

2015-16 ANNUAL REPORT
PENNSYLVANIA PUBLIC UTILITY COMMISSION





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THE HONORABLE TOM WOLF
GOVERNOR OF PENNSYLVANIA

THE HONORABLE MIKE STACK
LIEUTENANT GOVERNOR OF PENNSYLVANIA

MEMBERS OF THE GENERAL ASSEMBLY

We are pleased to submit the FY 2015-16 Annual Report for the Pennsylvania Public Utility Commission (PUC). As required by Section 321 of the Public Utility Code, 66 Pa.C.S § 321, the Annual Report highlights the accomplishments and challenges the PUC faced over the course of the year in fulfillment of our mission as regulators and protectors of the public interest.

This year's report details how the PUC continues to work as a forward-looking agency, addressing the changing utility marketplace and highlighting concerns for the future.

Ensuring the reliability and resiliency of utility service in the face of physical and cyber threats has been a major emphasis. Working with the Office of the Governor and other key public and private sector stakeholders, the Commission hosted a June 2016 "Black Sky" exercise to test Pennsylvania's ability to respond to a large-scale disruption of power and utility services. Additionally, the PUC continues efforts to promote cybersecurity in the utility sector, enhancing communication between various agencies and industries while also emphasizing improved best practices.

The future of utility ratemaking also was the focus of extensive activity – as the Commission fostered discussions on how to best maintain safe and reliable infrastructure while also encouraging utilities to push forward with more aggressive energy efficiency and conservation programs. Additionally, the PUC joined a national initiative to further promote combined heat and power (CHP) technology, which can increase efficiency, lower costs, reduce emissions and create greater reliability.

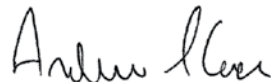
Advancements for transportation services also have been the focus of a great deal of Commission attention, including updated regulations intended to eliminate barriers to qualified passenger carriers while still ensuring safe and reliable operations. Rail transportation has also drawn a great deal of attention, with the Commission continuing its focus on inspection activities and the safety engineering of Pennsylvania's numerous rail crossings.

Efforts to enhance public participation in PUC hearings continued, using "Smart Hearings" to broadcast key Commission discussions live to a statewide audience, while also allowing consumers to testify remotely – rather than traveling to Harrisburg or other hearing sites.

Additionally, the Commission continues to encourage the ongoing modernization and improvement of utility infrastructure, to help ensure the reliability of service as well as to provide greater access to unserved or underserved areas.


We look forward to continuing our mission to balance the needs of consumers and utilities; ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.


Gladys M. Brown


Andrew G. Place


John F. Coleman Jr.


Robert F. Powelson


David W. Sweet



INTRODUCTION

Utility service is a critical element to the health and safety of Pennsylvania's consumers and to the Commonwealth's economic growth. The Pennsylvania Public Utility Commission (PUC) ensures that electric, natural gas, water and telecommunications services are available at reasonable rates and are provided safely and reliably. Similarly, customers using taxis, moving services or motor coaches expect fair, reliable and safe service. The Commission also works to promote the safety of public highway-railroad crossings and compliance with railroad regulations.

Under the law, utilities are entitled to an opportunity to earn fair rates of return. The PUC recognizes that it is in the long-term public interest to create a strong financial climate for investment in the Commonwealth's public utilities. By allowing a fair and reasonable return to investors, public utility companies can attract the capital needed to provide and improve utility services for all customers, and make appropriate capital investments in critical infrastructure.

ORGANIZATION

The Public Utility Commission was created by the Pennsylvania Legislative Act of March 31, 1937, which abolished the Public Service Commission.

The Commission is comprised of five full-time members nominated by the Governor and approved by a majority of the state Senate for staggered five-year terms. The Commissioners set policy on matters affecting utility rates and services, as well as on personnel, budget, fiscal and administrative matters. Commissioners take official action on cases during regularly scheduled public meetings.

The Commission has its headquarters in Harrisburg with regional offices in Philadelphia, Pittsburgh and Scranton. In Fiscal Year 2015-16, the Commission continued to strive to create a more open and user-friendly PUC. Information about the PUC, including copies of documents filed with and produced by the Commission, audio and video of certain Commission proceedings, forms, applications and summaries of public meetings is available at www.puc.pa.gov. The Commission maintains a social media presence through Facebook (Pennsylvania Public Utility Commission) and Twitter (@PA_PUC) to create transparency and to actively engage more consumers.



David W. Sweet was sworn in as a public utility commissioner on June 15, 2015.

The PUC oversees nearly 8,000 entities furnishing the following in-state services: electricity; natural gas; telephone; water and wastewater collection and disposal; steam heat; transportation of passengers and property by motor coach, truck, taxicab and transportation network companies (TNCs); pipeline transmission of natural gas and hazardous materials; and public highway-railroad crossings. Municipal utility service is exempt from PUC regulation, with the exception of services furnished beyond a municipality's boundaries. Similarly, rural electric cooperatives, municipal authorities, school buses, bottled water, heating oil, cable television, internet service, bundled telecommunications/internet services and wireless telecommunications services are exempt from PUC regulations.

Because of the flexibility provided under Act 129 of 2008, the Commission began a comprehensive review of its organizational structure. The first review in decades, and the resulting realignment of bureaus, allowed the Commission to address significant changes in the utility industry and meet PUC responsibilities efficiently and effectively, in a manner where transparency and employee engagement remain top priorities.

The Commission is funded by assessments of the regulated entities based upon intrastate revenues and federal grant monies. Assessments are paid into the state Treasury's General Fund for use solely by the Commission.

BROAD POWERS

The PUC exercises broad powers in meeting its regulatory obligations. In today's rapidly changing business environment, utilities must consider all of their options. Utility mergers, rate change requests, acquisitions and affiliated interest agreements continue to be filed before the Commission at a steady pace. With limited exceptions, utilities are required to obtain Commission approval for these transactions, as well as to operate, extend or abandon service. The PUC's responsibility is to ensure these actions are in the public interest. During the first two quarters of 2015, the PUC received 13,395 filings and served 6,128 documents, including consumer and staff-initiated complaints.

The PUC also works diligently to ensure the operation of competitive markets in the electric and natural gas industries. The move toward competitive electricity markets through the passage of the 1996 Electricity Generation Customer Choice and Competition Act was based primarily on the legislative finding that competitive market forces are more effective than economic regulation in controlling the cost of generating electricity. The 1999 Natural Gas Choice and Competition Act also allowed consumers to choose who supplies their gas.

Although the natural gas and electric commodity markets are subject to competition, customers still receive transmission and distribution service from their local utilities. The local utilities also continue to maintain the electric lines or natural gas pipelines to ensure that safe, reliable utility service is delivered to customers.

In addition to regulating rates for motor carriers that transport property, passengers and household goods, the PUC is responsible for enforcing rail and motor carrier safety laws. Motor vehicle, railroad facility and track inspections are important components of the PUC's safety program. The PUC also resolves complaints about unsafe conditions at rail crossings and enforces common carrier compliance with safety and insurance requirements.



If customers have complaints about a utility, they may seek help by calling the PUC's toll-free number at 1-800-692-7380. Trained PUC customer service representatives help to address billing and quality of service issues, establish payment plans or restore service.

COMMISSION'S BUDGET

EXECUTIVE GOVERNMENT OPERATIONS

	GENERAL GOVERNMENT FUND	GENERAL FUND	GENERAL FUND
	Estimated 2015-16 Expenditures		Approved 2016-17 Budget
State Funds:			
Personnel		\$58,052,000	\$57,913,000
Operating		13,585,000	12,878,000
Fixed Assets		210,000	210,000
Other		100,000	100,000
Total State Funds		\$71,947,000	\$71,101,000
Federal Funds:			
Personnel		\$2,294,000	\$2,294,000
Operating		386,000	386,000
Total Federal Funds		\$2,680,000	\$2,680,000
Other Funds		1,000,000	\$1,000,000
Total Commission Budget:		\$75,627,000	\$74,781,000

OTHER REVENUE SOURCES

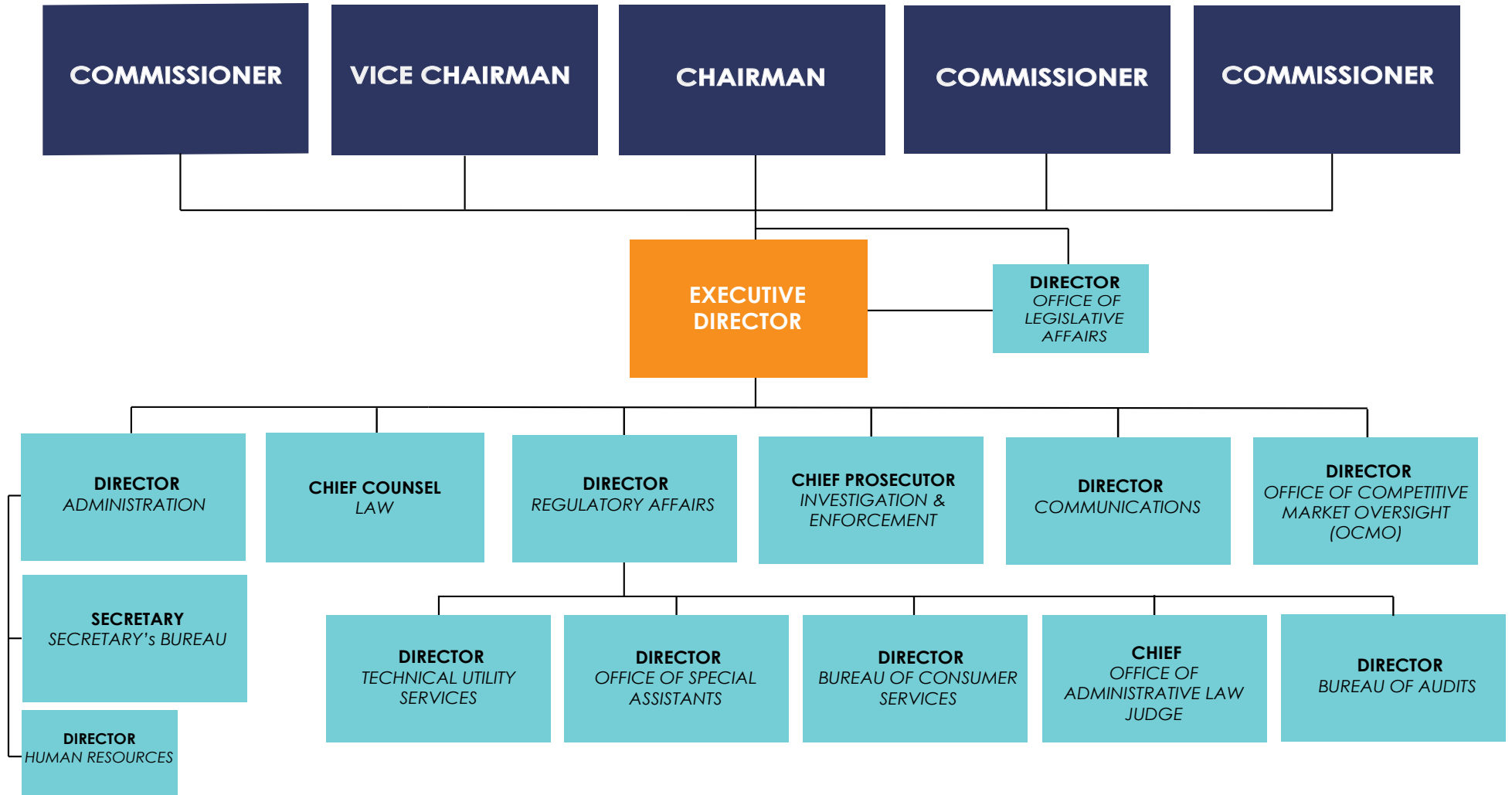
	2015-16 RECEIPTS
Unconventional Gas Well Fund - Act 13	\$1,000,000
Filing & Copy Fees	190,008
Electric Generation Application Fees	18,550
Fines*	499,432
Federal - Gas Pipeline Safety	1,781,922
Federal - Motor Carrier (Motor Carrier Safety Administration Program)	905,709
Total	\$4,395,621

2015-16 APPLICATION FEES, FILING & COPY FEES & FINES

	ELECTRIC GENERATION APPLICATION FEES	FINES	FILING & COPY FEES	TOTAL
1st Quarter	\$5,600	\$153,311	\$46,054	\$204,965
2nd Quarter	4,550	60,716	47,263	\$112,529
3rd Quarter	3,850	39,130	44,463	\$87,443
4th Quarter	4,550	246,275	52,228	\$303,053
Total	\$18,550	\$499,432	\$190,008	\$707,990

* These funds go directly to the General Fund.

ORGANIZATIONAL CHART



BUREAU DIRECTORS



JAN FREEMAN
EXECUTIVE DIRECTOR

THE EXECUTIVE DIRECTOR is responsible for the oversight of the day-to-day management of the Commission's functions and staff. This position is responsible for the overall planning, direction, organization and operation of the Commission. Also, the Executive Director develops, recommends to the Commissioners, and implements the PUC's strategic plans and policies.



MARY BETH O'HARA
OSBORNE
DIRECTOR OF
REGULATORY AFFAIRS

THE DIRECTOR OF REGULATORY AFFAIRS oversees the PUC's bureaus with regulatory functions, including the Bureau of Audits, the Bureau of Consumer Services, the Office of Special Assistants, the Bureau of Technical Utility Services and the Office of Administrative Law Judge. The Director of Regulatory Affairs also is responsible for planning, organizing, coordinating, directing and overseeing regulatory staff.



ROBERT C. GRAMOLA
DIRECTOR OF
ADMINISTRATIVE SERVICES

THE DIRECTOR OF ADMINISTRATION is responsible for overseeing administrative, fiscal and personnel functions. The Bureau of Administration is comprised of the Office of Human Resources; Management Information Systems, which oversees technology; the Secretary's Bureau; and the Office of Administrative Services, which is responsible for office services and the Fiscal and Assessment section that handles budget issues and the financial functions of the Commission.



MICHAEL E. ROBERTS
DIRECTOR OF
HUMAN RESOURCES

THE DIRECTOR OF HUMAN RESOURCES is responsible for planning, organizing and directing a comprehensive human resource services program for the Public Utility Commission. This includes personnel and position management, labor relations, staff development, equal opportunity, recruitment and placement, employee benefits and services, personnel and leave transactions, and complement management. The position provides administrative and advisory services to the Executive Director, Director of Administration and PUC management.



CHARLES E. RAINEY JR.
CHIEF ADMINISTRATIVE
LAW JUDGE

THE OFFICE OF ADMINISTRATIVE LAW JUDGE fulfills a judicial role within the Commission by hearing cases, mediating cases through the alternative dispute resolution process and issuing decisions. The Office's primary duty is to provide fair and prompt resolution of contested proceedings before the Commission. The Administrative Law Judges (ALJs) are attorneys with experience in administrative law, who preside over the hearings in cases, which can include consumer complaints, rate filings, investigations, ability to pay/billing disputes and applications. ALJ decisions are based upon record evidence, legal precedent and policy.



KELLY MONAGHAN
DIRECTOR OF AUDITS

THE BUREAU OF AUDITS performs financial, management, operational and specialized audits on electric, natural gas, steam heat, wastewater, water and telecommunications utilities. It also reviews certain adjustment clause rate filings and 1307(e) reconciliation statements. The audits may result in recommendations to refund over-recovered costs and to improve accounting/operational procedures that could save utilities and consumers money.



