ANNUAL REPORT

PENNSYLVANIA
PUBLIC UTILITY COMMISSION

OUR MISSION

The Pennsylvania Public Utility Commission balances the needs of consumers and utilities to 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.

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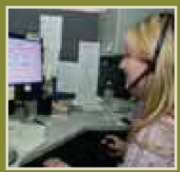






Chairman James H. Cawley


Vice Chairman Tyrone J. Christy


Commissioner John F. Coleman Jr.


Commissioner Wayne E. Gardner


Commissioner Robert F. Powelson

The Honorable Edward G. Rendell
Governor of Pennsylvania

The Honorable Joseph Scarnati
Lieutenant Governor of Pennsylvania

Members of the General Assembly

We are pleased to submit the 2009-10 Annual Report for the Pennsylvania Public Utility Commission. As required by Section 321 of the Public Utility Code, 66 Pa.C.S § 321, this report highlights the accomplishments and challenges faced in fulfillment of our traditional mission as regulators and protectors of the public interest, and the new roles demanded by the changing utility marketplace. In the 21st century we are utility regulators, but also market monitors, consumer protectors, advocates, educators and promoters of new technology and economic development.

This fiscal year began one of the biggest tests during the electric restructuring transition. Another 25 percent of the state's electric customers joined the already 15 percent of customers whose rate caps expired and are now paying market-based rates. We continue to work with the administration and legislature to mitigate the impact of the increases in electricity prices while striving to educate consumers. We continue to promote the importance of retail choice; energy efficiency and conservation; and programs to help consumers pay their bills. The Commission continued wide-reaching efforts to work with consumers to create an understanding of the energy environment in Pennsylvania and to empower them to take responsibility for their energy usage. PAPowerSwitch.com was created by the Commission to ensure that consumers have the necessary tools at their fingertips to make informed decisions about choosing an electric supplier.

The enactment of Act 129 of 2008, requiring the state's seven largest electric distribution companies to develop energy efficiency and conservation plans, smart meter plans, as well as encouraging consumers to adopt other methods of reducing their electric consumption, mandates that the Commission implement and enforce its provisions. We continue to meet or exceed all of the accelerated deadlines for implementation of Act 129 and will continue to work diligently to ensure the timely implementation of the remaining elements of the plans, while monitoring compliance with the law.

The Commission also moved forward with an action plan designed to enhance competition in Pennsylvania's retail natural gas services market. That action plan, being implemented in two phases, will be completed within two years, and will be subject to five-year milestone reviews to evaluate its progress. Another area of activity in natural gas includes Marcellus Shale development, which creates numerous issues and unanswered questions, many of which impact the Commission's core functions. We have begun a dialogue to examine these questions sooner, rather than later, so that the Commission can fully protect the public while not stifling economic growth. In addition, the Commission continues its efforts to promote gas safety within the Commonwealth.

Our Information Management Access Project – InfoMAP – significantly improved our electronic workflow capability and provided more efficient access to Commission information by consumers, utilities and practitioners through implementation of electronic filing and other e-commerce initiatives.

COMMISSIONERS' LETTER

In Fiscal Year 2009-10, we continued to refine the application of three comprehensive laws that represented sweeping changes to the way energy and water utilities terminate customers; electric utilities and their consumers employ the use of alternative energy sources for generation; and telephone companies are regulated and deploy high-speed Internet services across Pennsylvania.

Also, the federal government, through the Federal Energy Regulatory Commission and the Federal Communications Commission, is playing an increasingly active role in the delivery of energy and telephone service in Pennsylvania. We have, therefore, augmented our intervention, monitoring and activism related to these issues to protect the interests of Pennsylvania consumers.

With the development of the water audit pilot program, the Commission continues to aid water utilities in monitoring levels of unaccounted-for water, providing an efficient and uniform structure to help those companies calculate loss volumes, assign cost impacts to the losses, help to advance infrastructure reliability, preserve water resources, lessen water leakage, and increase customer service.

As required by Act 183 of 2004, the Commission continues to oversee the implementation of an alternative form of regulation for telecommunications service providers within Pennsylvania. The Commission also exercises its oversight and enforcement responsibilities over the regulated intrastate telecommunications services market under applicable state and federal law. The state's aggressive broadband deployment initiatives, requiring every Pennsylvanian to have access to broadband services in even the most rural areas, also continues.

By speaking to groups about paratransit services statewide, while enhancing supervision of the motor coach, taxi and limo industries, we stress the importance of safety in transportation through public outreach. We increased our motor carrier enforcement presence in the five-county area of northeastern Pennsylvania connected to the Marcellus Shale geologic formation. The PUC also worked to complete railroad safety efforts in the Commonwealth, including safety inspections and investigation of railroad facilities, equipment and records.

We continue with our mission to balance the needs of consumers and utilities to 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. We stand ready to meet the challenges in the coming year.

JAMES H. CAWLEY Chairman	TYRONE J. CHRISTY Vice Chairman	JOHN F. COLEMAN JR. Commissioner	WAYNE E. GARDNER Commissioner	ROBERT F. POWELSON Commissioner

INTRODUCTION

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

With the restructuring of Pennsylvania's electric, natural gas and telecommunications industries, the Commission's role also is to oversee that transition and to educate customers so they may make informed choices.

Under the law, utilities are entitled to the opportunity to earn fair rates of return. The PUC recognizes that it is in the long-term public interest to permit a strong financial climate for investment in public utilities. By allowing a fair return to investors, companies can attract capital to provide and improve services for all customers.

Organization

The Commission is comprised of five full-time members nominated by the Governor for staggered five-year terms. The nominations must be approved by a majority of the state Senate. The Commissioners set policy on matters affecting utility base 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 2009-10, 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 of certain Commission proceedings, forms, applications and summaries of public meetings, is available at www.puc.state.pa.us.

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 and taxicab; pipeline transmission of natural gas; and public highway-railroad crossings. Municipal utility service is exempt from PUC regulation, with the exception of services furnished beyond a municipality's corporate boundaries. Rural electric cooperatives, school buses, bottled water, heating oil, cable television, Internet service providers and wireless telecommunications services also are exempt from PUC regulations.

The Commission is funded by assessments of the regulated public utilities. The PUC may assess utilities up to three-tenths of 1 percent of gross intrastate revenue to cover the cost of regulation. Assessments are paid into the state Treasury's General Fund for use solely by the Commission.

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

The PUC also works diligently to ensure an effective transition to competitive markets in the electric, natural gas and telecommunications industries. The move toward competitive electricity markets through the passage of the 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."

Although the natural gas and electric supply 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.

The state is nearing the end of the transition period for the restructuring of electric utilities. As part of an overall strategy for preparing consumers for increases in electricity supply costs, the Commission has established regulations and policy statements that set the rules for default service for electric generation. The PUC has engaged consumer advocates and industry experts in efforts to mitigate any increases in future electric generation prices. The PUC has been working to educate consumers; develop strategies to remove barriers for suppliers providing competitive electric service; approve phase-in or pre-payment plans and direct all utilities to file such programs if electric rates increase by more than 25 percent; update low-income programs that provide customer assistance; and implement default service pricing that reflects the least cost to consumers over the long term. The PUC also is continuing to implement reasonable, cost-effective programs that consumers and companies can implement to conserve energy or use it more efficiently.

Over and above 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 and 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 a toll-free number and speaking with the PUC's Bureau of Consumer Services. Trained customer service representatives help to resolve billing and quality of service issues, establish payment plans or restore service. The toll-free number is 1-800-692-7380.

Rates

In order to provide economical and efficient service to Pennsylvania communities, the state grants electric distribution, natural gas distribution, steam heat, local telecommunications, water and wastewater companies the right to provide their service within a specified geographic area. History shows and economics dictate that the construction of energy and water distribution facilities by multiple utilities in the same location would be extremely costly and disruptive to communities. The utility is then regulated by the PUC to assure just and reasonable rates for safe and adequate service.

Competition is permitted in the supply of electricity and natural gas. Charges for the supply of electricity and natural gas by licensed competitors are not regulated and are based on market prices. The PUC exercises no jurisdiction over those market prices. Some electric utilities are operating under negotiated generation rate caps for supply services. All of those rate caps expire on Dec. 31, 2010. The prices for the delivery through the distribution system of electric and natural gas continue to be regulated by the PUC.

Competition also is permitted for telephone service. Most incumbent local telephone companies operate under a price stability formula that limits their ability to seek rate and revenue increases based on the rate of inflation and other factors. The rates for competitive local exchange carriers that are competing against the incumbent local telephone companies also require PUC approval. Legislation passed in 2004 categorized interexchange carrier services, such as long-distance toll, as competitive and subject to permissive tariffs. The long-distance company has the option of maintaining a tariff on file with the Commission or operating without a tariff subject to state contract law.

Filing for a Fixed Utility Rate Increase

When a regulated utility, other than telecommunications providers, seeks a distribution rate increase, it must file a request with the PUC that shows the proposed new rates and effective date, and must prove that the increase is needed. The utility also must notify customers at least 60 days in advance of the filing of the proposed effective date. The notice must include the amount of the proposed rate increase, the proposed effective date and how much more the ratepayer can expect to pay.

A handful of incumbent local exchange carriers have simplified ratemaking plans, similar to the regulatory regimes described above. However, a general rate increase for telecommunications utilities follows a different path due to the more advanced state of competition. Major rate revisions for incumbent local exchange carriers under price cap regulation are subject to a rate ceiling for residential dial tone, an inflation formula, and company-specific criteria and filing deadlines ranging from a 30-day Commission review period to a 90-day Commission review period. Competitive local exchange carriers, long-distance toll providers, and competitive access providers may file rate revisions under either a one-day or a 30-day notice period, depending on the type of filing.

How Are Rates Set?

The standard ratemaking process ensures the lowest reasonable rate for consumers while maintaining the financial stability of utilities. Under the law, the utility has the opportunity for recovery of its reasonably incurred expenses and a fair return on its investment. The PUC evaluates each utility's request for a rate increase based on those criteria.

How Long Does It Take?

By operation of law, the rate request for electric, natural gas, steam heat, water or wastewater companies may be suspended for up to seven months if the PUC does not act before the proposed effective date. The PUC uses that time to investigate and determine what, if any, portion of the requested increase is justified. During the investigation, hearings are held before an Administrative Law Judge (ALJ), at which the evidence in support of the rate increase is examined and expert witnesses testify. In addition, consumers are offered an opportunity to voice their opinions and give testimony. Briefs may be submitted by the formal parties. A recommendation to the PUC is made by the ALJ. Finally, the matter is brought before the Commissioners for a vote and final decision. Including the 60-day notice period, the rate increase process can take about nine months.

Hearings and Recommendations

When the PUC investigates a rate increase, it is assigned to an ALJ, who is an attorney with experience in administrative law. The ALJ presides at formal hearings, which are open to the public and conducted like a formal court proceeding.

At the formal hearing, the company, the PUC's Office of Trial Staff (OTS) and other parties such as the state's Office of Consumer Advocate and the state's Office of Small Business Advocate present evidence, and their witnesses are subject to cross-examination. OTS reviews the company's records and requests, and presents its view regarding what is in the public interest.

Individual ratepayers may become formal parties by filing a formal complaint. Ratepayers may speak for themselves, or an attorney may represent individual ratepayers or groups of ratepayers. Consumers also can have their say informally by writing or calling the PUC, or by testifying at a public input hearing, which may be conducted by the ALJ in the utility's service territory. By providing testimony, consumers place their views in the official file on the case. Consumer testimony becomes part of the record on which the PUC will base its decision.

After weighing the evidence and hearing the arguments, the ALJ writes a recommended decision addressing each issue in the case within the limits set by law. The recommended decision may approve, disapprove or modify the original request. Parties may file exceptions to the judge's decision. Subsequently, reply exceptions may be filed. Sometimes, rate cases are resolved after all of the parties reach a settlement on the issues. The entire matter is then sent to the Commissioners for a vote at a public meeting.

Final Order

The Commissioners make the final decision, authorizing rates that: (1) permit revenues that allow the company to meet its reasonable expenses, pay interest on its debt and provide a fair return to stockholders so it will continue to attract investment; and (2) assign the proper rate for residential, commercial and industrial customers that attempts to reflect the cost of service. The Order has the weight of law unless the PUC changes it in response to a petition for reconsideration, or it is successfully challenged in court.

Ratepayer Role

By law, ratepayers must pay for the service they use, which includes a share of the reasonable cost of utility company expenses such as operating and maintenance expenses, administrative expenses, depreciation and taxes. While the ratemaking process is complex, consumers have the right to be informed about the process, receive an explanation of their utility bills, have their complaints addressed in a prompt and fair manner, and receive continuous utility service if payment responsibilities are met.

Consumers have a right to participate in the ratemaking process and can do so by filing an informal complaint, which can include attending and/or testifying at a public input hearing. They also can file a formal complaint or complete an objection and comment form for rate cases. Forms and additional information about filing a complaint or an objection are available at www.puc.state.pa.us.

Public Access, Information

The Commission deals with many issues that cross the boundaries of specific utilities. Those issues where significant changes occurred are highlighted below:

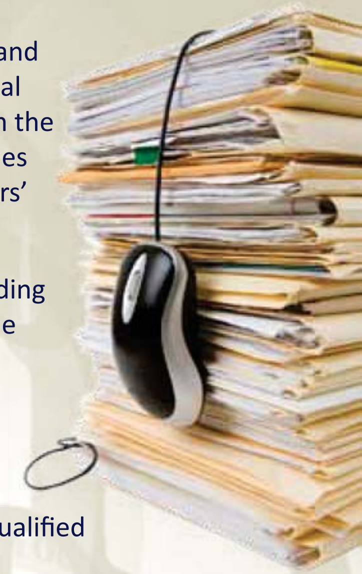
InfoMAP

An enhanced website search engine and an improved case management system have shaped a PUC that is more accessible than ever. The leading factor in this is the implementation of a new case and document management system – InfoMAP (Information Management and Access Project). The legislature provided funding for the replacement of the PUC computer system that dated from the late 1970s. InfoMAP automates workflows, reduces reliance on paper copies and improves public access to PUC information.

InfoMAP overhauled the PUC's case management system, improving the Commission's docketing, tracking and sharing of information. It also provides a single entry point to submit and access information, initiate transactions, and conduct business, thereby permitting electronic filings and giving the public electronic access to information filed with and produced by the PUC. InfoMAP went live in January 2008, and immediately the paper flurry within the Commission was significantly reduced.

Since the implementation of InfoMAP, access by external users to information maintained by the PUC has improved significantly, with most filings being eFiled or scanned and published to the website. This means interested parties can view filings made with the PUC online instead of coming to PUC offices to review paper files.

eFiling



During the fiscal year, eFiling gained popularity as more and more parties turned to filing electronically over traditional paper filings. A link to the eFiling system is available from the PUC website at www.puc.state.pa.us. The website includes instructions on how to set up an account, access the users' guide and preview the system.

On Feb. 17, 2009, the PUC began allowing all users including consumers, utilities and practitioners to begin eFiling. The widespread availability of eFiling was the latest step in creating a more open and transparent PUC.

eFiling also allows users to pay PUC filing fees via the website using a credit card. Only "qualified documents," designated by the Commission, are eligible for eFiling. Qualified documents include:

- Applications
- Formal complaints
- Comments
- Exceptions;
- Reply exceptions
- Petitions
- Rate filings
- Security certificates
- Supporting documents such as briefs, reply briefs and motions

Public Meeting Summary

In fall 2008, the Commission began publishing summaries of each public meeting. In keeping with the mission to create a more open and transparent PUC, the summaries are designed to provide an overview of the action at each Commission Public Meeting. The summaries contain a brief overview of the cases considered, motions and final decisions. In Fiscal Year 2009-10, the Commission issued 24 summaries, which are posted on the PUC website and emailed to members of the legislature.

Multi-Utility Issues

Annual Assessment Report Review

The Commission conducted a review of selected fixed utility and motor carrier Annual Assessment Reports. The Annual Assessment Report requires public utilities to submit operating revenues, including "total gross operating revenues" and "gross intrastate revenues" utilized to determine each public utility's appropriate annual assessment.

Fixed Utilities

During the prior fiscal year, 21 fixed utilities' Annual Assessment Reports representing operating revenue activities for 2008 were reviewed. Based upon these reviews, the filing instructions for the assessment report and the annual report line item presentation for intrastate revenues were revised. These revisions will provide for more uniform reporting and ease in future reconciliations and reviews.

Motor Carrier Utilities

The review of assessable revenues within this industry includes verification of "excludable" revenues requiring an on-site visit. The PUC visited six motor carriers selected for 2008 revenue review and issued its report for each of the companies. Based upon these initial reviews, the PUC will continue to conduct five to six annual reviews of selected motor carrier Annual Assessment Reports. In addition, the definition for several exemptions were expanded and more clearly defined in the Annual Assessment Report instructions.

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, the future reviews may provide the Commission 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.

Homeland Security & Emergency Preparedness

When it comes to emergency preparedness and security, the Commission has a direct support relationship with the Pennsylvania Emergency Management Agency (PEMA) and other Commonwealth agencies and commissions.

During emergencies, a Commission team mobilizes at the Pennsylvania State Emergency Operations Center (SEOC) in Harrisburg. The PUC Emergency Management Response Team (ERT) under the direction of the Emergency Preparedness Coordinator provides assistance to utilities responding during an emergency, and coordinates with other state agencies to ensure that all available resources are being used. Its primary goal is to quickly and effectively meet the needs of those responding to an emergency. The team also makes sure a clear line of communication is available from the utilities to the PUC, PEMA, the Governor and his staff, as well as other Commonwealth agencies and commissions.

The Commission also has liaisons from its bureaus of Fixed Utility Services, Transportation and Safety, and the Office of Communications, who act as round-the-clock contacts for PEMA for utility-related emergencies on an ongoing basis. The PUC also has a seat on the Commonwealth Emergency Management Council.

The ERT responded to mobilizations at the SEOC in February 2010 due to significant snow in Southwestern and Southeastern Pennsylvania, which caused electrical outages as well as transportation issues. In addition, throughout the stormy winter and summer months, the Emergency Preparedness Coordinator participates in conference calls and emergency meetings with PEMA, the National Weather Service, and other Commonwealth agencies and commissions to discuss the preparedness of the utilities and the ERT for the potential effects of an anticipated storm.

The Commission also works with the utility industry, state agencies and other stakeholders through several task forces and working groups, including the Drought Task Force, Pennsylvania One Call, Commercial Vehicle Safety Alliance, Federal Railroad Administration, Pennsylvania Water/Wastewater Agency Response Network (PAWARN), 9-1-1 Task Force and several National Association of Regulatory Utility Commissioners (NARUC) committees. The Commission has developed relationships with the nine regional counter-terrorism task forces, and acts as a liaison among the utilities and county emergency management agencies when necessary.

The Commission ERT has undergone Homeland Security sponsored training, and is certified in the National Incident Management System (NIMS) and the National Response Framework. Throughout the year, the ERT participates with PEMA on developing and executing several training exercises, including winter weather drills and nuclear power facility emergency exercises.

The Commission also has developed a program to have all applicable Commission staff trained in NIMS. The Commission is NIMS compliant for Fiscal Year 2009-10 and will continue to maintain compliance for future years as requirements are updated and staff changes.

The Commission also has in place a self-certification regulation that requires each regulated utility to certify in an annual filing that it has reviewed its physical security, cyber-security, emergency and business continuity plans, as well as conducted tests or drills of these plans. This regulation followed a recommendation from the PUC's investigative report on House Resolution 361.

Weatherization Training

On Jan. 14, 2010, the PUC sought comments on a proposal to explore whether electric and natural gas utilities that conduct weatherization audits would benefit from training certifications already required for workers participating in the federally funded Weatherization Assistance Program (WAP).

A uniform set of standards to qualify energy efficiency and retrofit workers would establish the foundation of consumer confidence that work will be completed correctly and produce the expected energy savings and benefits.

Interested parties were asked to comment on the current training required by the electric and gas utility companies of its employees and contractors that conduct weatherization audits, as well as the impact on companies' existing Low Income Usage Reduction Programs (LIURP).

Additionally, the Commission sought comments on the impact, both cost and programmatic, of any such change in the training certification on the previously approved Act 129 plans of the electric distribution companies.

In August 2009, the Pennsylvania Department of Community and Economic Development (DCED) issued Pennsylvania's Weatherization Plan pursuant to The American Recovery and Reinvestment Act (ARRA). Pennsylvania received $252.8 million for Pennsylvania's WAP in addition to the normal WAP budget of $37.9 million. WAP is designed to help low-income households decrease energy consumption and costs. These resources will enable the Commonwealth to achieve greater energy independence and help vulnerable residents by reducing their energy bills.

Under new requirements developed jointly by the Pennsylvania Department of Labor and Industry and the DCED, all workers participating in the federally funded WAP must be certified. According to DCED, in order to become a certified weatherization worker, individuals must be trained by a Pennsylvania Certified Weatherization Instructor. In addition to WAP, each large jurisdictional electric and gas utility has a LIURP (or similar program), which helps low-income residential customers lower the amount of electricity or natural gas used each month. Typically, the company will install energy saving features in the home to help reduce bills.

COMMISSION'S BUDGET

Executive Government Operations

General Government Fund

General Government Fund	General Fund Estimated 2009-10 Expenditures	General Fund Approved 2010-11 Budget
State Funds:		
Personnel	$41,527,000	$44,850,000
Operating	10,934,000	11,033,000
Fixed Assets	120,000	120,000
Total State Funds	**$52,581,000**	**$56,003,000**
Federal Funds:		
Personnel	$2,420,000	$3,220,000
Operating	969,000	1,037,000
Total Federal Funds	**$3,389,000**	**$4,257,000**
Total Commission Budget:	**$55,970,000**	**$60,260,000**

Other Revenue Sources

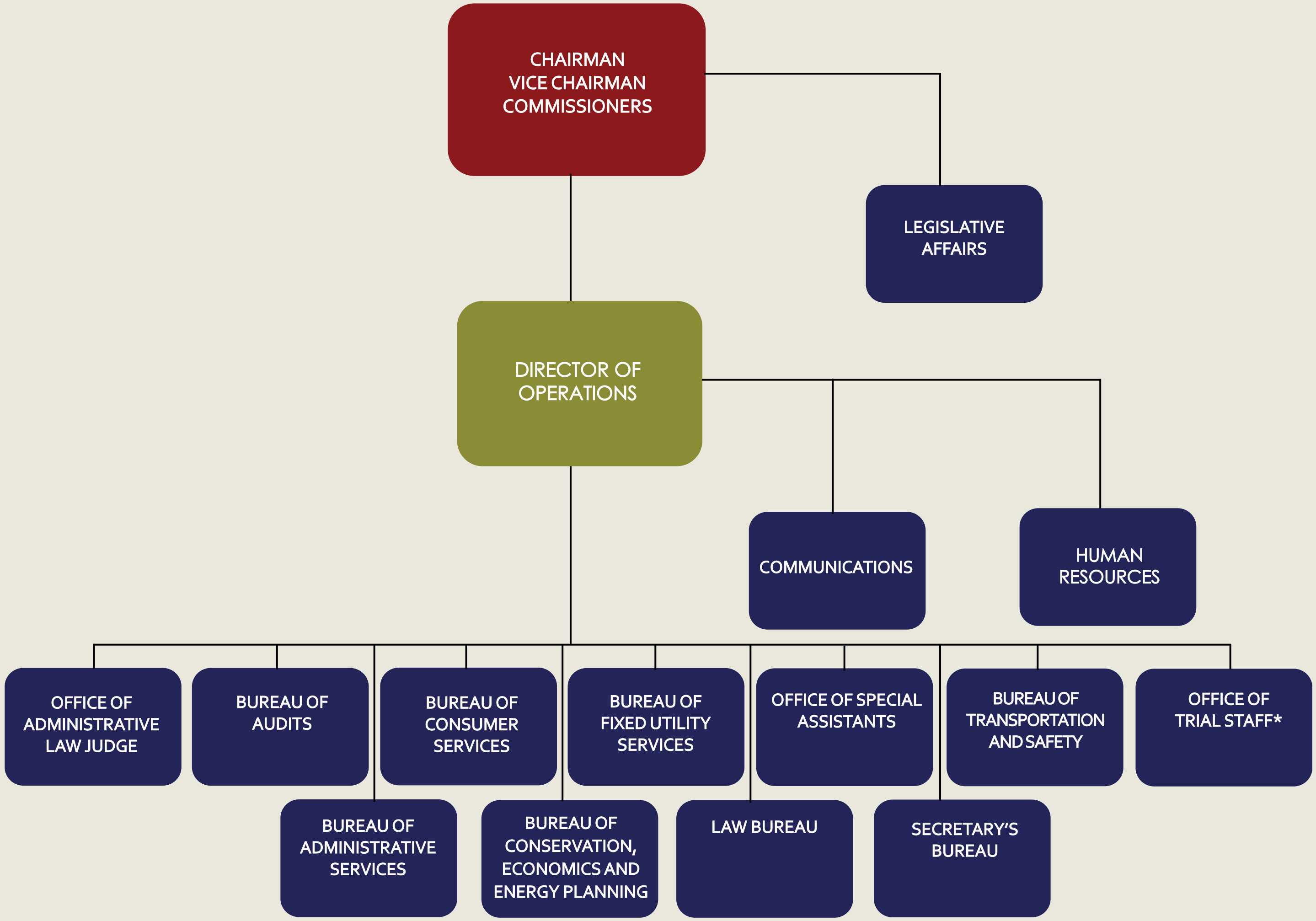
	2008-09 Receipts	2009-10 Receipts
Filing & Copy Fees	$196,686	$196,937
Electric Generation Application Fees	-	33,950
Fines	148,958	373,118
Federal - Gas Pipeline Safety	510,094	793,520
Federal - Motor Carrier (MCSAP)	818,718	712,498
Total	**$1,674,456**	**$2,110,024**

2009-10 Application Fees, Filing & Copy Fees & Fines

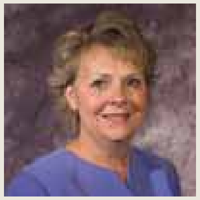
	Electric Generation Application Fees	Fines	Filing & Copy Fees	**Total**
1st Quarter	$5,600	$43,693	$30,870	**$80,163**
2nd Quarter	13,650	76,811	61,002	**$151,463**
3rd Quarter	8,050	125,185	45,852	**$179,087**
4th Quarter	6,650	127,429	59,213	**$193,292**
Total	**$33,950**	**$373,118**	**$196,937**	**$604,005**

** Numbers may not total due to rounding.*

ORGANIZATIONAL CHART

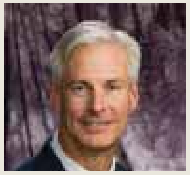


*The Director of Operations has the responsibility for the Office of Trial Staff only with regard to administrative matters.



Karen Moury
Director of Operations

The Office of the Director of Operations is responsible for the day-to-day administration and operation of the bureaus and offices within the Commission, including: goals and objectives; organizational structures; staff selection and training; performance standards; assignments to bureaus; and coordination of multi-bureau projects. The Office is comprised of the Director of Operations, administrative support staff, and the offices of Communications and Human Resources. The Office of Communications handles media relations, consumer education and employee communications. The Human Resources Office handles all personnel issues, and provides administrative and advisory services to all PUC management.



Kevin Hoffman
Director of Human Resources

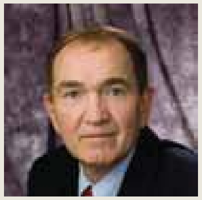
Tom Charles
Manager of Communications

Robert C. Gramola
Director of Administrative Services

The Bureau of Administrative Services is responsible for the preparation of the Commission's budget, collection of assessments, various fiscal operations, processing of contracts, information and technology functions, and office services. The Bureau also provides support to the Director of Operations for administrative matters in the Commission's daily operation. Mail distribution, inventory control, automotive and travel-related services also are handled through this department. The Bureau is comprised of assessment, fiscal, management information and office services.

Charles E. Rainey Jr.
Chief Administrative Law Judge

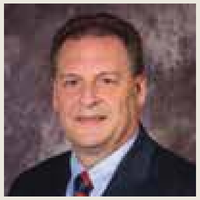
The Office of Administrative Law Judge fulfills a judicial role within the Commission by hearing cases, mediating cases through the alternative dispute resolution process and issuing decisions. Headed by a Chief Administrative Law Judge, the Bureau's primary duty is to provide fair and prompt resolution of contested proceedings before the Commission. The Administrative Law Judges (ALJs) are attorneys with experience in administrative law. They are independent judges 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 a record of evidence, legal precedent and policy.



