2013

ANNUAL REPORT
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2014

MISSION

The Pennsylvania Public Utility Commission balances the needs of consumers and utilities; ensures safe and reliable utility service at reasonable rates; protects the public interest; educates consumers to make independent and informed utility choices; furthers economic development; and fosters new technologies and competitive markets in an environmentally sound manner.

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THE HONORABLE TOM CORBETT
GOVERNOR OF PENNSYLVANIA

THE HONORABLE JIM CAWLEY
LIEUTENANT GOVERNOR OF PENNSYLVANIA

MEMBERS OF THE GENERAL ASSEMBLY

We are pleased to submit the FY 2013-14 Annual Report for the Pennsylvania Public Utility Commission (PUC). As required by Section 321 of the Public Utility Code, 66 Pa.C.S § 321, the Annual Report highlights the accomplishments and challenges the PUC faced over the course of the year in fulfillment of our mission as regulators and protectors of the public interest. This year's report highlights how the PUC is adapting to the changing utility marketplace. In the 21st century, the PUC is more than a utility regulator.

This year the PUC took steps to ensure consumers are fully informed about variable rate products stemming from more than 14,000 calls from customers who were participating in the competitive retail market and experienced abnormally high electric bills related to the intense cold weather that the region experienced in January and February. The PUC undertook two accelerated rulemakings in order to provide consumers with the flexibility they needed to move quickly away from higher electric generation prices and have all of the information needed to make an informed decision.

As a lead agency in spearheading discussions about cybersecurity in the utility sector, the PUC is nationally recognized as a conduit of information between utility industries and state and federal government agencies - breaking down silos to ensure that important information concerning escalating cyber threats and improved best practices can be shared.

In the telecommunications sector, the PUC continued its involvement in several Federal Communications Commission proceedings on various issues, and has made progress implementing the state's aggressive broadband deployment initiative, which requires every Pennsylvanian to have access to broadband services, in even the most rural areas, by 2015.

The PUC continues to stress the importance of safety in the area of transportation. The Commission has had a focused effort addressing the legislative, regulatory and compliance challenges of Transportation Netowork Company service in the state. The PUC also continues to promote railroad safety in the Commonwealth by conducting safety inspections and investigating railroad facilities, equipment, and records.

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

Robert F. Powelson | John F. Coleman | James H. Cawley | Pam Witmer | Gladys M. Brown

INTRODUCTION

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

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

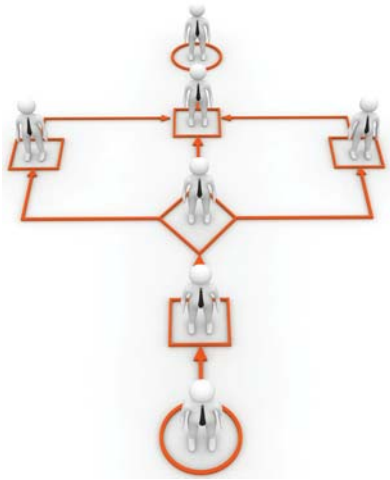
ORGANIZATION

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

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

The Commission has its headquarters in Harrisburg with regional offices in Philadelphia, Pittsburgh and Scranton. In Fiscal Year 2013-14, the Commission continued to strive to create a more open and user-friendly PUC. Information about the PUC, including copies of documents filed with and produced by the Commission, audio and video of certain Commission proceedings, forms, applications and summaries of public meetings, is available at www.puc.pa.gov. The Commission maintains a social media presence through Facebook (PAPowerSwitch) and Twitter (@PA_PUC) to create transparency and to actively engage more consumers.

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 hazardous materials; and public highway-railroad crossings. Municipal utility service is exempt from PUC regulation, with the exception of services furnished beyond a municipality's boundaries. Similarly, rural electric cooperatives, municipal authorities, school buses, bottled water, heating oil, cable television, Internet service, bundled telecommunications/Internet services and wireless telecommunications services are exempt from PUC regulations.



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

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

BROAD POWERS

The PUC exercises broad powers in meeting its regulatory obligations. In today's rapidly changing business environment, utilities must consider all of their options. Utility mergers, rate change requests, acquisitions and affiliated interest agreements continue to be filed before the Commission at a steady pace. With limited exceptions, utilities are required to obtain Commission approval for these transactions, as well as to operate, extend or abandon service. The PUC's responsibility is to ensure these actions are in the public interest. During the first two quarters of 2014, the PUC received 14,078 filings and served 6,234 documents.

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

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

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

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

COMMISSION'S BUDGET

EXECUTIVE GOVERNMENT OPERATIONS

GENERAL GOVERNMENT FUND	GENERAL FUND	GENERAL FUND
	Estimated 2013-14 Expenditures	**Approved 2014-15 Budget**
State Funds:		
Personnel	$49,669,000	$51,150,000
Operating	12,898,000	12,898,000
Fixed Assets	123,000	204,000
Other	400,000	319,000
Total State Funds	**$63,090,000**	**$64,571,000**
Federal Funds:		
Personnel	$3,338,000	$2,716,000
Operating	1,369,000	1,069,000
Total Federal Funds	**$4,707,000**	**$3,785,000**
Other Funds	1,000,000	$1,000,000
Total Commission Budget:	**$68,797,000**	**$69,356,000**

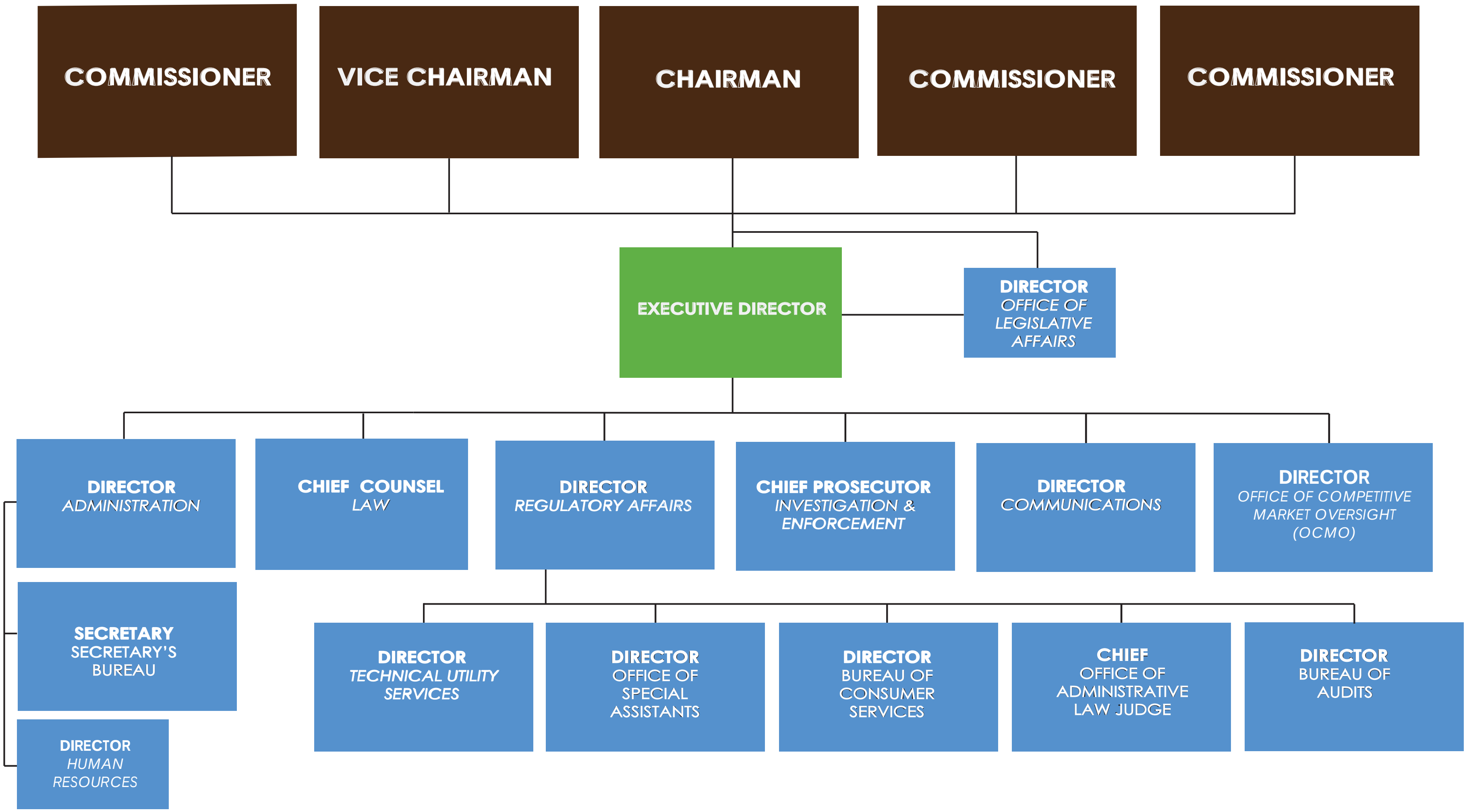
OTHER REVENUE SOURCES

	2012-13 RECEIPTS	2013-14 RECEIPTS
Unconventional Gas Well Fund - Act 13	$1,000,000	$1,000,000
Filing & Copy Fees	167,716	283,639
Electric Generation Application Fees	22,750	37,100
Fines	1,009,162	2,831,316
Federal - Gas Pipeline Safety	847,918	1,104,718
Federal - Motor Carrier (MCSAP)	1,299,205	1,012,315
Federal - ARRA Electric Reg. Asst.	176,050	
Total	**$3,522,801**	**$5,269,088**

2013-14 APPLICATION FEES, FILING & COPY FEES & FINES

	ELECTRIC GENERATION APPLICATION FEES	FINES	FILING & COPY FEES	TOTAL
1st Quarter	$23,100	$1,267,732	$138,701	**$1,429,533**
2nd Quarter	7,000	1,177,402	39,114	**$1,223,516**
3rd Quarter	2,800	259,607	57,487	**$319,894**
4th Quarter	4,200	126,575	48,337	**$179,112**
Total	**$37,100**	**$2,831,316**	**$283,639**	**$3,152,055**

ORGANIZATIONAL CHART



BUREAU DIRECTORS

Jan Freeman
Executive Director

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

Mary Beth Osborne
Director of Regulatory Affairs

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

Robert C. Gramola
Director of Administrative Services

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

Charles E. Rainey Jr.
Chief Administrative Law Judge

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

Dennis Hosler
Director of Audits

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

Tom Charles
Director of Communications

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

Kirk House
Director of Office of Competitive Market Oversight

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

Alexis Bechtel
Director of Consumer Services

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

June Perry
Director of Legislative Affairs

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

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

JOHNNIE SIMMS
DIRECTOR OF INVESTIGATION & ENFORCEMENT

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

BOHDAN R. PANKIW
CHIEF COUNSEL

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

ROSEMARY CHIAVETTA
SECRETARY

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

CHERYL WALKER DAVIS
DIRECTOR OF SPECIAL ASSISTANTS

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

PAUL DISKIN
DIRECTOR OF TECHNICAL UTILITY SERVICES

CONSUMERS

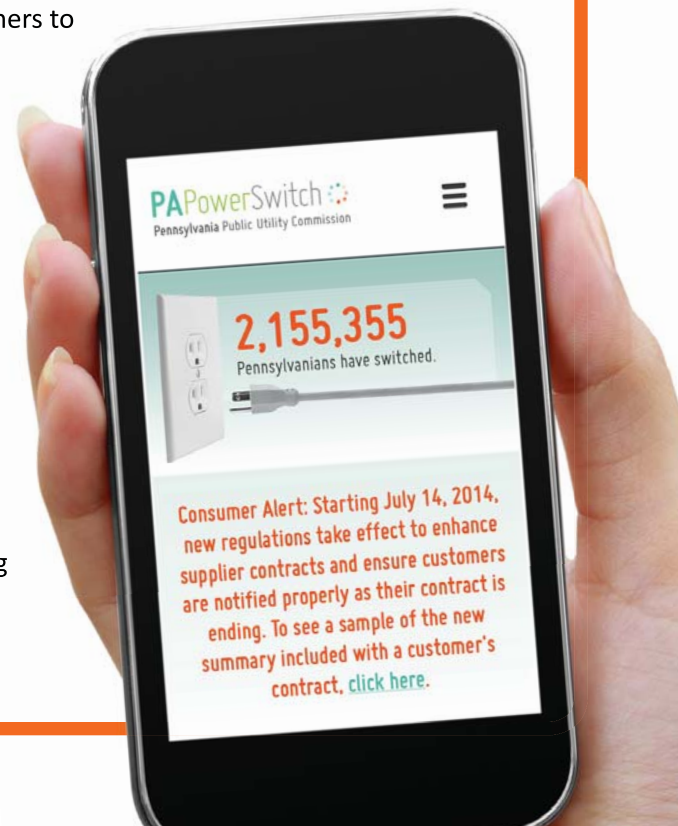
During Fiscal Year 2013-14, the Commission continued to focus on educating customers about energy prices and the resources available to assist them in making their utility services more affordable. The Commission continued to educate consumers using PAPowerSwitch.com, a user-friendly tool created by the Commission, to help consumers shop for their electric supplier. This message was communicated at numerous community and consumer education events. The Commission also expanded its education on the difference between variable and fixed rates.