TOM CHARLES
DIRECTOR OF
COMMUNICATIONS

THE OFFICE OF COMMUNICATIONS is charged with handling Commission media relations, external communications, internal communications and consumer education, in addition to acting as the lead staff for the Consumer Advisory Council. The Office also is responsible for issuing press releases, responding to media calls, conducting special consumer-education campaigns, distributing educational materials, informing consumers about programs and rights, creating internal and external newsletters and other publications, and coordinating the PUC’s website and social media outreach.



DAN MUMFORD
DIRECTOR OF THE OFFICE
OF COMPETITIVE MARKET
OVERSIGHT

THE OFFICE OF COMPETITIVE MARKET OVERSIGHT serves as the Commission’s electric and natural gas choice ombudsman and oversees the development and functioning of the competitive retail electric and gas supply markets, in addition to providing a forum for informal dispute resolution.



ALEXIS BECHTEL
DIRECTOR OF
CONSUMER SERVICES

THE BUREAU OF CONSUMER SERVICES investigates informal complaints from residential and small commercial customers and enforces the PUC’s customer service regulations. The Bureau also serves as an intermediary between utilities and consumers, working to mediate complaints or make payment agreements. In addition, the Bureau is responsible for implementing and monitoring universal service and energy conservation programs that help low income consumers. Each year the Bureau prepares utility-related reports that provide an assessment of complaint handling, customer service performance, universal service programs and collection performance.



JUNE PERRY
DIRECTOR OF
LEGISLATIVE AFFAIRS

THE OFFICE OF LEGISLATIVE AFFAIRS acts as the liaison between the PUC and the Governor’s Office, the General Assembly and the Pennsylvania Congressional Delegation; identifies legislation that may affect the Commission or public utilities and obtains staff analysis; provides relevant information to the legislature; and promotes the Commission’s position on legislation and issues with the General Assembly.

THE BUREAU OF INVESTIGATION AND ENFORCEMENT serves as the prosecutory bureau for purposes of representing the public interest in ratemaking matters. The Bureau also prosecutes service matters before the Office of Administrative Law Judge, and enforces regulatory compliance with the state and federal motor carrier safety, electric safety, and gas pipeline safety laws and regulations. The Bureau handles rail safety enforcement proceedings and investigates referrals from other Bureaus. The Bureau also prepares administrative reports for the Commission.



RICHARD A. KANASKIE
CHIEF PROSECUTOR

THE LAW BUREAU acts as the Commission's in-house legal counsel in three main areas: advisory, representational and enforcement, providing legal advice to the Commission regarding electric, natural gas, telecommunications, water/wastewater, and transportation matters, as well as proposed legislation, regulatory and policy statements. The Bureau's director serves as Chief Counsel to the Commission. The Law Bureau represents the Commission before state and federal courts and before other state agencies. The Bureau also represents the Commission before federal agencies such as the Federal Communications Commission and the Federal Energy Regulatory Commission.



BOHDAN R. PANKIW
CHIEF COUNSEL

THE SECRETARY'S BUREAU is the PUC's official point of contact with the public. The Secretary serves as the prothonotary of the Commission, and all documents and filings received by the Commission must be officially filed with the Secretary. The Bureau processes, docket, and assigns all filings to the appropriate bureaus within the Commission for review and recommendation. All official Commission actions and decisions are issued over the Secretary's signature. The Secretary's Bureau coordinates the Commission's Public Meeting agendas, records the minutes of each Public Meeting, and issues all Commission Orders, Decisions and Secretarial Letters. The Secretary also is the Commission's official Right-to-Know Officer.



ROSEMARY CHIAVETTA
SECRETARY

THE OFFICE OF SPECIAL ASSISTANTS is the Commission's advisory support bureau, providing legal and technical advice to the Commission primarily regarding challenges to Administrative Law Judge decisions, as well as policy issues; drafts proposed opinions and orders containing a review of the facts, the applicable law and a proposed resolution of the issues raised in contested proceedings; drafts opinions and orders pursuant to motions adopted at Public Meeting; and reviews petitions for relief following the issuance of Commission orders.



CHERYL WALKER DAVIS
DIRECTOR OF
SPECIAL ASSISTANTS

THE BUREAU OF TECHNICAL UTILITY SERVICES serves as the principal technical advisory bureau to the Commission regarding fixed and transportation utility regulatory matters, as well as an adviser to the PUC on technical issues for electric, natural gas, water and wastewater, and telecommunications utilities. The Bureau also offers policy recommendations on rates, tariffs and regulatory matters, processes utility applications and coordinates emergency operations of utilities.



PAUL DISKIN
DIRECTOR OF TECHNICAL
UTILITY SERVICES

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CONSUMERS

During Fiscal Year 2015-16, the Commission continued its comprehensive approach to educating customers about energy prices and the resources available to assist them in making their utility services more affordable. For the benefit of consumers shopping for their electric and/or gas supply, the Commission continued upgrading PAPowerSwitch.com, a user-friendly tool created by the Commission to help consumers shop for their electric supplier, and made PAGasSwitch.com a standalone website closely mirroring PAMPowerSwitch, only for natural gas shoppers. PUC staff participated in numerous community and consumer education events, and communicated important information on licensed utilities and the energy industry through a regular social media presence on the Commission's Facebook and Twitter pages.

PAPOWERSWITCH.COM



In Fiscal Year 2015-16, Pennsylvania remained among the nation's leaders for electric competition, and a large reason for that high standing continues to be the consumer-friendly and nationally-recognized PAPowerSwitch.com.

PAMPowerSwitch ensures that consumers have the tools at their fingertips to make informed decisions about choosing an electric generation supplier. Just like consumers shop for other services, they can shop for the generation supply portion of their bill, making a decision based upon their specific needs and preferences. Generation supply costs comprise the majority of the average electric bill. When shopping for electricity, transmission costs are included in the "price to compare" that allows consumers to compare their utility's offer to that of a competitive supplier.

In Fiscal Year 2015-16, the Commission enhanced PAMPowerSwitch by giving suppliers the ability to offer their customers "unlimited usage fixed rate cost" plans in addition to traditional products based on a price per kilowatt hour. The Commission also updated and improved the website's glossary of terms to more closely reflect recent changes in the marketplace. These two latest changes come on the heels of a series of enhancements to PAMPowerSwitch the previous fiscal year which included the launch of a mobile version of the website and numerous upgrades that offer information in plain sight about what it means to shop, how to save, the different types of rates and products and where to begin shopping. PAMPowerSwitch gets as many as 105,000 visits per month, and is quickly closing in on 1 million visits a year.

Putting the power in consumers' hands to choose their electric generation supplier began with the 1996 Electricity Generation Choice and Competition Act. During Fiscal Year 2015-16, the total number of Pennsylvanians shopping for electric supply, both residential and commercial/industrial customers, approached the 2.1 million mark.

PAGASSWITCH.COM



In February 2016, the Commission unveiled a new standalone website for PAGasSwitch.com, further enhancing the ability of online natural gas shopping customers to access and evaluate current offers by natural gas suppliers and, for the first time, providing a direct link to online enrollment services with suppliers. The new PAGasSwitch closely mirrors the design and functionality of the Commission's PAMPowerSwitch website for retail electric competition. Among other things,

PAGasSwitch now provides access to shopping information for small and large businesses, and provides shoppers with increased sorting and filtering options; new headers and links to menus to more easily navigate the website; rate alerts; and an array of detail shopping information such as updated facts sheets and more in-depth information on fixed versus variable rates.

During Fiscal Year 2015-16, more than 415,000 residential and business gas customers shopped with a competitive natural gas supplier, with nearly 60 percent of the Commonwealth's total natural gas load supplied by a competitive supplier.

SOCIAL MEDIA OUTREACH

The Commission continues to reach consumers through its website www.puc.pa.gov, and separate shopping websites, PAGasSwitch.com and PAPowerSwitch.com. Also, through its presence on social media sites Twitter and Facebook, the Commission is better able to inform Pennsylvania customers on utility issues. The Commission's Twitter feed (@PA_PUC) is dedicated to consumer education and consumer-related issues related to industries regulated by the PUC. As a way to broaden messaging to all utility issues affecting consumers, the Commission recently changed its Facebook page name from "PAPowerSwitch" to "Pennsylvania Public Utility Commission."

CONSUMER OUTREACH SUMMARY

In Fiscal Year 2015-16, the Commission's consumer outreach efforts centered on campaigns, initiatives and events geared toward raising customer awareness on different products and their pricing in the marketplace, assistance programs available to low-income customers, and energy efficiency and conservation measures that can be taken to help consumers meet their energy budgets and more fully enjoy the comforts of home.

From hundreds of statewide public and press events, to its annual Be Utility Wise and [Prepare Now](#) campaigns, to the production of a new "do-it-yourself" video on home energy audits, in Fiscal Year 2015-16 the PUC's consumer outreach specialists provided utility education and outreach to thousands of consumers by working alongside health and human service providers, consumer advocates, utility community relations specialists, seniors and low-income consumers.

The outreach team travels the state to ensure consumers from all socioeconomic backgrounds are educated about and understand their rights as utility customers through a series of workshops, free seminars and roundtable discussions throughout the state. Outreach specialists also support and participate in community fairs, legislative forums, senior expos, public input hearings and other educational events.

PREPARE NOW

During Fiscal Year 2015-16, the PUC continued to work with electric and natural gas companies to help consumers "[Prepare Now](#)" for the higher costs of winter heating.



Winter 2015 was the 13th winter that the Commission urged consumers to "Prepare Now." The message is simple: "Prepare Now" for winter energy costs. Learn more about conservation. Check your electric and natural gas bills and supplier contracts. Use [PAPowerSwitch](#) to shop for electric service and [PAGasSwitch](#) to shop for natural gas service. Look into programs that help low-income customers maintain service. Visit www.puc.pa.gov and click on "Prepare Now" or call the PUC at 1-800-692-7380.



The PUC held a Lifeline Awareness media event in September 2015. Chairman Gladys M. Brown joined City of Harrisburg Mayor Eric Papenfuse and other state officials and agency representatives at the event.

LIFELINE AWARENESS WEEK

In conjunction with a national initiative to promote the awareness of Lifeline and Link-Up discount programs, the PUC encouraged residents to "stay connected."

The [Lifeline 135](#) program is available for customers of all qualified telephone service providers. Under the program, households who participate in certain public assistance programs, or who have income at or below 135 percent of the federal poverty income guidelines can receive a discount on their monthly local phone service for one telephone line. The discounts are paid out of the federal Universal Service Fund, which is subsidized by contributions from all telephone companies. In an effort to increase awareness about the program, the PUC developed a public service announcement in addition to an informational brochure, "[Stay Connected with the Lifeline Telephone Assistance Program](#)" to provide information about Lifeline and other programs available to limited-income households.

SETTLEMENTS

In Fiscal Year 2015-16, the PUC approved settlement agreements between electric generation suppliers and statutory advocates following the filing of formal complaints and/or the initiation of investigations alleging violations of the Public Utility Code, Commission regulations and/or other Pennsylvania law. In many cases, the companies agreed to provide refunds and improve communications with consumers, among other settlement terms.

- **HIKO Energy LLC** was directed to issue \$2 million in customer refunds, contribute \$25,000 to EDCs' Hardship Funds, and modify its marketing practices due to deceptive actions that occurred during the "Polar Vortex" in the winter of 2013-14. The formal complaint was brought jointly by the Office of Consumer Advocate and Office of Attorney General.
- **Pennsylvania Gas & Electric Co.** was directed to issue \$6.8 million in customer refunds, pay a \$25,000 civil penalty, contribute \$100,000 to EDCs' Hardship Funds, and modify its marketing practices for alleged deceptive actions during the "Polar Vortex" in the winter of 2013-14. The formal complaint was brought jointly by the Office of Consumer Advocate and Office of Attorney General.
- **Public Power LLC** was directed to pay a \$72,500 civil penalty and modify its operating procedures for overbilling customers on 119 occasions between January and April 2014. The settlement agreement resulted from an investigation initiated by the Bureau of Investigation and Enforcement.
- **IDT Energy Inc.** was directed to issue \$6.75 million in customer refunds, pay a \$25,000 civil penalty, contribute \$75,000 to EDCs' Hardship Funds, and modify its marketing practices due to alleged deceptive actions during the

"Polar Vortex" in the winter of 2013-14. The formal complaint was brought jointly by the Office of Consumer Advocate and Office of Attorney General.

LITIGATED MATTERS

- **HIKO Energy LLC** was directed to pay a \$1.8 million civil penalty for billing customers more than the guaranteed discounted price established in the Company's disclosure statement on 14,689 occasions between January and April 2014. The formal complaint was brought by the Bureau of Investigation and Enforcement.

COLD WEATHER SURVEY RESULTS



Each year, prior to the winter heating season, the PUC requires electric utilities, natural gas utilities, and Class A water utilities to check residential properties where heat-related service has been terminated due to non-payment. The goal of the annual [Cold Weather Survey](#) is for the company

to attempt to reach payment agreements with the occupants so service can be restored.

The Commission requires that utilities make four attempts to contact the consumer or a responsible adult occupant at the property where service has been terminated. These contacts include a combination of telephone calls and letters to establish contact, with the fourth attempt being a personal visit to the property.

The companies resurveyed the households without utility service in February 2016.

UNIVERSAL SERVICE PROGRAMS AND COLLECTIONS PERFORMANCE

The PUC issued the [annual summary](#) of the universal service programs and collections performance of Pennsylvania's major electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) in Fiscal

Year 2015-16. Universal service programs are designed to help low-income households afford utility service. Programs include the Low Income Usage Reduction Program (LIURP), Customer Assistance Programs (CAPs), Customer Assistance and Referral Evaluation Services (CARES), and Hardship Funds.

UTILITY CONSUMER ACTIVITIES REPORT AND EVALUATION (UCARE)

Helping Pennsylvania consumers resolve utility problems remains a major concern for the Commission. Full-time investigators handle a variety of consumer contacts related to billing problems, payment and credit issues, and service delivery and repairs. The [2015 Utility Consumer Activities Report and Evaluation](#) shows quarterly report cards and reports to present. According to the 2015 report, the PUC's call center handled over 187,000 calls/contacts from consumers resulting in over 61,000 cases being accepted for further investigation.

CUSTOMER SERVICE PERFORMANCE REPORT

Each year, the Commission prepares the [Customer Service Performance Report](#). In addition to reporting company submitted data, the report provides information on how customers feel the major electric and natural gas companies are doing with customer service. In 2015, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.

CONSUMER ADVISORY COUNCIL



Left to Right: Patrick Cicero, Ralph Douglass and Troy Geanopulos. Not pictured: Lillian Carpenter, Tim Hennessey, Chad Quinn, Tina Serafini, George Silvestri, William Sterner, Lee Tolbert, Joe Toner and Javier Toro.

The [Consumer Advisory Council](#) (CAC) was created through a regulation in 1977 to advise the Commission on matters relating to the protection of consumer interests under the Commission's jurisdiction. CAC members are appointed by the following elected officials: the Governor; Lieutenant Governor; the Democratic and Republican

Senate Consumer Protection and Professional Licensure Committee; and the Democratic and Republican Chairpersons of the House Consumer Affairs Committee.

In addition, the Commission appoints "at-large" representatives of the CAC that reflect a reasonable geographic representation of the Commonwealth, including low-income individuals, members of minority groups and various consumers. A person may not serve as a member of the Council if the individual occupies an official relation to a public utility or holds or is a candidate for a paid appointed or elected office of the Commonwealth. Council members serve two-year terms and may be reappointed. Council officers serve two-year terms. The Chairperson may not act for more than two consecutive terms.

