintenance work. Through those inspections, staff verified that outages were legitimate, observed the progress

of repair or maintenance work, and maintained contact with plant staff. In general, Commission staff inspected outages in which plants lose 50 megawatts of capacity or more. In 2008, CPSD staff plans to continue its inspection program.

CPUC Power Plant Inspections, 2007



Special Investigations

Staff informally investigated outages or groups of outages when evidence suggested a significant violation of Operation and Maintenance standards. During 2007, these investigations:

- Determined that certain plant outages in the summer of 2006 were not attempts to manipulate markets;
- Preliminarily determined that peaking units in San Diego were well-maintained and had taken steps to prevent recurrence of the kind of breakdowns that occurred during the summer of 2006;
- Determined that a large steam unit in Northern California took longer than expected to start up during the peak 2007 season. The plant agreed to hold special training and review sessions for the plant's operators, and to make other changes at the plant; and
- Assisted a power plant in obtaining repairs to data lines which failed continually

Emergency Reporting

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

Proposed Changes to Power Plant Regulation

Building upon the experience and information gained since the program began, staff proposed certain changes to the power plant regulation program. Commission staff proposed and took comments on the regulations governing the program's citation process. Under the program's regulations, staff may cite and impose a fine on a generator for ministerial violations such as failure to answer data requests. The new proposed regulations will 1) require staff to follow prescribed steps in issuing a citation and 2) establish an appeals process and hearing for generators.

Due to increased concern about the security of power plants, the staff proposed more detailed guidelines for plant security. Among other things, the Commission will require each plant to establish and continuously monitor a perimeter, and to post safety signage on that perimeter in languages used in the surrounding community.

The revised regulations will be presented to the Commission for consideration in 2008. If the revisions are adopted, staff will implement the revised regulations through audits and inspections.

OUTREACH AND EDUCATION

In concert with a number of the industry specific programs described in respective sections of this report, the Commission maintains a number of outreach and education efforts, largely coordinated through the agency's Public Advisor's Office and Consumer Affairs Branch.

Public Advisor's Office

The Public Advisor's Office provides procedural information and advice to individuals and groups who want to intervene as formal parties in Commission proceedings and keeps the Commission informed of barriers that prevent effective public participation. The Public Advisor also assists those who seek compensation through the Commission's Intervenor Compensation Program, which provides monetary compensation to parties that intervene in and contribute substantially to Commission decisions.

2007 Accomplishments

During 2007, the Public Advisor's office greatly expanded its ability to make its services available by adding outreach officers in the Inland Empire and San Joaquin Valley. When combined with outreach work done by the Los Angeles and San Diego outreach officers as well as staff in San Francisco, the Public Advisor's office has been able to personally inform and assist consumers, local elected officials, and small businesses in numerous locations in the state while continuing its series of statewide Small Business Expos, significantly increasing the output of the Bilingual program, and leading a number of telecommunications-related education and outreach programs required under the Consumer Protection Initiative, as discussed above.

Traditional Public Advisor activities, such as assisting consumers and parties in participating in Commission processes and proceedings, and advising the Commission if a barrier to participation exist, continue. Likewise, the Public Advisor continues to coordinate events and activities in cooperation with major public non-profit organizations such as Latino Issues Forum, the Victory Resource Center, Casa Familiar, LUPE, Self Help for the Elderly, and the Unity Council. These events include: in-language workshops on the CPI; training volunteers to offer utility-related assistance to consumers; and community bill information fairs.

In the general rate proceedings and other proceedings for energy, water, and telecommunications, the Public Advisor's Office worked with various consumer-based organizations in contacting all classes of customers about the scheduled public participation hearings. Customers are also informed of hearings through customer bill insert notifications, which are reviewed by the Public Advisor's Office, notices in the Commission's Daily Calendar, and various other commission advisories. Hearings were held throughout California at locations in the affected areas.

In 2008, the Public Advisor's Office will continue to expand its outreach efforts with community-based organizations and local Legislative Offices to increase the knowledge to their constituents on the critical need for consumer participation at Commission hearings. The Public Advisor's Office will also continue to facilitate public forums where Legislators, Commissioners, consumer and business organizations, and members of the public can discuss policy issues critical to the state's infrastructure and economy.

Outreach to Target Communities and Organizations

The Commission's Outreach team has expanded from one to four positions. Together they have increased our ability to provide face-to-face assistance with community-based, service, and business organizations to explain Commission programs and services. They visited local and state elected officials' offices and public libraries to provide resource materials for further distribution throughout the state, gave presentations, and participated in community events.

