California Public Utilities Commission

Update to the
Assembly Utilities and Commerce Committee

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Presentation Overview

• About the CPUC
• Helping Customers and Promoting Diversity
• Safety and Enforcement
• Implementing Energy Priorities and Overseeing Key Issues
• Encouraging Broadband and Promoting Universal Service
• Protecting Water Customers
About the CPUC

• The CPUC, headquartered in San Francisco, regulates privately owned telecommunications, electric, natural gas, water, railroad, rail transit and passenger transportation companies such as moving companies, limousines and charter buses. The CPUC is responsible for ensuring that customers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California’s utilities.

• The CPUC’s board is comprised of five Commissioners who serve staggered six-year terms. The Commissioners are appointed by the Governor and confirmed by the California Senate. The Governor selects one of the five Commissioners to serve as the CPUC president. The Commissioners make all CPUC policy decisions, meeting usually twice a month to discuss and vote on issues.
Helping Customers and Promoting Diversity

The CPUC responds to ratepayer inquiries, resolves customers’ informal complaints regarding their utility billing and services, assists the public participating in CPUC proceedings, and promotes diversity in utility contracting practices.
Resolved through the Consumer Affairs Branch (CAB) more than 18,887 written utility customer complaints and helped to obtain $1.7 million in refunds/bill credits in 2011.

Improved CAB response time to consumers by over 7%.
Promoting Diversity

Supplier Diversity – General Order (GO) 156 Results

2011 Performance

• Collectively, more than 30 participating GO 156 companies procured more than $7 billion from diverse suppliers.
  – In 2010 these same companies procured just over $5 billion.

• AT&T Wireless and Sprint Wireless had the biggest increase in supplier diversity year over year:
  – AT&T Wireless jumped from 11% to 21% equaling $712 million in 2011 ($333 million in 2010).
  – Sprint Wireless jumped from 15% to 28% equaling $686 million in 2011 ($334 million in 2010).

• We are working to expand GO 156 in two areas:
  – Increased focus on capacity building and technical assistance.
  – Entry to the electric procurement market.
  – Working with the State of New York’s Public Service Commission and California’s Department of Insurance to help develop a similar model for their respective organizations.

• Extending the reach of GO 156 to other companies:
  – Comcast filed their second annual report and T-Mobile is slowly joining diversity efforts.
The CPUC has safety oversight of electric and communications facilities, natural gas and propane gas systems, railroads, light rail transit systems, and highway/rail crossings, licensing, consumer protection, and safety oversight of motor carriers of passengers, household goods, and water vessels.
Safety Staff Enhancement

• The 2011-2012 budget increased the number of inspectors in the Gas Safety and Reliability Branch to 18.
  • 17 of the 18 positions are currently filled and interviews are underway to fill the last position.

• New inspectors are undergoing required training to become federally certified inspectors, conducting audits of mobile home parks and propane systems, participating in large operator audits with more senior staff, and conducting field inspections.

• Risk Assessment staff authorized in the 2011-2012 budget have all been hired and produced their first report in March 2012.
Natural Gas Safety Post-PG&E Pipeline Rupture in San Bruno

• After the tragedy in San Bruno, California oversight is now stricter than anywhere else in the nation.
• Implementing the recommendations of the Independent Review Panel and the National Transportation Safety Board.
• Setting new rules for the safe and reliable operation of natural gas pipelines in California.
• CPUC safety culture is being enhanced across the board; CPUC’s Gas and Electric Safety Branch restructured; created a Risk Assessment Unit; undertaking an independent management audit of its Gas Safety Program, including a staffing and skills assessment.
• More CPUC inspectors, with tougher enforcement powers.
• More transparency and accountability in utility expenditures on safety now, but more is needed and CPUC will reform the way safety is considered in the ratemaking process.
• Safety plans for low-pressure distribution systems are being developed this year.
Natural Gas Enforcement Post-PG&E Pipeline Rupture in San Bruno

- PG&E fined $38 million for Rancho Cordova, and faces significant fines for San Bruno.
- Issued $16 million citation to PG&E for failure to conduct pipeline leak surveys under new citation program.
- Considering penalties against PG&E for pipeline rupture.
- Considering penalties against PG&E for recordkeeping practices.
- Considering penalties against PG&E for pipeline classification violations.
- Conducting, with assistance from PHMSA, comprehensive audits of all aspects of PG&E’s pipeline operations.
- Scrutinizing Costs: Directed PG&E to provide reports regarding what pipeline projects were high priority, which projects were actually conducted, the reasons for utility re-prioritization, and whether utilities are appropriately spending approved costs and expenses.
Safety and Reliability: Electric and Gas

• **Pole Overloading**: Increase of pole failures recently in Southern California. CPUC examining loading requirements for poles.