PA RELAY SERVICE ADVISORY BOARD

During 2015-16, the [Pennsylvania Relay Service Advisory Board](#) met quarterly to advise the Telecommunications Relay Service (TRS) providers on service issues, to discuss policy issues related to traditional TRS and Captioned Telephone Relay Service (CTRS), and to interact with Commission-appointed members. At each meeting, the traditional TRS provider and CTRS administrator gave the board a status report of their activities, which focused on issues including call volumes, new service offerings, complaint handling equipment enhancements and outreach plans. The board consists of members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Center for Independent Living of South Central Pennsylvania; Office for the Deaf & Hard of Hearing; and individuals from the deaf or hard of hearing community.



Back Row (Left to Right): Steve Samara; Sharon Behun; Eric Jeschke; and Phonse Arnold. Front Row (Left to Right): Dan Romage; Kay Tyberg; and Lauren Cramer.

Established in May 1990, the purpose of the board is to review the success of the statewide Telecommunications Relay Service (TRS) and identify improvements that should be implemented. The board functions primarily as a TRS consumer group by providing feedback and guidance to the TRS



The PUC's team of consumer educators travels statewide to host seminars on utility issues throughout the fiscal year.

providers and the Commission regarding communication assistance training, problem solving, outreach initiatives and service enhancements.

CONSUMER COMPLAINT ONLINE SEARCH AND PROCESS GUIDE

On Aug. 5, 2015, the Commission launched a series of enhancements to the [PUC website](#) in order to make it even easier for consumers to find and review complaints involving utilities. These enhancements build on the Commission's initiative to enable website users to search by company for formal complaints filed against regulated utilities and suppliers. The [search feature](#) allows consumers to find and view formal complaints filed against all regulated utilities and suppliers.

These enhancements enable consumers to use prominent links on the PUC website to automatically jump to the complaint search for specific types of utilities, including electricity; natural gas; telecommunications; water/wastewater and transportation. Additionally, a "Search for Consumer Complaints" link has been added to each industry category on the website. This is the first link provided to visitors who are reviewing information on the site.

In an effort to educate consumers on the Commission's formal and informal complaint process, the Commission recently released a new [Consumer Complaint Procedures Guide](#). An additional [quick reference sheet](#), "Know the PUC Complaint Process and Your Options," also offers handy instructions about how to file a complaint with the PUC.

SMART HEARINGS

During Fiscal Year 2015-16, the Commission built on the success of its online Smart Hearings pilot project by scheduling and conducting additional Smart Hearings. The PUC employed Smart Hearings related to the UGI Natural Gas Rate Increase Request in spring 2016, and scheduled Smart Hearings related to the 717 Area Code Relief Plan in summer 2016.

As a way to increase transparency and participation, the Commission introduced a Smart Hearing pilot project aimed to make it easier for utility customers to comment on proposed rate increase requests. Smart Hearings enable consumers throughout Pennsylvania to see and hear testimony being offered during the hearings by watching a live stream on [the PUC website](#). In its 2015 pilot project involving a rate increase request from PPL Electric Utilities (PPL), the Commission found that the live-streamed online hearings nearly double participation among PPL customers as compared to similar rate request public input hearings held in 2012. During Smart Hearings, concerned individuals are able to offer their comments by telephone, from the convenience of their homes or other locations, to be included in the live internet stream.

In addition to consumer convenience, Smart Hearings also achieve modest travel and productivity savings, as fewer PUC employees are needed to travel to multiple in-person public input hearings throughout a particular service territory.



ELECTRIC

During Fiscal Year 2015-16, the PUC took steps forward on several fronts to ensure safe, reliable and affordable electric service throughout the Commonwealth. The Commission continues its heavy emphasis on the reliability of the electric distribution system, including approval of several Long Term Infrastructure Improvement Plans submitted by EDCs geared toward accelerating replacement of aging infrastructure and quickening company response to system outages. Similarly, in the areas of demand response and energy efficiency and conservation, the PUC adopted revised regulations; evaluated and, with some EDCs, helped to strengthen current programs; and continued its work with policymakers on long-term strategies to reduce consumption and meet peak demand reduction targets. In the competitive marketplace, Pennsylvania ranks No. 2, behind only Texas, for residential, commercial and industrial electric competition, according to the 2015 Annual Baseline Assessment of Choice in Canada and the United States. At the close of the fiscal year, Pennsylvania had 11 electric distribution companies (EDCs) and approximately 390 licensed electric generation suppliers (EGSs) and broker/marketers.

WHOLESALE ELECTRIC MARKET

A highly competitive and efficient wholesale electric market is integral to a properly functioning Pennsylvania retail electric market that supplies retail power at reasonable prices for consumers. Pennsylvania's electric utilities operate in the PJM transmission zone. PJM is a regional transmission organization (RTO) that manages the electric transmission system in Pennsylvania, as well as 12 other states and the District of Columbia.

In 2015, PJM ushered in a new era to the region's wholesale energy market by transitioning to a Capacity Performance-based Reliability Pricing Model. As PJM notes in its [2015 annual report](#), the Capacity Performance standard ensures that resources will be available during periods of extreme demand and system emergencies – resources commit to perform when needed or face steep non-performance payments. Its implementation improves reliability and protects against dramatic price spikes, especially during weather extremes such as the Polar Vortex in the winter of 2014.

The new model also is expected to promote stronger coordination between the gas and electric utility sectors, which is essential given the region's growing natural gas-fired generation. Because of low natural gas prices resulting from shale gas production, natural gas has grown to be the fuel for nearly a third of PJM's installed generation, while the amount of coal-fired generation continues to decline to just over a third of installed PJM capacity.

COMPETITIVE MARKETS OVERSIGHT

The Commission's Office of Competitive Market Oversight (OCMO) is a group of legal, technical, communications and policy staff members from various Commission bureaus and offices that addresses obstacles faced by EGSs participating in the retail market. The group led the Commission's Electric Retail Markets Investigation (Electric RMI), which resulted in recommendations to improve the competitive market, in which consumers have the choice of different competitive pricing options and a variety of innovative product offerings. OCMO responds to questions from EGSs, monitors issues hindering the development of a competitive retail market, including EGS marketing and sales practices, and facilitates informal dispute resolution between default service providers and EGSs.

In 2015 and 2016, OCMO monitored the implementation of the accelerated supplier switching regulations that were promulgated in 2014 in the wake of the January 2014 Polar Vortex. The intent of the new regulations was to provide consumers with the flexibility they needed to move quickly away from one electricity supplier to another. The accelerated switching regulations dramatically reduce the time it takes customers to change electricity suppliers. The regulations require EDCs to accelerate switching time frames through off-cycle meter readings that allow consumers to switch suppliers within three business days of the EDC being notified of a request for a switch. In December 2014, most EDCs started to provide customers with one three-business-day, off-cycle switch and an additional three-business day, off-cycle drop to default service. During 2015, most of the EDCs implemented fully accelerated switching – making a three-business day switch available to all customers without restriction. As of July 2016, all of the major EDCs have unrestricted three-business day switches available to almost all of their customers (with the exception of a few unmetered commercial accounts).

In 2016, OCMO also oversaw the implementation of further market enhancements flowing from the Electric RMI; specifically, seamless moves and instant connects. An instant connect allows a customer who is initiating new service to enroll with an EGS on the first day of his/her utility service without having to first enroll in default service provided by an EDC. A seamless move is the ability of a customer enrolled with an EGS to move to a new location and maintain supply service with the same EGS without interruption. All of the major EDCs are expected to have instant connects and seamless move functionality available to all residential consumers by October 2016.

DEFAULT SERVICE PLANS

The 1996 electric competition law requires electric companies, or a Commission-approved alternative supplier, to provide default electric generation supply service to customers who have not selected an alternative generation supplier. The default service prices for electric generation supply service are required to result in a procurement strategy designed to produce the least cost to customers over time.

The majority of default service plans (DSPs) governed how EDCs secure default service supply for non-shopping customers from June 1, 2014, to May 31, 2016. The seven largest EDCs included market enhancement programs in their plans, as directed by the Commission during the Electric RMI. The goal of those market enhancement programs is to provide Pennsylvania consumers

with money-saving opportunities while they explore Pennsylvania's retail electric market, including the Standard Offer Program, which is a voluntary program for non-shopping residential and small business customers to give them greater access to the competitive electricity market and its benefits. During Fiscal Year 2015-16, the Commission reviewed and approved DSPs which became effective for service commencing in the summer of 2016.

ACT 129 PHASES II AND III

The PUC continues to implement and enforce [Act 129 of 2008](#), which expanded the Commission's oversight responsibilities and imposed new requirements on EDCs with more than 100,000 customers, with the overall goal of controlling energy consumption and peak demand. Prior to the completion of Phase I, the Commission had determined that additional incremental reductions in consumption would be cost-effective. Continuing with the success and momentum from Phase I, the Commission set new required reductions in consumption for Phase II, for each of the EDCs, that included the filing and approval of new energy efficiency and conservation (EE&C) plans. However, the Commission did not have sufficient information to definitively determine if any peak demand reduction program design would be cost-effective and therefore did not establish any such requirements as part of Phase II. The participating EDCs began implementing these plans on June 1, 2013, and operated the plans through May 31, 2016.

In consideration of a third phase, the Commission issued a Tentative Order in November 2013 soliciting comments and on Feb. 20, 2014, issued a Final Order directing the Act 129 Statewide Evaluator (SWE) to perform a Demand Response Potential Study using proposed residential direct load control and commercial and industrial load curtailment models. The Commission also engaged the SWE to perform various market potential studies to assess the cost-effective potential for demand response and additional energy consumption reductions. Based on the SWE's Demand Response Potential and Energy Efficiency Potential studies, the Commission determined that requiring additional incremental reductions in consumption and peak demand would be cost-effective. On June 19, 2015, the Commission entered a Final Order outlining Phase III of the EE&C Program, to occur June 1, 2016, through May 31, 2021. As such, the Commission prescribed consumption-reduction



requirements, ranging from 2.5 percent to 5 percent, for each EDC. The Commission also required six of the seven EDCs to meet peak demand-reduction requirements. The Commission did not prescribe a demand-reduction requirement for Penelec, as the SWE found no cost-effective potential in the Penelec service territory.



On May 18, 2016, Vice Chairman Andrew G. Place spoke to a gathering of students, teachers and school administrators, underscoring the importance of educating young people about energy efficiency. The Capitol Rotunda ceremony recognized schools from across Pennsylvania for their conservation and efficiency programs, as part of the fourth annual "Moving to the Head of the Class" awards programs, sponsored by the Keystone Energy Efficiency Alliance's energy education fund.

Act 129 also included the deployment of smart meter technology and time-of-use rates, modifying default service procurement strategies and expanding the types of generating plants that qualify as Tier I alternative energy sources. The efforts related to Act 129 may ultimately reduce the cost of electricity and enhance safety and reliability of service. The Commission is on target in meeting all of the Act's requirements.

SMART METER DEPLOYMENT

To comply with Pennsylvania Act 129 of 2008, the seven large (100,000 or more customers) EDCs are required to deploy smart meters to all customers by 2023, at the latest. All of these EDCs have approved smart meter deployment plans that provide for almost all customers having smart meters by 2019. The current deployment of smart meters based on the EDC Smart Meter Plans stands at approximately 1.86 million meters, or about 32 percent of all jurisdictional electric distribution customers. By year end 2015, approximately 1.9 million smart meters were deployed throughout the state.

DISTRIBUTION RATE INCREASE REQUESTS

During Fiscal Year 2015-16, the Commission finalized rate increase requests from PPL Electric Utilities and PECO Energy Company. Information about the [ratemaking process](#) is available on the PUC website.

PPL Electric Utilities

Requested Rate Increase – \$167.5 million (18.5 percent)

Approved Rate Increase – \$124 million (13.7 percent)

Primary Reason – New investments in infrastructure, improve operations and strengthen reliability.

PECO Energy Company

Requested Rate Increase – \$190 million (15.6 percent)

Approved Rate Increase – \$127 million (10.9 percent)

Primary Reason – New investments in infrastructure, improve operations and strengthen reliability.

PARTICIPATION IN FEDERAL PROCEEDINGS

The Public Utility Code authorizes the Commission to appear before federal agencies such as the U.S. Department of Energy, the Federal Energy Regulatory Commission (FERC), the Environmental Protection Agency (EPA) and the federal courts. The Commission intervenes in wholesale market proceedings on behalf of Pennsylvania and in collaboration with other state commissions in proceedings before FERC that may have an impact on wholesale electric markets or the interstate transmission of electricity. FERC delegates operational and market decisions to the RTOs, meaning the PUC participates in many proceedings related to the design and operation of PJM. The PUC is a member of the Organization of PJM States Inc. (OPSI), which is a group of state commissions jointly interested in energy and capacity market design issues.

Proceedings at the federal level that the PUC is monitoring or participating in include electric transmission congestion issues; plans to enhance electric market surveillance and analysis; actions on transmission planning and cost allocation; issues with cybersecurity; and proposals on frequency regulation compensation in organized wholesale markets. The PUC has been active before the EPA in its Clean Power Plan rulemaking process.

ALTERNATIVE ENERGY PORTFOLIO STANDARDS ACT OF 2004

The PUC developed the rules and regulations necessary for fostering Pennsylvania's alternative energy market and continues to address the issues that arise as EDCs, EGSs and alternative energy system developers comply with the mandates of the Act. Signed into law on Nov. 30, 2004, the [Alternative Energy Portfolio Standards Act](#) (AEPS) requires EDCs and EGSs to ensure that 18 percent of electricity sold in Pennsylvania is derived from alternative resources by May 31, 2021.

For the 2015 reporting year (June 1, 2014 – May 31, 2015) all EDCs complied with the AEPS requirements by retiring the required number of Tier I, Tier II and Solar AECs needed to meet their obligations. Three EGSs did not retire sufficient credits needed to meet their AEPS obligations. These companies



were issued letters of non-compliance and were required to make alternative compliance payments (ACPs) to meet their obligations.

AECs retired by EDCs and EGSs for the 2015 reporting period originated from alternative energy resources located both inside and outside of

Pennsylvania. Pennsylvania EDCs and EGSs are permitted to obtain AECs from within the entire PJM Interconnection, LLC (regional transmission organization) area. For the 2015 reporting year, 74 percent of solar AECs, 36 percent of Tier I and 62 percent of Tier II AECs originated from generation facilities located in Pennsylvania.

On February 11, 2016, the Commission issued a Final Rulemaking Order in Implementation of the *Alternative Energy Portfolio Standards Act of 2004* at Docket No. [I-2014-2404361](#). That Order adopted final-form regulations that revised Chapter 75 of the Commission's regulations. That Order was delivered to the Independent Regulatory Review Commission (IRRC) and legislative oversight Committees on March 22, 2016.

IRRC held a public meeting to review the final-form regulations on May 19, 2016, during which IRRC disapproved the final-form regulations. On June 2, 2016, IRRC issued its disapproval Order in which it found that the Commission did not have the statutory authority to impose the limit in Section 75.13(a)(3) of the final-form regulation. IRRC also stated that if the Commission decides to proceed with the rulemaking by deleting the limit on net metering subsidies included in Section 75.13(a)(3) of the final-form regulation, it should ensure that the other provisions of the regulation do not limit a customer-generator's ability to net meter excess generation it produces.

