

Strategic Plan

of the

Wyoming Public Service Commission

For the period July 1, 2002 through June 30, 2006

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I. MISSION

The mission of the Public Service Commission (PSC) is to protect the public interest of Wyoming utility consumers, while at the same time balancing the financial and operational interests of utility ratepayers, shareholders, member-owners and utility companies.

II. VISION

The PSC vision of the preferred future for natural gas, electric and telecommunications utility services includes a careful balance of regulated and non-regulated components in which regulated functions are granted monopoly status for purposes of improving the public interest to avoid duplicative facilities, uneconomic investment and abusive monopolistic control, while non-regulated services co-exist and function in truly competitive and thriving markets that give utility customers a true choice of service providers, rates and services.

III. PHILOSOPHY

Since almost every Wyoming citizen uses one or more utility products or services which are regulated by the PSC including telecommunications, natural gas, electricity, water and intrastate pipeline products, it follows that the PSC serves directly or indirectly almost every Wyoming citizen. As state and federal legislation and utility regulatory policy move toward a competitive environment, the PSC will continue to expand in the areas of customer education, complaint resolution and the assurance that safe, adequate and reliable utility services are delivered to consumers. Even more important, the PSC must insure that the transition from traditional rate of return regulation to a more competitive utility environment is as smooth and efficient as possible and that the benefits of competitive industry developments are made equally available to all utility customers. The PSC will act impartially and conduct its business openly and fairly with the highest degree of personal and professional dedication, honesty and integrity. The PSC will, in all of its activities, be unbiased, honest, forthright and informative in its communications with utility customers, utility companies and the public. The PSC will show respect for the needs and welfare of the public and regulated utilities. As a quasi-judicial agency with the authority to determine legal rights as well as the duties and privileges of parties coming before it, the PSC will produce legal, financial and engineering work that complies with all applicable laws and meets all of its statutory obligations. The PSC will be open to innovation and improvements which are technically and economically sound and in the public interest. The PSC will evaluate and consider all technical tools available to improve the efficiency of the agency and simplify procedures for utility service providers and the public. The PSC will continue to evaluate its work force and organizational structure to maximize employee productivity, minimize costs and promote the highest ethical and professional conduct.

IV. SITUATION ANALYSIS

Natural gas, electric and telecommunications industries continue to experience change at the federal and state levels that is intended to take advantage of new technological developments and the beneficial aspects of competition. Some of these changes, however, especially in the natural gas and electricity industries, have resulted in volatile and unpredictable deregulated wholesale prices, which are ultimately borne by retail customers. After years of relatively stable rates, the volatility and magnitude of price increases in the 2000/2001 winter heating season were a shocking surprise to legislators, policy makers at all levels of government and particularly to end-use customers from the largest industry to the smallest homeowner.

Several factors contributed to sharply higher natural gas prices during the winter of 2000/2001. Winter temperatures returned to more normal conditions after several years of warmer than normal conditions. In addition, natural gas storage levels were relatively low due to the perception that winters would continue to be mild. Natural gas has also been increasingly used to generate electricity and, as a result, it has placed a new year-round demand on natural gas, which in the past was primarily a seasonal heating fuel. The result was an increase in demand for the fuel and a tight supply, which drove nationwide wholesale prices from \$2.50 per dekatherm to over \$9.00 per dekatherm, with some sales in California exceeding \$60.00 per dekatherm. Retail rate increases followed and most Wyoming natural gas customers incurred rate increases of 100 percent or more in comparison to the previous year.

At the same time, circumstances in the electric industry were driving western wholesale power prices to unprecedented highs. There has been a general absence of large base load generation construction nationwide due to regulatory uncertainty and environmental concerns. In the past few years, however, new demand for electricity has eaten away at generation reserve margins. Below average water conditions in the Pacific Northwest and flow restrictions on the Columbia River due to environmental concerns tightened supply along the Pacific coast. The California electric industry restructuring scheme is a well documented failure to create a "competitive" market. Unfortunately, the California restructuring debacle has resulted in regional power supply shortages and skyrocketing western regional wholesale prices that have directly impacted Wyoming utilities like Cheyenne Light, Fuel and Power and PacifiCorp. PacifiCorp noted, in its largest ever revenue increase filing to the PSC, that the average market price of wholesale power went from \$23.00Mwh in the 2000 Wyoming general rate case to a value 10 times higher in 2001.

