

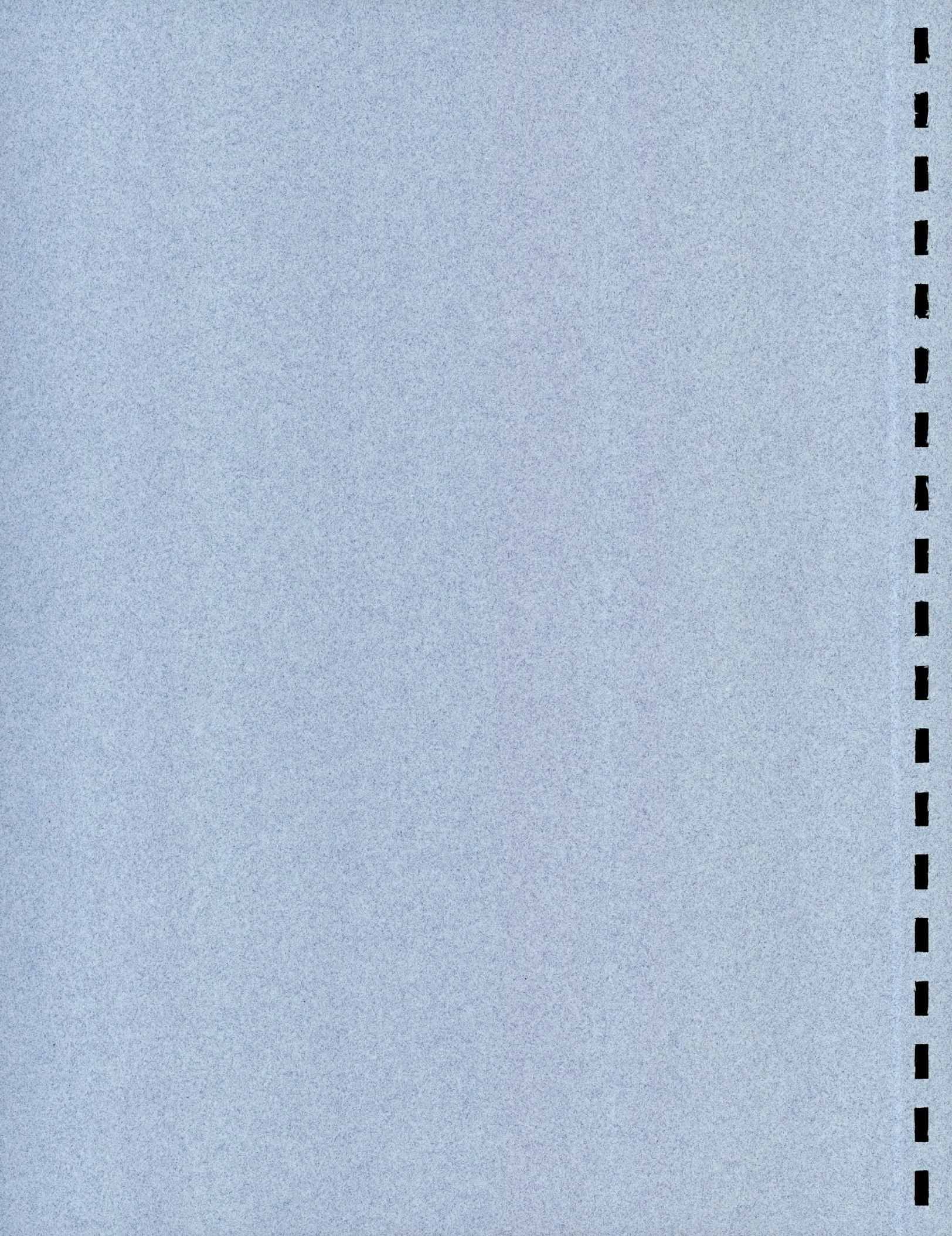
**PUBLIC UTILITY COMMISSION OF TEXAS**

**Agency Strategic Plan**

**For the Fiscal Years 2015-2019**



**July 7, 2014**



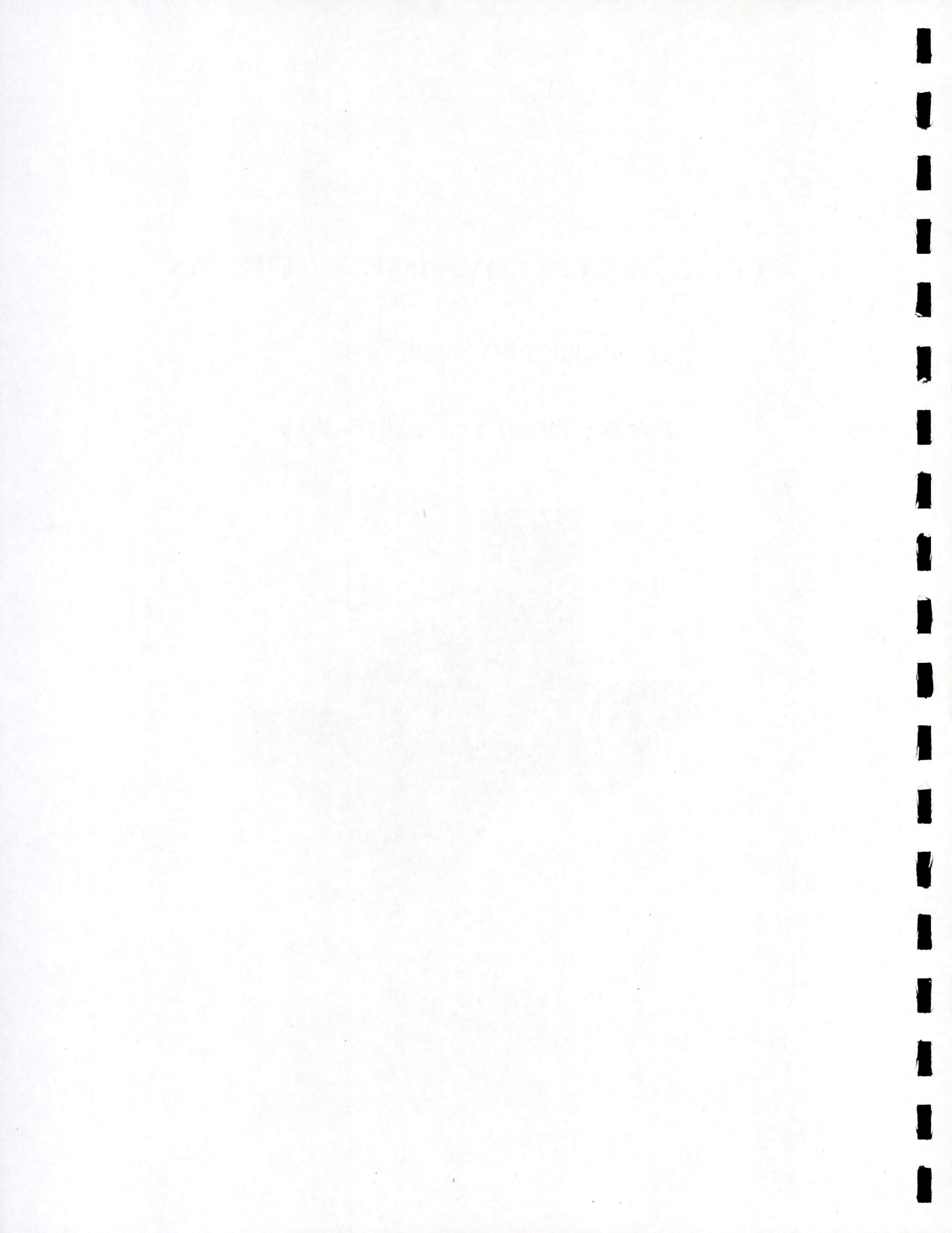
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**July 7, 2014**



# AGENCY STRATEGIC PLAN

## FISCAL YEARS 2015-2019

BY

### THE PUBLIC UTILITY COMMISSION OF TEXAS

COMMISSIONER	DATES OF SERVICE	HOMETOWN
Donna L. Nelson	8/15/08 to 8/31/09 Reappointed 9/23/09 to 8/31/15	Austin
Kenneth W. Anderson, Jr.	9/2/08 to 8/31/11 Reappointed 9/17/11 to 8/31/17	Dallas
Brandy D. Marty	8/21/13 to 8/31/19 (Presuming Confirmation)	Austin

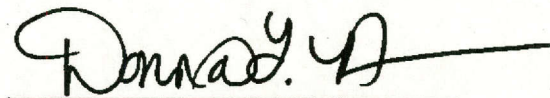
#### DATE OF SUBMISSION

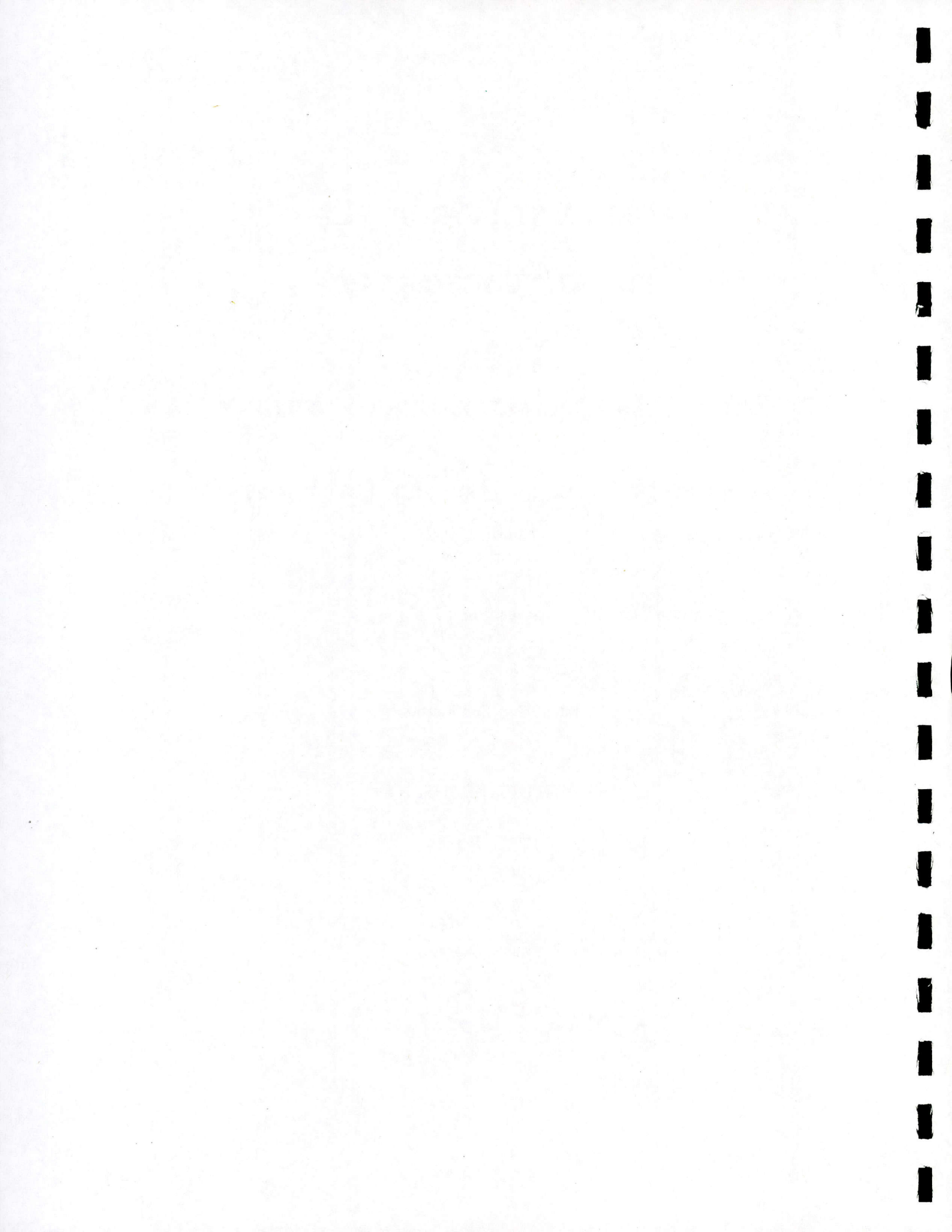
JULY 7, 2014

SIGNED:

  
\_\_\_\_\_  
Brian H. Lloyd, Executive Director

APPROVED:

  
\_\_\_\_\_  
Donna L. Nelson, Chairman



## TABLE OF CONTENTS

	Page
<i>Securing Our Future: Statewide Vision, Mission and Philosophy</i>	1-2
Relevant Statewide Goals and Benchmarks	3
Public Utility Commission Mission and Philosophy	4
External/Internal Assessment:	
I. Overview of Agency Scope and Functions	5-9
II. Organizational Aspects	10-16
III. Fiscal Aspects	17-22
IV. Service Population Demographics	23-24
V. Self-Evaluation and Opportunities for Improvement	25-26
VI. Technological Developments	27-30
VII. Economic Variables	31-33
VIII. Federal Issues	34-40
IX. Legal Issues	41
Public Utility Commission Goals	42
Objectives and Outcome Measures	43-47
Strategies and Output, Efficiency and Explanatory Measures	48-54
Technology Resource Planning	55-60
Appendices:	
A. Description of Agency's Planning Process	61
B. Current Organizational Chart	62
C. Five-year Projections for Outcome Measures	63-64
D. Workforce Plan	65-81
E. Survey of Employee Engagement	82-83





## **SECURING OUR FUTURE**

### **The Statewide Strategic Planning Elements for Texas State Government**

#### **STATEWIDE VISION**

Ensuring the economic competitiveness of our state by adhering to principles of fiscal discipline, setting clear budget priorities, living within our means and limiting the growth of government;

Investing in critical water, energy and transportation infrastructure needs to meet the demands of our rapidly growing state;

Ensuring excellence and accountability in public schools and institutions of higher education as we invest in the future of this state and ensure Texans are prepared to compete in the global marketplace;

Defending Texans by safeguarding our neighborhoods and protecting our international borders; and

Increasing transparency and efficiency at all levels of government to guard against waste, fraud, and abuse, ensuring that Texas taxpayers keep more of their hard-earned money to keep our economy and families strong.

#### **STATEWIDE MISSION**

Texas state government must be limited, efficient and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

**Aim high . . . we are not here to achieve inconsequential things!**

## STATEWIDE PHILOSOPHY

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise, we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

## RELEVANT STATEWIDE GOALS AND BENCHMARKS

### Regulatory Agencies

#### Priority Goal:

To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and
- Reducing the regulatory burden on people and businesses.

#### Benchmarks:

Ratio of supply of electricity generation capacity to demand

## **PUBLIC UTILITY COMMISSION OF TEXAS**

### **AGENCY MISSION**

The mission of the Public Utility Commission of Texas is to protect customers, foster competition, and promote high-quality utility infrastructure.

### **AGENCY PHILOSOPHY**

The Public Utility Commission of Texas is accountable to the people of Texas to provide equitable, efficient, and effective regulation in an increasingly competitive environment. We conduct business openly and fairly, observe the highest ethical standards, encourage public participation, and balance the views of customers, utilities, new market entrants, and other affected parties. We value commitment, competence, innovation, teamwork, and respect for the individual.

**OVERVIEW OF AGENCY SCOPE AND FUNCTIONS**

**Statutory Basis**

The PUC’s primary enabling statute is Title II, Texas Utilities Code, known as the Public Utility Regulatory Act. The PUC administers the Texas No-Call list pursuant to Texas Business and Commerce Code §§ 44.101 – 44.253. The PUC is also subject to the Administrative Procedures Act, the Public Information Act, and the Open Meetings Act. Below is a chart detailing all state and federal statutes that grant authority or otherwise impact the PUC.

<b>Statutes</b>	
<b>Citation</b>	<b>Authority</b>
Utilities Code, Title 2, Public Utility Regulatory Act	Agency’s enabling legislation, contains authority for most agency functions required under state law.
Utilities Code, Title 4, Delivery of Utility Services	Contains laws pertaining to electric and telephone cooperatives and miscellaneous provisions affecting electric and telephone utilities.
Water Code, Chapter 5, §5.507 and §5.508(a) and (c)	Provides authority for the issuance of emergency orders for the operation of water and/or sewer utilities that discontinue operation or are referred for receivership to the Attorney General of Texas.
Water Code, Chapter 11, §11.041	Provides the PUC with the authority to participate in a TCEQ hearing on the denial of water in order to present evidence on the price of available water.
Water Code, Chapter 12, §12.013	Provides the PUC with general authority to set reasonable rates for water and sewer service.
Water Code, Chapter 13	This chapter establishes a comprehensive system for regulating water and sewer utilities to ensure that rates, operations, and services are just and reasonable for consumers and water utilities.
Texas Business and Commerce Code, Chapter 43, §§43.001 – 43.251	Provides authority to administer Texas no-call list.
Texas Health and Safety Code, Chapter 386, Subchapter E	Provides authority to administer energy efficiency grant program.
Texas Local Government Code, Chapter 283	Establishes uniform method for compensating municipalities for use of public rights-of-way by certificated telecommunications providers.

<p>Federal Telecommunications Act of 1996</p>	<p>47 U.S.C. 151 et seq.:</p> <ul style="list-style-type: none"> <li>§153 Definitions</li> <li>§160(e) State Enforcement After Federal Forbearance</li> <li>§208 Complaints to FCC</li> <li>§214(e) Universal Service</li> <li>§224(c) State Regulatory Authority Over Rates, Terms and Conditions (Pole Attachments)</li> <li>§225(f) Telecommunications Services for Hearing-Impaired and Speech Impaired Individuals</li> <li>§227 Restrictions on the Use of Telephone Equipment (No-Call Lists)</li> <li>§251 Interconnection</li> <li>§252 Procedures for Negotiation, Arbitration and Approval of Agreements</li> <li>§253 Removal of Barriers to Entry</li> <li>§254 Universal Service</li> <li>§271 BOC Entry Into InterLATA Service</li> <li>§272 Separate Affiliate; Safeguards</li> </ul>
<p>Code of Federal Regulations, 47 C.F.R. Part 54, Subpart E</p>	<p>Requires telephone Lifeline program.</p>
<p>Federal Power Act, 15 USC §791a et seq.</p>	<p>Establishes federal regulation of interstate sales of power at wholesale, thereby limiting PUC's authority over the wholesale market in some areas of Texas.</p>
<p>Public Utility Holding Company Act, 15 USC §79 et seq</p>	<p>Limits the organizational structure and geographic scope of electric and gas utilities that operate in more than one state, thereby limiting merger and acquisition activities.</p>
<p>Public Utility Regulatory Policies Act of 1978 (PURPA), 16 U.S.C. §2601 et seq.</p>	<p>Requires state commissions to implement federal laws relating to purchases from and sales to qualifying facilities.</p>
<p>Internal Revenue Code, 26 USC § 45.</p>	<p>Provides for tax credit for energy produced from renewable resources, which supports state goal of increasing output from renewable resources.</p>

**Historical Perspective and Main Functions**

In 1975, Texas became the last state in the country to provide for state-wide comprehensive regulation of electric and telecommunications utilities by creating the Public Utility Commission (PUC). For approximately the first twenty years of the PUC's existence, the agency's primary role was traditional regulation of electric and telecommunications utilities. Although the PUC originally regulated water utilities, jurisdiction was transferred to the Texas Water Commission in 1986. Significant legislation

enacted by the Texas Legislature in 1995, along with the Federal Telecommunications Act of 1996 (FTA), dramatically changed the PUC's role by allowing for competition in telecommunications wholesale and retail services, and by creating a competitive electric wholesale market. In 1999, the Legislature provided for restructuring of the electric utility industry, further changing the PUC's mission and focus. Then, in 2005, the Legislature provided for further deregulation of telecommunications markets with the passage of Senate Bill 5, with further deregulation in 2011 with the passage of Senate Bill 980.

Although the PUC's traditional regulatory functions related to telecommunications regulation have markedly decreased over the past decade, many of those functions have been replaced by other, more challenging responsibilities, particularly in the electric industry. Restructuring of the utility industry is not simply elimination of regulation. Effective oversight of competitive wholesale and retail markets is necessary to ensure that customers receive the benefits of competition, and the PUC continues to perform its traditional regulatory function for transmission and distribution utilities across the state. Additionally, while integrated utilities outside of the ERCOT power grid remain fully regulated by the PUC, the PUC is increasingly involved in multi-state efforts to implement wholesale competitive market structures and transmission planning in the Southwest Power Pool (SPP) and Midcontinent Independent System Operator (MISO) areas.

The passage of HB 1600 by the Texas Legislature in 2013 will transfer regulatory authority for water rates and CCNs from TCEQ to the PUC beginning in September 2014. The legislation also requires the PUC to implement a new-rate setting process, whereby the type and intensity of review is dependent upon the number of connections a utility has at the time an application is submitted. The PUC will adopt rules governing the programs as transferred in July 2014, and subsequently adopt rules to govern the enhanced rate program no later than August 2015.