• **Grid Modernization**: Enables wider utilization of Distributed Generation and ability to isolate customers remotely.

• **Plant Outages**: CPUC routinely visits power plants to inspect outages and repairs. Comprehensive audits evaluate plant safety, maintenance, and upkeep.

• **Mobilehome Master-Meters**: CPUC evaluating what can be done to encourage a timely and fair replacement of master-metered services provided to mobilehome residents.
Safety: Railroad, Rail Transit, and Rail Crossings

• CPUC’s rail safety programs:
  – *Railroad* safety – joint jurisdiction with the Federal Railroad Administration
  – *Rail transit* safety - state safety oversight agency with exclusive jurisdiction
  – *Rail crossing* safety - exclusive jurisdiction for authorization and safety

• New Risk Assessment staff proposed in Governor’s budget integrates engineering, audit, inspection, maintenance, operations, and accident data.

• Rail Safety and Security Information Management System will provide risk assessment, work tracking, rail infrastructure, and investigation data management.

• In 2011, CPUC rail safety inspectors conducted 3,648 inspections on California railroads regarding operations, signals, equipment, track, hazmat, and security.
  – Inspector recruitment and retention is currently a problem.

• First of its kind in the nation regulation prohibits the use of personal electronic devices by rail transit operations employees, enforced with mandated inward-facing in-cab video cameras.

• Positive Train Control (PTC) is designed to prevent collisions. CPUC formally opposed a bill in Congress that would move the PTC implementation deadline from 2015 to 2020.
Implementing Energy Priorities and Overseeing Key Issues

The CPUC regulates investor-owned electric and gas utilities (such as PG&E, SCE, SDG&E and SCG), which serve over two-thirds of electricity demand and over three-quarters of natural gas demand in the state.
Combined IOU Electric Rates Have Roughly Tracked Inflation Since 2003
Generation and Distribution Costs are the Largest Rate Components

2012 Rates
Update on Smart Meters

• **Smart Meter deployment status**
  - SDG&E / PG&E: over 90% complete (13M total)
  - SCE: ~80% complete (4m total)

Customers with Smart Meters are beginning to see benefits, such as availability of interval data through the utility websites and 3rd party apps, such as those enabled by the “Green Button”.

• **Smart Meter opt-out approved**
  - CPUC approved smart meter Opt-Out (analog option) for PG&E on February 2, 2012, with a fee to be assessed for Opt-Out.
    - Non-CARE: $75 upfront + $10 / month
    - CARE: $10 upfront + $5 / month
  - Of the 194K customers on PG&E’s “delay list”, 9,800 have elected opt-out to date (5,800 chose to keep smart meter).
  - Proposed decisions to allow Opt-out for SCE and SDG&E expected April 2012.
  - CPUC to conduct Phase 2 to examine estimated costs and cost allocation issues associated with Smart Meter Opt-Out.
San Onofre Nuclear Generating Station Update

- San Onofre Nuclear Generating Station (SONGS) Units 2 and 3 are out of service. Unit 3 is undergoing inspections on its steam tubing, and Unit 2 is being held out of service (although ready to come back online) contingent on successful testing of the tubing in Unit 3.

- Within the next two weeks SCE will know the results of tests on the tubing. SCE will then make a decision about returning both units to service. It is possible that Unit 3 will need work, but that Unit 2 can be brought back online if the tubing problems in Unit 3 are not related to Unit 2.
Tehachapi Renewable Transmission Project

• 175 mile 500kV Transmission Line designed to deliver renewable energy from the Tehachapi foothills to the Los Angeles Basin.

• Approved by CPUC in December 2009 and currently about 50% complete, with construction scheduled for completion in Summer 2015.