Competitive market concerns in the telecommunications industry are also seen in Wyoming in the Qwest filing under Section 271 of the federal Telecommunications Act of 1996 to provide originating interstate long distance service. The PSC has been actively involved in the multi-state evaluation of Qwest's request to enter the long distance telecommunications market. Seven of the 14 states in which Qwest provides local and intrastate long distance telecommunications service (including Wyoming) have joined in a multi-state process aimed at saving time and avoiding a duplication of the effort to analyze this request. As part of this effort,

the PSC is required to conduct numerous public hearings and must consider state specific issues which may have public interest ramifications for the citizens of Wyoming.

The PSC's strengths are in its employees and their ability to adapt to change. Utility operations, functions and regulation are so specialized that it is not easy to find experienced or qualified professionals for this line of work in the general job market. The PSC does not see a reduction in the caseload as the transition to more competitive utility services progresses. To the contrary, the PSC workload has increased to the point that human resources are stretched to the limit. In 2001, PacifiCorp filed three important applications in Wyoming (a general rate case, a pass-on to recover almost \$50 million in wholesale purchased power costs and an application to completely restructure the company) and the PSC continues to devote substantial time and resources to the Qwest Section 271 application, which is now in its second year of review. These four applications alone have put significant pressure on the rate analysts and attorneys at the PSC and these cases represent only a small fraction of the total caseload (924 utility applications filed with the PSC in FY01). The PSC expects that the need for agency services will only increase in the future.

PSC human resource concerns are further complicated by the fact that two of its senior employees with 30 years of work experience each will soon retire, one as soon as March 2002. PSC rate and pricing analysts are finding it necessary to focus on the major issues while many of the detailed, time consuming issues in utility applications must be assigned, due to human resource constraints and a growing work load, to several new employees who do not yet have enough experience to tackle major issues.

Our human resource concerns may be addressed in two ways. First, a new technical or engineering rate analyst position and an attorney position are needed at the PSC to increase the resources available for evaluating utility applications before the PSC and to represent the public as members of the Consumer Advocate Staff. Secondly, special project funds should be restored in the PSC budget to give needed flexibility in hiring consultants, auditors and other professionals on special projects that do not require long-term staffing.

The PSC has sought to be a positive force for transition to an increasingly competitive utility environment when it is shown that the result of change is in the public interest. The PSC has assisted Wyoming policy makers who are considering the development of progressive and pro-competitive utility regulatory laws for the telecommunications, natural gas and power industries. The potential benefits of these changes are substantial, but there is also considerable risk for consumers during the transition to increased competition as shown by the problems in California. Therefore, the PSC must actively participate in statewide and federal forums to insure the best outcome for Wyoming customers in the increasingly competitive and complex utility industries. The fundamental importance of protecting the public interest for the people and economy of Wyoming will keep this intensified consumer focus strong.

V. PSC GOALS AND OBJECTIVES

Goal I: The PSC will regulate public utilities as directed by state and federal law. The statutory authority for Goal I is found at Chapters 1, 2, 3, 6, 12 and 15 of Title 37 of the Wyoming Statutes.

<u>Objective A:</u>	<u>Outcomes:</u>	<u>Output Measures:</u>
<p>The PSC will issue decisions based upon law and factual evidence with consideration given to the public interest and the financial and operational viability of utilities.</p>	<p>A.1 The number and the percentage of written PSC decisions over a three year period which, after any allowed rehearing, are not successfully challenged by any party on appeal to state or federal court.</p> <p>A.2 The average price of electricity per kwh in WY for residential, commercial and industrial customers as a percentage of the national average price per kwh.</p> <p>A.3 The average price of natural gas per mcf in WY for residential, commercial and industrial customers as a percentage of the national average price per mcf.</p> <p>A.4 The percentage of WY local service telephone lines which are priced in compliance with the WY Telecommunications Act of 1995 on the basis of TSLRIC provisions or on a valid TSLRIC waiver.</p> <p>A.5 The percentage of eligible local telephone customers (based upon line count) who receive support payments from the WY Universal Service Fund pursuant to provisions in the Wyoming Telecommunication Act of 1995.</p>	<p>The number of utility cases filed and docketed with the PSC.</p> <p>The number of written PSC decisions issued.</p> <p>The number of appealed cases lost by the PSC at state or federal court.</p> <p>The number of WY telephone access lines.</p> <p>The number of WY telephone access lines subject to TSLRIC pricing.</p> <p>The number of WY telephone access lines with valid TSLRIC pricing waivers.</p> <p>The number of telephone customers (based upon line count) who are eligible to receive distributions from the WUSF.</p>