The PUC's responsibilities under PURA and the Water Code include the following:

#### Electric Power Activities

- Within the Electric Reliability Council of Texas (ERCOT) area
  - Oversight of competitive wholesale and retail markets
  - Oversight of the Electric Reliability Council of Texas (ERCOT), the independent organization responsible for operating the electric grid for approximately 70% of the state and settling the transactions in competitive markets.
  - Jurisdiction over ratemaking and quality of service of investor-owned transmission and distribution utilities
  - Establishing wholesale transmission rates for investor-owned utilities, cooperatives, and municipally owned utilities
  - Licensing of retail electric providers
  - Registration of power generation companies and aggregators
  - Implementation of a customer education program for retail electric choice
  - Order the disgorgement of all excess revenue resulting from a market power abuse violation
  - Overall administration of the System Benefit Fund, including administration of a low-income discount program with automatic enrollment of eligible customers
- Outside ERCOT, continuing the regulation, including rate regulation, of vertically integrated investor owned utilities until retail competition begins; participate in Regional Transmission Organization efforts to plan transmission and enhance wholesale market structures

- Limited appellate rate jurisdiction over certain retail rates of municipally owned utilities for consumers outside the city limits
- Issuance of certificates of convenience and necessity for service areas and proposed transmission lines
- Monitoring industry progress in meeting the renewable energy mandate adopted in the 1999 legislation
- Resolution of customer complaints, using informal processes whenever possible
- Conduct enforcement activities related to the violation of state laws and PUC rules, including the possible issuance of cease-and-desist orders

#### Telecommunications Activities

- Arbitration of interconnection agreements and post-interconnection disputes pursuant to the Federal Telecommunications Act
- Administration of the Texas Universal Service Fund, including the Lifeline program for low-income customers with automatic enrollment of eligible customers
- Administration of the Relay Texas program for deaf and hearing-impaired customers
- Administration of the Audio Newspaper Assistance Program
- Facilitation of the availability of broadband service throughout Texas
- Resolution of customer complaints, using informal processes whenever possible
- Conduct enforcement activities related to the violation of state laws and PUC rules
- Issuance of State Issued Certificates of Franchise Authority to cable providers
- Issuance of Service Provider Certificates of Operating Authority and Certificates of Operating Authority to local service providers
- Review of one-day and ten-day informational filings made by incumbent local exchange companies
- Registration of long distance providers, automatic dial announcing devices, and pay phones
- Setting franchise fee rates for municipalities pursuant to Local Government Code Chapter 283
- Monitoring area code exhaustion and working with the national number administrator to conserve numbers and implement new area codes
- Reviewing tariffs for companies subject to rate regulation
- Administration of the Texas No-Call List

#### Water Activities

- Issuance of certificates of convenience and necessity for retail water and sewer services of investor owned water utilities and certain other water utilities
- Retail rate regulation of investor owned water utilities and limited appellate jurisdiction over retail rates of certain other types of water utilities
- Appellate rate jurisdiction over certain wholesale water rate appeals
- Retail customer assistance and complaints

#### **Affected Populations**

The PUC's functions, as summarized above, affect virtually all citizens of Texas. For utility customers, some of the agency's responsibilities, such as licensing and registering of service providers, have an indirect impact. Others, such as setting rates for regulated electric and water utilities, resolving customer complaints, and approving routes for transmission lines, have a more direct impact. Although the number of persons with whom the agency has direct contact is much lower than the number affected by the PUC's decisions, the PUC considers all persons who use electric, telecommunications, and water services to be customers of the agency. Customer classes and groups of customers often appear before the PUC through representatives, such as the Office of Public Utility Counsel, municipalities, and coalitions of customers with similar interests. However, even when customer groups do not actively participate in



PUC cases or rulemakings, the agency considers their interests based on agency staff review and analysis, which is conducted on all matters that come before the PUC for decision.

The PUC's activities also have direct and important consequences for businesses that provide telecommunications, electric and water services. The level of regulation and oversight for specific types of businesses varies based on where the company provides service and the type of service being provided. For example, with the Electric Reliability Council of Texas (ERCOT), which accounts for approximately 75 percent of the State, the PUC regulates the rates and services of transmission and distribution utilities, establishes wholesale transmission rates, and oversees wholesale and retail competitive markets. Some areas of the State are not subject to electric retail competition, and in those areas electric utilities are still subject to traditional retail rate jurisdiction. In these same parts of the State, wholesale sales of electricity are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC), rather than the PUC. Municipally owned utilities and electric cooperatives are subject to the PUC's retail rate and service quality jurisdiction, but are subject to wholesale transmission rate jurisdiction and wholesale generation market oversight.

### **Public Perception**

The agency works to present clear, understandable information through written educational materials, the PUC website, the power-to-choose website, through direct contact with persons who call or write to the agency, by making personal appearances, and attending community outreach meetings. Also, the PUC carefully considers all public input, particularly input provided in the agency's Customer Service Survey.

## ORGANIZATIONAL ASPECTS

### Organizational Structure and Workforce Characteristics

The PUC is composed of three Commissioners appointed by the Governor, with the advice and consent of the Senate. The Commissioners serve staggered six year terms, with the Governor designating the Commission Chairman. The agency employs an executive director who is responsible for the daily operations of the PUC and for coordinating the activities of PUC staff. The three Commissioners and the Executive Director are exempt from the State Classification Act; all other agency employees are classified employees.

The PUC's current organizational structure is based on the agency's major functional responsibilities and reflects the Commission's mission, goals and objectives as set out in the Strategic Plan. The major program area divisions are Customer Protection, Competitive Markets, Infrastructure and Reliability, Enforcement, Rate Regulation, Legal, and Commission Advising and Docket Management. This structure has been in place since October 2007, when the PUC undertook a comprehensive reorganization to better align the structure with the Commission's statutory responsibilities. The reorganized PUC structure is more dynamic, allowing for easier adaptation to changes in law and the industries the agency oversees.

The PUC had a total of 164.0 Full-Time Equivalent (FTEs) paid from appropriated funds at the end of the second quarter of FY 2014. The agency's FTE cap is 181.0. The agency's staff to management FTE ratio is approximately 12.7:1 for the 2014 fiscal year.

### Geographical Location of Agency and Service Populations

The PUC's offices are located in the William B. Travis Building in Austin, Texas. PUC hearings and open meetings are typically held at this location. The majority of the PUC's administrative hearings for contested case occur at the State Office of Administrative hearings, which is located at the William P. Clements building in Austin. The Commission and staff may conduct hearings and meetings at other locations to receive additional public input on issues and cases that are pending before the Commission. On occasion, the Commissioners or staff may be required to attend training sessions or speaking engagements outside the state. The PUC strictly adheres to its out-of-state travel spending cap each fiscal year. The PUC's service populations are located throughout the state. The decisions and rulings of the PUC either directly or indirectly affect every Texas citizen.

### Human Resources

The PUC is a labor-intensive organization, with 82.7 percent of the agency operating budget being expended for salaries in fiscal year 2013. Agency staff includes engineers, accountants, economists, attorneys, and customer care specialists. Many PUC employees hold advanced degrees or other professional credentials, while technical and paraprofessional staff provides administrative support for the agency. The PUC's staff has a depth of institutional knowledge of all agency programs. The agency's senior administrators and division directors average 13 years of service with the Commission.

Staff turnover is always a concern for the PUC. Through the first half of fiscal year 2014, the agency has operated at approximately 90.6 percent of full-employment. The table on the next page shows the employment level of the PUC since fiscal year 2000. While this is lower than in recent years, it is a function of the restoration of FTEs in the 2013 session that have proven difficult to fill with qualified candidates. The PUC expects to be within 95% of its cap by the end of the third quarter of 2014.

<b>PUC Employment Levels, FY 2000 – FY 2014</b>			
<b>Fiscal Year</b>	<b>*FTE Cap</b>	<b>*Actual FTEs</b>	<b>% of Full Employment</b>
**2014	181.0	164.0	90.6%
2013	167.0	155.7	93.2%
2012	167.0	158.2	94.7%
2011	188.6	172.4	91.4%
2010	188.6	178.9	94.9%
2009	188.6	180.3	95.6%
2008	188.6	171.0	90.7%
2007	210.9	171.3	81.2%
2006	210.9	176.4	83.6%
2005	210.9	184.1	87.3%
2004	210.9	187.7	89.0%
2003	244.0	213.9	87.7%
2002	244.0	224.2	91.9%
2001	242.0	217.7	90.0%
2000	242.0	221.9	91.7%

\*Excludes 100 percent federally funded employees.

\*\* Year-to-Date total for first two quarters of the fiscal year.

Even with the restoration of 14 FTEs in 2014, the agency's FTE cap has been reduced significantly over the past 14 years. Even though the PUC's regulatory responsibilities have not decreased, the agency's FTE cap has been reduced by approximately 25.2 percent since fiscal year 2000. Also, the agency fiscal year FTE average has declined by 24.7 percent over that same time period.

Several factors affect the PUC's ability to maintain a high quality and motivated staff. Most importantly, compensation offered to professionals at the PUC is not generally competitive with the compensation offered in the private sector. Experience gained at the PUC is valuable to companies in the competitive electric and telecommunications industries, and companies in these industries are able to offer salaries that are significantly higher than the PUC can offer. Additionally, the high volume nature and variability of the PUC's work cause individuals to look for jobs with more manageable, less strenuous workloads. The PUC has also seen an increasing number of highly-tenured, senior management personnel leave the agency recently. Four of the Commission's divisions have left the agency since 2012. The PUC's executive salaries lag behind other the salaries of executives at other regulatory agencies, such

as TCEQ, the Texas Railroad Commission, and TDI. Once regulatory authority for water CCNs and ratemaking is transferred to the PUC in fiscal year 2015, the agency anticipates similar factors will affect the Commission's ability to hire and retain staff because the same types of professionals needed for electric and telecommunications work are required to properly oversee water ratemaking and CCNs.

As a means of addressing turnover issues, managers and supervisors oversee work assignments to support employees' professional development in a manner consistent with the abilities of individual employees. In order to compliment these internal professional development efforts, the PUC is committed to providing staff with opportunities to attend continuing education courses and subject matter conferences to enhance their educational background and skills. Both internal and external professional development efforts help to ensure employees remain informed and knowledgeable about changes in technology and law in order for the Commission to be a viable and credible regulator of the electric and telecommunications industries.

The PUC also offers flexible work schedules and telecommuting opportunities where applicable, to improve overall job satisfaction and employee productivity. Furthermore, the Commission administers a comprehensive employee recognition program, created in 2008, to acknowledge the accomplishments of individuals and teams whose contributions towards furthering the PUC's mission surpass all expectations.

### **Capital Assets**

The PUC's capital assets are comprised of computers, printers, network infrastructure, and office furniture. The Commission occupies leased space in a State-owned building and does not have any vehicles. The capital needs of the agency are technology related and are essential to the daily operations and fulfilling the PUC's mission. The PUC's computers, including software, and printers are acquired through a series of four-year leases. Currently, the agency has 12 agency copiers/printers and 30 network printers.

### **Agency Use of Historically Underutilized Businesses**

The Commission has an extensive process to maximize HUB utilization for contracted services. The PUC's purchaser reviews each individual purchase to consider whether a HUB opportunity exists. If a HUB opportunity does exist, and the method of procurement through a HUB vendor will result in the best value for the agency and the State, Purchasing will make arrangements to make the purchase through such means. On a monthly basis, the purchaser compiles a report describing the number of HUB vendors used for the previous month and the amount of money spent with each vendor. The HUB Coordinator then provides this report with appropriate feedback for the Executive Director and other Senior Level staff to analyze and discuss performance shortfalls and to develop ways to meet and exceed the agency's and the State's HUB goals.

The PUC's HUB plan is included within Goal D, Indirect Administration, in the State budget. The PUC actively encourages procurement and contracting opportunities with HUBs. Although the PUC is committed to recruitment and promotion of HUBs, the nature of the agency's activities limits procurement and contacting to State categories of Professional Services, Other Services, and Commodities. As the following table illustrates, the PUC far exceeded the statewide goals for HUB utilization in all of the categories in which the agency procures contracted services.

FISCAL YEAR 2013				
Category	Total \$ Spent	Total HUB \$ Spent	Percent	Statewide Goal
Heavy Construction	-	-	-	11.90%
Building Construction	-	-	-	26.10%
Special Trade	-	-	-	57.20%
Professional Services	\$7,500	\$7,500	100.0%	23.60%
Other Services	\$3,584,250	\$1,569,773	43.80%	24.60%
Commodities	\$385,429	\$197,309	51.19%	21.00%
<b>TOTAL</b>	<b>\$3,977,179</b>	<b>\$1,774,582</b>	<b>44.62%</b>	

The Commission encourages HUBs to register as vendors with the Texas Comptroller of Public Accounts (CPA). The PUC's website provides links to the CPA website to make it easier for HUBs to register and become certified. The PUC's website also provides information on the agency's Mentor/Protégé program and other purchasing related information.

In addition to working with other state agencies to sponsor joint agency HUB events, PUC staff attends Economic Opportunity Forums to help increase the use of HUBs. In addition to these outreach efforts, the Commission participates in monthly HUB discussion workgroups with other agencies.

**Use and Anticipated Use of Consultants**

The PUC uses consultants to provide services that the agency does not have the internal resources to provide. The Commission currently outsources the following functions:

Administration of the Electric Low-Income Discount Program and Lifeline Program

PURA §17.007 requires the PUC to develop an integrated eligibility and enrollment process for customer discounts provided pursuant to PURA §§39.903 and 55.015. PURA §39.903 provides for a reduced electric rate for eligible customers in areas of the state where retail competition exists. PURA §55.015 relates to the Lifeline program, which provides discounts to low-income telephone customers pursuant to federal law, 47 C.F.R. Part 54, Subpart E. PURA §56.021 authorizes the PUC to use the Texas Universal Service Fund to finance the implementation and administration of an integrated eligibility and automatic enrollment process for the Lifeline program. The PUC has a contract with Solix Inc. to administer the enrollment process for the electric low-income discount and Lifeline programs. Although the System Benefit Fund (SBF) expires at the end of FY 2016, the PUC will have an ongoing need to contract for the administration of the Lifeline program funded by the Universal Service Fund (USF). The current contract term expires in September of 2015.

#### Universal Service Fund Administration

The PUC has a contract with Solix Inc. for the administration of the USF. The PUC is authorized to “act as necessary and convenient to administer the fund and [PURA Chapter 56].” Although the current contract term expires in September of 2014, the PUC has an ongoing need to contract for USF fund administration, which is paid by the USF that is held outside of the treasury.

#### No-Call List Administration

The PUC administers the State’s “no-call” list, which are databases compiling the names and telephone numbers of consumers who object to receiving unsolicited telemarketing or telephone calls. The “no-call” list is created by §43.101-43.014 of the Texas Business and Commerce Code, and authorized the PUC to contract with a private vendor to maintain the no-call list. Additionally, PURA §39.1025 authorizes the Commission to outsource the operation of a database of customers who do not wish to receive telemarketing calls regarding retail electric service. Under the PUC’s arrangement with its contractor, the contractor is compensated through sales of the no-call list to people and entities that are required to comply with the law. Although the current contract term expires in September of 2014, the PUC has an ongoing need to contract for this service.

#### Relay Texas Service

Relay Texas is a telecommunications program that allows hearing and speech impaired persons access to the State’s telecommunications network equivalent to the access provided to other customers. PURA §56.108 requires the PUC to select one telecommunications carrier to provide the statewide telecommunications access service. PURA §56.021 authorizes the PUC to reimburse the telecommunications carrier that provides this service from the USF. Although the current contract term expires in December of 2016, the PUC has an ongoing need to contract for this service.

#### Conservation Educational Outreach Campaign

PURA §39.902 requires an ongoing customer education program that informs customers about changes in the provision of electric service. As part of that program, the PUC issued a request for proposal in February 2012 for a consultant to assist the PUCT in developing and executing strategies for the development and operation of an education outreach program that emphasizes the benefits to Texas and retail consumers of energy conservation, particularly during peak usage periods. The outreach includes the development of a website ([www.powertosavetexas.org](http://www.powertosavetexas.org)) that serves as a central location for information on energy conservation programs, the development of a summer peak energy savings challenge, coordination with Smart Meter Texas education on utilizing smart meter data to manage energy usage and possibly lower electricity costs, and the development of resources for educators and Texas students related to energy usage. The current contract term expires in September of 2014.

In May 2014, the PUC issued a request-for-proposal (RFP) for a consultant to develop a middle school energy conservation outreach program to work in conjunction with the other outreach efforts put forth on the Power-to-Save website. The contractor will create and disseminate educational materials, classroom exercises, and lesson plans relating to the programs message to middle schools in Dallas, Harris, and Hidalgo counties. This contract term will expire in June of 2015.

### Market Oversight Consulting Services

As a part of electric utility restructuring enacted by the Legislature in 1999, the PUC is required by PURA §39.157 to oversee competitive wholesale electricity markets in ERCOT. It is necessary to retain outside consultants who are experts in the fields of market design and quantitative analysis of market transactions and behavior. Recruiting qualified employees at state compensation rates is not feasible for the advanced level of work that is required; therefore, it is more cost-effective to obtain specialized expertise only when it is necessary. The Commission enters into consulting contracts on an as needed basis to work on market design issues and wholesale market enforcement matters.

### Independent Market Monitor

PURA §39.1515 requires ERCOT to contract with an entity selected by the Commission to act as the Commission's independent market monitor to detect and prevent market manipulation strategies and recommend measures to enhance the efficiency to the wholesale market. Potomac Economics has operated as the Independent Market Monitor since being selected in 2006. Although the current contract term expires in January of 2016, the PUC has an ongoing need to contract for this service.

### Live Broadcasting of PUC Hearing and Open Meetings

PURA §12.204 requires the PUC to make all Commission public hearings and meetings publicly assessable via live internet video without charging a fee. The PUC contracts with TexasAdmin, Inc. to provide this service to the public free of charge. Furthermore, PURA also authorizes the Commission to recover the costs of providing this service from certain public utilities, retail electric providers, power generation companies, and telecommunications companies. Although, the current contract term expires in September of 2014, the PUC has an ongoing need to contract for this service.

### Competitive Renewable Energy Zone Oversight

PURA §39.904 requires the Commission to develop a plan to construct transmission capacity necessary to deliver to electric customers, in a manner that is most beneficial and cost-effective to the customers, the electric output from renewable energy technologies in the competitive renewable energy zones. The PUC initiated CREZ development in January of 2007 and designated CREZ zones in 2008. The Commission's final order in Docket 35665, which selected the transmission and distribution utilities responsible for building CREZ projects, delegated authority to the agency's Executive Director to "select, engage, and oversee persons with responsibility for oversight of the planning, financing, and construction of all CREZ facilities to ensure that the facilities are completed in a timely manner." Additionally, the final order required the electric transmission companies responsible for completing CREZ projects to pay the costs associated with retaining the project oversight monitor. The current contract term expires in January of 2015. The PUC does not have an ongoing need for these services, as the project will be closed out with the expiration of the current contract.

### Reliability Monitor for the ERCOT Region

The PUC has a contract with the Texas Reliability Entity (TRE) to monitor, investigate, audit and report to the PUC regarding compliance with reliability related protocols, operating guides, and reliability-related provisions of PUC Substantive Rules by ERCOT and ERCOT market participants. The TRE provides enforcement activity support and evaluates network operations and recommends measures to enhance network reliability to improve system design. The current contract term expires in January of 2016.

Energy Future Holdings Change in Control Review

The PUC issued an RFP on May 12, 2014 for an entity to provide technical consulting services in order to assist the PUC in reviewing and evaluating a change in control filing by Energy Future Holdings for Oncor Electric Delivery. The selected entity will be required to assist the PUC in determining whether the transaction is consistent with the public interest pursuant to PURA §§39.262 and 39.915, as well as any other legal or factual determinations that are necessary as a part of the filing review. The work may also include participating in contested case and compliance hearings on behalf of PUC staff. The PUC anticipates executing this contract by June 25, 2014. The contract will expire after the contested case and subsequent compliance proceedings have concluded which the PUC projects being in late 2014 or early 2015. There may be a need for additional consultants in 2015 or 2016 if the owners of Oncor Electric Delivery engage in subsequent transactions.



### III. FISCAL ASPECTS

#### Budget Size and Method of Finance

The PUC received the following appropriation for the 2014-2015 fiscal biennium:

FUND	FISCAL YEAR 2014	FISCAL YEAR 2015
General Revenue	\$4,704,205	\$4,713,376
GR Dedicated System Benefit Fund	\$621,277,550	\$124,241,572
- <i>Electric Market Oversight</i>	\$7,070,726	\$7,070,726
- <i>Low-Income Discount</i>	\$612,649,273	\$115,613,295
- <i>Customer Education</i>	\$750,000	\$750,000
- <i>Administration</i>	\$807,551	\$807,551
GR Dedicated Water Res. Mgmt. Acct	\$0	\$1,613,818
Appropriated Receipts	\$475,000	\$475,000
<b>TOTAL</b>	<b>\$626,456,755</b>	<b>\$131,043,766</b>

The PUC receives the majority of its appropriation from General Revenue – Dedicated System Benefit Account No. 5100 (System Benefit Fund or SBF). This fund, which was established in 1999 as part of the electric restructuring legislation, was financed by a nonbypassable fee set by the PUC in an amount not to exceed 65 cents per megawatt hour of usage and was charged to customers in areas of the state having retail competition. Utilities Code § 39.9039 authorizes money in the System Benefit Fund to be appropriated to provide a low-income rate reduction program in fiscal years 2014-2016, and for customer education programs and administrative expenses incurred by the PUC in implementing Chapter 39 of PURA.