• CPUC stopped construction through the City of Chino Hills (portion of Segment 8A) in November 2011 in response to community concerns.
Implementing the Renewables Portfolio Standard (RPS)

- Large IOUs achieved overall 20% RPS in 2011 (Up from 18% in 2010)
  - PG&E – 20.1% (17.7% in 2010)
  - SCE – 21.1% (19.4% in 2010)
  - SDG&E – 20.8% (11.9% in 2010)
  - Overall Progress: 75% of the capacity needed, on a risk-adjusted basis, to attain 33% RPS in 2020 is currently under contract with the three IOUs.

- CPUC aggressively pursuing 33% RPS goal by 2020
  - CPUC has approved 200+ contracts for 16,000+ MW of new and existing RPS capacity.
  - 2,541 MW of new renewable capacity has achieved commercial operation since 2003.
  - In 2011 alone, CPUC approved 44 contracts for 2,461 MW of new renewable capacity.
  - Updates in Implementation of SB 2:
    - Established 33% Procurement Targets – Decision issued December 2011
    - Implemented Portfolio Content Categories – Decision issued December 2011
    - Next step: Set New Compliance Requirements – Proposed Decision in Q2 2012
    - Next step: Issued RFP for Cost Containment study – see next slide

- 2011 RPS Solicitation was Robust and Reflects a Maturing Market
  - Over 1,000 unique bids from 260 sellers were submitted to the three large IOUs
    - Bids represented ~250,000 GWh/yr of generation (4.5x the program demand to hit 33% in 2020)
    - Average bid price was 30% lower than in the previous solicitation in 2009
RPS Cost Containment – A Major Focus in 2012

- **SB 2 mandates new cost containment mechanism for RPS Program**
  - Prevent “disproportionate rate impacts”.
  - Rely on prior year market pricing and levelized project costs.
  - Take into consideration potential for projects to be delayed or cancelled.

- **Cost containment scoped in RPS Rulemaking 11-05-005**
  - ALJ Ruling in January 2012 requested comments on procurement expenditure limitations for the RPS Program.
  - Response for comments by the stakeholder community was robust.
  - Comments resulting from the ALJ Ruling as well as planned stakeholder workshops will be considered in the final staff proposal.

- **CPUC hiring technical consultants to draft cost containment proposal**
  - Request for Proposals released to potential bidders in December 2011.
  - Proposals were submitted in February 2012.
  - Contract award date is April 6 with contract commencement date on June 4, 2012.
Pursuing Distributed Generation

• Diversifying RPS procurement with smaller RPS projects could potentially avoid the need for new transmission to meet RPS targets.

• Robust response to 1st Renewable Auction Mechanism (RAM) auction.
  – RAM: competitive auction process with standard contract for RPS projects ≤ 20 MW.
  – Program adopted by CPUC in December 2010.
  – First RAM auction closed January 2012 with strong response from market:
    • Over 1,500 MWs bid into the first auction – more than 7x the total capacity allocation for the first auction.
    • Robust response allowed IOUs to select high value, viable projects for execution.
  – Second RAM auction to be held Q2 2012.

• CPUC implementing SB 32 Feed-in-Tariff (FiT) for projects up to 3 MW.
  – FiT pricing mechanism – CPUC Decision expected in Q2 2012.
  – Joint IOU FiT contract being developed – CPUC Decision expected in Q2 2012.

• Distributed Generation Interconnection Proceeding (R.11-09-011).
  – Goal: To develop transparent rules that provide a clear and predictable path to interconnection for Distributed Generation projects while maintaining safety and reliability.
  – Parties reach consensus on many issues: Revisions to Tariff Interconnection Rules expected to be Filed with the CPUC end of March 2012.
  – Next Steps: During 2012, Phase 2 of the proceeding will address issues that could not be settled by parties.
Research and Development Post-PGC

• In October 2011, the CPUC opened a rulemaking to address the implications of the loss of the Public Goods Charge on funding support for R&D and renewables.
  • PGC funded a number of programs administered by the CEC including the Public Interest Energy Research Program, as well as the Emerging Renewables Program, the Existing Renewables Facilities Program and the New Solar Homes Partnership.
  • Loss of PGC funding creates a potentially significant gap in California energy policy space.

• Phase 1 Decision creates a new surcharge, the Electricity Procurement Investment Charge (EPIC).
  • IOUs are directed to collect, but not distribute, monies via this new charge commensurate with the amounts previously collected via PGC and used for PIER and the CEC’s renewables programs (approx. $143 million per year).
  • Directs staff to provide recommendations regarding use of funds, including review of activities currently undertaken by CEC.