- **Non-English and Limited English Speakers:** In 2006, the Public Advisor's Office expanded its outreach to limited English proficient persons and communities. In addition to Spanish and Chinese, the Commission's consumer information materials are being translated into Korean, Vietnamese, Hmong, Arabic, Armenian, Kmer, Russian, Tagalog, Thai and Farsi. In addition, the Bilingual Services Coordinator continues to ensure that key public documents and meetings are accessible in Spanish, Chinese and other languages, and the number of translated documents available on the Commission website and CalPhoneInfo has grown. In addition,

the Public Advisor's Office facilitated many public participation hearings with language interpretative services including close captioning and signing, and language specific material for consumer assistance.

- **The Small Business Community:** The Commission increased its focus on outreach to the small business community by identifying effective means to provide information and get input on key issues affecting this customer segment. In 2007, the Public Advisor's Office teamed with Commissioner Bohn and hosted five successful statewide Small Business Expos that were held in the city of Industry, San Jose, Ontario, San Francisco and Long Beach. Many of our workshops and seminars were standing room only. The Public Advisor's Office is creating a specific education and outreach program focused on small businesses, which will be managed by its new Small Business Liaison. In December 2007, the Commission began beta testing its new small business website which provides small businesses with news they can use related to Commission proceedings, small business expos, links to other valuable sites and a complaint assistance feature focused on small business needs.
- **Local Government:** The Commission's Local Government electronic newsletter will continue in 2008. The newsletter provides an easy-to-read summary of proceedings affecting local jurisdictions to assist them in staying informed on the broad scope of the Commission's ongoing work. The newsletter is also widely circulated to members of the state Legislature, community organizations, chambers of commerce, and posted to the Commission's website.

Consumers Affairs Branch

The Commission, through its Consumer Affairs Branch (CAB), assists consumers with their questions and complaints regarding utility billing and service.

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

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

CPUC Consumer Affairs Branch
505 Van Ness Avenue
San Francisco, CA 94102
800-649-7570
www.cpuc.ca.gov

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

CPUC Public Advisor

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

public.advisor@cpuc.ca.gov

CPUC Public Advisor

320 W. 4th Street,
Suite 500
Los Angeles, CA 90013
1-866-849-8391

public.advisor.la@cpuc.ca.gov

THE GUIDE TO PUBLIC PARTICIPATION explains how consumers may participate in the CPUC's formal proceedings and is available from the CPUC Public Advisor's Office, or on-line at www.cpuc.ca.gov.

In addition, CAB has the responsibility to process Universal Lifeline Telephone Service (LifeLine) appeals for consumers. Over the last year, the Commission made significant improvements to CAB in both infrastructure and processing methodologies in order to reach more consumers and gain efficiencies in responding to the public.

Providing Timely Assistance to Consumers

Consumer assistance is rendered in the form of answering inquiries and resolving informal complaints about utility bills and services. Currently, informal complaints must be submitted in writing. Complaints on urgent matters, potential disconnections in particular, may be made by phone, and are treated as the highest priority.

After several years of declining staff levels, CAB has increased to 48 Consumer Service Representatives, ten Consumer Service Supervisors, and three Consumer Service Managers. Also, an additional seven limited-term positions were hired to process LifeLine appeals and complaints in the new Sacramento office of CAB. CAB is in the process of hiring more staff to manage the LifeLine appeals. In addition to the increased staff levels, a number of allied initiatives aimed at improving CAB operational efficiency have been implemented as follows:

- A business processes reengineering effort culminating in creation of clear written processes and methods, and reference material in the form of the "CAB Procedures Manual" with expected completion in 2008;
- Creation of the Customer Service Academy, a training program for all CAB personnel on how to interact with consumers to efficiently resolve complaints;
- Creation and staffing of the CAB office in Sacramento dedicated to resolution of LifeLine certification and billing issues;
- An upgraded telephone system that will allow a greater integration of activity in CAB offices in San Francisco, Los Angeles and Sacramento, and allow for institution of a planned quality assurance/training unit; and
- A consistent effort with major communications and energy utilities to increase electronic communications thus reducing processing time and eliminating duplicative work for CAB in processing informal complaints.
- A new customer relations database, the Consumer Information Management System (CIMS), that will move CAB toward a paperless environment. The expected go-live date is in the third quarter of 2008;

These initiatives are long term investments, made possible by the Legislature. In the short term the Commission has carefully measured the improvement in CAB customer service in a number of ways, including instituting customer service metrics based on industry standards including "live speed of answer" and "call handle time." By the end of 2007, CAB began to experience an increase in case closures (both current and backlog) as a

Consumer Complaints To PUC

Fiscal Year	2004-05	2005-06	2006-07	2007-08*
Telephone Complaint Cases	17,868	15,536	29,357	15,274
Written Complaint Cases Filed	27,752	24,806	23,945	14,227
Written Complaints Resolved	18,085	33,872	29,565	18,301
Cases outstanding (at end of FY)	25,733	16,604	10,976	10,039
Backlog (over 90 days from date written complaint filed)	21,441	14,515	2,648	5,350
Average Time Written Complaints Open (Days)	**299**	**376**	**85**	**122**

**FY 2007-08 statistics reported for partial year ending December 31, 2007.*

result of paper flow improvement processes which were established with regulated utilities.

