

Agency: 215 Utilities and Transportation Comm
Decision Package Code/Title: A0 Federal Funding Rate Increase
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

The Federal Pipeline and Hazardous Liquids Safety Administration (PHMSA) has increased funding to state pipeline safety programs starting in 2010. There was not an immediate increase received by the Utilities and Transportation Commission (UTC), therefore the previous request to increase and then decrease the funding was done in the 2011 2013 and 2013 2015 biennia. Additional certification to receive the additional funding came after a three year average was met, providing confirmation that the program has shown growth and that the reimbursement rate will increase from 40% federal participation to approximately 60% federal participation for states that expanded their program.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
297-2 Pipeline Safety Account-Federal	480,000	480,000	960,000
Total Cost	480,000	480,000	960,000

Revenue

<u>Fund</u>	<u>Source</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
297 Pipeline Safety Acct	0320 Dept of Transportatn	480,000	480,000	960,000
Total Revenue		480,000	480,000	960,000

Package Description:

The Utilities and Transportation Commission (UTC) receives reimbursement from the federal Dept. of Transportation, Office of Pipeline Safety (PHMSA), to administer the pipeline safety program in Washington. The program protects the lives and property of the citizens of Washington through inspection of natural gas and hazardous liquid pipeline infrastructure in accordance with state and federal laws and policies. The reimbursement rate for the program in Washington has historically been approximately 40% of eligible pipeline safety program costs. In 2010, Congress authorized an increase in the funding rate up to the maximum allowed by federal law, which is 80%. PHMSA therefore will provide additional funds for qualifying expenditures to state that expand their program in accordance with federal guidelines. Washington can expect an increase in the funding rate to approximately 60% based on data provided by PHMSA.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The UTC expects to improve the overall safety of the citizens of Washington through enhancements to the Pipeline Safety Program.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This decision package is essential to carry out the agency's plan to protect the safety of the citizens of Washington.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

This decision package provides essential support to the Governor's Results Washington priority number four, Health and Safe Communities, by providing inspections of pipeline infrastructure, thus reducing the risk to the citizens of Washington.

What are the other important connections or impacts related to this proposal?

This decision package will increase program performance and compliance with federal program guidelines.

What alternatives were explored by the agency, and why was this alternative chosen?

The only other alternative is to maintain the existing level of federal funding, which would inhibit the performance of the pipeline safety program.

What are the consequences of adopting or not adopting this package?

While not funding this decision package will not necessarily increase risk to public safety, it makes sense to take advantage of a low cost opportunity to further reduce risk of personal injury or property damage.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

The anticipated cost for the 2015 calendar year pipeline safety grant is \$2.4 million. At the present funding rate of 40%, federal receipts would amount to \$960,000. At the expected funding rate of 60% federal receipts would amount to \$1,440,000, which is an increase of \$480,000 per year.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The federal funding rate will remain in effect until changed by an act of Congress. Therefore, all budget impacts of this decision package would be on going in future biennia.

September 11, 2014

Agency: 215 Utilities and Transportation Comm
Decision Package Code/Title: A1 Utility Damage Prevention Awareness
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

Excavation is the leading cause of damage to natural gas pipelines, accounting for 65 percent of damages. Each event carries with it a risk of explosion, damage to buildings and pipeline facilities, injuries and death to workers and members of the public. This decision package reduces the one time expenditure from the pipeline safety fund that was designed to increase awareness of and use of the 811 one call utility location service and to, ultimately, protect the residents, infrastructure and property of Washington. Money for this appropriation came from accrued penalties paid by pipeline companies. Thus, pipeline safety fees paid by regulated pipeline companies did not increase as a result of this one time appropriation.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
297-1 Pipeline Safety Account-State	(625,000)	(625,000)	(1,250,000)
Total Cost	(625,000)	(625,000)	(1,250,000)

Package Description:

The Utilities and Transportation Commission (commission) had requested an increase in its state appropriation for the 13 15 biennium to continue a technical assistance and public awareness program aimed at encouraging people to call for an underground utility locate before digging as a means of reducing damage to infrastructure that provides essential services statewide.

The damage prevention awareness program will continue but without the need for additional funding therefore the commission is requesting a decrease to its state appropriation.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The commission believes that it's well designed and effectively executed public awareness campaign will continue to increase awareness of and the use of the 811 one call utility locating service. The use of the 811 call center will be used by locators to prevent fewer incidents of damage to essential underground utility facilities, including pipelines, and, in turn, will continue to increase public safety.