M. Carl Lesney
Director of Audits

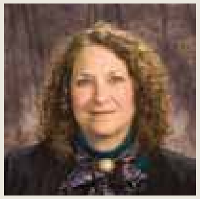
The Bureau of Audits performs financial, management, operational and specialized audits on electric, natural gas, steam heat, wastewater, water and telecommunications utilities. It also reviews certain adjustment clause rate filings. The Bureau also conducts a limited number of reviews of the annual assessment reports for transportation companies. The audits may result in recommendations to refund over-recovered costs and/or to improve accounting or operational procedures that, if adopted, may save the utilities money, which may result in significant one-time savings for utilities or become annual savings. The Bureau also is responsible for auditing the annual reconciliation statements associated with stranded costs of electric distribution companies and certain water companies authorized to use the distribution system improvement charge.

BUREAU DIRECTORS



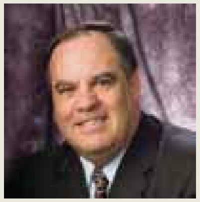
Wayne Williams
Director of Conservation, Economics and Energy Planning

The Bureau of Conservation, Economics and Energy Planning has oversight responsibilities for Alternative Energy Portfolio Standards implementation, Act 129 implementation and evaluation, electric reliability performance monitoring, energy market monitoring and energy research. As a research arm of the PUC, the Bureau studies and researches energy matters and advises the Commission of the results to assist in making policy decisions. The Bureau also prepares reports for the Commission, provides technical support for other bureaus and participates in working groups on energy issues.



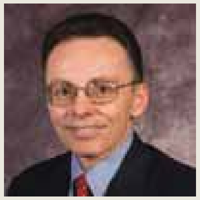
Alexis Bechtel
Director of Consumer Services

The Bureau of Consumer Services responds to and investigates informal complaints from residential and small commercial consumers. The Bureau also serves as an intermediary between utilities and consumers, working to resolve complaints or develop payment arrangements. The Bureau provides consumers with utility-related information and monitors compliance with PUC regulations regarding consumers. The Bureau provides an analysis of utility performance when handling consumer complaints and issues.



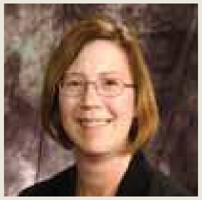
Robert Wilson
Director of Fixed Utility Services

The Bureau of Fixed Utility Services serves as an adviser to the PUC on technical issues for electric, natural gas, water and wastewater, and telecommunications utilities. The Bureau offers policy recommendations on rates, tariffs and regulatory matters, processes fixed utility applications, and coordinates emergency operations of utilities. The Bureau processes filings such as securities certificates and affiliated interest agreements. The Bureau also reviews and maintains county 911 system plans; telecommunications relay service reports; annual financial reports; and utility tariffs. The Director of the Bureau is vested with the authority to act for the Commission during emergencies and represents it on the Pennsylvania Emergency Management Council.



Bohdan R. Pankiw
Chief Counsel

The Law Bureau acts as the Commission's in-house legal counsel, providing legal advice to the Commission. The Bureau's director serves as Chief Counsel to the Commission. Three main categories of legal services are provided by the Bureau: advisory, representational and prosecutory/enforcement. The Law Bureau initiates both in-house prosecutions and enforcement proceedings against public utilities. During in-house prosecutions, the Bureau investigates and files complaints against utilities that fail to maintain adequate service or reliability, to obey Commission Orders or to comply with other regulatory obligations. During enforcement proceedings, the Bureau will file lawsuits in Commonwealth Court against utilities that fail to obey final PUC orders or court orders. The Law Bureau represents the Commission before state and federal courts when the Commission's decisions are challenged. The Bureau also represents the Commission before federal agencies such as the Federal Communications Commission and the Federal Energy Regulatory Commission on issues that impact Pennsylvania.



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. The Office identifies legislation that may affect the Commission or public utilities and obtains staff analysis; provides bill analysis and relevant information to the legislature; and promotes the Commission's position on legislation and issues with the General Assembly. The Office also handles requests for information from the Governor, legislators and constituents.

Rosemary Chiavetta
Secretary

The Secretary's Bureau is the PUC's official point of contact with the public. The Bureau receives all official documents and filings, serving as the prothonotary of the Commission. All official Commission actions and decisions are issued over the Secretary's signature. All correspondence and filings must be addressed to the Secretary to be considered filed before the Commission. The Bureau receives, enters, indexes and assigns all filings to appropriate bureaus through InfoMAP, which is the Commission's document and case management system. The Secretary's Bureau also is responsible for coordinating and monitoring all Public Meeting agendas and meeting minutes, and issuing all Commission Orders and Secretarial Letters.

Cheryl Walker Davis
Director of Special Assistants

The Office of Special Assistants, as the Commission's advisory support bureau, is comprised of attorneys, rate case review specialists and administrative support staff. The Bureau drafts Opinions and Orders for the Commission to vote on at Public Meetings, as well as reviews and offers recommendations on the exceptions to Administrative Law Judge decisions, petitions for reconsideration and requests for extensions of filing deadlines. The Bureau also revises Opinions and Orders to be consistent with Commissioner motions adopted at Public Meetings.

Mike Hoffman
Director of Transporation and Safety

The Bureau of Transportation and Safety, comprised of the Motor Carrier Services and Enforcement Division, the Rail Safety Division, and the Gas Safety Division, seeks to ensure safe and reliable natural gas, rail and motor carrier service throughout the state. The Bureau handles applications and rate filings of motor carriers; ensures compliance with PUC regulations; and inspects natural gas facilities and records to ensure compliance with state and federal requirements.

Johnnie Simms
Director of Trial Staff

The Office of Trial Staff (OTS) represents the public interest in all matters having an impact on rates before the PUC. The Director is designated as the Commission's chief prosecutor, and the Bureau is made up of the administrative, legal and technical divisions. OTS is responsible for reviewing Commission filings made by utilities involving rate-related matters. Additionally, the Director may petition the Commission or may be directed by the Commission to intervene to protect the public interest in proceedings having no impact on rates. Staff prepares and defends testimony in support of the public interest position in hearings before Commission administrative law judges, and engages in mediation sessions, alternative dispute resolution processes and settlement negotiations. Due to its prosecutory role, OTS works independently of the Commission.


WWII
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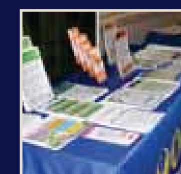
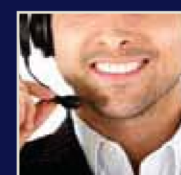
CONSUMERS

The Commission remains committed to monitoring and evaluating utility performance, as well as working aggressively to educate consumers about critical utility issues, including significant price increases for energy and their rights as utilities consumers.





During Fiscal Year 2009-10, the Commission focused on educating electricity customers about rising energy prices and the resources available to help them lower and pay their bills. In launching PAPowerSwitch.com, the Commission created a user-friendly tool to help consumers shop for their electric supplier and took the message to the community with consumer education events. The Commission continued with the implementation of the changes to the utility termination rules while working to educate consumers about these changes and their rights. Work continued on the rulemaking to bring the Standards and Billing Practices for Residential Utility Service (Chapter 56) in line with the Responsible Utility Customer Protection Act (Chapter 14). The Commission also continued to expand its consumer outreach activities by participating in the Commonwealth's annual Farm Show, hosting regional events and visiting local communities.

PAPowerSwitch.com

With PAPowerSwitch.com, the PUC is working to make sure consumers have the tools at their fingertips to make an informed decision about choosing an electric 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 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 bill to that of a competitive supplier.

PAPowerSwitch

Pennsylvania Public Utility Commission

Putting the power in consumers' hands to choose their electric generation supplier began with the 1997 Electricity Generation Choice and Competition Act. Under the law, electric rates were capped to ease the transition to competitive markets. All rate caps will expire by Dec. 31, 2010. For many, the expiration of electric rate caps has brought an increase to electric rates. Consumers have the power to switch to a competing supplier who may offer the lowest price, or provide a specific service such as green/ renewable energy.

Pennsylvania residents have the right to choose their electric supplier, but the ability to switch depends on whether competitive offers are available. The power to switch electric suppliers gives consumers greater control over their electric bill. Many consumers were looking for an impartial voice to put the offers being made by the electric suppliers at their fingertips in a user-friendly format. The power is in the hand of consumers to shop for an electricity supplier – it's a zip. Consumers just click and enter their zip code to find electric suppliers making offers in their area. A tool also allows them to enter their monthly usage to get an even more precise estimate of their bills if they choose to stay with their utility or use a competitive electric supplier.

PAPowerSwitch.com gives consumers the information to "Shop. Switch. Save."

The PUC partnered with local television to bring the power to switch electric suppliers directly to the community. To make the website "come alive" at the community outreach events, a bank of computers was available for consumers to compare prices. Competitive electric suppliers were on hand to offer the option of on-the-spot electric provider sign-up. Participating suppliers made special on-the-spot offers to encourage people to switch such as a discounted "price to compare" and $50 rebates or $50 gift cards. More than 800 people attended the first two events with about 325 of them switching on the spot.

Other features of PAPowerSwitch.com:

- The PUC recently added a Spanish-language companion site.
- Suppliers now have the ability to update their own prices and company information.
- Consumer alerts are e-mailed to customers who plugged their zip codes and contact information into the site to receive weekly updates on suppliers and prices available in them.
- A new, larger, printable version of the zip-code-searchable supplier list is now available.

In addition to logging onto PAPowerSwitch.com, consumers can call 1-800-692-7380. The Commission's call center and consumer educators can print a list of suppliers in a consumer's zip code and mail it to those consumers without Internet access. The PUC has available a new "PA PowerSwitch" brochure and a post card designed to promote the new website and encourage people to Shop. Switch. Save.

Consumer Education on Electric Prices

Part of the Commission's policies to mitigate and prepare Pennsylvania electricity customers for significant price increases includes working with electric utilities to implement utility-sponsored consumer-education plans for their service territories.

Each of the state's electric distribution companies (EDCs) under the PUC's jurisdiction filed a proposed consumer-education plan that is tailored to their service territory as required under a May 17, 2007, Commission Order that established policies to mitigate higher electricity prices. The Commission approved each of the plans after ensuring the plans met the requirements. The Commission, along with the Office of Consumer Advocate and the Office of Small Business Advocate continue to review the consumer-education materials filed by utilities in accordance with their plans.

The utilities' plans contain provisions to educate consumers about price increases while providing information on electric competition, demand side response, low-income programs, and energy conservation and efficiency.

The plans also proposed appropriate budget levels and cost-recovery mechanisms. The intention of requiring these plans is to prepare Pennsylvanians for the removal of the electric rate caps and to enable customers to make informed decisions regarding their own levels of electric use. Each plan is posted on the PUC website, www.puc.state.pa.us, under the Electricity tab.

Consumer Outreach Summary

The PUC's consumer outreach specialists have provided utility education and outreach to thousands of consumers by working with 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 and understand their rights as utility customers. In Fiscal Year 2009-10, the outreach team hosted numerous 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.

During those events, consumer-outreach specialists provide materials are provided to consumers about complex utility issues, including shopping for a competitive electric generation supplier; the expiration of rate caps; fact sheets outlining the Responsible Utility Customer Protection Act; customer assistance programs; energy efficiency and conservation tips; transmission line siting; and rising energy prices.

The PUC's outreach specialists are committed to assisting consumers in addressing specific individual concerns and offering solutions to utility-related issues. In 2009-10, the team focused on educating Pennsylvanians and nonprofit, community-based organizations through the PUC's "Prepare Now" campaign, "Be Utility Wise" and "Know What's Below. Call Before You Dig" initiatives, as well as PAPowerSwitch.com's "Shop. Switch. Save.''

Throughout the year, the consumer outreach specialists staffed a variety of public input meetings regarding base rate increase requests pending before the Commission, as well as plans to provide relief prior to area code exhaustion of the 814, 717 and 570 area codes.

Overall, the PUC consumer outreach specialists encouraged consumers to:

- Be aware of expiring electric rate caps and the associated increase in electric bills. Consumers were provided with information on the expiration of rate caps, and how to shop for electricity.
- Use electricity, natural gas and water wisely to conserve resources and save money. Consumers were given informational materials and fact sheets providing conservation tips on how to become more responsible and aware of their utility usage.
- Know their rights as responsible utility consumers and be aware of important changes in the law related to utility shut-offs (Chapter 14).
- Consider budget billing options as a way to make heating bills more predictable and affordable throughout the year.
- Utilize the national 8-1-1 number to "Know What's Below. Call Before You Dig" to create safety awareness of underground utility lines.
- Understand area-code relief proposals.

New partnerships and networking opportunities were developed by attending training sessions and informational meetings with other state agencies and community-based organizations.

PA Farm Show

In January 2010, the Commission participated in the 94th Annual Farm Show, to inform more than 400,000 visitors about the role of the PUC as an available resource to address utility questions or concerns.

The PUC booth contained information about energy, telephone, transportation, water and wastewater issues. The Commission's primary focus was to educate consumers to prepare now for higher energy costs, and provide tips for weatherizing homes and conserving energy. Electricity rate caps also were a popular topic raised by Farm Show visitors.

Information also was available on:

- Programs to help low-income consumers pay utility bills.
- How consumers can take advantage of the Alternative Energy Portfolio Standards Act of 2004.
- Act 183 of 2004, which requires telecommunications companies to provide access to high-speed Internet by 2015.
- Telecommunications Relay Service (TRS), which enables Pennsylvanians to communicate by telephone with people who are deaf, hard of hearing or speech disabled (*See Telephone*).

Prepare Now

During Fiscal Year 2009-10, the PUC urged electric and natural gas utilities to take extra steps to help consumers to "Prepare Now" for the higher costs of winter heating.

The Commission's "Prepare Now" outreach campaign encourages consumers on limited or fixed incomes to call their utility about special programs such as utility-based Customer Assistance Programs (CAPs) and Low Income Usage Reduction Programs (LIURP) to help heat their homes and pay their energy bills. This year, the "Prepare Now" campaign worked in conjunction with Gov. Rendell's "Turn Down. Seal Off. Save Up."

In an October 2009 letter, the Commission asked electric and natural gas utilities under its jurisdiction to join the PUC in reaching out and educating consumers. The letter also stressed the importance of the Low-Income Home Energy Assistance Program (LIHEAP) and the impact the program has on helping low-income consumers restore and maintain service. In addition, the letter reminded the utilities of their responsibilities under the state's utility termination and reconnection law, also known as Chapter 14. In January 2010, the PUC reminded consumers at risk of termination to call their utility to seek resources to help maintain electric or natural gas utility service for the winter.

The winter of 2009 was the seventh winter that the Commission urged consumers to "Prepare Now." The message is simple: "Prepare Now" for higher energy costs this winter. Learn about changes in the law related to utility shut-offs and know your rights. Save money by learning how to conserve energy. Heat your home safely. Explore budget billing options. Look into programs that help low-income customers restore and maintain service. Visit www.puc.state.pa.us, and click on "Prepare Now" or call the PUC at 1-800-692-7380.

Lifeline Awareness Week

In conjunction with a national initiative to promote the awareness of Lifeline and Link-Up discount programs, the PUC joined other state agencies and industry representatives to help residents "stay connected" at a consumer event at the Community Action Commission in Harrisburg, in September 2009.

Gov. Ed Rendell signed a proclamation designating Sept. 14 to 20, 2009, as Pennsylvania Lifeline Awareness Week. The state's Office of Consumer Advocate, the Pennsylvania Telephone Association and Verizon joined the PUC at the event to promote the Lifeline and Link-Up assistance programs, which offer discounts to help residents gain access to basic local telephone service.

The Lifeline 135 program is available for customers of all qualified telephone service providers. Under the program, customers who participate in certain public assistance programs, or who have income at or below 135 percent of the federal poverty guidelines (currently $30,000 for a family of four) 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. The Link-Up provides a 50 percent reduction off the telephone installation charge, up to a maximum of $30, for qualifying households that do not currently have telephone service. In an effort to increase awareness about the program, the PUC developed an informational brochure, "Follow the PATH to PA Telephone Help" to provide information about Lifeline and other programs available to limited-income consumers.

PPL Refund

On Dec. 17, 2009, the PUC approved a $30.16 million refund for PPL Electric Utilities Inc. residential customers that resulted from PPL overcollecting its competitive transition charge (CTC). The revised CTC rates reflect actual collection and reconciliation data. During Calendar Year 2010, PPL will refund about $30.16 million to its residential customers and $2 million to its industrial customers. These consumers saw the "transition charge" portion of their bill move from a charge to a credit.

PPL undercollected the CTC from its small commercial and industrial customers by about $17.6 million, meaning those customers continued to pay the CTC in 2010.

PPL was permitted to collect the CTC as a result of litigated proceedings following the adoption of the 1997 Electricity Generation Choice and Competition Act. The law permitted PPL to recover "stranded costs" through these charges. Stranded costs include investments utilities made in infrastructure before the law was passed that may have become uneconomic and unrecoverable in the new competitive environment.

In exchange for the recovery of stranded costs, generation, transmission and distribution rates were capped at 1996 levels. PPL's generation rate cap expired Dec. 31, 2009.

Increase in Customer Assistance Allowance for PPL OnTrack Customers

In anticipation of increased need for low-income programs for PPL customers, the PUC approved a temporary increase in the customer assistance program (CAP) credits available for PPL customers participating in the company's OnTrack program.

The PUC approved an increase in the maximum amount of annual CAP credits from $700 to $900 for residential non-heating customers and from $1,800 to $2,300 for residential heating customers. The change is for 2010 only.

PPL's CAP is known as OnTrack, which is a special payment program for PPL low-income customers. Because CAP bills are based on a customer's ability to pay, the required payments by OnTrack customers did not change with the Dec. 31, 2009, expiration of PPL's generation rate caps.

A credit is determined by subtracting the adjusted OnTrack bill from the actual bill. The increase in customers' electric bills due to the expiration of rate caps will increase the monthly difference between the actual bills and OnTrack bills, meaning many customers may exceed their annual limit of CAP credits. As a result, the Commission approved the 30 percent increase in the CAP credits in an effort to keep more families in the program longer.

Purchased Gas Cost Rate Refunds

In Fiscal Year 2009-10, the Commission approved a $90.9 million refund after large, sustained reductions in natural gas prices resulted in an overcollection from customers, which occurred after utilities had filed their quarterly purchased gas cost rate adjustments.

UGI Central Penn Gas Inc. customers received $13.1 million through one-time credit on their bills during the January 2010 billing cycle. Columbia Gas customers received $77.8 million through a one-time credit on their bills during the November 2009 billing cycle. The amount received by each customer varied depending on the usage.

Local natural gas utilities are required to provide reliable natural gas service at the least possible cost – the purchased gas cost rate (PGC). The Commission monitors natural gas companies to ensure the PGC rate they are passing on to the consumers reflects the costs they paid and that every effort was made to purchase the gas for the least possible price.

Natural gas utilities file for annual PGC rates for the supply of natural gas, which reflects the price paid by the utility for natural gas, reconciled with actual sales and costs from previous gas cost projections. By law, the utility cannot make a profit by charging consumers more than what it pays for the natural gas. Because the natural gas markets do fluctuate, the natural gas companies may adjust their PGC rates quarterly.

Settlements with Utility Companies

In Fiscal Year 2009-10, the PUC approved settlements with utility companies following informal investigations into violations of the Public Utility Code or consumer complaints. In many cases, the companies agreed to improve communications with consumers.

Metropolitan Edison Co. (Met-Ed) paid a $100,000 contribution to the Dollar Energy Fund, a nonprofit organization providing utility assistance, case management for payment-troubled customers and utility education programs throughout Pennsylvania. The settlement ended an informal investigation of three separate events involving alleged company action or inaction regarding customer service aspects of the provision of their utility service.

PPL Electric Utilities Corp. (PPL) contributed $400,000 to its Operation HELP program, which provides emergency financial aid to pay electric bills for low-income families, ending an informal investigation into the company's termination practices. Under the settlement, the company also agreed to pay a civil penalty of $50,000 and establish additional customer service procedures.

PPL also contributed $50,000 to its Operation HELP program and paid a $1,000 civil penalty to end another informal investigation into alleged violations on the handling of termination notices, medical certifications and consumer dispute rights.

PPL was fined $1,000 for failing to provide accurate information regarding the future of the Residential Thermal Storage (RTS) rate class after a customer inquired in 2008 about the future of the RTS rate prior to the purchase of their residence.

FirstEnergy made a $175,000 contribution to the Dollar Energy Fund and a $25,000 contribution to FirstEnergy's Low Income Usage Reduction Program (LIURP), which helps reduce household electric use through weatherization and education. Customers whose service was unlawfully terminated also received restitution of between $50 and $200 as a credit to their accounts depending on the length of their termination. The settlement ended an investigation into terminations that occurred between Aug. 11, 2008, and Aug. 26, 2008, in the Pennsylvania Electric Co. (Penelec), Metropolitan Edison Co. (Met Ed) and Pennsylvania Power Co. (Penn Power) territories.

Verizon paid a $5,000 civil penalty after a consumer filed a complaint over billing and service adequacy issues.

The company also had credited the customer's account for repair charges and telephone service charges applied while the customer was without service. The Commission also directed the company to take all necessary measures to restore dial tone service and make any temporary restorative measures permanent, through trenching and replacement of the underground service line.

Tennessee Gas Pipeline Co. refunds

In Fiscal Year 2009-10, the PUC approved $7.3 million to be returned consumers under a settlement between the Tennessee Gas Pipeline Co. and various Pennsylvania natural gas companies, and filed before the Federal Energy Regulatory Commission (FERC).

UGI Utilities Inc.-Gas, UGI Penn Natural Gas Inc. and UGI Central Penn Gas Inc. contributed the $2.4 million residential share of its $3.8 million in refunds to the UGI Operation Share Energy Fund, which helps low-income customers.

Peoples Gas contributed $1.7 million to the Dollar Energy Fund while the company's small commercial customers will receive a quarterly gas cost rate credit. The total amount refunded to small commercial customers was about $227,000.

Columbia Gas contributed about $1.4 million of the residential portion of the proceeds it received from the settlement to its Hardship Fund. The total amount refunded to small commercial customers will be about $196,080.

On May 15, 1995, Tennessee Gas Pipeline Co. filed a settlement agreement with the Federal Energy Regulatory Commission (FERC), which resolved issues related to Tennessee's recovery of the cost of certain environmental remediation cost in rates. The settlement established a cost-recovery mechanism for recovery of remediation costs for the period beginning Feb. 1, 1992. The settlement was modified in 2009 providing that Tennessee Gas would pay interim refunds to parties for overcollections of an environmental surcharge under the 1995 settlement.

Customer Assistance Program Review

In April 2010, the Commission reopened the public comment period on the proposed Universal Service and Energy Conservation Reporting Requirements rulemaking to establish a consistent process for reviewing CAP program funding levels and other CAP provisions while reviewing companies' three-year Universal Service Plans. Comments were invited on several topics, including the impact of Low Income Home Energy Assistance Program (LIHEAP) grant application changes, affordability of CAP costs in conjunction with the recent economic decline, cost recovery and rate effects of program modifications.

The Commission also suspended several sections of the Policy Statement pertaining to the application of LIHEAP grants to a distribution company's CAP as being inconsistent with the Department of Public Welfare's (DPW) proposed changes to its LIHEAP 2010 Final State Plan. The Commission has received comments from interested parties on both the proposed rulemaking and policy statement.

The state's electric and natural gas competition laws require that every electric utility and major natural gas utility establish a CAP. In considering CAP design, funding and cost recovery simultaneously, the Commission's goal is to balance the interests of the low-income customers who participate in CAPs with interests of all residential ratepayers. The funding levels and program design vary from company to company.

As part of the Commission's comprehensive examination of universal service programs, the Commission issued for comment a proposed rulemaking and policy statement revisions in August 2007 that address CAPs, under which low-income customers receive financial assistance in paying utility bills.

Chapter 14 Impact Report

In Fiscal Year 2009-10, the Commission began collecting data for its third biennial report on the implementation of Chapter 14, which was added to the Public Utility Code under the Responsible Utility Customer Protection Act of 2004. The Commission is required to submit a biennial report to the Governor and legislature updating the effects of implementing Chapter 14. All reports are available on the Commission's website under Publications and Reports. The next report will be issued in Fiscal Year 2010-11.

Chapter 14 seeks to eliminate the opportunities for customers capable of paying their utility bills to avoid doing so, and to provide utilities with the means to reduce their uncollectible accounts. The law changed the way regulated electric, water and major natural gas utilities handle cash deposits; termination of service; reconnection of service; payment arrangements; and the filing of termination complaints by residential customers.

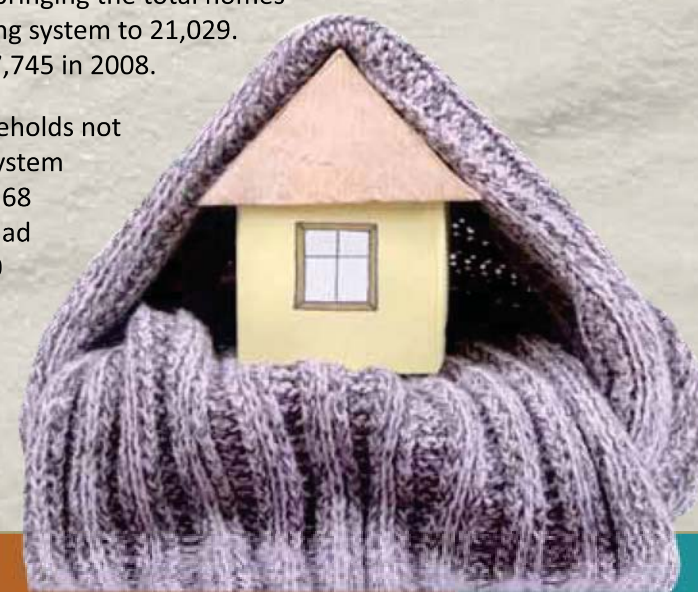
The Commission implemented Chapter 14 in a manner that achieves the policy goals of increasing utility account collections and avoids passing along bad debt costs to paying consumers, while ensuring that service remains available to all consumers on reasonable terms and conditions. The Commission is dedicated to using a collaborative process that accounts for the needs of both utilities and consumers, and gives all parties an opportunity to participate.

Cold Weather Survey Results

Each year, prior to the winter heating season, the PUC requires electric and natural gas utilities to check residential properties where 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 requests 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.

In December 2009, the survey found that 17,037 occupied households were without heat-related utility service. An additional 3,992 homes were using unsafe heating sources, bringing the total homes not using a central heating system to 21,029. The total number was 17,745 in 2008.



Residential electric households not using a central heating system totaled 3,669, while 13,368 natural gas households had no service. About 10,300 households – 49 percent of the total accounts without service – were in the Philadelphia area. The results also showed that an additional

21,770 residences where services were terminated appeared to be vacant.

The companies resurveyed the households without utility service in February 2010. At that time, the total number of homes not using a central heating system decreased by 32 percent to 14,283.

Universal Service Collection Data

The PUC issued the 2008 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 2009-10.

Universal service programs are designed to help ensure that all customers have access to utility service no matter what their income. Programs include the Low Income Usage Reduction Program (LIURP), Customer Assistance Programs (CAPs), Customer Assistance and Referral Evaluation Services (CARES), and Hardship Funds.

Generally, electric and natural gas customer households that are enrolled in universal service programs have average household incomes that are less than $16,700 per year.

According to the report, the gross write-offs ratio for the electric industry was 1.85 percent in 2008, compared to 2.04 percent in 2007, while the natural gas industry average was 3.52 percent in 2008 and 4.10 percent in 2007.

According to the report, EDCs used $189,171,318 to enroll 240,002 customers in CAPs where on average those customers pay 79 percent of their total bill.

NGDCs used $174,497,927 to enroll 179,958 customers in CAPs where on average those customers pay 87 percent of their total bill, according to the report.

EDC customers also received $21.6 million in Low Income Usage Reduction Program (LIURP) benefits while NGDC customers received $8.9 million in LIURP benefits. The full report is available on the PUC website at www.puc.state.pa.us under Publications and Reports.