PAPOWERSWITCH.COM

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

In Fiscal Year 2013-14, the total number of Pennsylvanians shopping for electric supply exceeded 2 million customers. In order to help customers assess their risk tolerance and in turn help them decide whether to choose a fixed or variable rate, the PUC updated the electric shopping website with new pages and education videos dedicated to the differences between the two rates. The Commission also launched a mobile-friendly shopping website in April 2014.

Putting the power in consumers' hands to choose their electric generation supplier began with the 1996 Electricity Generation Choice and Competition Act. Under the law, electric rates were capped to ease the transition to competitive markets. Consumers have the power to switch to a competing supplier who may offer the lowest price, or provide a specific service or product such as green/renewable energy.



SOCIAL MEDIA OUTREACH

The Commission continues to reach consumers through its website www.puc.pa.gov, and separate shopping websites, PAGasSwitch.com and PAPowerSwitch.com. Also through its presence on social media sites Twitter and Facebook, the Commission is better able to inform Pennsylvania customers on utility issues.

The Commission's Twitter page (@PA_PUC) is dedicated to all things utility, including issues related to industries regulated by the PUC. The Commission's "PAPowerSwitch" Facebook page provides easy access to information about electric shopping. The Facebook page includes electric shopping event details, photos, videos and links to PAPowerSwitch.com in addition to information on how to shop for a competitive electric generation supplier.

CONSUMER OUTREACH SUMMARY

The PUC's consumer outreach specialists have provided utility education and outreach to thousands of consumers by working alongside health and human service providers, consumer advocates, utility community relations specialists, seniors and low-income consumers. In Fiscal Year 2013-14, extreme cold temperatures dominated the state for a prolonged period of time, which translated into significant price spikes in electric prices (*See Electric*). In response, the PUC's outreach team participated in many education opportunities, helping consumers navigate the winter's pricing challenges.

The outreach team travels the state to ensure consumers from all socioeconomic backgrounds are educated about and understand their rights as utility customers. In Fiscal Year 2013-14, 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.

PREPARE NOW

During Fiscal Year 2013-14, the PUC continued to work with electric and natural gas companies to help consumers "Prepare Now" for the higher costs of winter heating.

In an October 2013 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 their utility service. In February 2014, the PUC reminded consumers at risk of termination to contact their utility for resources to help maintain electric or natural gas utility service for the winter months.

Winter 2013 was the 11th 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.pa.gov 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 community organizations, social service agencies, and industry representatives to help residents "stay connected" through a media and community event in Johnstown, PA.

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

SETTLEMENTS

In Fiscal Year 2013-14, the PUC approved settlements with utility companies and electric generation suppliers following informal investigations into alleged violations of the Public Utility Code or consumer complaints. In many cases, the companies agreed to improve communications with consumers.

- **Duquesne Light Co.** paid a $2,500 civil penalty and contributed $17,500 to the Dollar Energy fund. The settlement stemmed from an investigation into the company's acquisition and disposition of a property.

- **West Penn Power Co.** paid an $86,000 civil penalty following an investigation into the company's handling of an incident that resulted in the death of a western Pennsylvania woman.

- **PPL Electric Utilities Corp.** was directed to pay a $60,000 civil penalty as part of a settlement that stemmed from an investigation into restoration practices during a 2011 snowstorm.

- **Public Power LLC** paid a $64,450 civil penalty and provided a refund of $22,161.68 to each of the 263 customers affected by erroneous customer enrollments.

- **IDT Energy Inc.** was directed to pay $39,000 following an investigation concerning suspect marketing practices.

- **AP Gas & Electric** paid $43,200 following an investigation into consumer allegations of slamming, which is an unauthorized change to a customer's electric generation supplier.

- **MX Energy** paid a $22,000 civil penalty following investigations into alleged suspect marketing practices.

- **PPL Electric Utilities** paid a $60,000 civil penalty following a investigation into restoration practices during an October 2011 snowstorm.

- **UGI Utilities Inc. – Gas Division** was directed to pay a $96,000 civil penalty that stems from an investigation involving a gas ignition incident that occurred in Hazleton, Luzerne County.

- **UGI Penn Natural Gas** was directed to pay a $1 million civil penalty following an informal investigation into the company's classification and repair of some leaks in Wilkes-Barre, Luzerne County.

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.

The companies resurveyed the households without utility service in February 2014.

PUC consumer educators traveled to several consumer education events across the state to educate consumers about the differences between variable and fixed rates.

POLAR VORTEX AND VARIABLE RATES

In Fiscal Year 2013-14, the Commission received calls from more than 14,000 customers who experienced abnormally high electric bills. The majority of the affected customers were participating in the competitive retail market and were receiving electric supply service from an electric generation supplier under a contract with monthly adjusted variable rate. The high bills stemmed from intense cold weather that the region experienced in January and February 2014. After becoming aware of the situation, the PUC immediately took action to ensure consumers are better informed about variable rate products.

UNIVERSAL SERVICE PROGRAMS AND COLLECTIONS PERFORMANCE

The PUC issued the 2012 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 2013-14. 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.

UTILITY CONSUMER ACTIVITIES REPORT AND EVALUATION

Helping Pennsylvania consumers resolve utility problems remains a major concern for the Commission. Full-time investigators handle a variety of consumer contacts related to billing problems, service delivery and repairs. The 2012 Utility Consumer Activities Report and Evaluation shows that BCS investigated 13,457 consumer complaints in 2012, with 11,014 of those complaints coming from electric, natural gas, water and sewer customers and 2,443 from telephone consumers.

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 2012, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.

CONSUMER ADVISORY COUNCIL

From Left to Right: Ralph Douglass, Harry Geller, Tim Hennessey, Michael Bannon and Javier Toro. Not pictured: Lillian Carpenter, Rick Hicks, Chad Quinn, Tina Serafini, George Silvestri, William Sterner, Lee Tolbert and Joe Toner.

The Consumer Advisory Council (CAC) was created through a regulation in 1977 to advise the Commission on matters relating to the protection of consumer interests under the Commission's jurisdiction. CAC members are appointed by the following elected officials: the Governor; Lieutenant Governor; the Democratic and Republican 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 of the CAC that reflect a reasonable geographic representation of the Commonwealth, including low-income individuals, members of minority groups and various consumers. A person may not serve as a member of the Council if the individual occupies an official relation to a public utility or holds or is a candidate for a paid appointed or elected office of the Commonwealth.

Council members serve two-year terms and may be reappointed. Council officers serve two-year terms. The Chairperson may not act for more than two consecutive terms.

PA RELAY SERVICE ADVISORY BOARD

Back Row (Left to Right): Sheila Brown, BCS; Steve Samara, PA Telephone Association; Donald Kovacic, public member; Steve Shultz, public member; Gail Sanchez, AT&T TRS Regulatory & Support; Sharon Behun, PA Department of Labor & Industry's Office for the Deaf & Hard of Hearing; and, Eric Jeschke, TUS. Front Row (Left to Right): Mina Knezovich, OSA; Kay Tyberg, public member; Lauren Cramer, Hamilton Relay Inc.; and, Sudan Khan, Hamilton Relay Inc. Outreach.

During 2013-14, the Pennsylvania Relay Service Advisory Board met quarterly to advise the Telecommunications Relay Service (TRS) providers on service issues, to discuss policy issues related to traditional TRS and Captioned Telephone Relay Service (CTRS), and to interact with Commission-appointed members. At each meeting, the traditional TRS provider and CTRS administrator gave the board a status report of their activities, which focused on issues including call volumes, new service offerings, complaint handling equipment enhancements and outreach plans. The board consists of members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Center for Independent Living of South Central Pennsylvania; Office for the Deaf & Hard of Hearing; and individuals from the deaf or hard of hearing community.

Established in May 1990, the purpose of the board is to review the success of the statewide Telecommunications Relay Service (TRS) and identify improvements that should be implemented. The board functions primarily as a TRS consumer group by providing feedback and guidance to the TRS providers and the Commission regarding communication assistance training, problem solving, outreach initiatives and service enhancements.

TELECOMMUNICATIONS

The Commission monitors the aggressive broadband deployment initiatives required by Act 183 of 2004 (Act 183 or Chapter 30), which requires incumbent local exchange carriers to 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 universal service funding as an Eligible Telecommunications Carrier.

REGULATED TELEPHONE COMPANIES

The three largest incumbent local exchange carriers (ILECs) are Verizon Pennsylvania LLC, Verizon North LLC and The United Telephone of Pennsylvania LLC d/b/a CenturyLink (CenturyLink). The Commission continues to regulate wireline incumbent local exchange and competitive local exchange carrier (ILEC, CLEC) telephone companies.

TYPE OF CARRIERS IN PENNSYLVANIA

- **Incumbent Local Exchange Carriers -31**
- **Competitive Local Exchange Carriers -165**
- **Interexchange (Toll) Carriers -61**
- **Interexchange (Toll) Resellers -315**
- **Competitive Access Providers -90**

TELEPHONE NUMBERS AND AREA CODES

Due to rigorous number conservation implemented by the Commission, our intrastate area codes are no longer in jeopardy of exhaust. However, the FCC continues to inform Pennsylvania and the states of their current and projected numbering resources. The Commission staff closely monitors this information regarding numbering resources in all of the Commonwealth's area codes so that there continues to be adequate resources for all of the telecommunications carriers operating in Pennsylvania.

INTERCARRIER COMPENSATION/UNIVERSAL SERVICE REFORM/CONNECT AMERICA FUND

On Nov. 18, 2011, the Federal Communications Commission (FCC) issued the Intercarrier Compensation/Universal Service Reform Order creating a Connect America Fund (CAF) that affected a series of changes and reforms in the federal universal service fund mechanism and in various parameters of intrastate and interstate intercarrier compensation. The Order is a complex and comprehensive proposal to restructure the nationwide telecommunications marketplace. The Commission continues to implement this complex FCC decision which impacts Pennsylvania markets, providers, end-user consumers, and the Commission's jurisdiction to manage certain regulatory matters under both federal and Pennsylvania law. More information on the steps the PUC is taking is available on the Commission's website.

The Commission, along with other state utility commissions and other parties, has appealed of the FCC's November 18, 2011, ruling to the U.S. Court of Appeals for the 10th Circuit, Denver, Colorado. The U.S. Court of Appeals for the 10th Circuit issued a decision in May 2014 which upheld all appealed provisions of the FCC's November 2011 Intercarrier Compensation / Universal Reform Order.

Despite these significant changes, the Commission grants eligible telecommunications carrier (ETC) status to wireline and wireless carriers if they are in compliance with federal and state laws as well as Commission regulations. ETC status allows carriers to receive money from the federal universal service fund.

INTERCARRIER COMPENSATION DISPUTES IN PENNSYLVANIA

Intercarrier compensation is the term for compensation that one carrier pays to another carrier for using that carrier's network. In addition to the Commission's work regarding compliance with the FCC's November 2011 mandates, litigation continues before the PUC on various complaints filed by both ILECs and CLECs concerning the application and payment of intercarrier compensation. Some cases hinge on whether intercarrier compensation can be assessed on certain types of traffic such as Internet, broadband, wireless, local calls, and wholesale service.

The Commission appealed a decision of the U.S. District Court for the Eastern District of Pennsylvania holding that the Commission lacked jurisdiction to adjudicate an intercarrier compensation dispute between AT&T and Core Communications. In the underlying case, the Commission — through the enforcement of applicable federal law — had directed AT&T to compensate Core for the termination of certain local dialed-up calls directed to Internet service providers (ISPs), where such calls had been initiated by AT&T end-users. The Commission filed its appeal with the U.S. Court of Appeals for the 3rd Circuit, Philadelphia, Pennsylvania. Appellate briefs and reply briefs have been filed and oral argument, if held, should be scheduled before the end of the 2014 calendar year.

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

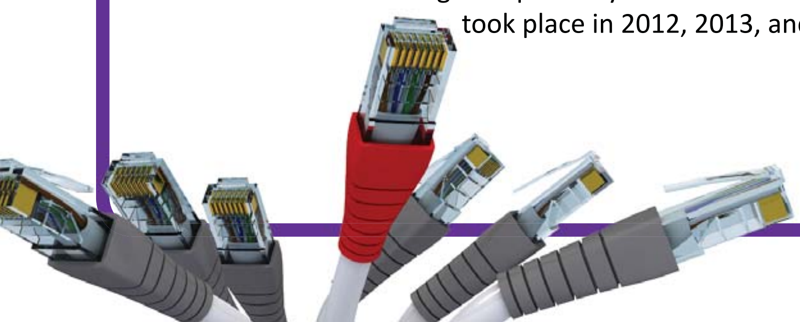
More action in these proceedings is expected in the next fiscal year.

INTERCONNECTION ISSUES

The Commission continues to resolve interconnection disputes between carriers. Specifically, in December 2013, the Commission determined certain rates, terms and conditions between Core Communications, Inc., a CLEC, and CenturyLink LLC, an ILEC in Pennsylvania. The dispute was raised at the PUC because Core requested that the Commission arbitrate the terms and conditions for interconnection with CenturyLink after the parties were unable negotiate an agreement. The parties filed Petitions for Reconsideration of the Commission's December Order, and the additional issues were addressed.