The commission will continue to measure improvements by monitoring the rate of damage per thousand tickets issued by Washington one call centers. We expect the number of damages per thousand tickets to decline overtime.

Performance Measure Detail

Activity: A013 Safety Regulation of Utility and Transportation Companies

		Incremental Changes	
		<u>FY 2016</u>	<u>FY 2017</u>
Outcome Measures			
000971	The number of federally reportable, significant pipeline incidents in Washington.	0.00	0.00

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Yes. The commission's 15 17 strategic plan includes a strategic and tactical goals to "Increase public safety." One of the strategies the commission will continue to pursue is "Increase public awareness of the importance of digging safely." The one time funding decision package funded this strategy.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Yes, this decision package supports the Governor's goal #4 "Health and Safe Communities. Increasing the public's awareness of protecting essential utility infrastructure from unintentional damage by excavation, this decision package helped avoid incidents that risk the health and safety of workers and citizens and reduce damage to essential infrastructure.

What are the other important connections or impacts related to this proposal?

The commission will continue its damage prevention public awareness program within its current pipeline safety fund appropriation.

What alternatives were explored by the agency, and why was this alternative chosen?

The commission will continue working on a number of fronts to improve Washington's system of preventing damage to essential underground facilities:

- In addition to our own outreach program, we will continue working with the Safety Committee established by the Underground Utilities Damage Prevention Act to educate excavators and the general public on best practices and training to prevent damage to underground facilities, enhance worker and public safety.

- Continue developing internal processes and refining the commission's Damage Information Reporting Tool to accept reports from utility operators and excavators who observe or cause damage to underground facilities required by the Act.

An awareness campaign aimed at the general public, local governments and excavators was an important part of the commission's effort to reduce excavation damage to essential utility infrastructure.

What are the consequences of adopting or not adopting this package?

The commission had requested one time funding from penalty monies paid by regulated pipeline companies to enhance the 811 one call utility location service to help raise public awareness of damage prevention and the availability of free underground utility locates. In addition, the commission through its established one call program will continue to work towards decreasing the risk that residents, excavators and construction crews take when they dig into Washington's soil.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

Rules were adopted in 480 93 200 and 480 75 630, April 2013

Expenditure and revenue calculations and assumptions

It is assumed that these expenditures will be supported within current appropriation.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

This decision package supported one time expenditures. On going costs will be expended within current appropriation. No future bienna funding is needed at this time.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
C Professional Svc Contracts	(600,000)	(600,000)	(1,200,000)
E Goods\Other Services	(25,000)	(25,000)	(50,000)
Total Objects	(625,000)	(625,000)	(1,250,000)

Agency: 215 Utilities and Transportation Comm
Decision Package Code/Title: A2 Increase Appropriation
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

Over the past two biennia the Utilities and Transportation Commission has:

- Assumed significant workload as a result of legislative action;
- Absorbed increased costs attributable to shared services;
- Experienced high vacancy rates in key job classes and challenges recruiting new employees due to current salary levels; and
- Absorbed increased retirement buyouts.

In response to the additional workload and the difficulty attracting and retaining staff, the commission has had to redirect and reprioritize work, rely on WMS and EMS employees to work significant additional hours, and hire retirees to address staffing gaps. This has also had an impact on the ability of the commission to devote sufficient time and resources to address emerging issues.

Energy:

The energy industry is experiencing a period of rapid change driven by a number of factors including new energy technologies, a focus on renewable sources of energy, and evolving statutory and regulatory requirements. The increasing effectiveness of distributed sources of electrical generation, such as roof top solar and other technological advances, such as energy storage, requires the commission to adapt its regulation to accommodate these technologies. All of this is occurring at a time when regulated energy companies are called upon to make significant new investments to replace aging infrastructure and develop sources of renewable energy. This in turn has caused companies to file for rate increases much more frequently.

The commission is seeking two additional FTE's to respond to the additional work. With the additional FTEs we will have adequate staff to formulate recommendations that consider changes to the energy industry, streamline the rate case process and analyze rate proceedings filed by companies. Responding in a timely manner to this work is essential for the commission to continue to set rates that are fair, just, and reasonable to consumers that also enable Investor Owned Utilities (IOU) to provide reliable services and maintain the infrastructure that supports Washington's economy.