In response to IRRC's disapproval Order dated June 2, 2016, the Commission issued an Amended Final Rulemaking Order on June 9, 2016 that removed the non-statutory limits on a customer-generator's ability to net meter excess generation. Specifically, the Commission removed Section 75.13(a)(3) and the reference to that section in the definition of utility. This Amended Final Rulemaking Order was delivered to IRRC and the Legislative Oversight Committees on June 13, 2016.

RELIABILITY

Under the Customer Choice Act, each EDC is obligated to ensure that its service does not deteriorate below the level of service reliability that existed prior to the Jan. 1, 1997, effective date of the Act. The monitoring efforts by the Commission include reviewing annual and quarterly reports filed by the EDCs. Large electric companies have to stay within 10 percent of a PUC-established benchmark for a rolling three-year period and within 20 percent of the benchmark during a rolling 12-month period. Four smaller electric companies – UGI Electric Co., Citizens' Electric Co., Pike County Light & Power and Wellsboro Electric Co. – also must stay within 10 percent of their benchmark for a rolling three-year period, but will be allowed to go up to 35 percent of the benchmark for the rolling 12-month period. Benchmarks are the Commission's goals for each utility based on the number and duration of outages.

The Commission issued the latest annual reliability report – [Electric Service Reliability in Pennsylvania](#) – in August 2016. The report evaluates and trends reliability performance from January 2004 through December 2015. The report includes a review of the major causes of service outages for each EDC, as well as an overview of major service outage events in 2015.

ELECTRIC POWER OUTLOOK

Each public utility that distributes or furnishes electricity must annually submit to the Commission information concerning its future plans to meet customers' demands. The Commission is required to annually submit the Electric Power Outlook report to the General Assembly, the Governor, the Office of Consumer Advocate and each affected public utility.

[The report](#), last submitted in August 2015, concludes that sufficient generation, transmission and distribution capacity exists to reasonably meet the needs of Pennsylvania's electricity consumers for the foreseeable future. Regional generation adequacy and reserve margins of the Mid-Atlantic will be satisfied through 2021, provided that planned generation and transmission projects will be forthcoming in a timely manner.

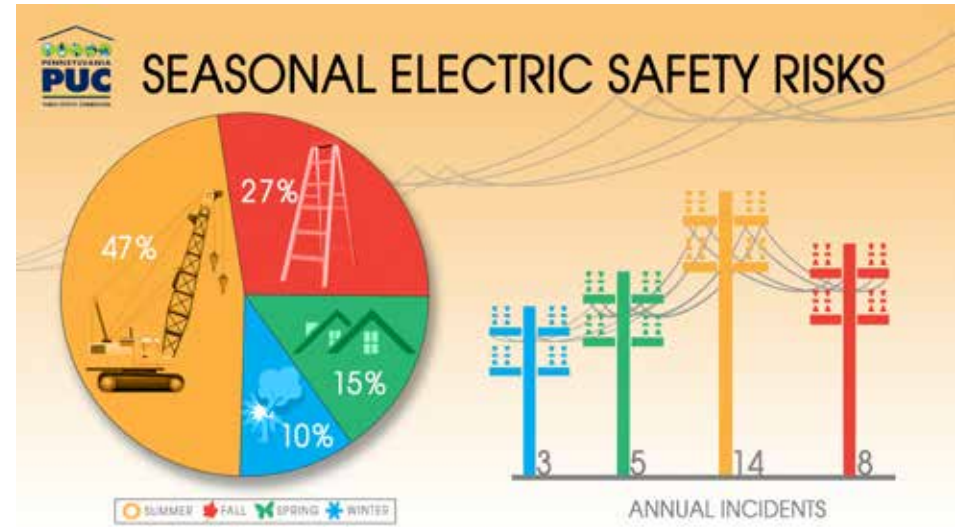
INSPECTION AND MAINTENANCE STANDARDS

PUC regulations require EDCs to have a plan for periodic inspection and maintenance of poles, overhead conductors and cables, wires, transformers, switching devices, protective devices, regulators, capacitors, substations, and other facilities critical to maintaining an acceptable level of reliability. The regulation also sets forth minimum inspection and maintenance intervals for vegetation management, poles, overhead lines and substations.

The most recent biennial plans for the periodic inspection, maintenance, repair and replacement of facilities, which are designed to meet performance benchmarks and standards, were filed with the Commission on Oct. 1, 2014, by Duquesne Light, PECO, PPL, Citizens, Pike County and Wellsboro, and become effective on Jan. 1, 2016. Inspection and maintenance plans were filed by FirstEnergy (Met-Ed, Penelec, West Penn Power and PennPower) and UGI on Oct. 1, 2013, and became effective Jan. 1, 2015. Duquesne Light, PECO, PPL, Citizens, Pike County and Wellsboro are currently operating under their approved biennial plans that were effective Jan. 1, 2014.

ELECTRIC SAFETY DIVISION

In Fiscal Year 2015-16, the Bureau of Investigation and Enforcement's Electric Safety Division (ESD) continued its efforts, which include investigating electric-related events involving inspection of electric distribution facilities, customer complaints, property damage, outages, injury or death, as well as conducting regular reviews of EDCs' safety plans. For the fiscal year ending June 30, 2016, the ESD received 55 reportable incidents, as per 52 Pa. Code Chapter 57.11. The Commission established the ESD in August 2013, allowing the



Commission to expand its capabilities and focus on general safety compliance, cybersecurity and best practices in the industry.

ELECTRIC COMPANY AUDITS

The PUC annually conducts a variety of EDC audits. During Fiscal Year 2015-16, the PUC completed 39 audits, involving default service, purchased power, non-utility generation, generation supply service, smart meters, energy efficiency and conservation, and consumer-education programs. Also, 148 filings requesting changes to established adjustment clause rates were reviewed and processed, implementing revised surcharge rates. Additionally, 62 1307(e) reconciliation statements were reviewed and processed. The PUC performs periodic management and operations audits (MAs) or management efficiency investigations (MEIs).

Duquesne Light Company – An MEI, released Oct. 1, 2015, showed that Duquesne Light Company (Duquesne Light) has effectively or substantially implemented nine of the ten prior recommendations reviewed and taken some action on the remaining recommendation. Duquesne Light's implementation efforts have resulted in realized annual savings of approximately \$136,000. Additionally, as part of the MEI, staff from the PUC's Audit Bureau made four follow-up recommendations for further improvement which could yield annual saving ranging from \$600,000 to \$1.5 million.



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NATURAL GAS

Increased natural gas supply in the state continues to play an integral part in reducing and stabilizing natural gas prices. During Fiscal Year 2015-16, Pennsylvania's natural gas production hit a record high, and gas-fired generation accounted for approximately one-third of the installed generation capacity in the PJM Interconnection. Increased gas supply continues to be accompanied by an increased need to transport natural gas from the wellhead to compressor stations to the wholesale market. This development is in addition to the nearly 50,000 miles of natural gas distribution pipelines that currently bring gas to consumers' homes and businesses. While the PUC recognizes the benefits of a growing and evolving gas market to consumers and local economies alike, the Commission maintains its keen focus and strong commitment on natural gas and pipeline safety. At the end of Fiscal Year 2015-16, Pennsylvania had 25 regulated natural gas distribution companies (NGDCs), seven propane distribution operators, 102 registered and reported jurisdictional gathering and transmission pipelines (Act 127), and 253 licensed natural gas suppliers (NGSs).

WHOLESALE NATURAL GAS PRICES

According to [FERC's 2015 State of the Market Report](#), oil and natural gas prices fell substantially during the past year due to surging supply and strong storage builds. During 2015, production and storage reached record levels, while demand rose modestly. Non-winter gas prices fell to their lowest levels in two decades, which in turn impacted wholesale electric prices to the point that low gas prices resulted in natural gas generation surpassing coal generation for seven months in 2015.

FERC's report notes that declining oil and natural gas prices have put significant stress on producers and some pipeline companies that have contracts with them. Despite low natural gas prices, Marcellus and Utica natural gas production reached record levels during the past year. In addition, low natural gas prices enabled the first U.S. liquid natural gas (LNG) exports in history from the lower 48 states. Production growth in the Marcellus and Utica has resulted in the addition of 51 billion cubic feet per day (Bcfd) in new pipeline capacity in the past five years and approximately 49 Bcfd of capacity is proposed or planned to come online by 2018, which will better serve the producing regions of Ohio, West Virginia and Pennsylvania currently hindered by insufficient pipeline takeaway capacity and local gas surpluses.

According to the Energy Information Administration (EIA), average natural gas spot prices in 2015 were at the lowest levels since 1999, averaging \$2.61 per million British thermal unit (MMBtu), according to Henry Hub. According to EIA's [report](#), spot prices began the year relatively low and fell throughout 2015, with daily prices falling below \$2/MMBtu for the first time since 2012.

ACT 13 OF 2012 (IMPACT FEE)

Act 13 of 2012, the Unconventional Gas Well Impact Fee Act, amended Title 58 (Oil and Gas) of the Pennsylvania Consolidated Statutes. The PUC is responsible for collecting and distributing the state's Unconventional Gas Well Impact Fee under this Act.

The Impact Fee producer payments for 2015 totaled about \$187.7 million. Of that, about \$101.8 million was distributed directly to county and municipal governments that are directly affected by drilling. Also, \$18 million was distributed to state agencies impacted by drilling. The remaining \$67.8 million will be placed into the Marcellus Legacy Fund, which was established under the law to fund environmental, highway, water and sewer projects, rehabilitation of greenways and other projects throughout the state.

Over the past five years, the PUC has collected and distributed more than \$1 billion in Impact Fees to communities across Pennsylvania. A breakdown of the payments to county and municipal governments, specifics on how much money was collected and comparisons to data from previous years is available on the Act 13/Impact Fee website. The [website](#) includes graphical data analyses including the top-paying producers, well count breakdowns and top receiving counties and local governments.

Impact Fee producer payments are due to the PUC on April 1 of each year. Distributions of the money collected by the PUC are due to county and municipal governments by July 1 of each year. Information on how the 2015 Impact Fee monies were spent for county and municipal government was due to the PUC by April 15, 2016. Forms and other information needed by producers and local government also are available on the website.

PIPELINE SAFETY



The PUC has long been charged with the safety oversight of public utilities' distribution and transportation pipelines in the state. Acting as an agent for the federal Department of Transportation's Office of Pipeline and Hazardous

Materials Safety Administration (PHMSA), the PUC enforces the federal pipeline safety regulations.

The PUC monitors compliance with federal and state regulations by conducting inspections of pipeline facilities and records of regulated gas utilities. More than 45 different types of inspections are included in the PUC's monitoring of natural gas companies and their pipeline safety. The Commission also investigates natural gas incidents, including fires, explosions and major outages.

Act 127 of 2011 (the Pipeline Safety Act) expanded the PUC's jurisdiction to include enforcement of the federal pipeline safety laws as they relate to non-public utility gas and hazardous liquids pipeline equipment and facilities within the state. Non-public utility gas and hazardous liquids pipeline operators include several different categories of pipelines, such as cooperatively owned natural gas distribution systems; non-utility natural gas transportation and gathering lines; and propane distribution pipeline systems.

For Fiscal Year 2015-16, the Commission's authorized budget to implement Act 127 was \$919,499. Under the law, the cost of the program is allocated by mile among the companies. For the fiscal year, 101 companies registered with the Commission – of those, 65 companies have a total of 1,313 miles eligible for assessment.

NATURAL GAS PIPELINE REPORTABLE INCIDENTS

During the past calendar year, the Commission investigated one reportable incident. During the previous years, reportable natural gas utilities incidents include five in 2014, three in 2013, and one in 2012. The PUC has identified the most frequent causes of reportable incidents as excavation damage; natural causes, such as flooding; automobile accidents; pipeline leaks caused by corrosion; and human error. The PUC uses information gathered from its incident investigations to ensure its inspection efforts are focused on the areas that have previously resulted in reportable incidents.

NATURAL GAS SAFETY INVESTIGATIONS



Then Vice Chairman John F. Coleman Jr. spoke to attendees at the annual Gas Safety Seminar held in State College.

Fiscal Year 2015-16, the PUC's Gas Safety Division filed six formal complaints relating to investigations involving alleged violations of the Pipeline Safety Code.

ADDITIONAL GAS SAFETY ACTIVITIES INCLUDED:

- 1,463 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line, and compressor station inspections);
- 1 investigation of reportable incidents;
- 73 non-compliance letters issued; and
- 182 gas safety violations issued.

INCREASED AVAILABILITY OF NATURAL GAS TO CONSUMERS

The availability of natural gas service to Pennsylvania homes and businesses often translates into saving money because of the switch from high-cost heating sources, such as fuel oil and propane, to lower-cost natural gas. Further, areas with natural gas service provide an economic development tool to keep current business, and to attract new businesses.

The decision on whether to extend a natural gas line to new customers is governed by the natural gas utility's tariff. The tariff includes an economic analysis that requires utilities to weigh both the cost and expected revenue from the extension to determine whether the extension is economic and whether a customer contribution to the project is necessary. This method typically results in the extension of gas lines to more densely populated urban areas, or in very close proximity to areas where lines already exist.

Under most natural gas company tariffs, a customer who wishes to have natural gas service extended to his/her property must pay the uneconomic portion of the cost of that line extension, which can run in the tens of thousands of dollars as an upfront payment. Depending on the distance between where service is desired and the closest distribution and transmission line, and potential customer costs related to these line extensions, some projects may not be pursued.

The PUC has engaged with the General Assembly and the Administration to determine a way to bridge the gap so that utilities are able to make investments in infrastructure to serve more customers in a way that does not burden existing customers. As part of that effort, in the past fiscal year the Commission approved yet another pilot program which features innovative ways to encourage the extension of natural gas into unserved or underserved areas.

On Oct. 5, 2015, the PUC approved two proposals by PECO Energy Co. (PECO) designed to increase consumer access to natural gas service and help reduce the cost of extending gas service to homes and businesses. PECO's Neighborhood Gas Pilot Program is a three-year, \$10 million pilot program that allows new gas customers to pay a fixed, monthly surcharge rather than a large up-front payment for the cost of extending natural gas service to their properties. Additionally, the PUC approved changes to PECO's process for calculating any required customer contribution, noting that calculating the financial return for a gas main extension over a 40-year period, rather



than a 15-year period previously used by PECO, more accurately reflects the economics of natural gas service and reduces the amount consumer have to pay for natural gas main connections.

PECO is the eighth Pennsylvania natural gas distribution company to gain Commission approval for such programs. The PUC previously approved pilot programs operated by UGI Utilities, UGI – Central Penn Gas, UGI – Penn Natural Gas, Columbia Gas of Pennsylvania, Peoples Natural Gas Company LLC, Equitable Gas Company (now Equitable Division of Peoples Natural Gas), and Peoples T.W.P. Each of these programs operates by eliminating the up-front costs to customers for the installation of distribution main and/or service lines, and replacing these charges with a monthly surcharge on the customer's bill. These surcharges range from \$22/month to \$70/month for residential customers (with the exception of PECO, which technically has no cap on the maximum monthly charge).



PIPELINE PROJECTS

Several major pipeline projects are proposed for construction in Pennsylvania, though siting for those projects is non-jurisdictional to the PUC, with FERC having jurisdiction.

NATURAL GAS COMPETITION & RETAIL MARKET INVESTIGATION

As part of an ongoing effort to bring Pennsylvania's natural gas retail market to the next level, in a joint motion by Commissioners Witmer and Cawley, the PUC directed staff to move forward with an investigation and to seek additional comments on related issues. A Dec. 18, 2014 [Order](#) directed the Office of Competitive Market Oversight (OCMO) to examine several specific issues involving retail gas competition.