MANDATED ACCESS CHARGE REDUCTIONS & REVISIONS

The FCC November 18, 2011, Order required all Pennsylvania ILECs and CLECs (collectively LECs) to begin a transition of certain intercarrier compensation rates to a bill-and-keep regime rate of zero ($). All intrastate switched access rate elements for LECs classified as federal price cap carriers are capped at current levels in effect on Dec. 29, 2011, and all terminating switched access rate elements for LECs classified as federal rate of return carriers are capped at current levels in effect Dec. 29, 2011. Subsequently, LECs make tariff filings with the Commission effective on or about July 1 of each year to gradually transition certain intrastate switched access rates to meet the federal directives of the FCC's November 18, 2011, Order imposing the transition to a bill-and-keep rate of zero. In addition, LECs submitted tariff amendments addressing intercarrier compensation for voice over the Internet Protocol (VoIP) call traffic that is exchanged with other carriers. The Commission has examined and approved these amendments on a case-by-case basis. To date, the Commission has implemented the first three steps of the nine-year phase down of intrastate access charges required by all carriers with reductions that took place in 2012, 2013, and 2014.



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 wholesale interconnection services 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.

Verizon PA's wholesale interconnection service is evaluated using metrics that measure its performance 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. In Fiscal Year 2013 -14, the parties provided audit results and the audit did not produce any measurable actions and was subsequently closed.

CHAPTER 30

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

Most of the Chapter 30 ILECs have completed their respective broadband deployment commitments in 2008 and 2013. Verizon PA and Verizon North are expected to complete their respective broadband deployment by December 2015. It should be noted that for certain ILECs operating in Pennsylvania (with the federal "price cap" designation), the receipt of federal Connect America Fund monetary support also entails certain obligations for the deployment of broadband network facilities with speed standards higher than those contained in Chapter 30 (4 Mbps for downloads and 1 Mbps for uploads). Carriers have undertaken obligations outlined in Chapter 30 for the Bona Fide Retail Request program (BFRR), the Business

Attraction or Retention Program (BARP) and the Broadband Outreach and Aggregation Fund (BOAF).

PUC-APPROVED PRICE CAP FILINGS

Most of the incentive regulation plans for Chapter 30 ILECs use price stability mechanisms with price cap formulas. These formulas provide for annual ILEC revenue and rate increases on the basis of the gross domestic product price index (GDP-PI, a measure of inflation in the general U.S. economy), minus an inflation offset value that is statutorily set. The ILECs have the option to implement such annual revenue increases in actual rates or bank such increases totally or in part for later use. Through past settlements reached with the state's Office of Consumer Advocate, most of the ILECs are required to implement banked revenue changes in actual rates within four years or forego the revenue increase. Verizon PA, Verizon North and CenturyLink are required to immediately implement any rate decrease of more than $500,000. In the period from Sept. 1, 2013, through May 1, 2014, ILECs were authorized a total of $7.73 million under their respective price cap filings. Of this, the companies banked $3.95 million for future use. During this same period, price cap companies implemented a total of $7.23 million into rate increases.

PA UNIVERSAL SERVICE FUND

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

In December 2013, the Commission approved a state USF contribution rate for the 2014 calendar year calculated to produce a total fund size of approximately $34.055 million. The amount is divided as follows: approximately $33.816 million is distributed among recipient carriers; $1.5 million is held in reserve for uncollectibles; $97,680 is paid to the third-party administrator; and, $23,400 is paid to an external auditor.

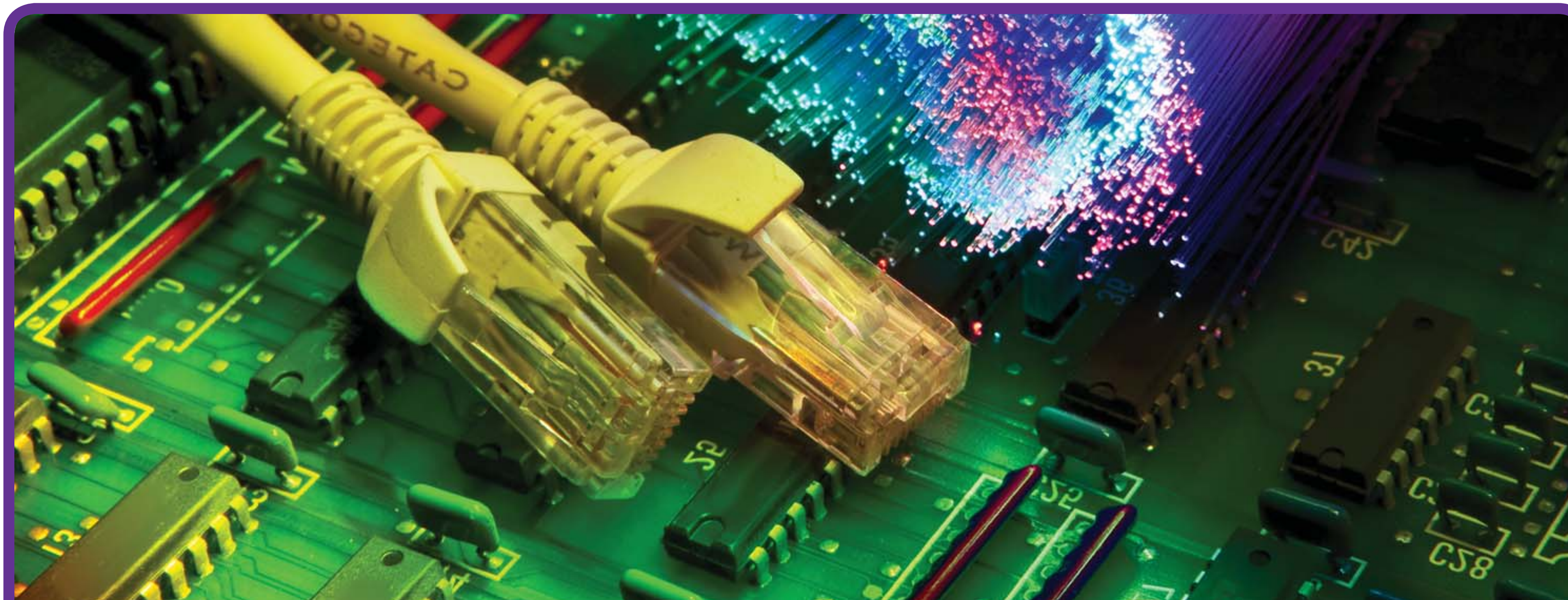
LIFELINE PROGRAM CHANGES

Commissioner Pamela A. Witmer speaks at a Lifeline Awareness media and consumer event in Johnstown, Cambria County.

During the 2013-2014 fiscal year, the FCC continued with the implementation of its February 2012 Lifeline Reform Order and related regulations designed to reduce waste, fraud, and abuse in the federal Lifeline program, particularly in wireless pre-paid Lifeline services that are monetarily supported by the federal Universal Service Fund mechanism. The FCC's rules require a carrier to certify a customer's eligibility when they first apply for service; thereafter the consumer re-certifies their eligibility. Pennsylvania requires a provider to certify a consumer's eligibility initially and on an ongoing annual basis thereafter to minimize waste, fraud, and abuse. The National Lifeline Accountability Database (NLAD) was implemented to reduce fraud so eligible telecommunications carriers could identify and resolve duplicate claims for Lifeline service. The Commission is working with industry and other state agencies, particularly the Department of Public Welfare, on providing information so that carriers can verify a customer's eligibility under federal and state rules. The FCC is also implementing a $25 million broadband pilot program for Lifeline customers to determine if a nationwide broadband lifeline program should be implemented by the Federal Universal Service Fund (FUSF).

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission's regulations governing approval focus on making sure that customers are protected, the company is a viable public utility and the transaction is in the public interest. In Pennsylvania the legal



standard asks whether an affirmative public benefit will result from the merger or acquisition. The phrase "public benefit" is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment. Forty-one mergers or acquisitions of telephone companies occurred in Fiscal Year 2013-14.

On April 8, 2014, Comcast and Time Warner filed an application with the FCC for approval of a proposed merger between the two entities in which Comcast would acquire 100 percent of Time Warner's equity in exchange for Comcast Class A shares in the amount of $45.2 billion, rendering Time Warner a wholly-owned subsidiary of Comcast. As a result of the proposed parent-level merger, on April 11, 2014 Comcast and Time warner filed an application with the PA Commission for the approval of the indirect transfer of control of Time Warner Cable Information Services (Pennsylvania) LLC and Time Warner Cable Business LLC (Telco subsidiaries of Time Warner) from Time Warner to Comcast. The Commission is scheduled to make a decision on the issue during Fiscal Year 2014-15.

PUC INVOLVEMENT AT THE FCC

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

- Clarification on whether state commissions can adjudicate intercarrier compensation disputes when they arise between CLECs outside the formal interconnection agreements in Sections 251 and 252 of the federal Telecommunications Act of 1996, where such disputes involve the exchange of local dial-up Internet call traffic.

- The practical utility of FCC Form 505 and emphasizing the need for states to have express standing to participate in challenges to the Wireline Competition Bureau's determinations.

- Reiteration that the Internet Protocol (IP) Transition process, inclusive of experiments, cannot rewrite existing statutory law including the federal Telecommunications Act of 1996.
- Recommendations that the FCC improve its interaction with external stakeholders by enhancing its public outreach and transparency, exploring innovative mechanisms for developing policy proposals, updating the drafting process for policy documents and expanding use of multi-stakeholder mechanisms.
- The North American Number Council's (NANC) report on local number portability (LNP) Best Practice 30 on Area Code Relief Options, which is intended to address number porting and implementation of area code splits.

Commission personnel serve as lead on the Telecommunications Staff Committee, which is part of the Mid-Atlantic Conference of the Regulatory Utility Commissions (MACRUC). The Commission also is actively involved with the National Association of Regulatory Utility Commissioners (NARUC) to ensure that Pennsylvania and MACRUC regional concerns are considered in making decisions about what services should be supported at what funding level. One PUC Commissioner currently chairs the Federal-State Joint Board on Universal Service that was created by the federal Telecommunications Act of 1996. In addition, another Commissioner serves on the FCC's Council on Communications, Security, Reliability and Interoperability (CSRIC) which covers numerous topics including cybersecurity.

TELECOMMUNICATIONS RELAY SERVICE

The Commission completed the annual recalculation of the Telecommunications Relay Service (TRS) surcharge for residence and business wireline access lines for July 1, 2014, through June 30, 2015. The monthly residential and business monthly access line surcharge will remain set at $0.08. Beginning this fiscal year, the annual TRS surcharge recalculation order will only be served to local exchange carriers (LECs) and service providers if there is a change in the surcharge or if a LEC is required to file a tariff or take other action.

In Fiscal Year 2013-14, the Commission released a Request for Proposal as it began its search for a vendor to provide TRS services, after AT&T Corp. advised the Commission that it intended to vacate the TRS market in every state where it served as a vendor. The selection of a vendor is expected in Fiscal Year 2014-15.

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

HB 1608

In December 2013, the Commission provided testimony on the proposed HB 1608 legislation, the Telecommunications Market Competition Act, which would allow certain geographic areas in Pennsylvania to be designated competitive. The Commission has an interest in this legislation because of its role as the regulator for intrastate local, toll, and access telephone providers. Although the Commission does not have jurisdiction over certain retail broadband access, wireless, and cable television services, it exercises regulatory oversight over physical network facilities of telecommunications utilities and the quality, reliability and safety of the intrastate services that are provided within Pennsylvania. Furthermore, the existing Chapter 30 law provides the Commission with the necessary statutory authority to maintain the availability of universal service within the Commonwealth.

PAPER BILLING INVESTIGATION

In March 2014, following a joint investigation into the practice of charging a fee for paper bills, the Commission decided it will not approve tariff provisions authorizing telecommunications carriers to charge residential or business customers a separate fee to receive a paper bill. Reconsideration of the March Order was denied in July 2014. The Commission's Order has been appealed to the Commonwealth Court.

The Commission also has directed that a Notice of Proposed Rulemaking be issued so that formal regulations can be adopted addressing this matter. The Commission expects that the Notice of Proposed Rulemaking will be issued during Fiscal Year 2014-2015.

CLEC APPLICATIONS

In May 2014, the Commission voted to close its proceeding related to modifications to the application form for new entrants seeking to provide telecommunications services in Pennsylvania. The Commission had initiated a review of certain practices and procedures to determine whether various changes to the telecommunications application form were needed in light of market entry issues and emerging technology. After a thorough analysis of the changed conditions as well as the comments and replies submitted in the docket, the Commission closed the proceeding without modifications to the application form. However, during the past fiscal year, the Commission implemented assigning a new docket numbering system when a CLEC applies for entry into multiple incumbent territories.

WATER/WASTEWATER

The Commission regulates the rates and service of about 150 water and wastewater companies, including a number of municipal water and wastewater systems, and continues its oversight of the water affected by Marcellus Shale drilling and its supply. In Fiscal Year 2013-14, the Commission acted on nine water and wastewater rate increase requests. The Commission also processed 44 applications for additional territory, abandonments, formation of new companies and mergers/acquisitions. The Commission continues to implement a water audit program, which is intended to enhance the companies' tracking of levels of unaccounted-for water.