Rail Safety:

In 2013, Congressional Research Services estimated that 280 million barrels of oil were shipped by railroad through the United States, increased from the 6.5 million barrels shipped in 2008. Washington saw approximately 17 million barrels shipped through the state in 2013 with a projected 55 million barrels in 2014. The exponential growth in the volume of crude transported by rail has been accompanied by a number of derailments in the US and Canada involving crude oil, some with catastrophic results, that has emphasized the need for increased public safety.

In response to this growth, the 2014 Legislature required the commission to participate in the Oil by Rail Study with the Department of Ecology. It also directed the commission to study and report on the safety of railroad crew transportation practices. To complete these two important studies, the commission shifted current resources away from other areas. The increased transportation of oil by rail has made it critical that the commission review and update safety regulations and implement improvements in order to better protect public safety in Washington.

The oil transported by rail to Washington generally comes from the Bakken oil fields in North Dakota and Montana and is traveling to oil refineries in Pierce, Skagit, and Whatcom Counties. The increased transport of oil by rail is driven by the lack of pipeline capacity and is expected to increase over time as production of oil from Alaska's North Slope declines. In response to increased oil shipping demand, BNSF Railroad is adding capacity to its Washington rail lines, which, in turn, is significantly increasing workload at the commission.

Operational:

The commission has also experienced a significant increase in shared services costs. Over the past four years, costs have increased in multiple interagency billing components. For example, the costs of managing vehicles on behalf of the commission has increased three fold, new costs have been added associated with the state data center, and the Department of Enterprise Services has increased or added fees to state agencies. Other costs are attributed to new Information technology expenses where the commission agrees with CTS recommendations and suggestions to centralize its services.

Currently the commission is also piloting a satellite office in Seattle to help attract and retain staff that prefer to live and work in a metropolitan area. Maintaining a Seattle office enhances the commission's strategic goal, consistent with the state's overall objective, of making the agency an employer of choice.

The commission is addressing staffing issues by providing a flexible compensation framework that is consistent, fair, and provides equitable treatment to all WMS and EMS employees.

The commission can no longer continue to absorb unfunded work and these increased operational costs. We therefore respectfully request that the commission's public service revolving fund appropriation authority be increased by 3.4 percent. This increase will allow the commission to continue its work with regulated companies, consumers and public safety and meet its 2015 2017 strategic goals:

- Increase public safety.
- Tailor regulation to the requirements of evolving markets.
- Ensure that companies provide safe and reliable infrastructure on which the state's economy depends.
- Improve the commission's business performance for the benefit of employees, regulated firms and the public.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
111-1 Public Service Revolving Account-State	1,000,000	1,000,000	2,000,000
Total Cost	1,000,000	1,000,000	2,000,000
 Staffing	 <u>FY 2016</u>	 <u>FY 2017</u>	 <u>Annual Average</u>
FTEs	2.0	2.0	2.0

Package Description:

Energy Regulation:

The energy industry is experiencing a period of rapid change driven by a number of factors including new energy technologies, a focus on renewable sources of energy and evolving statutory and regulatory requirements. The increasing effectiveness of distributed sources of electrical generation such as roof top solar and other technological advances, such as energy storage, requires the commission to adapt its regulation to accommodate these technologies. All of this is occurring at a time when regulated energy companies are called upon to make significant new investments to replace aging infrastructure and develop sources of renewable energy. This in turn has caused companies to file for rate increases much more frequently.

The Energy Independence Act (EIA) is requiring increased investment in renewable generation resources and energy conservation. Commission regulated electric utilities now generate 9 percent of their energy from renewable resources. In order to incorporate consideration of emerging technologies and services into company integrated resource plans, the commission needs to work with stakeholders to significantly revamp its rules related to company planning process.

In addition, the commission must adapt its regulatory processes to respond to its dynamic environment. In the past few years, electric companies have been filing rate cases on almost an annual basis. These cases have been increasingly complex. It is time to explore ways to streamline rate making processes. In late 2012, Gov. Gregoire convened a Ratemaking Discussion Group, an informal discussion group of representatives from the commission, consumers, regulated utilities, and energy advocates to discuss rate setting procedures and timelines.

Gov. Gregoire provided a summary of recommendations developed by the Ratemaking Group to the commission. The recommendations included, among other items, expediting the rate setting process, establishing rate making principles that initially focus on determining capital structure, developing pricing structures that create incentives for companies to promote conservation and identifying rate making adjustments that better align revenues and costs.

Finally, streamlining commission processes requires a thorough evaluation of current rate structures. These structures should consider market and technological developments, such as distributed generation, battery storage technology, and effective use of new information technology for the grid. These changes and the continued imperative to promote conservation will necessitate further exploration of pricing structures to ensure that rates remain "fair, just, reasonable, and sufficient."