Issues Analysis Program

Established in late-2006, the Issues Analysis Program coordinates a variety of analytical efforts based on inputs from CAB, the Public Advisor's Office, the Commission's Industry Divisions, regulated utilities, other public agencies and community organizations. This is a new effort for the Commission – the ability to take direct consumer input in the form of public contacts for information and informal complaints against utilities and initiate and frame analysis to determine the magnitude and importance of issues. These analyses can be the basis for inputs into potential Commission education programs, enforcement actions or policy recommendations.

Improving the operation efficiency of CAB was the program's major focus in 2007, and will dominate the program's agenda for 2008. The program will continue efforts working with other state utility commissions and the FCC to determine "best practices" for capturing and utilizing consumer information to evaluate and, if needed, modify or create new policy.

Utility Supplier Diversity Program

The Utility Supplier Diversity Program recognizes that diversity benefits utilities, suppliers, ratepayers, the economy, and society in general. Commission-regulated gas, electric, and telephone utilities with gross annual revenues exceeding $25 million must annually report by March 1st on its WMDVBE (Women, Minority, Disabled Veterans Business Enterprise) program, summarize its purchases for the prior calendar year, and describe its goals and plans for the following year.

In September 2007, the Commission held its fifth annual full panel hearing on diversity-related matters in the utility industry. The hearing focused on diversity in the utilities' workforce, improving diversity with respect to the utilities' procurement from the service-disabled veteran's community and future workforce education issues. As a result of this hearing, the Commission will be able to better evaluate the status of the utilities' efforts and identify areas for further review. In 2008, the Commission will closely examine the utilities' procurement practices in traditionally less-diverse procurement categories such as legal services and financial services.

In 2008, our program will continue working with the California Utilities Diversity Council and the National Utilities Diversity Council (allied to the National Association of Regulatory Utility Commissioners) to promote increasing the utilities' procurement opportunities with women-, minority-, and disabled veteran-owned businesses in the areas of procurement, philanthropy, corporate governance, language access, and customer service and marketing. Members of the Council include recognized leaders from the business community, consumer groups, multi-language interests, education, labor organizations, and the utilities.

DIVISION OF RATEPAYER ADVOCATES

The Division of Ratepayer Advocates (DRA) is an independent division of the Commission that advocates solely on behalf of utility ratepayers. Its statutory mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, DRA also advocates for customer and environmental protections.

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

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

DRA has traditionally been divided into four branches: The Communications Policy Branch; the Water Branch, and two energy branches. As of December 2007, as a result of the extremely heavy and increasingly complex workload in the energy area, DRA has created a third energy branch. Beginning in January 2008, the energy branches are Energy Cost of Service & Natural Gas, Electricity Planning & Policy, and Electricity Pricing & Customer Programs.

DRA Budget:

Fiscal Year	Total Direct Dollars Including Reimbursable Contracts	Total Direct Dollars Plus Legal and Administrative Support
2007/2008	$18,608,000	$25,242,000
2008/2009	$19,893,000	$26,778,000

Proceedings in which DRA participated in 2007 by industry area:

	Communication	Electric	Gas	Water
No. of Proceedings	15	79	14	52

Number of pleadings filed by DRA by industry group in 2007.

	Communication	Electric	Gas	Water
No. of Pleadings	75	311	41	293

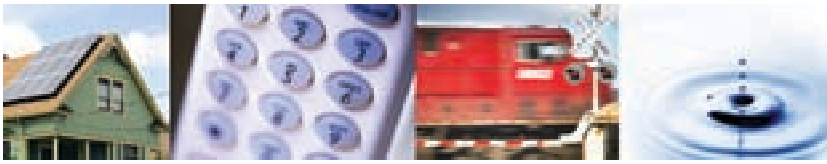
Commission-related lobbying activity by DRA throughout 2007.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
No. of Lobbying Contacts	40	62	69	91

Communications

Advocating on Behalf of California's Most Vulnerable Communications Users

DRA serves on the committees or advisory boards a number of important programs to protect underserved or vulnerable communications users, including: the Telecommunications Access for the Deaf and Disabled Administrative Committee, the California Teleconnect Fund, the California High Coast Fund B, and California Payphones. These programs provide, for example, discounted telephone service to low income customers or specialized equipment for people with disabilities. Funding for these programs comes from surcharges on customers' phone bills. In addition, DRA participates in Commission proceedings to review these programs in



order to maintain necessary services and reduce ratepayer costs.