Utility Consumer Activities Report and Evaluation

Helping Pennsylvania consumers resolve utility problems remains a major concern for the Commission. Full-time investigators within the PUC's Bureau of Consumer Services (BCS) handle a variety of consumer contacts related to billing problems, service delivery and repairs. The 2008 Utility Consumer Activities Report and Evaluation (UCARE) shows that BCS investigated 20,420 consumer complaints in 2008, with 18,422 of those complaints coming from residential consumers and 1,998 from commercial consumers. The total number of consumer complaints remained stable from 2007 to 2008.

BCS also handled 60,679 requests for payment arrangements from residential customers in 2008, a 21 percent increase from 2007. The majority of requests for payment arrangements – 55,210 requests – involved electric or natural gas companies. In addition, 1,417 residential telephone consumers requested assistance in setting up payment arrangements in 2008, which is a 16 percent decrease from the number of payment arrangements requested in 2007.

Terminations of electric and natural gas service increased from 2007 to 2008. Statewide, electric and natural gas terminations went from 244,943 in 2007 to 294,682 in 2008 – a 20 percent increase. Likewise, reconnections of electric and natural gas service increased during the same period, going from 173,607 in 2007 to 212,959 in 2008 – a 23 percent increase.

At this time, water utilities are not required to report termination and reconnection data to the Commission, so BCS does not report this data in the UCARE report.

However, Aqua Pennsylvania Inc. and Pennsylvania American Water Co. (PAWC) voluntarily provide termination data to the Commission. Terminations for these companies increased from 27,731 in 2007 to 34,769 in 2008 – a 25 percent increase. Likewise, reconnections for Aqua and PAWC increased during the same period from 20,967 in 2007 to 25,958 in 2008 – a 24 percent increase.

BCS also received 68,695 inquiries in 2008, a 13 percent decrease from the previous year. Inquiries include information requests, requests for payment arrangements that BCS cannot accommodate and opinions from consumers. For the most part, these contacts did not require investigation by BCS. These inquiries came to the attention of BCS through the Commission's toll-free hotlines, other telephone numbers, the U.S. Postal Service and e-mail communication.

The PUC surveys consumers who have contacted BCS with a utility-related problem or payment arrangement request in order to monitor its own customer service. The 2008 survey results show that more than 81 percent of consumers said they would contact the PUC again if they were unable to resolve their problem by talking with the utility. Meanwhile, 77 percent of consumers rated the service they received from the PUC as "good" or "excellent."

This and other data appear in the Commission's 2008 UCARE report, which is available on the Commission's website at www.puc.state.pa.us under Publications and Reports.

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 2008, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.

Based on customer surveys, an average of 88 percent of electric and 78 percent of natural gas customers said they were satisfied with the ease of reaching their company. A greater percentage of customers said they were satisfied with the way company representatives handled their calls – 91 percent of electric customers and 87 percent of natural gas customers. A majority of the customers were satisfied with both the courtesy and level of knowledge demonstrated by customer service representatives.

The report also includes data provided by the utilities on the performance of the company's customer service operations. Three electric companies reported that their call abandonment rate went up from the previous year, indicating a decline in performance in this area. One improved, and two remained the same as the previous year. Abandoned calls are the number of customers who hang up while on hold to speak to a representative.

The average call abandonment rate of almost 7 percent for the natural gas companies is nearly twice that of the electric companies. Four of the major electric companies reported an improvement in the percentage of calls answered within 30 seconds, while two reported a decline.

Allegheny Power offered the poorest access to its call center in 2008, with the percentage of calls answered within 30 seconds going from 88 percent in 2007 to 58 percent in 2008. It attributes this decline to an increased call volume and an ongoing struggle to hire and maintain qualified call takers. The average percentage of calls answered within 30 seconds for the electric companies in 2008 is 77 percent, down from 81 percent in 2007 and 80 percent in 2006.

UGI-Gas Utilities Inc. and Philadelphia Gas Works Co. (PGW) reported significant improvement in the percentage of calls answered within 30 seconds. UGI answered 87 percent of its calls within 30 seconds in 2008, the highest percent of all the gas companies and better than the 80 percent reported for 2007. PGW also demonstrated a positive trend answering 55 percent of calls within 30 seconds in 2008, better than its 42 percent in 2007. The other five major natural gas companies all declined in the percentage of calls answered within 30 seconds. The average percentage of calls answered within 30 seconds for natural gas companies decreased from 73 percent in 2007 to 72 percent in 2008.

The full report for 2008 is available on the PUC's website at www.puc.state.pa.us under Publications and Reports.

Chapter 56/Chapter 14 Rulemaking

In September 2008, the Commission adopted a Notice of Proposed Rulemaking to amend 52 Pa. Code Chapter 56 to bring it into compliance with Act 201 of 2004 (Chapter 14 of Title 66). In March 2009, the PUC issued a Secretarial Letter to direct those utilities that had already adopted electronic billing programs to file comments regarding the successes and failures of their individual electronic billing programs.

Chapter 56 contains the Standards and Billing Practices for Residential Utility Service, and includes the regulations governing the termination process, credit, applications, billing, payment and dispute procedures. During the rulemaking process, the Commission also will address other issues with Chapter 56, including updates needed due to technological advances, such as electronic billing and payments.

The PUC received comments from all parties, which are available on the Commission's website under Consumer Concerns. Such information is being reviewed by the PUC as it develops final regulations.

Consumer Advisory Council

The Consumer Advisory Council (CAC) was created through a regulation in 1977 to advise the Commission on matters relating to the protection

PUC Consumer Advisory Council: Front row, left to right: Dan Paul, Rick Hicks, and Linda Roth. Back row, left to right: Joe Toner, Tom Leach, George Silvestri, Lillian Carpenter, Pedro Anes, Harry Geller, and Robert Christianson.

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 Chairpersons of the 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 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 appointive or elective 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.

The Council acts as a source of information and advice for the Commissioners. Interactions between the Council and the Commissioners occur through periodic meetings, and in writing via minutes of meetings and formal motions. Council meetings are generally held at 10 a.m. on the fourth Tuesday of the month in the PUC Executive Chambers in Harrisburg. The meetings are open to the public.

During this fiscal year, the CAC continued to focus on issues arising from the rate caps expiring, educating consumers statewide, proposed supplier marketing guidelines, the Marcellus Shale procedures, the Chapter 56 rulemaking and universal service programs.

The Council also received briefings on issues that the Commission has dealt with, including Chapter 14, the PUC's new PAPowerSwitch website, Chapter 30, Cold Weather Survey, CAP policy, the legislative special session on energy, transmission lines, and the Alternative Energy Portfolio Standards Act.

PA Relay Service Advisory Board

In May 1990, the Commission established the Pennsylvania Relay Service Advisory Board. 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 providers and the Commission regarding communication assistant training, problem solving, outreach initiatives and service enhancements.

Pennsylvania Relay Service Advisory Board: Front Row, left to right: Leslie Kelly, Pat Brockley, Carol Pennington and Kristen Brandt. Back row, left to right: Christa Cervantes, Lenora Best, Sharon Behun, Eric Jeschke, Chuck Hafferman, Robert Davis and Todd Behanna. Steve Samara not pictured.

The board meets four times a year to advise the 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 give the board a status report of their activities. These reports focus on issues including call volumes, new service offerings, complaint handling equipment enhancements and outreach plans.

The 12 members of the board are appointed by the Commission and serve two-year terms. The Commission requires that the board consists of one representative from the Pennsylvania Telephone Association, the Office for the Deaf and Hard of Hearing (ODHH), and the traditional TRS provider (AT&T Communications of Pennsylvania LLC); two representatives from the Commission; and seven representatives from the deaf, hard-of-hearing and speech-disabled communities.

During 2009, board members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Hearing Loss Association of Pennsylvania; the Pennsylvania Society for Advancement of the Deaf; the Center for Independent Living of South Central Pennsylvania; Independent Living Program at the Western Pennsylvania School for the Deaf; Office for the Deaf & Hard of Hearing; and an individual from the deaf community.

As a user group, the board meeting agenda items primarily relate to quality of service and improving relay service. However, the board also has advised the Commission on many critical policy issues that affect TRS users.

Although the official consumer-education campaign has concluded, the Commission continues to work to educate consumers. Educators inform the hearing public about relay technology and enhance the opportunities of people with hearing loss and speech disabilities to communicate with the hearing public in their daily lives. They regularly provide TRS information and materials as they travel throughout the Commonwealth visiting numerous county fairs, festivals and other venues with large audiences.

"Know What's Below. Call Before You Dig." Dial 8-1-1.

811 Know what's below. Call before you dig.

The PUC and Pennsylvania One Call System Inc. (PA One Call) reminded Pennsylvanians of the abbreviated dialing system of 8-1-1 to make certain underground utilities are marked before digging begins.

The PUC and PA One Call again partnered to raise awareness about 8-1-1 safety. In Pennsylvania, homeowners and contractors are required by law to call 8-1-1 at least three business days before using ground-digging power equipment to make certain underground utility lines are marked.

The PUC provided the regulatory support needed to allow Pennsylvania to join the nation with 8-1-1 abbreviated dialing. In 2006, the PUC ordered all local telecommunications exchange carriers and other carriers with switching capabilities – including payphone providers – to fully implement 8-1-1 as the abbreviated dialing code to access PA One Call.

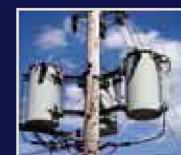
An informational brochure on the "Know What's Below. Call 8-1-1 Before You Dig" campaign is available on the PUC website under the Consumer Education link.

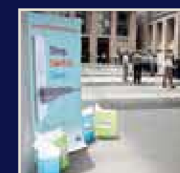
Keystone Connection

The Commission continued its publication of the "Keystone Connection," a newsletter that is released quarterly to about 1,200 subscribers, including news media and industry stakeholders. "Keystone Connection" provides a snapshot view of the utility markets under the Commission's jurisdiction: electric, natural gas, transportation, telecommunications and water. The publication highlights the major issues that affect each industry, and includes coverage of all utilities, including news on consumer issues and general information on PUC happenings. Copies of the Keystone Connection are available on the PUC website at www.puc.state.pa.us under Publications and Reports.

ELECTRIC

The PUC regulates default service and distribution rates, ensures service reliability, and fosters the development of competitive electricity markets. The PUC participates in matters that impact the wholesale energy market. The PUC also regulates electric rates of some municipal systems that serve customers outside their boundaries. Since the implementation of Act 129 of 2008, the PUC reviews and approves energy efficiency and demand side response programs proposed by Pennsylvania's seven major electric utility companies.





The expiration of long-term electric generation rate caps, coupled with the implementation of Act 129 and its comprehensive energy efficiency and conservation measures, continues to change the way Pennsylvanians think about electricity consumption – an impact that is sure to be felt for years to come. While rate caps have expired in some portions of Pennsylvania, in Fiscal Year 2009-10 most consumers continued to receive electric service under capped generation rates. Currently, Pennsylvania has 11 electric distribution companies (EDCs) and 124 licensed electric generation suppliers (EGSs).

In Fiscal Year 2009-10, the Commission continued to move forward with efforts to mitigate the effects of rate cap expiration with a focus on developing strategies to remove barriers to competition; educating consumers; updating low-income programs that provide customer assistance; and implementing default service plans that reflect the least cost to consumers over time. The Commission's default service regulations and policy statement provide both guidance to the industry and suggested tools to mitigate the impact on consumers of transitioning from capped rates for generation to rates based on wholesale market prices.

The main goal of Act 129 is to reduce energy consumption and peak demand throughout Pennsylvania. The Commission worked to implement this groundbreaking legislation in phases, meeting all of the deadlines on its accelerated timetable.

As the majority of the state's electric consumers transition to uncapped generation rates, the wholesale energy market rules continue to grow in importance. With that, the Commission has been increasingly focused on the effect of wholesale energy prices on retail electric rates, default service procurement practices, energy conservation, alternative energy and consumer education. Because a properly functioning and competitive wholesale market for electricity is essential for reasonable retail rates, the Commission has participated vigorously in proceedings before the Federal Energy Regulatory Commission (FERC) to represent the interests of Pennsylvania consumers in terms of market structure, reasonable prices and network reliability.

Act 129 of 2008 Implementation

The PUC continues to implement Act 129 of 2008, which expands the Commission's oversight responsibilities and imposed new requirements on EDCs, with the overall goal of reducing energy consumption and demand. Under Act 129, the state's seven largest EDCs must reduce electricity consumption by 1 percent by May 31, 2011, and 3 percent by May 31, 2013. The Act also requires a 4.5 percent reduction in peak demand by May 31, 2013.

Other directives of Act 129 included deploying 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 under Act 129 should ultimately reduce the cost of electricity, and enhance safety and reliability of service.

The ongoing implementation of Act 129 is one of the most pressing responsibilities currently before the PUC. Throughout the implementation process, the PUC has provided the opportunity for stakeholders to take an active role. The Commission has engaged consumer advocates, energy efficiency and conservation experts, EDCs, customers, EGSs, and other interested groups, providing various opportunities for stakeholder comment in every aspect of the implementation of Act 129.

In Fiscal Year 2009-10, the PUC met all of the implementation deadlines set forth in Act 129 and is moving swiftly to enact the remaining portions that were without deadlines. In October 2009, the PUC approved plans from seven Pennsylvania EDCs – Allegheny Power Co., Duquesne Light Co., Metropolitan Edison Co., PECO Energy Co., Pennsylvania Electric Co., Pennsylvania Power Co. and PPL Electric Utilities Corp. – detailing how the companies intend to achieve consumption and peak demand reductions.

In creating the energy efficiency and conservation (EE&C) program guidelines, the Commission recognized a "one-size-fits-all" approach would not work. The PUC's program standards provided each EDC with the ability to tailor its energy efficiency and conservation plan to its service territory and consumers. The PUC will monitor the EE&C plan implementation to ensure the programs are cost-effective and achieving the intended results.

In general, the EDC plans for residential consumers include:

- Residential EnergyStar and high-efficiency appliance programs that provide rebates to customers for the purchase of certain energy efficient appliances.
- Residential compact fluorescent lighting (CFL) rewards programs that provide rebates and point of sale discounts for the purchase and installation of CFLs.

- Residential heating, ventilation and air conditioning (HVAC) efficiency programs that encourage consumers to purchase a high-efficiency central air conditioner or heating system.
- Residential home performance programs that provide for home audits and rebates toward implementing audit recommendations.
- Low-income home audit, and appliance and air conditioner replacement programs.

Act 129 also required EDCs with more than 100,000 customers to furnish smart meter technology upon request and in new building construction, and have a full deployment schedule not to exceed 15 years. The Commission approved smart meter plans for six of the seven EDCs (Allegheny Power's plan will be considered in Fiscal Year 2010-11) that include:

- A summary of the EDC's current deployment of smart meter technology, if any.
- A plan for future deployment, complete with dates for key milestone and measurable goals.
- A proposal for access to data for third parties, including electric generation suppliers, and providers of conservation and load management services.
- A plan for cost recovery either through base rates or a reconcilable automatic adjustment clause.

Act 129 defined smart meter technology as that capable of bidirectional communication that records electricity usage on at least an hourly basis, including related electric distribution system upgrades to enable the technology. The Act also directed that smart meter technology must provide customers with direct access to and use of price and consumption information, such as hourly consumption; the ability to support time-of-use rates and real-time price programs; and automatic control of customer's energy consumption.

The Commission also:

- Created a statewide registry for Conservation Service Providers (CSPs) that included the minimum experience and qualifications necessary to qualify as a CSP. Each EE&C plan must include a contract with one or more CSPs to implement the plan or a portion of the plan.
- Entered into a partnership with GDS Associates Inc. Engineers and Consultants to provide long-term, statewide evaluation of the EDC energy efficiency and conservation programs.
- Adopted a total resource cost test to analyze the costs and benefits of the EE&C plans.
- Updated the Technical Reference Manual, which is used to assess energy savings attributable to energy efficiency and demand response measures for Act 129, as well as the Alternative Energy Portfolio Standards Act.

The PUC has dedicated a section of its website to Act 129 information – under the Electricity tab, select Act 129 Information to view copies of all Orders, Secretarial Letters, comments and reply comments, and EE&C plan submissions.

Energy Efficiency & Conservation (EE&C) Plans for Smaller EDCs

On Dec. 17, 2009, the PUC set guidelines for the state's smaller electric distribution companies (EDCs) wishing to develop EE&C programs similar to those required for the larger EDCs under Act 129 of 2008. The smaller companies include: Citizens' Electric Co.; Pike County Light & Power Co.; UGI Utilities Inc.-Electric; and Wellsboro Electric Co.

The Commission asked that each of the plans include:

- A detailed plan with a description of EE&C measures to be offered.
- Sufficient supporting documentation and verified statements or testimony or both.
- Proposed energy consumption or peak demand reduction objectives or both, with proposed dates the objectives are to be met.
- A budget showing total planned expenditures by program and customer class;
- Tariffs and a Section 1307 cost-recovery mechanism.
- A description of the method for monitoring and verifying plan results.

The PUC's program guidelines provide each EDC with the ability to adapt its EE&C plan to its service territory and consumers. While the Commission did not establish mandatory energy reduction targets as found in Act 129, it will monitor the EDC plan implementation to ensure the programs are cost-effective and achieving the intended results.

PPL Rate Cap Expiration

With the expiration of rate caps on Dec. 31, 2009, the average PPL Electric Utilities Inc. consumers saw their electric bills increase by about 30 percent. Competitive suppliers began making offers of 10 percent off the price to compare in late 2009. By the end of June 2010, most of the discounts had risen to about 15 percent off the PPL price to compare.

At the beginning of 2010, three suppliers were making offers to residential consumers with about 24 making offers to commercial and industrial customers. By the end of the fiscal year, 12 suppliers were soliciting business from residential customers, while more than 65 were offering service to the larger customers.

On Jan. 8, 2010, 223,267 (16 percent) of PPL's customers were using a competitive supplier. By June 25, 2010, that number had grown to 453,651 (32.3 percent). Feedback from consumers indicated those who did not switch mainly were concerned about reliability and loyalty to PPL. Commissioners and staff participated in many media interviews, speaking engagements and community events to educate PPL customers about shopping for electricity. Messages focused on dispelling the misinformation mentioned above while emphasizing potential savings. The Commission also continued to emphasize consumer education through increased consumer outreach, the launch of PAPowerSwitch.com, and focusing the message to reflect consumer concerns. By the end of the fiscal year, 33 percent of PPL customers were shopping. (*See Consumers*)

Rate Caps

Under the 1997 Electricity Generation Choice and Competition Act, electric rates -- which are comprised of generation, transmission and distribution -- were capped to ease the transition to competitive markets. The law provides a framework that allows all retail electric customers to have direct access to competitive suppliers of electricity.

Customers do not necessarily have to pay the utility prices for generation. They may have the ability to choose between an EDC and competitive supply prices for the generation portion of the bill. An EGS may be able to offer a better price for generation. Customers will be able to compare the EDC price to a competitive supplier price to find the best option.

The amount consumers might save depends on issues such as:

How much they pay now for electric generation supply.

How much electricity they use.

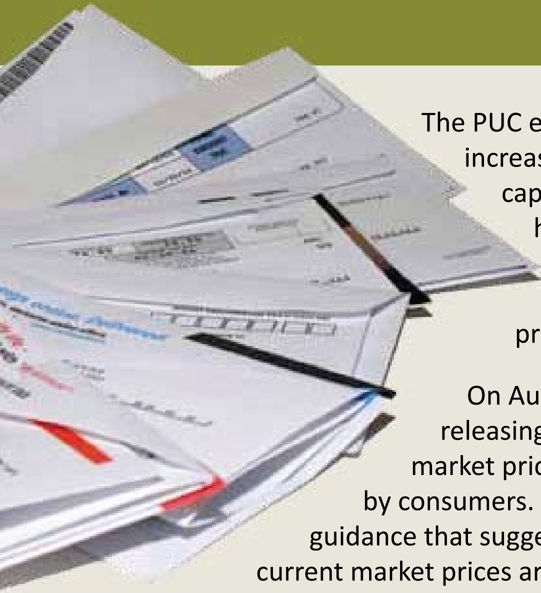
How market prices change in the future.

The price offered by the suppliers serving in the area.

The 1997 law allows residential customers to purchase power from competitive EGSs, while still having their electricity physically delivered by the EDCs regulated by the PUC. The law also permitted the EDCs to recover "stranded costs," which were the existing investments in infrastructure that may have become uneconomic and unrecoverable in a competitive environment. The EDCs were permitted to recover those investments.

In exchange, generation, transmission and distribution rates were capped at 1996 levels. The caps on transmission and distribution rates all have expired. Through the settlement of litigated proceedings before the PUC, the generation rates were extended for many of the EDCs. As determined by those proceedings, all utility rate caps will expire by Jan. 1, 2011.

Company	Generation Rate Cap Status	% of PA Ratepayers
Citizens' Electric Co.	Expired	0.1
Duquesne Light Co.	Expired	10.6
Pennsylvania Power Co.	Expired	2.8
Pike County Light & Power Co.	Expired	0.1
UGI Utilities Inc.	Expired	1.1
Wellsboro Electric Co.	Expired	0.1
PPL Electric Utilities Inc.	Expired	24.6
Metropolitan-Edison Co.	Dec. 31, 2010	9.5
Pennsylvania Electric Co.	Dec. 31, 2010	10.6
PECO Energy Co.	Dec. 31, 2010	27.8
West Penn Power Co.	Dec. 31, 2010	12.7



The PUC expects that customers may see an increase in their bills after the expiration of rate caps. While Pennsylvania consumers' rates have been capped, the market prices for electricity have risen. The magnitude of those increases will depend upon market prices when the EDC acquires its power.

On Aug. 8, 2008, the Commission began releasing quarterly estimates comparing current market prices for electricity with capped rates paid by consumers. The estimates provide some very general guidance that suggests two important trends: in most cases, current market prices are higher than existing capped rates, and, secondly, market rates can and do fluctuate considerably from day to day, and month to month. These prices listed in the quarterly estimates are not a projection of market prices or the rates consumers will pay when rate caps expire. The Commission's quarterly electric price estimates can be found on the PUC website, www.puc.state.pa.us, under the Electricity tab -- then click Electric Price Estimates.

Generation Price Mitigation Efforts

The Commission continues to engage consumer advocates and industry experts in efforts to mitigate any price increases in future electric generation prices. The Commission approved rate-mitigation plans such as phase-in or pre-payment plans, after directing all utilities to file such programs if electric generation prices increase by more than 25 percent when rate caps expire.

PPL, Met-Ed, Penelec and PECO all petitioned the Commission to allow customers to pre-pay in anticipation of price increases for supply service that could occur when generation rate caps expire. All of the programs are voluntary for consumers. PPL and PECO offered customers 6 percent interest on their pre-payment, while Met-Ed and Penelec offered 7.5 percent. The amount plus interest is then paid back to those customers in the form of a credit once rate caps expire.

The Commission also approved a deferral program for PECO's residential and small commercial customers, which allows qualifying customers to voluntarily opt to receive a credit on their bills in the first year to mitigate the initial financial impact of any rate increase, followed by higher payments in later years to make up the first year credits and accrued interest. PPL also was approved for a similar deferral program.

In addition, the PUC approved a demand side response rate for eligible PPL customers. The program enables certain customers to lower their electric bills by shifting electricity usage from on-peak periods when wholesale electricity prices and demand are higher to off-peak periods when demand and prices are lower.

Other mitigation efforts follow:

Energy efficiency and conservation: Energy efficiency investments often are the most cost-effective means of reducing electricity bills. Examples include installation of high-efficiency lighting, such as compact fluorescent bulbs (CFLs), higher efficiency appliances, repair or replacement of heating or cooling systems, and weatherization of homes and businesses. (See Act 129 of 2008 Implementation)

Smart Meters: Reducing usage or shifting load from periods when demand and prices for electricity are high, to periods when demand and prices are low, can have a decisive effect on reducing overall energy costs. (See Act 129 of 2008 Implementation)

Default Service Supply Procurement: The Commission has approved energy procurement rules that will reduce default service rate volatility by directing electric utilities to acquire a portfolio of energy products of different contract lengths and at different points in time. This portfolio approach will help insulate customers from large fluctuations in market prices.

Updated Low-Income Programs: Since electricity prices are likely to change with market prices, low-income programs that provide customer assistance and usage reduction must be adjusted accordingly to ensure that low-income customers are able to afford basic utility service.

Removal of Barriers to Retail Choice: The Commission has established a Retail Markets Working Group to examine existing barriers to the development of retail electricity markets and to recommend policies to the Commission to ensure customers have viable options for their electricity supply when rate caps expire.

Consumer Education: Education is the cornerstone of mitigation strategies. To take proactive action on their future energy costs, consumers must be informed of opportunities to reduce usage, have knowledge of pending default service rate increases and utility mitigation programs, have information on shopping for electricity, and know where to go to seek assistance to maintain service. The Commission is actively engaged in the approval, monitoring and implementation of electric utility consumer-education materials. (*See Consumers*)

Improving Competition

During the fiscal year, the Commission has taken steps to better monitor the competitive environment for electric generation while at the same time moving forward with measures designed to remove barriers to competition.

The Commission established the Committee Handling Activities for Retail Growth in Electricity (CHARGE), to provide an informal forum for troubleshooting issues that are interfering with the ability of electric generation suppliers to participate in the retail market and with the overall success of Pennsylvania's electric choice program. The PUC's Office of Competitive Market Oversight (OCMO), whose role recently was expanded from monitoring the development of the natural gas market, serves as the Commission's electric choice ombudsman.

Since a kick-off conference call on Dec. 18, 2009, CHARGE has been holding biweekly conference calls, in which electric generation suppliers (EGSs), electric distribution companies (EDCs) and consumer advocates participate. Various issues are being addressed such as billing, taxes, price to compare, consumer protections, marketing activities and disclosure statements.

CHARGE has focused on draft guidelines addressing marketing and sales practices for electric generation suppliers in their interactions with residential customers. These guidelines are viewed by many CHARGE participants as important to the effective operation of the retail market so that consumers are not discouraged by inappropriate marketing and sales practices. Some issues addressed by the guidelines include background checks, training and monitoring of agents, hours during which suppliers may conduct door-to-door marketing, and the details surrounding the verification process for a switch that is made during door-to-door marketing. The Commission is expected to take further action on this issue in Fiscal Year 2010-11.

CHARGE also addressed issues with the eligible customer lists provided by EDCs, including elements such as meter read cycle, customer name, customer address, utility rate class, load profile group indicator, load factor, telephone number, old account numbers, contact name and address, rate mitigation plan indicator, interval meter indicator, and capacity and transmission obligations. Again, the Commission is expected to take further action on the issues in Fiscal Year 2010-11.

Agendas and recaps of all meetings that have been held are available on the Commission's website – click on Electric, then Electric Competitive Market Oversight.

Review of Competitive Safeguards

On Feb. 25, 2010, the Commission initiated an evaluation of competitive safeguards to govern the relationships among electric distribution companies (EDCs), electric generation suppliers and customers.

The Competitive Safeguards Regulations at 52 Pa. Code §§ 54.121 – 123, which were codified in July 2000, were designed to assure the provision of direct access on equal and nondiscriminatory terms, to prevent cross subsidization between EDCs and their affiliated suppliers, to prohibit unfair or deceptive practices by suppliers, and to establish and maintain an effective and vibrant competitive market in the purchase and sale of retail electric energy in Pennsylvania.

Default Service

The 1997 Electricity Generation Choice and Competition Act required electric companies, or a Commission-approved alternative supplier, to provide default electric generation service to customers who have not selected an alternative generation supplier. This is commonly called default service.

The default service regulations provide critical rules and guidance to the industry regarding pricing, terms and conditions of service to consumers who decline to choose a competitive supplier, or who are unable to continue service with a competitive supplier.

Act 129 of 2008 amended language concerning default service prices, requiring that the default service prices for electric generation service are required to reflect "the least cost to consumers over time." The Commission is amending its default service regulations to ensure they are consistent with the changes in Act 129. Proposed regulations were issued in January 2010. Until final regulations are promulgated, the PUC is taking the amended language of Act 129 into its consideration of any EDC default service plans that come before the Commission for approval.