The amounts appropriated to the PUC from the System Benefit Fund for the low-income electric discount program and customer education are appropriated in Goal 3, Electric Restructuring. Appropriations for the discount program are not transferrable to other functions or activities.

As the PUC's workload has progressively shifted to matters related to electric restructuring, the Legislature has chosen to fund an increasing portion of the PUC's operational budget from the SBF, culminating in the 2014-15 General Appropriations Act funding a majority (62.50%) of agency operations from the System Benefit Fund. The legislature increased PUC operational funding from the System Benefit Fund from \$5.9 million during the 2010-11 fiscal biennium to \$17.3 million for the 2014-15 fiscal biennium. This represents an increase of approximately 293.2 percent.

In light of the large fund balance that had accrued in the SBF account, HB 7, 83<sup>rd</sup> Legislature, Regular Session, 2013, discontinued collection of the SBF fee on August 31, 2013 and set a sunset date for the underlying SBF statute and low-income discount program of September 1, 2016.

As such, no appropriations may be made from the SBF for fiscal year 2017. Therefore, the PUC will be requesting a Method-of-Finance (MOF) swap from SBF to General Revenue to fund current activities funded by the SBF, with the exception of the low-income electric discount program as that program will statutorily cease to exist. Those functions include wholesale and retail electric market oversight, the customer education program required by PURA §39.902, and other activities related to the administration of PURA Chapter 39, Restructuring of the Electric Utility Industry. Based on current appropriation levels, the MOF swap would total approximately \$8.6 million each fiscal year, resulting in total General Revenue appropriations of \$18,045,858 for the biennium.

PURA §16.001 imposes a gross receipts assessment on each public utility, retail electric provider, and electric cooperative within the jurisdiction of the PUC that serves the ultimate consumer, including each interexchange telecommunications carrier. The revenues generated by this assessment are deposited into the General Revenue Fund. The assessment is set in statute at a rate of one-sixth of one percent of gross receipts from the sale of electric and telecommunications services to Texas customers and was implemented in order to “defray the expenses” of the state when the PUC was created. This assessment, which is collected by the Comptroller of Public Accounts, totaled approximately \$55.5 million in fiscal year 2013. However, the PUC has been funded through a direct General Revenue appropriation that is not directly tied to this assessment. All but 4 Article VIII agencies are designated as self-funded; meaning appropriations for those agencies is limited to the revenues collected from the entities regulated by the agencies. The 4 agencies not designated as self-funded are the PUC, the Office of Public Utility Counsel, the State Office of Administrative Hearings, and the Health Professions Council. Because the gross receipts assessment generates more than sufficient revenues to fund the PUC’s electricity and telephone-related work, the PUC currently anticipates requesting self-funded status in the Commission’s FY 2016-17 Legislative Appropriations Request. Furthermore, the PUC is contemplating a request to become a self-leveling agency, which would require the Commission to limit revenues collected from companies under the Commission’s jurisdiction to the amount of funding appropriated to regulate those companies. This request would require legislation to be passed to amend PURA §16.001.

The Commission expects to request additional FTEs and appropriation authority to carry out the functions as transferred in fiscal year 2015. The PUC believes that the 20.0 FTEs and associated appropriations will not be sufficient to oversee the functions being transferred from TCEQ. For example, the FTE transfer only includes 1 engineer to work on all water-related CCNs. The Commission’s Legislative Appropriations Request (LAR) will detail the resources needed to prospectively govern water rates and CCNs effectively and efficiently. Also, the PUC also anticipates requesting additional funds from Water Resource Management Account No. 153. Based upon an initial resources assessment, the PUC believes that a minimum of 20.0 additional FTEs, and the associated appropriation authority, will be required to adequately administer the enhanced ratemaking process that will begin in fiscal year 2016.

The PUC receives an Appropriated Receipts appropriation in the amount of \$475,000 each fiscal year. This includes \$465,000 in reimbursements from the Universal Service Fund for certain telecommunication industry regulation activities performed by the PUC and \$10,000 for the sale of printed, recorded, or electronically produced matter or material.

### **Comparison to Other States**

A comparison of the PUC’s budgetary needs to those of similar agencies in other states is difficult because of the unique regulatory environment within Texas. The Texas PUC has jurisdiction over the wholesale electric market in ERCOT; FERC has jurisdiction over wholesale markets in all other contiguous states. Also, the size of state public utility regulatory agencies varies based on state population, the agency’s scope of authority, and whether the state has implemented market competition.

The PUC sent a request-for-information in April 2014 to the public utility and public service commissions (PUC/PSC) in states most often compared to Texas (California, New York, Florida, Pennsylvania, Illinois and Michigan). The request asked for the total agency operating budget, minus pass-through funding, and number of FTEs for fiscal year 2013. Based on the responses received, in fiscal year 2013, the Texas PUC had the fewest FTEs and smallest operating budget. Of the respondents, Pennsylvania has the largest number of FTEs and New York has the largest operating budget. Based on information provided by NARUC, the Michigan PSC has the second fewest FTEs with 190.0, while the Florida PSC has the second smallest annual budget at approximately \$25.8 million. The table below shows a comparison of PUCs/PSCs FTEs and the industries regulated by each. Since the majority of

agencies did not respond with operating budget totals, a comparison cannot be made due to the inclusion of pass-through funding published budget documents. Note that the table does not contain water functions for the Texas PUC, as that function does not transfer until 2015 and 2015 data was not available for each state.

<b>AGENCY</b>	<b>FTEs</b>	<b>INDUSTRIES REGULATED</b>
NY PSC	469	Electric Telecom Water/Sewer Natural Gas Steam
California PUC	1,046	Electric Telecom Water/Sewer Natural Gas Transportation Steam
Florida PSC	293	Electric Telecom Water/Sewer Natural Gas Steam
Penn PUC	520	Electric Telecom Water/Sewer Natural Gas Transportation
Michigan PSC	190	Electric Telecom Natural Gas Transportation Steam
Texas PUC	181	Electric Telecom

**Budget Adequacy and Limitations**

Although the PUC’s budget is adequate to accomplish its statutory responsibilities, the agency is constrained by certain budgetary limitations. First, the PUC’s State-funded operational budget, not including the Low-Income Discount program, has been reduced by approximately 27.7 percent since fiscal year 2003. During this same period, the PUC’s FTE cap has been reduced by 61.0 FTEs, or 25.2 percent. The Legislature’s restoration of 14 FTEs in the 2013 session was critical to ensuring the PUC can continue to meet its responsibilities.

Beginning in fiscal year 2015, the PUC will receive appropriations from Water Resource Management Account No. 153 to fund activities related to the oversight of water CCNs and ratemaking. The PUC’s 2015 appropriation of approximately \$1.6 million is sufficient to fund these activities. However, the legislation that transferred authority for these functions to the PUC requires water utilities to be divided into three classes for ratemaking purposes beginning in fiscal year 2016. The enhanced ratemaking process for utilities with 10,000 or more connections will be more work-intensive and require more staff than currently work on rate proceedings for these companies. Based on information provided by TCEQ, HB 1600 estimated that these enhanced regulatory programs would require an additional 12.0 FTEs and \$1.1 million each year from the Water Resource Management Account. Based upon a preliminary resource assessment, which included input from TCEQ, the PUC projects an ongoing need for an additional 20.0 FTEs to effectively regulate rates for water utilities beyond fiscal year 2016.

Budget riders in the General Appropriations Act place restrictions on the use of PUC funds. However, the PUC complies with all caps on spending and FTEs.

**2. Capital Budget.** None of the funds appropriated above may be expended for capital budget items except as listed below. The amounts shown below shall be expended only for the purposes shown and are not available for expenditure for other purposes. Amounts appropriated above and identified in this provision as appropriations either for “Lease Payments to the Master Lease Purchase Program” or for items with a “(MLPP)” notation shall be expended only for the purpose of making lease-purchase payments to the Texas Public Finance Authority pursuant to the provisions of Government Code §1232.103. Upon approval from the Legislative Budget Board, capital budget funds listed below under “Acquisition of Information Resource Technologies” may be used to lease information resources hardware and/or software versus the purchase of information resources hardware and/or software, if determined by commission management to be in the best interest of the State of Texas.

	<u>2014</u>	<u>2015</u>
a. Acquisition of Information Resource Technologies		
(1) Data Center Consolidation	\$450,826	\$459,998
Total, Capital Budget	<u>\$450,826</u>	<u>\$459,998</u>
Method of Finance (Capital Budget):		
General Revenue Fund	\$450,826	\$459,998
Total, Method of Finance	<u>\$450,826</u>	<u>\$459,998</u>

**3. Transfer Authority.** The Public Utility Commission shall not transfer an appropriation to or from any item under Strategy C.1.1, Energy Assistance, and shall not expend amounts above those appropriated above in Strategy C.1.1, Energy Assistance.

**4. System Benefit Account Reporting.** The Public Utility Commission shall submit a quarterly report to the Legislative Budget Board and the Governor on revenues and expenditures made from the GR Dedicated – System Benefit Account No. 5100. The report shall be submitted with documentation as specified by the Legislative Budget Board and the Governor.

**5. Unexpended Balances Authority.** The unobligated and unexpended balances of appropriations to the Public Utility Commission for the fiscal year ending August 31, 2014 are hereby appropriated to the commission for the same purposes for the fiscal year ending August 31, 2015.

**6. Sunset Contingency.** Funds appropriated above for fiscal year 2015 for the Public Utility Commission are made contingent on the continuation of the Public Utility Commission by the Eighty-second Legislature. In the event that the agency is not continued, the funds appropriated for fiscal year 2014 or as much thereof as may be necessary are to be used to provide for the phase out of the agency operations.

**8. Allocation of System Benefit Account.** Appropriations from the GR Dedicated-System Benefit Account No. 5100 have been allocated throughout this Act for the 2014-15 biennium as follows:

	<u>2014</u>	<u>2015</u>
Public Utility Commission:		
Electric Market Oversight Contracts Wholesale and Retail Market	\$7,070,726	\$7,070,726
Low-Income Discount	\$612,649,273	\$115,613,295
Customer Education	\$750,000	\$750,000
Administration	\$807,551	\$807,551
<b>Total</b>	<b>\$621,277,550</b>	<b>\$124,241,572</b>

**9. Low Income Discount.** All amounts appropriated above in Strategy C.1.1, Energy Assistance, shall only be expended to provide a discount of up to 82 percent during the months of September, 2013, and May through August, 2014, and to provide a discount of up to 15 percent for the months of September, 2014, and May through August, 2015, pursuant to §39.9039(b), Utilities Code.

**10. Contingency for HB 7.** Included in amounts appropriated above in Strategy C.1.1, Energy Assistance, is \$500,000,000 in GR Dedicated – System Benefit Account No. 5100 funds in fiscal year 2014 for the purpose of §39.9039, Utilities Code under the provisions of HB 7, Eighty-third Legislature, Regular Session, 2013.

**11. Contingency for HB 1600.** Included in the amounts appropriated above in Strategy A.2.1, Utility Regulation, is \$1,429,818 in Water Resource Management Account No. 153 funds and 20.0 FTEs in fiscal year 2015 to carry out the functions related to the economic regulation of water and sewer services. Also included in the amounts appropriated above in the same strategy is \$184,000 in Water Resource Management Account No. 153 funds in fiscal year 2015 to cover the cost of the contract with SOAH for water and utility case hearings.

**Capital and/or Leased Needs**

The capital needs for the PUC are composed of information technology resources relating to hardware/software and services. Each item is provided through an ongoing lease or managed services agreement. These items include a digital copier lease, Microsoft Enterprise Agreement, desktop computer lease, and the State Data Center services contract. Each of these capital budget items is an integral part of the PUC's daily operations and is an ongoing cost that will be outlined in the LAR and Biennial Operating Plan.

## **SERVICE POPULATION DEMOGRAPHICS**

All individuals, organizations, businesses, and governmental entities that use electricity or water are affected either directly or indirectly by the actions of the PUC. Fewer telecommunications customers are affected by PUC actions than in the past because of changes in the telecommunications industry and applicable law.

### **Electric Service Provider Customer**

The geographical location and the historical electric provider for an area affect the PUC's jurisdiction, and therefore the extent to which the agency provides services. The Commission has very limited jurisdiction over electric cooperatives, so customers of those companies are less affected by PUC activities than other electric customers. Customers of municipally-owned utilities (MOUs) who reside outside the city limits can appeal rate decisions of the MOUs governing body to the PUC. Customer choice has been delayed in certain areas, including the Panhandle, El Paso area, and eastern portions of the state, so the PUC continues to regulate investor-owned electric utilities in those areas.

The introduction of retail customer choice on January 1, 2002 significantly changed the Commission's role within the ERCOT territory. The PUC's focus shifted from traditional rate regulation to customer protection, market oversight, and enforcement, although the Commission continues to regulate the rates and service quality of transmission and distribution utilities. Retail Electric Providers (REPs), Aggregators, and Power Generation Companies, are not regulated in the traditional sense, but must register with or be licensed by the PUC and are subject to customer protection and market rules adopted by the Commission.

### **Telecommunications Customers**

The telecommunications industry has undergone extensive changes in the past 19 years. Competition in local telecommunication markets has become increasingly intermodal; meaning traditional land-based telephone companies compete with wireless telephone providers and cable television/video service companies that also offer telecommunications service. The result is that many customers are served by wireless and Voice Over Internet Protocol companies, which the PUC has very limited jurisdiction over. In 1995, the Legislature enacted Chapter 65 of PURA, which provides for the deregulation of certain local telephone markets. As a result, the Commission no longer has regulatory authority over a vast majority of the local telecommunications lines in Texas, which are mostly located in large metropolitan areas. The PUC remains responsible for regulating rural phone companies, including TUSF support.

### **Low-Income Customers**

The PUC administers two programs that benefit low income electric and telecommunications customers. Eligibility requirements for the programs are somewhat different, but are based on income requirements or on participation in other programs targeted at low income populations. Eligible customers are enrolled either through an automatic enrollment process administered in conjunction with the Texas Health and Human Services Commission, or through self-enrollment. The PUC has outsourced the administration of program enrollment and creation of the list of eligible customers that is provided to electric and telephone companies.

PURA §39.903 provides for low-income customers of REPs to receive a discount off their electric bills. This program, which is funded by the System Benefit Fund, provides a discount reduction off electric rates. The Legislature appropriated approximately \$612.6 million in fiscal year 2014 and

approximately \$115.6 million in fiscal year 2015 for the program. The program served approximately 877,000 unique participants in fiscal year 2013.

The PUC also administers the Lifeline program, which is a telephone assistance program that provides reduced rates for telephone service. The Lifeline program is funded by the Texas Universal Service Fund (TUSF) and federal Universal Service Fund. The relative amounts of contributions are set out in 16 T.A.C. §26.412(c)(2). The TUSF is funded by a statewide uniform charge of assessment rate payable by each telecommunications provider, *i.e.*, local, long distance, and wireless carrier that has access to the Texas Customer base. Currently, there are approximately 600,000 customers enrolled in the program each month.

### **Customer Education**

PURA § 39.902 requires the PUC to conduct ongoing customer education designed to help customers make informed choices concerning electric services and retail electric providers. These education efforts are targeted at electric customers in areas open to retail competition, including low income and non-English-speaking customers. Currently, the PUC is utilizing third-party contractors to increase customer knowledge regarding energy conservation, specifically during peak usage summer months. The PUC will continue to amend the agency's comprehensive customer education program to align with the ever changing issues facing Texas electric customers.

### **Water Customers**

The PUC's primary regulatory responsibilities for water and sewer service pertain to retail rates of investor owned utilities (IOUs) issuing certificates of convenience and necessity, and appellate jurisdiction over certain wholesale rate appeals. The state of Texas has between 550 and 600 IOUs providing water and sewer service with greater than 200,000 connections throughout the state. The PUC will inherit approximately 400 pending applications on September 1, 2014. The decisions in those proceedings, as well as all subsequent filings, will affect a large portion of the state's population. The PUCs jurisdiction over rates customers served by a city, but who do not live within that city's limits, is broadly analogous to that of electric MOUs.



## SELF-EVALUATION AND OPPORTUNITIES FOR IMPROVEMENT

The PUC has the opportunity to help make Texas a national leader by helping its citizens obtain the benefits of competition, while ensuring that service remains reliable and affordable. As customers become more familiar with purchasing telecommunications and electric services in competitive markets, companies that once served as monopoly providers learn how to operate in a competitive market, and new companies enter the emerging competitive markets, a larger portion of customers will be able to reap the benefits of the legislative reforms that have occurred over the past 15 years.

The PUC is required often to implement new laws and programs for which there is little or no historical guidance. Many PUC decisions present issues of first impression, and involve extensive stakeholder participation and staff analysis. The issues addressed by the Commission affect virtually all Texans, and the Commissioners and staff are very conscious of the importance and impact of the Commission's work.

PUC staff fully understands the importance of water issues to the state of Texas. With the inclusion of water ratemaking under the PUC's regulatory umbrella in fiscal year 2015, the PUC is dedicated to improving the process by which rates are set. The PUC is hosting a water issues summit on July 22, 2014 to give legislative staff an opportunity to better understand the state of water in Texas, and to hear subject-matter experts discuss ideas for improving the ratemaking process. Furthermore, PUC staff is planning to meet with elected officials and the public in areas of the state where approved rates and the ratemaking process have been contentious in the past. The goal of these meetings is for the PUC to listen to the concerns of local officials and other interested parties prior to becoming responsible for setting water rates. Water utilities have considerably fewer customers than most of the electric and telecommunications utilities regulated by the PUC. The PUC is committed to finding a balance between the regulatory oversight contemplated by HB 1600 and the need for streamlined mechanisms to ensure the costs of regulatory compliance are manageable for smaller utilities.

Similarly, expenses to utilities (and ultimately consumers) of conducting rate proceedings at the PUC can be significant. The PUC is in the process of revising its rate-filing package to remove unnecessary and costly requirements as well as amending its procedural rules to provide clearer standards for rate-case expense recovery and reduce expense due to duplicate or burdensome discovery procedures. The PUC will continue to examine methods to lower the cost of processing rate proceedings while still retaining adequate due process and regulatory oversight.

PUC Internal Audit staff completed an audit of the agency's contract monitoring processes and procedures on March 28, 2014. The audit found that overall controls governing the contract monitoring process could be strengthened. Specifically, Internal Audit found opportunities for improvement in the areas of: (1) documented policies and procedures related to contract monitoring; (2) training provided to contract administrators relating to contract monitoring; and (3) enhancement to the contract database. The PUC is in the process of finalizing an official agency-wide contract management procedures guide. Also, the PUC is reviewing bids on developing a contract management database. The database will allow responsible agency staff to monitor the contract from inception to closeout, as was recommended by the audit.

The Commission examines means for improving agency performance in each aspect of operations. In fiscal year 2013, the PUC exceeded the targeted performance for two of its most crucial performance measures. First, the price of electricity in the ERCOT region was 98.75 percent of the national average per kWh. The ERCOT market uses natural gas as the fuel for approximately 40 percent of generation output (as compared to 15-20 percent nationally) and natural gas generation typically sets

the price in the wholesale market. Second, the total number of complaints concluded was lower than anticipated, which is desirable as the number of complaints received was lower than historical levels. The PUC concluded approximately 8,500 complaints, 4,500 fewer than anticipated. The goal of the PUC's informal compliant resolution process is compliant with all applicable laws and rules. Receiving and concluding fewer than anticipated complaints is an indication that the process established by the Commission's Customer Protection Division is having the desired effect.

The PUC failed to attain the desired level of performance on a measure that is a key indicator of the agency's efficiency. The electronic distribution of outreach and informational materials is the most efficient way to disseminate information to assist utility customers who purchase services in competitive markets in selecting providers and choosing services and rate plans that are appropriate for the customer's needs. The Commission is committed to operating in the most efficient manner, and will improve upon this prospectively.

The Commission regards the Report on Customer Service and Survey of Employee Engagement as opportunities to improve both external and internal communication. Both documents will be analyzed as a means of assessing best practices for future communications. The Commission understands the importance of communicating the agency's mission and initiatives to the public, as well as effectively communicating the processes by which these will be achieved to PUC staff.

The PUC has undergone a significant turnover of senior management over the last three years due to loss of senior agency personnel to retirements and private sector opportunities and expects additional departures due to retirement in the next several years. The Commission continues to explore opportunities to provide management and leadership training to new managers and identify succession planning strategies to mitigate the impacts of these departures.

## TECHNOLOGICAL DEVELOPMENTS

The PUC relies on information technology and services that are secure and operationally and economically sustainable. This requires a strategic consolidation of information technology, the development of business applications that leverage the advantages of cloud computing and a secure infrastructure to safeguard sensitive and confidential data through strong privacy and data security practices. Additionally, the PUC will use data resources and analytical capacities to convert data into information that departments can use to make informed policy decisions, administer programs, reduce costs, and better serve constituents. All current and future technology projects will continue to support agency activities, with a focus on the PUC's mission, goals, and objectives using the 2014-2018 State Strategic Plan for Information Resources Management as a guide.

### Impact of Technology on Agency Operations

The Commission is a participant in the Data Center Services (DCS) project and has an on-going dialogue with Department of Information Resources (DIR), Cap Gemini, and Xerox on how to utilize the shared data center and disaster recovery services toward helping the agency build a more secure, agile, and cost-effective infrastructure for the delivery of agency IT services. The consolidated data center will give the agency equal access to advanced technologies and will maximize agency resources by leveraging economies of scale. Most importantly, by coordinating and sharing resources at the statewide level, the agency can focus more of its technology resources on agency-specific applications.