In 2007, DRA's analyses and advocacy efforts contributed to the Commission's decision to reduce the CHCF-B by over seventy percent, while preserving it in critical areas. Ratepayers are expected to save approximately $300 million annually through a reduction in customer phone bill surcharges. DRA will continue to participate actively in this proceeding, seeking to further reduce unnecessary surcharges to ratepayers and to ensure that ratepayers actually receive the benefits of any ongoing ratepayer-funded subsidies.

Protecting Ratepayers from Marketing Abuses
DRA continues to challenge utility's attempts to eliminate programs meant to prevent marketing abuses. DRA is seeking to ensure customers are adequately informed of their choices and not sold expensive packages of services that they do not want.

The Commission is currently reviewing and determining which consumer protection rules should apply to service providers that market in languages other than English. The rules proposed by DRA include disclosure requirements for terms of service, descriptions of fraud risks, and methods for reporting complaints and customer language preferences. DRA continues to advocate for greater protections for customers not fluent in English.

Protecting Service Quality and Reliability
As a result of an earlier DRA investigation, the Commission required AT&T to meet certain standards in restoring service to customers on a timely basis. AT&T failed to meet those repair interval standards for a number of months in 2006. DRA argued that the Commission should impose penalties against AT&T for its failure to restore customers' service promptly. The Commission issued a $900,000 fine against AT&T.

Assembly Bill 2393 required the Commission to prepare for large-scale emergencies, specifically by evaluating the status and adequacy of telecommunications companies' back-up power facilities and the system and plans for emergency notification of citizens in California. DRA is participating in the Commission proceedings to review these plans and to ensure that appropriate standards are adopted to protect crucial communications infrastructure during catastrophic events, such as earthquakes or wildfires.

Energy

Striving to Reduce Electricity and Gas Rates
DRA's central mission is to ensure the lowest possible rates for service consistent with reliable and safe service levels. In 2007, DRA worked on a multitude of fronts to ensure low costs for electric and gas ratepayers:

- **2007 Procurement Plan Decision:** DRA actively participates in each of the Procurement Review Groups (PRGs) that oversee the power procurement activities of the three large investor owned energy utilities. On December 20, 2007, the Commission approved a comprehensive set of electricity procurement policies and adopted the long-term procurement plans of Edison, PG&E and SDG&E. The Commission adopted all of DRA's major recommendations in this proceeding. DRA anticipates the Commission's decision will result in savings of hundreds of millions of dollars for California ratepayers over the next ten years.
- **Rate Design:** DRA continues to support rate design protections, including the rate caps imposed by Assembly Bill 1X of 2001 for residential usage, and limited rate increases for low income customers under the California Alternative Rates for Energy program.
- **Emerging Capacity Markets:** In the context of the Commission's consideration of two main proposals for developing capacity markets in California – (1) a Centralized Capacity Market operated by the CAISO; or (2) Bilateral Trading which would involve individual contracts by and between utilities and other load servicing entities to sell and buy capacity – DRA is advocating for the Bilateral Trading group proposal which if adopted by the Commission, DRA estimates significant annual ratepayer savings over the next several years.
- **SoCalGas and SDG&E Rate Case:** In response to an application filed by SoCalGas with the Commission in 2006 requesting a $139 million general rate case increase, DRA has recommended a rate decrease of $68 million. In response to SDG&E's 2006 application for an electric rate increase of $198 million and a gas rate increase of $34 million, DRA has recommended an electric rate increase of only $90 million and a gas rate decrease of $4 million. During

2007, the Commission held evidentiary hearings in these matters. A decision is expected in 2008.