In establishing default service regulations, the Commission also recognized that some elements of default service should be addressed in a policy statement rather than a rulemaking, because changes in markets and technology may result in an approach that is too narrowly tailored or too unresponsive to serve the state's interests.

The policy statement provided procurement guidelines for default service providers to ensure competitive procurement practices; diversify generation supply risks; seek a variety of suppliers and contract terms; and comply with alternative energy requirements. It recommended that default service providers give customers the option to defer paying some portion of a rate increase for a period of time if the retail rate increases by more than 25 percent.

The Commission's role is to ensure that the process utilities use to establish the default service electricity generation prices achieves the lowest price over the long term. The generation prices are not set by the PUC, but rather are based on the wholesale market, over which the PUC exercises no jurisdiction.

The following is the status of default service plans for each of the EDCs:

Allegheny Power Co.

A July 25, 2008, Order approved a default service plan for Allegheny Power, which covers default service prices from Jan. 1, 2011, to May 31, 2013, and requires the company to purchase power for residential customers using 12-, 17- and 29-month contracts, and spot-market purchases to mitigate the impact of price spikes on the competitive markets.

On March 12, 2009, and May 14, 2009, the PUC approved plans for the company to accelerate the purchases of some electricity supply while wholesale energy costs were lower. Moving up the purchases of electric supply for residential customers was designed to allow the company to take advantage of favorable pricing available in the wholesale energy markets at that time.

Citizens' Electric Co. & Wellsboro Electric Co.
On Feb. 25, 2010, the PUC approved a default service plan covering June 1, 2010, through May 31, 2013. As part of the plan, the companies will choose a single portfolio manager to administer the schedules for competitive bid solicitations, and the schedules contained within the companies' stratified procurement plan.

The plan includes a Fixed Generation Supply Service Rate (GSSR) that may be adjusted quarterly. The changes to the Fixed GSSR reflect updated estimates to forecast costs and sales, which then are reflected in the rates. The Fixed GSSR is based upon the total amount of annual estimated purchased power costs, plus the total annual estimated administrative charges associated with the purchasing of generation supply to serve the default service customers, divided by the projected total kWh sales for the application period.

The Commission reviews the companies' filings to verify computations; ensure the proposed rates reflect the energy contract prices and the Federal Energy Regulatory Commission-approved tariff rates; and determine that the filings are in compliance with company tariffs and Commission Orders.

Duquesne Light Co.
The PUC approved a settlement for a default service plan for Duquesne on May 20, 2010. The default service plan covers service from Jan. 1, 2011, through May 31, 2013, and includes steps to obtain least-cost generation supply on a long-term, short-term and spot-market basis.

Metropolitan Edison Co. (Met-Ed)/Pennsylvania Electric Co. (Penelec)
On Nov. 6, 2009, the PUC approved a settlement for a default service plan with a 29-month term, beginning Jan. 1, 2011, and ending May 31, 2013. Under the plan, the companies will include competitive procurement plans that provide for a mix of spot purchases, and short- and long-term contracts, including using a descending clock auction to procure the full-requirements component of the supply mix and requests for proposals; a mix of supply resources that is designed to obtain least-cost generation supply contracts on a long-term, short-term and spot-market basis; and a separate solar procurement process designed to meet the solar photovoltaic requirement for the duration of the programs.

PECO Energy Co.
The PUC approved a default service plan for PECO on April 16, 2009, that provides for a mix of spot, one-, two- and five-year purchases of energy to establish the default service rates that will be in effect from Jan. 1, 2011, to May 31, 2013.

Pennsylvania Power Co. (Penn Power)
On Feb. 18, 2010, the Commission determined that the default service prices for Penn Power customers were transparent and non-discriminatory, and reflected market-based prices. This is the company's third default service plan since its rate cap expired Dec. 31, 2006.

The competitive bidding process was conducted by an independent group on behalf of Penn Power for the procurement of the commercial customers load for June 1, 2010, through May 31, 2011, and the residential customer load for June 1, 2010, through May 31, 2011.

Pike County Light & Power (PCL&P)
On Feb. 5, 2009, the Commission approved a settlement for the default service implementation plan for PCL&P. The settlement extended the existing fixed-price aggregation program provided by Direct Energy for an additional two years starting June 1, 2009. It also provides a back-stop, spot-based default service with quarterly price adjustments for those customers who choose that option during this extension period.

PPL Electric Utilities Inc.
On June 18, 2009, the Commission approved a settlement for PPL's default service program and procurement plan that will establish the default service prices for Jan. 1, 2011, through May 31, 2013.

Under the plan, PPL also will convene a customer collaborative to discuss residential, small commercial and industrial direct mail referral programs. PPL also will convene a collaborative to discuss a retail aggregation program. The results will be considered as part of the company's next default service proceeding.

UGI Utilities Inc. – Electric Division
On July 17, 2008, the PUC approved a settlement for the default service procurement, implementation and contingency plan for UGI Electric. The company will rely on competitive wholesale market purchases to obtain power for its default service customers in an approach designed to provide better protection from congestion risk relative to the base filing. The generation rates resulting from the purchases took effect Jan. 1, 2010.

Distribution Rate Increase Requests

During Fiscal Year 2009-10, no final action was taken on rate cases. At the end of the fiscal year, there were four electric distribution companies rate increase requests pending before the Commission: PECO Electric Co. ($316.4 million), PPL Electric Utilities Inc. ($114 million), Wellsboro Electric Co. ($ .79 million) and Citizens' Electric Co. ($.87 million).

Participation in Federal Proceedings

The Public Utility Code authorizes the Commission to appear before federal agencies such as the U.S. Department of Energy (DOE), FERC and the federal courts. The PUC intervenes in wholesale market proceedings on behalf of Pennsylvania and in collaboration with other state commissions in proceedings before FERC, to have an impact on the decisions being made by FERC about wholesale electric markets and interstate transmission of electricity. Among other things, FERC administers the Federal Power Act and is charged by Congress with creating, maintaining and enforcing the essential conditions for a fully competitive, non-discriminatory wholesale electricity market.

Beyond its responsibility for the wholesale energy markets, FERC also seeks to create proper wholesale market conditions and incentives to ensure the timely construction of necessary generation and transmission facilities to serve anticipated future demand.

A highly competitive and efficient wholesale electric market is integral to the existence of a properly functioning Pennsylvania retail electric market that supplies retail power at reasonable prices for consumers. As FERC delegates operational and market decisions to the Regional Transmission Organizations (RTOs), the PUC participates in many proceedings related to the design and operation of the RTOs in which Pennsylvania is located.

These RTOs are the PJM Interconnection LLC (PJM) and the Midwest Independent Transmission System Operator Inc. (Midwest ISO). The PUC is a member of two organizations of state commissions jointly interested in wholesale market issues – the Organization of PJM States Inc. (OPSI) and the Organization of MISO States Inc. (OMS) – that represent the interests of member states before the FERC. The PUC's monitoring of MISO will end in Fiscal Year 2010-11 with Penn Power slated to join PJM.

At present, most of Pennsylvania is within the PJM service territory. The Commission also participates in various FERC proceedings that may be initiated by and against RTOs, generation owners, transmission owners, load-serving entities or end users. In Fiscal Year 2009-10, the Commission increased both the number of staff and the extent of the PUC involvement in monitoring and advocating Pennsylvania's views on federal and regional energy issues.

Reliability Pricing Model (RPM)

In December 2006, FERC found that PJM's existing generation capacity market was unjust and unreasonable, because it failed to procure sufficient capacity to enable PJM to attract sufficient new generation investment to support a reliable transmission system. To remedy its concern, FERC approved the highly controversial RPM program, a capacity market under which PJM purchases capacity on a multi-year forward basis through an auction mechanism and allocates the costs to wholesale electricity customers.

The cost of capacity is determined by these forward auctions. On Dec. 12, 2008, PJM filed proposed amendments to RPM, and its filing was assigned by FERC to an intensive fast-track mediation process. The PUC and many other parties intervened and participated in the mediation process. On Feb. 9, 2009, PJM and most of the PJM wholesale market buyers, municipal and electric cooperatives, the PUC and other state commissions, state consumer advocates, and large end-user interests filed a proposed settlement, opposed by most of the generation owners in PJM. On March 26, 2009, FERC issued its Order, which took the proposed settlement as a starting point for disposition, while giving consideration to many of the objections of the PJM generators, and directed that certain issues be returned to PJM's stakeholders for further development.

Although the changes to RPM and recent economic events have resulted in a sharp decrease in capacity prices in many PJM sub-regions, RPM and its ongoing effect on wholesale markets and generation investment continue to be of regional concern. The PUC is actively participating in the ongoing RPM stakeholder process. Additional PJM-proposed modifications to RPM filings are expected to be filed at FERC later in 2010.

FERC Order 719

FERC issued final rules directing all jurisdictional RTOs to convene stakeholder committees to discuss and to subsequently propose specific tariff changes regarding wholesale market demand response, "scarcity" pricing rules, long-term power contracting, RTO responsiveness and organization, market structure, and market monitoring. The PUC actively participated in the Order 719 stakeholder discussions. While the outcome of some of the stakeholder committee deliberations was favorable to Pennsylvania, PJM's subsequent compliance filings presented some major problems for Pennsylvania retail customers, resulting in protests by the PUC and the Organization of PJM States. The protests primarily dealt with PJM's proposed changes to scarcity pricing of wholesale electricity and the impact of the proposal on wholesale market prices. The PUC plans to file a protest to the PJM filing in Fiscal Year 2010-11.

Other FERC proceedings included:

- PJM Market Monitoring Issues
- PJM Economic Demand Response Filing
- PJM Cost of New Entry (CONE) Determination
- PJM Complaint against PowerEdge
- MISO Resource Adequacy

Federal Stimulus Funding

The Commission received grant funding through the American Recovery and Reinvestment Act of 2009 (ARRA). Specifically, the PUC received $1,068,000 in funding through the Electric Regulation Assistance Program that is made available to state public regulatory agencies to help them deal with the increased caseload created by the ARRA in areas such as energy efficiency, smart grid, demand-response equipment, transmission, and electricity based renewable energy.

The Commission hired staff to handle inquiries and requests for information from the public, utility customers and customer-generators in the areas of Act 129 program implementation and measure installment; utility net metering; and interconnection; Alternative Energy Portfolio Standards-solar installations (PA Sunshine Program); alternative energy credit certification; and the Generation Attribute Tracking System (GATS), the alternative energy credits registry designated by the PUC.

Using federal funding, an additional staffer was hired to perform public outreach work focused on electric competition and rate caps, energy efficiency and conservation, and renewable energy initiatives. Another staffer was hired to analyze electric-related issues that impact the rates that Pennsylvania electric consumers pay. This position investigates and analyzes electric utility claims that involve Act 129-related compliance filings and annual reviews.

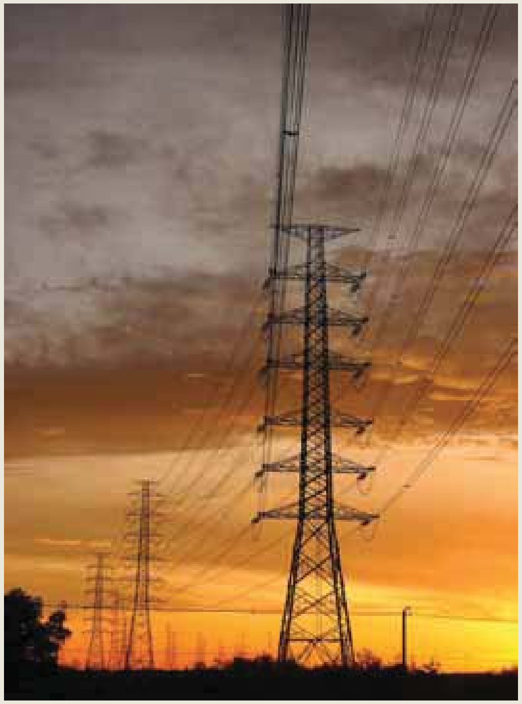
On April 16, 2009, the Commission initiated an investigation into action that may be needed to ensure the Commonwealth's compliance with and eligibility for a portion of $3.1 billion in grants under the Federal State Energy Program. Those grants are contingent upon the states having general ratemaking policies to ensure that utility financial incentives are aligned with the promotion of energy efficiency and conservation. Comments filed by interested stakeholders are undergoing review, and a technical conference was held in January 2010. Further Commission action is expected in Fiscal Year 2010-11.

Transmission Planning

The PUC continues to actively monitor federal legislation impacting transmission siting. Amendments to the Federal Power Act (FPA) enacted as part of the Energy Policy Act of 2005 greatly expanded the authority of the federal government, through the Department of Energy (DOE) and FERC, to prescribe areas of the country where large transmission lines should be sited.

This legislation authorized DOE to conduct triennial congestion studies to determine where in the United States the greatest amount of transmission congestion and constraints are located. The study issued in 2006 designated the entire Mid-Atlantic Region as a National Interest Electric Transmission Corridor (NIETC). The result of the NIETC designation is that a transmission line must be processed through the state commission, if applicable, within one year of filing or the utility applicant can seek to have the transmission line sited under "backstop authority" given to FERC under the new FPA provisions. This expansion of federal authority greatly infringes on state commission processes to review and rule on a transmission siting application.

In March 2008, following DOE's formal designation of the Mid-Atlantic NIETC, the PUC together with six other states and/or state commissions, plus a number of environmental organizations, challenged the DOE NIETC designation in the U.S. Court of Appeals on a number of grounds. The 13 separate appeals, including the PUC's, were consolidated for argument in the 9th Circuit. The major issues are that the NIETC designation was overbroad and the methods utilized by DOE for determining areas of congestion were flawed. Briefing of the case occurred from September 2008 through April 2009. The case, after a year of delay, was argued on June 8, 2010. A decision is not expected before the end of 2010. The appellants requested as relief that the NIETC designation be withdrawn and the matter returned to DOE for further consideration utilizing better data.



Since that time, DOE has issued a new congestion study for 2009 that makes no changes in the Mid-Atlantic designation. Also, DOE, as a result of the litigation, has initiated a multi-state process, funded by American Recovery and Reinvestment Act stimulus money and known as the Eastern Interconnection State Planning Council, which will work with transmission planning authorities such as PJM to develop recommendations on where future transmission lines should be sited. These recommendations will be reviewed and approved by FERC. The PUC is an active participant in this process.

Alternative Energy Portfolio Standards Act of 2004

Signed into law on Nov. 30, 2004, the Alternative Energy Portfolio Standards Act (AEPS) requires EDCs and EGSs to include a specific percentage of electricity from alternative resources in the generation they sell to

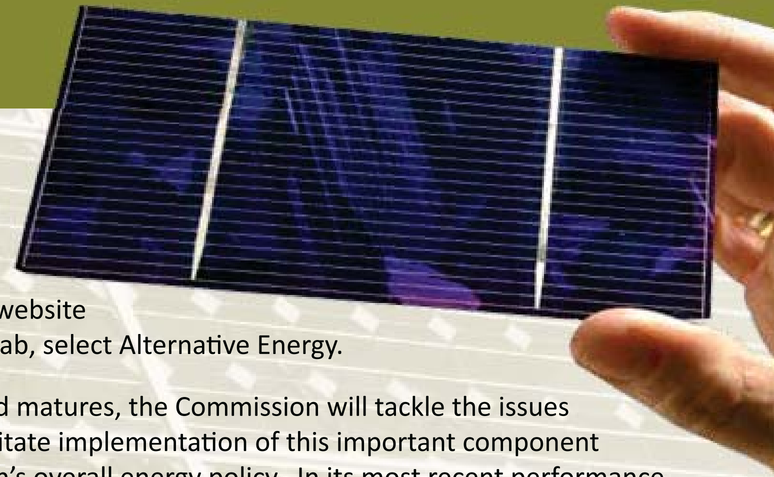
Pennsylvania customers. Since the passage of AEPS, the PUC has moved expeditiously to develop the rules and regulations necessary for fostering Pennsylvania's alternative energy market. Each year, the Commission continues to address the issues that arise as more EDCs, EGSs and alternative energy systems attempt to follow the mandates of the Act.

On June 3, 2010, the Commission re-approved Clean Power Markets (CPM) as the administrator of alternative energy credits (AECs) until Dec. 31, 2013, with the option for two one-year contract extensions. An AEC is created each time a qualified alternative energy facility produces 1,000 kWh of electricity. The AEC then is sold or traded separately from the power. This makes it easier for individuals and businesses to finance and invest in alternative energy.

Among the services CPM performs is the verification of electric distribution company and electric generation supplier compliance with the minimum portfolio requirements of the AEPS Act; the calculation of Tier I requirements on a quarterly basis; the review of applications for alternative energy system status; and the response to inquiries about alternative energy credits.

On Sept. 25, 2008, the PUC finalized the regulations that govern compliance with AEPS by the EDCs and EGSs. The regulations reflect the Commission's understanding that the Act is intended to promote the efficient utilization of the region's alternative energy resources, to yield significant economic and environmental benefits in Pennsylvania. Act 129 of 2008 expanded the definition of alternative energy sources that qualify as Tier I resources under AEPS. The PUC finalized procedures and guidelines to allow for the limited expansion of alternative energy sources that qualify in Tier I under AEPS to include Pennsylvania-based low-impact hydro-power facilities and generators utilizing by-products of pulping and wood manufacturing processes. The PUC also created reporting requirements and related procedures to adjust the AEPS Tier I requirements to account for the newly qualified resources.

The Commission also established the standard application forms and fees for customer-generators wanting to interconnect to the electric grid. A major component of AEPS includes directions for how customer-generators, who use technologies such as solar panels, fuel cells or biodigesters, can connect to the electric distribution system. The PUC had previously established the rules for those interconnections and how the customer-generators will be compensated by EDCs and EGSs for providing surplus energy to the electric grid. The forms are available on the PUC website under the Electricity tab, select Alternative Energy.



As the Act evolves and matures, the Commission will tackle the issues in a way that will facilitate implementation of this important component of the Commonwealth's overall energy policy. In its most recent performance audit of the PUC, the Legislative Budget & Finance Committee (LB&FC) said the Commission "made good progress" in implementing the requirements of the Act.

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 are focused on reviewing annual and quarterly reports filed by the electric distribution companies. 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 on the number and duration of outages.

The Commission issued the annual reliability report – Electric Service Reliability in Pennsylvania – in June 2010. The report trends reliability performance from March 2004 through March 2010, and includes the causes of outages, by percentage, and information on all major events. It can be viewed at the Commission's website at www.puc.state.pa.us under Publications and Reports.

Electric Power Outlook

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

This year's report concludes that sufficient generation, transmission and distribution capacity exists to reasonably meet the needs of Pennsylvania consumers for the near future. Additional generating capacity likely will be needed by 2015.

Regional generation adequacy and reserve margins of the Mid-Atlantic area have been maintained. While sufficient generation capacity is expected through 2014, the Commission will continue its current policy of encouraging generation adequacy within the region. With respect to transmission adequacy, the transmission system in the Mid-Atlantic Region has sufficient capacity to meet demand. Transmission expansions and upgrades are being planned for the next five years to reinforce the bulk of the power grid.

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.

Biennial plans for the periodic inspection, maintenance, repair and replacement of facilities, designed to meet performance benchmarks and standards, were filed with the Commission on Oct. 1, 2009, by FirstEnergy (Met-Ed, Penelec and PennPower), Allegheny Power and UGI, to become effective on Jan. 1, 2011. Inspection and maintenance plans are to be filed by Duquesne Light, PECO, PPL, Citizens', Pike County and Wellsboro by Oct. 1, 2010.

Outage Response

The PUC initiated a rulemaking and proposed a policy statement on Nov. 6, 2009, to improve utility response to large-scale service outages. The goal was to amend existing regulations regarding service outages and reportable accidents. The Commission also proposed a policy statement to provide guidance to the industry regarding the types of public notice necessary.

The goal of the rulemaking is to have more effective responses to future unscheduled outages. The proposed amendments address accidents involving injury for the electric, natural gas, water and wastewater industries; service outages; the ability to capture more reportable events, such as cyber-security attacks and damages to a utility company by another utility company; deadlines for reporting accidents; the expansion of provisions regarding reporting service outages to include sustained outages; and reports to track the number of utility workers, contract and mutual aid works assigned to repair work.

The proposed policy statement is intended to establish guidelines for how the utilities should communicate with the public during outages to ensure that actual, timely notice to customers is provided. The proposed policy statement contains a series of acceptable methods for improving the timeliness and effectiveness of notice to customers during an outage.

The proposed policy statement applies to electric distribution utilities. However, the Commission sought comment on whether the policy statement should apply to natural gas, water and wastewater utilities as well.

The proposed policy statement is designed to establish acceptable forms of notification to reflect technological advances; have the utilities strive to adopt the National Incident Management System (NIMS) and its public information system; ensure crisis communications plans are in writing and consistent with NIMS; and encourage utilities to work across geographic regions if applicable.

The proposed rulemaking and policy statement are the result of a statewide evaluation of EDC storm response tactics, including their power restoration practices and customer communications. The action followed residual storms from Hurricane Ike on Sept. 14-15, 2008, that mixed with a cold front to produce winds up to 80 mph in Western Pennsylvania, caused damage to the area's electric distribution system and left more than 450,000 customers without power. For some, power was not restored until Sept. 22, 2008. The Commission will take further action on the rulemaking and policy statement in Fiscal Year 2010-11.

Mergers and Acquisitions

In reviewing mergers and acquisitions, the Commission works to make certain that customers are protected and the company is a viable public utility and a good neighbor. 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.

The PUC did not consider any mergers or acquisitions of electric companies this year. However, on May 14, 2010, Allegheny Power, TrAILCo and FirstEnergy filed a joint application to obtain approval for a change of control of Allegheny and TrAILCo with a wholly owned subsidiary of FirstEnergy. Public input hearings are scheduled for the first quarter of Fiscal Year 2010-11 with a final decision expected later that fiscal year.

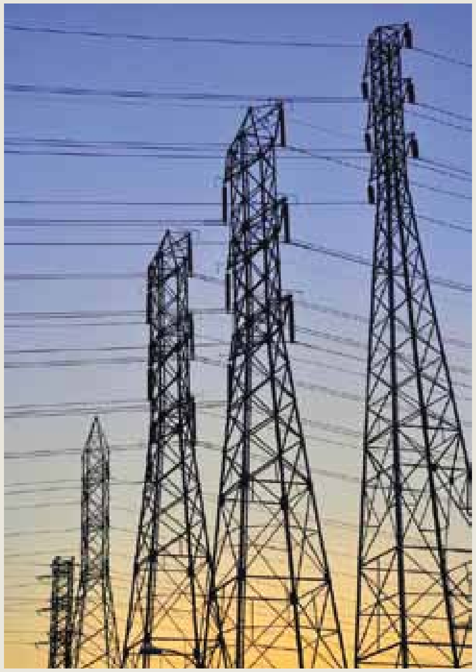
Transmission Line Proceedings

The state's Public Utility Code requires its public utilities to furnish and maintain adequate, efficient, safe, and reasonably priced utility service and facilities. It also allows utilities to make the changes necessary to ensure the quality and safety of that service. The PUC is the agency charged with ensuring that the public utilities are living up to those obligations. That includes oversight of the siting and construction of electric transmission lines.

On Jan. 28, 2010, the PUC proposed interim guidelines regarding transmission line siting in Pennsylvania, asking interested parties to comment on the proposal. The interim guidelines, if adopted, will provide guidance on the information that the Commission believes is relevant and critical to its evaluation of future transmission line siting applications. The Commission plans to initiate a rulemaking process to update existing regulations on the information that must be filed in support of transmission siting applications. Because the rulemaking process can take a year or more, the interim guidelines will provide direction and be effective until final regulations are completed.

Ongoing developments at the federal level affecting transmission line siting, as well as the Commission's obligation to maintain an adequate transmission infrastructure, impacted the decision to re-evaluate the relevancy and effectiveness of the Commission's current regulations. As discussed earlier in this chapter, the PUC has been active in preserving state jurisdiction over transmission line siting, taking an active role in the DOE's NIETC designation.

The interim guidelines address public notice filing requirements; eminent domain filing requirements; exemption from municipal zoning standards;



route evaluation and siting; environmental filing requirements; and health and safety considerations.

Transmission line siting cases present two distinct issues: whether the need for the line exists; and whether, considering the alternatives, the proposed route is in the public interest. When an application of this nature is received, the Commission is required to hold hearings to consider the necessity, safety and environmental impact of the proposed line. The Commission also considers a variety of other issues, including risk of danger to the health and safety of the public, compliance with applicable statutes, and regulations providing for the protection of natural resources and minimal adverse environmental impact. Additional information on the PUC process for transmission line siting is available on the PUC website under Consumer Education.

Some large transmission line proceedings are being considered throughout the state, including:

Trans-Allegheny Interstate Line Co. (TrAILCo)

On Nov. 13, 2008, the Commission approved an agreement that allowed a 1.2 mile portion of the 37.2-mile transmission line proposed by TrAILCo and stayed the remainder of the proceeding for further consideration. On May 6, 2010, the Pennsylvania Commonwealth Court affirmed that decision. A collaborative working group was established to consider other options for the remaining portions of the TrAILCo line.

TrAILCo filed an application seeking Commission approval to locate, construct and operate a proposed transmission-line project in portions of Washington and Greene counties. More than 300 protests and interventions were filed on behalf of various parties. To provide adequate opportunities for community input, the Administrative Law Judges (ALJs) assigned to the case held 12 public input hearings in various locations of Washington and Greene counties in fall 2007. Evidentiary hearings were conducted in spring 2008, in which the legal, policy and evidentiary issues were addressed.

PPL Coopersburg

On July 24, 2009, the Commission approved an application by PPL for approval to site, construct and operate the proposed transmission line in Upper Saucon Township, Lehigh County, and Springfield and Richland townships in Bucks County.

Filed on Feb. 14, 2008, public input and evidentiary hearings were held in Fiscal Year 2008-09, followed by a recommended decision from the presiding ALJ in what is known as the Coopersburg Project.

PPL Susquehanna-Roseland

The Commission conducted a binding poll on Jan. 14, 2010, the results of which approved with conditions PPL's application to construct a new 500-kV transmission line. PPL filed the application on Jan. 6, 2009, to construct a new 500-kV transmission line. Known as the Susquehanna-Roseland project, the proposed Pennsylvania line is about 101 miles long and travels through portions of Lackawanna, Luzerne, Monroe, Pike and Wayne counties. PPL also requested authorization to construct a new substation in Blakely Borough, Lackawanna County, to connect the 500-kV line to the regional transmission system in that area. The PUC held four public input hearings in the area where the proposed line is to be constructed.

The conditions to the Commission approval included:

- Replacing or repairing any damage to homes, residences, other buildings or property caused by the construction of this project.
- Complying with any and all restrictions on the permits received from any agency or entity from which a permit is required to construct this project.

- Avoiding where possible, archeological resources identified in the transmission line corridor, in the direct path of access roads or at locations of proposed work areas consistent with agreements between PPL and the Pennsylvania Historic and Museum Commission, and the Bureau of Historic Preservation protocols.

- Following protocols for cultural resource studies for the project, which have been agreed upon with the Pennsylvania Historic and Museum Commission and the Bureau of Historic Preservation.

- Providing adequate advance notice to the Saw Creek Estates Community Association and each Saw Creek resident, whose property is burdened by the transmission line right-of-way, of when construction will be performed within the Saw Creek Estates, including when a helicopter may be used.

- Developing a plan to educate communities along the proposed route regarding the construction, the mitigation efforts to be used to ensure the safety of the citizens and property, and to provide basic information regarding line features.

- Filing a report within 30 days of PJM Interconnection's next update to the 2008 Regional Transmission Expansion Plan (RTEP), or PJM's next baseline RTEP report, whichever is issued sooner.

- Prohibiting construction on the portion of the line going through the Delaware River Gap until the National Park Service issues the necessary permits.

- Stating that the PUC approval expires unless construction of the project commences within three years.

Several parties have appealed the Commission's decision to Commonwealth Court.

Renewable and Sustainable Energy

The PUC monitors periodic board meetings held by the five sustainable energy funds. The PUC also chairs the Pennsylvania Sustainable Energy Board, which provides suggested operational and best practices for the regional funds, as well as promotes the transparency of the funds' activities and projects.

