

SECTION 5

DIVISION OF STRATEGIC PLANNING

The role of the **Division of Strategic Planning** (DSP) is to discover, identify, and address issues regarding notable industry concerns and developments, internal and external Commission procedures, and interagency relationships. The Division focuses on issues that are not ordinarily addressed by line divisions. DSP identifies and analyzes long-term industry trends and associated regulatory impacts and important regulatory, industry or organizational problems, and assesses the effect of emerging competition on regulatory responsibilities. DSP also analyzes and suggests improvement of CPUC internal organization to better serve the public.

FIVE TO TEN YEAR OUTLOOK

Over the last ten years, as the services provided by California's regulated utilities have progressed, the Legislature and Commission have engineered fundamental modifications to CPUC regulatory structures. The state's historical reliance on strict government oversight has been replaced, when feasible, with more adaptable, market-oriented approaches that recognize the benefits of open and competitive markets for large and small consumers.

For telecommunications, electricity and natural gas, California is likely to continue to replace traditional "cost-of-service" regulatory systems with approaches that embrace vibrant competition and the disciplines of market forces. In order to ensure that California utility consumers benefit from these changes, the Commission must stay continually abreast of the economic, social, and technological developments that will accompany the trend toward greater competition in these industries. First, the trend toward strategic corporate alliances in conjunction with increasing numbers of retail service providers, as well as the emergence of new technology and service offerings, will focus the Commission's attention increasingly on consumer-related issues.

In addition, as the Commission evaluates past reforms and considers future competitive policies, elements of traditional monopoly utility service will need to be evaluated and potentially redefined. The introduction of competition into telecommunications and energy markets raises a number of new questions: how to define the traditional utility's obligation to serve in a competitive market; how to ensure service is universally available; funding and administration of public purpose programs; maintaining public safety and reliability; and mitigating potential utility market power and the appropriate level of separation between providing traditional monopoly services and emerging competitive services. As

these trends, and the Commission's and Legislature's regulatory responses to them, unfold over the next decade, the Commission's own role in future industry

environments will also evolve. To help these efforts, the Division of Strategic Planning must be ready to anticipate industry developments and impacts on CPUC regulations, and assist Commissioners, divisions, and stakeholders in developing appropriate regulatory policies and frameworks for the future.

For water and transportation, market and technological evolutions have not been as dramatic as in the energy and telecommunications industries. Yet, even these industries are likely to see significant industry and regulatory modifications in the future. In water, company consolidation through mergers and acquisitions, increased concerns over the source and health quality of supplies, and the continued streamlining of traditional regulatory processes are likely to redefine the Commission's future role in the water industry. In transportation, the Commission will continue to ensure that regulated railroads, rail transit, and passenger and household goods carriers operate safely and effectively.

1999 - 2000 DIVISION OF STRATEGIC PLANNING OBJECTIVES

Objective A: Examine and Analyze Trends in Regulated Industries

A major function of the Division is the review and examination of new and ongoing trends in the various regulated industries, with a focus on those events likely to have impacts on the state of California and CPUC policy development. This "industry reconnaissance" function is best achieved by a variety of approaches:

- meeting with Commissioners, CPUC management and staff, utilities, consumer representatives, environmental organizations, and other stakeholders on industry and regulatory developments and concerns;
- consulting with state and federal legislators and legislative staff, and reviewing state and federal legislative efforts.
- discussing current state or federal proceedings and their implications with industry representatives;
- attending notable regulatory or industry conferences; and,
- reviewing academic or research findings on important industry and regulatory topics.

Based on the information it obtains through these sources, the Division provides independent analysis to Commissioners and staff on industry and regulatory events and identifies the need for modifications to the Commission's policies, processes, and internal organization. During 1999-2000, DSP will use two strategies to meeting this objective:

Strategy 1 Monitor industry and regulatory developments likely to affect Commission responsibilities by attending industry conferences, reviewing trade and general press for industry trends and developments, speaking regularly with public utilities, public service commission staff, and legislative staff in California and other states, and meeting with consumers and industry representatives. (Ongoing)

Strategy 2 Advise Commissioners on emerging issues and regulatory developments based on information learned by Strategy 1. DSP will assist Commissioners and management to assess changing circumstances in the regulated industries and develop options for Commission consideration in consultation with legislators. For example, DSP staff has recently provided assistance to the Executive Director and Commissioners on integrating Commissioner strategic industry views into the CPUC Business Plan. (Ongoing)