The Commission is migrating agency applications to web based applications not only to improve access to services, but also to help streamline and improve agency business processes. While the most visible example of electronic services is seen on the agency portal, virtually all agency applications have been converted to web based applications and the information and services are delivered online. These web-based applications allow customers to transact business with the agency from any location at their convenience.

The Commission continues to implement a comprehensive security program to leverage and manage all of its critical information and communications technology assets. PUC routinely conducts periodic assessments of technology security through a penetration test conducted by DIR. As part of this effort, DIR identifies risks in network and application security and the agency responds by remediating the risks.

The Commission actively seeks opportunities to develop a comprehensive security program that protects the agency's information and communications technology assets and infrastructure. The Commission developed a set of security policies based on documented risks and in compliance with DIR's administrative rule. The Commission, working with DIR, Cap Gemini and Xerox, has developed a Disaster Recovery Plan (DRP) to reflect the agency's transformed environment to the State Data Center.

The Commission recognizes the need for the information and services to be usable by all of its customers who need or want them. Agency information is increasingly distributed through electronic means over the Internet. Customers can access information and services at their own convenience. The agency is making it easier to obtain information by designing an easy-to-navigate web site. The agency will continue to assess and evaluate its website to make sure it is ordered around functional areas rather than agency organizational structures. It will continue to enhance the search and browse capabilities to help users locate what they need. The agency will continue to follow and implement DIR rules relating to the development and monitoring of its website to provide access to individuals with disabilities.

With limited resources for technology projects, the commission approaches technology planning from an enterprise-wide perspective to ensure that technology projects and purchases are driven by a solid business case. Projects with a technology component are subject to an internal approval process, including a business justification and cost analysis. Representatives from all program areas communicate with the Information Resource Manager on technology projects which are prioritized from an agency-wide perspective.

Commission management and staff recognize the need to utilize, to the extent possible, collaboration and resource sharing with the other state agencies to ensure effective use of current technology assets. Collaboration offers the Commission the opportunity to access skills, technologies, and products that would otherwise be out of reach due to cost. The Commission will explore these partnerships in the next biennium. The responsibility to deploy innovative, value-added solutions to meet state agency core missions will require the ability to share resources for the common good of the State.

New and improved information technology procured through strategic outsourcing to private sector partners and implemented with Commission oversight can provide a cost-effective option for resilient, reliable, and secure systems. The rapid advancement of computing technology in recent years has prompted the software industry to rise to the occasion and create better solutions, bringing about greater benefits to the community of consumers.

Integration of commercial solutions with State of Texas systems often require custom applications and enhancements that are more cost efficient to be performed and maintained by agency staff. When the business units purchase commercial software, they might face the fact that there are problems with installing the software and adapting it to that division's goals and objectives. When commercial solutions do not provide the business value needed, the Commission uses custom applications and enhancements to meet the agency's unique software requirements.

### Impact of Anticipated Technological Advances

The Commission has integrated technology into all aspects of its operations. Integration will continue to be in direct support of the goals of the agency. In addressing the agency's information resource objectives, the following common goals were identified:

- update the aging information technology systems;
- improve the ability for analysis and reporting to provide the necessary business intelligence for executing Commission policy; and
- develop and continuously analyze the Commission's business systems for process improvement where new systems can be implemented that will address existing gaps and reduce total cost of operation.

Most recently, in cooperation with the accounting, budget, and internal procurement, the Commission will migrate to the Centralized Accounting and Payroll/Personnel System (CAPPS) a secure web-based application hosted by the State Comptroller, which will provide better administrative reporting and access. The agency has also migrated to Microsoft Office 365 offering anywhere access to cloud-based email, web conferencing, file sharing, and Office Web Apps.

The Commission has worked to adapt and deploy technology solutions that support the agency's goals and objectives. The Commission has implemented these solutions in concert with statewide

strategies described in the 2014–2018 State Strategic Plan for Information Resources Management, which include the following major information systems in use at the agency:

Application	Description
PUC Website	This site provides efficient customer service to both consumers and industry participants. The PUC Application Portal provides single sign-on access to agency reporting systems. This has increased the availability of information to the public and increased productivity for staff.
PUC Customer Complaints System	The Customer Protection Division uses an automated management system to process thousands of complaints against service providers each year. The system interfaces with the agency’s online complaint form and allows complaint investigators to track all information relating to a complaint.
PUC Electronic Data Interchange	The PUC Interchange is an electronic document filing system that provides free access to all documents filed with the PUC. The data includes Projects, Dockets and Tariff applications.
PUC Company Registration	The PUC has launched an online registration system for electric and telecommunications companies that are required to register with the Commission on an annual basis.
PUC Open Meetings Webcast	Through a contract with TexasAdmin.com, a subsidiary of AdminMonitor.com, Inc., to broadcast the Commission’s open meetings. Pursuant to HB 1783, 81 <sup>st</sup> Regular Session, the PUC provides free access to internet video of the Commission’s public hearings and meetings via the PUC website.
Power to Choose Website	The website is the PUC’s education and information site for the competitive electric market. This site is designed to provide education for the consumer and give them a place to shop the competitive retail electric providers in their service area.

Degree of Agency Automation, Telecommunications, etc.

The Commission utilizes Statewide Data Center Services as established by House Bill 1516, enacted in 2005 by the 79th Legislature, and has an on-going dialogue with the DIR, Cap Gemini and Xerox, toward helping the agency build a more secure, agile, and cost-effective infrastructure for the delivery of agency information technology services.

The Commission's local area network supports end-user computing, printing, client-server, and web-based applications. Workstations, printers, and help desk services are provided by a three member network operations staff. The local area network supports shared access to a variety of standard software application packages including the Office product suite, electronic messaging, database management system, and business systems. Internet connectivity is provided through the Commission's connection to the statewide network infrastructure.

The Commission promotes network security using awareness, education, and active participation with agency staff as well as technology to maintain a secure functional network environment. These strategies, along with ongoing network and application evaluation and testing ensure the development of secured and hardened application platforms in line with the State Enterprise Security Plan. The Commission continues to enhance a comprehensive security program to manage all of its critical technology and communications assets. The Commission routinely conducts periodic assessments of technology security through a penetration test conducted by DIR. As part of this effort, DIR identifies risks in network and application security and the agency responds by remediating the risks.

Upgrading the agency's website will facilitate access to information relevant to opportunities for potential private vendors, including solicitations for professional services and goods. Greater public access to agency information through the website includes the use of social media and information from other state agencies. The agency's website is designed to be completely accessible, working in accordance with the Web Content Accessibility Guidelines ("WCAG").

Anticipated Need for Automation

The Commission has a number of initiatives currently in progress, or planned over the next biennium that will enhance the agency's ability to serve the public and to deliver reliable and secure workplace solutions.

Successful expansion of the Commission's cloud computing platform may require the additional purchase of licenses for data sources that are external to the agency. This platform will be used internally only; however, some functions may leverage data created by external agencies or vendors. Additionally, any expansion of agency personnel may require the acquisition of additional licenses and servers through the State Data Center.

The Commission continues to proactively enhance, standardize, and control all aspects of its internal technical resources in order to support lines of business and streamline internal support activities. Additional technology initiatives that are planned or underway within the agency are discussed under the Technology Resources Planning—Technology Initiative Assessment and Alignment section of this plan.

## ECONOMIC VARIABLES

The economic outlook in Texas continues to improve. According to the Texas Comptroller of Public Accounts, job growth, sales tax collections and building permits are signaling that the Texas economy is outpacing the national economy. Over the past year, Texas has added jobs in all 11 major industries, which has led to the Texas unemployment rate dropping from 6.4 percent in March 2013, to 5.2 percent in April 2014. The national unemployment rate for April 2014 was 6.3 percent.

Historically, the PUC's work has not been dramatically affected by overall economic conditions. Demand for both electric and telephone service is relatively inelastic: Texas consumers only significantly change their consumption in response to dramatic changes in price or individual economic circumstances. Population and economic growth (particularly in the oil and gas sector) have created a need for additional infrastructure investments by utilities and causes a need for additional work by the PUC to route new transmission lines and oversee grid expansions by utilities. Changing economic conditions may affect the capital markets that regulated utilities must access for the capital needed to maintain and expand utility systems and may result in a need for more frequent rate filings by utilities.

The PUC must also be aware of the effect of changing economic conditions in other areas. Due to Texas' economic and population growth, Texas has an ongoing need to add new electric generation in order to meet the state's peak demand for electricity in the summer. While the PUC still reviews and approves plans to add new power generation in the areas of the state not open to competition, the PUC does not have the authority to order the construction of new power plants in the ERCOT portion of Texas in order to ensure that the supply of electricity remains adequate. Instead, the PUC is tasked with ensuring that the market has adequate rules and structures in place that provide an economic incentive for private companies to make investments in power plants. In recent years, many power plant owners and developers have noted that power prices in the ERCOT power region have been insufficient to incentivize the construction of new generation. In response to these concerns, the PUC has and continues to conduct ongoing projects to ensure that market prices adequately reflect power market scarcity and that the reliability of the power grid is maintained. A change in economic conditions could either accelerate or mitigate the need for additional power plants.

Additionally, the sustained and ongoing drought in the state has an impact on many industries, including the electric industry. A significant portion of power generation within the state is dependent upon cooling water from sources that continue to be stressed by the drought, including some surface water reservoirs that are at historic lows.

Although Texas currently has an adequate and reliable supply of electricity available to meet its projected demands, the Commission continues to monitor drought conditions and seeks to ensure that all possible generating units are available and ready to serve the Electric Reliability Council of Texas (ERCOT) market during the upcoming summer months

The 2015 Report on the Capacity, Demand, and Reserves in the ERCOT Region forecasts a reserves margin that remain above the current planning requirement of 13.75% through 2017, as indicated in the chart below:

<b>Calendar Year</b>	2015	2016	2017	2018	2019
<b>Projected Reserve Margin</b>	14.3%	14.1%	13.8%	12.3%	9.8%

Current estimates show healthier reserve margins than reported the last two years for two main reasons. First, approximately 4,000 megawatts of new natural gas-fired power plants are projected to commence operation between 2014 and 2020. Additional power plants are currently in the permitting process at the Texas Commission of Environmental Quality and Environmental Protection Agency. However, there continues to be uncertainty about the ability of these power plants to obtain permits and ultimately financing to commence construction. Changed economic conditions that affect the financing market for power plants could either positively or negatively affect the ability of developers to bring their projects to fruition.

Second, the current reserve margin estimate is calculated using a new, more sophisticated demand forecasting methodology by ERCOT. This forecasting tool suggests that the historic correlation between non-farm employment growth and electricity demand growth is not as strong as it used to be. Thus, while continued economic growth will continue to mean a need for additional power plants, increases in energy efficiency technology and consumer behavior appear, for now, to limit that need compared to historic trends.

Technological advances also may impact the workload of the PUC. Innovations in communications technology (wireless and video delivery technology) have supplanted the need for traditional regulation in many segments of the telecommunications industry. In the electricity industry, development of technology to enable production of natural gas from shale formations has fundamentally altered the supply structure of the natural gas industry, resulting in significantly lower prices compared to five years ago. Competitive forces are fostering innovation in the retail and wholesale electricity industries and further development of new technologies, such as distributed generation or electric storage may require fundamental changes in need for and types of regulation in the electric utility industry.

With the transfer of water rates to the PUC beginning in September 2014, the PUC will need to follow the economic impact of the drought as it relates to and impacts water rates throughout the state. Drought conditions have caused many water systems to impose both voluntary and mandatory water restrictions, which may lead to a reduction in revenues. These utilities may file rate cases with the PUC to address the revenue impacts of conservation efforts. Prospectively, the PUC will need to engage in ongoing communication with other agencies, such as TCEQ and the Texas Water Development Board, to ensure that the actions taken by all agencies with regulatory responsibilities for water policy work to have positive impacts for both short and long-term water prospects in the state.

Participation in the electric Low-Income Discount (LID) and telephone Lifeline programs can vary based on the overall economic conditions in Texas. Eligibility for these programs, which provide rate reductions and bill assistance for customers throughout Texas, is based on participation in other assistance programs or income level. Most of the program participants are automatically enrolled based on participation in programs administered by the Texas Health and Human Services Commission, so the PUC works with that agency in developing its projections for program participation. When economic conditions worsen and unemployment increases, the number of customers who are eligible for one or both of these programs tends to increase. For example, PUC data indicates that LID program participation has



increased during this most recent economic downturn from 699,549 unique participants in fiscal year 2009 to 918,991 in fiscal year 2012. This represents an increase of approximately 31.4 percent during this time period. However, as the economy has recovered, participation has decreased. The total number of unique participants in fiscal year 2013 was 877,277, which represents a decrease of approximately 4.5 percent.

Economic conditions may also affect the number of complaints against service providers that the PUC receives. As economic conditions worsen, customers may have greater difficulty paying bills and, as such, more customers may face service disconnection. However, other economic factors such as decreased natural gas prices and competitive market pressures can often result in lower prices and fewer complaints. The retail price of electricity, which peaked in fiscal years 2008 and 2009, has decreased considerably over the past three years. Currently, the average price/kWh, based upon 1,000 kWh usage, for a 12-month, fixed-term product is 10.5 cents per kilowatt hour on the Power-to-Choose website. The PUC has not conducted any analysis to determine whether there is a correlation between economic conditions and types of complaints. As part of the informal complaint resolution process, the PUC works with customers and service providers to ensure that companies are complying with the Commission's rules relating to deferred billing arrangements, notice of disconnection, and prohibitions on disconnecting customers with certain medical conditions.

## FEDERAL ISSUES

The PUC monitors Federal Communications Commission (FCC) and Federal Energy Regulatory Commission (FERC) activities that have the potential to affect Texas consumers and businesses, and participates in FCC and FERC proceedings by intervening and filing comments. Although most of the authority granted to the PUC in PURA is conferred exclusively on the PUC, the PUC must be aware of FCC and FERC activities in order to avoid duplicative effort, ensure consistent and complementary policy decisions on the state and federal levels, and so that the FCC and FERC can be made aware of the Texas perspective before rendering decisions.

The federal Energy Policy Act of 2005 (the Act) authorized federal electric reliability standards for the continental United States. The Act created an Electric Reliability Organization (ERO) to be approved and regulated by the Federal Energy Regulatory Commission (FERC). In 2006, FERC approved the North American Electric Reliability Corporation (NERC) as the ERO. As the ERO, NERC is required to propose, monitor, audit, investigate and enforce compliance with NERC Reliability Standards through the delegation agreements with the Regional Entities. Because the PUC's rules and ERCOT protocols also address reliability matters, it is crucial that all applicable requirements are consistent. In 2007 FERC approved delegation agreements for eight Regional Entities, including the Texas Regional Entity (TRE). The TRE's authority is based on a delegation agreement with NERC and is not under the PUC's jurisdiction. Originally, the PUC served as the hearing body for matters referred to it by the TRE, and was responsible for issuing recommendations to the TRE Chief Compliance Officer who in turn was responsible for making final decisions regarding federal compliance matters.

In April 2013, the TRE Board voted to contract out the hearing body function which is consistent with how the other NERC regions handle this function. As a result of this action, the PUC no longer serves as the hearing body for the TRE.

Although the areas overseen by the TRE, ERCOT, and the PUC overlap, each entity has its own focus and areas of primary concern. The PUC staff carefully monitors proposed changes to the ERCOT protocols, and the activities of FERC, NERC and the TRE to ensure that regulations are consistent.

Some of the PUC's most important activities in the telecommunications field are a result of the Federal Telecommunications Act of 1996 (FTA). Under Section 251 of the FTA, each telecommunications carrier has the duty to interconnect its network with the networks of other telecommunications carriers, and the telecommunications carriers are required to negotiate interconnection agreements in good faith. The FTA requires the PUC to conduct arbitrations to approve or reject disputes in these interconnection agreements. These arbitrations can at time be very contentious and resource-intensive proceedings that have important policy and competitive implications for telecommunications providers in Texas.

The FCC regulates most aspects of the Internet and of the next generation of land line telecommunications called Voice over Internet Protocol, or "VoIP." The FCC is currently conducting research in two major areas: the operational and regulatory aspects of transitioning the nation's current phone network to an IP-based VoIP network, and open access to the Internet, often referred to as "Net Neutrality" (which the FCC has so far preempted the states from regulating). Any changes the FCC makes on these topics may impact Texas in various ways including whether the interconnection agreements arbitrated by the PUC will apply to these IP-based technologies.

## **Environmental Regulation**

Some of the most significant federal activity that has affected the electric industry over the last several years and that will continue to affect the industry over the next several years is various rules promulgated or proposed by the U.S. Environmental Protection Agency (EPA) under the Clean Air Act (CAA) to address concerns over global climate change.

In the absence of comprehensive federal climate legislation, the EPA has imposed mandatory controls using its existing authority. On April 2, 2007, the U.S. Supreme Court ruled that Section 202(a)(1) of the CAA gave EPA authority to regulate tailpipe emissions of GHGs. In December 2009, the agency formally determined that GHG emissions endanger public health and welfare and therefore are subject to regulation under Section 202 of the CAA.

### **Green House Gas (GHG) New Source Performance Standards (NSPS) Rule for CO<sub>2</sub> Emissions**

On April 13, 2012, EPA published its proposed rule entitled, "Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units." This rule is also known as the Greenhouse Gas (GHG) New Source Performance Standards (NSPS) rule for CO<sub>2</sub> emissions from new EGUs. TCEQ and the PUC filed joint comments on the proposed rule. Among the concerns raised by the PUC and TCEQ were that the rule was beyond EPA's authority to adopt, that EPA has failed to demonstrate a need for this rule and that EPA has failed to demonstrate the feasibility of compliance with the rule as proposed for coal-fired EGUs.

Based on comments received on its original proposed rule, EPA determined that changes to its rule were needed. EPA withdrew its original GHG rule and proposed a new rule in January 2014. TCEQ, the PUC, and the Railroad Commission of Texas (RRC) filed comments on the proposed rule in May 2014. The TCEQ/PUC/RRC comments urged the EPA to withdraw the proposed rule on a number of legal and technical grounds. Most notably, the rule would effectively prohibit the construction of new coal-fired power plants. While current natural gas prices create a significant market barrier to new coal plants, the PUC, TCEQ, and RRC noted the reliability benefits that a diverse fuel mix provides and cautioned EPA to not eliminate the option of new coal plants in the future. EPA is expected to issue its final GHG NSPS rule in the summer of 2014.

### **Green House Gas (GHG) Performance Standards rule for existing sources of CO<sub>2</sub> Emissions**

During the fall of 2013, EPA conducted listening sessions in various states and contacted numerous stakeholders seeking input for a new Green House Gas Performance Standards rule for existing sources of CO<sub>2</sub>. In January 2014, TCEQ and PUC filed written responses to questions posed by EPA during these listening sessions. These responses outlined important considerations that should be included in any GHG rule for existing sources, including the need to assess the rule's effect on the reliability of the electric grid.

On June 2, 2014, the EPA issued its proposed GHG rule for existing sources of CO<sub>2</sub> emissions. The proposed rule requires an average of 30% reduction in CO<sub>2</sub> emissions from existing fossil fuel plants by 2030. The rule would require a 39% reduction of CO<sub>2</sub> emissions from plants in Texas. The rule is expected to be finalized by EPA in the summer of 2015. States would have until the summer of 2016 to propose plans to comply with the new rule. Under the rule, states would have several options for reaching the required emission reductions including coal plant retirements, adoption of energy efficiency

measures, and the addition of renewable and/or natural gas generation. States could also propose regional cap and trade partnerships for CO<sub>2</sub> emissions credits.

The PUC, along with ERCOT, TCEQ, and the Railroad Commission of Texas are currently evaluating the proposed rule and will submit comments on the rule, including the effect on electric system reliability and the costs imposed on Texas consumers.

### **Cross State Air Pollution Rule (CSAPR)**

In August 2010, the EPA published for public comment a proposed a rule known as the Clean Air Transport Rule to address air emissions that cross state lines and contribute to ozone and particulate matter pollution in the eastern part of the U.S. The rule would have created Federal Implementation Plans to reduce SO<sub>2</sub> and nitrogen oxide (NOX) emissions from electric power plants in 32 states, including Texas, through a combination of direct abatement standards and a limited voluntary cap and trade program. The new rule was proposed to replace the Clean Air Interstate Rule of 2005 and require the 32 states to cut power plant SO<sub>2</sub> emissions by 71% and NOX emissions by 52% from 2005 levels by 2014. Under the rule as proposed, the emissions reductions would have started in January 2012.

The CAA requires the EPA "to issue national ambient air quality standards ('NAAQS')" that each state must meet within its own borders. After EPA establishes NAAQS, the CAA requires EPA, after consultation with the States, to designate areas as "nonattainment," "attainment," or "unclassifiable."

Under the CAA, States are granted certain rights and responsibilities in meeting the NAAQS established by EPA. After EPA issues NAAQS, States must develop state implementation plans ("SIPs") to meet these standards. In general, States have broad latitude in determining how areas within their borders will meet EPA-mandated NAAQS.