Various restructuring and merger settlements from electric competition allocated nearly $80 million of ratepayer funds, over about a 10-year period beginning in 1998, for regional plans to develop renewable and clean energy projects and technologies. The Commission is responsible for approving nominations to each fund's board of directors and changes to their governing bylaws. Examples of projects for which the regional boards have approved funding include wind farms, photovoltaic applications, efficiency loan programs and renewable energy education.

In 2008, the funds provided slightly more than $7.4 million in loans and about $2.6 million in grants for investments in renewable and clean energy, and energy efficiency projects. Commission staff continues its liaison role with the regional sustainable energy funds.

Electric Company Audits

The Commission periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the jurisdictional electric distribution companies.

In addition to the periodic MAs and MEIs, the PUC annually conducts a variety of other EDC audits. During the fiscal year, 19 audits, involving competitive/ intangible transition charges, default service, purchased power, non-

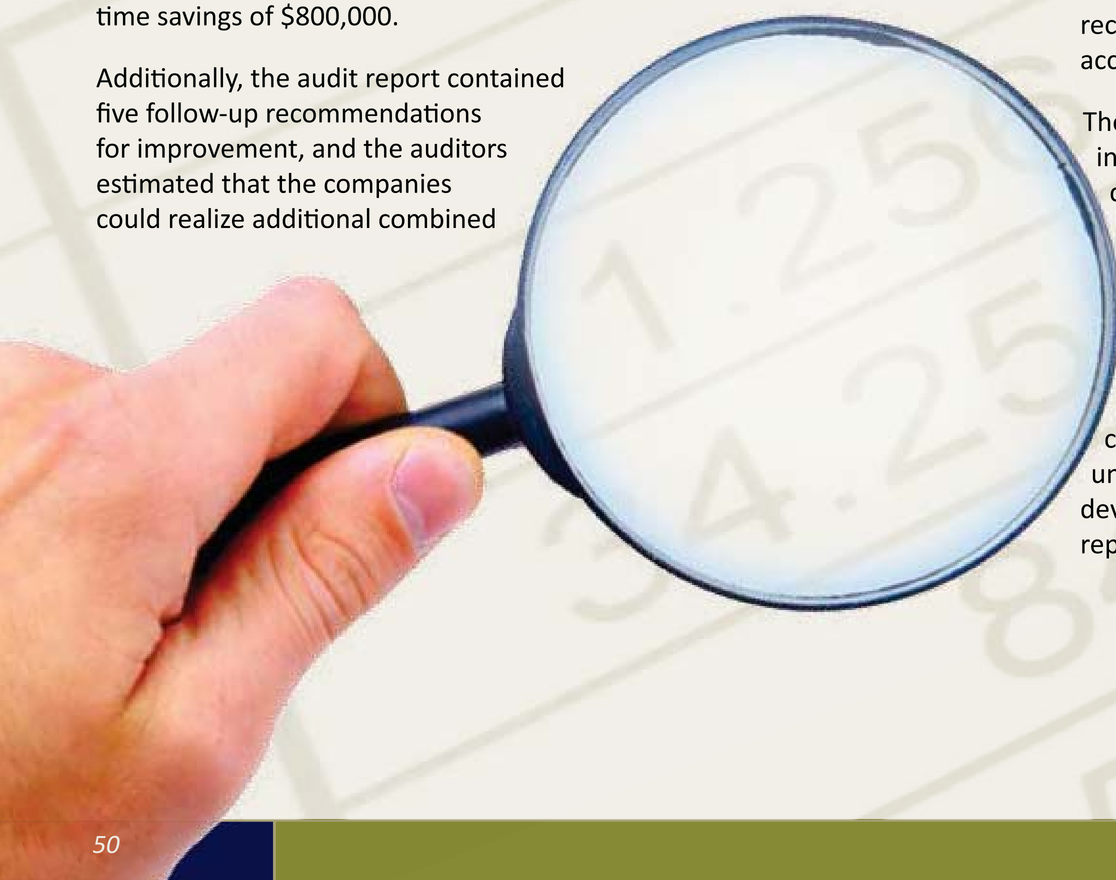
utility generation, transmission service costs, consumer-education programs and universal service programs, were completed.   Also, 69 filings requesting changes to established adjustment clause rates were reviewed and processed, implementing revised surcharge rates.

Among the MAs and MEIs completed within the 2009-10 fiscal year were:

Citizens' Electric Co., Wellsboro Electric Co. and Valley Energy Inc.

A MEI examined the progress of C&T Enterprises Inc.'s (C&T) regulated utilities – Citizens' Electric Co., Wellsboro Electric Co. and Valley Energy Inc. – in implementing 20 of the 28 original recommendations from a June 2007 Focused Management and Operation Audit. The auditors found that the companies effectively implemented 15 of the 20 prior recommendations reviewed and have taken some action on the five remaining recommendations resulting in the realization of annual savings of approximately $3,000 and one-time savings of $800,000.

Additionally, the audit report contained five follow-up recommendations for improvement, and the auditors estimated that the companies could realize additional combined one-time savings of up to $11,000 by implementing the recommendations contained in the report. The companies' implementation plan indicated that they already have begun to implement all five of the recommendations and plan to complete implementation by the end of 2010. The follow-up recommendations accepted by the companies include: striving to more fully comply with the spirit of general corporate governance rules and regulations; revising Wellsboro's conflict of interest policy; allocating all expenses related to Wellsboro's Chief Executive Officer's (CEO) vehicle among affiliate companies based on the methodology used to allocate the CEO's salary; and preparing periodic written variance explanations by line item for the capital budget at Citizens' and Wellsboro.



Pike County Light & Power (PCL&P)

A Focused Management and Operations Audit of PCL&P, released in January 2010, analyzed and evaluated management performance, and resulted in six recommendations for improvements. The company's implementation plan accepted all six of the recommendations.

The audit recommendations accepted in full or in part by the company include filing an updated affiliated interest agreement to reflect current corporate structure, affiliate relationship and allocation methodologies; implementing mandatory annual refresher training in standards of competitive conduct for employees; reporting the age of natural gas distribution mains and services by decade of installation in the annual Department of Transportation reports; developing a written damage prevention program, document the continuing public education program and incorporate it into the damage prevention program, and consistently comply with these programs; develop a policy that prohibits the use of undocumented business agreements with third-party contractors; and developing a more accurate budgeting process and implementation variances reporting for PCL&P.

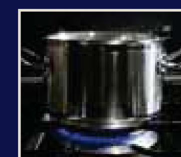
PPL Electric Utilities

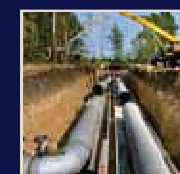
A Focused Management and Operations Audit report, released on March 11, 2010, indicated that PPL Electric Utilities Corp. (PPL) could realize yearly savings up to $1.9 million and one-time savings of $9.8 million by implementing recommendations contained in the report. The audit analyzed and evaluated management performance, and resulted in 23 recommendations for improvement. The company's implementation plan indicated acceptance of all 23 recommendations.

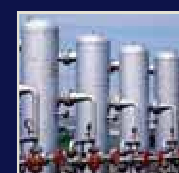
The audit recommendations include: reevaluating the feasibility of the current distribution line-inspection program and expansion of foot patrols to regions, circuits or areas based on a cost/benefit analysis; striving to reduce the number of outages caused by equipment failure and non-trimming-related tree outages; developing a risk management program to effectively identify, assess and mitigate cyber risk to its information systems infrastructure; improving inventory cycle count accuracy, striving to optimize inventory levels and increasing turnover; submitting for Commission review and approval an updated contract or agreement for each affiliate that PPL Electric Utilities receives services from or provides services to, which should include information regarding the services to be received or performed and a description of the cost-allocation methodology that will be applied; and completing efforts to develop, document and implement an effective ongoing succession plan for all PPL executives' management positions.

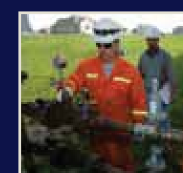
NATURAL GAS

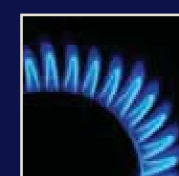
Working to ensure safety, the PUC inspects the state's natural gas pipelines while regulating natural gas distribution company base rates and default service rates, and encouraging the development of competitive markets.







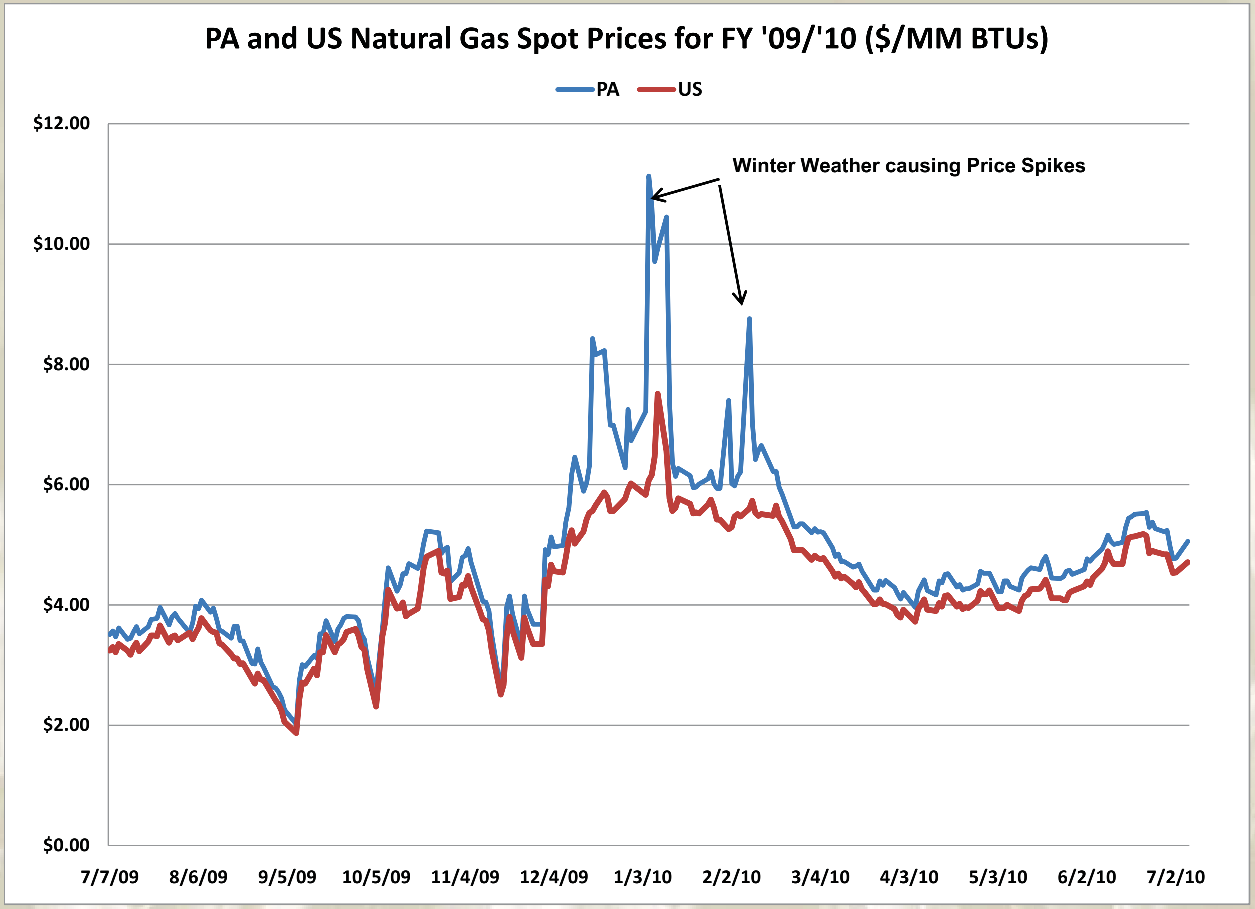




The fiscal year saw a slight increase in natural gas prices as the economy recovered. While winter temperature extremes did bring limited volatility, the prices for the most part were steady from about $4/MM British Thermal Units (BTUs) to about $6/MM BTUs. In 2009-10, the Commission began an examination of the jurisdictional issues related to Marcellus Shale development. Also, the Commission moved forward with stakeholder action items designed to remove market barriers and increase competition in Pennsylvania's retail natural gas services market. Additionally, the PUC expressed support to the legislature for a distribution system improvement charge that would facilitate the timely recovery of costs of infrastructure improvements and would promote increased safety in the state's natural gas distribution system. The PUC's Gas Safety Division continues to monitor the safety of the fuel that heats 51 percent of the homes in the state. Settlements for about $635,000 were reached with a natural gas company that was under informal investigation for violating portions of the Public Utility Code or PUC regulations. Currently, Pennsylvania has 30 regulated natural gas distribution companies and 95 licensed natural gas suppliers.

Wholesale Natural Gas Prices

For Fiscal Year 2009-10, natural gas prices drifted slightly higher through the year. This upward drift occurred in both the U.S. and Pennsylvania price. Generally, the prices started at a very low ebb as the economy was hitting bottom. During the year, the market drifted higher as hopes for a recovery became more prevalent. This upward drift, although readily apparent on the graph below, was very controlled from about $4/MM BTUs to about $6/MM BTUs. Pennsylvania prices did spike on three occasions during the winter in response to cold temperatures, and then returned to follow the national trend.



The U.S. Energy Information Administration (EIA) noted that a steep decline in demand by the industrial sector, and smaller but significant declines in the residential and commercial sectors in 2009, has been partially offset by consumption growth in the electric power sector. Low natural gas prices relative to coal caused substantial switching to natural gas for baseload electric power generation throughout most of 2009.

Total U.S. natural gas weighted heating degree-days during the first two months of 2010 were 5.5 percent above the 30-year normal level and the highest for the period since 2004. According to the EIA, the combination of frigid temperatures and electric space heating in the Southeast contributed not only to increases in residential and commercial sector natural gas consumption, but also to very strong natural gas consumption in the electric power sector.

On April 20, 2010, an explosion occurred aboard the Deepwater Horizon mobile offshore drilling unit (MODU) located 52 miles southeast of Venice, Louisiana. The MODU was drilling an exploratory well and was not producing oil at the time of the incident. At the end of the fiscal year, the EIA notes that the oil spill still has the potential to affect energy supplies, infrastructure and prices in the region. About 30 percent of the total crude oil and 12 percent of the total natural gas produced in the United States comes from Gulf Coast waters. The Gulf Coast also is a major refining center, representing about half of the refining capacity in the United States. Nearly two-thirds of the crude oil processed by Gulf Coast refineries is imported by tanker.

Looking forward, EIA believes that, in spite of higher natural gas prices in the first quarter of 2010 compared with the same period in 2009, natural gas accounted for a slightly higher share of generation in the electric power sector. This gain in the natural gas share of electric power sector generation is expected to continue through 2010. In the industrial sector, EIA's natural gas weighted industrial production index (a measure of industrial activity in natural gas intensive industries) showed a year-over-year increase of 6.8 percent during the first quarter of 2010 and is forecast to rise by 5 percent on average for the entire year.

Marcellus Shale Issues

The PUC held two special *en banc* hearings on issues related to Marcellus Shale development, safety and PUC jurisdiction. Consumer advocates, the industry and the federal government were invited to testify before the Commission. Interested parties also were asked to submit comments.

In initiating the hearings, the Commission emphasized that the extraction of the natural gas associated with the Marcellus Shale has the potential to create hundreds of thousands of jobs while significantly stimulating the state's economy. At the same time, the PUC is striving to guard the public interest when it comes to ensuring that the natural gas, and the goods and services needed to extract it are being transported in a safe manner.

Marcellus Shale development creates numerous issues and unanswered questions, many of which impact the Commission's core functions. The *en banc* hearings were to examine these questions sooner rather than later so that the Commission can fully protect the public while not stifling economic growth. The hearings did not examine issues outside of the Commission's jurisdiction such as water quality or other environmental issues.

The hearings mark the beginning of an ongoing dialogue at the Commission. The PUC has created a page on its website on the topic -- click on Natural Gas, then Marcellus Shale.

The Public Utility Code identifies two types of natural gas public utilities. The first is the traditional natural gas distribution utility that delivers natural gas to homes, businesses and industrial customers. The second type of natural gas public utility is a type of common carrier. This type of gas utility transports natural gas, via a pipeline, for the public, for compensation. The PUC only has jurisdiction to regulate and inspect public utilities or "entities defined as public utilities."

A legislative priority for the Commission is for the legislature to grant an extension to the PUC's authority to inspect the remaining intrastate transmission and gas gathering lines within the state. The PUC believes this will ensure adequate protection against the risks of life, property and the environment, posed by pipeline transportation infrastructure that will be constructed from the development of Marcellus Shale gas reserves. The PUC is not seeking rate regulation associated with the recommended extension to Commission pipeline authority on otherwise non-jurisdictional pipelines. The Commission would continue to regulate rates of any pipeline that operates as a public utility.

Laser Northeast Application

On Jan. 19, 2010, Laser Northeast Gathering Co. LLC filed an application to begin to offer gathering and transporting or conveying service by pipeline to the public in eight townships in Susquehanna County. The company has applied to be a public utility under the Public Utility Code, Title 66 of Pennsylvania's Consolidated Statues.

The Commission scheduled two public input hearings in the matter for the first quarter of Fiscal Year 2010-11.

SEARCH

The Commission continues to move forward with an action plan that grew out of the efforts of the Stakeholders Exploring Avenues for Removing Competition Hurdles (SEARCH). SEARCH is a working group comprised of stakeholders representing residential, commercial and industrial customers, natural gas distribution companies, suppliers, and pipelines. SEARCH was created as a result of an October 2005 Commission report that found that effective competition did not exist in Pennsylvania's natural gas retail market.

The SEARCH action plan was designed to increase effective competition in the retail market for natural gas supply and includes three rulemakings: one that addressed market issues; one that addressed security requirements related to licensing natural gas suppliers (NGSs); and a third that addressed natural gas distribution company (NGDC) business practices.

On June 17, 2010, the Commission issued a final rulemaking that addressed NGS creditworthiness and reasonable security requirements. The revised licensing regulations permit the use of NGS accounts receivable in a PUC-approved purchase of receivables (POR) program to satisfy part of or all of a NGS's security requirement; and list possible triggering events for and reasonable criteria for adjusting the security amount. The regulation also was revised to list PUC procedures, both formal and informal, that a NGS may use to resolve a dispute over security with a NGDC, and to impose an annual reporting requirement for NGDCs on the adjustment of security amounts. The final regulation must be reviewed by the Office of the Attorney General, the Governor's Budget Office, and the designated standing committees of both houses of the General Assembly, and then approved by the Independent Regulatory Review Commission. The final regulation will become effective upon publication in the Pennsylvania Bulletin.

The action plan's third rulemaking on NGDC business practices addressed the standardization of NGDC system operating rules; specific operation rules regarding nomination and delivery requirements, tolerance bands, cash out/penalties and standardization of electronic bulletin boards. On May 1, 2009, the Commission issued a Proposed Rulemaking Order that also directed the establishment of a stakeholders working group to develop these standards and a model Supplier Coordination Tariff format, and proposed the formation of a standing working group to develop standards for data exchange and communications, including electronic bulletin boards. The Order also directed that the stakeholders working group be run concurrently with the proposed rulemaking, and that the Commission's Director of Operations convene the stakeholder working group.

On June 23, 2010, the Commission convened the stakeholders working group for an organizational meeting. At the meeting, stakeholders shared their views on the scope and application of the proposed regulations, priorities for addressing specific action items and the possibility of establishing subgroups to handle the more technical tasks. Staff is reviewing stakeholder input and the filed comments to determine the best way to proceed. Staff anticipates providing SEARCH stakeholders with a plan and a meeting schedule later in Fiscal Year 2010-11.

The market issues rulemaking looked at the NGDC price to compare; reconciliation and quarterly adjustments; purchase of receivable programs; mandatory capacity release and non-discrimination; and cost recovery of competition-related activities. The Proposed Rulemaking Order was issued on March 27, 2009. The Commission is expected to ask for additional comments in Fiscal Year 2010-11 and issue a draft Final Rulemaking Order as an advance notice of final rulemaking.

The 1999 Natural Gas Choice and Competition Act allowed customers to purchase gas from independent suppliers, while still having their gas physically delivered by PUC-regulated distribution companies. In October 2005, a Commission report found that effective competition did not exist in the natural gas markets. SEARCH was formed and tasked with developing recommendations for legislative, regulation or policy changes that would increase competition in the retail natural gas market.

Small Natural Gas Company Task Force

On Jan. 15, 2009, the Commission formed a task force to review the operations of small natural gas utilities. Small natural gas utilities are defined as having intrastate operating revenues under $40 million. The PUC has 20 small natural gas companies under its jurisdiction.

The purpose of conducting a full-scale review of the small natural gas utilities is to ensure that customers of all natural gas companies are receiving safe and adequate service. Staff has completed their review for consideration by the Commission in Fiscal Year 2010-11.

Natural Gas Distribution System Improvement Charge

Based on experience in the water industry, the PUC urges the creation of a distribution system improvement charge (DSIC) to allow natural gas companies to use a surcharge on customers' bills to accelerate the replacement of infrastructure improvements. Otherwise, the utility must wait until the completion of a rate case to begin recovering its investment and receiving a return on its investment.

Legislation that would give the PUC authorization to institute a system improvement change for natural gas utilities is pending in the General Assembly as House Bill 744.

System improvement charges reduce the frequency and the associated costs of base rate cases while maintaining a high level of customer protections. The DSIC is designed to provide ratepayers with improved service quality; greater rate stability; fewer main breaks; fewer service interruptions; increased safety; and lower levels of unaccounted for natural gas. In light of today's difficult financial markets, DSICs and a Collection System Improvement Charge (See *Water/Wastewater*) are the type of innovative regulatory policies expected as rating agencies tighten ratings benchmarks and are a key element in maintaining access to capital markets on reasonable terms.

Section 1307 of the Public Utility Code authorizes the PUC to prescribe a mandatory system for automatic adjustment of a utility's rates by means of a sliding scale of rates. In 1997, the Public Utility Code was amended to add Section 1307(g), which specifically provided for an adjustment clause for the recovery of costs related to distribution system improvement projects designed to enhance water quality, fire protection reliability and long-term system viability.

The PUC has expressed support for a gas DSIC for NGDCs and testified before the House Consumer Affairs Committee. The PUC would like the legislation to authorize the Commission to establish reasonable parameters for use of the DSIC, via regulations, as is presently the case for water utilities. The PUC has indicated that it also should have oversight of the securitization process, which only would be available to PGW. The bill also brings treatment of natural gas service lines in line with industry practice relative to electric service lines, both of which present inherent risks to activity on and near such lines. The NGDC would be responsible for service lines and safety issues related to service line leaks, excavations and siting. The PUC also supports this aspect of the proposed legislation.

Base Rate Increase Requests

During the fiscal year, the Commission took the following actions related to about $32 million in rate increase requests:

UGI Central Penn Gas Inc.

Customers Served: 77,000 customers in 35 counties
Requested Rate Increase: $19.6 million (12.1 percent)
Approved Rate Increase: $10 million (6.1 percent)
Primary Reasons: Return and depreciation resulting from the company's substantial investment in new and replacement facilities to serve customers, declining customer usage and higher operating costs.

UGI Penn Gas Inc.

Customers Served: 160,000 customers in 13 counties
Requested Rate Increase: $38.1 million (11.4 percent)
Approved Rate Increase: $19.75 million (5.9 percent)
Primary Reasons: Return and depreciation resulting from the company's substantial investment in new and replacement facilities to serve customers, declining customer usage and higher operating costs.

Trigen Steam Heat Co.

Customers Served: 275 commercial and industrial customers in the City of Philadelphia
Requested Rate Increase: $3.38 million (7.06 percent)
Approved Rate Increase: $2.28 million (4.7 percent)
Primary Reasons: To allow it to continue operating its system in a reliable and prudent manner, to provide earnings sufficient to maintain system integrity and reliability, as well as to earn a fair rate of return on its invested capital.

At the end of Fiscal Year 2009-10, five natural gas rate increase requests for $131.7 million were pending before the Commission: Columbia Gas Co. ($32.3 million), PECO Gas Co. ($43.8 million), Valley Energy ($.42 million), T.W. Phillips Gas & Oil Co. ($12.7 million) and Philadelphia Gas Works ($42.5 million).

PGW Appeal of 2007 Rate Decision

The Commission's Sept. 13, 2007, Order approving a $25 million base rate increase for PGW was affirmed by the Commonwealth Court of Pennsylvania, and pleadings are currently pending in the Supreme Court of Pennsylvania, which will decide whether to review the Commonwealth Court's decision on appeal. The PUC and the Office of Consumer Advocate have filed answers opposing PGW's request for the Supreme Court to review the Commonwealth Court's decision.

PGW filed for PUC approval of a $107 million (11 percent) increase in base rates on Dec. 22, 2006. After suspending the proposed increase for hearing and investigation, the PUC approved a $25 million increase. In its appeal to Commonwealth Court, PGW argued that a five-year future period should be the basis for determining an appropriate level of rate relief and challenged the PUC's use of a traditional test-year concept, adjusted to reflect known and measurable changes. PGW also argued that the PUC had incorrectly calculated its allowance for bad debt expenses.

Affirming the PUC's decision, the Commonwealth Court found that the Commission had applied the proper ratemaking methodology and requirements as set forth in Chapters 13 and 22 of the Public Utility Code, as well as the City of Philadelphia's Management Agreement Ordinance. The Commonwealth Court also agreed with the PUC's manner of calculating PGW's allowance for bad debt expense. The parties are awaiting a decision from the Supreme Court as to whether PGW's appeal will be heard.

PGW Working Group, Collaborative with Competitive Suppliers

On Dec. 18, 2008, in the context of approving emergency rate relief in the amount of $60 million, the Commission established a working group to examine PGW's financial situation. The group was directed to recommend improvements, solutions and other courses of action that can be implemented to maintain the company's financial viability. The Commission recognized that PGW's current management team has taken a number of steps to move PGW in a positive direction, but stated that other significant initiatives may be necessary to ensure that the company is able to provide safe, reliable and reasonably priced service to its customers.

The Working Group – comprised of representatives of the Commission, PGW and the City of Philadelphia Mayor's Office – has focused on PGW's overall cash flow position and the status of the rollover of two tranches of commercial paper (together totaling $148 million) during the first quarter of 2009. The group also has discussed PGW's remarketing efforts in connection with the 2006 bonds.

The Commission also ordered PGW to begin a collaborative process in February 2009 to explore options for transitioning some or all of its customers to an alternative default supplier. This proposal was raised by natural gas suppliers that participated in the company's emergency rate relief proceeding and was based on evidence that PGW purchases natural gas for its customers in the amount of $600 million to $700 million annually from borrowed funds.

As required, PGW submitted a report to the PUC in April, detailing the progress made and identifying the areas of agreement among stakeholders; stakeholders are permitted to submit alternative reports recommending a course of action. This process is to continue until the stakeholders agree to submit a final action report, unless the Commission orders otherwise.

Mergers and Acquisitions

In reviewing mergers and acquisitions, the Commission works to make certain that customers are protected and the company is a viable public utility and a good neighbor. 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.

The following proceeding was before the Commission in the natural gas industry:

Dominion Peoples/Peoples Hope Natural Gas

On Nov. 19, 2009, the Commission approved a settlement for the sale of Dominion Peoples Natural Gas Co. to Peoples Hope Natural Gas Co. The settlement was reached among the companies, the Office of Consumer Advocate and the Office of Small Business Advocate. The Commission found that the settlement was in the public interest and provided substantial public benefits.

Dominion Peoples provides natural gas service to about 360,000 homes in Central and Southwestern Pennsylvania. Peoples Hope is an indirect subsidiary of SteelRiver Infrastructure Fund North America LP.

The settlement includes specific commitments to apply a $35 million base rate credit over three years beginning with the next base rate case; cap existing base rates until Jan. 1, 2011; improve funding for low-income programs, including $300,000 for Hardship Funds and $768,000 for its Low-Income Usage Reduction Program; improve customer service; return customer service functions to Pennsylvania, create Pennsylvania-based jobs and produce better customer service by employees more familiar with Pennsylvania standards; return senior management functions to Pennsylvania, coupled with a commitment to maintain the company headquarters in or near Pittsburgh for at least 10 years; provide pension security for employees and retirees; and insulate Peoples Gas from activities of the parent company's other investments.