Throughout 2015, OCMO directed working groups composed of Natural Gas Distribution Companies (NGDCs), Natural Gas Suppliers (NGSs) and other interested parties to investigate potential changes or standardization of the use of capacity and storage assets; issues regarding system balance, tolerances and penalties; amendments to creditworthiness requirements; and issues regarding nondiscrimination in access points on distribution systems. Customer protection and information issues were also discussed, including disclosure requirements, billing information and NGS switching timeframes.

In 2016, the Commission continued to implement many of the initiatives resulting from the Retail Market Investigation (RMI). This included finalizing important new customer protection regulations requiring more effective and informative NGS disclosure statements. In April 2016, the Commission adopted changes to the Chapter 62 regulations that will provide customers who shop for their natural gas supply with greater, uniform detail on their disclosure statements – especially relating to variable-priced products - and more timely information on “contract renewal” and “change in terms” notices.

The new regulations include:

- More contractual information on conditions of price variability, including whether there are limits on variability;
- A clear statement of the price per unit for the first billing cycle of natural gas;
- Customer access to historical pricing information;
- A separate NGS contract summary along with the full disclosure statement to ensure NGSs highlight key terms and conditions in a uniform, consistent manner;
- New requirements for contract “Initial Notices” and customer “Options Notice” prior to the expiration of a contract or change in terms;

Other RMI initiatives the Commission implemented in 2016 was an effort to make NGDC bills more supplier-oriented by including additional information about the NGS on the bill – in effect creating a “joint NGDC-NGS bill.” This includes placing NGS logos on the bill, providing more bill messaging space for the supplier, and a shopping information box that includes the key pieces of data a consumer needs to know to shop. The Commission also finalized

directives to the NGDCs to create mechanisms that allow NGSs, with customer consent, to obtain customer account numbers for the purpose of enrolling the customer. The Commission also intends to launch a rulemaking with the goal of accelerating the NGS switching process.

DISTRIBUTION RATE INCREASE REQUESTS

During the past fiscal year, the Commission took the following actions related to rate increase requests from jurisdictional gas distribution companies:

Columbia Gas of Pennsylvania Inc.

Customers – 419,000 in 26 counties

Requested Rate Increase – \$46.2 million (8.63 percent)

Approved Rate Increase – \$28 million (5.18 percent)

Primary Reason – To expand the availability of natural gas service in Columbia’s service territory.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses on making sure customers are protected; that the company is a viable public utility; and that it is in the public interest. In Pennsylvania, the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. The phrase “public benefit” is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

GAS COMPANY AUDITS

During the fiscal year, the Commission’s Bureau of Audits completed 11 purchased gas cost (PGC) audits, 19 gas cost rate (GCR) audits, 8 universal service audits and 2 consumer-education audits. The Bureau of Audits also reviewed 14 GCRs, 1 consumer education and 1 universal service fund charge, and 12 distribution system improvement charge rate change filings. In addition, the Bureau performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas distribution companies. Among those MAs and MEIs completed during the 2015-16 fiscal year were:

Philadelphia Gas Works – On Oct. 22, 2015, the Commission released the Stratified Management and Operations Audit of Philadelphia Gas Works (PGW), performed by Schumaker & Company. The audit report contained 76

recommendations which were estimated to generate \$8.4 to \$9.5 million in annual savings, along with \$1.1 million in one-time savings. In response to the audit, PGW accepted 62 recommendations, partially accepted 13 recommendations and rejected one recommendation.

UGI Corporation – UGI Utility Group – On June 9, 2016 the Commission released a report on the MEI of UGI Utilities Inc., UGI Central Penn Gas Inc. and UGI Penn Natural Gas Inc. (collectively referred to as the UGI Utility Group). The MEI reviewed the Companies’ progress in implementing 30 of the 31 original recommendations from the 2012 Focused Management and Operations Audit. The report showed that the Companies have effectively or substantially implemented 14 of the 30 prior recommendations reviewed and have taken some action on the remaining 16 recommendations. Additionally, as part of the MEI, staff from the PUC’s Audit Bureau made 20 follow-up recommendations for further improvement.

STEAM HEAT

Three steam heat utilities currently operate in Pennsylvania. Generally, steam heat is produced in central generation plants by heating water to its boiling point, and then distributing the steam heat to users through a series of underground pipes. In Fiscal Year 2015-16, the PUC reviewed and processed 30 (monthly and annual) steam cost rate adjustment clause filings submitted by jurisdictional steam heat companies. In addition, three steam cost rate audits were completed.

The PUC continues work on a proposed rulemaking that would amend the Commission’s regulations for steam utilities. Specifically, the rulemaking would revise and expand the Commission’s steam heating service regulations, including the modernization of accident regulations to the same standard as other utilities, as well as facilitate the PUC’s Gas Safety Division’s safety inspections of jurisdictional steam heat distribution facilities.

PHILADELPHIA GAS WORKS ACCELERATES REPLACEMENT OF AGING PIPELINES

On June 9, 2016, the PUC approved a modified infrastructure improvement plan, along with a one-time adjustment to a related customer charge, intended to dramatically accelerate the replacement of aging natural gas pipelines in Philadelphia. The Commission’s approval of the Modified [Long-Term Infrastructure Improvement Plan](#), as submitted by the Philadelphia Gas Works (PGW), will make available an additional \$11 million in pipeline

replacement spending per year to upgrade PGW’s aging cast iron mains. Those added funds are expected to accelerate the timeline for replacement of “at risk” pipelines by nearly 40 years.

Additionally, the PUC also approved a PGW request related to the Distribution System Improvement Charge (DSIC), which is being used to fund expanded pipeline replacement – addressing a one-time \$11.4 million under collection of the DSIC during 2015 which could have impacted the tempo of future replacement efforts.



The PUC’s approval of these two measures comes on the heels of a 2015 PUC [staff report](#) citing PGW as having the highest percentage of at-risk pipe of any regulated gas company in Pennsylvania, and further fortifies PUC recommendations from the report which identify numerous mechanisms to increase the pace of pipeline replacement in Philadelphia.

PIPELINE TASK FORCE

In February 2016, the Governor’s Pipeline Infrastructure Task Force (PITF) provided a list of recommendations to Gov. Tom Wolf in an effort to advance best practices, policies and tools to help guide development of a world-class pipeline infrastructure system, as the state continues to grow as an energy hub. Chairman Brown led the Pipeline Safety and Integrity Workgroup, which brought forth key safety recommendations included in the [PITF’s report](#). Those safety recommendations include:

- Designating the PUC to enforce the Pennsylvania One Call System and Pennsylvania’s Underground Utility Line Protection Law, with a goal of reducing the number of “hits” on underground pipelines;
- Annual leak surveys on all existing or new pipelines, including the expansion of the leak-detection surveys to include Class 1 gathering lines and production lines outside the well pad;
- Accelerated leak repairs, including the scheduling of repairs on all classes of leaks;
- Establishment of a centralized mapping system for use by emergency responders, along with a public portal for accessing mapping information; and
- Creation of a website providing access to all publicly available pipeline inspection information.

The full PITF report includes more than 180 recommendations, touching on a range of issues including pipeline safety and integrity; siting and routing; environmental protection; conservation; agriculture; emergency preparedness; natural gas end use; government impact (local, county, state); public participation; workforce and economic development; and historical, cultural and tribal issues. In addition to Chairman Brown, Paul Metro, Manager of the PUC’s Gas Safety Division who is nationally known for his work and leadership in gas safety, serves on the PITF. The PITF includes 48 appointed members along with more than 100 additional experts and stakeholders who serve on various work groups.



Commissioner Robert F. Powelson updated state business and professional leaders on key statewide utility issues during a policy briefing at Quantum Communications in Harrisburg on Dec. 9, 2015. Topics included the economic and employment impact of natural gas development, the legal and policy issues surrounding pipeline projects, and Act 13 Impact Fees distributed by the PUC.



TELECOMMUNICATIONS

The Commission monitors the aggressive broadband deployment initiatives required by Act 183 of 2004 (Act 183 or Chapter 30 of the Public Utility Code), which requires participating incumbent local exchange carriers (ILECs) to provide access to broadband service to all Pennsylvanians by 2015 at a minimum statutory speed standard of 128 kilobits per second (kbps) for uploads and 1.5 megabits per second (Mbps) for downloads. The Commission also ensures that telecommunications services for eligible low-income consumers and households meet or exceed national standards when granting wireline and wireless providers an Eligible Telecommunications Carrier (ETC) designation. Such a designation is required before a carrier can be reimbursed from the federal Universal Service Fund for providing supported voice service to eligible low-income consumers and households.

REGULATED TELEPHONE COMPANIES

The Commission continues to regulate wireline ILECs and competitive local exchange carriers (CLECs) throughout the Commonwealth. The three largest ILECs are Verizon Pennsylvania LLC (Verizon PA), Verizon North LLC (Verizon North) and The United Telephone of Pennsylvania LLC d/b/a CenturyLink (CenturyLink).

TYPE OF CARRIERS IN PENNSYLVANIA

- Incumbent Local Exchange Carriers - 37
- Competitive Local Exchange Carriers - 170
- Interexchange (Toll) Carriers - 662
- Interexchange (Toll) Resellers - 286
- Competitive Access Providers - 87

TELEPHONE NUMBERS AND AREA CODES

On a semi-annual basis, the North American Numbering Plan Administrator (NANPA), Neustar (an FCC contractor and neutral third party), informs Pennsylvania and the other states of their current and projected numbering resources. Commission staff closely monitors this information in all of the Commonwealth's area codes to ensure the availability of adequate numbering resources. In March 2016, the PUC voted to suspend an implementation plan for area code relief in the 717 service area. The Commission sought comments on the related [petition](#) filed by Neustar. The Commission planned and held a public input hearing on this plan and issued a [decision](#) in late 2016.

VOIP NUMBERING

In February 2016, the FCC's Order on Voice over Internet Protocol (VoIP) Numbering Resources was approved by the Office of Management and Budget, allowing it to go into effect. This FCC Order allows VoIP carriers to have direct access to telephone numbers through the North America Numbering Plan Administrator.

According to the Order, the VoIP providers are required to file for a license with the FCC. Once licensed by the FCC, VoIP providers have to file a 30-day notice with each state in which they are requesting numbering resources prior to requesting those numbers from the numbering administrator. Commission staff created a process and form for VoIP providers to file with the Commission to comply with the 30-day notice requirement.

INTERCARRIER COMPENSATION/UNIVERSAL SERVICE REFORM/CONNECT AMERICA FUND

In April 2015, the FCC announced the availability of Connect America Fund Phase II (CAF II) annual funding support amounts for certain ILECs operating in Pennsylvania that are classified as federal price cap carriers (Price Cap ILECs). The total CAF II annual support amount for Pennsylvania's Price-CAP ILECs is \$50.97 million.

The CAF II support will assist the continuous deployment of wireline broadband networks and services both within Pennsylvania and the U.S. Acceptance of CAF II support entails the deployment of wireline broadband networks capable of 10 Mbps download and 1 Mbps upload speeds to identified locations as well as a commitment to provide broadband Internet access services (BIAS) to consumers. These CAF II speed standards are higher than those of 128 Kbps up and 1.5 Mbps, down set out in Pennsylvania's Chapter 30 law. As of June 2016, every Pennsylvania Price-Cap ILEC eligible to receive CAF II, with the exception of Verizon North, Inc. (VZN), accepted the CAF II offers of support. The \$23.27 million of annual CAF II support that VZN declined as a federal Price Cap ILEC will be auctioned off to qualified bidders under rules and procedures that have not yet been finalized by the FCC.

On March 30, 2016, the FCC also issued a long-awaited order reforming the support that rural federal Rate of Return (ROR) ILECs will receive from the federal USF mechanism to support the continuous provision of broadband and voice services in Pennsylvania's high-cost rural areas that are not served by federal price cap carriers. The ROR reforms in the FCC's alternative Connect America cost model (ACAM) Order set out a proposed voluntary approach under which carriers could get federal support for 10 years in exchange for a commitment to build a network that can provide BIAS at 10 Mbps down/1 Mbps up, a speed equivalent to that required of the federal price cap carriers which is also higher than Pennsylvania's Chapter 30 law broadband speed standards. Alternatively, the ROR ILECs can receive a portion of what they historically received under an older FCC support model (legacy support). Federal ROR carriers are currently deciding if they will take support under



the ACAM model or the legacy support. These reforms are an extension of an order the FCC issued on Nov. 18, 2011, in which the FCC reformed Intercarrier Compensation and the federal Universal Service Fund mechanism (the *Transformation Order*). The *Transformation Order* created a Connect America Fund (CAF) and a Mobility Fund (MF). The CAF program will support the deployment of wireline networks to provide broadband access services at federally-determined speeds. The MF program will support the deployment of wireless facilities to provide mobile broadband at federally-determined speeds.

The *Transformation Order* also reformed the payments that carriers make to each other for the exchange of telecommunications traffic (intercarrier compensation). The *Transformation Order* also reformed the federal universal service fund mechanism used to determine how much federal support carriers who provide service in high-cost areas will receive. The Commission and others appealed the *Transformation Order*. However, the FCC's *Transformation Order* was ultimately and totally upheld by the federal appellate courts

As a result, the Commission continues to implement this complex and changing FCC decision which impacts Pennsylvania markets, providers, end-user consumers and the Commission's jurisdiction to manage certain regulatory matters under both federal and Pennsylvania law. More information on the steps the PUC is taking is available on the Commission's [website](#).

INTERCARRIER COMPENSATION DISPUTES IN PA

Intercarrier compensation is the term for payments between carriers for the exchange of various types of traffic and for the use of telecommunications networks. In addition to the Commission's work regarding compliance with the FCC's November 2011 mandates, litigation continues before the PUC on

various complaints filed by both ILECs and CLECs concerning the application and payment of intercarrier compensation. Some cases hinge on whether intercarrier compensation can be assessed on certain types of traffic such as Internet, broadband, wireless, local calls and wholesale service.

The Commission appealed a decision of the U.S. District Court for the Eastern District of Pennsylvania holding that the Commission lacked jurisdiction to adjudicate an intercarrier compensation dispute between AT&T and Core Communications. In the underlying case, the Commission — through the enforcement of applicable federal law — had directed AT&T to compensate Core for the termination of certain local dialed-up calls directed to Internet service providers (ISPs), where such calls had been initiated by AT&T end-users. The Commission filed its appeal with the U.S. Court of Appeals for the 3rd Circuit, Philadelphia, Pennsylvania. The Third Circuit subsequently upheld the Commission's authority to resolve intercarrier compensation disputes between carriers such as AT&T and Core.

Additionally, the Commission filed a separate petition with the FCC seeking clarification on state jurisdiction to enforce applicable federal law in this type of intercarrier compensation disputes arising under the FCC ISP Remand Order. Comments and reply comments have been filed and an FCC decision is currently pending. Since the Third Circuit decision, the Commission has asked the FCC to withdraw the Commission Petition although that is still pending.

INTERCONNECTION ISSUES

The Commission continues to deal with complex wholesale interconnection proceedings and related arbitrations that arise from the application of the federal Telecommunications Act of 1996 and relevant Pennsylvania law. The Commission concluded two such arbitration cases in the July – November 2014 time frame involving interconnection arrangements and agreements between two major ILECs, The United Telephone Company of Pennsylvania (CenturyLink) and Windstream Pennsylvania, and Core Communications, a CLEC. These proceedings concluded with the submission of finalized interconnection agreements to the Commission.