Of particular concern to the PUC and other affected Texas state agencies, including TCEQ, regarding the CSAPR rule was the CAA's "good neighbor" provision. Under this provision, States must "prohibit[] . . . any source or other type of emissions activity within the State from emitting any air pollutant in amounts which will . . . contribute significantly to nonattainment in, or interfere with maintenance by, any other State with respect to any . . . national primary or secondary ambient air quality standard."

In the proposed rule, EPA did not include Texas among the states that contribute significantly to nonattainment or interfere with maintenance by a downwind area regarding certain NAAQS. However, in the rule adopted by EPA, the agency concluded that Texas did contribute significantly to downwind nonattainment with respect to certain NAAQS. In challenging the rule before EPA and in federal court, the PUC, together with TCEQ, the General Land Office (GLO), and the Railroad Commission of Texas, argued that EPA failed to provide proper notice of the rule or a meaningful opportunity to comment on the rule as it applied to Texas. In short, the adopted rule applied more stringent compliance requirements to Texas than were contained in the proposed rule. The EPA also failed to provide notice of key factual data and analysis used in the adopted rule which Texas would have challenged had it been included in the proposed rule. Finally, the PUC argued that given the significant problems with the final rule, that EPA should grant a stay of the effective date of the rule as it applied to Texas. Without a stay, the PUC argued, Texas would suffer irreparable harm because generation plants unable to meet the extremely aggressive compliance deadlines would be forced to cease operating, which in turn would likely lead to rotating electricity outages throughout the ERCOT region.

At the request of the PUC, ERCOT studied the potential effects of CSAPR within ERCOT. In its report issued in September 2011, ERCOT concluded that even under the best-case scenario, CSAPR would result in the loss of approximately 1200-1400 MW of generating capacity during the summer of 2012.

The final rule also required Texas electric generating units (EGUs) to comply with specific emission allocations beginning January 1, 2012—less than five months after the Final Rule was published in the Federal Register.

ERCOT concluded that CSAPR, as adopted by EPA, threatened to destabilize Texas's power-delivery system by increasing the risk of rotating power outages that will leave swaths of Texans without electricity for indeterminate periods of time. The PUC argued that such a situation is *per se* irreparable harm.

The Texas state agencies appealed CSAPR to the DC Circuit Court of Appeals. In addition to appealing the rule on its merits, the agencies requested the DC Circuit to issue a stay of the final rule pending the outcome of the appeal. The DC Circuit granted the Texas state agencies' request for a stay.

In August 2012, the DC Circuit issued an opinion vacating CSAPR and remanding the rule to the EPA. The DC Circuit concluded that CSAPR exceeded the EPA's authority in two respects. First, the DC Circuit held that under CSAPR upwind states may be required to reduce emissions by more than their own significant contributions to a downwind State's nonattainment. Second, the DC Circuit held that EPA's imposition of federal implementation plans for states to correct their non-attainment also violated the Clean Air Act.

EPA, among others, appealed the DC Circuit's decision to the US Supreme Court. In April 2014, the Supreme Court reversed the DC Circuit's ruling to vacate CSAPR and remanded the case to the DC Circuit for further proceedings. In essence, the Supreme Court concluded that CSAPR was within EPA's authority to adopt and was consistent with the Clean Air Act. Because of a number of remaining, separate appeals related to CSAPR (including those of the State of Texas) that have not yet been addressed by the DC Circuit, it is not entirely clear when the CSAPR rule will be finalized or implemented.

### **Mercury Air Toxics Rule (MATS)**

On December 16, 2011, the EPA issued its final rule entitled "National Emissions Standards for Hazardous Air Pollutants (NESHAP) from Coal and Oil-Fired Electric Utility Steam Generating Units (EGUs) and Standards of Performance for Fossil-Fuel-Fired Electric Utility, Industrial-Commercial Institutional, and Small Industrial Commercial-Institutional Steam Generating Units" The final utility NESHAP rule, which is also called the Mercury and Air Toxics Standards (MATS) rule, became effective April 16, 2012. The final rule also revised the new source performance standards (NSPS) for new fossil fuel-fired electric generating units (EGUs) and large and small industrial commercial-institutional steam generating units.

In the final MATS rule, EPA promulgated maximum achievable control technology (MACT) emissions limits for existing, reconstructed, and new EGUs rated greater than 25 MW that are fired on coal, liquid oil, or solid oil-derived (*i.e.*, petroleum coke) fuels as well as to existing and new integrated gasification combined cycle EGUs.

Both the PUC and TCEQ submitted comments to EPA on the proposed rule. These comments identified multiple errors made by EPA in its analysis of the proposed rule. The comments also addressed

why the proposed limits were inherently infeasible, particularly for new units, and what the possible effects of these rules could be on the reliability of electric generation in Texas. The PUC and TCEQ noted that EPA's failure to correct its assumptions and conduct a proper analysis of the potential effects of the rule could lead to devastating impacts throughout Texas, should grid failure lead to rolling blackouts, or even true blackouts during the heat of a Texas summer. The final MATS Rule adopted by EPA not only failed to adequately address the concerns raised by the PUC and TCEQ, but contained changes from the proposed rule that could not have been foreseen, and that were not made available by EPA for comment by interested parties, as required.

The PUC, together with TCEQ and the RRC, filed a petition for reconsideration of the MATS rule with EPA on April 13, 2012. The Texas agencies raised a number of concerns with the final rule including numerous technical errors, many of which EPA made in the final rule without providing interested parties an opportunity to comment. The Texas agencies also raised concerns that the stringent new standards adopted by EPA called into question the feasibility of new coal-fired EGU and petroleum coke-fired EGUs being able to comply with these standards. The Texas state agencies explained that in promulgating the final rule, EPA had relied on a number of incorrect assumptions regarding the impact of the rule on grid reliability within the Electric Reliability Council of Texas (ERCOT). These errors included incorrect estimates for generating capacity and reserve margin for the year 2015 and assuming unlimited transmission capability within ERCOT.

The Texas state agencies further noted that the new unit emission limits in the final rule are significantly more stringent than permitted emission limits for the same pollutants in recently issued permits for coal-fired or petroleum coke-fired EGUs that will be classified as new units under the rule. Because these units will have to meet the new unit emission limits, the owners of these plants will have to reevaluate the feasibility of building and operating units that have to meet drastically lower limits. At least some of these units will likely not be built. The failure of proposed new units to come online to meet expanding electric needs and replace older, less clean units could have devastating effects on the reliability of the electric grid, particularly in Texas, which is isolated from most of the rest of the country's electric grid.

On April 13, 2012, the Texas state agencies also filed an appeal of the MATS rule with the DC Circuit Court of Appeals. Many interested parties throughout the US have appealed the MATS rule. The DC Circuit has consolidated all of these appeals.

In March and April 2014, the DC Circuit denied a number of challenges to the MATS rule. The Texas Attorney General is currently deciding whether to appeal these rulings. There are several remaining petitions for review of portions of the MATS rule that are in abeyance pending EPA's reconsideration of certain NSPS limits under the rule.

### **Hiring Assistance for Federal Proceedings Related to Entergy Texas**

Utilities outside ERCOT are subject to the PUC's jurisdiction for retail issues and the Federal Energy Regulatory Commission's (FERC's) jurisdiction for wholesale issues. These utilities are Entergy Texas, Southwestern Public Service, Southwestern Electric Power Company, and El Paso Electric Company. The types of issues that FERC addresses for these utilities include wholesale transmission rates and regional transmission organization issues, which in ERCOT are addressed by the PUC.

Issues addressed by FERC can have significant cost and quality-of-service impacts on utilities' retail customers. Other state commissions routinely intervene in FERC proceedings that affect utilities operating in their states. FERC's standards and procedures are substantially different than the PUC's, and the time, resources, and expertise necessary to effectively participate in them can be extensive. The PUC

has participated in some FERC litigation proceedings and has been represented by the Attorney General in those proceedings. In its 2011 Electric Scope of Competition Report to the Texas Legislature, the PUC recommended that the Legislature, consistent with the practice of some other states, notably, Arkansas and Louisiana, consider authorizing the PUC to hire outside counsel with FERC expertise, as well as consultants, to represent the PUC in FERC proceedings and to require the utilities affected by the proceeding to reimburse the PUC for its costs of participation, including any related court litigation. Under current Texas law, state agencies may contract for outside legal services, but they must obtain the approval of the Texas Attorney General before doing so. The PUC also recommended that the Legislature consider allowing the PUC to hire outside counsel without obtaining the prior approval of the Texas Attorney General.

In 2011, the Legislature adopted legislation that allowed the PUC to hire consultants and attorneys to assist the PUC in certain proceedings before FERC, or before a court reviewing a FERC proceeding. These proceedings must concern the relationship of Entergy Texas, Inc. (ETI) to a power region, regional transmission organization (RTO), independent system operator (ISO) or be related to the Entergy System Agreement (ESA). The total costs paid for these services are statutorily capped at \$1.5 million in a 12-month period. This legislation was codified in PURA §39.4525. In 2012, the PUC hired outside counsel and an outside consultant to assist the PUC on such issues. Subsequently, in 2013 and early 2014, the PUC contracted with outside consultants in connection with the PUC's oversight of ETI's exit from the Energy System Agreement (ESA) and transition into the Midcontinent Independent System Operator RTO. These activities are described in more detail in the next section.

### **Significant Activities Related to the PUC's Oversight under PURA §39.4525**

In April 2012, Entergy Texas filed a proceeding at the PUC requesting PUC review of Entergy Texas's plan to transfer operation control of its transmission assets to the MISO RTO. The PUC conditionally approved ETI's transfer of operational control to the MISO RTO in October 2012. Thereafter, Staff opened a compliance proceeding to monitor, with assistance from its FERC counsel and outside consultants, ETI's activities to comply with the PUC's conditions. The PUC also engaged outside consultants to prepare a comprehensive analysis of the appropriate timing from ETI to exit the ESA, as well as evaluate the steps necessary for ETI to achieve operational readiness to function as a stand-alone operating company. The outside consultants filed the Transition Study in July 2013. In November, 2013, Staff submitted a memorandum recommending that ETI had substantially complied with all necessary conditions for ETI to integrate into MISO. Subsequently, ETI, along with the other Entergy Operating Companies, transferred operational control to MISO on December 19, 2013.

In addition to the pre-conditions for MISO entry, ETI remains subject to a number of on-going conditions in connection with its MISO activities. Among these on-going conditions, ETI must employ "reasonable best efforts" to negotiate an early exit from the Entergy System Agreement (ESA). In October, 2013, ETI filed at FERC both a notice of its intent to exit the ESA, as well as a request to shorten the requisite notice period from eight to five years. The PUC has intervened in these proceedings and the PUC's FERC counsel continues to monitor activities in these dockets. In addition, staff has continued to work with its outside consultants in the on-going negotiations with ETI, the other Entergy operating companies, and retail regulators from Louisiana, Mississippi, and the City of New Orleans to shorten the ESA notice period further.

The PUC's outside consultants are also presently engaged in a comprehensive review of ETI's internal efforts to achieve operational readiness consistent with the findings in the Transition Study. The PUC anticipates that these oversight and monitoring activities will continue over the next several years to ensure that ETI is operationally ready to operate in MISO as an independent operating company.

In addition to the PUC's activities in connection with ETI's integration into the MISO RTO and ETI's exit from the ESA, the Commission has been engaged in an increasing amount of proceedings at FERC that may affect Texas retail ratepayers. The type of proceedings in which the Commission has intervened include the following:

- The proposed merger between ETI and ITC Holdings Corporation;
- The proper sharing of costs and revenues to Entergy retail affiliates, including ETI, made pursuant to FERC-approved tariffs, such as the ESA.
- The notices of intent to exit from the ESA filed by the Louisiana companies, Entergy Louisiana, LLC and Entergy Gulf States Louisiana, Inc., and their request for a notice period shorter than eight years;
- The proper treatment of non-firm power flows under the Joint Operating Agreement between MISO and the SPP RTO;
- The proper recovery mechanisms for and allocation of settlement proceeds to Entergy retail affiliates, including ETI, related to an alleged breach of contract by Union Pacific to supply fuel;
- The proper method to determine avoided costs for qualified facilities in a RTO or ISO; and
- Preservation of the Commission's jurisdiction over ERCOT related to switchable generation in SPP's traditional areas or interconnections of wind generation.

In addition to these specific examples, the Commission anticipates the need for a robust involvement in the MISO transmission planning process, and continued involvement in the SPP transmission planning process, including potential activities at both the state, regional, RTO, and federal levels in connection with transmission planning in Entergy's historical footprint (the new MISO South region) and the continuing development in the SPP.

More generally, with ETI's formal entry into MISO, the Commission anticipates that the volume of proceedings that present important policy issues and ultimately impact Texas retail ratepayers will likely increase in the coming years. The Commission anticipates that these proceedings may potentially entail more active participation by the agency's FERC counsel, as well as the possible retention of additional outside experts to provide expert testimony at FERC, and additional use of the Attorney General's Office.

### **Energy Future Holdings Bankruptcy**

On April 29, 2014, Energy Future Holdings (EFH) filed for Chapter 11 bankruptcy in Delaware. EFH is the holding company for Oncor Electric Delivery (Oncor) a transmission and distribution utility operating in ERCOT, TXU Energy, a retail electric provider also operating in ERCOT and Luminant, the largest power generator in ERCOT. Oncor is not part of the EFH bankruptcy. The PUC, through the Texas Attorney General's office, is participating as necessary in the bankruptcy to protect the interests of Texas customers.

The bankruptcy is a balance sheet restructuring intended to allow EFH to reduce its approximately \$40 billion in debt. During the bankruptcy, EFH intends to continue operating as usual and customers of Oncor, TXU Energy, and Luminant are not expected to experience any changes in the service they receive from these companies. EFH's reorganization plan will require regulatory approvals from the PUC as well as the Internal Revenue Service and the Nuclear Regulatory Commission.



### **OTHER LEGAL ISSUES**

PUC decisions in contested cases and rulemakings are frequently appealed to state or federal courts by one or more parties. The PUC is very diligent about avoiding procedural and substantive errors in its decisions, but decisions may be overturned by the courts or remanded for additional proceedings, due largely to the complexity of the issues raised in PUC cases. Primarily, PUC decisions are appealed because of their significant economic impact, and many parties who appear at the PUC have the financial resources to pursue such appeals. Judicial review of PUC decisions creates additional uncertainty for the Commissioners, PUC Staff, and affected parties. It can take up to ten years for a case to go to the Texas Supreme Court and be remanded back to the PUC for further consideration. Historically, only a small percentage of the PUC's decisions have been appealed. Of those cases that are appealed, the PUC has generally experienced a high success rate.

## **PUBLIC UTILITY COMMISSION GOALS**

- GOAL 1 ENSURE COMPETITION, CHOICE, JUST RATES, AND RELIABLE QUALITY SERVICE:** To ensure fair competition, customer choice, just and reasonable rates, system reliability, a high level of service quality, and the opportunity for technological advancement in the electric, telecommunications, and water industries.
- GOAL 2 EDUCATE CUSTOMERS AND ASSIST CUSTOMERS:** To serve the public by distributing customer education information, administering customer service programs, and assisting customers in resolving disputes concerning electric and telecommunications services.
- GOAL 3 ELECTRIC UTILITY RESTRUCTURING:** To achieve specific legislative objectives by administering special programs for energy assistance to low-income Texans, and for customer education information in regions subject to electric competition (nontransferable).
- GOAL 4 INDIRECT ADMINISTRATION**

## **DIRECTLY BUDGETED OBJECTIVES AND OUTCOME MEASURES**

**OBJECTIVE 1-1: Maintain Policies to Foster Competition in Telecom & Elec Mkts:** Maintain innovative policies to foster competition in telecommunications and retail electric markets, such that by the end of fiscal year 2019, 85 percent of Texas cities are served by three or more certified telecommunications providers, and 95 percent of residential electric customers in areas of the state open to competition have at least five providers for electric service.

### **Outcome Measures:**

- OC 1-1.01** Percent of Texas Cities Served by Three or More Certificated Telecommunications Providers
- OC 1-1.02** Percentage of Residential Customers in Areas Open to Competition Having a Choice of More than Five Electric Services Providers
- OC 1-1.03** Percent of Goal Achieved for Renewable Energy
- OC 1-1.04** Average Price of Electricity per kWh in Texas for Residential Customers from Competitive Suppliers as a Percentage of the National Residential Average
- OC 1-1.05** Average Price of Electricity per kWh in Texas for Commercial Customers as a Percentage of the National Commercial Average
- OC 1-1.06** Average Price of Electricity per kWh in Texas for Industrial Customers as a Percentage of the National Industrial Average
- OC 1-1.07** Average Annual Residential Electric Bill from Competitive Suppliers as a Percentage of the National Average
- OC 1-1.08** Average Price of Electricity per kWh Offered on Power-to-Choose as Percentage of National Residential Average

**OBJECTIVE 1-2: Regulate Providers Ensuring Companies Meet Service Quality Standards:** Regulate service providers such that by 2019, 90 percent of regulated telecommunications customers are served by exchanges that meet service quality standards and 95 percent of electric customers are served by companies meeting service quality standards. Provide effective oversight of water and sewer utilities.

**Outcome Measures:**

- OC 1-2.01** Average Annual Residential Telephone Bill in Texas as a Percentage of the National Average
- OC 1-2.02** Average Price of Electricity per kWh in Texas for Residential Customers from Regulated Suppliers as a Percentage of the National Average
- OC 1-2.03** Average Price of Electricity per kWh in Texas for Commercial Customers from Regulated Suppliers as a Percentage of the National Average
- OC 1-2.04** Average Annual Residential Electric Bill from Regulated Suppliers as a Percent of the National Average
- OC 1-2.05** Percentage of Telephone Subscribers Lines Served by Exchanges Meeting Commission Service Quality Standards
- OC 1-2.06** Percentage of Electric Customers Served by Transmission and Distribution Utilities Meeting Commission Service Quality Standards

**OBJECTIVE 1-3: Ensure Compliance with Statutes, Rules, and Orders:** To ensure compliance with statutes, rules, and orders such that by 2019, 75 percent of all settlement agreements entered in formal enforcement proceedings will contain specific provisions regarding how future violations of the same type will be avoided.

**Outcome Measures:**

**OC 1-3.01** Percent of Settlement Agreements Entered in Formal Enforcement Proceedings That Contain Specific Provisions Regarding How Future Violations of the Same Type by the Entity that is the Subject of the Proceeding Will be Avoided

**OBJECTIVE 2-1: Inform Customers of Choices & Rights & Facilitate Information Access:** Inform customers about their choices, opportunities, and rights pertaining to electric and telecommunications services through 2019.

**OBJECTIVE 2-2: Resolve Complaints Consistent w/Laws & PUC Rules & Orders:** To resolve complaints consistent with relevant law and PUC rules and orders, such that all customer complaints will be concluded within the targeted average number of days each fiscal year through 2019.

**Outcome Measures:**

**OC 2-2.01** Percentage of Customer Complaints Resolved through Informal Complaint Resolution Process

**OC 2-2.02** Credits & Refunds Obtained for Customers through Complaint Resolution

**OBJECTIVE 3-1: Provide Financial Assistance:** Administer financial assistance such that by 2016, 93 percent of eligible low-income utility customers receive a reduction in their annual electric service bill.

**Outcome Measures:**

**OC 3-1.01** Percent of Eligible Low-Income Customers Provided a Discount for Electric Service

## **DIRECTLY BUDGETED STRATEGIES, OUTPUT, EFFICIENCY AND EXPLANATORY MEASURES**

**STRATEGY 1-1-1: Foster and Monitor Market Competition:** Foster and monitor market competition by evaluating the relevant electric and telecommunications markets, and develop policies to enhance effectiveness of competition and benefits for customers; and register and license competitive service providers. Develop rules, conduct studies and prepare reports responsive to changes in electric and telecom markets.

### **Efficiency Measure:**

**EF 1-1-1.01** Average Number of Days to Process an Application for a Certificate of Operating Authority or Service Provider Certificate of Operating Authority

### **Explanatory Measures:**

**EX 1-1-1.01** Number of Electric Coops and Municipal Utilities Regulated for Wholesale Transmission Rates

**EX 1-1-1.02** Percentage of Statewide Electric Generating Capacity Above Peak Demand in ERCOT

**EX 1-1-1.03** Energy Savings Due to Energy Efficiency Programs

**EX 1-1-1.04** Demand Reductions Due to Energy Efficiency Programs

**EX 1-1-1.05** Number of Power Generation Companies in Texas

**EX 1-1-1.06** Number of Aggregators in Texas

**EX 1-1-1.07** Average Cost of Natural Gas in Texas as a Percent of 2001 Average Costs

**EX 1-1-1.08** Number of Applications and Amendments for Cable Franchise Certificates

### **Output Measures:**

**OP 1-1-1.01** Number of Retail Electric Providers Registered

**OP 1-1-1.02** Number of Wholesale Electric Market Investigations Completed

**OP 1-1-1.04** Number of Cases Completed Related to Competition Among Providers



**STRATEGY 1-2-1: Conduct Rate Cases for Regulated Telephone Electric and Water Utilities:** Conduct rate cases for regulated telephone and electric utilities under the Administrative Procedures Act and methods of alternative dispute resolution to evaluate whether revenue requirements, cost allocation, rate design, and affiliate transactions are reasonable and in compliance with all laws and PUC rules; register and license regulated service providers; evaluate utility infrastructure and quality of service. Provide regulatory oversight of water and sewer utilities to ensure that charges to customers are necessary and cost - based; and to promote and ensure adequate customer service.