• On February 10, EPIC Staff Proposal was issued by ruling.
  • Comments submitted March 7; replies March 16.
  • Anticipated Phase 2 Proposed Decision in May/June Timeframe.
Research and Development Post-PGC (cont.)

- Staff proposal recommends creation of a program, to be administered by the CEC, to fund applied research, technology demonstration, and market facilitation activities.
  - Applied Research - $55 million
  - Demonstration - $50 million
  - Market Facilitation - $15 million
  - Administration - $22 million

- Under proposal, CEC would develop a triennial investment plan with extensive stakeholder input, and which the CPUC would review and approve through the CPUC’s deliberative processes.

- Staff proposal encourages legislative action to address New Solar Homes Partnership and Self Generation Incentive Program funding issues.
  - Though staff supports continued funding for NSHP, statutory cap on ratepayer funded CSI expenditures prevents us from doing so.
  - Inclusion of technologies previously funded under the Emerging Renewables Program puts additional demands on existing SGIP budget.
California Solar Initiative (CSI) Update

The CSI Program provides incentives for solar photovoltaic and solar water heating systems.

- **CSI Program Includes 5 Sub-Components:**
  
  1. **General Market Program:** Provides incentives to all buildings except new homes.
     - 67,000+ projects installed worth 770 MW
     - Over a quarter of these projects are third party owned PV systems
  
  2. **Single-family Affordable Solar Homes (SASH) Program:** Provides rebate to low-income customers in deed-restricted single-family homes.
     - 1,180+ projects installed worth 3.4 MW
  
  3. **Multifamily Affordable Solar Housing (MASH) Program:** Provides rebates to multifamily affordable housing in deed restricted multi-family residences.
     - 160 projects installed worth 8 MW
  
  4. **RD&D Program:** Provides up to $50 million in a program for projects related to CSI goals.
     - $31.6 million in funding awarded to 24 projects
  
  5. **CSI-Thermal Program:** Provides rebates for solar water heating and solar heating/cooling technologies.
     - 450 systems installed worth 216 thousand annual therms displaced and 398 annual MWh displaced.
Energy Efficiency Programs

2010-2012 Programs

• September 2009 Decision approved $3.1 billion for efficiency programs, and additional $750 million for low income home retrofits.

• Energy efficiency is the least cost, most reliable, and most environmentally sensitive resource to meet growing demand and GHG reduction goals.

• Supports energy, greenhouse gas, and criteria pollutant savings equivalent to three new power plants.

• Estimated to save ratepayers $4.2 billion.*

• Estimated 15,000 to 18,000 new or retained jobs.**

• Numerous innovative initiatives aimed at transforming the market.

Planning for 2013-2014 Programs

• March 20, 2012 Proposed Decision provides guidance for anticipated 2013-2014 program cycle, including greater emphasis of deep retrofits and financing.

* Based on forecasted benefit-cost ratio of 1.36 in utility application.
Investor-Owned Utility 2010-12 Energy Efficiency Budget by Program Areas

Energy Efficiency Budgets 2010-2012

- Residential: 23%
- Commercial: 28%
- Industrial: 13%
- Agriculture: 4%
- New Construction: 5%
- Institutional - UC/CSU, DGS, Etc: 4%
- Local Gov't Partnerships: 6%
- HVAC: 4%
- Evaluation, Meas. & Verification: 4%
- OTHER: 9%
Greenhouse Gas Rulemaking Update

- Between 2013 and 2020 IOUs will receive approximately 470 million allowances pursuant to the ARB’s Cap & Trade regulation.
  - Per the Cap & Trade regulation, the IOUs are required to consign 100% of these allowances to auction.
  - The sale of these allowances will generate an estimated $13 billion over the 2013 to 2020 period.
- In March of 2011, CPUC opened Rulemaking (R) 11-03-012 to address three issue areas:
  - Use of cap & trade allowance revenues.
  - Use of revenues generated from sale of Low Carbon Fuel Standard Credits that may accrue to the IOUs.
  - GHG-related compliance issues for the gas utilities.
Greenhouse Gas Rulemaking Update Continued

- We have received extensive input from a broad range of stakeholders regarding the use of cap & trade allowance revenues via two rounds of proposals, workshops, and comments.