During the 2013 session, the Legislature passed two bills amending the EIA and a bill amending statutes governing integrated resource plans. The commission reported in fiscal notes that the bills would all require rulemakings, resulting in costs to the agency. The agency did not receive additional appropriations for the rulemaking costs. The Legislature also included two budget provisos requiring the agency to (1) work with the states of Idaho and Oregon to "identify common regulatory functions that can be performed jointly, with the goal of formalizing an agreement that protects essential services while increasing regulatory effectiveness and efficiencies through economies of scale", and (2) "to continue to evaluate the regulatory processes for energy companies and identify and implement administrative actions to improve those processes." The commission did not seek at that time additional appropriation to conduct the work for the first proviso and was directed to use \$200,000 of its existing appropriation to complete work on the second proviso. The additional workload from the provisos and bills requires effort by the staff in addition to the work and projects to which they are currently assigned.

The commission has transferred staff internally to work on energy issues and respond to this new work. While this has been useful strategy, more staff are needed. We believe funding for two additional FTEs is crucial. These additional staff will be responsible for conducting engineering assessments and economic analysis on emerging technologies (such as conservation, clean energy resources and technologies, reliability of transmission and distribution infrastructure, and examining pricing structures) as well as, accounting analysis which will focus on traditional rate making considerations. The analysis and recommendations developed by these additional staff will be critical for the commission to respond effectively to changes impacting the electric and natural gas industries the agency regulates.

Rail Safety:

The dramatically increased volume of oil transported by rail and the recent legislative direction to conduct two studies has significantly increased the commission's rail workload. We expect this workload to remain at a higher level for the foreseeable future.

The commission is and will continue to participate extensively in the Oil by Rail Study, and a study of the safety of railroad crew transportation under current law. The commission had identified a cost for such work in bills that formed the basis for the provisos, but did not seek additional appropriation for the fiscal impact on the agency. The commission has reallocated a position to perform transportation policy work, but this position is working almost exclusively on these rail safety issues. In addition, the rail section has rehired two retirees with expertise in the area for assistance with the projects and can only work within the allotted hours per retirement rules.

The increased shipment of oil by rail is also driving other commission rail workload. For example, BNSF Railway (BNSF) plans to add five new sidings and close five crossings in Whatcom County. Because the sidings require changes to railway grade crossings, the commission must, in consultation with local road authorities, investigate each crossing change. Closing a crossing requires a hearing before the commission and such actions are typically contentious with opposition from local governments, citizens and emergency response officials.

The commission expects BNSF will continue expand the capacity of its mainline rail system throughout Washington, particularly in areas near existing refineries and locations when current capacity is stretched. In response the commission has added an FTE to its Rail Safety Section to assist with this workload.

Commission rail staff are also participating on the technical advisory committees working on environmental studies related to proposed coal terminals at Longview and Cherry Point. This is a new role for the commission and it has added to the increased workload demands.

The commission expects that work on the issues relating to shipments of oil by rail will continue, requiring additional effort by commission staff and the need to add FTE's.

Without additional appropriation authority, the commission will lack the sufficient resources to hire or retain staff. The work the agency performs is highly complex and highly critical to the state's economy. The agency needs additional funds to ensure the continued excellent work and effort by its staff.

Recruitment and Retention:

As the commission deals with growing and an increasingly complex work load, it is planning for the potential for losing up to 35 percent of its employees to retirement by 2016. In response we will need to recruit a new generation of staff to replace the retirees. This is occurring at a time when the commission has had a demonstrated difficulty retaining employees and attracting qualified candidates.

The commission continues to lose talented employees with highly sought technical skills to other organizations, typically public or private energy utilities. The impact of relatively low salaries compared to these other organizations has previously and may in the future hinder the commission's ability to fulfill our critical mission of regulating the rates and services of private investor owned utility and transportation companies to ensure that services are fairly priced, available, reliable and safe. The industries we regulate, including rail, are undergoing constant change and facing significant new demands and asking for faster turnaround time in order to meet business needs.

Our rail positions are highly specialized and must meet federal experience requirements upon hire. It takes considerable time from experienced staff to help train and mentor new hires. We experience difficulty in finding experienced applicants that meet the Federal experience requirements for the salaries we can offer. We do not want to impede the needs of the companies we regulate that provide infrastructure and freight transportation services on which the state's trade dependent economy depends. Nor do we want to reduce the safety oversight provided by these inspectors. Doing so risks lowering safety standards.