MANDATED ACCESS CHARGE REDUCTIONS & REVISIONS

The FCC's *Transformation Order* of Nov. 18, 2011 required all ILECs and CLECs (collectively LECs) to begin a transition of certain intercarrier compensation rates to a bill-and-keep regime rate of zero. All intrastate switched access rate elements for LECs classified as federal price cap carriers are capped at current levels in effect on Dec. 29, 2011, and all

terminating switched access rate elements for LECs classified as federal rate of return carriers are capped at current levels in effect on Dec. 29, 2011. Subsequently, LECs make tariff filings with the Commission effective on or about July 1 of each year to gradually transition certain intrastate switched access rates to meet the federal directives of the FCC's Nov. 18, 2011 Order to move those rates to zero. In addition, LECs submitted tariff amendments addressing intercarrier compensation for Voice over Internet Protocol (VoIP) traffic that is exchanged with other carriers. The Commission has examined and approved these amendments on a case-by-case basis. To date, the Commission has implemented the first five steps of the nine-year phase down of intrastate access charges required for all carriers with reductions that took place in 2012 through 2016.

CHAPTER 30

[Chapter 30 of Title 66](#), Pennsylvania Public Utility Code, governs the Commission's oversight of ILEC incentive alternative regulation and network modernization plans. The Chapter 30 ILEC network modernization plans involve the deployment of broadband facilities and services for high-speed access to the Internet with certain standards (e.g., 1.544 megabits per second or Mbps download speed and .128 Mbps upload).

Most of the Chapter 30 ILECs completed their respective broadband deployment commitments in 2008 and 2013. Verizon PA and Verizon North completed their respective broadband deployments in December 2015. The Bona Fide Retail Request Program (BFRR), as well as the Business Attraction or Retention Program (BARP), ended on Dec. 31, 2015, as 100 percent broadband availability should now be achieved throughout ILECs' service territories. The Broadband Outreach and Aggregation Fund (BOAF) was terminated on July 1, 2016. ILECs should be positioned to offer broadband service upon request. The Commission retains authority to ensure that carriers comply with their Chapter 30 commitments. Over the life of the programs, Chapter 30 ILECs contributed over \$9.7 million to the BOAF and over \$59.9 million to the E-Fund.

PUC-APPROVED PRICE CAP FILINGS

Most of the incentive regulation plans for Chapter 30 ILECs use price stability mechanisms with price cap formulas. These formulas provide for annual ILEC revenue and rate increases on the basis of the gross domestic product price index (GDP-PI, a measure of inflation in the general U.S. economy), minus a statutorily-set inflation offset. The ILECs have the option to implement such annual revenue increases in actual rates or bank such increases totally or in part for later use. Through past settlements reached with the state's Office of Consumer Advocate, most of the ILECs are required to implement banked revenue changes in actual rates within four years or forego the revenue increase. Verizon PA, Verizon North and CenturyLink are required to immediately implement any rate decrease of more than \$500,000.

From Sept. 1, 2015, through May 1, 2016, Chapter 30 ILECs were authorized a total of \$3.56 million in revenue increases under their respective price cap filings. Of this, the companies banked \$2.11 million for future use. During this same period, Chapter 30 ILECs with price stability mechanisms and price cap formulas implemented a total of \$2.98 million into rate increases.

PA UNIVERSAL SERVICE FUND

The PA Universal Service Fund (PaUSF or Fund), initially set at \$32 million annually, supports the affordability of basic local telephone service that is provided by rural ILECs in Pennsylvania. Universal service is the term referring to the support provided to carriers under state and federal law to keep telecommunications rates affordable for consumers. About 300 telecommunications services providers contribute to the Fund and payments are disbursed monthly to 32 qualified ILEC recipients. At the current time, wireless carriers are not required to contribute to the Fund.

In December 2015, the Commission approved a state USF contribution rate for the 2016 calendar year calculated to produce a total fund size of approximately \$34.065 million. The amount is divided as follows: approximately 33.826 million is distributed among recipient carriers; \$1.5 million is held in reserve for uncollectibles; \$100,002 is paid to the third-party administrator; and \$23,210 is paid to the external auditor.

On Feb. 20, 2015, the Commission issued a Request for Proposal (RFP) to select a new external auditor for the PaUSF. There were eight companies that



submitted proposals. On May 19, 2015, the Commission selected Hurlbert CPA, LLC, as the new external auditor. The term of the contract is five years expiring on July 31, 2020, with an optional one-year extension.

The Commission will also be issuing a Request for Proposal (RFP) to select a new state universal service fund administrator. The current administrator is Solix. Solix may participate in the upcoming RFP as well.

HB 1417

Introduced on June 26, 2015, [HB 1417](#) would require the Commission to conduct an on-the-record investigation to determine whether the continuation of the PaUSF is necessary to maintain universal service objectives. If the Commission determines that the future operation of the PaUSF is necessary it must address the appropriate base of fund contributors and recipients, the appropriate funding level, the potential expansion of the fund to address broadband deployment and the establishment of a state program to reduce the cost of basic service to low income consumers. The Commission would be required to enter a Final Order containing the findings of the investigation by Jan. 1, 2021. The Commission would then have to initiate a rulemaking to implement the findings of the investigation within 30 days of its Final Order.

HB 1417 would also require the Commission to continue to administer the PaUSF until Jan. 1, 2022, to recipients that received money from the fund before Jan. 2, 2015, at amounts no less than the amounts received in 2014. Any recipient of funding after Dec. 31, 2014, and before Jan. 1, 2022, is obligated to provide basic local exchange service throughout its service

territory and is prohibited from declaring competitive a particular geographic area, exchange or group of exchanges pursuant to 66 Pa. C.S. § 3016(a).

The Commission would be proscribed from implementing any changes or revisions to the Fund until Jan. 1, 2022.

LIFELINE PROGRAM CHANGES

During the 2015-16 fiscal year, the FCC continued to monitor the reforms it implemented with the February 2012 Lifeline Reform Order and related regulations designed to reduce waste, fraud, and abuse in the federal Lifeline program. The FCC has also successfully defended in federal court their earlier decision to classify Broadband Internet Access Service, or BIAS, as telecommunications under federal law. As noted earlier, the FCC issued an order on Broadband Lifeline in 2016 that now supports broadband service under the federal universal service fund.

For voice service, the current FCC rules require a carrier to certify a customer's eligibility when they first apply for service; thereafter the consumer re-certifies their eligibility. Pennsylvania requires a provider to certify a consumer's eligibility initially and on an ongoing annual basis thereafter to minimize waste, fraud, and abuse. The National Lifeline Accountability Database (NLAD) is used to reduce fraud so eligible telecommunications carriers could identify and resolve duplicate claims for Lifeline service. The Commission works with industry and other state agencies, particularly the Department of Human Services, on providing information so that carriers can verify a customer's



eligibility under federal and state rules for voice service. However, the FCC's *Broadband Lifeline Order* replaces state designation and oversight with FCC designation and oversight for broadband service. Verification will be done by a third party verifier. The process for third party verification is not yet complete. The Commission continues to monitor and participate in FCC proceedings involving the *Broadband Lifeline Order*, including a request for the FCC to clarify the Commission's role on addressing consumer complaints and disputes about broadband lifeline service.

In April 2016, the FCC issued its latest major Lifeline Order that established Broadband Internet Access Service (BIAS), as a supported service that eligible low-income consumers can now get in Pennsylvania. The FCC support for BIAS is \$9.25 per month for consumers at or below 135 percent of poverty or who enroll in specific programs i.e., the Supplemental Nutrition Assistance Program (SNAP or Food Stamps), Medicaid, Supplemental Security Income (SSI), FPHA (Federal Public Housing Assistance), or the Veterans Affairs Pension programs. The FCC eliminated the low income heating energy assistance program (LIHEAP) and TANF (Temporary Assistance to Needy Families) from the list of programs in which participation made a low-income consumer eligible for federal Lifeline support. The new rules for BIAS go into effect Dec. 1, 2016. Consumers eligible under the programs that were eliminated will continue to get their support until July 1, 2016, at which time they must be eligible under the new federal program or income guidelines. The Commission will continue to make ETC Designations for voice and voice and BIAS service. The FCC, however, is going to use a national system for designating carriers that want to provide only BIAS.

PUC INVOLVEMENT AT THE FCC

The Commission has been active in several FCC proceedings primarily opposing proposals that can lead to the unnecessary federal preemption of Pennsylvania law and Commission jurisdiction, while ensuring that Pennsylvania's interests are adequately represented and protected before the FCC. Recent filings and PUC comments relate to:

- Lifeline and Link Up Reform and Modernization proceeding, which will impact Lifeline and Universal Service expansion to broadband services, including a request to clarify the scope of the Commission's authority under FCC rules to resolve consumer complaints or disputes.
- FCC Authorization process for VoIP providers to have direct access to numbering resources. The FCC's Direct Access Order authorized

interconnected VoIP providers to obtain telephone numbers directly from Numbering Administrators, rather than through intermediaries and set forth conditions to minimize number exhaust and preserve integrity of numbering system. The Direct Access Order requires VoIP providers to provide state commissions with 30-day's notice of a numbering request. The Pa. PUC has created a registration form for this purpose.

- FCC Privacy rules for BIAS consumers that seek to establish the rules whereby BIAS providers can disclose or sell consumer information. The Commission has stressed that Pennsylvania law on privacy should not be preempted.
- FCC Improving 911 Architecture Reliability, considering the transition to Internet Protocol, in which the FCC seeks to increase end-to-end accountability and address interstate IP-based 911 networks. By *Order on Reconsideration*, the FCC clarified its rules by permitting Covered 911 Service Providers to implement and certify an alternative measure for *any* of the specific certification elements.
- FCC technology transitions from the traditional copper network to the Internet Protocol (IP) networks and fiber facilities, including compliance with the notice to consumers the FCC requires when a consumer's service is moved from a copper network to an IP network.
- Backup Power for Customer Premises Equipment and Copper Retirement, regarding reliable backup power during the transition from copper-based time division multiplexing (TDM) switched service to Internet Protocol-based networks. Telecommunications networks are transitioning away from copper-based, line powered technology to Internet Protocol-enabled services that are not line-powered. The FCC adopted rules requiring providers of IP-enabled home services to offer the option to buy 8 hours of backup power so they can use their phone service during electric outages. Within three years, these providers are required to offer an option for 24 hours of standby backup power.
- Rates for Inmate Calling Services, in which the FCC preempted state jurisdiction over exorbitant rates for intrastate inmate calls that were higher than the FCC rate. However, the Commission successfully prevented preemption of Pennsylvania law in filings which stressed that Pennsylvania's rates are lower than the FCC rate.

Commission personnel serve as lead on the Telecommunications Staff Committee, which is part of the Mid-Atlantic Conference of the Regulatory Utility Commissions (MACRUC). The Commission also is actively involved with the National Association of Regulatory Utility Commissioners (NARUC) to ensure that Pennsylvania and MACRUC regional concerns are considered in making decisions about what services should be supported at what funding level. Commission staff currently serve on several NARUC staff subcommittees and as Vice Chair of the NARUC Telecommunications Staff Subcommittee. A PUC Commissioner serves on the FCC's Council on Communications, Security, Reliability and Interoperability (CSRIC) which covers numerous topics including cybersecurity.

TELECOMMUNICATIONS RELAY SERVICE

The Commission completed the annual recalculation of the [Telecommunications Relay Service](#) (TRS) surcharge for residence and business wireline access lines for July 1, 2016, through June 30, 2017. The monthly residential and business monthly access line surcharge will remain set at \$0.08.

Hamilton Relay, Inc. (Hamilton) holds the TRS Certificate of Public Convenience to provide TRS throughout Pennsylvania. A sister company, Hamilton Telecommunications, provides the Captioned Telephone Voice-Carry-Over relay Service (STRS) throughout Pennsylvania through a contract with the Commission. This contract was extended in April 2015 for an additional 2-year term to June 30, 2017.

The Commission received information that certain devices that enable communications for the hearing and/or speech-impaired and are provided to qualified recipients through the Telecommunications Device Distribution Program (TDDP) were incompatible with modern Internet Protocol (IP) based networks and communications services. The Commission engaged in a collaborative process with the PA Department of Labor and Industry, Office of Vocational Rehabilitation (OVR), that administers the TDDP through the Temple University Institute on Disabilities. In July 2014, the Commission issued a formal advisory letter to OVR that the TDDP can distribute IP-enabled wireline communications devices to qualified recipients thus solving the equipment compatibility issue.

On May 21, 2015, OVR filed a petition with the Commission seeking funding from the TRS Fund for a two-year pilot program involving a wireless device distribution program entitled "Wireless Expansion Initiative: Promoting Telecommunications Equity for People with Disabilities in Pennsylvania." The

Commission solicited and received public comment on the merits of this proposal by various interested parties. In July 2015, the Commission granted OVR's petition. In May 2016, OVR informed the Commission that the first eligible individuals with disabilities had received devices under the TDDP WEI pilot.

PAPER BILLING INVESTIGATION

In October 2015, following a [joint investigation](#) into the practice of charging a fee for paper bills, the Commission approved a Final Rulemaking that the PUC will not approve tariff provisions authorizing telecommunications carriers to charge residential or business customers a separate fee to receive a paper bill. Reconsideration of the March Order was denied in July 2014. The Commission's Order had been appealed to the Commonwealth Court and that appeal was later withdrawn. The Independent Regulatory Review Commission (IRRC) upheld the Commission's rulemaking prohibiting charges for a paper bill.

VERIZON RECLASSIFICATION

On Feb. 26, 2015, the Commission adopted a Joint Motion determining that standalone basic local telephone service is competitive for residential and small business customers in 153 Verizon PA and Verizon North (collectively, Verizon) wire centers serving geographic areas in or adjacent to Verizon's Philadelphia, Scranton/Wilkes-Barre, Harrisburg, Pittsburgh, Allentown, and York service territories. Standalone basic local telephone service in these areas is now de-tariffed, and Verizon can price the service in these areas without Commission approval. However, the Commission will continue to oversee the safety, adequacy, reliability and privacy of telecommunications services provided by Verizon in competitive wire centers. In adopting the Joint Motion, the Commission also partially granted Verizon's request to waive the Commission's quality of service and billing regulations (Chapters 63 and 64), pending data collection and a rulemaking to address the status of these regulations on a permanent and industry-wide basis. The length of the waiver period is five years. On May 19, 2015, the Commission adopted an Implementation Order clarifying certain aspects of its prior reclassification decision. On April 1, 2016, Verizon filed the first round of data covering calendar year 2015. This included

six months of prereclassification data and six months of post-reclassification data. Verizon is required to file the data covering calendar year 2016 by April 1, 2017. The Commission is currently receiving information pursuant to the reclassification and will decide whether to make the reclassification waivers permanent.

911 FUNDING

HB 911, introduced April 13, 2015, and signed into law on June 29, 2015, as Act 12, amends Pa. 35 C.S. (Health and Safety) Chapter 53 provisions for emergency telephone service. Effective immediately, PEMA is given expanded authority and there is a requirement to establish a 911 Board, on which the Commission will hold a non-voting seat. Act 12 prescribes a uniform \$1.65 monthly fee on consumer bills (wireline, wireless and VoIP) as opposed to the varying fees in effect today that differ by technology. The change in fee and most other pertinent parts of the statute take effect Aug. 1, 2015, to give providers time to update their billing systems. Act 12 eliminates the Commission's role in reviewing public service answering point (PSAP) 911 renewal plans and audits. Likewise, the Commission is no longer required to approve wireline 911 surcharges submitted by the PSAPs. Act 12 sunsets on June 30, 2019.