- Proposal themes:
  - Return revenue through rates to all customer classes on a cents/kWh basis (volumetrically).
  - Return revenue through a separate, off-bill credit either volumetrically or non-volumetrically.
  - Address concerns regarding “economic leakage”.
  - Assign a portion of revenue for investment in other GHG-reduction programs.

- Procedural schedule anticipates a Proposed Decision in the June timeframe to address the use of cap & trade allowance revenues.
Encouraging Broadband and Promoting Universal Service

The CPUC manages universal telephone service programs, issues video franchises, monitors customer service and public safety standards for telephone services, regulates rates for basic phone service and rural carriers, licenses telephone corporations, and responds to federal telecommunications initiatives.
Encouraging Broadband Deployment

- California Advanced Services Fund (CASF) encourages broadband deployment to and adoption by Californians (P.U. Code § 281):
  - Financing capital costs of broadband facilities (Broadband Infrastructure Grant and Loan Accounts)
  - Funding broadband deployment activities other than the capital cost of facilities (Rural and Urban Regional Broadband Consortia Grant Account)
- Program improvements adopted by the CPUC in Feb. 2012:
  - Approved 14 Consortia grant awards for deployment, access, and adoption activities in 50 out of the 58 counties of California.
  - Developing Revolving Loan Account program to provide supplemental funding to CASF projects (operational late 2012).
  - Grant applications will be received in May and September 2012.

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<td>Supplemental CASF Funding</td>
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<td>CASF Loan up to 20% of total project costs; $500,000 maximum</td>
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Basic Telephone Service

PROPOSED DECISION ADOPTING BASIC TELEPHONE SERVICE REVISIONS

• The definition of “basic telephone service” was established by Decision 96-10-066 in the mid-1990s for a predominantly wireline market. The term provides the minimum level of service a customer should expect.

• Today’s telecommunications marketplace has changed and offers consumers an increasingly diverse range of products and technology options.

• The CPUC is expected to consider a Proposed Decision at its April 19th meeting that would update the definition of the elements of basic telephone service.

• This new definition would consolidate the existing elements into eight more concise requirements that are designed to apply on a technology-neutral basis.

• If adopted, the updated basic service definition would apply to any telephone company serving as Carrier of Last Resort and/or offering Universal Lifeline Telephone Service within California.
Telecommunications Service Quality

Rulemaking (R.)11-012-001 was opened to address the following:

- Poor Industry performance in restoring service.
  - e.g., Many carriers are not meeting the existing CPUC standard to restore service within 24 hours 90% of the time.


- Other Service Quality issues under consideration:
  - Achieving commission obligation to ensure safe and reliable service.
  - Relevance of Service Quality rules in a communications industry.
  - Need for service quality standards for non-wireline telephone services such as VoIP and Wireless.
Digital Infrastructure and Video Competition Act of 2006 (DIVCA)

Current Issues

- Fifth-year build-out requirements kick in this Spring for AT&T and Verizon.
  - Verizon must offer Broadband to 40% of homes in its territory.
  - AT&T must offer Broadband to 50% of homes in its territory.
  - At least 30% of homes offered video service must be low income households.

- Rulemaking on video franchise renewal process to begin in mid-2012.
The Water Industry

The CPUC is responsible for ensuring that investor-owned water utilities deliver clean, safe, and reliable water service at reasonable rates.
Protecting Water Customers

- CPUC regulates 121 water utilities serving about 17% of California residents; and 14 sewer utilities.
- Water Supply and Conservation
  - Aggressive water conservation policies in place for our larger water utilities.
    - Decoupled Sales and Revenues.
    - Implemented Tiered Rates.
    - Increased Water Conservation Budgets.
  - Decreased water usage.
    - Drought, Recession.
    - Customer Conservation Ethic.
  - Increasing operating costs; purchased water.
Protecting Water Customers (cont.)

• **Low Income Ratepayer Assistance**
  – Programs in place at our 10 largest water utilities, serving 95% of our water ratepayers.
  – Rules issued to increase up-take rate for these programs.
    • Sharing of information among water and energy utilities.

• **Water Quality**
  – Water Action Plan
    • Objective #1: Maintain Highest Standards for Water Quality.
    • The Plan highlights two major contaminants:
      • Arsenic – naturally occurring in the west, herbicides
      • Nitrates – fertilizers, farm run-off
  – Work closely with the Department of Public Health.
    • Monitor water systems.
    • Grants available for treatment.
Thank you.

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