Changes in the industries we regulate present the commission with the need to address the changed service demands and business needs in our regulation. Examples of such current demands include streamlining the commission's rules related to telecommunications companies to recognize the increased competition and consumer choice in that industry; continuing to implement the Energy Independence Act (e.g., I 937); implementing a shorter more efficient rate review process; and establishing a universal service fund to support continued provision of affordable telecommunication services in rural areas and facing significant new demands. Moreover, there is no reason to believe these kinds of changes will cease once we work through the current set of issues, technological and market changes show now sign of letting up. Without the experienced and knowledgeable staff to analyze these changes there is the risk of getting it wrong with resulting impacts of customers of regulated companies. The state cannot afford to impede the needs of the companies we regulate that provide infrastructure and services on which the state's economy depends. Nor do we want to adversely affect vital services needed by citizens, including those most vulnerable who depend on reliable service, through consumer protection, and safety standards.

However, this problem most directly affects the accounting, economic, financial, engineering, and policy analysts involved in the commission's economic regulation of utility and transportation companies. In addition the ability to improve the commission rate making process is also hampered due to this impact on the retention of talented staff. Without the experienced and knowledgeable staff to analyze these changes there is the risk of getting it wrong with resulting impacts on customers of regulated companies. The state cannot afford to impede the needs of the companies we regulate that provide infrastructure and services on which the state's economy depends. Nor do we want to adversely affect vital services needed by citizens, including those most vulnerable who depend on reliable service, through consumer protection, and safety standards.

We have worked with the state Human Resources Office on the compensation level for selected job classes. A class and compensation proposal is currently being bargained with the Washington Federation of State Employees. The commission has also refreshed its WMS/EMS compensation policy, which implements a long term strategy regarding compensation increases for employees in these position that is fair and consistent, to promote recruitment and retention of talented employees within the WMS and EMS levels. As part of this effort the commission has also undertaken a salary survey of management positions at other agencies with regulatory oversight. The data will be used to determine the long term strategies going forward to make the commission an employer of choice.

A solution to our retention challenge needs to depend on more than higher salaries. For this reason we are working to improve management effectiveness through an ongoing management development initiative that has focused making our agency values more consistently observable in our interactions with each other. We expect to measure the effectiveness of this initiative by monitoring positive ratings by employee on the annual employee survey for questions related to employee engagement and a culture respect, feedback and recognition.

In addition to updating the compensation policy and our management initiative, the commission has leased office space in Seattle that is directly in line and serves the Governor's goals to make the state an employer of choice and to reduce fossil fuel emissions. Several current commission employees live in Seattle and value the opportunity to work part of the week in a commission office close to home. Not having to drive the more than 60 miles to and from Olympia enhances these employees' quality of life, reduces their commuting expense, and benefits the environment. Having a Seattle office is also a useful recruiting tool, making the agency a more attractive place to work for potential employees who live and want to remain in that city.

Other commission personnel also benefit from having a Seattle office. The main offices of several companies the commission regulates, including Puget Sound Energy and CenturyLink, are located in the greater Seattle metropolitan area, and the city frequently hosts conferences that focus on utility and transportation related issues. The Seattle office provides a home base and work space for commissioners and staff who attend these meetings and conferences, increasing these employees' productivity while not in Olympia.

The commission has used surplus funds from vacancies to fund the Seattle office. To sustain the office and its potential growth and the ability to fund the long term strategy for compensation increases, increased workloads and increases in shared services the commission needs an increase to its current appropriation authority.

Shared services:

In the past four years, the commission has experienced new and increased costs associated with shared services. The combination of increased costs and the new costs have increased from approximately \$128,000 to \$263,000 demonstrating a more than 100 percent increase. The past biennium and year one of this current biennium the commission has been able to absorb these costs due to vacancies, but as these vacancies are being filled there is little left in surplus to fund these costs. Therefore, the commission will not have the funds to continue to absorb these costs without an increase in its appropriation.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

Energy

The addition of two FTE's and an increase in appropriation authority will help produce the following desired outcomes, which are in alignment with the UTC's 2015 2017 Strategic Business Plan:

- Incorporating roof top solar facilities and other distributed generation technologies into the electrical distribution system and into utilities' resources planning processes;
 - Ensuring that energy companies actively protect their assets from cyber and physical threats to electrical transmission and distribution systems;
 - Identifying opportunities for companies to enhance the reliability of their distribution and transmission infrastructure;
 - Monitoring conservation measures implemented by companies to ensure that only cost effective measures are paid for by customers;
 - Implementing improvements to pricing structures that better incorporate renewable generation and conservation measures;
 - Streamlining our rate setting processes and method in an effort to reduce the need for annual rate cases and other tariff filings;
- and
- Incorporate into energy rates the effect of Environmental Protection Agency carbon emission rules. The rules are intended to reduce carbon emissions, including those from coal fired, electric generation facilities, some of which supply electric power to Washington.