Objective B: Assist the Commission in Developing Regulatory Policies

Based largely on concerns learned from the efforts described in Objective A, DSP will work with Commissioners and management to provide analysis and recommendations on important regulatory concerns during the year. DSP objectives can be achieved in a variety of ways, such as writing industry reports, studies, and memos, or providing advisory assistance to decision-makers in Commission proceedings. For 1999-2000, Division staff has three distinct projects for assisting Commission deliberations on policy reforms:

Strategy 1 Competitive Electricity Services: As completion nears of the transition from a traditional monopoly structure to a more competitive market, new issues are emerging that require thoughtful consideration in the context of a comprehensive assessment of the evolving electricity industry. Parties to four proceedings pending before the CPUC have identified the need to consider the future role of the utility distribution company (UDC) in competitive retail services. Those proceedings are (1) the consolidated post-rate freeze proceeding, A.99-01-016, A.99-01-019, A.99-01-034, (2) Southern California Edison's proposed forward purchases pilot program,

A.99.03-062, (3) the electric restructuring rulemaking, R.94-04-031/I.94-04-032, and (4) the distribution rulemaking, R.98-12-015.

In addition, numerous parties in the distribution rulemaking have raised concerns regarding the utilities' distribution services. These parties suggest that the provision of competitive distribution services may address their concerns. They ask that the Commission evaluate existing policies and rules governing utility distribution service.

In considering these issues, Commissioner Duque, the Coordinating Commissioner for Electricity, has asked DSP to examine current trends and issues in the competitive electricity market and the requirements of consumers, and provide a range of long-term perspectives on how California's electricity market might develop. This effort should include consideration of whether current regulatory policies and rules support continued growth of the industry as envisioned in AB 1890 and in the Commission's subsequent electric restructuring decisions. The principles established in California's initial electric restructuring endeavor of encouraging innovation, efficiency, cost minimization, and improved service to consumers should continue to guide this staff effort.

Some issues and concerns raised by parties in current proceedings include:

- The need to increase access to more efficient, reliable and low-priced electricity supplies, allow for greater flexibility and reliability in distribution services, and provide for more choices in distribution services.
- The need to lower the price of distribution services.
- The need for a more level playing field in the competitive retail electricity market to address the utility distribution company's dominance in that market.
- The need to functionally separate the utility's retail services business from its distribution services business.
- The need to re-examine the exclusive role of the utility distribution company as the default provider of retail electricity services.

The assigned Commissioner for the distribution rulemaking has asked the Division to submit its findings and recommendations to the Commission in March 2000.

Strategy 2 Telecommunications Convergence Study: In 1993, the Commission issued *Enhancing California's Competitive Strength: A Strategy For Telecommunications Infrastructure* (the Infrastructure Report), a statewide telecommunications strategy to promote the development of an advanced telecommunications network for the state. Since then, the political, economic, social and technological context of the Commission's telecommunications strategy has shifted dramatically.

First, in light of the recommendations contained in the Infrastructure Report, the Commission has undertaken an aggressive effort to fundamentally restructure regulatory policies. Its two-pronged goal: promoting increased marketplace competition, and facilitating the rapid deployment of advanced and innovative telecommunications technologies and services.

Second, the passage of the federal Telecommunications Act of 1996 has had the combined effect of accelerating the pace of deregulation and setting into motion a sweeping industry-wide drive to consolidate and restructure.

Third, in the few short years since the adoption of the Infrastructure Report, the Internet has emerged as a powerful cultural and economic force for change, resulting in a permanent reweaving of the social fabric. With the culmination of several proceedings to open telecommunications markets to competitors, and given the shift in context, it is timely for the Commission to assess and evaluate its long-term telecommunications strategy.

As part of this effort, Commissioner Neeper, Coordinating Commissioner for Telecommunications, has asked the Division of Strategic Planning to examine the extent to which California has implemented the Commission's 1993 Infrastructure Report, and assess the Infrastructure Report's relevance in today's market place.