WATER AUDIT PROGRAM

On Jan. 24, 2013, the Commission entered an Advance Notice of Proposed Rulemaking (ANOPR) Order regarding its water audit methodology. In that ANOPR Order, the Commission indicated that a remaining question going forward for the Commission and the water industry is whether the Commission should revise its existing regulations regarding unaccounted-for water, or, whether it is necessary for the Commission to adopt new regulations regarding the water audit methodology. The Commission also invited comments from the regulated community and other interested parties on the experienced benefits and costs of the water audit methodology. The Commission is still assessing the need for the program and resources required to implement it properly.

On Jan. 27, 2012, a Tentative Opinion and Order was finalized directing five Class A water utilities (earning more than $1 million in annual revenue) to begin filing annual Water Audit summaries beginning with the year ended Dec. 31, 2011. The five companies are Aqua Pennsylvania, Inc.; The York Water Co.; The Superior Water Co.; United Water Pennsylvania, Inc. and Pennsylvania American Water Co. The Water Audit program is designed 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.

All other Class A water companies were to begin filing this report for the year ended Dec. 31, 2012. In addition, the Commission's Law Bureau was directed to initiate the rulemaking process to implement the Water Audit as a best management practice in water loss control in Pennsylvania.

WATER AND WASTEWATER PLANT INSPECTIONS

The Commission conducted 17 plant inspections in Fiscal Year 2013-14. Staff conducts a variety of inspections for several purposes: security audits, to ensure plant and consumer safety; random inspections, particularly if staff has not visited the company for a period of years; compliance issues; rate cases; miscellaneous investigations; and plant tours. If violations are found, the company is directed to correct the problem. If the problem is not corrected, Commission staff conducts an informal investigation and recommends appropriate action.

RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to approximately $8.4 million in rate increase requests:

Columbia Water Co.

Customers Served: 8,884 in West Hempfield, Rapho, East Donegal and Manor townships and the boroughs of Columbia and Mountville, and Marietta, Lancaster County
Requested Rate Increase: $773,210 (19.2 percent)
Approved Rate Increase: $534,970 (13.5 percent)
Primary Reason: To realize a reasonable rate of return on the Company's fixed capital investment and to recover increased operating expenses

Cooperstown Water Co.

Customers Served: 129 in portions of the borough of Cooperstown and the township of Jackson, Venango County
Requested Rate Increase: $10,636 (20.47 percent)
Approved Rate Increase: $6,000 (11.55 percent)
Primary Reason: To cover operating expenses, enable payments on 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

Elverson Water Co., Inc.

Customers Served: 583 in the Borough of Elverson, and Portions of West Nantmeal, East Nantmeal and Warwick townships, Chester County
Requested Rate Increase: $11,085 (7 percent)
Approved Rate Increase: $11,085 (7 percent)
Primary Reason: To cover operating expenses and provide sufficient funds to cover investments required by the company to continue to provide safe, reliable, and adequate service to its customers

Fryburg Water Co.

Customers Served: 189 in a portion of Washington Township, Clarion County, and a portion of Pinegrove Township, Venango County
Requested Rate Increase: $38,948 (42.98 percent)
Approved Rate Increase: $28,000 (30.89 percent)
Primary Reason: To cover operating expenses, enable payments on long and short term debt, and provide sufficient funds to cover investments required by the company to continue to provide safe, reliable, and adequate service to its customers

Imperial Point Water Service Co.

Customers Served: 499 in Girard Township, Erie County
Requested Rate Increase: $61,321 (29.0 percent)
Approved Rate Increase: $46,800 (22.1 percent)
Primary Reason: To realize a reasonable rate of return on the company's fixed capital investment and to recover increased operating expenses

Manwalamink Water Co.

Customers Served: 1,220 in the Village of Shawnee-On-Delaware and adjoining territory, all in the townships of Smithfield and Middle Smithfield, Monroe County
Requested Rate Increase: $58,637 (15.96 percent)
Approved Rate Increase: $58,637 (15.96 percent)
Primary Reason: To cover the increase in operating expenses incurred by the company while suffering a reduction in revenues and to improve the aging water system

North Heidelberg Sewer Co.

Customers Served: 254 in a portion of North Heidelberg and Jefferson Townships, Berks County
Requested Rate Increase: $106,139 (77.6 percent)
Approved Rate Increase: $75,000 (54.8 percent)
Primary Reason: To cover expenses and costs. This the company's first rate increase since becoming PUC regulated in 1994. The company has been financially burdened due to the loss of overhead cost sharing since the sale of North Heidelberg Water Co. in September 2011.

Penn Estates Utilities, Inc. – Sewer Division

Customers Served: 1,612 in Stroud and Pocono townships, Monroe County
Requested Rate Increase: $184,498 (23.7 percent)
Approved Rate Increase: $100,000 (12.85 percent)
Primary Reason: To realize a reasonable rate of return on the company's capital investment and recover operating expenses

York Water Co.

Customers Served: 63,280 in the City of York, boroughs of East Prospect, Glen Rock, Hallam, Jacobus, Jefferson, Loganville, Manchester, Mount Wolf, New Freedom, New Salem, North York, Railroad, Seven Valleys, Shrewsbury, Spring Grove, West York, York Haven and Yorkana, and townships of Codorus, Conewago, East Manchester, Hellam, Hopewell, Jackson, Lower Windsor, Manchester, Newberry, North Codorus, North Hopewell, Paradise, Shrewsbury, Springettsbury, Springfield, Spring Garden, West Manchester, West Manheim, Windsor and York, in York County, Pennsylvania; and the Boroughs of Abbottstown and Carroll Valley, and Townships Of Berwick, Oxford, Hamilton, Reading, Mount Pleasant and Union in Adams County
Requested Rate Increase: $7,144,352 (16.8 percent)
Approved Rate Increase: $5,000,000 (10.78 percent)
Primary Reason: To provide sufficient revenues to recover the cost of providing water service to its customers, continue to furnish an adequate, safe, and reliable level of service, maintain facilities, and more nearly approach a fair and reasonable rate of return on the original cost measure of value of its property used and useful in rendering water service

At the end of Fiscal Year 2013-14, eight rate increase requests totaling approximately $10.3 million are still pending before the Commission. The involved utilities are: City of Lancaster – Bureau of Water ($6,458,300); Manwalamink Sewer Co. ($54,106); Borough of Hanover – Hanover Municipal Water Works ($1,698,301); City of Bethlehem – Bureau of Water ($1,119,726); Borough of Ambler Water Department ($473,088); Emporium Water Company ($401,903); Pocono Waterworks Co., Inc. – Wastewater Division ($14,466); and Pocono Waterworks Co., Inc. – Water Division ($60,456).

UNCONVENTIONAL WELL DRILLING

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

MERGERS & ACQUISITIONS/ REGIONALIZATION

When reviewing mergers and acquisitions, the Commission works to make certain that customers are protected, and the company remains 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. The phrase "public benefit" is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

During Fiscal Year 2013-14, the Commission approved 10 mergers and acquisitions in the water and wastewater industry, including transfers to or from municipalities. In addition, the Commission approved 17 applications for water/wastewater territory expansion. Many of the water/wastewater applications upon which the Commission acts are a form of regionalization. In general, regionalization is the consolidation of resources beyond artificial boundaries (townships, boroughs, city limits, municipalities, service territories, etc.). Regionalization typically results in a cost-effective solution or alternative that works to ensure system

reliability and water/wastewater standards for companies or municipalities that are unable to stand alone.

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

POLICY STATEMENT ON ACQUISITION INCENTIVES

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

The Commission has a policy of encouraging well-operated water and wastewater utilities to regionalize or consolidate with smaller systems. The limited resources — managerial, financial or technical — of these smaller systems can result in less-than-reliable service for consumers. The policy statement supports the Commission's regionalization efforts.

MANAGEMENT AUDITS AND EFFICIENCY INVESTIGATIONS

The Commission periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the larger jurisdictional water companies. Among the MAs and MEIs completed within the 2013-14 fiscal year were:

Superior Water Co. – On Dec. 5, 2013, the Commission released a report on the Focused Management and Operations Audit of Superior Water Co. that contained 11 recommendations to improve company efficiency. In its implementation plan, the Company indicated acceptance of nine recommendations and partial acceptance of two recommendations. Implementation of the audit recommendations could result in various operational improvements.

United Water Pennsylvania, Inc. – The MEI, released Sept. 26, 2013, examined United Water's progress in implementing 16 of the 17 original recommendations from the November 2010 MA. According to the MEI, United Water has effectively implemented six of the 16 prior recommendations and has taken some action on the remaining 10 recommendations reviewed. In addition, implementation of the MEI recommendations could result in annual savings of $307,500 and one-time savings of $120,000.

Newtown Artesian Water Co. – The MEI, released on July 16, 2013, examined Newtown Artesian's progress in implementing nine of the original 10 recommendations from the MA released in November 2010. According to the MEI, Newtown Artesian has effectively implemented four of the nine prior recommendations and has taken some action on the remaining five recommendations.

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. In 2010, several critical watershed areas were evaluated and identified with plans addressing the most serious in nature. No activity occurred in the past fiscal year.

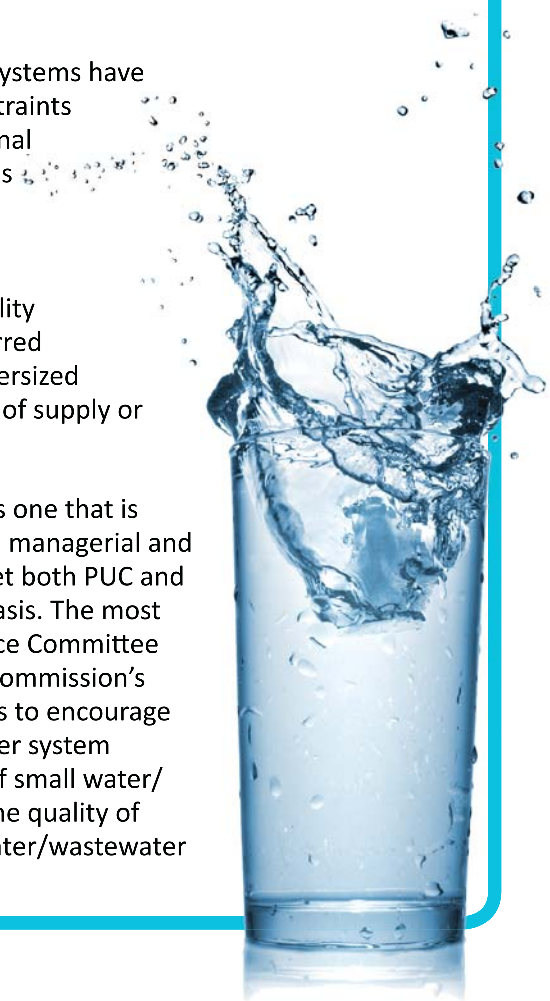
AUDITING EMERGENCY RESPONSE PLANNING

The Commission requires companies to certify that their physical, cybersecurity, emergency response and business continuity plans are current. In previous years, the PUC found deficiencies in several of the certified plans that had to be corrected to comply with Commission requirements. In March 2006, the Commission initiated an audit program to ensure that all water utilities' emergency response plans are current and in compliance with all applicable laws and regulations, including cyber and physical security, along with business continuity. During Fiscal Year 2013-14, emergency response plans were audited for one small water utility, as well as nine of the larger utilities during the course of routine management audits and management efficiency investigations.