The expected cumulative effect on rate payers and is a more efficient and reliable electrical system. The expected cumulative effect on regulated companies is revenues that are sufficient to generate returns that allow the companies to invest capital in needed

infrastructure improvements.

Rail Safety:

The commission's rail safety work will produce the following outcomes:

- Petitions for changes to railroad crossings are investigated and acted on in a timely manner.
- Orders on petitions to close crossings are informed by input from citizens and local government officials and properly balance public safety and other local interests.
- Two legislatively mandated reports that are authoritative, complete and timely and reflect the best judgment and advice of the commission.

Recruitment and Retention:

We expect our initiative to address the commission's recruitment and retention challenges will produce the following outcomes:

- Fewer difficulties recruiting and retaining talented employees.
- Improve management effectiveness through our ongoing management development initiative as demonstrated by increased positive responses on employee survey questions related to employee engagement and a culture respect, feedback and recognition.

Performance Measurement Detail

The commission's FY 2015 17 strategic plan contains five strategic goals and each goal has one or more initiatives or tactical goals related to it. The commission's strategic goals and related initiatives support Governor Inslee's priorities as shown below

Commission Strategic Goal

Supports this Governor Priority

1. Increase public safety
 - Healthy and Safe Communities (goal #4)
2. Tailor regulation to the requirements of evolving markets
 - Prosperous Economy (goal #2)
 - Sustainable Energy and a Clean Environment (goal #3)
3. Ensure that companies provide safe and reliable infrastructure on which the state's economy depends
 - Prosperous Economy (goal #2)
 - Healthy and Safe Communities (goal #4)
4. Improve the commission's business performance for the benefit of employees, regulated companies and members of the public, and
 - Effective, Efficient and Accountable Government (goal #5)
5. Take steps to make the commission an "Employer of Choice."
 - Effective, Efficient and Accountable Government (goal #5)

This decision package supports the commission's strategic plan and, through that plan, Governor Inslee's priorities

Performance Measures

The agency's performance with respect to its strategic plan and this decision package will be measured by the following budget performance measures:

- 962 The number of reportable accidents per million miles traveled by Washington passenger carriers.
- 971 The number of federally reportable, significant pipeline incidents in Washington.
- 972 The rates of collisions involving motor vehicles and trains per one million train miles.
- 965 The average residential electricity rate paid by Washington customers of private utilities as a percent of the national average.
- 966 The average number of electricity outages lasting five minutes or longer for each customer per year.
- 969 Percentage of phone service interruptions restored by telephone companies within 48 hours.

In addition, commission strategic goal #2 will be measured by this new measure:

- Total energy savings achieved through cost effective conservation.

Performance Measure Detail

Activity: A013 Safety Regulation of Utility and Transportation Companies

		Incremental Changes	
		<u>FY 2016</u>	<u>FY 2017</u>
Outcome Measures			
000962	The number of reportable accidents per million miles traveled by Washington passenger carriers.	0.00	0.00
000971	The number of federally reportable, significant pipeline incidents in Washington.	0.00	0.00
000972	Rate of collisions involving motor vehicles and trains per one million train-miles traveled.	0.00	0.00

Activity: A014 Economic Regulation of Utility and Transportation Companies

		Incremental Changes	
		<u>FY 2016</u>	<u>FY 2017</u>
Outcome Measures			
000965	The average residential electricity rate paid by Washington customers of private utilities as a percent of the national average.	0.00	0.00
000966	The average number of electricity outages (lasting 5 minutes or longer) for each customer per year.	0.00	0.00
000969	Percentage of phone service interruptions restored by telephone companies within 48 hours.	0.00%	0.00%

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Energy Regulation:

Yes, the two FTEs requested here provide essential support to accomplishing the work outlined in three of the commission's ten tactical goals contained in its 2015 - 2017 strategic plan:

1. Adapt our processes and update our rules to respond to technological and statutory changes in the energy industry;
2. Address long term issues associated with low income customers; and
3. Evaluate regulated companies preparedness to respond to risks and threats to critical infrastructure.