- **PG&E Rate Case Settlement:** In December 2005, PG&E filed its 2007 general rate case requesting rate increases of $394 million in 2007, $143 million in 2008, and $180 million in 2009, for its electric and gas distribution and electric generation operations. In 2007, the Commission adopted a settlement agreement between DRA, PG&E, and other parties limiting PG&E's rate increases to $213 million in 2007 (a 46% reduction to PG&E's request), and $125 million annually in 2008-2010, which will save PG&E ratepayers approximately $600 million over four years.
- **PG&E Disaster Cost Recovery Request:** In November 2006, PG&E requested recovery of $23 million in costs for 2005-2006 New Years Storms and $39 million for the July 2006 heat storm. PG&E and DRA reached a settlement of the New Years Storm issues which allows recovery of $10 million less than PG&E requested. The agreement is pending approval before the Commission. DRA recommended no recovery for the heat storm costs since there was no declaration of a disaster by a competent state or federal authority. The Commission in a 2007 decision agreed with DRA and denied PG&E recovery of $39 million in heat storm costs.
- **PG&E Divestiture Cost Recovery Request:** On May 3, 2007, the Commission adopted a settlement agreement between DRA and PG&E which reduced the utility's request for recovery of $2.5 million in transaction costs associated with the divestiture of generation assets by 50% to $1.25 million.
- **PacifiCorp Procurement Cost Increase Request:** Based on DRA's review, PacifiCorp reduced its requested increase for electric procurement costs by approximately $500,000. The Commission adopted the stipulation in December 2007.
- **SDG&E Proposed Gas Portfolio:** SoCalGas and SDG&E proposed a gas portfolio consolidation with no commensurate increase to the storage inventory for core residential and commercial customers. DRA argued that any such consolidation requires an equivalent increase in storage inventory held by the separate portfolios to assure supply reliability. The Commission agreed with DRA's recommendation, ensuring low cost gas for customers during the winter heating season. In July 2007, the Commission approved a revised winter hedge plan for SDG&E to guard against potentially high winter gas prices. This plan was based on a settlement agreement which incorporated specific DRA recommendations to lower SDG&E's proposed hedging budget to assure the lowest ratepayer costs for this program.
- **Gas Hedging Programs:** Pursuant to a DRA proposal, PG&E agreed to amortize a $50 million over-collection during the 2006-2007 winter season in order to mitigate the impact of high winter gas prices on customers. In June 2007, the Commission approved an agreement between DRA, PG&E, and other consumer advocates to implement a long-term gas hedging program to insure PG&E ratepayers against high winter gas price spikes. Pursuant to a prior DRA proposal, PG&E revised its gas procurement incentive mechanism, which rewards its shareholders if PG&E's gas procurement costs are less than PG&E's established benchmark costs resulting in a $2.7 million refund to customers.
- **Gas Transmission and Storage Rate Settlement:** DRA joined PG&E and 30 other interested parties to reach a settlement agreement pertaining to PG&E's gas transmission and storage rates for the next three years. Under the agreement, the backbone transmission and storage component of customers' rates will remain essentially unchanged through 2010, while local transmission rates will increase modestly. The Commission adopted the Settlement on September 20, 2007.

Supporting Cost-Effective Means to Reduce Greenhouse Gases

California's electric and natural gas ratepayers face potentially huge rate increases from reducing GHG emission from electricity. DRA supports the goal of increasing the use of renewable energy, but through efforts that produce the maximum renewable energy at the minimum system wide cost. DRA continues to participate in proceedings to implement GHG reductions both at the Commission and before the California Energy Commission and Air Resources Board. DRA's objective is to minimize costs to ratepayers while ensuring that California's GHG reduction strategies are implemented in a manner compatible with expected regional and federal GHG reduction strategies.

Ensuring Utility Energy Efficiency Investments to Benefit Ratepayers

The Commission is examining a number of energy efficiency policy efforts that will result in significant financial impact on ratepayers. DRA's advocacy efforts have contributed to reductions in authorized incentive payments to utility shareholders and may result in savings to ratepayers of hundreds of millions of dollars. In addition, DRA continues to support measures to ensure low income energy efficiency is cost effective and prudently administered.

DRA has been instrumental in developing a long-term strategic plan that will guide energy efficiency efforts among the utilities, relevant market sectors, and state and local government agencies. DRA was successful in getting the Commission to recognize that ratepayer investment in energy efficiency must be balanced with long-term energy savings programs.

Ratepayer Protection in the Demand Response Design

DRA continues to ensure demand response programs are good investments for ratepayers. In the Commission's review of protocols for measuring load reduction from demand response programs and associated cost-effectiveness, DRA is working to prevent overpayment of demand response incentives and require program performance and reliability measures to ensure ratepayers receive value in connection with these ratepayer-funded programs.

Ensuring Low Transaction Costs for Ratepayers

PG&E proposed to permanently close all 84 of its front counters at local offices where customers may pay their bills and perform other essential transactions without any analysis of how many customers use those offices. DRA opposed the PG&E proposal and negotiated a settlement with PG&E which, which among other things, authorizes PG&E to close only nine front counters in its service territory that have low transactional volumes and have a close proximity to other offices.

Investigating Performance Based Ratemaking Fraud

In June 2006, the Commission initiated an investigation into the practices of Edison concerning possible violations relating to its performance based ratemaking program. This program provided for Edison shareholders to receive a reward for meeting or exceeding pre-determined performance targets. DRA recommended customer refunds totaling $171 million because performance rewards and employee bonuses were based on data that was manipulated and falsified by Edison. The Presiding Officer's Decision agrees with many of DRA's findings and proposes fines and refunds totaling approximately $200 million. The matter is currently pending appeal before the full Commission.