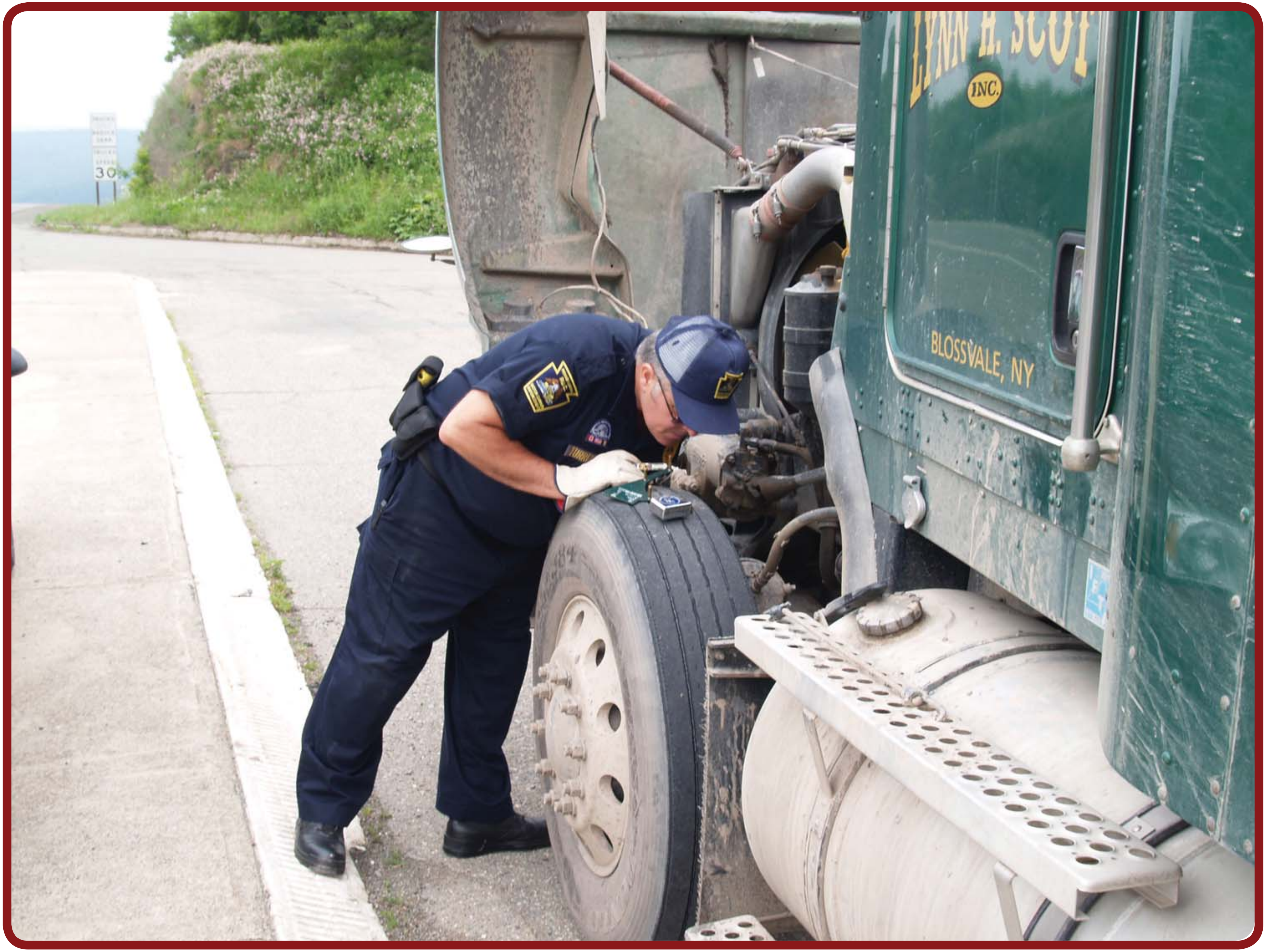
WATER AND WASTEWATER SYSTEM VIABILITY

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 about 150 water and wastewater companies. Most were built decades ago, and a number now face operational, technical and financial challenges that could affect customer service.

Many small water and wastewater systems have varying degrees of operational constraints that impact their viability. Operational constraints inherent to small systems typically include: compliance problems; limited technical and managerial expertise; lack of capital for improvements with a limited ability to borrow at reasonable rates; deferred maintenance; deteriorated and undersized infrastructure; and minimal sources of supply or storage.



A viable water/wastewater system is one that is self-sustaining and has the financial, managerial and technical capabilities to reliably meet both PUC and DEP requirements on a long-term basis. The most recent Legislative Budget and Finance Committee performance audit recognized the Commission's work in this area, highlighting efforts to encourage the commitments to enhancing water system viability to ensure that consumers of small water/ wastewater systems receive the same quality of service provided by larger, viable water/wastewater companies.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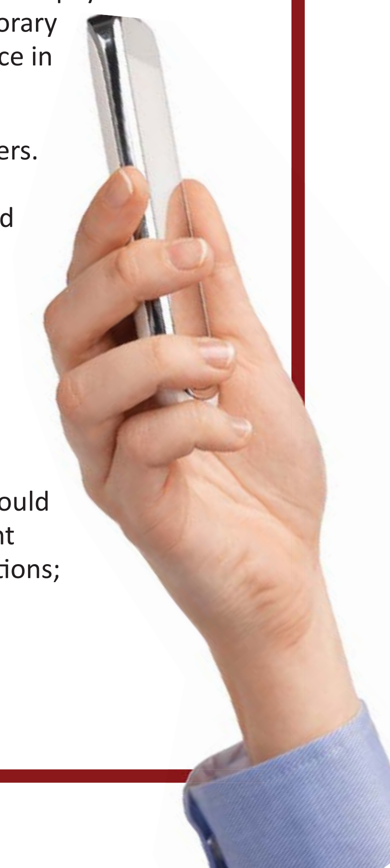
TRANSPORTATION & SAFETY

During Fiscal Year 2013-14, the Commission continued to focus on passenger carrier safety compliance and the safety education of new truck and bus carriers. In 2013, the Motor Carrier Enforcement staff continued its covert enforcement program to identify and prosecute illegal household goods carriers. During the fiscal year, the Commission began to reexamine the state's transportation regulations and changes that may be needed to adapt to changing technology.

TRANSPORTATION NETWORK COMPANIES

During Fiscal Year, 2013, the PUC began to examine Transportation Network Companies (TNCs) to ensure they were properly certificated to provide transportation in Pennsylvania. TNCs match drivers with passengers through a mobile app, using drivers' personal vehicles, and link all payments to the customer's account on his/her mobile phone. Two TNCs, Lyft and Rasier (an affiliate of Uber), were awarded emergency temporary authority in Allegheny County. The companies also filed applications for certificates of public convenience to begin providing service in Allegheny County and elsewhere in the state. Those applications are currently pending before the Commission.

The PUC's Bureau of Investigation & Enforcement has filed formal complaints against the two companies as well as 32 of their drivers. I&E also filed summary offense criminal proceedings before local district magistrates. At the end of the fiscal year, the Formal Complaints were still pending before the Commission. On July 1, 2014, the Commission affirmed the cease and desist orders issued against Uber and Lyft by PUC Administrative Law Judges.



EXAMINING TRANSPORTATION REGULATIONS

With technology changing how transportation services are being offered in the state, the Commission has undertaken an examination of issues in the state's transportation industry including adequacy of driver integrity regulations, vehicle safety regulations and current insurance requirements. The goal is to determine whether the Commission's transportation regulations should be updated. The issues include adequacy of driver integrity regulations; adequacy of vehicle safety regulations; adequacy of current insurance requirements; elimination of the need standard; rules for TNCs; enforcement of the Commission's transportation regulations; and geographic scope of authority.

ENFORCEMENT OF ILLEGAL HOUSEHOLD GOODS OPERATORS

The PUC continues to monitor websites such as Craigslist and Angie's List for unlicensed and uninsured household movers offering their services to the public. Undercover sting operations are carried out across the state. Utilizing self-storage units as a point of origin, PUC officers are assisted by local police, who then search for weapons and any outstanding arrest warrants. This enforcement program has cited more than a dozen unlicensed household movers in Pennsylvania.

UPDATED HOUSEHOLD GOODS RULEMAKING

On June 19, 2014, the PUC voted to amend regulations governing Pennsylvania household goods and property carriers in light of increased competition in the industry. Modifications include, or result in: Eliminating the requirement that an applicant for authority establish a public demand or need for the proposed service; removing the annual revenue threshold and permitting all household goods carriers with qualifying operating ratios to change rates without filing financial justification; eliminating current territorial restrictions to give household goods carriers statewide authority; and increasing minimum insurance requirements for property and household goods carriers to be consistent with federal law.

Due to the nature of the competitive market with low entry barriers, the Commission said competition between household goods carriers in regard to price, quality and reliability should determine whether a carrier's service is needed by the public, deeming the Commission's administrative process unnecessary. Industry competition will be further promoted by lowering these barriers and will provide customers with more choices, lower prices and better, more reliable service.

ANNUAL ASSESSMENT REPORT REVIEW OF MOTOR CARRIERS

The Commission conducted six reviews of selected motor carrier Annual Assessment Reports during Fiscal Year 2013-14 and continues to conduct reviews of selected motor carriers.

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

MOTOR COACH SAFETY PROGRAM

PUC officers continue to participate in the Federal Motor Carrier Safety Administration's Monthly Bus Strike Force operations. Motor coach inspections take place at various venues across the state, including casinos, amusement parks and baseball parks. Drivers are checked for a valid operator's license, Department of Transportation physical card and log book. The buses are inspected to ensure the lights, exhaust, brake components and suspension are in safe operating condition. Unsafe drivers and buses are placed out-of-service and are then subject to additional penalties. In 2013, PUC officers conducted more than 1,700 bus inspections at destinations and terminals throughout the Commonwealth.

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 2011, 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 other businesses must register and pay the fee to the state in which they are headquartered.

The PUC has participated in the UCR program since 2008, collecting the following monies: $5.6 for 2012, $5.9 million for 2013 and $5.9 million in 2014. Although the registration and fee payment deadlines have expired for the 2011, 2012 and 2013 years, the PUC continues to pursue and collect delinquent fees.

Forty-one states participate in the UCR program. Fees collected are used for motor carrier enforcement programs. Under the UCR Act, states that did not collect all the revenue to which they were entitled in a given year receive funds from the UCR depository.

REGULATED MOTOR CARRIERS

- 6,064 property carriers
- 265 taxis
- 368 limousines
- 494 paratransit
- 59 airport transfer
- 518 group and party bus companies
- 29 contract passenger companies
- 3 experimental service companies
- 285 household goods movers

2013-14 ENFORCEMENT ACTIVITIES

- 8,739 truck, bus, small passenger vehicle inspections
- 237 informal complaint investigations
- 1,222 safety fitness educational reviews
- 1,565 federal new entrant safety audits

HIGH-TECH TRACK INSPECTIONS REMAIN EFFECTIVE

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

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

OPERATION LIFESAVER

During Fiscal Year 2013-14, rail safety personnel attended several events across the state to promote Operation Lifesaver, a nonprofit, national public education program dedicated to eliminating collisions, deaths and injuries at rail-highway crossings and on railroad rights-of-way. Operation Lifesaver strives to increase public awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

The program seeks to improve driver and pedestrian behavior by encouraging compliance with traffic laws relating to crossing signs and signals. It also points out the dangers on railroad rights-of-way. In 1972, when Operation Lifesaver began, there were roughly 12,000 train/vehicle collisions nationwide. Now, that has been reduced to approximately 2,087 such accidents in 2013, thanks in part to the efforts of the Operation Lifesaver program. In 2013, there were 19 trespasser fatalities in Pennsylvania. Designated PUC employees provide Operation Lifesaver presentations to various groups, such as students, businesses and civic organizations. The Rail Safety Section's two trained presenters also provide information concerning railroad safety at outreach events. The Rail Safety Section has the expertise with regard to engineering at highway-rail crossings, and participation in the program complements the division's goals for the prevention of accidents and the promotion of public safety.

2013-14 INSPECTIONS

- 17,250 railroad car
- 370 locomotive
- 1,200 miles of railroad track
- 1,660 Hazardous Materials Units
- 770 Operating Practices Inspections
- 830 motor carriers with seating capacities of 15 or less
- 7,900 roadside inspections of trucks

2013-14 AUDITS AND FITNESS REVIEWS

- 1,550 federal new entrant audits of interstate carriers
- 1,200 safety fitness reviews of new carriers

2013-14 ENGINEERING

- 185 formal proceedings processed
- 240 field meetings/inspections conducted
- 46 bridge projects approved at $157.4 million
- 90 at-grade crossing projects approved at $6.3 million
- 9 Public Utility Municipal Contracts approved

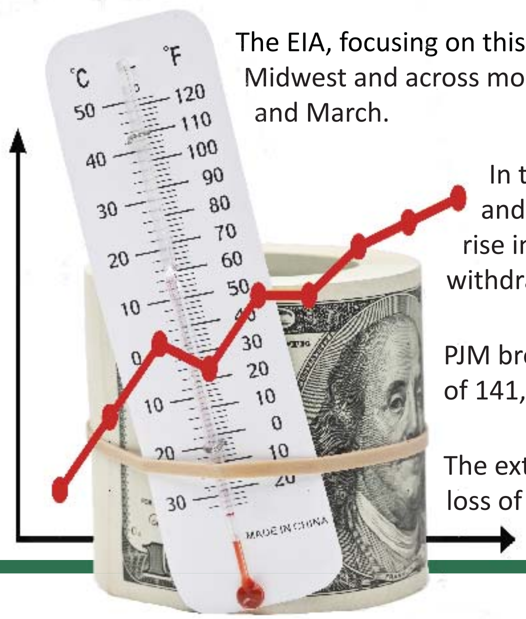
ELECTRIC

The winter volatility in electric prices driven by extreme cold temperatures for a prolonged period dominated the Commission in Fiscal Year 2013-14, resulting in two new rulemakings designed to provide consumers with the tools they need to better navigate and understand the retail electric market. At the close of the fiscal year, Pennsylvania had 11 electric distribution companies (EDCs) and about 330 licensed electric generation suppliers (EGSs). The Commission also continues to focus on energy efficiency and conservation, as well as alternative energy.

WHOLESALE ELECTRIC MARKETS, VOLATILITY

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

PJM faced multiple winter peaking events in Fiscal Year 2013-14. Additionally, current trends in the electric power market have put many coal-fired and nuclear generators in the United States at risk for retirement, according to the U.S. Energy Information Administration (EIA). Lower natural gas prices, higher coal prices, slower economic growth, and the implementation of environmental rules play a role in the retirements.



The EIA, focusing on this past winter's events, noted that a record-setting bout of bitter cold weather swept down through the Midwest and across most of the country in early January. These Polar Vortex-induced events continued to an extent during February and March.