Rail Regulation:

Our work thus far on the legislatively mandated study of oil transportation by rail has identified a number of public safety gaps the commission will need to address. This work is discussed in this tactical goal from our strategic plan: Review and update safety regulations and implement improvements in light of increasing rail traffic and hauling of combustible materials. The commission will work with its partners to develop a work plan by July 1, 2015, that addresses the commission's study recommendations and guidance we receive from the Legislature. We will make consistent and appropriate progress on the work plan throughout the 2015-17 biennium.

Recruitment and Retention:

Yes, the industries we regulate are undergoing a period of significant change and facing new demands. In turn the companies are presenting new issues to the commission to address. This is occurring at a time when the commission is having difficulty attracting and retaining qualified employees in a number of areas.

The commission has embarked on an initiative intended to make it more attractive as an employer, which has several elements. We initiated a management initiative to build a culture of respect, professionalism, integrity, and accountability, which is described in our strategic plan. As described above, we are also working with the state Human Resources Office on the compensation level for selected job classes and refreshed our WMS/EMS compensation policy.

We have also leased a satellite office in Seattle, which benefits the growing number of employees that live there. Seattle offers a much larger pool of potential employees than Olympia, particularly for the specialized skills and knowledge required. We hope that the Seattle office will help the commission maximize its ability to attract and retain the talent the agency needs to fulfill its mission.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Goal #2: Supporting a Prosperous Economy is supported by the commission's plan to revamp rate structures for regulated energy companies which can be expected to allow them sufficient revenues to ensure they provide safe and reliable energy services. This goal is also supported by our plan to address long term issues associated with low income energy customers.

Goal #3: Sustainable Energy, and a Clean Environment is supported by the commission's plan to update our integrated resource planning rules to incorporate renewable energy requirements, proposed EPA rules on carbon emissions, technological developments such distributed generation and energy storage and uses for electricity and natural gas as a transportation fuel.

Goal #4: Healthy and Safe Communities is supported by the commission's plan to evaluate the extent to which companies are prepared to respond to risks to critical infrastructure. These risks can be natural such as severe storms or earthquakes or man made such as cyber based threats to this infrastructure. This goal is also supported by our planned work to address the public safety risks arising from increased transportation of oil by rail.

Goal #5: Effective, Efficient and Accountable Government is supported by our plan to streamline our rate setting processes for energy companies. It is also supported by our plan to address our recruiting and retention challenges.

What are the other important connections or impacts related to this proposal?

Energy Regulation:

The changes in the electric and gas industries are not just occurring in Washington state. The issues relating to the impacts of emerging technologies on the electrical distribution system, carbon emissions regulation, grid reliability and critical infrastructure protection, as well as the impact of these changes on energy rates and power supply are national issues. The additional staffing will allow the agency to work on these issues on a state and national level to ensure Washington state remains a leader on clean energy technologies, while at the same time ensuring rates that are fair, just and reasonable for consumers and sufficient for utilities to attract and invest capital in developing infrastructure upon which Washington's economy depends.

Rail Regulation:

Despite reporting costs to the agency of various legislative proposals, the commission has not received sufficient appropriation to address the number and pace of activities in which the Legislature has directed agencies to participate. In addition to these important activities, the rail safety staff is also participating in reviews of coal and oil facilities in Washington, as well as the regular work of the agency in conducting inspections and responding to petitions for changes to crossings. The increased activity puts significant pressure on the Rail Safety Section of the agency.

Recruitment and Retention:

In order to meet future challenges, the commission must attract and retain individuals who have unique skills that are in demand in the private sector but with the added focus of furthering the public interest.

The ability to recruit top level talent for our regulatory analyst class series through our current strategies for hiring these positions at the entry level and training in house, has shown some success. We have also expanded our efforts to attract candidates through external energy related sites, such as the National Association of Regulatory Utility commissioners, however this has shown little success. The implementation of in training plans for our external recruitments allows us the flexibility to hire talented candidates at lower levels of the class series, providing a specific training plan where successful completion can result in promotion through higher levels of the class series and into management positions. We anticipate that this will also assist in our retention efforts.

It is critical that we recruit and retain new talent to provide the expertise needed to be agile and innovative in responding to challenges in the industries we regulate, including: evolving technologies, pricing structure, rate setting and long term planning.