RAILROAD
CROSSING
ROAD

STOP



TRANSPORTATION & SAFETY

During Fiscal Year 2015-16, the Commission continued to focus on the safety of the traveling public – from new technologies and business models advanced by Transportation Network Companies, such as Uber and Lyft; to concerns about one of our oldest transportation networks, the railroad systems that cross our state. Additionally, the Commission continues to emphasize safety education of new truck and bus carriers, passenger carrier safety compliance and programs to identify and prosecute illegal household goods carriers.

TRANSPORTATION NETWORK COMPANIES

The PUC certificated three Transportation Network Companies (TNCs) for two-year, experimental service in Pennsylvania. TNCs match drivers with passengers through a mobile app, using drivers' personal vehicles, and link all payments to the customer's account on his/her mobile phone. Yellow Z, under the umbrella of Yellow Cab in Allegheny County, was granted a two-year certificate on July 31, 2014, to operate in Allegheny County. Yellow Z's certificate was subsequently extended until July 1, 2017. Rasier-PA (an affiliate of Uber) received its two-year, experimental authority on Jan. 29, 2015, and Lyft was certificated on Feb. 12, 2015.

Both Uber and Lyft have authority throughout a majority of counties in Pennsylvania, excluding Philadelphia, where services are regulated by the Philadelphia Parking Authority.

The Commission has been vocal in encouraging new legislation as a permanent solution for TNCs in Pennsylvania that will ensure adequate insurance protections, vehicle safety and driver integrity.

On April 21, 2016, the PUC issued an order imposing a [civil penalty](#) upon Uber Technologies Inc. and its Pennsylvania subsidiaries (collectively, Uber) for operating without Commission authority from February to August 2014, including operating in defiance of orders directing Uber to cease and desist, and for failing to respond to discovery requests. The order was entered in a formal complaint proceeding initiated by the PUC's independent Bureau of Investigation of Enforcement (I&E).

In a 3-2 vote, the Commission directed Uber to pay a civil penalty of \$11,364,736, substantially reducing the fine recommended by the PUC's Administrative Law Judges. The lower penalty was advanced on the grounds that Uber modified its internal practices by securing authority with the Commission and complied with the conditions imposed by the Commission as part of obtaining its authority. The Commission further determined that Uber and its affiliates have not demonstrated any significant compliance problems since the grant of emergency temporary and later experimental authority.

In May 2016, Uber filed a Petition for Reconsideration of the civil penalty. The Commission granted the Petition pending review of the merits.

ADVANCING UPDATED TRANSPORTATION REGULATIONS

The PUC is continuing efforts to address changes in the transportation industry and eliminate barriers that could prevent qualified passenger carriers from serving Pennsylvania communities.

In November 2015, the Commission voted unanimously to adopt a proposed rulemaking for all passenger motor carriers. The proposal eliminates the requirement that new applicants demonstrate that their service will fulfill public demand or need, while continuing the requirement that carriers demonstrate they are technically and financially fit to operate safely, reliably and legally. The Order was published in the Pennsylvania Bulletin on Feb. 27, 2016, and numerous Comments were filed. A final Rulemaking Order is being drafted.

The proposed rulemaking impacts schedule route carriers; call or demand carriers (taxis); group or party carriers (such as tour or sightseeing services); limousine carriers; airport transfer carriers; paratransit carriers; and experimental carriers.

This action is part of a comprehensive Commission review of all regulations for transportation carriers in Pennsylvania. Previously, the PUC eliminated the “need” requirement for household goods and property carriers (moving companies). Rules related to various other categories of transportation services are currently being evaluated.

ENFORCEMENT OF ROGUE HOUSEHOLD MOVERS AND UNLICENSED LIMOUSINES



The PUC continues to monitor websites such as Craigslist for unlicensed household movers and unlicensed limousine carriers offering their services to the public. Undercover sting operations are carried out across the state.

Officers use non-traceable cell phones to request the service. PUC Enforcement Officers are then assisted by local police, who search the individuals for weapons and any outstanding arrest warrants.

This past fiscal year, PUC Enforcement Officers cited 16 unlicensed household movers and 10 unlicensed passenger carriers for operating illegally in Pennsylvania.

MOTOR COACH SAFETY PROGRAM



Motor coach inspections took place at various venues across the state, including casinos, amusement parks and baseball stadiums. In May 2015, PUC Enforcement Officers, along with the Pennsylvania State Police and agents from the Federal Motor Carrier Safety Administration, conducted a two-day motor coach inspection operation at Hersheypark. During these inspections, bus drivers are checked for a valid operator’s license,

Department of Transportation physical cards and log books. The buses are inspected to ensure the lights, exhaust, brake components and suspension are in safe operating condition. Unsafe drivers and buses are placed out-of-service and are subject to additional penalties.

ANNUAL ASSESSMENT REPORT REVIEW OF MOTOR CARRIERS

The Commission conducted six reviews of selected motor carrier Annual Assessment Reports during Fiscal Year 2015-16 and continues to conduct reviews of selected motor carriers.

The future reviews of selected motor carriers may result in adjustments to assessable revenues and/or recommendations for improved record-keeping and reporting. In addition, future reviews may provide the Commission with the necessary information to determine what, if any, subsequent steps may be required to move toward consistency in claimed exemptions within each segment of the motor carrier industry.

UNIFIED CARRIER REGISTRATION

The Unified Carrier Registration System Plan and Agreement (UCR Act) became effective Jan. 1, 2007. In accordance with the UCR Act, all motor carriers that operate commercial motor vehicles in interstate commerce must pay a fee based upon the size of the carrier's fleet. The UCR fees collected by the states are to be used for their motor carrier enforcement programs.

The PUC cap is set at \$4.9 million; fees collected above the cap are then sent to the UCR depository. This is the first year that all 41 participating states have reached their cap. As a result, administrative money is now available that will be used for UCR board meetings and future mailings.

FEDERAL NEW ENTRANT SAFETY AUDIT PROGRAM

The PUC continues to be the grant holder of the Federal New Entrant Audit Program. The PUC is responsible for conducting safety audits of all new motor carriers based in Pennsylvania. The audit provides educational and technical assistance on safety and operational requirements of the federal safety regulations. Twenty PUC Enforcement Officers are trained and federally certified to conduct these safety audits.

This past fiscal year, officers conducted 1,955 safety audits, and 243 carriers failed the audit and were required to submit a Correction Action Plan.

REGULATED MOTOR CARRIERS

- **6,216** property carriers
- **225** taxis
- **376** limousines
- **482** paratransit companies
- **59** airport transfer companies
- **524** group and party bus companies
- **32** contract passenger companies
- **3** experimental service companies
- **277** household goods movers

2015-16 ENFORCEMENT ACTIVITIES

- **2,500** safety inspections of trucks, buses, taxis, paratransit vehicles and limousines
- **311** informal consumer and carrier complaint investigations
- **492** safety fitness educational reviews for newly certificated PUC carriers



STATEWIDE RAIL SAFETY RECOMMENDATIONS

In response to a growing concern about railroad safety, driven by increased volumes of crude-by-rail trains traveling across Pennsylvania and a number of high-profile national accidents involving freight and passenger trains, Governor Wolf's Administration commissioned an independent expert to develop a statewide rail safety assessment and report.

Released in August 2015, the rail safety assessment contained 27 recommendations, including several that address work performed by the PUC. A number of the items – including coordinating with the FRA to focus additional attention on the inspection of major oil train routes and the filling of existing staff vacancies – have already been implemented by the Commission. Others, including the hiring of additional PUC inspectors, are being evaluated to determine how they can best be implemented.



RAIL CROSSING INVESTIGATIONS

Concerns about the safety of the traveling public prompted the Commission to order a series of investigations involving busy rail crossings in Central and Western Pennsylvania.

The investigations include a crossing in the City of Pittsburgh, where 9th Street crosses two mainline tracks of CSX Transportation Inc. – carrying vehicles, along with hikers and bikers using the nearby Three Rivers Heritage Trail; a crossing in Dauphin County, north of Harrisburg, where the busy SR22/322 corridor crosses underneath tracks of the Norfolk Southern Railway Company; and a crossing in Guilford Township, Franklin County, where Lighthouse Road crosses a single track of the Norfolk Southern Railroad Company at-grade.

In all three cases, the PUC’s Rail Safety Engineering Section was directed to evaluate whether the existing conditions at the crossings are adequate to effectuate the prevention of accidents and the promotion of safety of the public.

Under Pennsylvania statute, the PUC has exclusive jurisdiction over the alteration, construction, relocation, suspension and abolition of public highway-railroad crossings. The Commission’s Rail Safety Engineers oversee highway-railroad crossings throughout Pennsylvania – including approximately 5,600 at-grade crossings, where public roads cross railroad tracks; along with

3,200 bridge crossings, involving bridges carrying public roads over railroads; bridges carrying railroads over public roads; and bridges carrying railroads over other railroads.

RAIL SAFETY INITIATIVE – “DON’T TAKE ‘SELFIES’ ON RAILROADS TRACKS”

In May 2016 the PUC joined with railroad safety agencies across the country in warning Pennsylvania residents – especially younger social media fans – about the dangers of taking “selfies” while on train track, or engaging in other dangerous behavior around railroads.

The Commission noted a growing national trend involving people taking photos of themselves and friends in potentially hazardous locations, which can lead to tragic accidents. The safety outreach closely followed a January 2016 study which noted that railroad tracks rank as the world’s third most deadly place to take a selfie.

The PUC joined with Operation Lifesaver, Inc., a national nonprofit rail safety education group, and the Federal Railroad Administration (FRA), to highlight the national “See Tracks? Think Train!” safety campaign – intended to discourage people from taking photos or engaging in other potentially dangerous activities on or near train tracks.

HIGH-TECH TRACK INSPECTIONS REMAIN EFFECTIVE

PUC track inspectors continue to utilize the Track Geometry Car to reduce the risk of train derailments. The Track Geometry Car is a high-tech vehicle used to help inspect railroad tracks for rail structural deficiencies and irregular track geometry. The car is a part of the Federal Railroad Administration's (FRA) Automated Track Inspection Program (ATIP). ATIP utilizes state-of-the-art inspection cars with measurement systems that produce a load on the track and accurately (within .1 inch) records gauge, alignment and track surface. It also calculates limiting speed of trains. Through the use of advanced electronic sensing and data processing, the vehicle is able to collect track geometry data while traveling at speeds of up to 110 miles per hour. The data is compiled into reports, which indicate the track deficiencies and locations by GPS. The ATIP has increased the effectiveness and efficiency of the railroad safety programs for the industry and the PUC.

Rail inspections performed by visual means can only detect external defects, excessive wear and subtle signs of large, internal problems. Steel rails are vastly superior to those of years past, in both strength and wear qualities; however, defects still occur. With increased traffic at higher speed and with heavier axle loads, internal rail inspections are more important than ever before. New technology is available to "x-ray" the rails, looking for internal defects that may fail under a train. Ultrasonic and electromagnetic technology instruments are installed on inspection vehicles. These vehicles traverse the track at speeds up to 15 miles per hour, testing the rail for various kinds and percentage of failures. The FRA has established regulations requiring the use of this rail flaw detection technology on certain high-density and passenger lines. PUC inspectors ensure that the railroads in Pennsylvania are in compliance with this regulation.

OPERATION LIFESAVER

During Fiscal Year 2015-16, rail safety personnel attended several events across the state to promote [Operation Lifesaver](#), a nonprofit, national public-education program dedicated to eliminating collisions, deaths and injuries at



rail-highway crossings and on railroad rights-of-way. Operation Lifesaver strives to increase public awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

The program seeks to improve driver and pedestrian behavior by encouraging

compliance with traffic laws relating to crossing signs and signals. It also points out the dangers on railroad rights-of-way. Designated PUC employees provide Operation Lifesaver presentations to various groups, such as students, businesses and civic organizations. The Rail Safety Section's three trained volunteers also provide information concerning railroad safety at outreach events. The Rail Safety Section has the expertise with regard to engineering at highway-rail crossings, and participation in the program complements the division's goals for the prevention of accidents and the promotion of public safety.

2015-16 INSPECTIONS

- 23,557 railroad cars
- 486 locomotives
- 1,263 miles of railroad track
- 2,065 hazardous materials units
- 1,203 operating practices inspections

2015-16 ENGINEERING

- 144 formal proceedings processed
- 224 field meetings/inspections conducted
- 33 bridge projects approved at \$232 million
- 128 at-grade crossing projects approved at \$17.2 million
- 16 public utility municipal contracts approved



INFLUENT

PURGE SERVICE

WATER

PLANT CONTROL

WATER/WASTEWATER

The Commission regulates the rates and services of about 135 water and wastewater companies, including extraterritorial service in a number of municipal water and wastewater systems, and continues its oversight of the water affected by Marcellus Shale drilling and its supply. In Fiscal Year 2015-16, the Commission completed eight water and wastewater rate increase requests. The Commission notes an increase in water/wastewater applications for additional territory, abandonments, formation of new companies and mergers/acquisitions. The Commission completed 30 such cases during the fiscal year and anticipates an equal or higher number of cases to be processed during the upcoming fiscal year. In addition, 13 such cases were still working their way through the Commission's approval process at the end of the fiscal period. The Commission continues to implement a water audit program, which is intended to enhance the companies' tracking of levels of unaccounted-for water.

WATER AND WASTEWATER PLANT INSPECTIONS

Plant inspections are performed for several purposes: security audits, to ensure plant and consumer safety; management efficiency audits; random inspections, particularly if staff has not visited the company for a period of years; compliance issues; rate cases; miscellaneous investigations; and plant tours. To curtail expenses for both the Commission and the utility, the Bureau of Technical Utility Service and the Bureau of Audits coordinate schedules for joint inspections whenever possible. If utility violations are found, the utility is directed to correct the problem. If the problem is not corrected, Commission staff recommends appropriate action.

MERGERS & ACQUISITIONS/REGIONALIZATION

In reviewing mergers and acquisitions, the Commission works to ensure that customers are protected and the company is a viable public utility. The PUC gives each application a thorough and comprehensive review. In Pennsylvania, the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

During Fiscal Year 2015-16, the Commission finalized 11 mergers and acquisitions in the water and wastewater industry, mainly transfers of assets from municipalities. In addition, the Commission approved four applications for water/wastewater territory expansion. Many of the water/wastewater applications filed with the Commission are a form of regionalization. In general, regionalization is the consolidation of resources beyond recognized boundaries (townships, boroughs, city limits, municipalities, service territories, etc.). Regionalization typically results in a cost-effective solution or alternative that works to ensure system reliability and water/wastewater standards for companies or municipalities that may be unable to sustain on a stand-alone basis.

The Commission continues to promote water system viability and support regionalization efforts, through public statements and meetings with water company executives, to allow customers of smaller, troubled systems to receive improved service after being acquired by better-managed and financially stronger companies.

UNCONVENTIONAL WELL DRILLING

The Commission continues to monitor the concerns about the availability of water supplies required for Marcellus Shale gas development, as well as questions about the disposal of water used in hydraulic fracturing. The PUC stays current on all of the water-related situations/occurrences related to Marcellus Shale, while noting that the Department of Environmental Department (DEP) has primary jurisdiction in this area.

RATE INCREASE REQUESTS

During the fiscal year, the Commission concluded nine water/wastewater rate increase requests. Overall, the companies proposed annual increases equaling \$10,666,380, of which the Commission granted \$7,876,075, a reduction of 26.16 percent of the total amount requested:

ALLIED UTILITY SERVICES, INC. (WASTEWATER)

Customers Served: 300 in North Whitehall Township, Lehigh County
Requested Rate Increase: \$154,013 (61 percent)
Approved Rate Increase: \$80,018 (32 percent)
Primary Reason: To recover increased operation costs, maintenance and repair expenses.