**Efficiency Measures:**

**EF 1-2-1.01** Average Number of Days to Process a Major Rate Case for a Transmission and Distribution Utility

**Explanatory Measures:**

**EX 1-2-1.01** Number of Electric Utilities Regulated

**EX 1-2-1.02** Number of Telecom Service Providers Regulated

**Output Measures:**

**OP 1-2-1.01** Number of Rate Cases Completed for Regulated Electric Utilities

**OP 1-2-1.02** Number of Rate Cases Completed for Regulated Telecommunications Providers

**OP 1-2-1.03** Number of Investigations Completed Concerning Telecom Service Quality

**OP 1-2-1.04** Number of Investigations Completed Concerning Electric Service Quality

**OP 1-2-1.05** Number of Water Utility Rate Reviews Performed

**OP 1-2-1.06** Number of Water CCN Applications Processed

**STRATEGY 1-3-1:**            **Conduct Investigations and Initiate Enforcement Actions:**  
Conduct investigations and initiate enforcement actions to ensure compliance with relevant law, PUC rules, and orders.

**Explanatory Measure:**

**EX 1-3-1.01**                      Dollar Amount Administrative Penalties Assessed for Violations

**Output Measure:**

**OP 1-3-1.01**                      Number of Enforcement Investigations Conducted

**STRATEGY 2-1-1:**

**Provide Information and Educational Outreach to Customers:**  
Provide information and distribute materials to customers on changes in the electric and telecommunications industries. Produce and disseminate customer education information for electric market competition through outsourcing and address customer inquiries through a third party call center and website. Respond to requests for information from the public and media. Conduct outreach activities and administer Relay Texas.

**Efficiency Measure:**

**EF 2-1-1.01**                      Percent of Customer Information Products Distributed Electronically

**Explanatory Measure:**

**EX 2-1-1.01**                      Number of Website Hits to Consumer Protection Home Page

**EX 2-1-1.02**                      Number of Power-to-Choose Website Hits

**Output Measures:**

**OP 2-1-1.01**                      Number of Information Requests to Which Responses Were Provided

**OP 2-1-1.02**                      Number of Customer Information Products Distributed

**STRATEGY 2-2-1:**            **Assist Customers in Resolving Disputes:** Assist customers in resolving disputes concerning electric and telecommunications services consistent with statutes and rules.

**Efficiency Measure:**

**EF 2-2-1.01**                      Average Number of Days to Conclude Customer Complaints

**Explanatory Measure:**

**EX 2-2-1.01**                      Number of Complaints Received for Unauthorized Changes in Service

**Output Measure:**

**OP 2-2-1.01**                      Number of Customer Complaints Concluded

**STRATEGY 3-1-1:**      **Energy Assistance:** Reimburse retail electric providers from the System Benefit Trust Fund for electric service billing discounts; administer automated and self-enrollment of eligible participants for the billing discounts.

**Efficiency Measures:**

**EF 3-1-1.01**      Percent of Low Income Discount Program Participants who are Automatically Enrolled.

**EF 3-1-1.02**      Average Number of Days for Retail Electric Provider Reimbursement

**Explanatory Measure:**

**EX 3-1-1.01**      Total Number of Low-Income-Discount Participants

**INDIRECTLY BUDGETED GOALS, OBJECTIVES AND STRATEGIES**

**STRATEGY 4-1-1: Central Administration**

**STRATEGY 4-1-2: Information Resources**

**STRATEGY 4-1-3: Other Support Services**

**TECHNOLOGY RESOURCE PLANNING –  
TECHNOLOGY INITIATIVE ASSESSMENT AND ALIGNMENT**

**INITIATIVE 1. DIR/STATE DATA CENTER CONTRACT**

<b>1. Initiative Name:</b>	
DIR/State Data Center Contract	
<b>2. Initiative Description:</b>	
Renewal of the DIR/State Data Center Contract for the transformation and consolidation of PUC data center operations to the State Data Center.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
DIR/State Data Center Contract	Ongoing
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This initiative meets the following goal of the 2014-2018 State Strategic Plan for Information Resources Management. Legacy Modernization, identify existing mission-critical legacy applications and prioritize their replacement or modernization. Business Continuity, ensure that critical government information technology services continue in the event of a disaster or a disruption of normal operations. Virtualization, virtualize existing server and desktop environments to reduce operational costs and improve service delivery.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies (time, cost, productivity); and Compliance (required by State/Federal laws or regulations).	
<b>7. Capabilities or Barriers:</b>	
Project is dependent upon funding through agency appropriation.	

**INITIATIVE 2 Centralized Accounting and Payroll/Personnel System (CAPPS)**

<b>1. Initiative Name:</b>	
Centralized Accounting and Payroll/Personnel System (CAPPS)	
<b>2. Initiative Description:</b>	
The purpose of this initiative is to move the agency to a standardized accounting platform hosted by the State Comptroller.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	In Progress
<b>4. Agency Objective(s):</b>	

D-1-2, All Objectives
<b>5. Statewide Technology Priority (ies):</b>
This initiative meets the following goals of the 2014-2018 State Strategic Plan for Information Resources Management. Cloud Services, consider and adopt as appropriate, cloud-based software, platform, and infrastructure services to drive cost-effective and efficient operations. Legacy Modernization, identify existing mission-critical legacy applications and prioritize their replacement or modernization. Enterprise Planning and Collaboration, enhance statewide efficiencies through improved planning and collaboration among and within agencies.
<b>6. Anticipated Benefit(s):</b>
Operational efficiencies (time, cost, productivity); and foundation for future operational improvements.
<b>7. Capabilities or Barriers:</b>
None noted at this time. The initiative is in progress as part of daily operations.

INITIATIVE 3 Virtual Desktop Infrastructure (VDI)

<b>1. Initiative Name:</b>	
Virtual Desktop Infrastructure(VDI)	
<b>2. Initiative Description:</b>	
Replace workstations with Virtual Desktop infrastructure and equipment.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	Planning
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This project meets the following goal of the 2014-2018 State Strategic Plan for Information Resources Management. Security and Privacy, develop governance, policies, and guidelines to secure the technology infrastructure, ensure the integrity of online services, and protect the private information collected from citizens and businesses. Legacy Modernization, identify existing mission-critical legacy applications and prioritize their replacement or modernization. Virtualization, virtualize existing server and desktop environments to reduce operational costs and improve service delivery. Network, provide innovative network services to allow agencies to improve efficiency and successfully deliver citizen services.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies (time, cost, productivity), Citizen/customer satisfaction (service delivery quality, cycle time), Security improvements, Foundation for future operational improvements, Compliance (required by State/Federal laws or regulations)	
<b>7. Capabilities or Barriers:</b>	



None noted at this time.

**INITIATIVE 4. Electronic Data Interchange**

<b>1. Initiative Name:</b>	
PUC Electronic Data Interchange	
<b>2. Initiative Description:</b>	
The upgrade of the PUC Electronic Data Interchange system will allow staff to manage operational initiatives reducing processing time for filings and data maintenance. This is an industry best practice in an enterprise approach to record management.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	Planning
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This initiative meets the following goals of the 2014-2018 State Strategic Plan for Information Resources Management. Cloud Services, consider and adopt as appropriate, cloud-based software, platform, and infrastructure services to drive cost-effective and efficient operations. Legacy Modernization, identify existing mission-critical legacy applications and prioritize their replacement or modernization. Data Management, implement sound data management principles to support good business practices, meet regulatory requirements, and reduce costs.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies (time, cost, productivity); Citizen/customer satisfaction (service delivery quality, cycle time); and Foundation for future operational improvements.	
<b>7. Capabilities or Barriers:</b>	
None noted at this time.	

**INITIATIVE 5 Geographic Information Systems (GIS)**

<b>1. Initiative Name:</b>	
PUC Geographic Information Systems (GIS)	
<b>2. Initiative Description:</b>	
This initiative will provide GIS capabilities to staff and constituents pertaining to Certificates of Convenience and Necessity (CCN) for Telecommunication, Electricity and Water rate regulation and boundary mapping.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	In Progress

<b>4. Agency Objective(s):</b>
D-1-2, All Objectives
<b>5. Statewide Technology Priority (ies):</b>
This initiative meets the following goals of the 2014-2018 State Strategic Plan for Information Resources Management. Cloud Services, consider and adopt as appropriate, cloud-based software, platform, and infrastructure services to drive cost-effective and efficient operations. Data Management, implement sound data management principles to support good business practices, meet regulatory requirements, and reduce costs. Mobility, support the needs of an increasingly mobile citizen and workforce population.
<b>6. Anticipated Benefit(s):</b>
Operational efficiencies (time, cost, productivity); Citizen/customer satisfaction (service delivery quality, cycle time); and Foundation for future operational improvements.
<b>7. Capabilities or Barriers:</b>
None noted at this time. The initiative is in progress as part of daily operations.

INITIATIVE 6 Physical to e-Records Transfer

<b>1. Initiative Name:</b>	
PUC Physical to e-Records Transfer	
<b>2. Initiative Description:</b>	
The PUC has numerous files in the PUC Central Records repository that exist only as the physical paper record. Agency staff is currently working to transfer the records into the electronic data interchange system. This will provide staff and customers electronic access to documents, as well as protect access to information in the event of a disaster.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	In Progress
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This initiative meets the following goals of the 2014-2018 State Strategic Plan for Information Resources Management. Legacy Modernization, identify existing mission-critical legacy applications and prioritize their replacement or modernization. Business Continuity, ensure that critical government information technology services continue in the event of a disaster or a disruption of normal operations. Data Management, implement sound data management principles to support good business practices, meet regulatory requirements, and reduce costs.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies; Citizen/customer satisfaction	

<b>7. Capabilities or Barriers:</b>
None noted at this time. The initiative is in progress as part of daily operations.

INITIATIVE 7 Contract Management System

<b>1. Initiative Name:</b>	
PUC Contract Management System	
<b>2. Initiative Description:</b>	
The implementation of a contract management system, will allow staff to manage operational initiatives; reducing process time and contract maintenance cost through analysis and process improvement. This is an industry best practice in an enterprise approach to managing the PUC contract portfolio to state guidelines for contract management.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	In Progress
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This initiative meets the following goals of the 2014-2018 State Strategic Plan for Information Resources Management. Cloud Services, consider and adopt as appropriate, cloud-based software, platform, and infrastructure services to drive cost-effective and efficient operations. Legacy Modernization, identify existing mission-critical legacy applications and prioritize their replacement or modernization. Enterprise Planning and Collaboration, enhance statewide efficiencies through improved planning and collaboration among and within agencies. Data Management, implement sound data management principles to support good business practices, meet regulatory requirements, and reduce costs.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies (time, cost, productivity); Citizen/customer satisfaction (service delivery quality, cycle time); and Foundation for future operational improvements.	
<b>7. Capabilities or Barriers:</b>	
None noted at this time. The initiative is in progress as part of daily operations.	

INITIATIVE 8 Water Ratemaking Application

<b>1. Initiative Name:</b>
PUC Water Ratemaking Application
<b>2. Initiative Description:</b>
The implementation of a Water Ratemaking system will provide staff a secure application to successfully track and evaluate Water Ratemaking cases.

<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	In Progress
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This initiative meets the following goal of the 2014-2018 State Strategic Plan for Information Resources Management. Data Management, implement sound data management principles to support good business practices, meet regulatory requirements, and reduce costs.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies; Citizen/customer satisfaction	
<b>7. Capabilities or Barriers:</b>	
None noted at this time. The initiative is in progress as part of daily operations.	

INITIATIVE 9 Fire Suppression System

<b>1. Initiative Name:</b>	
Fire Suppression System	
<b>2. Initiative Description:</b>	
The PUC is currently investigating the use of an inert gas fire suppression system to protect agency records and data. The use of such system will provide additional protection of historical and physical paper and electronic media.	
<b>3. Associated Project(s):</b>	
<b>Name</b>	<b>Status</b>
Daily Operations	Planning
<b>4. Agency Objective(s):</b>	
D-1-2, All Objectives	
<b>5. Statewide Technology Priority (ies):</b>	
This initiative meets the following goal of the 2014-2018 State Strategic Plan for Information Resources Management. Business Continuity, ensure that critical government information technology services continue in the event of a disaster or a disruption of normal operations.	
<b>6. Anticipated Benefit(s):</b>	
Operational efficiencies	
<b>7. Capabilities or Barriers:</b>	
The initiative is in the evaluation stages and when approved will be implemented as part of daily operations.	

### **Description of the Agency Planning Process**

The Public Utility Commission's (PUC) Strategic Plan provides the framework for agency activities throughout each year, and the biennial strategic planning process provides a useful opportunity to review the Strategic Plan to ensure that it is current and accurately reflects the agency's duties and responsibilities as set out in its enabling legislation. The PUC continues to work toward a comprehensive approach to agency planning by focusing on its mission, goals, and objectives, as well as establishing meaningful performance measures to illustrate its progress toward meeting those goals and objectives.

The PUC's planning process is coordinated by the Supervisor of Fund Management and Program Oversight, under the leadership of the Executive Director. The process begins with a consideration of whether there have been legislative changes that would necessitate or support changes to the agency's mission, philosophy or budget structure. During this part of the process, the Executive Director meets with the Commissioners and senior management to obtain input. If the Executive Director determines, based on these meetings, that the Commission should consider making changes to the mission, philosophy, or budget structure, the Executive Director develops a recommendation in consultation with agency senior management.

If the Commission decides to request changes in its budget structure, the extent of those changes determines the amount of time and the persons who are involved. Teams may be formed to address specific changes that will be requested. Changes to performance measures may also involve performance measure analysts who may contribute to drafting new or amended performance measure definitions.

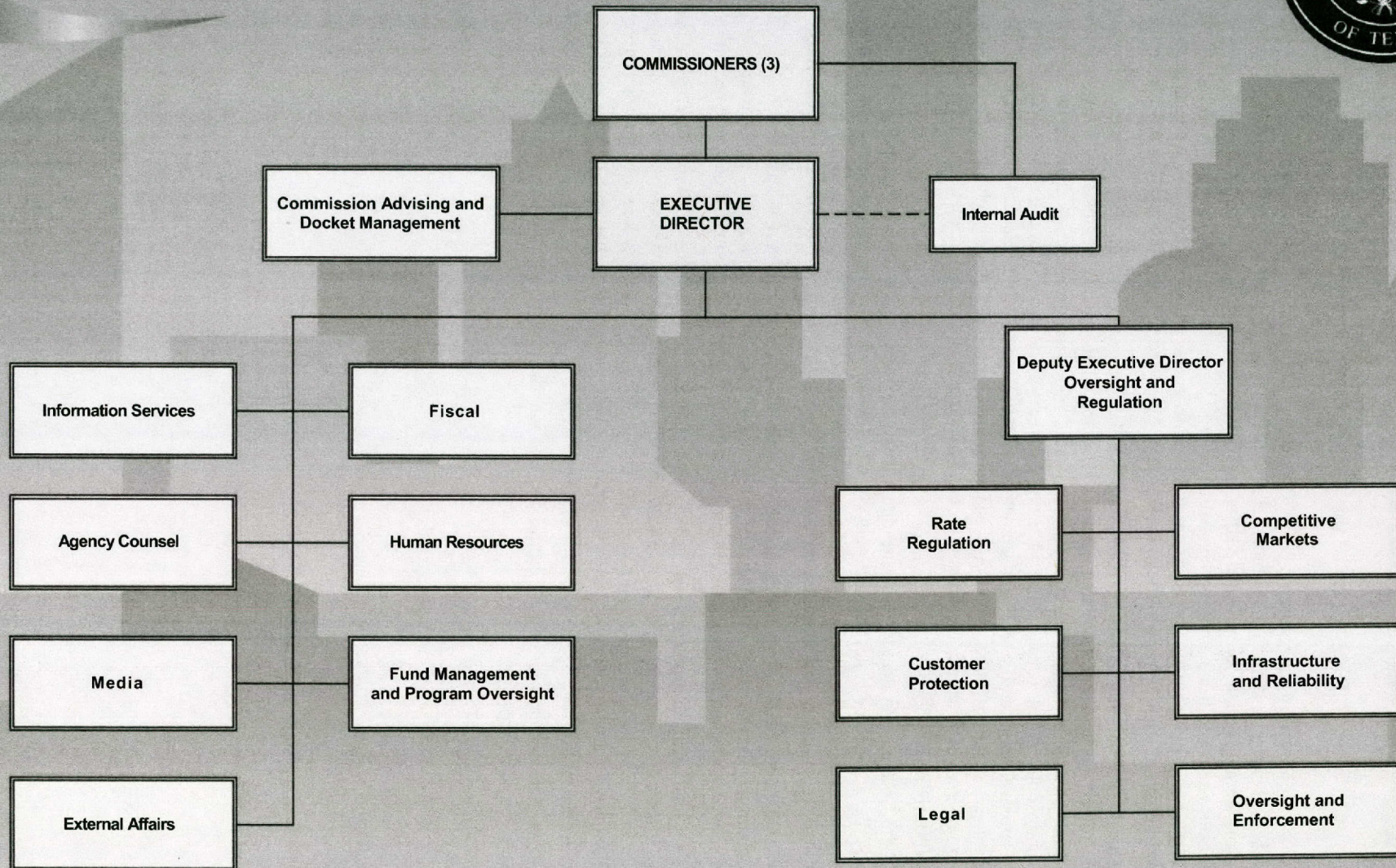
If the Commission does not intend to request changes to its budget structure as part of the strategic planning process, the early stages of the process focus on any changes to performance measure definitions that may be requested and development of the five year projections for outcome measures.

The analytical components of the Strategic Plan, such as the External/Internal Analysis, Technology Resource Plan and Workforce Plan are initially drafted by or under the supervision of the Supervisor of Fund Management and Program Oversight, the Director of Operations and the Director of Human Resources. Each component is reviewed by other management team members, as well as the Executive Director.

The Strategic Plan is reviewed by the Commission and may be considered in open meeting for discussion if necessary.

PUBLIC UTILITY COMMISSION OF TEXAS  
FUNCTIONAL ORGANIZATION CHART  
Fiscal Year 2014

June 2014



**OUTCOME MEASURES FIVE-YEAR PROJECTIONS**

<b>Outcome Measure</b>		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>1-1.01</b>	Percent of Texas Cities Served by Three or More Certificated Telecommunications Providers	75.00%	75.00%	75.00%	75.00%	75.00%
<b>1-1.02</b>	Percent of Residential Customers in Areas Open to Competition Having a Choice of More than Five Electric Services Providers	99.70%	99.70%	99.70%	99.70%	99.70%
<b>1-1.03</b>	Percent of Goal Achieved for Renewable Energy	270.00%	285.00%	300.00%	320.00%	335.00%
<b>1-1.04</b>	Average Price of Electricity per kWh in Texas for Residential Customers from Competitive Suppliers as a Percentage of the National Residential Average	99.17%	99.38%	99.58%	99.79%	100.00%
<b>1-1.05</b>	Average Price of Electricity per kWh in Texas for Commercial Customers as a Percentage of the National Commercial Average	85.05%	88.79%	92.52%	96.26%	100.00%
<b>1-1.06</b>	Average Price of Electricity per kWh in Texas for Industrial Customers as a Percentage of the National Industrial Average	101.41%	101.06%	100.70%	100.35%	100.00%
<b>1-1.07</b>	Average Annual Residential Electric Bill from Competitive Suppliers as a Percentage of the National Average	123.25%	119.38%	116.15%	113.45%	111.21%
<b>1-1.08</b>	Average Price per kWh Offered on Power-to Choose as % of National Average	90.00%	90.00%	90.00%	90.00%	90.00%
<b>1-2.01</b>	Average Annual Residential Telephone Bill in Texas as a Percentage of the National Average	112.14%	110.12%	108.43%	107.02%	105.85%

	<b>Outcome Measure</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>1-2.02</b>	Avg Price Electricity Per kWh for Residential Cust from Regulated Suppliers as % of Nat'l Avg	85.24%	87.70%	89.75%	91.46%	92.88
<b>1-2.03</b>	Avg Price Electricity Per kWh for Commercial Cust from Regulated Suppliers as % of Nat'l Avg	82.96%	85.80%	88.17%	90.14%	91.78%
<b>1-2.04</b>	Average Annual Residential Electric Bill from Regulated Suppliers as % of Nat'l Avg	96.65%	97.21%	97.68%	98.06%	98.39%
<b>1-2.05</b>	Percentage of Telephone Subscribers Lines Served by Exchanges Meeting Commission Service Quality Standards	50.00%	50.00%	50.00%	50.00%	50.00%
<b>1-2.06</b>	Percentage of Electric Customers Served by Transmission and Distribution Utilities Meeting Commission Service Quality Standards	96.50%	96.50%	96.50%	96.50%	96.50%
<b>1-3.01</b>	Percent Agreements with Specific Provisions for Avoiding Future Violations	65.00%	65.00%	65.00%	65.00%	65.00%
<b>2-2.01</b>	% of Cust Complaints Resolved -Informal Complaint Resolution Process	99.00%	99.00%	99.00%	99.00%	99.00%
<b>2-2.02</b>	Credits & Refunds Obtained for Customers through Complaint Resolution	900,000	900,000	900,000	900,000	900,000
<b>3-1.01</b>	Percent of Eligible Low-Income Customers Provided a Discount for Electric Service	96.00%	96.00%	0.00%	0.00%	0.00%



## Agency Overview

In 1975, Texas became the last state in the country to provide for state-wide comprehensive regulation of electric and telecommunications utilities by creating the Public Utility Commission (PUC). For approximately the first twenty years of the PUC's existence, the agency's primary role was traditional regulation of electric and telecommunications utilities. Although the PUC originally regulated water utilities, jurisdiction was transferred to the Texas Water Commission in 1986. Significant legislation enacted by the Texas Legislature in 1995, along with the Federal Telecommunications Act of 1996 (FTA), dramatically changed the PUC's role by allowing for competition in telecommunications wholesale and retail services, and by creating a competitive electric wholesale market. In 1999, the Legislature provided for restructuring of the electric utility industry, further changing the PUC's mission and focus. Then, in 2005, the Legislature provided for further deregulation of telecommunications markets with the passage of Senate Bill 5, with further deregulation in 2011 with the passage of Senate Bill 980.