Goal I: The PSC will regulate public utilities as directed by state and federal law. The statutory authority for Goal I is found at Chapters 1, 2, 3, 6, 12 and 15 of Title 37 of the Wyoming Statutes.

<u>Objective B:</u>	<u>Outcomes:</u>	<u>Output Measures:</u>
<p>The PSC will regulate utility safety, reliability and quality of service pursuant to state and federal law. The PSC will resolve complaints and ensure compliance with PSC Rules and applicable laws such that 90% of utility complaints are concluded within 60 days.</p>	<p>B.1 The percentage of person-days inspecting natural gas utilities in comparison to the established target.</p> <p>B.2 The percentage of person-days inspecting electric utilities in comparison to the established target.</p> <p>B.3 The percentage of customer complaints resolved through an informal complaint resolution process.</p>	<p>The number of person-days inspecting natural gas distribution systems and intrastate natural gas pipelines with a target of 140 person-days in the field per year.</p> <p>The number of person-days inspecting electric distribution systems and transmission facilities with a target of 60 person-days in the field per year.</p> <p>The number of utility complaints filed with the PSC, categorized by: Customer Responsibility, Utility Error, Informational.</p> <p>The number of utility complaints resolved by the PSC within 60 days of receipt with a target of 90% resolved in this time frame.</p>

GOVERNOR
Jim Geringer



Public Service Commission
Steve Ellenbecker, Chairman
Steve Furtney, Deputy Chair
Kristin Lee, Commissioner

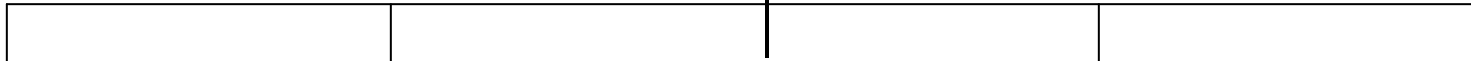
**Secretary &
Chief Counsel**
Steve Oxley



Information Technology Specialist
Donna Crock

Administrator
Dave Mosier

Principal Accountant
Linda Harrison



Attorneys

David Lucero
Ivan Williams
Edna Young
Anthony Reyes
Meridith Bell (*paralegal*)

Docketing

Kathy Jenkins
Mary Kiser

Rates & Pricing

Denise Parrish
Bryce Freeman
Dave Walker
Mike Korber
Marci Norby
Amy Zamora
Don Biedermann
Analyst Vacancy

Safety & Plant Engineers

Jon Jacquot
Dick Valent
David Piroutek

Complaint Processing

Frank Smith
Sue Petrie
Shirley McCown
Marchia Johansen

Word Processing

Gail Sherman
Mary Ellen Williams

Effective September 1, 2001

Wyoming Public Service Commission

STRATEGIC PLAN

APPENDIX A

The following are responses to the seven items in WS 28-1-115 (a)(ii)(D):

- I. *The specific purpose of each program, function and activity of the executive branch of government or any other major entity that receives funding from state revenue:*

The Public Service Commission is charged with the general regulation of monopoly utility services and the protection of the public under monopoly pricing arrangements. The PSC has only one budgetary program, which is to fulfill this fundamental responsibility. Regulation of monopoly utility rates and services assures that Wyoming citizens have safe, adequate and reliable service at reasonable prices, and that Wyoming utility providers are given the opportunity to recover their expenses and earn a fair return on their investment. The PSC is also responsible for implementing state law pertaining to utility service including the transition from regulated monopoly utility services to competitive markets for some utility services.

- II. *The specific public benefit that does or should result from the implementation of each program function or activity.*

Objective A. The specific public benefit that should result from the regulation of utilities is that utility prices are fair and equitable; that services are available to all who desire them; that services are safe, adequate and reliable; that services meet reasonable standards; and that the general public will have their interests represented by a Consumer Advocate Staff. With many utility services making a transition to competitive markets, this does not necessarily mean that utility prices will be as low as possible. For example, the Wyoming Telecommunications Act of 1995 requires that certain services be priced to cover the Total Service Long Run Incremental Costs and that no cross subsidies be allowed to exist.