The use of Lean management principles in strategically implementing a fair and consistent compensation plan to attract and retain talented employees will have an impact on the delivery of customer satisfaction, employee engagement and innovation, and transparency and accountability. In addition, a Seattle office enables the commission to contribute to the Governor's objective of reducing carbon emissions by reducing the number of commute trips to Olympia for commission employees who live in Seattle.

Operational:

The increased costs in shared services and retirement buyouts can no longer be supported by surplus funds. The commission continues to experience increase costs in required shared services and some increases associated with implementing information technology costs recommended by CTS. In addition, the Commission has approximately 35 percent of its workforce eligible to retire in the next biennium. The average costs in buyouts has been \$20,000 and we expect that average amount to continue into the next biennium.

What alternatives were explored by the agency, and why was this alternative chosen?

Energy Regulation:

We have taken the following steps to improve our focus on and resources devoted to energy regulation.

- In 2012, the commission reorganized its Regulatory Services Division and created a new section headed by an assistant director to focus on conservation and energy planning.
- We transferred three employees from our Telecommunications Sections to the Energy Sections.
- Allocated four additional vacant positions to energy regulation work, and filled a vacant position in and reassigned a vacant position to the Policy Division to provide additional support to the commissioners on energy policy.

These efforts have allowed the commission to make considerable progress in the energy field. However, we believe additional resources are now needed to continue this work and to address the goals identified in the agency's strategic plan.

Rail Regulation:

The commission moved a vacant position to the Rail Safety Section to support the crossing petition increased workload. We did not have an alternative other than to absorb the costs of the various legislative proposals and required studies than to shift current resources to these projects away from other matters and to hire retirees to fill the staffing gaps.

Recruitment and Retention:

We took the following actions in an effort to respond to our recruiting and retention challenges:

- The commission responded to difficulties recruiting to fill vacancies in its regulatory analyst job class by no longer recruiting to fill positions at the Regulatory Analyst 1 level. Instead we shifted to recruiting to fill positions at the Regulatory Analyst 2 position in training. This allowed us to offer the certainty of higher salaries once new employees completed their in training work.
- We also worked with the state Human Resources Office and helped them identify new organizations to include in its biennial salary survey.
- The commission conducted a salary survey of management positions at other agencies with regulatory oversight. The data will be used to determine the long term strategies going forward to implement a fair and consistent strategy in compensating WMS and EMS positions.
- Leased a satellite office a Seattle office for drop in use by employees that live in the city.

What are the consequences of adopting or not adopting this package?

Energy Regulation:

The main effect of not adopting this package is that the commission will be limited in its ability to respond to the critical energy issues outlined above, including addressing new clean energy technologies, examining pricing structures and streamlining commission rate making procedures.

Rail Regulation:

If the position added to the crossing petition work is not sufficient, the time it takes for the commission to act on crossing petitions will lengthen. This will mean delays on projects to increase capacity on the rail system, which is already seeing capacity related delays in moving commodities to Washington ports.

The means by which the commission absorbed the costs of legislatively assigned projects are not sustainable.

Without additional funds to increase salaries the commission will continue to see staff leave for higher paying positions.

Recruitment and Retention:

The quality of the work performed by the commission is an expression of the knowledge, experience and talent of the people we employ. We continue to lose experienced employees to private and local government employers where salaries are higher. In addition, 35 percent of our employees will be eligible to retire in the next few years.

The consequence of not funding this initiative is that we will continue to lose experienced employees at a time when the rate of departure is likely to increase. Our ability to replace these departing employees with people of equal talent is doubtful.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Revenue Calculations and Assumptions:

No additional revenue is associated with this decision package.

Expenditure Calculations and Assumptions:

The request for an additional 4 FTE's and an increase in appropriation authority to the commission's dedicated fund is the result of; increase in workload driven by legislative actions; high vacancy rates in key positions and challenges with recruiting; increase costs associated with shared services; and a high rate of retirement eligibility.

These four key reasons for requesting additional appropriation authority are based on the following:

Staffing, recruitment, retirements	\$775,000
Shared Services	\$225,000
Total annual Increase	\$1,000,000

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The costs for the two additional FTE's are on-going and funding will be necessary to maintain this staffing level during future biennia.

This decision package request for increased appropriations is ongoing and the additional appropriation will be necessary to support the agency's work in future biennia.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages	542,500	542,500	1,085,000
B Employee Benefits	232,500	232,500	465,000
E Goods\Other Services	225,000	225,000	450,000
Total Objects	1,000,000	1,000,000	2,000,000