Although the PUC's traditional regulatory functions related to telecommunications regulation have markedly decreased over the past decade, many of those functions have been replaced by other, more challenging responsibilities, particularly in the electric industry. Restructuring of the utility industry is not simply elimination of regulation. Effective oversight of competitive wholesale and retail markets is necessary to ensure that customers receive the benefits of competition, and the PUC continues to perform its traditional regulatory function for transmission and distribution utilities across the state. Additionally, while integrated utilities outside of the ERCOT power grid remain fully regulated by the PUC, the PUC is increasingly involved in multi-state efforts to implement wholesale competitive market structures and transmission planning in the Southwest Power Pool (SPP) and Midcontinent Independent System Operator (MISO) areas. The passage of HB 1600 by the Texas Legislature in 2013 will transfer regulatory authority for water rates and CCNs from TCEQ to the PUC beginning in September 2014. The legislation also requires the PUC to implement a new rate setting process, whereby the type and intensity of review is dependent upon the number of connections a utility has at the time of an application is submitted. The PUC will adopt rules governing the programs as transferred in July 2014, and subsequently adopting rules to govern the enhanced rate program no later than August 2015.

The PUC's responsibilities under PURA and the Water Code include the following:

### Electric Power Activities

- Within the Electric Reliability Council of Texas (ERCOT) area
  - Oversight of competitive wholesale and retail markets
  - Oversight of the Electric Reliability Council of Texas (ERCOT), the independent organization responsible for operating the electric grid for approximately 70% of the state and settling the transactions in competitive markets.
  - Jurisdiction over ratemaking and quality of service of investor-owned transmission and distribution utilities
  - Establishing wholesale transmission rates for investor-owned utilities, cooperatives, and municipally owned utilities
  - Licensing of retail electric providers
  - Registration of power generation companies and aggregators
  - Implementation of a customer education program for retail electric choice
  - Order the disgorgement of all excess revenue resulting from a market power abuse violation

- Overall administration of the System Benefit Fund, including administration of a low income discount program with automatic enrollment of eligible customers
- Outside ERCOT, continuing the regulation, including rate regulation, of vertically integrated investor owned utilities until retail competition begins; participate in Regional Transmission Organization efforts to plan transmission and enhance wholesale market structures
- Limited appellate rate jurisdiction over certain retail rates of municipally owned utilities for consumers outside the city limits
- Issuance of certificates of convenience and necessity for service areas and proposed transmission lines
- Monitoring industry progress in meeting the renewable energy mandate adopted in the 1999 legislation
- Resolution of customer complaints, using informal processes whenever possible
- Conduct enforcement activities related to the violation of state laws and PUC rules, including the possible issuance of cease-and-desist orders

#### Telecommunications Activities

- Arbitration of interconnection agreements and post-interconnection disputes pursuant to the Federal Telecommunications Act
- Administration of the Texas Universal Service Fund, including the Lifeline program for low-income customers with automatic enrollment of eligible customers
- Administration of the Relay Texas program for deaf and hearing-impaired customers
- Administration of the Audio Newspaper Assistance Program
- Facilitation of the availability of broadband service throughout Texas
- Resolution of customer complaints, using informal processes whenever possible
- Conduct enforcement activities related to the violation of state laws and PUC rules
- Issuance of State Issued Certificates of Franchise Authority to cable providers
- Issuance of Service Provider Certificates of Operating Authority and Certificates of Operating Authority to local service providers
- Review of one-day and ten-day informational filings made by incumbent local exchange companies
- Registration of long distance providers, automatic dial announcing devices, and pay phones
- Setting franchise fee rates for municipalities pursuant to Local Government Code Chapter 283
- Monitoring area code exhaustion and working with the national number administrator to conserve numbers and implement new area codes
- Reviewing tariffs for companies subject to rate regulation
- Administration of the Texas No-Call List

#### Water Activities

- Issuance of certificates of convenience and necessity for retail water and sewer services of investor owned water utilities and certain other water utilities
- Retail rate regulation of investor owned water utilities and limited appellate jurisdiction over retail rates of certain other types of water utilities
- Appellate rate jurisdiction over certain wholesale water rate appeals
- Retail customer assistance and complaints

The PUC's divisions are organized based on function and program area. The Customer Protection Division includes the call center and the informal complaint resolution function to handle both electric and telecommunications matters. The Competitive Markets, Oversight & Enforcement, and Infrastructure & Reliability Divisions also oversee activities in both the telecommunications and electric industries. Beginning in fiscal year 2015, the PUC structure will include FTEs devoted to the regulation of water rates and CCNs. These individuals will initially be organized separate from the other divisions,

as a unique group that oversees all water activities. All of those functions are captured in Strategy 1.2.1. When organizational changes are needed to respond to changing duties prescribed in PURA, or changes in the industries that the Commission oversees, the agency attempts to make those organizational changes in ways that are the least disruptive to agency staff and persons who do business with the Commission.

*A. Agency Mission*

The mission of the agency is to protect customers, foster competition, and promote high quality utility infrastructure.

*B. Agency Goals, Objectives, and Strategies (Business Functions)*

- GOAL 1:** To ensure fair competition, customer choice, just and reasonable rates, system reliability, a high level of service quality, and the opportunity for technological advancement in the electric, telecommunications, and water industries.
- OBJECTIVE 1-1:** Maintain innovative policies to foster competition in telecommunications and retail electric markets, such that by the end of fiscal year 2019, 85 percent of Texas cities are served by three or more certified telecommunications providers; and 95 percent of residential electric customers in areas of the state open to competition have at least five providers for electric service.
- STRATEGY 1-1-1:** Foster and monitor market competition by evaluating the relevant electric and telecommunications markets, and develop policies to enhance effectiveness of competition and benefits for customers; and register and license competitive service providers. Develop rules, conduct studies and prepare reports responsive to changes in electric and telecom markets.
- OBJECTIVE 1-2:** Regulate service providers such that by 2019, 90 percent of regulated telecommunications customers are served by exchanges that meet service quality standards and 95 percent of electric customers are served by companies meeting service quality standards. Provide effective oversight of water and sewer utilities.
- STRATEGY 1-2-1:** Conduct rate cases for regulated telephone and electric utilities under the Administrative Procedures Act and methods of alternative dispute resolution to evaluate whether revenue requirements, cost allocation, rate design, and affiliate transactions are reasonable and in compliance with all laws and PUC rules; register and license regulated service providers; evaluate utility infrastructure and quality of service. Provide regulatory oversight of water and sewer utilities to ensure that charges to customers are necessary and cost - based; and to promote and ensure adequate customer service.
- OBJECTIVE 1-3:** To ensure compliance with statutes, rules, and orders such that by 2019, 75 percent of all settlement agreements entered in formal enforcement proceedings will contain specific provisions regarding how future violations of the same type will be avoided.

- STRATEGY 1-3-1:** Conduct investigations and initiate enforcement actions to ensure compliance with relevant law, PUC rules, and orders.
- GOAL 2:** To serve the public by distributing customer education information, administering customer service programs, and assisting customers in resolving disputes concerning electric and telecommunications services.
- OBJECTIVE 2-1:** Inform customers about their choices, opportunities, and rights pertaining to electric and telecommunications services through 2019.
- STRATEGY 2-1-1:** Provide information and distribute materials to customers on changes in the electric and telecommunications industries. Produce and disseminate customer education information for electric market competition through outsourcing and address customer inquiries through a third party call center and website. Respond to requests for information from the public and media. Conduct outreach activities and administer Relay Texas.
- OBJECTIVE 2-2:** To resolve complaints consistent with relevant law and PUC rules and orders, such that all customer complaints will be concluded within the targeted average number of days each fiscal year through 2019.
- STRATEGY 2-2-1:** Assist customers in resolving disputes concerning electric and telecommunications services consistent with statutes and rules.
- GOAL 3:** To achieve specific legislative objectives by administering special programs for energy assistance to low-income Texans, and for customer education information in regions subject to electric competition (nontransferable).
- OBJECTIVE 3-1:** Administer financial assistance such that by 2013, 93 percent of eligible low-income utility customers receive a reduction in their annual electric service bill.
- STRATEGY 3-1-1:** Reimburse retail electric providers from the System Benefit Trust Fund for electric service billing discounts; administer automated and self-enrollment of eligible participants for the billing discounts.
- GOAL 4:** Indirect administration.
- OBJECTIVE 4-1:** Indirect administration.
- STRATEGY 4-1-1:** Central administration.
- STRATEGY 4-1-2:** Information resources.
- STRATEGY 4-1-3:** Other support services.

*C. Anticipated Changes Over Five Years*

The Commission anticipates significant changes over the next five years. Although the PUC's regulatory responsibilities have changed regarding the electric and telecommunications industries over the past decade due to increased deregulation of those industries, the addition of water and sewer regulation greatly expands the breadth of the Commission's regulatory oversight.

While many of the professionals needed to properly oversee these new water functions will be similar to the current workforce at the PUC, the work-related knowledge and subject-matter expertise will be vastly different. The issues debated and staff-level work required in water cases can vary greatly from that required for electric cases. For instance, the amount of staff interaction required to ensure sufficient applications are filed will be different for water rate applications than it is for electric applications. The largest water utility has approximately 45,000 connections, which is similar in size to the smallest electric utility, which has roughly 50,000 customers; Conversely, the largest electric utility has approximately 3 million meters.

Furthermore, statute requires an enhanced rate setting process beginning in fiscal year 2016, which the TCEQ estimated would require additional staff to administer effectively if the water rates and CCN programs were not transferring to PUC. As such, based on a preliminary resource assessment, the PUC will be requesting no less than 20 additional FTEs beginning in fiscal year 2016, to administer the enhanced program.

The PUC must be prepared to react to the changing landscape of water issues in the state, in addition to responding to the very dynamic nature of the electric and telecommunications industries. Therefore, the PUC will change the organizational structure and make-up of staff as necessary to meet the regulatory demands of the industries under the Commission's purview.

## II. Supply Analysis: Current Workforce Profile

### A. Critical Workforce Skills

The Commission employs qualified individuals in a myriad of program disciplines. Strong employee competencies are critical to meet ongoing business objectives and goals.

Current critical workforce skills include the following:

1. *Management and Leadership*

Performance Management  
Planning  
Training and mentoring

2. *Technical Skills*

Knowledge of applicable federal and state laws and regulations  
Litigation and settlement facilitation  
Rules development  
Investigation  
Market analysis  
Rate setting  
Licensing of providers  
Accounting and financial analysis  
Engineering  
Policy development

3. *Customer Assistance*

Call center customer service  
Informal complaint resolution

4. *Information Management*

Web development and maintenance  
Database development  
Electronic filing and reporting

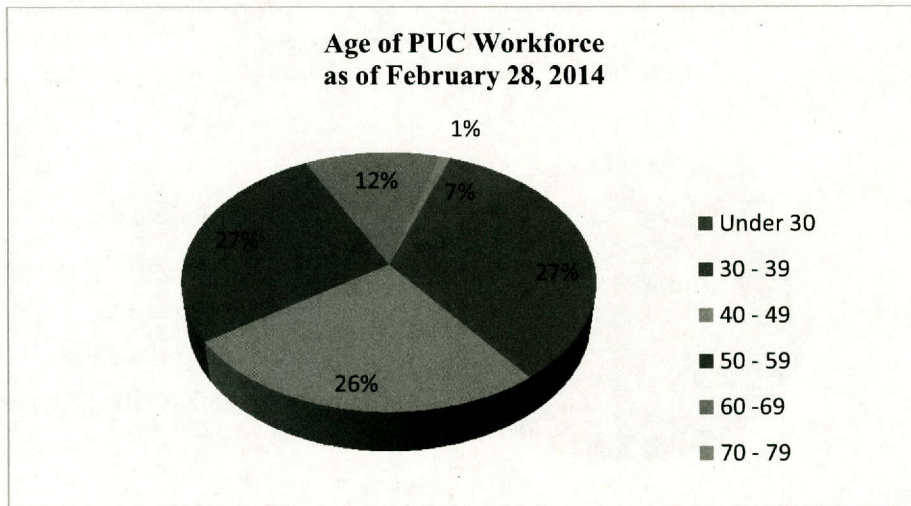
5. *Agency Administration*

Fiscal management  
Human Resources management  
Contract management  
Purchasing  
IT Support

*B. Workforce Demographics*

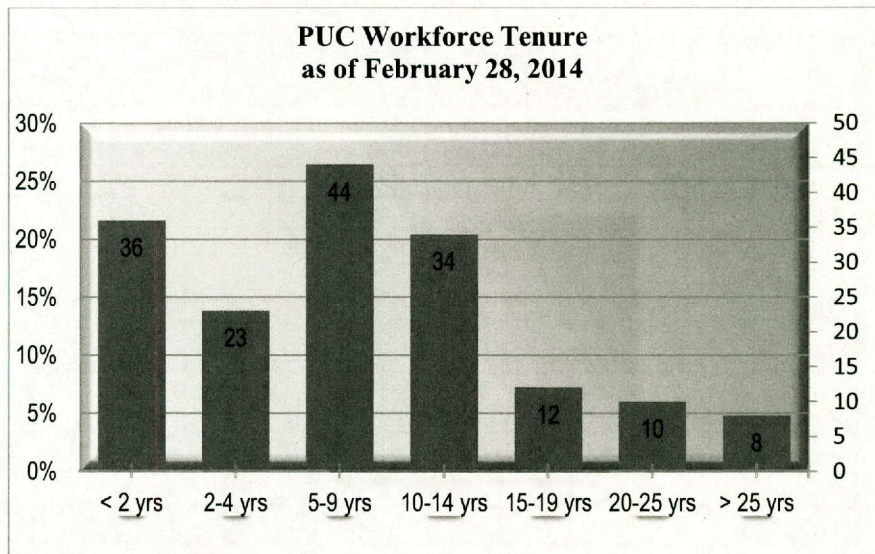
Gender and Age

As of February 28, 2014, the Commission had a total of 167 full-time employees. Of the total employees, there were 90 females (53.9%) and 77 males (46.1%). The average age of Commission employees is 46 years, and 109 (65%) of the employees are over the age of 40.



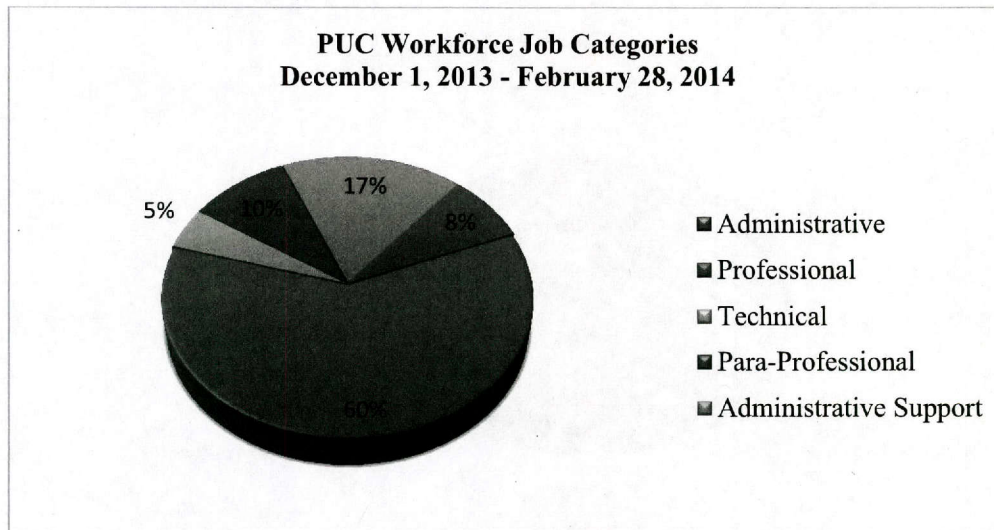
Tenure

Of the Commission staff, 59 (35%) employees have fewer than five years of service with the agency. There are 78 employees (47%) with five to fourteen years of service with the PUC and 30 employees (18%) who have fifteen or more years of service with the PUC. The table below reflects tenure of PUC employees. Thirty-six employees (22%) have fewer than two years of agency service.



Job Categories

The main job categories of Commission employees are identified in the table below. The “Professional” category has the largest number of agency employees, which reflects the qualifications required to accomplish the Commission’s business goals. As a result of these requirements, the agency has a highly educated workforce with many of the employees holding advanced degrees and credentials.



Diversity

The following three tables profile the Commission’s workforce of 167 employees for the second quarter of fiscal year 2014 (December 1, 2013 through February 28, 2014). The workforce comprises 53.9% females and 46.1% males, with an average age of 46 years. The tables compare the African American, Hispanic and female employees in the Commission Workforce to the State Civilian Workforce, as reported by the Civil Rights Division of the Texas Workforce Commission.

<b>Gender – Racial – Ethnic Diversity                      Fiscal Year 2014, Second Quarter</b>							
Male	Female	Caucasian American	African American	Hispanic American	Asian American	Other	Total
77	90	107	15	40	4	1	167
46.1%	53.9%	64.07%	8.98%	23.95%	2.4%	.6%	100%

All employees on payroll as of February 28, 2014.

<b>Gender – Occupational Diversity                      Fiscal Year 2014, Second Quarter</b>					
Job Category	Male		Female		Female Goal
Administrative	10	76.92%	3	23.08%	39.34%
Professional	52	51.49%	49	48.51%	59.14%
Technical	7	87.5%	1	12.5%	41.47%



Administrative Support	4	13.79%	25	86.21%	65.62%
Skilled Craft	0	0%	0	0%	4.19%
Service / Maintenance* (Para-Professional)	4	25%	12	75%	40.79%
Total	77		90		

Racial – Ethnic – Occupational Diversity Fiscal Year 2014, Second Quarter												
Job Category	Caucasian American		African American		Goal	Hispanic American		Goal	Asian American		Other	
Administrative	1											
	3	100%	0	0.0%	8.99%	0	0.0%	19.51%	0	0.0%	0	0.0%
Professional	7											
	2	71.3%	6	5.9%	11.33%	18	17.8%	17.4%	4	4.0%	1	1.0%
Technical	5	62.5%	0	0.0%	14.16%	3	37.5%	21.36%	0	0.0%	0	0.0%
Administrative Support	1											
	2	41.4%	5	17.2%	13.57%	12	41.4%	30.53%	0	0.0%	0	0.0%
Skilled Craft	0	0%	0	0.0%	6.35%	0	0.0%	47.44%	0	0.0%	0	0.0%
Service/Maintenance* (Para-Professional)	5	31.25%	4	25%	14.68%	7	43.75%	48.18%	0	0.0%	0	0.0%

Percentage goals represent the State Civilian Workforce, as reported by the Civil Rights Division (CRD) of the Texas Workforce Commission in the EEO/Minority Hiring Practices Report in January 2013. The CRD analyzes the workforce using an 80% benchmark from the EEOC Uniform Guidelines on Employee Selection to determine utilization within each occupational category. Highlighted sections indicate areas in which the percentage of Commission employees in those categories meet or exceed the percentage in the State Civilian Workforce using the 80% benchmark. Shaded sections identify those areas where the percentage of Commission employees in those categories is below the percentage in the State Civilian Workforce using the 80% benchmark.

When using the EEOC Uniform Guidelines and applying the 80% benchmark, the agency exceeded the percentage goal for Female employees in the Professional, Administrative Support and Para-Professional occupations. In the ethnic categories, the agency exceeded the goals for African American employees in the Administrative Support and Para-Professional occupations and exceeded the goals for Hispanic American employees in the Professional, Technical, Administrative Support, and Para-Professional occupations. The agency did not attain the percentage goals and Female employees are underutilized in the Administrative (8.39%), and Technical (20.68%) occupations. In the ethnic categories, African American employees are underutilized in the Administrative (7.19%), Professional (3.16%) and Technical (11.33%) occupations and Hispanic American employees are underutilized in the Administrative (15.61%) occupations. The PUC does not employ staff for Protective Services and Skilled Craft occupations.

\*The Protective Services and Para-Professional categories have been combined with the Service/Maintenance category. Prior to 2005, these categories were reported as separate groups and are no longer contained in the Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment, 2004.