Gas-Safety Issues

The PUC is responsible for enforcing the Commission's pipeline safety regulations as they apply to natural gas and other public utilities transporting certain commodities by pipeline within Pennsylvania. Generally, the PUC ensures that pipeline utilities comply with the federal pipeline safety regulations that have been adopted by the PUC as its safety standards. The PUC monitors compliance with these regulations by conducting frequent inspections of pipeline facilities and examining safety records of regulated gas utilities. The inspectors also investigate incidents that include fires, explosions and major outages.

Natural Gas Pipeline Reportable Incidents

In 2009, the Commission investigated three reportable incidents. During the previous three years, natural gas utilities reported 18 incidents, including eight in 2006, six in 2007 and four in 2008.

A reportable incident may involve an explosion, a release of gas, and, unfortunately, sometimes personal injury or loss of life. The PUC's regulations require a utility to submit a report of an accident involving facilities or operations that meet one or more of the following circumstances: 1) a release of gas involving death or injury; 2) a release of gas and $50,000 in property damages, including lost gas; and 3) a release of gas that results in an event considered significant by the operator. During the past five years, the most frequent causes of reportable incidents were facility damage, operator error and corrosion. A public utility also must immediately notify the federal government through the National Response Center of all reportable incidents.

The cause of pipeline incidents has varied during the past several years, but the PUC has identified the most frequent causes as excavation damage; natural causes such as flooding; automobile accidents; pipeline leaks caused by corrosion; and human error. In 2009, the incidents were caused by operator error, corrosion and excavation damage.

The division has utilized information gathered from its incident investigations to ensure its inspection efforts focus particular attention on the areas that have previously resulted in reportable incidents.

Natural Gas Safety Investigation Settlements

In Fiscal Year 2009-10, the PUC approved settlements with natural gas utility companies following informal investigations into violations of the Public Utility Code.

UGI Utilities Inc. paid a civil penalty of $80,000 and made an $80,000 contribution to its Low Income Usage Reduction Program (LIURP) program as part of a settlement related to a natural gas explosion that destroyed a Lehigh County building and adjacent row homes.

UGI also paid a civil penalty of $15,000 as part of a settlement to end an investigation into a fire after a backhoe being used to install sewer lines struck an unmarked three-quarter-inch steel main. The mobile home closest to the line caught fire.

Equitable Gas Co. paid a civil penalty of $65,000 and made a $65,000 contribution to the Equitable Hardship Repair Fund, which assists low-income customers. The settlement ended an informal investigation of the company's practices and procedures related to safety regarding three incidents where PUC gas safety inspectors found that Equitable did not have written procedures for preventive and mitigative measures to prevent damage to certain transmission pipelines and failed to follow certain required safety procedures.

Equitable also made a $25,000 contribution to its Hardship Fund and $25,000 to its Hardship Repair Fund while providing up to 20 combustible gas indicators to small natural gas distribution companies and provide training for the equipment. The settlement ended an informal investigation into an Aug. 21, 2004, natural gas explosion at 336 Jacks Run Road, Ross Township, Allegheny County.

Peoples Natural Gas Co. paid a civil penalty of $30,000 and was ordered to spend $30,000 to create and provide schools and contractors who engage in subsurface excavation within the Peoples' service territory with an educational program that addresses safety-related issues associated with natural gas. The settlement ended an informal investigation into three separate incidents in 2007 related to gas safety.

Able Gas Co. was ordered to pay $170,100 in penalties for committing numerous violations of the Public Utility Code, the Commission's regulations and federal gas-safety regulations. Many of the violations by the Armstrong County natural gas company were related to record keeping, mapping, and operations and maintenance issues.

Columbia Gas of Pennsylvania Inc. (Columbia Gas) made a $50,000 contribution to the Dollar Energy Fund as part of a settlement to end an informal investigation into an incident that occurred on Aug. 10, 2006, and was caused by a small leak in a gas pipe, resulting in an explosion and fire at a residence in Mount Pleasant Township, Westmoreland County.

Additional Gas Safety Activities Included:

1,195 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line, and compressor station inspections)

Three investigations of reportable incidents

63 non-compliance letters issued

190 gas safety violations issued

151 violations handled by non-compliance letters

39 violations pursued by enforcement staff

Gas Company Audits

During the fiscal year, the Commission completed nine purchased gas cost audits (PGC), 16 gas cost rate audits, two consumer-education audits, one Low Income Usage Reduction Program audit, and four special audits/reviews. The Bureau also reviewed 13 gas cost rate (GCR) adjustment clause filings implementing revised GCR rates. In addition, the Bureau performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas companies. Among those MAs and MEIs completed during the 2009-10 fiscal year were:

Peoples Natural Gas Co.

A Focused Management and Operations Audit report was released March 11, 2010, of Peoples Natural Gas Co. and contained recommendations that could save the company up to $14.3 million annually. The audit analyzed and evaluated management performance in nine areas and made 22 recommendations for improvement. The company's implementation plan accepted 21 recommendations and indicated partial acceptance of the remaining recommendation.

The audit recommendations include: identify major sources of unaccounted-for gas; implement programs to reduce the amount of unaccounted for gas in the system and establish reduction goals, which could save up to $13.2 million annually; develop more appropriate unaccounted-for gas calculation and allocation methodologies, and utilize them to accurately report unaccounted-for gas in the PUC annual report, U.S. Department of Transportation annual report and other PUC filings; strive to reduce facility damage by effectively modifying, tracking and enforcing the damage prevention program, determining proper line-marking procedures, and training company and contracted personnel in the damage prevention program and proper line-marking procedures; expedite the replacement of bare steel facilities within the distribution system infrastructure; reduce billing errors by developing more accurate tracking to determine the more significant causes and implementing appropriate process and procedure improvements; initiate actions to increase collections success by properly tracking collections by collection agency, by active and inactive accounts, and initiating necessary changes to improve the collection process; and reduce long-term arrearages by enhancing current policies and procedures as appropriate.

Equitable Gas Co.

A Stratified Management and Operations Audit report by Shumaker & Company released on June 16, 2010, showed that Equitable could see yearly savings of between $4.3 million and $7.1 million and one-time savings of up to $50,000 by implementing recommendations contained in the audit report.

The audit analyzed and evaluated management performance in 15 areas and resulted in 72 recommendations for improvement, including 11 in the affiliated interest area which was rated as needing major improvement. The recommendations for improvement in this area included enhancing and updating the company's affiliated interest agreements and submitting them to the PUC for review and approval; developing a formal internal dividend policy; and performing periodic studies to determine the cost competitiveness of centralized functions and developing plans to address the results of these studies.

The audit's other functional areas included recommendations to: expand the focus of emergency planning and security efforts; implement policies and practices to ensure safe and reliable service through effective operations and maintenance practices (i.e., improved damage prevention, greater emphasis on the monitoring and managing of unaccounted-for gas, re-evaluating distribution capital and maintenance spending levels, and enhancing the main replacement decision-making model); complete implementation of new workforce management technologies; and regularly conduct formal information technology (IT) long-range planning and implement a process for prioritization of IT projects.

In its implementation plan, submitted to the Commission on May 21, 2010, Equitable accepted 58 recommendations, partially accepted 10 recommendations and rejected four recommendations. The company further stated that it had already implemented 20 recommendations and planned to complete implementation of an additional 24 recommendations by December 2010. The Commission will conduct a follow-up on the Company's implementation efforts during a future Management Efficiency Investigation.

Valley Energy

See Electric, Electric Company Audits, the section on Citizens' Electric Co., Wellsboro Electric Co. and Valley Energy Inc.

Gas Beyond the Mains

Based on a Management Efficiency Investigation (MEI) of UGI Utilities Inc. and UGI Penn Natural Gas Inc., the Commission determined that many unanswered questions existed related to propane service in general and tariffed Gas Beyond the Mains (GBM) programs in particular that should be reviewed.

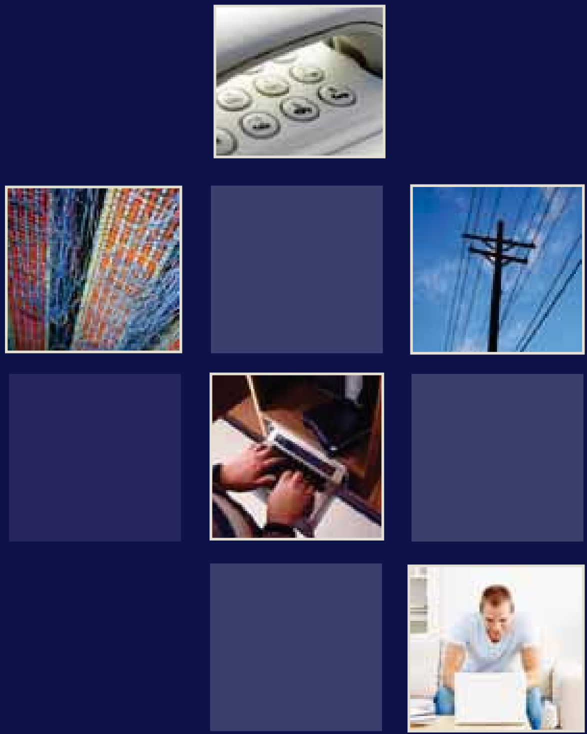
Specifically, the Commission was concerned about the GBM programs of jurisdictional gas utilities and PUC jurisdiction over other propane distribution systems. On Jan. 8, 2009, the Commission initiated an investigation to review the jurisdictional status of such systems and any other relevant issues. The investigation is to determine whether the GBM program of PUC jurisdictional utilities should continue, whether the program, as run, is cost-effective, whether UGI has been transitioning customers to gas service within a reasonable time period as it was designed, and any other issues relevant to GBM programs.

The Commission has made numerous data requests to some of our jurisdictional gas utility companies that have GBM programs and met with non-jurisdictional propane operators. Any action that might come as a result of the investigation would occur in Fiscal Year 2010-11.

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 2009-10, the PUC's Bureau of Audits reviewed and processed 33 (monthly and annual) steam cost rate adjustment clause filings submitted by jurisdictional steam heat companies. In addition, eight steam cost rate audits were completed.

TELECOMMUNICATIONS



In promoting a competitive telephone market, the PUC works to ensure reasonable local rates, accelerate the deployment of high-speed broadband access service, and make programs available so that no consumer is left without local telephone service.

The Commission monitors the aggressive broadband deployment initiatives required by Act 183 of 2004 (Act 183 or Chapter 30), which will provide access to broadband service to all Pennsylvanians by 2015. The Commission also ensures services for low-income consumers meet or exceed national standards when determining whether a wireline or wireless carrier is entitled to federal funding as an Eligible Telecommunications Carrier.

Regulated Telephone Companies

The three largest incumbent local exchange carriers (ILECs) are Verizon Pennsylvania Inc., Verizon North Inc. and The United Telephone of Pennsylvania LLC d/b/a CenturyLink (CenturyLink). Currently, the number of telecommunications carriers certified by the Commission is as follows:

Telecommunications Carriers Total:	713
Competitive Local Exchange Carriers:	169
Incumbent Local Exchange Carriers:	37
Competitive Access Providers:	93
Interexchange Carriers, Toll Facilities-Based:	72
Interexchange Carriers, Toll Resellers:	342

Numbering Plans

The North American Numbering Plan Administrator, "NeuStar Inc" (Neustar), which is the neutral third party Number Planning Area (NPA) relief planner for Pennsylvania, petitioned the PUC on behalf of Pennsylvania's telecommunications industry because the 570, 814 and 717 area codes are projected to run out of telephone numbers. New area codes are needed when existing area codes exhaust their supply of "NXX" codes (which is the second set of three digits in a 10-digit telephone number, NPA-NXX-XXXX).

Different relief alternatives were suggested for ensuring adequate number resources. The alternatives include an overlay of a new area code and various geographic splits of the existing area codes. The petition filed by Neustar before the PUC recommended an "overlay" plan. With an overlay, the existing geographic area served by an area code is kept intact and a new area code is added to the same geographic area. New customers or existing customers adding additional lines could be assigned numbers from the new overlay area code. Ten-digit local dialing would then apply to all telephone calls per the FCC.

The 570, 814 and 717 area codes are expected to exhaust its supply of telephone numbers by the third quarter of 2011, second quarter of 2012, and the fourth quarter of 2012, respectively. The Commission opened a public comment period on the issues and held public input hearings across the state on the plans. A decision in the cases is expected in fiscal year 2010-11.

In May 2010, the Federal Communications Commission (FCC) granted the Commission's petition to direct mandatory pooling in all area codes in Pennsylvania. The Commission implemented mandatory number pooling in all rate centers in the 215/267, 570, 610/484, 717 and 814 NPAs in June 2010. Mandatory pooling should extend the current numbering supplies within Pennsylvania's area codes.

Telephone Stimulus Monies in PA

The Commission continues to work with other Commonwealth agencies to obtain federal funding from the National Telecommunications Information Administration (NTIA) for telecommunications infrastructure and service projects for Pennsylvania. NTIA is the federal agency charged with dispending billions of dollars in federal funding under the American Recovery and Reinvestment Act of 2009 for those kinds of projects throughout the nation. The Commission has participated in successful efforts that have resulted in Pennsylvania being approved for more than $168 million in federal funding.

About $28.8 million was awarded to Pennsylvania to construct a "middle mile" project, which is essentially a network that will connect other networks, covering the Northern Tier Counties in Pennsylvania from Ohio to New York. NTIA also awarded Pennsylvania another $99.6 million in funding for a broadband network that will link Pennsylvania colleges and universities, research entities, and healthcare organizations. In addition, NTIA awarded $6.1 million to fund a "middle mile" project in Erie, Crawford, and Mercer counties, and three counties in Northeastern Ohio.

The Commonwealth also received a $2.25 million grant to support a broadband data collection and mapping effort to identify the facilities providing broadband in Pennsylvania. Finally, the Commonwealth expects to receive a portion of the $3.7 million Latino Microenterprise TechNet and $28.5 million One Economy Corporation proposals to expand public computer access to the Latino population, as well as broadband outreach efforts for residents of public housing and low-income communities throughout the country.

The Governor established a Stimulus Oversight Commission to review, monitor and advise PA's plans for stimulus spending to assure that citizens get the best from the program. The Oversight Commission's website is www.recovery.pa.gov.

2-1-1 Three-Digit Dialing

On Feb. 11, 2010, the Commission approved the petition of the United Way of Pennsylvania (UWP), designating PA 2-1-1 as the lead implementing agency of the 2-1-1 abbreviated dialing code for providing information and referral services in Pennsylvania.

On July 21, 2000, the Federal Communications Commission (FCC) ruled that the 2-1-1 abbreviated dialing code should be used as a universally and easily recognizable number that would make it possible for callers in need to make critical connections with appropriate community-based organizations and government agencies more easily accessible. The FCC, acting on a petition filed in 1998 by the United Way of America, the Alliance of Information and Referral Services (AIRS) and several other partners, assigned the 2-1-1 abbreviated dialing code as the universal telephone number for non-emergency community information and referral services.

In 2006, the UWP and the Pennsylvania Association for Information & Referral (PAIR) joined forces and established a taskforce called the Pennsylvania 2-1-1 Collaborative that was made up of representatives from across Pennsylvania. In 2009, PA 2-1-1 was formed as an independently incorporated Pennsylvania not-for-profit organization dedicated to providing all Pennsylvanians with access to non-emergency community information and referral services.

5-1-1 Three-Digit Dialing

The service "511 Pennsylvania" became operational on Sept. 1, 2009. This service allows travelers to easily access accurate, up-to-the-minute information on traffic, roadway conditions, regional weather, transit operations, tourism information, and more via the Internet and telephone.

On July 21, 2000, the Federal Communications Commission (FCC) designated 5-1-1 as the universal dialing code for government entities for providing transportation and travel-related information. The Pennsylvania Department of Transportation (PennDOT) consulted with the Commission and other agencies on the technical and legal aspects of implementing a statewide traveler information service utilizing the 5-1-1 number. The Commission previously approved PennDOT's petition for designation of the 511 dialing code for transportation and travel-related information.

EAS Regulations and Working Group

The Commission's Extended Area Service (EAS) regulations govern how the Commission requires local telephone companies to extend their local calling areas – those areas in which landline telephone subscribers can make calls without paying toll charges. The Commission is reviewing these regulations to determine whether they need to be updated to reflect changes in technology and the Pennsylvania telecommunications market, since they were first adopted prior to local telephone service competition.

The Commission gathered input from industry, consumer groups, and competitors on a rulemaking to revise the regulations and facilitated an EAS Working Group to make recommendations on what, if any, future EAS regulations or policies are appropriate. The EAS Working Group held its first meeting in June 2008, and addressed, among other issues, the differences in market developments in rural Pennsylvania compared to urban areas. The EAS Working Group submitted a recommendation on the direction of the EAS policy in Pennsylvania, which is currently under consideration by the Commission.

Verizon's Performance Issues

The PA Carrier Working Group (CWG) – comprised of Verizon PA, competitive local exchange carriers (CLECs), the Office of Consumer Advocate, the Office of Small Business Advocate, Commission staff, and other interested parties – focuses on the quality of the wholesale service (e.g., interconnection) that Verizon PA renders to the CLECs. The PA CWG also works with similar CWG groups throughout the Verizon multi-state footprint to resolve issues in a manner consistent with Verizon and CLEC multi-state operations. Work is ongoing in the PA CWG on PA-specific operations and problems, as well as incorporating footprint changes into the way service is measured in PA.

Verizon PA's wholesale service is evaluated using metrics that measure Verizon PA's wholesale service against Verizon PA's retail service or against benchmarks if there is no comparable retail service, as detailed in the PA Carrier-to-Carrier (C2C) Guidelines. Self-executing remedies, as detailed in the PA Performance Assurance Plan (PAP), are generated if it appears that the wholesale service was deficient. While the PA Guidelines and PA PAP are typically updated quarterly, the current metrics and remedies reflect the third major revision since inception in 1999. In April 2010, the Commission approved with modifications a financial remedy plan for Verizon PA directory listing errors that affect customers of CLECs was implemented in Pennsylvania as a result of PA CWG efforts.

Chapter 30 Implementation

The Commission continues to implement key provisions of Act 183 of 2004, which modifies the prior Chapter 30 provisions of the Public Utility Code. Compared to pre-existing Chapter 30 regulations, Act 183 provides more economic incentives to facilitate deployment of a Statewide Broadband Network compared to pre-existing regulations, encourages earlier completion of existing network modernization plans (NMPs) by incumbent local exchange carriers (ILECs), and provides for less Commission regulation. Chapter 30 authorizes the Commission to oversee the NMPs that provide

for the deployment of broadband high-speed access connections to the Internet and other services. Act 183 also reduces filing and reporting requirements for incumbent local exchange carriers, and establishes a Bona Fide Retail Request program (BFRR), the Business Attraction or Retention Program (BARP), the Broadband Outreach and Aggregation Fund (BOAF) and the Education Technology Fund (E-Fund).

The Chapter 30 law provides three options for the alternative regulation and network broadband deployment for the ILECs under the Commission's jurisdiction. Twenty-nine ILECs proceeded with the implementation of broadband deployment in their respective networks. All these carriers completed their broadband commitments by Dec. 31, 2008.

The remaining four ILECs chose other alternative regulation options. CenturyLink and Windstream Pennsylvania LLC. elected to complete their broadband commitments by 2013 invoked and invoke a zero percent inflation offset value in their respective price cap mechanisms, and also undertook the BFRR obligations. Verizon PA and Verizon North, the only non-rural ILECs, elected to complete their broadband deployment by 2015, which incurs a 0.5 percent inflation offset value in their respective price cap formulas, and requires a BFRR program and BARP obligations.

Broadband Deployment

Pennsylvania is home to one of the country's most aggressive broadband deployment initiatives as required by Act 183 of 2004. In a report released March 4, 2008, by the U.S. Internet Industry Association, Pennsylvania's Act 183 was cited as "the most aggressive broadband deployment plan in the nation." By 2015, Act 183 requires that every Pennsylvanian will have access to broadband services, even in the more rural areas.

Act 183 also contains several programs designed to accelerate broadband deployment. Currently, the Commission has examined the Federal Communications Commission's (FCC) National Broadband Plan and has filed comments in the various proceedings initiated by the FCC to emphasize Pennsylvania's advances in broadband deployment. Further discussion of the FCC's National Broadband Plan is below.

Bona Fide Retail Request Program

The Bona Fide Retail Request Program (BFRR) established by Act 183 of 2004 provides a means for customers to obtain broadband services sooner than they may otherwise receive them through their local telephone company's deployment schedule.

Through the BFRR, customers may demonstrate that sufficient demand for high-speed Internet service exists in their area by submitting applications to their local telephone company. When a minimum of 50 retail access lines or 25 percent of the retail access lines within a community service area (whichever is less) commit to purchase broadband services for a minimum of one year, the local telephone company must make those services available in that area within 12 months. Community service areas are geographic areas served by the same central office or remote terminal. Typically, a community service area will be all the homes and businesses within approximately two or three miles of one of these remote terminals or central offices.

Verizon Pennsylvania (Verizon PA), Verizon North Inc. (Verizon North), the United Telephone Co. of Pennsylvania LLC d/b/a CenturyLink and Windstream Pennsylvania Inc. are required to offer BFRR programs under the provisions of Act 183.

Each of these four companies maintains a required toll-free telephone number and website containing information about their respective BFRR program. Consumers also can find more information about the BFRR program through Pennsylvania's Department of Community and Economic Development (DCED) website at www.newpa.com/broadband.

The participating companies must provide semi-annual reports to the Commission consisting of the number of requests for high-speed access services to the Internet received during the reporting period by community service areas and the actions taken by the company on those requests. The Commission is required to monitor and enforce the compliance of the participating companies with their obligations to offer and administer a BFRR program.

Chapter 30 sets limits, under which, in any given 12-month period, a company is not required to work on more than 40 active BFRR requests and is not required to work on more than 20 such requests that "require property acquisition, including rights-of-way, or new construction." The two Verizon companies and Embarq PA have filed certifications stating that they have met both the 40 overall and 20 major build statutory thresholds.

Business Attraction or Retention Program

Verizon PA, Verizon North, CenturyLink and Windstream Pennsylvania Inc. also are required to implement a Business Attraction or Retention Program (BARP). The BARP permits DCED to aggregate customer demand and facilitate the deployment of advanced or broadband services to qualifying businesses that DCED seeks to attract or retain in the Commonwealth. Under this program, DCED may submit requests to the applicable company on behalf of qualifying businesses in areas that DCED deems priority areas for economic development. The Commission is required to monitor and enforce the compliance of participating companies with their obligations under the BARP.

Education Technology Program

Act 183 requires the Department of Education to create the Education Technology Program to provide grants to school entities from the Education Technology Fund (E-Fund) to purchase or lease telecommunications services and equipment related to broadband. Applicant schools must be able to match their E-Fund grants.

Broadband Outreach and Aggregation Program

To further broadband deployment, this program was established by DCED as mandated in Chapter 30. This program makes expenditures and provides grants from the BOAF. The fund is for outreach programs -- for business and residential consumers, political subdivisions, economic development entities, schools, and healthcare facilities -- concerning the benefits, use and procurement of broadband services, and seed grants to aggregate customer demand.

The Commission receives an annual report from DCED to verify the accuracy of the contributions from the four participating ILECs.

Promoting Broadband Access and Education

In order to finance the E-Fund and BOAF, Act 183 requires the Commission to annually assess the four ILECs opting to complete their broadband buildout in 2013 or 2015; such assessments are established to be 20 percent of the first year's annual revenue effect of any rate increase gained from the elimination or reduction in the inflation offset in the carriers' NMP formula. The acquired funds are divided equally between the E-Fund and the BOAF until June 30, 2011, when the E-Fund is statutorily discontinued. Thereafter, the assessment is reduced to 10 percent until the participating ILEC achieves full broadband deployment or until the termination of the BOAF on July 1, 2016. At no time may the BOAF exceed $5 million.

The E-Fund also receives an assessment from the non-rural ILECs (Verizon PA and Verizon North) based on their access line apportionment. For the fiscal years 2005-06 and 2006-07, the annual assessments were $7 million. For the fiscal years 2007-08 through 2010-11, each year's assessment is the difference between $7 million and any unencumbered amount remaining in the E-Fund. In addition, the Verizon companies expressed a commitment in 2004 to Gov. Rendell that, if the assessment amounts for E-Fund were less than $10 million, the Verizon companies would provide an additional contribution of up to $3 million annually to make up the difference during the life of the fund.

In June 2010, the Commission approved the statutorily-mandated assessment on applicable ILECs for payment to the BOAF and E-Fund of $1.852 million. $926,000 of this encompasses the BOAF Fund Size for Fiscal Year 2010-11 and the remaining $926,000 is applied to the $10 million sized E-Fund. Verizon PA's additional contribution to the E-Fund for the 2010-11 fiscal year is $1.858 million, while Verizon North's is approximately $215,100.

PUC-Approved Price Cap Filings

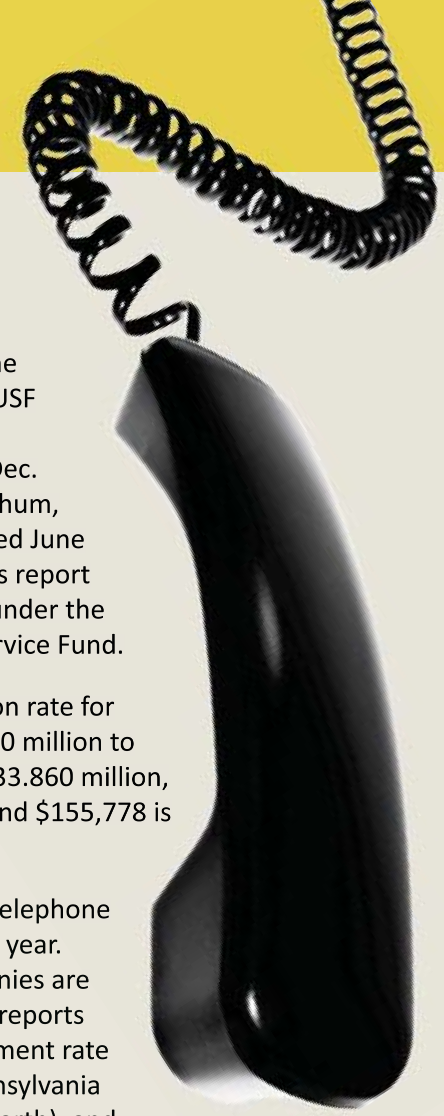
To date, 23 incumbent local exchange carriers (ILECs) adopted price caps using the gross domestic product price index (GDP-PI) outlined in Act 183 of 2004 as the inflation factor under the alternative regulation portion of their Chapter 30 Plans. As a result, the carriers file their annual price stability mechanism index either accompanied by tariffed rate changes and/or banked revenue increases/decreases. 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. Verizon PA, Verizon North and Embarq PA are required to immediately implement any rate decrease of more than $500,000. Pursuant to Chapter 30, during the period from 2005 to 2010, companies with price cap mechanisms collectively have been permitted to increase local service rates. As of the end of Fiscal Year 2009-10, these rate increase amounts totaled $122.77 million with total banked revenues of $23.207 million.

Bundled Services for Lifeline Participants

The Lifeline 135 program is available to qualified customers of eligible telecommunications carriers. Under the program, customers who participate in certain public assistance programs, or who have incomes at or below 135 percent of the federal poverty 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.

As a result of a 2007 complaint filed by the Office of Consumer Advicate, the Pennsylvania Utility Law Project and AARP, the Commission ordered Verizon PA Inc. and Verizon North Inc. to also offer its customers enrolled in Lifeline 135 an opportunity to subscribe to bundled services. The companies' current tariffs permit Lifeline 135 customers to subscribe to three types of bundled services: local service with three vertical services; local service with three vertical services and regional toll; and local service with three vertical services, regional toll and long distance. In an effort to increase awareness about Lifeline, the PUC developed an informational brochure, "Follow the PATH to PA Telephone Help." The brochure provides information about Lifeline and other available programs for limited-income telephone customers.

PA Universal Service Fund



The PA Universal Service Fund (PaUSF) supports the affordability of basic local telephone service that is provided by rural ILECs in Pennsylvania. The Commission's third-party administrator of the PaUSF is Solix Inc. The company is under contract with the Commission to administer the fund through Dec. 31, 2010, with a possible one-year extension. Withum, Smith & Brown submitted an auditor's report dated June 30, 2010, on the fund's activities during 2009. This report is on the PUC's website at www.puc.state.pa.us, under the Telecommunications tab, click on PA Universal Service Fund.