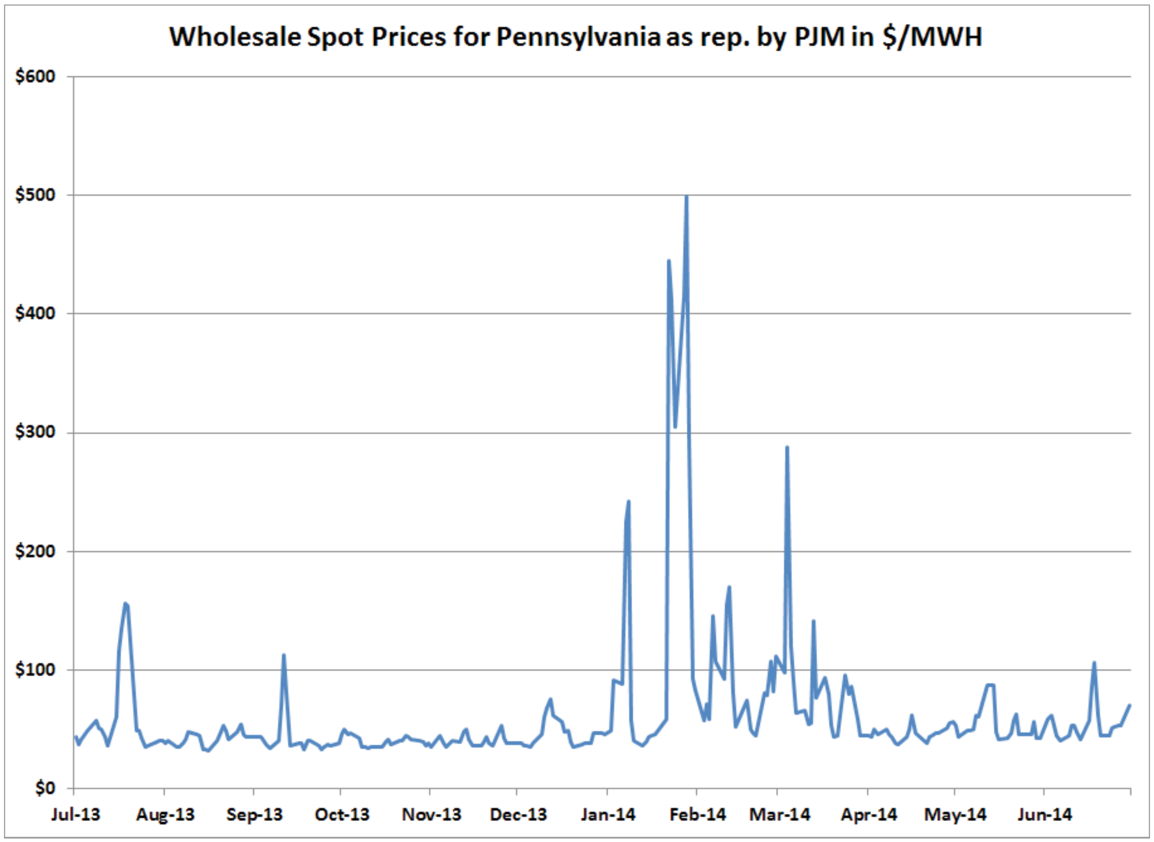
In the Mid-Atlantic region, record-high winter peak demand, along with unexpected outages of power plants and natural gas equipment, drove electricity prices even higher than in New York and New England. The sharp rise in Northeast and Mid-Atlantic natural gas and power demand also spurred record-high natural gas storage withdrawals.

PJM broke its previous record winter peak demand (136,675 MW in 2007) twice on Jan. 7, 2014, hitting a new peak of 141,312 MW. This level was about 7 percent higher than PJM's forecasted peak.

The extremely cold temperatures, combined with sluggish performance of other fossil fuel power plants and the loss of a natural gas compressor station in western Pennsylvania, pushed day-ahead, average on-peak power prices up to $268.84/MWh and natural gas spot prices to $33.53/MMBtu. Real-time, hourly prices during Jan. 7, 2014, and Jan. 8, 2014, reached as high as the $800/MWh range with 15-minute periods of more than $2,000/MWh.

According to PJM's preliminary report, there were nearly 40,000 MW of forced outages on the evening of Jan. 7, 2014, and morning of Jan. 8, 2014, far more than ever encountered during the top six winter peak demand days of the past five years, which saw, at most, about 16,000 MW of forced outages. PJM estimates around 6,000 to 9,000 MW of those outages were due to natural gas curtailments.

The following graph shows the PJM Locational Marginal Pricing spot price, sourced from *Enerfax Daily*, across the fiscal year. As shown, the winter peaking events dwarfed the year's average spot price of $64.44/MWH. Likewise note the minor summer related heat events in 2013. For Fiscal year 2013-2014, PJM's RPM calculated capacity rate fell from $226.15/MW-day in 2013 to $136.50/MW-day in 2014, nearly a 40 percent decrease.

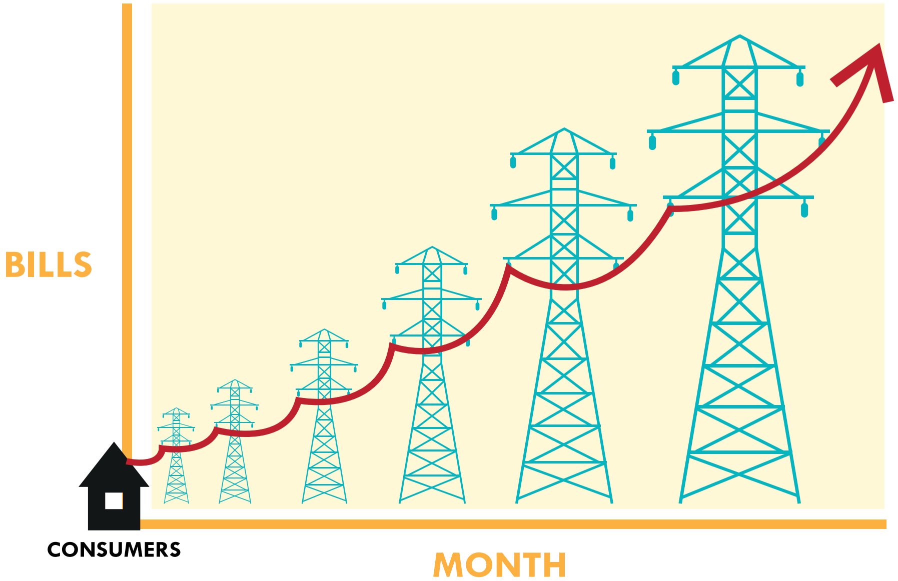


COMPETITIVE MARKETS OVERSIGHT

The winter volatility of the wholesale electric markets resulted in some Pennsylvania electric customers receiving electric bills in amounts many times higher than what their winter bills normally would have been. (*See Consumers)*

The PUC remains confident that in the long term, a restructured electricity market remains the best way for consumers to maintain affordable electricity bills and have access to innovative product offerings. Electric consumers receiving service at a variable rate saw the wholesale electric price increases.

As a general rule, the rate consumers pay in the competitive retail electricity market is governed by the terms of their contract with their supplier. While the PUC immediately took steps to highlight the variable rate issue and help customers cope with their high bills (*See Consumers*), Commissioners and staff also took a deeper look into the marketplace to determine if any longer-term fixes could help address this situation. After doing so, the PUC determined that two major changes would improve Pennsylvania's retail electricity market. With that, the PUC undertook two accelerated rulemakings in order to provide consumers with the flexibility they needed to move quickly away from one electric generation supplier to another and have all of the information needed to make an informed decision.



The supplier disclosure statement regulations provide electric shopping customers with greater, uniform detail in electric supplier disclosure statements and more timely information on “contract renewal” and “change in terms” notices. EGSs are required to display key contractual terms and conditions more prominently, especially for customers on variable-priced products; provide historical pricing data on their products; and prominently mark customer notices prior to contract expiration or changes in terms. The changes, which will go into effect the first quarter of Fiscal Year 2014-15, are designed to provide additional information and greater protections for residential and small business customers choosing a competitive supplier for their electric generation.

The accelerated switching regulations dramatically reduce the time it takes customers to change electricity suppliers. The regulations require EDCs to accelerate switching time frames through off-cycle meter readings that will allow consumers to switch suppliers within three business days of the EDC being notified of a request for a switch. The EDCs are required to implement the changes by the end of 2014.

In Fiscal Year 2013-14, the Commission also formalized the Office of Competitive Markets Oversight (OCMO) by appointing a director and deputy director. OCMO is a group of legal, technical, communications and policy staff members from various Commission bureaus and offices that informally addresses obstacles faced by EGSs and EDCs participating in the retail market. The group led the Commission’s retail markets investigation, which resulted in recommendations to improve the competitive market, in which consumers have the choice of different competitive pricing options and a variety of innovative product offerings. OCMO responds to questions from electric generation suppliers, monitoring issues potentially hindering the development of a competitive retail market, including EGS marketing and sales practices and facilitating informal dispute resolution between default service providers and EGSs.

DEFAULT SERVICE PLANS

The majority of default service plans govern how the EDCs secure default service supply for non-shopping customers from June 1, 2013, to May 31, 2015. The seven largest EDCs included market enhancement programs in their plans as directed by the Commission during the Retail Market Investigation. The goal of those market enhancement programs is to provide Pennsylvania consumers with money-saving opportunities while they explore Pennsylvania’s retail electric market, including the Standard Offer Program, which is a voluntary program for non-shopping residential and small business customers to give them greater access to the competitive electricity market and its benefits.

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

ACT 129 PHASE II

The PUC continues to implement and enforce Act 129 of 2008, which expanded the Commission’s oversight responsibilities and imposes new requirements on EDCs with more than 100,000 customers, with the overall goal of controlling energy consumption and demand. Under Act 129, the state’s seven largest EDCs were to demonstrate electricity consumption reductions of 1 percent by May 31, 2011, and 3 percent by May 31, 2013. The Act also required a 4.5 percent reduction in

The National Energy Marketers Association (NEM) presented the Commission with an award recognizing the PUC's "Outstanding Achievement in Structuring Competitive Markets." Pictured left to right: Commissioner Pamela Witmer, Vice Chairman John F. Coleman Jr., Chairman Robert F. Powelson, Commissioner Gladys Brown, and Commissioner James H. Cawley.

peak demand by May 31, 2013. All but one EDC met the consumption reduction requirements in May 2011. The Commission released the final report detailing efforts by the seven EDCs to meet energy reduction requirements under Act 129 of 2008.

For Act 129 "Phase II," the Commission continued the momentum set in the first phase of Act 129. The Commission determined that requiring additional incremental reductions in consumption would be cost-effective. As such, the Commission set new required reductions in consumption for each of the EDCs that included the filing and approval of new EE&C plans. The participating EDCs began implementing these plans on June 1, 2013 and will operate the plans through May 31, 2016.

In the Phase II Implementation Order, the Commission stated that, as we did not have the information to definitively determine if the current or another peak demand reduction program design was cost-effective, we could not set additional peak demand reduction targets at this time.

During Fiscal Year 2013-14, the Commission continued to examine these programs for cost-effectiveness.

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

Regarding Phase III demand response programs, the Commission issued a Tentative Order in November 2013 soliciting comments and on Feb. 20, 2014, issued a Final Order directing the Act 129 Statewide Evaluator to perform a Demand Response Potential Study using proposed residential direct load control and commercial and industrial load curtailment models.

SMART METER DEPLOYMENT

To comply with Pennsylvania Act 129 of 2008, the seven large (100,000 or more customers) electric distribution companies (EDCs) are required to deploy smart meters to all customers by 2023 at the latest. All of the large EDCs have approved smart meter deployment plans that provide for almost all customers having smart meters by 2019. However, the approved plans' deployment schedules call for an accelerated full deployment period, typically between the years 2015 and 2017.

The current deployment of smart meters based on the EDC Smart Meter Plans stands at approximately 1.533 million meters, or about 26 percent of all jurisdictional electric distribution customers. By year end 2015, approximately 1.77 million smart meters will be deployed, which would equates to about 31 percent of distribution customers.

OUTAGE RESPONSE

A February 2014 ice storm had a significant impact on Pennsylvania and its EDCs, primarily affecting the southeastern portion of the state. The storm brought significant snow and ice to southeast Pennsylvania as well as high winds throughout the state. The snow and ice caused more than 800,000 electric customer outages at the peak More than 950,000 Pennsylvania electric customers experienced an outage at some point during the storm.

As part of a review of the EDC responses to the storm, the PUC made 11 recommendations designed to improve future storm response. Some of the recommendations related to communication issues with estimated times of restoration that is an ongoing problem within the industry around which EDCs continue to improve and refine processes. Other recommendations related to emergency road closures and coordination between local, county and utility resources.

DISTRIBUTION RATE INCREASE REQUESTS

During Fiscal Year 2013-14, the Commission finalized one electric distribution utility base case. Information about the ratemaking process is available on the PUC website.

Duquesne Light Co.

Customers – 588,000 customers in the greater Pittsburgh region, specifically in Allegheny and Beaver counties.

Requested Rate Increase – $76.3 million (17.6 percent)

Approved Rate Increase – $48 million (11 percent)

Primary Reason – To replace aging equipment, improve operations and strengthen reliability.

