

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

TUESDAY, APRIL 5, 2005
1:30 PM, ROOM 447

CONSENT CALENDAR

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
1760	Department of General Services	2
Issue 1	Strategic Sourcing Initiative	2
Issue 2	Office of State Publishing	2
8660	Public Utilities Commission	3
Issue 1	Budget Change Proposals	3
Issue 2	Informational Presentation on selected PUC Activities	4
Issue 3	Teleconnect Program Report	5
8770	Electricity Oversight Board	6
Issue 1	Workplan and Role of the EOB	6

ITEMS TO BE HEARD

ITEM 1760 DEPARTMENT OF GENERAL SERVICE

The objectives of the Department of General Services (DGS) are to: (a) Meet the varied responsibilities for management review, control and support of state agencies as assigned by the Governor and specified in statute; (b) Provide support services to operating departments with greater efficiency and economy than they can individually provide for themselves; and (c) Increase effectiveness and economy in the administration of state government by establishing and improving statewide policies and guidelines.

ISSUE 1: STRATEGIC SOURCING INITIATIVE

In the 2004-05 Budget, the Legislature enacted the Strategic Sourcing Initiative for state procurements. As described by the Department, Strategic Sourcing is an approach where the buyer (California) analyzes what it's buying, what the market conditions are and who can supply those goods or services. Then the buyer uses that information--plus innovative contracting techniques--to find the best values available in the marketplace.

Projected savings

In the 2004-05 Budget the Department of Finance projected savings of \$96 million dollars General Fund resulting from Strategic Sourcing activities. In the 2005-06 budget, the Department of Finance revised savings estimates for strategic sourcing from \$48 million General Fund.

COMMENTS

Considering the state's previous difficulties in achieving estimated savings from Strategic Sourcing, the administration should be prepared to update the subcommittee strategic sourcing savings for the current year.

ISSUE 2: OFFICE OF STATE PUBLISHING

In an effort to align its operating expenses with its annual revenues, the Office of State Publishing (OSP) is proposing to reduce its workforce by 120.0 positions and \$6.2 million in 2005-06. This proposal is in response to a \$14.3 million loss over the last ten years and \$5.5 million loss in 2003-04 alone. The department points to the OSP's production of a wide and unfocused array of products that ultimately forces OSP to carry high and non-competitive rates that drive state agencies to use outside vendors. Subsequently, the department has also expressed a need to modernize OSP and introduce increased digital capacity into their printing services in order to compete with private enterprises.

COMMENTS

The Department should be prepared to comment on the following:

What plans does the Department have for relocating employees affected by this proposal.

What effect does current statute (allowing state agencies to procure printing services outside of OSP) have on OSP's ability to maintain fiscal solvency?

ITEM 8660 PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) is responsible for the regulation of investor-owned natural gas and electricity utilities, telecommunications services, water companies, railroads, and certain passenger and household goods carriers. Specific activities include enforcement of safety regulations, regulation of rates for services, and promotion of energy and resource conservation.

The Governor's budget proposes \$1.2 billion from special funds financed by utility ratepayers and 835.7 positions for state operations, including \$848 million for various telecommunications subsidy programs and \$258 million for energy efficiency, research, and subsidy programs. This represents an increase of 6.2 positions and a decrease of \$26.9 million special funds from the revised 2004-05 Budget. The increase in positions is attributable to program enhancements funded from the Energy Resources Programs Account and the Public Interest Research, Development, and Demonstration Fund to improve the commission's data collection and modeling capabilities and to expand energy research and development projects.

ISSUE 1: BUDGET CHANGE PROPOSALS

The Governor's Budget includes the following budget change proposals for the PUC:

- **Household Goods Carrier Enforcement.** The commission regulates the operation of the household goods carrier industry. The budget includes an augmentation of \$521,000 from the Transportation Rate Fund and 5.2 positions to address workload and improve investigative and enforcement activities related to incidents of illegal carrier activity.
- **Informal Complaint Resolution.** The Governor's budget proposes \$483,000 from utility ratepayer funds to continue on a permanent basis 8 positions to address ongoing workload to resolve complaints from utility customers over billing and service disputes. These positions currently are limited-term.
- **Facility Special Repairs.** The budget proposes a total of \$380,000 of one-time funding for specific maintenance projects at the commission's headquarters in San Francisco, as identified by the Department of General Services. The major components of this request include installation of new roof and window anchors for

window cleaning scaffolds to meet CALOSHA standards (\$150,000), Mylar blast film for windows (\$90,000), and installation of restroom floor drains (\$83,000).

- **Tenant Sub-Meter Complaints.** The budget proposes an increase of \$73,000 for one position to implement SB 1163 (Dunn, Chapter 728, Statutes of 2004), which requires the commission to accept and respond to complaints from residential customers served through a master-meter arrangement (generally mobile home parks).

No issues have been raised concerning these Governor's Budget proposals.

ISSUE 2: INFORMATIONAL PRESENTATION ON SELECTED PUC ACTIVITIES

The commission will update the subcommittee on the current status of the following programs and activities.