APPALACHIAN UTILITIES, INC. (WATER)

Customers Served: 1,950 in Borough of Avis and the Townships of Pine Creek and Dunnstable, Clinton County
Requested Rate Increase: \$252,721 (46.28 percent)
Approved Rate Increase: \$212,000 (39.33 percent)
Primary Reason: To recover a reasonable rate of return and operating expenses.

CORNER WATER SUPPLY & SERVICE CORPORATION (WATER)

Customers Served: 2,605 in Paint Township, Clarion County
Requested Rate Increase: \$89,155 (27.25 percent)
Approved Rate Increase: \$52,000 (16.30 percent)
Primary Reason: Declining revenues.

DELAWARE SEWER COMPANY (WASTEWATER)

Customers Served: 38 in Delaware Township, Pike County
Requested Rate Increase: \$67,663 (285 percent)
Approved Rate Increase: \$43,557 (83.69 percent)
Primary Reason: To improve financial viability.

SANDS, INC. (WASTEWATER)

Customers Served: 78 in Franklin Park Borough, Allegheny County
Requested Rate Increase: \$32,160 (72.62 percent)
Approved Rate Increase: \$19,280 (40.5 percent)
Primary Reason: Improve equipment, regulatory compliance, and increased labor costs.

SCHUYLKILL HAVEN WATER DEPARTMENT (WATER)

Customers Served: 1,091 in Borough of Cressona and North Manheim Township, Schuylkill County
Requested Rate Increase: \$283,079 (34.9 percent)
Approved Rate Increase: \$230,966 (25.43 percent)
Primary Reason: To restore rate of return and net operating income to a reasonable level.

TWIN LAKES UTILITIES INC. (WATER)

Customers Served: 115 in Sagamore Estates, Shohola Township, Pike County
Requested Rate Increase: \$195,287 (257 percent)
Approved Rate Increase: \$138,468 (82.27 percent)
Primary Reason: To recover operating expenses; rate increase contingent on staged improvements over next three years.

UNITED WATER PA INC. (SUEZ WATER)

Customers Served: 58,948 in 39 municipalities in eight counties
Requested Rate Increase: \$9,592,302 (26.7 percent)
Approved Rate Increase: \$7,099,785 (19.76 percent)
Primary Reason: To recover costs of capital investments.

At the end of Fiscal Year 2015-2016, two rate increase requests totaling approximately \$446,000 were still pending before the Commission. The involved utilities are: Community Utilities of Pennsylvania, Inc. (\$427,817 – 40 percent); Templeton Water Company (\$18,365 – 50 percent). In addition, several other companies have informally advised Commission staff of their intent to file rate cases in the near future.

POLICY STATEMENT ON ACQUISITION INCENTIVES

The PUC continues to implement a longstanding policy on water and wastewater system acquisition incentives to promote water system viability and regionalization. The policy statement provides additional guidance for companies acquiring small, chronically challenged or otherwise troubled water systems, while ensuring fair treatment of customers. It also provides direction on when and how utilities interested in making an acquisition should prepare and submit original cost documentation that determines the appropriate value of the assets of an acquired system.

The Commission has a policy of encouraging well-operated water and wastewater utilities to regionalize or consolidate with smaller systems. The

limited resources — managerial, financial or technical — of these smaller systems can result in less-than-reliable service for consumers. The policy statement supports the Commission’s regionalization efforts.

MANAGEMENT AUDITS AND EFFICIENCY INVESTIGATIONS

The Commission periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the larger jurisdictional water companies. Among the MAs completed within Fiscal Year 2015-16 were:

Pennsylvania American Water Company – On March 17, 2016, the Commission released a report on the Focused Management and Operations Audit of the Pennsylvania-American Water Company that contained 38 recommendations to improve company efficiency. In its implementation plan, the company indicated acceptance of 29 recommendations, partial acceptance of eight recommendations and rejection of one recommendation. Implementation of the audit recommendations could result in annual savings of \$3.6 million and one-time savings of \$2.1 million.

AUDITING EMERGENCY RESPONSE PLANNING

The Commission requires companies to certify that their physical, cybersecurity, emergency response and business continuity plans are current. In previous years, the PUC found deficiencies in several of the certified plans that had to be corrected to comply with Commission requirements. In March 2006, the Commission initiated an audit program to ensure that all water utilities’ emergency response plans are current and in compliance with all applicable laws and regulations, including cyber and physical security, along with business continuity. During Fiscal Year 2015-16, emergency response plans were audited for six of the larger utilities (i.e., water, electric, and natural gas companies) of which one was of a water company during the course of routine management audits and management efficiency investigations.

WATER AND WASTEWATER SYSTEM VIABILITY

Pennsylvania has more than 2,200 community drinking water systems, many of which are small water systems serving fewer than 3,300 consumers. The PUC regulates the rates and service of about 135 water and wastewater companies. Most were built decades ago, and a number now face operational, technical and financial challenges that could affect customer service.

Many small water and wastewater systems have varying degrees of operational constraints that impact their viability. Operational constraints inherent to small systems typically include: compliance problems; limited technical and managerial expertise; lack of capital for improvements with a limited ability to borrow at reasonable rates; deferred maintenance; deteriorated and undersized infrastructure; and minimal sources of supply or storage. A viable water/wastewater system is one that is self-sustaining and has the financial, managerial and technical capabilities to reliably meet both PUC and DEP requirements on a long-term basis.



The Commission’s Small Water Company Task Force meets quarterly with other state agencies to identify and initiate assistance to small water companies that are in distress from financial, operational or regulatory issues. In addition to providing support to companies in distress, the task force also seeks to develop preventative measures to keep small water companies from lapsing into distress.

ACQUIRED WATER AND WASTEWATER SYSTEMS

Section 1329 of the Public Utility Code at Title 66 became effective June 13 and addresses the valuation of the assets of municipally or authority-owned water and wastewater systems that are acquired by investor-owned water and wastewater utilities or entities. For ratemaking purposes, the valuation will be the lesser of the fair market value or the negotiated purchase price. Section 1329 also allows the acquiring entity’s post-acquisition improvement costs that are not recovered through a distribution system improvement charge (DSIC) to be deferred for book and ratemaking purposes. On July 21, 2016, the Commission adopted a Tentative Implementation Order, which proposed the procedures and guidelines to address the application process and carry out the ratemaking provisions of Section 1329. The Tentative Implementation Order shall be in effect in the interim until a Final Implementation Order is issued. Comments were solicited to the Tentative Implementation Order and are under review.

EPRO - Pennsylvania Public
Utility Commission
Black Sky Exercise

June 3, 2011
Pennsylvania Public Utility Commission
Harrisburg, PA



EPRO

EIS



Jim O'Shea
EIS Technical Support

Greg Dudkin
PPL Electric Utility

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MULTI-UTILITY ISSUES

The Commission deals with many issues that cross the boundaries of specific utilities. Many times these are issues where the PUC has applied best practices across utility areas to achieve safe and reliable service for customers.

CYBERSECURITY AND CRITICAL INFRASTRUCTURE SECURITY

As an agency helping to lead discussions about cybersecurity and physical security of critical systems, the PUC continues to stress the crucial need for cooperative and collaborative efforts to not only protect infrastructure, but also to position ourselves for swift recovery in the event of an emergency. The PUC works to be a conduit and facilitator of information between utility industries and state and federal government agencies – breaking down silos to ensure that important information concerning escalating cyber threats and improved best practices can be shared.

In June 2016, the PUC and Office of the Governor hosted a “Black Sky” tabletop exercise, bringing together key stakeholders in government, utilities and nonprofit organizations to discuss state-level response to large-scale, hazardous events. Gov. Tom Wolf attended the event and addressed the more than 130 participants, representing state and federal government agencies; neighboring state utility commissions; military and law enforcement agencies; utility companies; emergency-response organizations; nonprofit organizations and local governments.

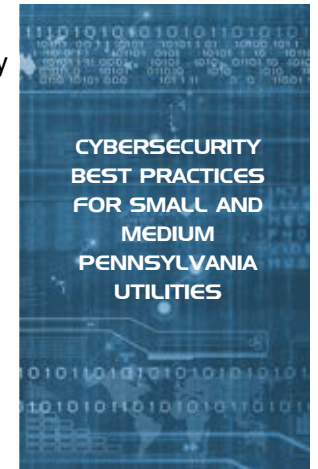
“Many organizations test emergency plans, but rarely do they prepare for a multi-faceted incident quite like a Black Sky event,” said Governor Wolf in his remarks at the event. “Such an event would have an extraordinary impact on our society, causing power and service outages that could last days, weeks, even months.”

The PUC, state agencies, and utilities plan to continue to work on the issues identified during the “Black Sky” exercise through future meetings and discussions.

Earlier in the year, in November 2015, the Commission brought together stakeholders from state, federal and local agencies, along with utilities and private sector organizations, for a public discussion about ongoing efforts to address cybersecurity. The event stressed the integral role that utility infrastructure and systems play in our daily lives, and the interconnected nature of water, electricity, natural gas, transportation and communications services.

Additionally, the second edition of the PUC’s [Cybersecurity Best Practices for Small Medium Pennsylvania Utilities](#) was released – serving as a guide to help utilities prevent identity or property theft; manage vendors and contractors who may have access to a company’s data; learn more about anti-virus software, firewalls and network infrastructure; protect physical assets, such as a computer in a remote location or a misplaced employee device; respond to a cyber-attack and preserve forensic information after the fact; report incidents; review potential benefits of engaging a law firm in advance of a breach; and identify federal cyber incident resources.

The Commission also works through a multi-state collaborative with its neighboring states and an internal cybersecurity working group, as well as the Critical Infrastructure Interdependency Working Group (CIIWG). The PUC also continues information-sharing on this important subject with the Mid-Atlantic and National Regulatory Utility Commissioners organizations.



ALTERNATIVE UTILITY RATEMAKING METHODS

On March 3, 2016, the Commission hosted a Harrisburg hearing to gather information from a diverse group of experts regarding alternative ratemaking methodologies, as part of ongoing discussions about how to best maintain safe and reliable energy infrastructure while also encouraging utilities to push forward with more aggressive energy efficiency and conservation programs.

Ratemaking alternatives, such as revenue decoupling, could involve making consumer charges less dependent on usage. Decoupling advocates suggest that decoupling removes possible disincentives for greater energy efficiency by utilities because utility revenues are no longer directly linked to the volume of electricity or gas sold.

The panels reflected perspectives from experts in alternative ratemaking, energy efficiency, consumer organizations, industrial customers and utilities, who addressed a number of issues concerning alternative rate design, including:

- Whether revenue decoupling or other similar rate mechanisms encourage utilities to better implement energy efficiency and conservation programs;
- Whether such rate mechanisms are just and reasonable and in the public interest; and
- Whether the benefits of implementing such rate mechanisms outweigh any costs associated with implementing the rate mechanisms.

COMBINED HEAT AND POWER TECHNOLOGY



On February 25, 2016 the Commission approved a joint motion proposing a Policy Statement related to combined heat and power (CHP) technology and increasing development among Pennsylvania's regulated electric and natural gas distribution companies.

CHP is a form of distributed energy, located at or near a building or facility, which provides at least a portion of the electrical load and uses thermal energy for space heating or cooling, process heating or cooling, refrigeration or dehumidification. The Commission's motion noted that CHP is an efficient means of generating electric power and thermal energy from a single fuel source, providing cost-effective energy services to commercial businesses like hotels, universities and hospitals – while also improving manufacturing competitiveness, reducing greenhouse gas emissions, reducing energy costs and enhancing reliability for the user.

The Policy Statement is intended to:

- Promote CHP investments;
- Encourage electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) to make CHP an integral part of their energy efficiency and resiliency plans, as well as their marketing and outreach efforts;
- Encourage these companies to design tariffs relating to interconnection and standby rates for owners and operators of CHP facilities; and
- Promote the consideration of special natural gas rates for owners and operators of CHP facilities.

Additionally, on Jan. 21, 2016, PUC Chairman Brown, on behalf of the Commission, signed a partnership agreement with the U.S. Department of Energy's (DOE's) Better Buildings Initiative. Specifically, the PUC's partnership agreement pertains to the CHP for Resiliency Accelerator program, which was launched by DOE to support and expand the consideration of CHP solutions by states, communities and utilities for their infrastructure needs.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGES

Act 11 of 2012 allows jurisdictional water and wastewater, natural gas and electric utilities to petition the Commission for approval to implement a distribution system improvement charge (DSIC) to fund infrastructure upgrades. Under the law, the DSIC must be designed to provide for "the timely recovery of the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable services."

Since the passage of Act 11, the PUC has approved DSIC surcharges for 10 Pennsylvania utilities, including one electric distribution company, six natural gas distribution companies, one city natural gas distribution system, and two wastewater companies. Additionally, the Commission has approved DSIC surcharges for seven water companies.

EFILING & ELIMINATION OF PAPER COPIES



During the fiscal year, eFiling continued to gain popularity as more and more parties used electronic filing over traditional paper filings. eFiling also allows users to pay PUC filing fees via the website using a credit card.

The list of “qualified documents” designated by the Commission for eFiling is constantly being expanded to allow more document types to be e-Filed. The Commission actively encourages those who do business with the Commission to eFile, offering a how-to online tutorial and in-person training. In 2015, eFilings rose to more than 40 percent of all filings. The PUC has developed a Quick User Guide to educate interested parties more about our eFiling system in order to increase its use. A link to the eFiling system is available from the PUC website, which includes instructions on how to set up an account, access the users’ guide and preview the system.

With eFiling and the PUC’s internal case management system, InfoMAP, the Commission is finding that additional paper copies are now obsolete. As a result, the Commission has issued rulemakings and secretarial letters to eliminate additional copies currently required by our regulations. All of these actions are cost-saving measures, and allow the PUC to save 22 boxes of paper a month.

BIOSECURITY PRACTICES TO ADDRESS AVIAN FLU CONCERNS

As part of a joint outreach with the Pennsylvania Department of Agriculture, the PUC urged utilities and their truck drivers to understand and practice biosecurity measures when operating on or near poultry farms in order to help safeguard against the outbreak of avian influenza.

According to agriculture officials, highly pathogenic avian influenza (HPAI) has not yet been detected in Pennsylvania, but outbreaks have been moving closer and there is a great concern that it may appear in our state this year. Equipment and people that travel from farm to farm may inadvertently spread the virus. While the HPAI virus does not pose a threat to human health, it could have a devastating impact on the state’s \$13 billion poultry industry.

The PUC urged utilities to take this issue seriously, underscoring the Pennsylvania Department of Agriculture request that all farm service businesses – including utilities – use heightened biosecurity practices when operating around poultry farms.

UTILITY IMPOSTER AWARENESS

The Commission joined the [Keystone Alliance to Stop Utility Imposters](#), a coalition of local water, gas and electric utilities, along with the Pennsylvania District Attorneys Association and Pennsylvania Chiefs of Police Association to launch a public awareness campaign about criminals impersonating utility workers to gain access and rob homeowners. Across Pennsylvania, thieves have gained access to residents’ homes by posing as utility workers. Once inside the home, the imposters typically divert the resident’s attention by sending him/her to another floor while they or an accomplice robs the home. The Keystone Alliance to Stop Utility Imposters was formed to educate consumers on how to protect themselves via a new public awareness campaign with print, broadcast and online media advertisements.



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