Maintaining Funds for Public Purpose Programs

On September 6, 2007, the Commission issued a decision concluding that gas public purposes program surcharges, which include programs for low income ratepayers, energy efficiency, research and development, and demand response, cannot be discounted for specific customers. The decision adopts DRA's recommendations and ensures that public purpose programs will be adequately funded and all ratepayers groups will pay their fair share of the program costs.

Assuring Fair Nuclear Decommissioning Costs

On January 11, 2007, the Commission adopted two settlement agreements between DRA, Edison, PG&E, SDG&E, and other parties regarding contribution levels to nuclear decommissioning trust funds over the next three years. The adopted annual contribution levels are $13.7 million for PG&E, $42.2 million for Edison, and $9.4 million for SDG&E. These settlements result in combined ratepayers' savings of $85.8 million.

Water

DRA represents consumers by scrutinizing the costs of service of California's nine large investor-owned water utilities. These utilities have 61 geographically separate ratemaking districts, each with its own system costs.

Most of DRA's work in this area concerns applications for rate increases. In these general rate case (GRC) applications, DRA audits the utilities' accounts and reviews past and projected expenses, revenue forecasts, cost of capital, plant additions, and rate design. In addition to advocating on behalf of ratepayers in these GRCs, DRA has taken an active role in several broad policy projects whose outcomes will impact ratepayers and California's water resources as a whole.

Keeping Water Rates Affordable for Customers Served by Investor Owned Utilities

Water affordability is a real and growing concern for many water utility customers. An increasing number of California households face tough choices and real

economic hardship. Water rates for basic human needs should be low enough so that those with low- or fixed-incomes will not need to curtail or eliminate other essential services to pay their water bills. DRA carefully scrutinizes Class A water utility requests for rate increases for reasonableness.

In 2007, DRA reviewed 21 ratemaking districts' GRC applications filed by water utilities. Combined these utilities asked for increases in rates of $35.2 million. While the total magnitude of these increases may seem small in comparison to energy revenue increases, the impact per customer is usually far greater.

One company, California Water Service (CWS), was seeking an increase of 22% or $11.2 million in its Bakersfield district -- a requested bill increase of approximately $14 per month per customer. DRA's effort reduced the requested increase by over 60% to $4.1 million, about $5.20 per monthly household bill.

Similarly, California American Water (Cal Am) sought an 11.2% increase in its Los Angeles district. However, as a result of DRA's efforts the final outcome of that proceeding resulted in a decrease in rates instead of an increase.

DRA also was successful in obtaining a refund of nearly $1.6 million for customers of San Gabriel Valley Water Company's Fontana District. The refund resulted from excess contamination funds collected by San Gabriel and resulted in a one-time bill credit of approximately $37.00 per customer in 2007.

Establishing Low Income Water Rate Assistance Programs

DRA has worked with water utilities to establish a low-income water rate assistance program to help qualifying low-income customers better manage their water bills. As of 2007, eight of the nine large water utilities have implemented low-income assistance programs. DRA is awaiting a decision approving a low-income assistance program with the last large water utility.

DRA continues to review and evaluate the effectiveness of utility low-income rate assistance programs in each GRC. DRA has worked with other parties and the utilities to develop better outreach and enrollment methods to increase customer participation in water utility low-income rate assistance programs.

DRA has negotiated creative solutions to assist customers of small water systems in economically disadvantaged communities where water affordability is an issue due to the need for significant infrastructure investment. For example, the CPUC adopted a settlement between DRA and California Water Service for a one penny surcharge on each unit of water sold company-wide to fund a Rate Support Fund (RSF) that provides support to these types of communities.

The RSF approach provides targeted support where it is most needed, and avoids undue cross-subsidization that can result under utility district consolidation proposals. DRA has developed guidelines that the CPUC has relied on in reviewing utility district consolidation proposals. DRA guidelines seek to maintain rates based on the cost-of-service for fairness to all customers and to support the efficient use of water resources.

Sponsoring Regional Water Supply Dialogues on the Monterey Peninsula

In an effort to assure the most economically beneficial water service for Cal Am ratepayers on the Monterey Peninsula, DRA has partnered with the Center for Integrated Water Research at the University of California Santa Cruz (UCSC) to investigate possible cost savings for Cal Am ratepayers by taking a broader, regional approach to meeting water supply reliability needs. The goal is to develop an alternative to the large-scale and very expensive desalination plant proposed by Cal Am at Moss Landing. To accomplish this goal, DRA and UCSC have facilitated monthly meetings with stakeholders from local governments, water supply and treatment agencies, nonprofits, individual citizens, Cal Am, CWS and others. The objective of these dialogues is to achieve broad-based support among the various interested parties for a solution to supplying the water needs of the Monterey Peninsula in a cost-effective and sustainable way.

