



PENNSYLVANIA
PUBLIC UTILITY COMMISSION
ANNUAL REPORT

2011-12

CELEBRATING 75 YEARS





OUR MISSION

The Pennsylvania Public Utility Commission balances the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.

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***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 2011-12 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 also highlights the new roles the PUC has undertaken to adapt to the changing utility marketplace. In the 21st century, the PUC is more than a utility regulator. We also play the role of educator, market monitor, consumer advocate, proponent of new technology, and promoter of economic development.

One of the most notable events of this year was the PUC's simultaneous implementation of three new pieces of legislation. Act 127 gave the PUC increased safety authority over the state's natural gas and hazardous materials pipelines. Under Act 11, the PUC has the authority to grant utilities certain tools to help accelerate the replacement of critical infrastructure. Finally, pursuant to Act 13, the PUC is responsible for collecting and distributing the state's unconventional well impact fee. All three pieces of legislation have tight implementation deadlines, which to date, the PUC has either met or exceeded.

This year the PUC continued to investigate Pennsylvania's retail electric markets, with the goal of ensuring that a properly functioning and workable competitive retail electricity market exists in the Commonwealth. The PUC also maintained its widespread efforts to educate Pennsylvanians about their ability to shop for an electric and natural gas supplier as well as empower consumers to take responsibility for their energy usage. Our website, www.PAPowerSwitch.com, has been an essential tool in this effort. We also carry on our work with the state's seven largest electric distribution companies to encourage energy efficiency and conservation measures.

The federal government has played an increasingly active role in the delivery of energy and telephone service in Pennsylvania. As a result, the PUC has augmented its intervention, monitoring, and activism at the Federal Energy Regulatory Commission and the Federal Communications Commission to protect the interests of Pennsylvania consumers.

With the development of the water audit program, the PUC has continued to help water utilities monitor their levels of unaccounted-for water. Through this program, the PUC provides an efficient and uniform structure to help those companies calculate loss volumes, assign cost impacts to the losses, advance infrastructure reliability, preserve water resources, lessen water leakage, and increase customer service.

In the telecommunications sector, the PUC continues to oversee the implementation of an alternative form of regulation for telecommunications service providers in Pennsylvania, as required by Act 183 of 2004. The PUC has also 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.

In the transportation arena, the PUC continues to stress the importance of safety. PUC staff has engaged in public outreach by speaking to groups about paratransit services statewide, while also enhancing supervision of the motor coach, taxi and limo industries. We increased our motor carrier enforcement presence in the five-county area of northeastern Pennsylvania where the Marcellus Shale geologic formation is located. The PUC also continues to promote railroad safety in the Commonwealth by conducting safety inspections and investigating railroad facilities, equipment, and records.



Commissioners past and present gather with Consumer Advocate Popowsky after the 75th Anniversary Ceremony. From left to right are: Commissioner Cawley, Commissioner Gardner, former Chairman Shanaman, Chairman Powelson, former Chairman Quain, Vice Chairman Coleman, former Vice Chairman Bloom, former Chairman Holland, Consumer Advocate Popowsky, former Chairman Thomas, former Commissioner Pizzigrilli, former Vice Chairman Christy, former Chairman Fitzpatrick and Commissioner Witmer.

The PUC has accomplished a great deal during the past fiscal year. We look forward to continuing our mission to balance the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner. The PUC stands ready to meet any challenges we may face in the coming year.

Robert F. Powelson

John F. Coleman

Wayne E. Gardner

James H. Cawley

Pam Witmer



INTRODUCTION

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

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

ORGANIZATION

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 2011-12, the Commission continued to strive to create a more open and user-friendly PUC. Information about the PUC, including copies of documents filed with and produced by the Commission, audio of certain Commission proceedings, forms, applications and summaries of public meetings, is available at www.puc.pa.gov.



The PUC oversees nearly 7,000 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 corporate boundaries. Rural electric cooperatives, municipal authorities, school buses, bottled water, heating oil, cable television, Internet service, bundled telecommunications/Internet services and wireless telecommunications services also 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 since 1976, and the resulting realignment of bureaus, allowed the Commission to meet significant changes to the utility industry and 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. Assessments are paid into the state Treasury’s General Fund for use solely by the Commission.

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



BROAD POWERS

The PUC exercises broad powers in meeting its regulatory obligations. In today's rapidly changing business environment, utilities must consider all of their options. Utility mergers, rate change requests, acquisitions and affiliated interest agreements continue to be filed before the Commission at a steady pace. With limited exceptions, utilities are required to obtain Commission approval for these transactions, as well as to operate, extend or abandon service. The PUC's responsibility is to ensure these actions are in the public interest. In Fiscal Year 2011-12, the PUC received 23,752 filings and served 10,550 documents.