Since 1993, a myriad of unanticipated developments has emerged that suggest there may be a need for further regulatory reform. Those developments include, but are not limited to the following:

- **Implementation of the 1996 Telecommunications Act** continues to unfold on multiple fronts with significant, substantive, and frequently unpredictable impacts on California's regulatory and strategic frameworks;
- **The accelerating pace of corporate consolidation and restructuring** throughout the telecommunications industry, coupled with the resulting increased scale and scope of these

reinvented enterprises, is without precedent and poses unique challenges for the competitive marketplace and regulators.

- **The convergence of advanced broadband digital technologies** such as xDSL, cable modems, high-speed wireless, and low Earth orbit satellites, have precipitated an explosive growth in electronic commerce, with potentially profound implications for all sectors of the state's economy
- **The digitalization of telecommunications is resulting in a corresponding globalization of telecommunications** with unclear implications for the state's economy generally, and the state's regulatory policy in particular.

The objective of the Telecommunications Convergence Study will be to articulate a forward looking regulatory framework capable of developing policies consistent with both the Commission's long-range policy functions and today's marketplace realities. Among the issues the study will address:

- An assessment of research to date on the scale, direction, and significance of the emerging digital economy;
- Consideration of new indicators for the information economy, new types of data collection and new research that could be undertaken by the public and private sectors that may help to inform investment decisions and policy development;
- Evaluation of emerging trends in the telecommunications industry as they may relate to maintaining effective consumer protections, repelling encroachments on individual privacy rights, and reducing the potential risk of market abuses;
- Comparative analysis of the status of international, national, state and local legislative and regulatory initiatives addressing telecommunications convergence;
- Review of the open access debate with an assessment of preferred policy options.

The Division will coordinate its analysis with the planning of the Telecommunications Coordinating Commissioner and expects the study to be completed in June 2000.

Strategy 3 Transportation Study/Audit: Since its inception, the regulation of the rates and services of rail and motor carriers has been a fundamental function of the Commission. Over the last twenty years, numerous elements of the Commission's traditional transportation regulation functions have seen modification. Most recently, in 1995 and 1996, changes in federal and state laws removed much of the Commission's authority over the rates and services of rail and motor carriers and focused the Commission's role instead on the safety of these carriers. Yet, there remains a concern that current practices and requirements for regulated companies may not reflect the best interests of contemporary consumers or the industry; a fundamental review of the Commission's current practices is necessary.

The Commission directs DSP, in consultation with experts from the Rail Safety and Carriers and Consumer Services divisions, to conduct a study of those portions of state and federal statutes and the

Public Utilities Code that guide the Commission's regulation of the transportation industry, except with regard to safety regulation. The study will describe the statutes and code and Commission programs and activities designed to satisfy them, and will provide Commissioners with an initial assessment of whether those programs and activities protect consumers and contribute to the state's economic health and welfare. The report will review non-safety aspects of the Commission's transportation program with the goal of working with the California Legislature and stakeholders to eliminate unnecessary regulation.

Strategy 4 Natural Gas Regulation: In 1998, the Commission opened a proceeding on the long-term regulatory outlook for the natural gas industry and how regulation can be redesigned to best respond to that outlook (R. 98-01-011). DSP has worked closely with the ALJ and Energy Divisions to prepare a broad market structure framework for further cost-benefit analysis and discussion with the Legislature in 1999. DSP involvement in the proceeding will decline as the Commission begins the more detailed cost-benefit analysis of promising market structure options identified in D. 99-07-015.

KEY PERFORMANCE INDICATORS

DSP Key Performance Indicators will continue to measure DSP staff time allocated to identified DSP projects (Objective A), as well as staff time on general

analyses of trends by industry (Objective B). DSP will also monitor and report on deadlines and milestones for projects.

RESOURCE ALLOCATION

The following chart shows the allocation of DSP staff to the two objectives for DSP. The five analysts now assigned to DSP split their time between reviewing and analyzing industry and regulatory trends (Objective A) and assisting Commissioners on specific policy studies and projects (Objective B); for 1999-2000 analysts will focus their time on the studies described in Objective B.

Staffing (Personnel-years)

Objectives	Authorized	Filled	Vacant
A - Analyze Trends	2	1	1
B - Policy Studies	5*	4*	1
Management and Support	2	2	0
Totals	9	7	2

* One position on loan from Rail Safety and Carriers Division

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