The Commission approved a state USF contribution rate for 2010 calculated to produce approximately $33.860 million to be distributed among recipient carriers. Of the $33.860 million, $1.6 million is held in reserve for uncollectibles, and $155,778 is paid to Solix.

The amount is collected via assessments against telephone company intrastate retail revenues from the prior year. All PUC-jurisdictional telecommunications companies are assessed and file annual intrastate retail revenue reports with Solix that are used for calculating the assessment rate for the upcoming year. All incumbent LECs in Pennsylvania except Verizon PA, Verizon North (formerly GTE North), and Windstream D&E Inc. are annual net recipients from the Fund.

Eligible Telecommunications Carriers

The Federal Universal Service Fund (FUSF) was established by the Federal Communications Commission (FCC) in 1983 to make local telephone service more affordable in a competitive telecommunications market by providing subsidies to carriers in high-cost areas. The federal fund is separate from the PA Universal Service Fund. Carriers operating in Pennsylvania that desire FUSF money must meet certain service obligations and offer discounted services to low-income consumers to be deemed an Eligible Telecommunications Carrier (ETC) by the Commission.

The Commission currently exercises its ETC designation authority with respect to incumbent local exchange carriers (ILECs), competitive local exchange carriers (CLECs) and wireless carriers. The Commission evaluates ETC requests to ensure that carriers seeking ETC status comply with public safety and other requirements consistent with the broader public interest.

Mergers and Acquisitions

In reviewing mergers and acquisitions, the Commission strives to ensure that customers are protected, and that the company has the requisite managerial, financial and technical capability to provide services. Commission staff works to provide a comprehensive and thorough review of each application. In Pennsylvania, the applicable legal standard mandates that an affirmative public benefit shall result from a utility merger or acquisition. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

Verizon North Restructuring

On November 19, 2009, the Commission approved Verizon North Inc.'s application to restructure the Company to a Pennsylvania-only operation named Verizon North Retain Company. The Company requested this change because Verizon Communications Inc. and Frontier Communications Corporation entered into an agreement where Verizon Communications Inc. transferred local exchange operations to Frontier in several states excluding Pennsylvania. Initially, the Communications Workers of America and the International Brotherhood of Electrical Workers filed objections to the application but later withdrew their protest. Upon approval, Verizon North Retain Company took over the former Verizon North Inc.'s local exchange operations.

D&E/Windstream

On Nov. 6, 2009, the Commission approved the application of Denver and Ephrata Telephone and Telegraph Co., Buffalo Valley Telephone Co., The Conestoga Telephone and Telegraph Co., and D&E Systems Inc. for a transfer of control to Windstream Corp.

As a result, the D&E entities became subsidiaries of Windstream, while continuing to exist in their current corporate form, with the exception of name changes to Windstream D&E, Inc., Windstream Buffalo Valley Inc., Windstream Conestoga Inc., and Windstream D&E Systems Inc. The transaction did not result in any transfer of assets or facilities in Pennsylvania and is considered seamless to customers who continue to receive service from the same local company at the same terms and conditions as prior to the transaction.

CenturyTel/Embarq Merger

The Office of Small Business Advocate (OSBA) appealed to Commonwealth Court the May 28, 2009, Commission approval of the merger of United Telephone of Pennsylvania LLC d/b/a Embarq Pennsylvania (Embarq PA) and Embarq Communications Inc. (ECI), and CenturyTel Inc. In May 2009, the PUC approved the merger with conditions including that the company must:

- Maintain the same service levels for wholesale operations.
- Meet reporting requirements on the integration of billing systems, and business and repair operations, as well as quality of service.
- Not protest or challenge market entry and interconnection requests by competitive local exchange carriers.
- Incorporate FCC conditions regarding the offering of standalone digital subscriber line (DSL) service.

In its March 2010 Order, the Commission approved the incorporation of certain federally-imposed conditions on the merger of Embarq and CenturyTel into the Commission's May 2009 Order approving the transfer of control of the companies in Pennsylvania. In December 2009, interested parties submitted comments concerning the incorporation of certain federal conditions. Based on the parties' comments, the Commission incorporated federal conditions regarding service levels for wholesale operations including combining the systems into a single platform, dedication of additional resources to existing manual CLEC order processing systems, and various improvements to CenturyTel's processing of wholesale orders as well as additional conditions imposed by the FCC.

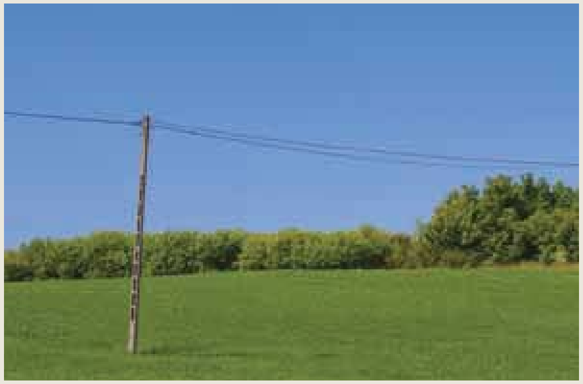
CenturyLink/Qwest

On May 14, 2010, a joint application was filed with the Commission for approval of the change of control of Qwest Communications Company LLC to CenturyLink. Protests have been filed by the Office of Consumer Advocate. In addition, the Office of Small Business Advocate entered an Notice of Intervention. Final consideration of the matter will take place in Fiscal Year 2010-11.

RCN Merger/Reorganization

On March 18, 2010, RCN Telecom Services Inc., RCN Telecom Services of Philadelphia Inc., RCN Telecom Services of Philadelphia LLC, RCN Telecom Services LLC, RCN New York Communications, LLC NEON Connect Inc., Yankee Cable Acquisition LLC, and Yankee Metro Parent Inc. filed a joint application seeking approval of certain transactions through which these companies will undergo a merger and an internal corporate reorganization. On April 28, 2010, the joint applicants filed an amendment to the joint application seeking approval of abandonments of RCN TS and RCN Phila Inc. as providers in Pennsylvania to occur upon completion of the reorganization and merger transactions, while establishing the new entities of RCN Phila LLC and RCN Lehigh LLC. Final consideration of the matter will take place in Fiscal Year 2010-11.

Access Charge Proceedings



Intrastate carrier access charges are a method of compensation between telecommunications carriers in the exchange of certain types of long-distance traffic. The Commission has carried out a series of intrastate carrier access charge reforms. These reforms have impacted at times local exchange rates that are charged by ILECs.

Currently, three related access charge proceedings are underway at the Commission:

- **Rural Telcos Access Charge Investigation** – In August 2009, the Commission lifted its three-year stay on this investigation. Subsequently, the investigation included the complaints filed by 3 affiliated AT&T entities against almost all of the rural incumbent LECs alleging their access charges are unreasonable. Evidentiary hearings were concluded in April 2010 and a Recommended Decision is set for August 2010.

- **USF Proceeding** – The Commission reopened this proceeding in early 2008 for the limited purpose of addressing whether the $18 cap on residential rates of rural ILECs should be increased. A Recommended Decision was issued in July 2009 and is presently pending before the Commission for final consideration.

- **Verizon Companies Access Charge Investigation** –AT&T filed a Formal Complaint seeking to reduce Verizon North's access charges to Verizon PA's levels. In 2007 and 2008, the Commission ordered a stay of the investigation pending further developments in the FCC's Intercarrier Compensation Proceeding at CC Docket No. 01-92. In May 2010, the Commission lifted the stay and remanded the matter to the Office of Administrative Law Judge to continue developing the record and to issue a Recommended Decision following the Rural ILEC Access Charge Investigation.

In addition to the above major access charge investigations, litigation continues before the Commission for 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. Some carriers concede that some sort of payment may be appropriate but insist that the calls in question are not long distance toll and, therefore, intrastate access rates are inappropriate. Some carriers believe reciprocal compensation rates, a considerably lower rate applied to local calling, are more appropriate. These proceedings are being litigated before the Commission. In February 2010, the Commission addressed intercarrier compensation issues between Palmerton Telephone Company and Global NAPs South Inc., as discussed below.

PUC Involvement at the FCC

Federal telecommunications regulation by the FCC is playing an increasingly important role in the delivery of telephone service in Pennsylvania. This requires the Commission to expend resources and become actively involved in various proceedings at the FCC regarding several important issues that directly impact Pennsylvania consumers. These proceedings include:

The National Broadband Plan is a proceeding in which the FCC is seeking input from the public as part of an FCC report to Congress on what measures are needed to deploy broadband and support broadband services throughout the nation, particularly in rural areas. The FCC claims that federal stimulus will probably be insufficient to attain rural broadband deployment so other support may be required, including support from the Federal Universal Service Fund (FUSF). The FCC submitted the report and is now in the process of issuing Notices of Proposed Rulemakings (NPRMs) and Notices of Inquiry (NOIs) to solict comments on the national broadband initiatives.

The Commission has submitted comments to the FCC, particularly given the very large increase in the FUSF (conservatively estimated to range from $20 to $350 billion, depending on the speeds used to define broadband) that may be required as the FCC determines whether to support broadband deployment and services from the FUSF. Currently, Pennsylvania annually contributes $176 million more into the FUSF than it gets back. The Commission is concerned that this annual net $176 million contribution to support the current $7.1 billion FUSF fund may grow astronomically if $40 billion in additional broadband deployment and services costs are funded by the FUSF without reform of the FUSF.

The Commission urged the FCC to require that any state receiving any support for broadband deployment or services be required to implement measures similar to those undertaken in Pennsylvania under Chapter 30. Recipient carriers should be required to get support from end-users for broadband deployment as a precondition to getting FUSF support. The Commission has reminded the FCC that Pennsylvania has the nation's third largest rural population and successfully completed a broadband deployment program in all but two rural carriers' service territories by 2009. The Commission also has reminded the FCC that the remaining two rural carriers are on schedule to complete their broadband deployment programs no later than 2013 and that Verizon will complete their deployment by 2015.

Universal Service is the term used for the FCC's efforts to provide federal universal service fund (FUSF) support to carriers so that reasonable local rates can be maintained in high-cost areas, typically rural areas. The FUSF is supported by an assessment on carriers' interstate calling revenues. Those revenues have declined due to technological changes even as the FUSF support distributions have increased.

The four parts of the FUSF are High-Cost, Schools and Libraries, Rural Health and Low Income. Pennsylvania annually pays $176 million more into the FUSF than it receives although some rural carriers do receive more in support than they pay. The FCC is examining ways to limit burgeoning FUSF costs, particularly for the High-Cost and Low-Income programs. The FCC is also considering including broadband deployment as a new program initiative within the FUSF.

The Commission actively has participated in proceedings before the FCC in order to minimize increased costs to Pennsylvania, including costs for any national broadband deployment program. As mentioned previously, the Commission is particularly concerned that the current FUSF fund may grow by an additional $40 billion if broadband deployment and services are fully supported by the FUSF. The Commission also is concerned that any federally mandated reductions in carrier revenues may result in local rate increases, particularly if there are reductions in access rates that require revenue neutral recovery under Section 3017(a) of Chapter 30 within Pennsylvania.

Intercarrier Compensation is the term used for the payments that telephone companies and their competitors pay each other to use the other's networks. The three forms of compensation are interstate access rates (for interstate long-distance calls), intrastate access rates (for in-state long-distance calls), reciprocal compensation (for in-state local calls) and bill and keep compensation (each carrier pays its costs for call completion). Currently, reciprocal compensation is the lowest rate, interstate access rates are next, and intrastate access rates are the highest.

The FCC proposed establishing a national compensation rate for all calls at one rate, including the rate for local and in-state long distance calls traditionally set by the states. The FCC claims this is necessary in order to prevent carriers from classifying calls in a way that permits carriers to receive a more favorable compensation. The Commission is active in this proceeding and awaiting further FCC action.

Forbearance is the term used for the authority the FCC has to "waive" or "set aside" federal laws and regulations on various regulatory mandates including reporting requirements and competitor access to facilities. The FCC recently granted forbearance from statutory obligations to report on customer satisfaction and carrier investment in their networks although, in that decision, the FCC also opened a new rulemaking. The Commission actively has opposed any forbearance that would undermine Pennsylvania's legislative authority to address its own state mandates provided by statute or regulation.

In June 2009, the FCC issued a series of rules outlining the procedure governing future forbearance proceedings. The FCC rules adopted a "complete as filed" regulation and put limits on a petitioner's ability to unilaterally withdraw forbearance requests. The FCC's final rules reflect many proposals submitted by the Commission in partnership with other state commissions in the Mid-Atlantic Region.

PA Telecommunications Relay Service Program, Telecommunications Device Distribution Program and Print Media Access System Program

During Fiscal Year 2009-10, the Bureau of Audits initiated the audit of the TRS program's receipt and disbursement of funds received from the billing of the applicable TRS surcharge rates for the fiscal years ending April 30, 2007, and April 30, 2008, and the fiscal period ending Feb. 28, 2009. Also during this fiscal year, the Bureau of Audits initiated the audit of the underlying costs of the Telecommunications Device Distribution Program (TDDP), as well as the Print Media Access System Program (Newsline) for the fiscal years ending June 30, 2008, and June 30, 2009.

TRS, TDDP and Newsline continue to be funded from the TRS monthly surcharge on wireline access lines. The goal is to provide functionally equivalent access to telecommunications and print media. AT&T has provided traditional TRS in the state since 1990. Technological advances since then have established Captioned Telephone Relay Service (CTRS) as an alternative to traditional TRS for individuals with some degree of hearing and speech within the deaf and hard-of-hearing community. CTRS also is funded by the TRS surcharge. The CTRS activity costs are reviewed as part of the TRS program audit while the equipment costs are reviewed as part of the TDDP audit.

In April 2010, the Commission partially approved an 18 percent rate increase for the session price per minute that AT&T charges the TRS Fund. Citing labor as the primary increased cost of providing TRS service, AT&T originally proposed an increase of 28 percent. The rate increase did not affect the TRS monthly surcharge appearing on end-user customer bills.

TDDP, instituted in 1996, provides free telecommunications devices for consumers meeting eligibility requirements relating to disability, income level, age and residence. Newsline, instituted in 2005, is an on-demand, newspaper reading service, accessible via toll-free telephone lines, for the blind and others who cannot physically read a newspaper. The Commission's recalculation of the TRS monthly residential surcharge for Fiscal Year 2010-11 remains at $0.08 per line (*See also Consumers*).

Palmerton Telephone Company vs. Global NAPs

In a March 2010 Order, the Commission disposed of the intercarrier compensation dispute between Palmerton Telephone Company and Global NAPs South Inc. (GNAPs). Palmerton had filed a formal complaint with the PUC alleging that GNAPs did not pay intrastate carrier access charges for the indirect termination of certain network traffic. GNAPs justified its non-payment largely on the basis that this traffic was Voice over the Internet Protocol (VoIP) IP-enabled "enhanced" traffic that was not subject to intrastate carrier access charges and,broadly, not subject to the Commission's jurisdiction. This was a case of first impression for the Commission.

The Commission determined that GNAPs provides common carrier telecommunications services in its wholesale transport and indirect termination of traffic at Palmerton's facilities — inclusive of interexchange nomadic VoIP calls — that are subject to the Commission's intrastate jurisdiction on the basis of applicable Pennsylvania and federal law. Therefore, the Commission found that GNAPs was liable to Palmerton for the nonpayment of intrastate carrier access charges. The Commission ordered GNAPs to pay Palmerton the amount of access charges owed and assessed a $50,000 civil penalty on GNAPs for its lack of compliance with prior Commission orders. Subsequently, Global NAPs filed a Petition for Reconsideration of the Commission's March 2010 Order. In April 2010, the Commission granted the Petition subject to review on the merits. Final consideration of the matter will take place in fiscal year 2010-11.

In addition, Global NAPs filed with the FCC, a Petition for a Declaratory Ruling and for Preemption of the Pennsylvania, New Hampshire and Maryland State Commissions, Docket WC No. 10-60 (Filed March 5, 2010) to consider the effect of the FCC's 2004 Vonage ruling on the viability of imposing intrastate carrier access tariffs on long-distance VoIP traffic, and to determine whether to preempt the Commission's actions. The Commission, along with many other parties has filed comments and reply comments with the FCC. That case is still pending before the FCC.

Cordia Communications Corp.

At the June 3, 2010 Public Meeting, the Commission denied the petition of Cordia Communications Corp. for designation as an Eligible Telecommunications Carrier (ETC) noting that it failed to satisfy or reference the Pennsylvania statutory requirement of ETCs serving Lifeline and Link-Up America eligible customers.

On Oct. 1, 2008, the company filed the petition with the Commission requesting ETC designation in the non-rural exchanges of Verizon Pennsylvania, Inc., pursuant to Section 214(e) of the Telecommunications Act, 47 U.S.C. § 214(e). Cordia requested designation as an ETC so Cordia, a wireline carrier, will be eligible "for receiving low-income federal universal service support." Cordia alleged that consumers eligible for Lifeline and Link-Up assistance in the Verizon Pennsylvania service territory will benefit from having an alternative source for telephone service with a federal universal service discount.

Paper Billing Fee

On a separate issue raised in the Cordia case, the Commission noted that Cordia's current tariff contained a provision for a paper invoice charge of $1.25 for customers who prefer to receive a paper invoice monthly billing statement. Under Section 1509 of the Public Utility Code, the Commission determined that the transmittal of, or sending, monthly bills to customers appears to be a public utility's statutory obligation. The Commission's regulations also contemplate that a monthly bill be mailed to customers at Section 64.12 of Title 52. In June 2010, the Commission concluded that an investigation should be initiated by Law Bureau and the Bureau of Fixed Utility Services to make a recommendation on whether the practice of charging a fee for a paper bill by certain facility-based and non-facility-based telecommunications carriers is consistent with the Public Utility Code, Commission billing regulations and other relevant authority. The Commission expects the investigation to be concluded in Fiscal Year 2010-11.

Bundled Service Offerings Rulemaking

In December 2009, the PUC issued a decision, upon reconsideration, revising the final form regulations previously adopted by the Commission for consumer protections applicable to basic services provided in bundled service packages. The final form regulations were revised to reflect the Commission's previously granted waivers from consumer protection regulations. The now final form regulations codify the existing waivers previously granted to local exchange carriers (LECs) that provide bundled service packages and, at the same time, ensure that residential telephone customers are protected from an abrupt termination of basic service if the customer fails to make full payment for the bundled service package.

Continuation of "basic service" for residential telecommunications customers is essential for emergency services, for contact with schools, doctors, hospitals and family, and for Telecommunications Relay Services. The revised final form regulations balance the appropriateness and lawfulness of the LECs' rights to offer bundled service packages at a single rate and consumer protection in regard to continuation to basic service.

Petitions to Detariff Some Businesses Services

On May 6, 2010, the Commission recognized that, in a competitive environment, service provided to enterprise and large business customers may warrant a lesser degree of regulatory oversight and adopted AT&T's petition to do so. The Commission reached a similar conclusion for Verizon Access for services provided to the same class of business customers in accordance with the provisions of Chapter 30 and current regulations.

On Oct. 3, 2009, AT&T Communications of Pennsylvania, LLC, TCG New Jersey, Inc., and TCG Pittsburgh, Inc. filed petitions seeking the same regulatory flexibility available to ILECs to detariff and classify as competitive nonprotected services; the same regulatory flexibility granted to Verizon Access as a CLEC to detariff and to classify as competitive nonprotected services; and the same regulatory flexibility granted to Verizon Access as a CLEC to detariff protected basic dial tone service. To accomplish this, the AT&T CLECs requested, as did

Verizon Access: (1) waiver of section 53.58(c) relating to an ILEC's ability to offer a service as a competitive service; (2) waiver of section 53.58(d) relating to tariffs and price lists; and (3) waiver of section 53.59(d) relating to tariff changes.

Merger Proceedings Rulemaking

On June 17, 2010, the Independent Regulatory Review Commission approved final Commission rules governing the review and approval of applications submitted by telephone companies to the Commission asking for a Certificate of Public Convenience approving a transfer of control. Section 1102 of the Public Utility Code requires an application for any transfer of control, typically with a merger.

Section 1102 had no time limit on Commission review of an application for these changes of control.

The new rules establish specific timelines for Commission review and approval. This should shorten Commission review and give industry the needed approvals.

The final rules require publication of an application in the Pennsylvania Bulletin and establish a 15-day protest period. There are filing requirements and prior consumer notice mandates aimed at reducing the filing of formal protests.

The final rules establish three periods for Commission review and approval. Pro Forma Review will apply to an application that does not change rates, terms or conditions of service, or is a transfer of control that is less than 20 percent. Those will be reviewed and approved by the Commission through a staff-issued Secretarial Letter within 30 days after the protest period.

Abbreviated Review will apply to applications that change rates, terms or conditions of service, or is a transfer of control greater than 20 percent. Those will be considered by the Commission within 60 days after expiration of the protest period.

Finally, the rules conduct an unlimited administrative proceeding only when a party files a formal protest or the Commission determines that an unlimited Commission proceeding is necessary. This occurs if there are novel issues or a longer proceeding is required by the public interest.

Verizon North Fine

In December 2009, the PUC issued a civil penalty against Verizon North Inc. for $5,000 after a consumer filed a complaint over billing and service adequacy issues.

On March 5, 2009, a complaint was filed with the PUC alleging billing issues and some longstanding service problems. After an underground service line of the complainant failed in 2006, Verizon North installed a temporary above-ground line, but never returned to replace and bury the line. In February 2008, the temporary above-ground line failed.

In presenting the complaint before the Commission, various documents were provided indicating numerous continuing service problems with the temporary line and contended that Verizon North never adequately explained why it would not replace the underground line. The complaint also stated that the complainant was without of service continuously since Dec. 15, 2008, and was being charged by Verizon North for prior service calls and telephone service that were not being received.

The Commission also ordered the company to take all necessary measures to restore dial tone service and to make any temporary measures permanent, through trenching and replacement of the underground service line and surface restoration.

Guidelines for Waiver of the Call Recording Prohibition

The Commission approved guidelines for companies wishing to record calls with customers for quality of service and training purposes on July 23, 2009. Under the terms of the rulemaking, a carrier seeking to record calls must provide a 30-day notice to the Commission and provide its customers with a bill insert explaining the call recording process and the opt-out process to customers at least 30 days before they start recording calls. Customers calling a jurisdictional telecommunications company must hear a pre-recorded message to the effect that the call may be monitored or recorded for training or quality control purposes. The recorded calls must be erased after a 90-day (or shorter) retention period.

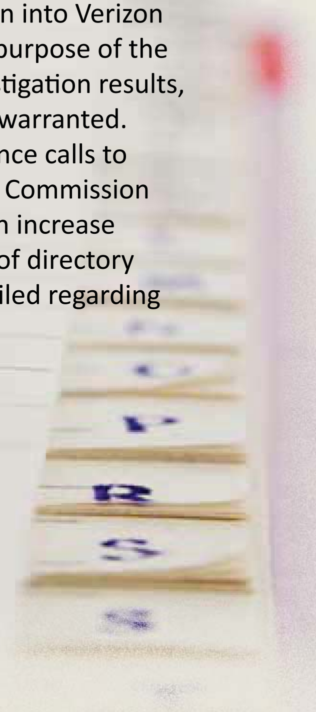
Verizon Pennsylvania 2009 Price Change Opportunity Filing

In 2009, the Commission approved a letter request to amend Verizon Pennsylvania's 2009 price change opportunity (PCO) filing. In its original request, the company noted a true-up adjustment of about $2.5 million associated with its residential lines. However, upon review, Verizon Pennsylvania discovered that it had used an incorrect residential access line count in the calculation of the true-up adjustment that resulted in a larger true-up amount that would have been calculated had the correct line count been used. The correct amount of the line true-up adjustment should have been about $1.4 million. Comparing the correct residential true-up with the true-up depicted in the company's original 2009 PCO filing revealed an over collection of about $1.1 million from Verizon Pennsylvania customers. In order to correct the line true-up calculation error, the company issued a one-time credit on its January 2010 bills to all customers subscribing to Residential Dial Tone Lines as of Jan. 1, 2010. The company addressed the correction of this error going forward in its 2010 PCO filing.

Also, on October 22, 2009, the Commission addressed Verizon's Petition for Reconsideration requesting that the Company be permitted to issue a further credit regarding its contribution to the Pennsylvania Universal Service Fund when it implements the above mentioned credit in its 2010 price change opportunity rate change. In approving this request, Verizon Pennsylvania issued a total credit of $3.38 to residential customers and a $2.50 to business customers in January 2010.

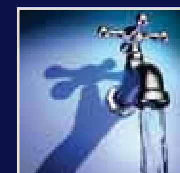
Verizon Pennsylvania's Billing of Directory Assistance Calls

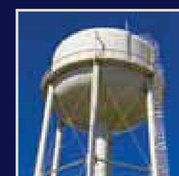
In December 2009, the Commission initiated an investigation into Verizon Pennsylvania Inc.'s billing for directory assistance calls. The purpose of the investigation is to determine whether, based on staff's investigation results, any changes in procedures or other remedial measures are warranted. The investigation is reviewing the billing of directory assistance calls to ensure the billing conforms with the Public Utility Code and Commission regulations. The investigation was initiated in response to an increase in informal complaints to the Commission about the billing of directory assistance calls. About 175 informal complaints have been filed regarding directory assistance in the last 15 months.

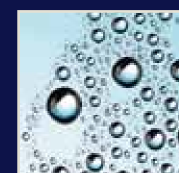


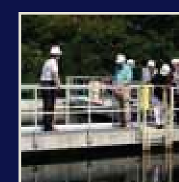

FINISHED WATER

WATER/WASTEWATER









The PUC regulates the rates and service of investor-owned water and wastewater companies, along with some municipal systems that serve customers outside their boundaries. Since viable water systems are essential to strong Pennsylvania communities, rates must be set to reflect prudently incurred costs of providing service.

The Commission regulates the rates and service of about 184 water and wastewater companies, including a number of municipal water and wastewater systems. In Fiscal Year 2009-10, the Commission acted on 23 water and wastewater rate increase requests. The Commission also processed 28 applications for certificates of public convenience, including requests for additional territory, abandonments and formation of new companies.

The Commission has established a water audit pilot program, which is intended to enhance the companies' tracking of levels of unaccounted-for water. It is designed to provide an effective, standardized structure by guiding the water utility to quantify apparent and real loss volumes in a systemized approach and assigning cost impacts to the losses. Additionally, the Commission has focused on emergency response planning by requiring that companies annually certify that their physical and cybersecurity, emergency response and business continuity plans are current through ongoing audits of these plans. These plans are also subject to periodic on-site reviews.

Rate Increase Requests

During the fiscal year, the Commission took the following actions related to about $58.8 million in rate increase requests:

Aqua Pennsylvania Inc. (water)
Customers Served: 406,500 in portions of 27 counties across the Commonwealth
Requested Rate Increase: $43.2 million (11.8 percent)
Approved Rate Increase: $23.6 million (6.46 percent)
Primary Reasons: To help recover the company's investment of $500 million to improve water quality, service and reliability.

Birch Acres Water Works Inc.
Customers Served: 46 in portions of Smithfield Township, Monroe County
Requested Rate Increase: $15,804 (74 percent)
Approved Rate Increase: $9,869 (46.5 percent)
Primary Reasons: The last rate increase did not cover the cost of operation of the company, while the cost of living has increased by over 100 percent in that time.

Borough of Hanover
Customers Served: 9,879 in portions of Penn Township, York County, and Conewago Township and the Borough of McSherrystown, Adams County
Requested Rate Increase: $308,586 (10.24 percent)
Approved Rate Increase: $308,586 (10.24 percent)
Primary Reasons: To provide sufficient revenues to enable the company to continue to discharge properly its public duty to furnish adequate, safe and reliable service, to provide the cash flow necessary, and to afford the company the opportunity to achieve a marginal rate of return on the original cost invested in water property.

Can Do Inc.
Customers Served: 88 in portions of Carbon, Lackawanna and Schuylkill counties
Requested Rate Increase: $176,913 (14 percent)
Approved Rate Increase: $176,913 (14 percent)
Primary Reasons: To cover the new purchased water expense and to allow the water system the opportunity to earn a reasonable return on the original cost rate base.