*C. Employee Turnover and Projected Attrition*

Turnover is important in any organization and the Commission is no exception. Throughout its existence, the agency has faced the difficult challenge of retaining qualified and experienced staff. PUC turnover averaged 17% during FY 2003-2008, but began to decline beginning in FY 2008 due to the economic recession. Turnover again increased in FY 2011 due primarily to a reduction in workforce and again increased in FY 2013 due in part to retirements and increased market opportunities. The following table compares the average PUC turnover to that of all state agencies for the last five years.

<b>EMPLOYEE TURNOVER</b>					
<b>Fiscal Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>PUC</b>	9.4%	9.8%	12.7%	9.5%	13.4%
<b>All Agencies*</b>	15.6%	15.9%	17.7%	19.6%	18.9%

\* Information obtained from the State Auditor's Office E-Class System.

Despite significant statutory post-employment restrictions that apply only to the PUC, the agency generally experiences turnover due to more lucrative positions in industry-related firms.

In addition, there are organizational areas in the Commission that generate turnover due to the stressful nature of the work and limited career ladder movement. In prior fiscal years, the Customer Protection Division had difficulty retaining qualified employees due to the stressful nature of the jobs in the agency call center. Customer Care Representatives in the call center assist customers who are often angry about their telephone or electric service. "Burnout" is associated with call center jobs, and the Commission is continually challenged to minimize the negative effects associated with complaints-related jobs (including employee stress and turnover). In an effort to decrease the stress and turnover, the Customer Protection Division utilizes continuous improvement processes to make changes to work procedures. As a result, there has been a significant improvement in employee morale and drop in turnover in this area in recent years.

*Length of Service*

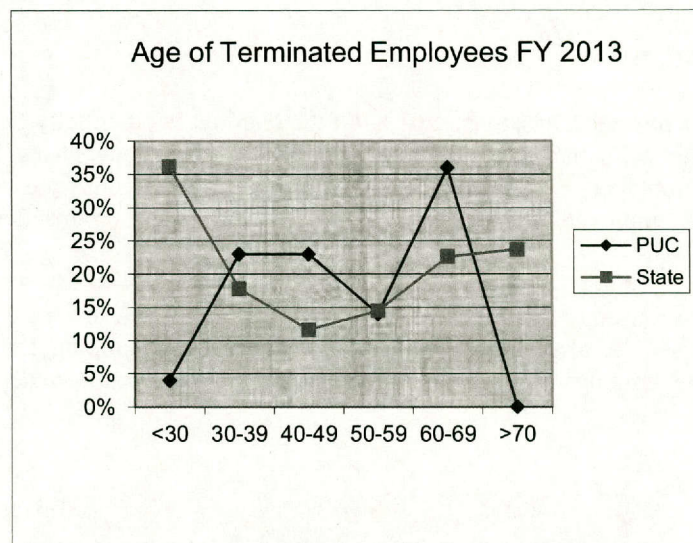
Among terminating employees in fiscal year 2013, those with two to four years of service had the highest turnover (36%), followed by 32% among employees with ten to fourteen years of service and 23% among employees with five to nine years of service. Nine employees retired from the agency in fiscal year 2013. Seven of the retirees had five to fourteen years of service, one had less than five years, and one had more than twenty-five years of service with the agency.

The second highest percentage (41%) of terminating employees had fewer than five years of service with the agency. Efforts to decrease turnover and retain staff beyond the first five years should provide greater continuity for Commission operations and allow employees to develop critical agency knowledge for training entry-level personnel.

Tenure of Terminating Employees Compared To Tenure of All Employees FY 2013				
Tenure in Years	Terminating Employees	% Terminating Employees	All Employees	% All Employees
Less than 2	1	4.5%	24	15%
2 – 4	8	36%	28	18%
5 – 9	5	23%	38	24%
10 – 14	7	32%	37	23%
15 – 19	0	0%	14	9%
20 – 24	0	0%	11	7%
25 +	1	4.5%	6	4%
<b>Total</b>	<b>22</b>	<b>100%</b>	<b>158</b>	<b>100%</b>

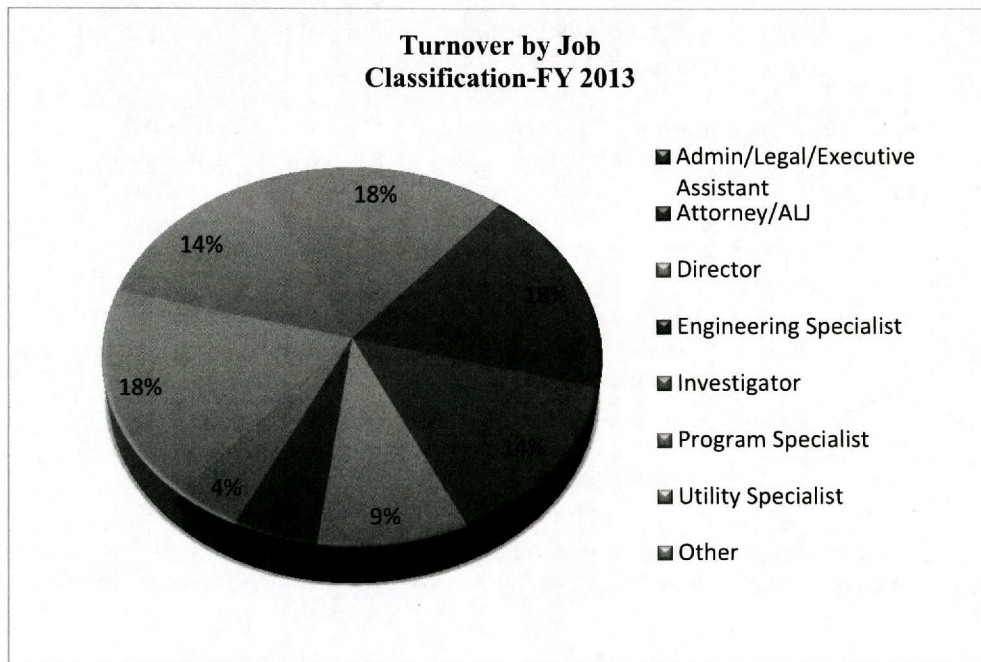
Age

The highest percentage of turnover occurred among employees in the 60-69 years of age group. About 27% of the Commission's turnover in FY 2013 were under the age of 40 and 73% were over age 40.



Occupations

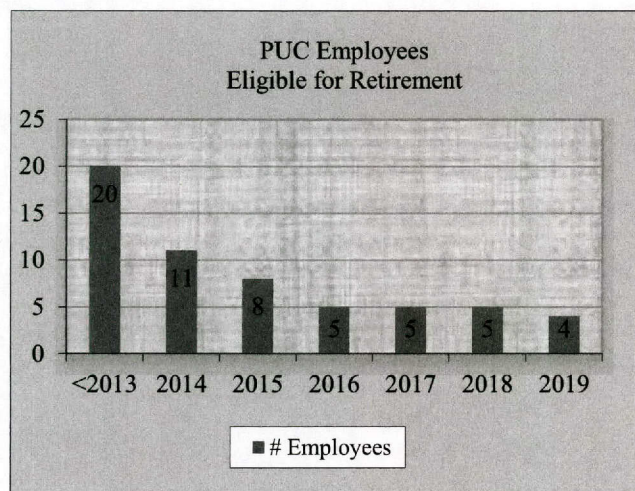
During fiscal year 2013, a total of 22 employees separated from employment with the Commission. The table below provides detail for this turnover activity by classification. Of the 22 terminations, the Program Specialist classification reflected the single greatest turnover rate (18%), followed by the Utility Specialist and Attorney (14%) classification. The Engineering Specialist classification reflected a 5% turnover rate. Collectively, the total turnover rate for fiscal year 2013 was 13.4%.



*D. Retirement Eligibility*

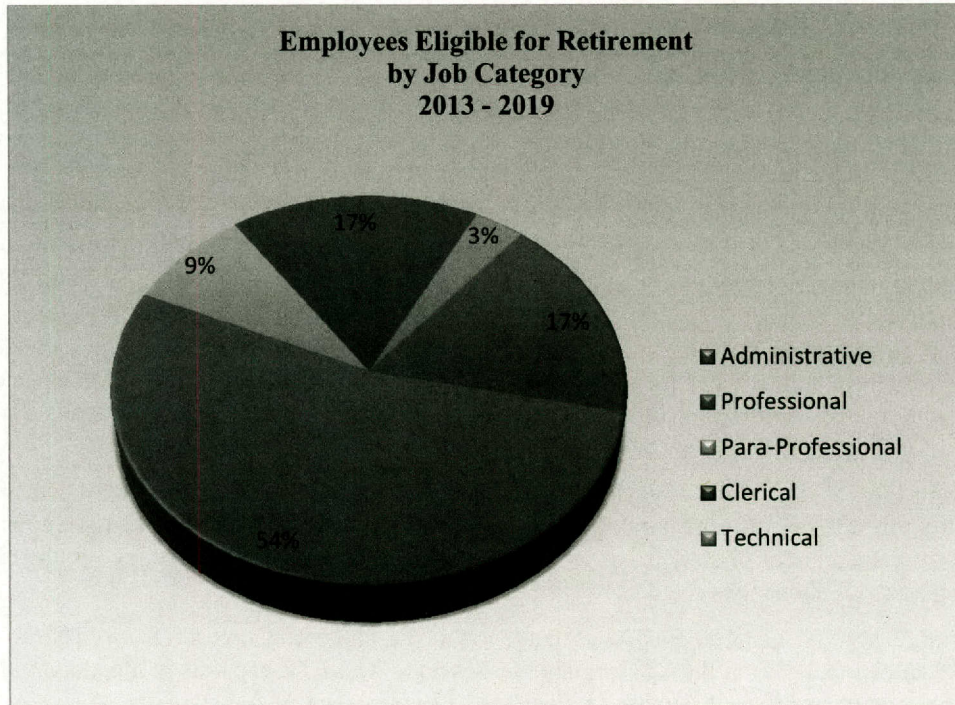
Nine employees retired in fiscal year 2013. Of the employees potentially eligible to retire prior to FY 2014, twenty remain with the agency. Based on PUC information, during FY 2014 – 2019, an additional thirty-eight employees (24%) may become eligible to retire from state service. Between now and 2019, a total of 58 employees (37%) could potentially leave the Commission based on retirement eligibility.

Turnover due to retirement is important to agency operations because of the loss of institutional knowledge and expertise. It also affects the level of succession planning the organization should implement to attract new employees and/or train existing staff in key competencies to assume important functions and leadership roles.



Retirees by Category

The largest percentages of employees who may become eligible to retire over the next five years are in the *professional* (54%) category. The second largest percentage of employees potentially eligible to retire is in the *clerical support* (17%) category. Turnover as a result of retirement eligibility could have a significant impact on high-level key positions. Ten employees (17%) in key management positions could be eligible to retire over the next five years. All of the key management employees are in the *administrative* category and 57% will be eligible due to the Rule of 80 between 2014 and 2016.



Projected Attrition

In fiscal year 2013, the agency had a 13.4% turnover rate which is a 3.9% increase from fiscal year 2012. As of May 31, 2014, fifteen (8.8%) employees have terminated their employment with the agency.

As market conditions begin to improve in central Texas over the next five years and as the economy strengthens, the agency anticipates that retaining high quality staff will continue to be a challenge. Additionally, energy and communications industries are also experiencing a well-publicized aging of their workforces, potentially leading to an increased demand in the private sector for the unique knowledge and skills that PUC employees possess. The decrease in state benefits provided to state employees also impacts the ability of state agencies to attract and keep qualified employees.

### III. Demand Analysis: Future Workforce Profile

#### A. Critical Functions

- Economists and Market Analysts
- Regulatory accountants and Financial Analysts
- Utility Infrastructure Analysts and Engineers
- Enforcement (Investigators and Attorneys)

#### B. Expected Workforce Changes

The changing demands in the Commission's oversight role in a market competition environment within the electric, telecommunication, and water and sewer utility industries will create more emphasis on recruiting and retaining employees as economists, market analysts, enforcement investigators, attorneys, and engineers.

Following the implementation of local telephone competition in September 1995 and electric utility restructuring in January 2002, the Commission has made changes to its workforce to ensure it has the necessary expertise to perform new functions. Many of the new functions are performed by employees with the requisite expertise whose job duties were modified to include the new functions. In some cases, the agency used opportunities associated with attrition to eliminate positions that were no longer needed and create new jobs more aligned with the agency's current mission.

During the 78<sup>th</sup> Legislative Session, the agency's overall FTE cap was decreased from 242.0 to 210.9. During the session, the legislature also passed HB 3442 which imposed new requirements related to state agency management-to-staff ratios. As a result of the legislation, the agency reviewed positions and made organizational changes to comply with the mandate.

During the 80<sup>th</sup> Legislative Session, the agency's FTE cap was decreased from 210.9 to 190.0 and the cap was reduced to 188.6 in the 81<sup>st</sup> Legislative Session. The FTE cap was reduced again in the 82<sup>nd</sup> Legislative Session to 178.0 as of August 31, 2012 and 170.6 by August 31, 2013.

The Commission's FTE cap was increased to 181.0 beginning September 2014 as a result of the legislature approving an exceptional item for the PUC's LAR to restore the PUC's FTE cut from the previous legislative session. As a result of HB 1600 related to the transfer of water and sewer regulation during the 83<sup>rd</sup> Legislative Session, the FTE cap was increased to 201.0 as of September 1, 2015 to reflect the transfer of 20 FTEs from the Texas Commission on Environmental Quality.

#### C. Future Skills Needed

The Commission will continue to maintain a highly educated professional workforce. Knowledge, skills and abilities central to the core functions of the Commission will remain an integral part of employee qualifications. The PUC does not anticipate significant changes in the critical workforce skills required of its workforce over the next five years.

*D. Anticipated Employee Increases/Decreases*

The Commission anticipates an increase in total staffing during the next five years due to our increased FTE cap. In addition to the 20.0 FTEs associated with the transfer of water rates and CCNs to the PUC in September 2014, the PUC will be requesting no fewer than 20.0 FTEs to administer the enhanced water utility rate program required to be implemented by September 2015.

*E. Future Critical Functions*

The changing demands in the Commission's oversight role in a market competition environment within the electric and telecommunication industries will drive changes to the Commission's future critical functions. Fewer resources are allocated for traditional regulatory functions, such as ratemaking activities, than in the past. More resources are being allocated for market oversight, enforcement, and customer assistance.

## IV. Gap Analysis

An examination of the workforce data indicates the Commission may face the loss of its institutional knowledge and expertise through retirements and loss of employees to the private sector. The ability to offer a combination of salary and employee benefits that will attract employees with the necessary education and experience will be a key factor in the success of the agency's workforce.

## V. Strategy Development

The Commission has developed workforce goals to address the potential deficit between the current workforce and future demands. The strategies will need to be assessed periodically to determine their effectiveness in achieving the PUC's workforce goals.

**GOAL ONE:** Recruit professionals with the requisite skills to complement the Commission's existing workforce and take steps to retain these professionals.

**Rationale:** The demand for educated, licensed and/or certified staff in the electric and telecommunication industries requires special agency efforts. Competition with the private sector for the same labor supply creates a disadvantage for state agencies due to salary differences.

**Action Steps:**

- Continue to market the "total" state compensation and benefits program to potential applicants/employees.
- Human Resources and/or Division Directors will participate in university sponsored career fairs, locate free advertising with associated and minority organizations, appropriate technical educational institutions, and Work In Texas (Texas Workforce Commission) to aggressively recruit qualified minority males, females, and people with disabilities.
- Expand the Commission's volunteer internship program to alert and encourage qualified minority males, females, and people with disabilities to apply.
- Improve recruiting techniques by streamlining application procedures and

reviewing applicant flow data to target sources that will assist with hiring employees in underutilized job categories.

- Require managers to work with new employees to attempt to align PUC employment opportunities with the employee's individual career goals.

**GOAL TWO:** Retain qualified and experienced staff ensuring smooth business operations and excellent customer service.

**Rationale:** The Commission's experience with high turnover in a competitive market for certain skills supports the need for this goal.

- Action Steps:**
- Increase employee career planning assistance through training programs and participation in continuous professional development initiatives that enhance the employee's current job performance and future opportunities within the agency.
  - Ensure that managers and supervisors, especially those new to these responsibilities, have adequate training in how to recruit, train and retain quality staff.
  - Manage available funds to award merit increases to provide a fair balance of rewarding employee performance and maximizing retention of key personnel.

**GOAL THREE:** Review FTE allocations to ensure conformance to current agency priorities and workload.

**Rationale:** Varying workload demands and shifting priorities can change the appropriate allocation of agency resources.

- Action Steps:**
- Continue to assess all vacancies created by employee departures to determine whether the position should be modified or relocated in the agency.
  - When a need for additional staffing in a given area is identified and vacant positions are not available, offer current employees the opportunity to relocate within the agency.
  - Encourage employees to cross train in related skill areas to provide flexibility in staff assignments.

**GOAL FOUR:** Develop a formal agency succession plan.

**Rationale:** It is critical that the agency have a leadership development program and identify potential staff with leadership and other critical skills in the event the agency experiences the loss of key staff members in leadership/critical positions (through retirement or otherwise).

- Action Steps:**
- Continue to concentrate on leadership development across the agency.
  - Identify training programs that focus on development of needed critical skills and competencies.
  - Develop skills of staff level employees through training and mentoring to provide in-house candidates for management positions that become



- available.
- Identify capable successor candidates interested in leadership and critical positions early and provide appropriate opportunities for growth.

***Conclusion***

During the next five years, the Commission must ensure that it does not experience a deficit in leadership and knowledge talent. As the labor force segment age 25 to 34 years declines, there will be fewer younger workers to fill vacant positions. Also, Texas population is expected to grow from 27.5 to 45.3 million by 2040, increasing demands for state and local government services.

Available talent, as well as the state's ability to develop and retain a competent, qualified workforce will be a limiting or enabling factor for state government in general. An effective workforce plan will translate into successful strategic goal achievement, program initiatives and sustained momentum for efficient, well-run agencies. The Commission's strategies encompass a realigned workforce plan to meet future business objectives by developing an effective succession management and talent retention program.

## Survey of Employee Engagement

The Public Utility Commission strongly encouraged all employees to participate in the Survey of Employee Engagement conducted by the University of Texas, Institute for Organizational Excellence in April, 2014. The purpose of the survey is to assess the quality of the Commission's internal operating performance through the eyes of its employees. The University has many years of experience surveying state employees for their opinions on aspects of organizational effectiveness. The survey is detailed but easy to complete; all surveys were completed electronically. Employees submitted responses directly to the University without name identification, and the University provided the agency summary results rather than individual response data.

The survey questionnaire is organized into five *workplace dimensions* intended to address the total work environment. Each dimension consists of several *survey constructs* designed to profile areas of strength and concern that could be targeted for potential management interventions. Overall, the survey results indicate that the Commission is perceived positively in 79% of the *survey constructs*, and the Commission has substantial strength in 45% of those *constructs*.

The *workplace dimensions* that received the highest scores from employees relate to *Organization* and *Information*. The *survey constructs* that scored the highest relate to *External Communication*, *Strategic*, and *Information Systems*. *External Communication* looks at how information flows into the agency from external sources and conversely, how information flows from inside the agency to external constituents. Employees view the agency as communicating effectively with other organizations. Commission employees perceive that the agency has the *strategic* ability to quickly relate its mission and goals to environmental changes and demands that define the mission, vision and services. *Information Systems* provide insight into whether computer and communication systems enhance employees' ability to get the job done. Employees find that information resources are complete and accessible, and view the availability of information in a positive manner.

The *survey constructs* that scored the lowest identify the areas of employees' greatest concern. The lowest rated constructs were *Pay*, *Employee Development* and *Internal Communication*. *Pay* was also the lowest scoring construct in the 2012 survey and continues to lead the list of employee concerns.

The *Pay* construct addresses the employee's perception of the competitiveness of the total compensation package and comparison to similar jobs elsewhere. Salary compensation is a continuing issue for many Commission employees due partly to the comparative wealth of the telecommunications and electric industries.

The Commission's professional employees generally have acquired expensive educational training and certifications, and have attained valuable technical expertise in their jobs. These employees routinely interact with utility company staff with comparable training and expertise that are compensated at significantly greater rates. Other regulatory agencies experience similar challenges. Limited options are available to Commission management for addressing this concern, which contributes to employee turnover. Commission management strives to excel in supporting employee job needs over which the agency has greater control than compensation, such as a positive working environment, flexible work schedules, and computer support, which can offset concern regarding compensation.

The survey results also provided detailed demographic statistics for respondent groups. The University distributed 164 surveys to Commission employees and received 117 responses, an average rate of return at 71%. The agency's management staff encouraged employee participation with reminders of

the importance of the survey and the allowance of work time for completing responses. Of the total respondents, 51% were female, and 58% were Anglo-American (9% were African-American and 21% were Hispanic-American). The staff age groups providing the greatest number of responses were the 30-39 years group with 30% and the 50-59 years group with 25% of the total responses. Nearly 39% of all respondents reported having a graduate and/or doctorate degree and 35% reported having a bachelor's degree.

Seventy-seven percent of the respondents were not in supervisory roles. Fifteen percent had received a promotion within two years, and 53% had received a merit salary increase within two years. Eighty-four percent of the responding employees said they planned to be working with the agency in two years. The greatest number of respondents (19%) had been with the agency 11 to 15 years', the next greatest number of respondents (18%) had tenure of less than one year. The salary range of the bulk (23%) of respondents was \$60,001 to \$75,000.