At the end of Fiscal Year 2013-14, the four FirstEnergy companies filed $415.7 million in rate increase requests (Penn Power – $28.5 million; West Penn Power – $115.5 million; Penelec – $119.8 million; Met-Ed – $151.9 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), the Federal Energy Regulatory Commission (FERC) and the federal courts. The Commission intervenes in wholesale market proceedings on behalf of Pennsylvania and in collaboration with other state commissions in proceedings before FERC that may have an impact on wholesale electric markets or the interstate transmission of electricity. FERC delegates operational and market decisions to the RTOs, meaning the PUC participates in many proceedings related to the design and operation of PJM. The PUC is a member of the Organization of PJM States Inc. (OPSI), which is a group of state commissions jointly interested in wholesale market issues.

Proceedings at the federal level that the PUC is monitoring or participating in include electric transmission congestion issues; plans to enhance electric market surveillance and analysis; actions on transmission planning and cost allocation; issues with cybersecurity; and proposals on frequency regulation compensation in organized wholesale markets.

ALTERNATIVE ENERGY PORTFOLIO STANDARDS ACT OF 2004

The PUC developed the rules and regulations necessary for fostering Pennsylvania's alternative energy market and continues to address the issues that arise as EDCs, EGSs and alternative energy systems comply with the mandates of the Act. Signed into law on Nov. 30, 2004, the Alternative Energy Portfolio Standards Act (AEPS) requires EDCs and EGSs to ensure that 18 percent of electricity sold in Pennsylvania is derived from alternative resources by 2020.

All EDCs and EGSs complied with their AEPS obligations by retiring the needed alternative energy credits (AECs) or making alternative compliance payments (ACP) for the 2012 reporting year. No alternative compliance payments were required from any EDC or EGS. AECs retired by EDCs and EGSs for the 2012 reporting period originated from alternative energy resources located inside and outside of Pennsylvania. For the 2012 reporting year, 67 percent of solar AECs, 45 percent of Tier I and 56 percent of Tier II AECs originated from generation facilities located in Pennsylvania.

During the fiscal year, the Commission issued for comment a proposed rulemaking that would revise certain AEPS regulations, which, among other things, would increase certain reporting requirements and strengthen enforcement measures, revise interconnection and net metering rules, and clarify Commission procedures and standards for certifications and verification of compliance with the Act. Staff will review the comments filed in the proposed rulemaking during the coming fiscal year.

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 based on the number and duration of outages.

The Commission issued the annual reliability report – Electric Service Reliability in Pennsylvania – in August 2013. The report trends reliability performance from March 2004 through March 2013, and includes the causes of outages, by percentage, and information on all major events.

ELECTRIC POWER OUTLOOK

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

Commissioner James H. Cawley speaks at the National Energy Marketers Association conference held in Harrisburg.

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

INSPECTION AND MAINTENANCE STANDARDS

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

The most recent biennial plans for the periodic inspection, maintenance, repair and replacement of facilities, which are designed to meet performance benchmarks and standards, were filed with the Commission on Oct. 1, 2011, by FirstEnergy (Met-Ed, Penelec, West Penn Power and PennPower) and UGI, and became effective on Jan. 1, 2013. Inspection and maintenance plans were filed by Duquesne Light, PECO, PPL, Citizens, Pike County and Wellsboro on Oct. 1, 2012, and became effective Jan. 1, 2014.

ELECTRIC SAFETY DIVISION

In August 2013, the Commission established an Electric Safety Division within its Bureau of Investigation & Enforcement. The establishment of this division allows the Commission to expand its capabilities and focus on general safety compliance, cybersecurity and best practices in the industry. Electric safety staff investigates electric-related events involving outages, death or injury, as well as conducting regular reviews of electric distribution companies' safety plans.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses on making sure that customers are protected, that the company is a viable public utility and that it is in the public interest. In Pennsylvania the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment. No jurisdictional mergers or acquisitions of electric companies occurred in Fiscal Year 2013-14.

ELECTRIC COMPANY AUDITS

In addition to periodic management and operations audits (MAs) or management efficiency investigations (MEIs), the PUC annually conducts a variety of other EDC audits. During the fiscal year, the PUC completed 34 audits, involving competitive/intangible transition charges, default service, purchased power, non-utility generation, transmission service costs, generation supply service, smart meter, energy efficiency and conservation, purchased power, consumer-education programs and universal service programs. Also, 127 filings requesting changes to established adjustment clause rates were reviewed and processed, implementing revised surcharge rates.

C&T Enterprises, Inc. – On April 3, 2014, the Commission released a report on the Focused Management and Operations Audit of Citizens' Electric Company, Wellsboro Electric Company and Valley Energy, Inc. (collectively referred to as companies) that contained 18 recommendations to improve company efficiency. In its implementation plan, the companies indicated acceptance of all 18 recommendations. Implementation of the audit recommendations could result in annual savings of approximately $46,000 and one-time savings of $334,642.

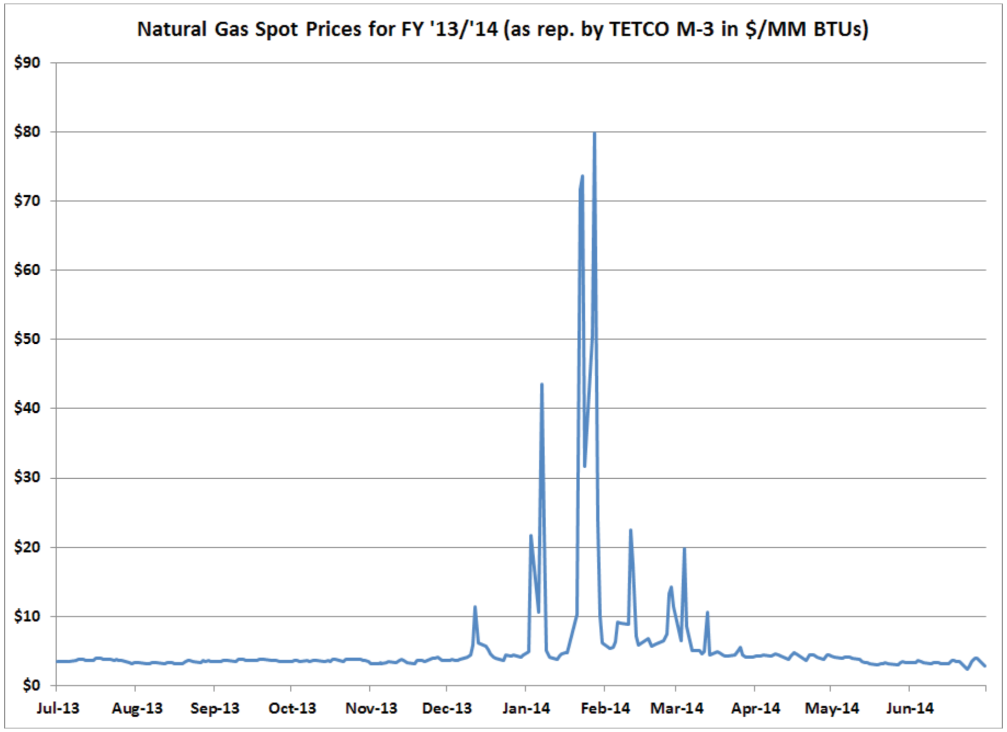
NATURAL GAS

Increased natural gas supply in the state played a part in reducing and stabilizing natural gas prices in Fiscal Year 2013-14. That increased supply was accompanied by an increased need to transport natural gas from the wellhead to compressor stations to the wholesale market. This development is in addition to the existing 46,000 miles of natural gas distribution pipelines that bring natural gas to consumers' homes and businesses. All of this has increased the spotlight on natural gas and pipeline safety. At the end of Fiscal Year 2013-14, Pennsylvania had 36 regulated natural gas distribution companies (NGDCs), 64 jurisdictional gathering and transmission pipelines (Act 127) and 130 licensed natural gas suppliers (NGSs).

WHOLESALE NATURAL GAS PRICES

According to FERC's *2013 State of the Market Report*, in recent years, natural gas and electricity markets have benefitted from growing natural gas supply and mild weather. The winter of 2014 illustrates how extreme weather can still stress natural gas and electricity markets.

The FERC's *Report* continues that in January 2014, U.S. natural gas demand set a new daily record of 137 Bcf/d. Well freeze-offs, record storage withdrawals and high pipeline utilization and sluggish performance of other fossil fuel power plants led spot natural gas prices at the Henry Hub to jump to a January high of $5.70 per MMBtu. In the Mid-Atlantic and Northeast, spot natural gas prices soared to over $120 per MMBtu at key trading points. RTO on-peak prices spiked to greater than $800 per MWh in Boston and Chicago and greater than $1,000 per MWh in the Eastern region of PJM. Some non-firm customers faced challenges in obtaining natural gas, and others were voluntarily curtailed. Although markets were stressed, there were no widespread natural gas or power outages because of a lack of fuel supply.



For Fiscal Year 2013-14, natural gas in Pennsylvania exhibited extreme price fluctuations during several winter periods. During January, and to a lesser extent during February and March, natural gas spot prices experienced volatility of as much as $80/MMBtus at TETCO M-3, and $120/MMBtus at Transco Zone 6. These peaking prices can be compared to an overall, less volatile average price of about $4/MMBtus.

According to the Energy Information Association (EIA), in the Northeast, prices are particularly sensitive to temperature variations, rising by more than other regions as temperatures cool and high demand exacerbates pipeline constraints, as well as when temperatures warm and rising natural gas demand from electric generators can strain pipelines. Conversely, during more temperate days in the spring and fall, when pipeline capacity is generally sufficient to meet lower demand, the proximity of northeastern hubs to increasing Marcellus Region production results in prices that are lower than those in other parts of the United States.

The EIA's August 2014 Drilling Report shows that natural gas production in the Marcellus Region exceeded 15 billion cubic feet per day (Bcf/d). The Marcellus Region, mostly located in West Virginia and Pennsylvania, is the largest producing shale gas basin in the United States, accounting for almost 40 percent of U.S. shale gas production. Marcellus Region production has increased dramatically over the past four years, increasing from 2 Bcf/d in 2010 to its current level.

The EIA states that multiple pipeline expansion projects are expected to begin service to increase natural gas takeaway capacity from the Appalachian Basin's Marcellus Shale play. These new projects are largely focused on transporting gas to the New York/New Jersey and Mid-Atlantic regions. Expansion projects with expected in-service dates between 2013 and 2015 would add at least 3.5 Bcf/d of additional capacity to the New York/New Jersey and Mid-Atlantic markets. More than 2.0 Bcf/d of expansions were completed this past winter alone.

These pipeline expansions, including many smaller midstream gathering projects, together with the vastly increased Marcellus production, should lead to reduced prices and lower volatility as we move forward. Moreover, at present, the EIA is forecasting a warmer winter for 2014-15 as compared to the Polar Vortex of 2013-14.

ACT 13 OF 2012 (IMPACT FEE)

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

The Impact Fee producer payments for 2013 totaled about $225.7 million. Of that, about $123.1 million was distributed directly to county and municipal governments that are directly affected by drilling. Also, $20.5 million was distributed to state agencies impacted by drilling. The remaining $82.1 million will be placed into the Marcellus Legacy Fund, which was established under the law to fund environmental, highway, water and sewer projects, rehabilitation of greenways and other projects throughout the state.

A breakdown of the payments to county and municipal governments, specifics on how much money was collected and comparisons to 2012 data are available on the Act 13/Impact Fee webpage. The website includes graphical data analyses including the top-paying producers, well count breakdowns and top receiving counties and local governments.

Impact Fee producer payments are due to the PUC on April 1 of each year. Distributions of the money collected by the PUC are due to county and municipal governments by July 1 of each year. County and municipal government information on how the 2013 Impact Fee monies were spent was due to the PUC by April 15, 2014. Forms and other information needed by producers and local government also are available on the website.

PIPELINE SAFETY

The PUC has long been charged with the safety oversight of public utilities' distribution and transportation pipelines in the state. Acting as an agent for the federal Department of Transportation's Office of Pipeline and Hazardous Materials Safety Administration (PHMSA), the PUC enforces the federal pipeline safety regulations.

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

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

For Fiscal Year 2013-14, the Commission's authorized budget to implement Act 127 was $848,540. Under the law, the cost of the program is allocated by mile among the companies. For the fiscal year, 87 companies registered with the Commission – of those, 51 companies have a total of 1,078 miles eligible for assessment.

NATURAL GAS PIPELINE REPORTABLE INCIDENTS

During the past fiscal year, the Commission investigated three reportable incidents. During the previous five fiscal years, natural gas utilities reported incidents, including two in Fiscal Years 2008 and 2009, three in Fiscal Years 2010 and 2011 and two in Fiscal Year 2012. The PUC has identified the most frequent causes of reportable incidents as excavation damage; natural causes, such as flooding; automobile accidents; pipeline leaks caused by corrosion; and human error. The PUC uses information gathered from its incident investigations to ensure its inspection efforts are focused on the areas that have previously resulted in reportable incidents.