The participants in this regional water supply dialogue have identified alternative water supply solutions including recycling municipal waste water and storm water for agricultural and urban landscaping use, additional conservation, and desalination of brackish water. Currently, the participants are working to complete the technical and environmental studies necessary for inclusion of a regional alternative into the CPUC's CEQA review. Challenges for the participants in 2008 include working out an ownership and governance structure for the water supply elements and securing financing. DRA remains

committed to this dialogue process and expects to conduct further analysis comparing the regional project to the Coastal Water Project during 2008.

Negotiating Water Conservation Rate Settlements

In January 2007, the Commission began an investigation to address policies to achieve conservation goals for water utilities, including conservation rates, funding for conservation activities, and water allocation. DRA has taken a lead role in this investigation because of the potential for drought conditions in California and the importance of fostering conservation while maintaining reasonable rates. The proceeding has been divided into two phases. Phase I is addressing conservation ratemaking and utility revenue risks. Phase II will address guidelines for additional conservation programs.

DRA has been the primary voice on behalf of ratepayers in this proceeding. In addition to presenting expert witnesses on ratemaking issues, DRA has negotiated settlement agreements to implement conservation rates with California Water Service, Park Water, Suburban Water, San Jose Water, and Golden State Water Company. These settlements establish criteria, guidelines, and procedures for rates to encourage conservation. Under the settlements, the water utilities will track data that will help DRA and the Commission analyze the effects of conservation rates.

With the adoption of these settlements, by spring 2008 water rates for the Class A water utilities will be in line with the Best Management Practices of the California Urban Water Conservation Council (CUWCC) and will provide customers with a greater incentive to conserve water.

CPUC 2008 MAJOR PROCEEDINGS

Communications
Jack Leutza, Director
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Docket #	Lead Commissioner	Title
R.02-12-004	Chong	Commission Order Instituting Rulemaking on the Commissions Own Motion into the Service Quality Standards for All Telecommunications Carriers and Revisions to General Order 133-B.
R.05-04-005	Chong	Order Instituting Rulemaking on the Commission's Own Motion to assess and revise the regulation of telecommunications utilities.
R.06-05-028	Chong	Order Instituting Rulemaking on the Commission's own Motion to review the telecommunications public policy programs.
R.06-10-006	Bohn	Order Instituting Rulemaking on the Commission's own motion into the application of the California Environmental Quality Act to applications of jurisdictional telecommunications utilities for authority to offer service and construct facilities.
R.07-01-021	Peevey	Order Instituting Rulemaking to address the needs of telecommunications customers who have limited English proficiency.
R.07-04-015	Simon	Order Instituting Rulemaking on the Commission's Own Motion into Reliability Standards for Telecommunications Emergency Backup Power Systems and Emergency Notification Systems pursuant to Assembly Bill 2393.

Electric and Gas
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Energy Division
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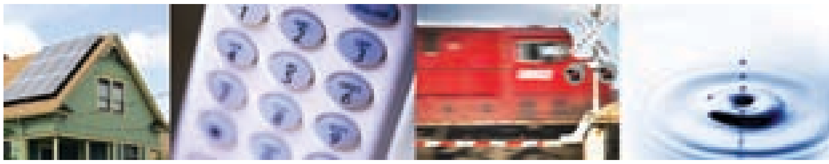
Docket #	Lead Commissioner	Title
A.06-03-005	Chong	Pacific Gas and Electric Company, to Revise its Electric Marginal Costs, Revenue Allocation, and Rate Design.
A.06-08-010	Grueneich	San Diego Gas & Electric Company, for a Certificate of Public Convenience and Necessity for the Sunrise Powerlink Transmission Project.
A.06-12-009/ A.06-12-010/ I.07-02-013	Bohn	San Diego Gas & Electric Company and Southern California Gas Company, for Authority to update its Gas and Electric Revenue Requirement and Base Rates effective on January 1, 2008. (N0610017/N0610018)
A.07-01-047	Bohn	San Diego Gas & Electric Company, for Authority to Update Marginal Costs, Cost Allocation and Electric Rate Design.
A.07-02-026	Peevey	Southern California Edison Company, for Approval of Results of Fast Track of its New Generation Request for Offers and for Cost Recovery.
A.07-04-009	Chong	Pacific Gas and Electric Company, for Approval of 2008-2020 Air Conditioning Direct Load Control Program.
A.07-05-020	Peevey	Southern California Edison Company, for Authorization to Incur and Recover Costs Necessary to Determine Feasibility of a Clean Hydrogen Power Generation Plant.
A.07-06-031	Grueneich	Southern California Edison Company, for a Certificate of Public Convenience and Necessity Concerning the Tehachapi Renewable Transmission Project (Segments 4 through 11).
A.07-07-015	Simon	Pacific Gas and Electric Company, for Approval of their Separate Emerging Renewable Resource Programs.
A.07-07-026	Grueneich	Southern California Edison Company (U 338-E), for Approval of Advanced Metering Infrastructure Deployment Activities and Cost Recovery Mechanism.
A.07-09-017	Peevey	San Diego Gas & Electric Company (U902E), for Approval of a Power Purchase Agreement with Envirepel Energy, Inc., for Authority to Recover the Costs of Such Power Purchase Agreement in Rates and for Issuance of Certain Findings Related to Compliance with Renewable Portfolio Standard Program Requirements.
A.07-10-005	Grueneich	The Nevada Hydro Company, for a Certificate of Public Convenience and Necessity for the Talega-Escondido/Valley-Serrano 500-kV Interconnect.
A.07-10-013	Chong	Southern California Edison Company (U338E), for Approval of Additional Demand Response Resource Purchase Agreements.