Clean Treatment Sewage Company
Customers Served: 740 in portions of Delaware Township, Pike County
Requested Rate Increase: $221,317 (65.8 percent)
Approved Rate Increase: $0 (0 percent)
Primary Reasons: The Commission found that the service provided to its customers is inadequate and unreasonable in that it fails to meet the quality and quantity of service that would justify a rate increase.

Cooperstown Water Company
Customers Served: 128 in portions of the borough of Cooperstown and Jackson Township, Venango County
Requested Rate Increase: $13,998 (32.9 percent)
Approved Rate Increase: $10,900 (25.7 percent)
Primary Reasons: To provide the necessary revenues to cover operating expenses, to enable the company to make payments on its short- and long-term debts, and to provide sufficient funds to cover investments required by the company to continue to provide safe, reliable and adequate service to its customers.

Fryburg Water Company
Customers Served: 197 in portions of Washington Township, Clarion County, and Pinegrove Township, Venango County
Requested Rate Increase: $29,974 (41 percent)
Approved Rate Increase: $23,000 (31.49 percent)
Primary Reasons: To provide the necessary revenues to cover operating expenses, to enable the company to make payments on its long- and short-term debt, and to provide sufficient funds to cover investments required by the company to continue to provide safe, reliable and adequate service to its customers.

Lake Spangenberg Water Company
Customers Served: 145 in portions of Jefferson Township, Lackawanna County
Requested Rate Increase: $92,292 (300 percent)
Approved Rate Increase: $30,000 (100 percent)
Primary Reasons: To allow the company to recover the operating expenses on an ongoing basis and to allow the company to pay the debt incurred in the replacement of its facilities.

Little Washington Wastewater Company - East Bradford Division
Customers Served: 80 in portions of East Bradford Township, Chester County
Requested Rate Increase: $17,819 (20.3 percent)
Approved Rate Increase: $17,795 (20.25 percent)
Primary Reasons: To enable the company to earn a reasonable return on its investment in property devoted to the public service, to maintain the integrity of existing capital, and to attract new capital.

Little Washington Wastewater Company - Bridlewood Division
Customers Served: 186 in portions of Thornbury Township, Chester County
Requested Rate Increase: $97,411 (64.2 percent)
Approved Rate Increase: $97,411 (64.2 percent)
Primary Reasons: To enable the company to earn a reasonable return on its investment in property devoted to the public service, to maintain the integrity of existing capital, and to attract new capital.

Little Washington Wastewater Company – Deerfield Knoll Division
Customers Served: 118 in portions of Willistown Township, Chester County
Requested Rate Increase: $20,522 (35.3 percent)
Approved Rate Increase: $20,486 (35. 2 percent)
Primary Reasons: To enable the company to earn a reasonable return on its investment in property devoted to the public service, to maintain the integrity of existing capital, and to attract new capital.

Little Washington Wastewater Company – Links at Gettysburg Division
Customers Served: 105 in portions of Mount Joy and Cumberland townships, Adams County
Requested Rate Increase: $34,469 (80.1 percent)
Approved Rate Increase: $26,913 (52.79 percent)
Primary Reasons: To enable the company to earn a reasonable return on their investment in property devoted to the public service, to maintain the integrity of existing capital, and to attract new capital.

Little Washington Wastewater Company -Northeast PA- Consolidated Division
Customers Served: 2,810 in portions of Carbon, Lackawanna, Luzerne, Monroe, Schuylkill and Wyoming counties
Requested Rate Increase: $633,942 (39.6 percent)
Approved Rate Increase: $556,307 (34.9 percent)
Primary Reasons: To enable the company to earn a reasonable return on their investment in property devoted to the public service, to maintain the integrity of existing capital, and to attract new capital.

Needmore Water Supply Company Inc.
Customers Served: 105 in portions of Belfast Township, Fulton County
Requested Rate Increase: $53,335 (266 percent)
Approved Rate Increase: $19,600 (99 percent)
Primary Reasons: Rates did not compensate the company for its costs, the under compensation of personnel and management, the non-recovery of rents for land, general increases in costs, and the need for the company to enhance its financial position.

Penn Estates Utilities Inc. (water)
Customers Served: 1,683 in portions of Stroud and Pocono townships, Monroe County
Requested Rate Increase: $281,927 (68.9 percent)
Approved Rate Increase: $162,543 (40 percent)
Primary Reasons: To establish an income level that will permit the company to finance essential and continuing plant investments, to permit the company to earn a fair and adequate rate of return on investments, to enable the company to maintain financial integrity, and to enable the company to continue to provide safe, adequate and proper service to customers.

Penn Estates Utilities Inc. (wastewater)
Customers Served: 1,678 in portions of Stroud and Pocono townships, Monroe County
Requested Rate Increase: $318,297 (45.5 percent)
Approved Rate Increase: $139,992 (20.3 percent)
Primary Reasons: To establish an income level that will permit the company to finance essential and continuing plant investment, to permit the company to earn a fair and adequate rate of return on investment, to enable the company to maintain financial integrity, and to enable the company to continue to provide safe, adequate and proper service to its customers.

Pennsylvania-American Water Co.
Customers Served: 635,876 in portions of 35 counties across the Commonwealth
Requested Rate Increase: $58.1 million (12.5 percent)
Approved Rate Increase: $30.7 million (6.6 percent)
Primary Reasons: To permit the company to preserve public health and safety, maintain the integrity of its existing capital, attract additional capital at reasonable costs, have an opportunity to actually achieve a fair rate of return, particularly on its common equity capital.

Reynolds Water Co.
Customers Served: 740 in portions of Pymatuning, Delaware and Hempfield townships, Mercer County
Requested Rate Increase: $207,503 (50.5 percent)
Approved Rate Increase: $139,000 (34 percent)
Primary Reasons: To allow the company sufficient revenue to meet debt obligations of outstanding loans, recover normal operating costs, and provide a fair rate of return, which will ensure continued safe and adequate service to its customers.

Sugarcreek Water Company
Customers Served: 78 in portions of Sugarcreek Borough and the Village of Sugarcreek in Venango County
Requested Rate Increase: $4,666 (14 percent)
Approved Rate Increase: $2,469 (7.4 percent)
Primary Reasons: To provide the necessary revenues to cover operating costs and expenses, to enable the company to make payments on its short- and long-term debts, and to provide sufficient funds to cover investments required by the company to continue to provide safe, reliable and adequate service to its customers.

Templeton Water Company
Customers Served: 175 in the village of Templeton and portions of Pine County, Armstrong County
Requested Rate Increase: $16,228 (62.7 percent)
Approved Rate Increase: $14,235 (50 percent)
Primary Reasons: To see that the revenue meets the basic needs of the company.

United Water Pennsylvania Inc.
Customers Served: 56,228 in portions of Columbia, Cumberland, Dauphin, Luzerne, Perry, Schuylkill, Wyoming and York counties
Requested Rate Increase: $4,938,178 (16.2 percent)
Approved Rate Increase: $2,600,000 (8.53 percent)
Primary Reasons: To compensate for higher electric power costs, higher costs associated with chemicals, stricter water quality regulations, and planned capital improvements to the water system that total $35 million over four years.

Utilities Inc. – Westgate (water)
Customers Served: 760 in portions of Hanover Township, Northampton County
Requested Rate Increase: $158,326 (45.4 percent)
Approved Rate Increase: $44,452 (12.68 percent)
Primary Reasons: To establish an income level that will permit the company to finance essential and continuing plant investment, to permit the company to earn a fair and adequate rate of return on investment, to establish rates sufficient to enable the company to maintain financial integrity, and to enable the company to continue to provide safe, adequate and proper service to its customers.

Utilities Inc. of Pennsylvania (wastewater)
Customers Served: 1,268 in portions of West Bradford Township, Chester County
Requested Rate Increase: $378,737 (59.7 percent)
Approved Rate Increase: $242,304 (42.61 percent)
Primary Reasons: To establish an income level that will permit the company to finance essential and continuing plant investment, to permit the company to earn a fair and adequate rate of return on investment, to establish rates sufficient to enable the company to maintain financial integrity, and to enable the company to continue to provide safe, adequate and proper service to customers.

At the end of Fiscal Year 2009-10, 13 rate increase requests for $18.9 million were still pending before the Commission including: City of Lock Haven Water Department ($491,423); Corner Water Supply and Service Corp. ($42,771); Elverson Water Company Inc. ($15,644); Pennsylvania American Water Co. – Clarion Wastewater Operations ($968,817); Pennsylvania American Water Co. – Claysville Wastewater Operations ($487,486); Pennsylvania American Water Company – City of Coatesville Division (wastewater, $8,156,652); Pennsylvania-American Water Company – Northeast Wastewater Operations ($2,099,490); Pennsylvania Utility Co. Inc. (wastewater, $369,827); Pennsylvania Utility Company Inc. (water, $112,309); The York Water Co. ($6,220,428); and Wonderview Water Co. ($21,025).

Distribution System Improvement Charge

The distribution system improvement charge (DSIC), currently utilized by six jurisdictional water utilities, is designed to provide ratepayers with improved water quality; greater rate stability; increased water pressure; fewer main breaks; fewer service interruptions; and lower levels of unaccounted-for water. The DSIC allows water companies to use a surcharge to fund more upgrades of aging infrastructure than would otherwise be feasible at a reasonable rate for customers.

Implemented in 1997, the DSIC enables companies to recover certain infrastructure improvement costs between base rate cases through a surcharge on customers' bills. The cost is small when compared to the noticeable benefits, with approximate average monthly costs to ratepayers ranging from a few cents a month to $2.75. Today, because of the DSIC, projected timeframes for upgrades of entire distribution systems range from 117 years to 160 years to more closely match that of actual service lives. During the fiscal year, the Commission completed one DSIC audit, in addition to reviewing and processing 24 quarterly DSIC surcharge adjustment filings. Because of the success of the DSIC, one of the Commission's legislative priorities is to have a collection system improvement charge (CSIC) put into place for the wastewater companies.

PAWC Chloramine Settlement

On June 29, 2010, the Commonwealth Court issued a decision affirming the Commission's Order approving a settlement that allowed the use of chloramines in the Pennsylvania American Water Co. (PAWC) West Shore Regional Treatment Plant, York County, and the Silver Spring Water Treatment Plan, Cumberland County. The company began using chloramines in July 2010.

On May 14, 2009, the Commission approved a settlement between the company and the state's Office of Consumer Advocate (OCA). The Commission found that the settlement was in the public interest, because the company will take actions that address the concerns raised by the customers in a complaint proceeding.

In September 2007, several complaints were filed against PAWC by customers in response to the company's announcement that it intended to convert the facilities from chlorinated water to chloraminated water. The Pennsylvania Department of Environmental Protection (DEP) had issued permits to PAWC that approved the plan.

Water and Wastewater Plant Inspections

The Commission has conducted 11 plant inspections through Fiscal Year 2009-10. Random inspections are conducted at various times, usually to inspect companies that have not had any recent inspections. If violations are found, the company is directed to correct the problem. If the problem is not corrected, Commission staff conducts an informal investigation. The 11 inspections conducted this fiscal year included nine random and two plant tours by Commission employees from various bureaus. Eight of the random inspections were completed in connection with Emergency Preparedness Audit inspections.

Water Audit Pilot Program

In December 2008, a water audit pilot program was implemented to enhance the companies' tracking of levels of unaccounted-for water, which is water that is lost between the treatment plant and sale to customers. The water audit is designed to provide an effective, standardized structure by guiding the water utility to quantify apparent and real loss volumes in a systemized approach and assigning cost impacts to the losses. The voluntary pilot program would further overall infrastructure reliability, help preserve water resources, limit water leakage and enhance customer service. The initial meeting was in February 2009 followed by a workshop in early Fiscal Year 2009-10, where presentations were provided by two individuals who have familiarity with the water audit software.

Mergers & Acquisitions

In reviewing mergers and acquisitions, the Commission works to make certain that customers are protected, and the company is a viable public utility and a good neighbor. 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 2009-10, the Commission did not approve any mergers in the water industry.

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 ratepayers.

The policy statement supports the Commission's regionalization efforts, which in recent years have allowed ratepayers of the smaller, troubled systems to experience improved service after being acquired by a larger, more viable water or wastewater system.

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 and MEIs completed within the 2009-10 fiscal year were:

Aqua Pennsylvania Inc.

The MEI report released on Aug. 27, 2009, showed that Aqua Pennsylvania Inc. could realize yearly savings up to $113,600 and one-time savings of up to $251,000 by implementing the recommendations contained in the report.

The MEI examined Aqua's progress in implementing 20 of the 27 original recommendations from an October 2006 MA report. The auditors found that Aqua effectively implemented nine of the 20 prior recommendations reviewed and has taken some action on the 11 remaining recommendations, resulting in the realization of annual savings of approximately $801,000 and one-time savings of $15,000. Changes made by the company included:

- Adopting policies and procedures to address the allocation of costs incurred by Aqua Services while providing shared services to Aqua PA;
- Adopting a policy of applying a 60 percent overhead factor to all labor costs charged to affiliates for service provided by Aqua;
- Standardizing its distribution mapping administrative controls and tracking mechanisms; and
- Reducing unaccounted-for-water levels in the Northeast Region.

Additionally, the audit report contained 15 follow-up recommendations for improvement, including:

- Charging and collecting the interest that should have accrued on the Suburban Environmental Resources accounts receivable;
- Striving to further strengthen and more effectively utilize the internal audit function;
- Striving to drive the unaccounted-for-water levels in the Northeast Region to 20 percent and continuing participation in the Commission's non-revenue water pilot program;
- Creating a damage prevention program in the Northeast and Western regions that standardizes a statewide procedure for facility hit data capture, track and analyze methods; expand customer, contractor and employee education in all regions; and eliminate gentleman's agreements; and
- Reevaluating inventory management performance by correcting the inventory turnover calculation and continuing to make adjustment to inventory levels, order quantities, etc.

Superior Water Company

The MEI was a review and evaluation of the company's efforts to implement recommendations from the Commission's 2006 MA report. It was found that the company has effectively implemented five of 10 previous management audit recommendations that were reviewed.

Some of the improvements include:

- An independent member has been added to the company's board of directors;
- Procedures have been documented for inspecting and testing backflow prevention devices;
- The company is conducting customer satisfaction surveys; and
- A management succession plan has been developed.

The Commission also identified seven further improvement opportunities for the company, including:

- Obtaining and maintaining written cost justification for ongoing professional services;
- Adhering to its internal revenue adjustment control procedures;
- Developing a multi-year capital budget listing ongoing and proposed capital projects;
- Striving to more fully develop its drought contingency plan; and
- Complying with PUC regulations regarding public utility security planning and readiness, including filing self-certification forms with the Commission annually.

Statewide Water Resources

The PUC participates in the Statewide Water Resources Committee charged with carrying out Act 220 of 2002. This law requires the development of a statewide plan to manage the Commonwealth's water resources more effectively. Act 220 calls for the 25-year-old state Water Plan to be updated within five years, with regular updates every five years thereafter. The updated plan, issued in March 2009, addresses the quantity of water available in the Commonwealth, the amount used, and the amount needed.

Auditing Emergency Response Planning

The Commission requires that companies certify that their physical and cybersecurity, emergency response and business continuity plans are current. During Fiscal Year 2005-06, the PUC found deficiencies in several of the certified plans that had to be corrected to comply with Commission requirements. In some cases, the plans were outdated, and phone numbers for Commission contacts were obsolete. 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 2009-10, emergency response plans were audited for 17 of the small water utilities, as well as two of the larger water utilities 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 less than 3,300 consumers. The PUC regulates the rates and service of 184 water and wastewater companies. Many 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 most recent Legislative Budget and Finance Committee (LB&FC) performance audit recognized the Commission's work in this area, highlighting efforts to encourage the commitments to enhancing water system viability to ensure that ratepayers of small water/wastewater systems receive the same quality of service provided by larger, viable water/wastewater companies.

Regionalization

Many of the water/wastewater mergers and acquisition applications that the Commission acts on are a form of regionalization. In general, regionalization is the consideration of water resources in terms beyond artificial boundaries (townships, boroughs, city limits, municipalities, service territories, etc.). Some water/wastewater systems in Pennsylvania lack the management and funding to stand alone as viable systems. Regionalization typically results in a cost-effective solution or alternative that works to ensure system reliability and water/wastewater standards.

The benefits of regionalization include increased economies of scale and service efficiencies, improved operations, management, and technology. Approaches to regionalization can include mergers, acquisitions, physical interconnections, satellite management agreements and cooperative purchasing/operational pools. Regionalization is not limited to large jurisdictional companies buying or taking over smaller companies. In some cases, nearby non-jurisdictional water companies, such as municipalities or authorities, also have participated in regionalization efforts.

TRANSPORTATION & SAFETY

Ensuring the provision of safe rail and motor carrier service, the PUC also handles rate of transportation companies. The PUC resolves complaints about unsafe conditions at rail crossings and enforces common carrier compliance with safety and insurance requirements.

During Fiscal Year 2009-10, the Commission continued to focus upon passenger carrier safety compliance. As part of its enhanced oversight of the motorcoach industry, the PUC performed post-accident motorcoach inspections and compliance reviews. During the year, the Commission conducted about 11,321 enforcement activities.

The Commission also processed applications to approve the construction, alteration and abolition of more than 150 grade crossings. It completed informal investigations of complaints about unsatisfactory crossing surface conditions, as well as unsafe crossings. The PUC also conducted inspections of locomotives, rail cars, tracks and rail operations.

Motor Carrier Services and Enforcement Division

Marcellus Shale Enforcement

The PUC has increased its motor carrier enforcement presence in the five-county area of Northeastern Pennsylvania connected to the Marcellus Shale geologic formation.

The increase in motor carrier enforcement is a result of several complaints received by the Commission involving carriers transporting commodities without a PUC certificate. Complainants also alleged that several carriers were violating the PUC's hours of service regulations. Increased inspections are taking place in Tioga, Bradford, Sullivan, Wyoming and Susquehanna counties to ensure the motor carriers are complying with PUC regulations.

Trucking companies are required to have a certificate of public convenience for property carrier authority and proof of insurance if they are involved with transporting commodities related to the drilling operations, such as water, sand and stone. Carriers operating without the certificate and insurance can be subject to Commission penalties. Also carriers violating the safety regulations that pertain to the drivers and equipment can be cited and placed out of service.

The Commission completed 275 Marcellus Shale inspections since increased enforcement began in February 2010. As a result 120 vehicles were placed out of service - 100 due to vehicle violations and 20 for driver violations. The majority of vehicle violations related to braking issues. The majority of driver violations related to license issues.

Motor Coach Safety Program

The Commission has implemented an oversight plan to monitor the safety compliance of Pennsylvania's motor coach operators to ensure the public's protection.

The plan is a four-prong approach to oversee the safety of bus companies operating in the state. First, all new bus carriers must satisfactorily complete a Safety Fitness Review (SFR) within the first 180 days of operation. The SFR is an evaluation of the bus company to determine if the carrier has implemented procedures and other controls to ensure compliance with the PUC's safety regulations. Annual fleet inspections are conducted on all new entrant motor coach carriers and a portion of existing bus companies that hold intrastate operating authority. Carriers with a previous history of safety violations also are subject to the fleet inspections. The Commission also conducts driver/vehicle inspections at various sites across the state where there is a high volume of buses transporting passengers, such as at amusement parks and other tourist locations.

The Commission is an active partner with the Federal Motor Carrier Safety Administration's (FMCSA) bus safety efforts through participation in the Motor Carrier Safety Assistance Program (MCSAP). The federal Compliance Reviews (CRs) entail a thorough audit of the carrier's safety records and safety management systems to identify violations. A safety rating based on the findings is one result of the CR, and the carrier may be subject to civil prosecution by either or both the FMCSA and the PUC. In addition, the PUC works with the FMCSA to investigate carriers lacking valid operating authority to operate in interstate commerce. These bus carriers may be utilizing unqualified drivers and vehicles with safety deficiencies while transporting people to and from points in Pennsylvania.

As part of its participation in the MCSAP, the FMCSA asked Pennsylvania to enhance its oversight of the motor coach industry, following a number of significant crashes that resulted in injuries and fatalities across the state. During the 2004-08 time period, an average of 455 bus crashes occurred each year. The PUC increased its bus inspections by 25 percent in 2009, and the resulting five-year average in bus crashes dropped from 455 to 304. The strategy of increased bus inspections will continue, with the hope that further reductions in bus crashes will result. In 2009, PUC officers conducted 1,405 bus inspections, 410 at terminals and 995 at destination inspection sites. As a result of these inspections, 55 buses were placed out of service and 33 drivers were placed out of service.

Also, as part of an agreement with the Pennsylvania State Police, the Commission's enforcement officers perform post-crash inspections of motor coach vehicles that were involved in serious accidents, i.e., those involving fatalities and, in some instances, injuries. The enforcement officers use specially equipped trailers that contain ramps and other equipment to thoroughly examine buses that were likely disabled during a crash.

Unified Carrier Registration (UCR)

The federal Unified Carrier Registration System Plan and Agreement (UCR Act) became effective Jan. 1, 2007. In accordance with the UCR Act, motor carriers that operate commercial motor vehicles in interstate commerce must pay a fee based upon the size of the carrier's fleet. For 2010, the fee structure included six brackets, ranging from $76 to $73,346. In addition, individuals and companies that provide freight forwarding, brokering or leasing services in interstate commerce must register their business and pay an annual fee of $76. Motor carriers and the other businesses must register and pay the fee to the state in which they are headquartered.

The PUC has participated in the UCR program in 2008, 2009 and 2010. The PUC has collected $4.3 million for both 2008 and 2009. Through June 30, 2010, the PUC has collected $4.4 million. Although the registration and fee payment deadlines have expired for each year, the PUC continues to pursue and collect delinquent fees.

Household Goods Rulemaking

On Oct. 15, 2008, the proposed rule that amends the definition of "household goods in use" was announced. On April 16, 2009, the final rulemaking was approved by the Commission. The Commission's final rulemaking at 52 Pa. Code, Section 21.1, was published in the Oct. 24, 2009, *Pennsylvania Bulletin*. The regulation was effective upon publication, and the definition is amended.

The definition of "household goods in use" now excludes (a) household goods in containers or trailers that are entirely packed, loaded or unpacked by an individual other than an employee or agent of the motor carrier, and (b) property from a factory or store when it is purchased by the household with the intent to use it in the dwelling. Containerized moving services (such as PODS brand of moving/storage containers) are now regulated as general property, rather than household goods in use.

Regulated Motor Carriers

- 5,596 property
- 390 taxis
- 412 limousines
- 470 paratransit
- 63 airport transfer
- 372 group and party
- 52 scheduled route
- 309 household goods movers

2009-10 Enforcement Activities

- 11,321 truck, bus, small passenger vehicle inspections
- 482 informal complaint investigations
- 583 safety fitness reviews

Rail Safety Division

Railroad Safety Improvement Act

On Oct. 16, 2008, the most comprehensive federal rail safety bill in 34 years was signed into law. The Rail Safety Improvement Act of 2008 provides for new regulations and safety studies that will impact some industry operations, as well as the regulatory oversight by government agencies. The Act developed a long-term strategy for improving rail safety, including an annual plan for reducing the number and rates of rail accidents, injuries and fatalities.

The PUC oversees the safety of railroads in Pennsylvania along with the Federal Railroad Administration (FRA). Safety inspection efforts will be impacted by any changes prompted by the Act. Major provisions of the Act address significant training improvements for railroad workers; implementation of Positive Train Control (PTC) on some railroad operations to establish crash avoidance systems; revisions to hours-of-service rules for railroad crews resulting in additional rest; a requirement of the FRA to issue new regulations for railroads to maintain the safety of their bridges; the establishment of a toll-free telephone number for reporting grade crossing problems; and review of track inspection, maintenance and repair procedures.

Many of the regulations and required studies announced in the Rail Safety Act of 2008 are becoming a reality. The following are some of the Act's provisions that have been implemented:

- A final rule was issued on Jan. 12, 2010, requiring that Positive Train Control (PTC) technology be installed on the nation's major rail lines, as well as commuter and intercity passenger routes. PTC is an integrated set of technologies that will help avert train-to-train collisions, and derailments caused by excessive speed, accidents caused by human error or misaligned switches.

- A final rule was issued on July 15, 2010, establishing safety requirements for railroad bridges. The rule requires track owners to implement bridge management programs, which include annual inspection of railroad bridges, and to audit the program. The rule also requires track owners to know the safe load capacity of bridges and to conduct special inspections if the weather or other conditions warrant such inspections.

- A Notice of Proposed Rulemaking (NOPR) was issued on May 18, 2010. The NOPR is proposing to amend railroad communication regulations by restricting use of mobile telephones and other distracting electronic devices. This rulemaking would codify most of the requirements of the FRA Emergency Order dealing with railroad operating employees, such as locomotive engineers and their use of electronic devices.

Technology and Rail Safety Track Inspections

The PUC conducts its railroad safety efforts in partnership with the FRA pursuant to an agreement in accordance with the Federal Railroad Safety Act of 1970. Safety inspections and investigations of railroad facilities, equipment and records are periodically completed throughout the Commonwealth. The PUC has certified inspectors in the disciplines of track, motor power and equipment, operating practices and hazardous materials.

Inspectors traditionally use level boards, track gauges and tape measures to check the conditions of the track, looking for rail structural deficiencies and irregular track geometry to reduce the risk of derailments. A new inspection tool that is periodically available is the track geometry car that is part of the FRA's Automated Track Inspection Program (ATIP).

ATIP utilizes state-of-the-art cars with measurement systems that produce a load on the track, accurately record gauge, alignment and track surface, and calculate a safe travel speed for trains. Through the use of advanced electronic sensing and data processing, the vehicle is able to collect track geometry data while traveling at speeds up to 110 mph. After data is compiled on reports that indicate the track deficiencies and locations by global positioning system (GPS), the rail safety track inspectors verify the inspection car results through field examination. The ATIP process has increased the effectiveness and efficiency of the track inspection efforts for both industry and safety regulators.

The geometry cars are frequently scheduled for Pennsylvania main lines, because of the high-speed passenger trains, the large number of track miles with heavy tonnage, the high volume of hazardous material shipments, and designation of the Department of Defense Strategic Corridor rail routes.

Technology also is available to "X-ray" the rails, looking for internal defects that may eventually fail and potentially cause a derailment. Additionally, some railroads utilize inspection vehicles equipped with ultrasonic and electromagnetic technology instruments. 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 railroads in Pennsylvania are in compliance with this regulation.

Both the geometry car and the rail flaw detection car have proven to be a tremendous benefit to the rail industry, customers and public safety. With the utilization of ever-evolving technology and training, the safety record of rail transportation continues to improve.

Norfolk Southern Crescent Corridor

Norfolk Southern Railway (NS) plans to construct a multi-million-dollar terminal known as Franklin County Regional Intermodal facility on a 170-acre site adjacent to its main line track in Antrim Township, Franklin County. The new intermodal terminal near Greencastle will serve the Mid-Atlantic Region, as part of the railroad's multi-state Crescent Corridor initiative to establish a high-speed intermodal freight rail route between the Gulf Coast and the Northeast. The $95 million facility, at which freight moving in containers and trailers will be transferred between train and truck handling more than 85,000 containers and trailers annually. The terminal will utilize the latest in gate and terminal automation technology, which shortens the waiting time for trucks entering the terminal, thereby reducing exhaust emissions and improving truck driver productivity. In conjunction with the construction of the intermodal facility, NS proposes to eliminate two at-grade crossings and construct a new highway bridge for Hykes Road over its tracks to improve traffic flow to Interstate 81.

The Rail Safety Division held a meeting at the site of the crossings on June 22, 2010, at Docket A-2010- 2177354 to discuss what work is required to effectually abolish and alter the subject crossings in the interest of safety of the traveling public. NS expects that the project would be completed by the end of 2012. The intermodal facility is expected to facilitate economic development in the area by creating new jobs, and NS projects the overall cumulative regional economic impact of the facility through 2020 to be approximately $1.5 billion.

Operation Lifesaver

Operation Lifesaver is 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 are certified to provide Operation Lifesaver presentations to various groups, such as school children, businesses and civic organizations. The Rail Safety Division's five trained presenters also provide information concerning railroad safety at outreach events. The Rail Safety Division has the expertise with regards 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.

2009-10 Inspections

- 24,496 railroad car
- 426 locomotive
- 1,617 miles of railroad track
- 460 operating practice

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