NATURAL GAS SAFETY INVESTIGATIONS

In Fiscal Year 2013-2014, the PUC's Gas Safety Division filed seven formal complaints and one informal settlement relating to investigations involving alleged violations of the Pipeline Safety Code. Of note, the Commission approved an informal settlement between the PUC's Bureau of Investigation & Enforcement (I&E) staff and UGI Inc. regarding issues associated with a series of leak issues and operations of the PNG Distribution System. The fine amount ordered by the Commission was $1 million.

ADDITIONAL GAS SAFETY ACTIVITIES INCLUDED:

- 1,825 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line, and compressor station inspections);
- 3 investigations of reportable incidents;
- 64 non-compliance letters issued;
- 156 gas safety violations issued;
- 131 violations handled by non-compliance letters; and
- 25 violations pursued by prosecutory staff.

INCREASED AVAILABILITY OF NATURAL GAS TO CONSUMERS

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

The decision on whether to extend a natural gas line to new customers is governed by the natural gas utility's tariff. The tariff includes an economic analysis that requires utilities to weigh both the cost and expected revenue from the extension to determine whether the extension is economic and whether a customer contribution to the project is necessary. This method results in the extension of gas lines to more densely populated urban areas, or in very close proximity to areas where lines already exist. Depending on the distance between where service is desired and the closest distribution and transmission line, these line extensions often require a large contribution from the customer, who may then ultimately decide not to pursue the project.

The PUC is engaged with the General Assembly and the Administration to determine a way to bridge the gap so that utilities are able to make investments in infrastructure to serve more customers in a way that does not burden existing customers. Despite these challenges, extending natural gas service to more Pennsylvanians is an important goal for the PUC.

On Feb. 20, 2014, the PUC approved a settlement for the Growth Extension Tariff (GET Gas) program, a pilot program that changes the way UGI's Pennsylvania gas distribution utilities charge customers for line extension projects. Under most natural gas company tariffs, a customer who wishes to have natural gas service extended to his/her property must pay the cost of that line extension, which can run in the tens of thousands of dollars as an upfront payment. Under GET Gas, eligible customers can pay the extension costs over 10 years as a monthly charge on their bills.

Columbia Gas of Pennsylvania, Inc., also proposed a Pilot Rider New Area Service, which would allow consumer costs for new natural gas service to be paid over 20 years through a monthly surcharge that would not exceed $35. In April 2014, the Commission suspended the proposal for investigation.

PIPELINE PROJECTS

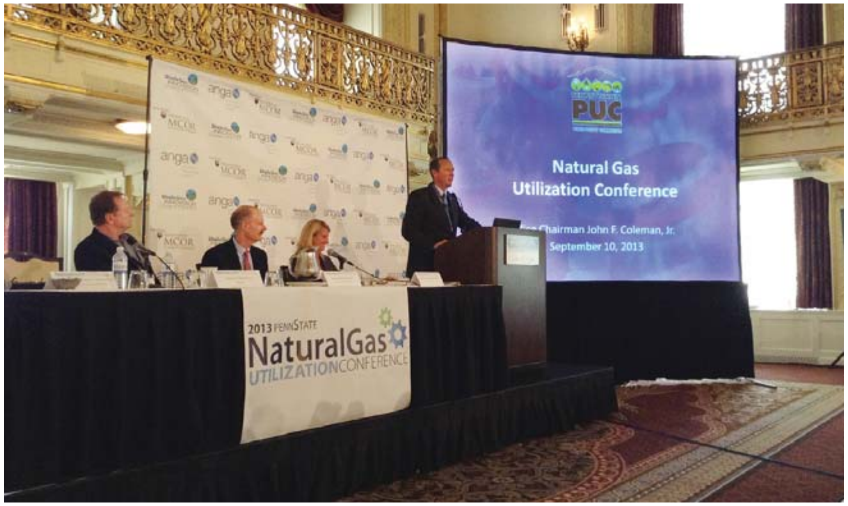
On March 21, 2014, Sunoco filed 31 petitions before the PUC asking for a finding that the building of pump station shelters along its proposed Mariner East Pipeline were reasonably necessary and in the public interest. The petition has been challenged by numerous parties and was referred to the PUC's Office of Administrative Law Judge for hearings. The Commission expects to take action on the petition in Fiscal Year 2014-15. Several other major pipeline projects are proposed for construction in Pennsylvania including the Atlantic Sunrise Expansion by Williams Co. and the PennEast Pipeline Co. that would connect Luzerne County gathering lines to markets in New Jersey. Siting of both of these projects, as currently proposed, are non-jurisdictional to the PUC, considering that FERC has jurisdiction.

NATURAL GAS COMPETITION & RETAIL MARKET INVESTIGATION

The Commission continues to move forward with implementing an action plan that grew out of the efforts of the Stakeholders Exploring Avenues for Removing Competition Hurdles (SEARCH), a working group comprised of stakeholders representing residential, commercial and industrial customers; NGDCs; 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. The plan includes two rulemakings – one that addressed market issues and one that addressed security requirements related to licensing NGSs.

On Aug. 15, 2013, the Commission finalized changes to regulations regarding NGS licensing requirements, including eliminating the definitions of a "marketing service consultant"; incorporating new entities referred to as "aggregators," "brokers" and "non-selling marketers"; and continuing



Vice Chairman John F. Coleman Jr. presented at the 2013 Penn State University Natural Gas Utilization Conference in Pittsburgh.

the exemption for nontraditional marketers and establishing the exemption for non-selling marketers under contract to only one NGS.

The Commission then initiated the second phase of the plan, after the completion of its Retail Market Investigation (RMI) into Pennsylvania's electric industry, to address how to best resolve issues raised and how to implement changes to improve natural gas retail competition. This phase is led by the Commission's Office of Competitive Market Oversight (OCMO).

On Sept. 12, 2013, the Commission issued an Order initiating the Investigation of Pennsylvania's retail natural gas supply market. The Order was issued pursuant to the Natural Gas Choice and Competition Act, effective July 1, 1999, which requires us to convene stakeholders and explore avenues to encourage increased competition in the natural gas supply market. The Commission continues to consider the comments received as part of this initial phase and anticipates seeking additional information in Fiscal Year 2014-15.

DISTRIBUTION RATE INCREASE REQUESTS

During the past fiscal year, the Commission took the following actions related to about $18.7 million in rate increase requests from jurisdictional gas distribution companies:

Peoples TWP LLC

Customers – 59,045 in nine counties

Requested Rate Increase – $18.7 (22.8 percent)

Approved Rate Increase – $13.8 million (17 percent)

Primary Reason – To recognize additional plant and improvements that increased rate base, and to enhance and ensure the reliability of service.

At the end of Fiscal Year 2013-14, three natural distribution gas rate increase requests were pending before the Commission as follows: approximately $779,346 from Herman Oil & Gas; $151,000 from Pike County Light & Power Co.; and $54.1 million from Columbia Gas of Pennsylvania, Inc. Information about the ratemaking process is available on the PUC website.

MERGERS AND ACQUISITIONS

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

On Nov. 14, 2013, the Commission approved a settlement that merges Equitable Gas Co. with Peoples Natural Gas Co. and transfers certain pipeline assets from Peoples to EQT Corp., Equitable's parent company. No new mergers or acquisitions of natural gas companies were filed in Fiscal Year 2013-14.

GAS COMPANY AUDITS

During the fiscal year, the Commission's Bureau of Audits completed 11 purchased gas cost (PGC) audits, eight gas cost rate (GCR) audits, seven universal service audits and one consumer-education audit. The Bureau of Audits also reviewed 12 GCRs, one consumer education and one universal service fund charge (USFC) adjustment clause filings implementing a revised GCR, consumer education and USFC rate change filings. In addition, the Bureau performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas distribution companies. Among those MAs and MEIs completed during the 2013-2014 fiscal year were:

Columbia Gas of Pennsylvania Inc. – On Aug. 15, 2013, the Commission released a report on the Focused Management Audit of Columbia Gas of PA Inc. that contained 12 recommendations. In response to the audit, Columbia Gas has submitted an Implementation Plan indicating acceptance of 11 recommendations and rejection of one recommendation. The Company indicated that it plans to complete implementation of all accepted recommendations by the end of December 2014.

Peoples Natural Gas Co. LLC – An MEI, released April 3, 2014, showed that the Company is realizing annual savings of $11.1 million from implementation of prior recommendations from the MA. The MEI also examined Peoples' progress in implementing 15 of the 22 original recommendations from the MA released in March 2010. According to the MEI, Peoples has effectively implemented six of the 15 prior recommendations and has taken some action on the remaining nine recommendations. In addition to the savings already achieved from implementation of the MA recommendations, the MEI identified a potential annual savings of $135,000.

Peoples Natural Gas Company LLC – Equitable Division – An MEI, released April 23, 2014, showed that the Company is realizing annual savings of $14.9 million from implementation of prior recommendations from the MA. The MEI examined Equitable's progress in implementing 18 of the 72 original recommendations from the MA released in June 2010. According to the MEI, Equitable has effectively implemented 10 of the 18 prior recommendations and has taken some action on seven recommendations.

METER LOCATIONS

On May 22, 2014, the Commission finalized a rulemaking on the location of natural gas meters and service regulators, making state regulations more consistent with federal regulations and improving safety. The rulemaking allows for meters to be located inside if the property is listed on, or eligible for, the national register of historical places or designated as historical under the state Historic District Act, Municipalities Planning Code or Municipal Home Rule Charter. The rulemaking was a result of a Commission investigation determining that existing regulations were vague, inadequate and outdated with respect to federal standards adopted by the PUC.

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 2013-14, the PUC reviewed and processed 26 (monthly and annual) steam cost rate adjustment clause filings submitted by jurisdictional steam heat companies. In addition, four steam cost rate audits were completed.


COOLING WATER
TECOCHILL

MULTI-UTILITY ISSUES

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

DISTRIBUTION SYSTEM IMPROVEMENT CHARGES

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

COMBINED HEAT AND POWER TECHNOLOGY

In Fiscal Year 2013-14, the Commission focused on the use of combined heat and power (CHP) by hosting an en banc hearing to explore current issues and discuss regulatory policies impacting greater adoption of CHP in the Commonwealth. CHP is an efficient approach to generating electric power and thermal energy from a single fuel source, providing cost-effective energy services to commercial businesses like hotels, universities and hospitals. In addition to benefits like improving manufacturing competitiveness and reducing greenhouse gas emissions, CHP benefits businesses by reducing energy costs and enhancing energy reliability for the user. The Commission will continue to explore this issue in Fiscal Year 2014-15 with an additional hearing.

Chairman Powelson and Commissioner Brown took part in a PUC en banc hearing on the use of combined heat and power (CHP) in Philadelphia. The purpose of the hearing was to explore current issues and discusses regulatory policies impacting greater adoption of CHP in the Commonwealth.

EFILING & ELIMINATION OF PAPER COPIES

During the fiscal year, eFiling continued to gain popularity as more and more parties used electonic filing over traditional paper filings. eFiling also allows users to pay PUC filing fees via the website using a credit card. The list of "qualified documents" designated by the Commission for eFiling is constantly being expanded to allow more document types to be e-Filed. The Commission actively encourages those who do business with the Commission to eFile, offering a how-to online tutorial and in-person training. In 2014, eFilings rose to nearly 50 percent of all filings. The PUC has developed a Quick User Guide to educate interested parties more about our eFiling system in order to increase its use. A link to the eFiling system is available from the PUC website, which includes instructions on how to set up an account, access the users' guide and preview the system.

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

INNOVATION EFFORTS WITHIN THE PUC

The Commission participated in its second year as part of the Governor's Innovation Office Task Force and established an "i-team" within the PUC to address innovation. As part of that effort, the Commission's Team received a Governor's Innovator Award for work related to the Paperless PUC Initiative, which has reduced paper copy filing requirements, made more information electronically accessible, streamlined operations at the PUC, and kept paper costs under control internally and for all parties filing with the Commission.

Fiscal Year 2013-14 also brought recognition to the Commission's Electric Choice Standard Offer Program, which was recognized by Gov. Corbett for the year's "Best Customer Service Innovation" at the 2014 Innovation Expo. The program was launched in August 2013 to offer non-shopping customers a simple way to enter the competitive market with guaranteed, immediate savings. The launch of the Standard Offer Program is projected to have saved Pennsylvania residential and small business customers nearly $19 million in annual savings since its inception.

The Public Utility Commission was recognized by Gov. Tom Corbett as the year's "Best Customer Service Innovation" at the 2014 Governor's Innovation Expo. Pictured left to right: Cyndi Page, PUC Innovation Team; Robin Tilley, PUC Innovation Team; Mike Gossert, Innovation Expo Judge; Jan Freeman, PUC Executive Director; Robert F. Powelson, PUC Chairman; Tom Charles, PUC Director of Communications; Kirk House, Director of PUC Office of Competitive Market Oversight; Fred Miles, PUC Innovation Team; Kelly Logan, Secretary of Office of Administration; and, Joe Deklinski, Director, Governor's Innovation Office.

PROMOTING CYBERSECURITY

As a lead agency in spearheading discussions about cybersecurity, the PUC continues to bring together several state agencies to open up lines of communication. The PUC works to be a conduit of information between utility industries and state and federal government agencies – breaking down silos to ensure that important information concerning escalating cyber threats and improved best practices can be shared.

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