Docket #	Lead Commissioner	Title
A.07-11-008	Simon	Pacific Gas and Electric Company (U39E), for a Certificate of Public Convenience and Necessity for the Russell City Energy Center 230 kV Transmission Line pursuant to General Order 131-D.
A.07-11-011	Peevey	Southern California Edison Company (U338E), for Authority to, Among Other Things, Increase Its Authorized Revenues For Electric Service in 2009, And to Reflect That Increase In Rates.
A.07-12-009	Chong	Pacific Gas and Electric Company, for Authority to Increase Revenue Requirements to Recover the Costs to Upgrade its SmartMeterTM Program (U39E).
A.07-12-021	Simon	Pacific Gas and Electric Company, for Authorization to Enter Into Long-Term Natural Gas Transportation Arrangements with Ruby Pipeline, for Cost Recovery in PG&E's Gas and Electric Rates and Nonbypassable Surcharges, and for Approval of Affiliate Transaction (U39G and U39E)
R.05-12-013	Peevey	Order Instituting Rulemaking to Consider Refinements to and Further Development of the Commission's Resource Adequacy Requirements Program.
R.06-02-012	Peevey	Order Instituting Rulemaking to develop additional methods to implement the California Renewables Portfolio Standard Program.
R.06-02-013	Peevey	Order Instituting Rulemaking to integrate procurement policies and consider long-term procurement plans.
R.06-03-004	Peevey	Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the California Solar Initiative, the Self-Generation Incentive Program and Other Distributed Generation Issues.
R.06-04-009	Peevey	Order Instituting Rulemaking to Implement the Commission's procurement incentive framework and to examine the integration of Greenhouse Gas Emissions Standards into procurement policies.
R.06-04-010	Grueneich	Order Instituting Rulemaking to examine the Commission's post-2005 energy efficiency policies, programs, evaluation, measurement, and verification, and related issues.
R.06-05-027	Peevey	Order Instituting Rulemaking to continue implementation and administration of California Renewables Portfolio Standard Program.
R.07-01-041	Chong	Order Instituting Rulemaking regarding policies and protocols for demand response load impact estimates, cost-effectiveness methodologies, megawatt goals and alignment with California Independent System Operator Market Design Protocols.
R.07-01-042	Grueneich	Order Instituting Rulemaking regarding policies, procedures and rules for the Low Income Energy Efficiency Programs of California's energy utilities.
R.07-09-008	Peevey	Order Instituting Rulemaking to Establish the California Institute for Climate Change



Water

Rami Kahlon, Director
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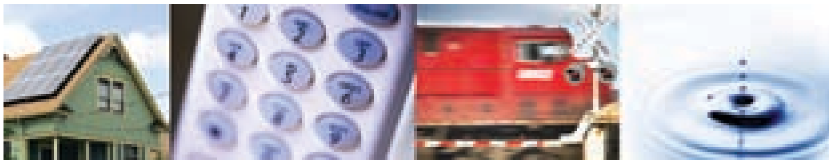
Docket #	Lead Commissioner	Title
I.07-01-022	Bohn	Order instituting investigation to consider policies to achieve the Commission's conservation objectives for Class A water utilities. Proceedings filed by California Water Service, Golden State Water, San Jose Water, Suburban Water, and Park Water, have been incorporated into this proceeding.
I.07-06-020	Bohn	Order instituting investigation for the water and service quality of Alco Water Company.
A.04-09-019	Bohn	In the matter of the application of California-American Water Co. for a certificate of public convenience and necessity to construct and operate its Coastal Water Project to resolve the long-term water supply deficit in its Monterey District and to recover all present and future costs in connection therewith in rates.
A.07-01-035	Grueneich	In the matter of the application of San Jose Water Company for an Order approving the sale of the Main Office, under Section 851 and authorizing the investment of the Sale Proceeds under Section 790.



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