Energy Action Plan and Electricity Procurement

In 2004, the PUC adopted decisions and set in motion a new procurement process and new resource adequacy for the investor-owned electric utilities (IOUs) and certain other electric service providers. This new process, which responds to recent legislation, begins to establish the framework of the state's electricity market in the post-energy-crisis/post PG&E Bankruptcy environment. The PUC also has begun to work more closely with the California Energy Commission (CEC), using Energy Commission electricity supply and demand forecasts and holding joint meeting with the CEC. Major elements of the Energy Action Plan and procurement process include:

- Authorization of IOUs to undertake rolling 10-year procurements and to enter into long-term power contracts.
- Resource adequacy requirements, including reserve margins of at least 15 percent by June 2006 and advance procurement requirements.
- Incorporation of reliability considerations, including transmission availability and costs into resource plans.
- Adoption of a "Loading Order" giving priority to energy efficiency, demand reduction, and renewable energy sources in the procurement and provision of electricity.
- Investments in energy efficiency and in demand response and peak shaving strategies.
- Investigation of adding a "carbon charge" to the cost of electricity from fossil fuels in procurement evaluations to take into account the risk of future restrictions on greenhouse gas emissions.

Electricity Outlook for Summer 2005 and Beyond

Generally, forecasts indicate that the state should have adequate electricity supplies this summer if weather conditions are normal. However, supplies could be tight; particularly in Southern California if the summer is particularly hot.

The PUC is continuing and, in some cases expanding, programs designed to ensure adequate electricity supplies this summer. These include interruptible customers, Flex Your Power Now, Day-Ahead programs, and the 20/20 Program.

Telecommunications Consumer Bill of Rights

In January, the commission stayed its May 2004 decision establishing consumer protection rights and rules for telecommunications services in California. The decision had provided for seven basic rights: disclosure, choice, privacy, public participation, and enforcement, accurate bills and redress, nondiscrimination, and safety. Many telecommunications providers requested extensions of the deadline for carrying out the decision, and they raised various implementation and policy issues. The PUC responded by staying the decision and beginning a new proceeding with the goal of resolving consumer protection issues by the end of 2005.

ISSUE 3: TELECONNECT PROGRAM REPORT

The Governor's budget includes continued funding for the Teleconnect Program, which provides subsidies for telephone bills and other telecommunications services, to schools, libraries, public hospitals, and nonprofit organizations. Proposed funding increases from \$18 million in the current year to \$20.3 million in 2005-06.

Report Overdue Due. In the Supplemental Report of the 2004 Budget Act, the Legislature directed the PUC to provide a report on the future of the Teleconnect Program as follows:

The California Public Utilities Commission's (CPUC) California Teleconnect Fund Administrative Committee shall prepare recommendations to the CPUC telecommunications division. The division shall prepare a report to the Legislature by February 1, 2005 with respect to the California Teleconnect Fund (CTF) Program. The report shall include the following:

(a) An assessment of barriers to full participation in the CTF Program among intended beneficiaries, including recommended options to encourage all eligible entities to fully utilize advanced telecommunications services.

(b) An update on changes made to the program to improve the timely review and processing of CTF applications from customers and claims from telecommunications carriers.

(c) Recommendations for alternative uses for CTF funds to most effectively address the Digital Divide, including examining ways to encourage the deployment of advanced telecommunications services to all eligible customers.

(d) The anticipated effects of limiting California Teleconnect Fund discounts to the remaining portion of telecommunications costs after federal E-Rate discounts are applied for schools and libraries, including an assessment of disparities in these effects.

(e) *The effects of applying the federal E-Rate needs-based sliding scale to CTF discounts for schools.*

(f) *An estimate of the surcharge level needed to meet the needs of the CTF program under each recommendation made related to the CTF program.*

The PUC indicates that it has not yet completed the report. The commission should update the subcommittee on the status and anticipated completion date of the report.

ITEM 8770 ELECTRICITY OVERSIGHT BOARD

The Electricity Oversight Board (EOB) is responsible for overseeing the operation and reliability of the electricity transmission system, as well as the operation, efficiency, and competitiveness of markets for bulk energy, transmission, ancillary services, and all activities of the California Independent System Operator. The board has been actively pursuing litigation against power suppliers accused of manipulating market prices during the electricity crisis, and continues to monitor market operations to prevent a recurrence of similar problems. The budget proposes \$3.9 million from ratepayer special funds and 21.9 positions for state operations. This represents an increase of \$122,000 from the revised 2004-05 Budget.

ISSUE 1: WORKPLAN AND ROLE OF THE EOB

The original purpose of the EOB was to oversee the now-defunct Power Exchange and the Independent System Operator (ISO) when the ISO board was a stakeholder board, rather than the current board of gubernatorial appointees. The EOB's de facto role now is as an advocate on behalf of the state before the Federal Energy Regulatory Commission (FERC) and the courts in concert with several other state agencies, and in advising the administration regarding electricity market issues. The Governor's Reorganization Plan 1 for boards and commissions proposed to eliminate the EOB and, instead, incorporate its functions into the Energy Commission. This proposal, however, was not reflected in the Governor's Budget and the administration has since withdrawn the reorganization plan.

COMMENTS

The subcommittee may wish to ask the EOB to address the following issues:

1. Current amount of money recovered for California ratepayers from overcharges during the energy crisis and the amount still remaining at stake in proceeding before FERC or the courts.
2. Workload and products for the EOB staff in the current year and planned for 2005-06.
3. Role of the EOB in the new emerging electricity regulatory framework.