Objective B. The specific public benefit which should result from the resolution of complaints and utility disputes is that Wyoming utility consumers will have their utility-related complaints researched and, if possible, resolved quickly and fairly. Wyoming consumers will also be educated on the laws, regulatory rules or industry practices which concern their complaint issue. The specific benefit that should result from monitoring the engineering aspects of public utilities is an improvement in the safety, reliability and quality of service.

III. *Alternative courses of action that would result in administration of the same program, function or activity in a more efficient or effective manner.*

One alternative course of action to the traditional regulation of utilities would be open market competition in each utility industry. However, this will not necessarily result in more efficient utility service or lower rates. It may also result in increased uncertainty and the duplication of numerous facilities, which could cause environmental, operational and aesthetic problems. The PSC continues to evaluate its organizational structure and make the necessary organizational adjustments that will enable the PSC and its staff to concentrate its strengths more efficiently and effectively in the implementation of policies determined by the Legislature and Congress and written into law.

IV. *Whether a program, function or activity could be implemented more effectively by another level of government or by a private entity.*

Federal. The PSC's experience has been that when the federal government attempts to solve utility-related problems, it rarely takes into account the economic, demographic or other factors which set Wyoming apart from the more densely populated states. The result has often been a ?one-size-fits-all? solution that does not suit Wyoming very well. The federal government frequently lacks the resources to provide fast service or to deal effectively with local situations which demand local input and solutions. Our regulatory functions should not be federalized.

Local. Wyoming utilities often serve in more than one municipality and in more than one county (and several serve in more than one state). Thus, it would be complicated for the various local government entities to coordinate regulatory efforts. They would also have to develop and maintain professional regulatory expertise, which would cause expensive duplication of skills among the various local government entities. The PSC represents the most cost effective method of maintaining a professional regulatory function in Wyoming. Local government entities have found that working with the Commission and the Consumer Advocate Staff has produced good cost-effective results, which address municipal concerns without draining municipal budgets.

Private. The PSC serves in quasi-judicial and quasi-legislative (rule making) governmental functions which are not appropriately left to the private sector. The 'privatization' of utility regulation should come through the development of vigorously competitive markets which provide price and service benefits with minimum governmental supervision over such matters as consumer complaints, anti-competitive behavior and service quality problems.

V. *Whether there is sufficient public benefit to justify the funding necessary for the program, function or activity.*

The various PSC goals set forth in this Plan benefit the people of Wyoming sufficiently to justify their continuation. The careful review of regulated rates and services can save the people of Wyoming more in utility charges than it costs to fund the PSC (in one instance, a single issue developed in a single rate case saved the people of Wyoming more than the entire cost of funding the PSC for several years). Additionally, the savings to the people and economy of Wyoming from a price competitive telecommunications market would provide additional cost justification.

VI. *The consequences of discontinuing any program, function or activity.*

If the PSC and its activities were discontinued, utility customers would lose their most important forum in which to address their concern over utility rates and service disputes. In addition, the potential to impose monopoly rate and service abuse on utility customers would be essentially unrestricted (most of Wyoming's public utilities remain monopolies). Also, Wyoming's specialized utility related interests would cease to be effectively represented in federal and regional forums and the policies of the State concerning competitive services and innovation in pricing and services would cease to be carried out. The planning and other information produced by the PSC for the benefit of the executive and legislative branches of Wyoming government would no longer be reasonably available.

VII. *Whether the methods, rules and policies employed by the agency to implement a program, function or activity are cost-effective, efficient and consistent with law and impose a minimum of regulatory burden.*

Addressing the question of maximizing efficiency, minimizing regulatory burdens and increasing cost-effectiveness are internal parts of the PSC's goals and objectives. The PSC's frequent evaluation of its internal structure and its reorganizations to maximize productivity are examples of this effort. The PSC has also been a strong and effective advocate of recently enacted laws that promote the laudable goals described in this topic. Examples of these are The Wyoming Telecommunications Act of 1995 and House Bill 109 from the 1995 Legislative Session.