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

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

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 resolve 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 2011-12 Expenditures	Approved 2012-13 Budget
State Funds:		
Personnel	\$46,114,000	\$46,977,000
Operating	12,616,000	12,898,000
Fixed Assets	123,000	123,000
Other	400,000	400,000
Total State Funds	\$59,253,000	\$60,398,000
Federal Funds:		
Personnel	\$2,993,000	\$3,438,000
Operating	1,131,000	1,419,000
Total Federal Funds	\$4,124,000	\$4,857,000
Total Commission Budget:	\$63,377,000	\$65,255,000

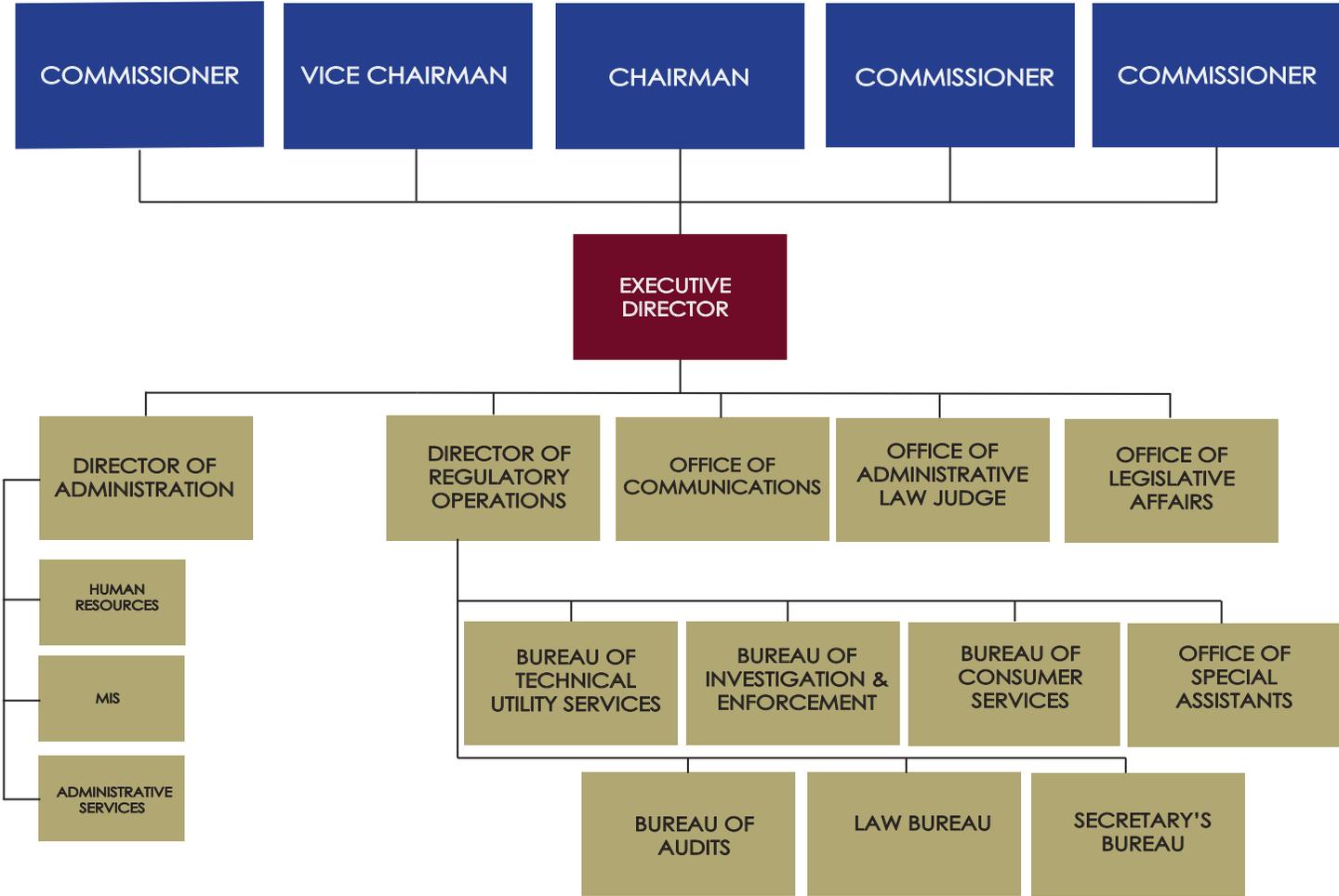
Other Revenue Sources

	2010-11 Receipts	2011-12 Receipts
Filing & Copy Fees	\$196,938	\$184,790
Electric Generation Application Fees	33,950	26,250
Fines	373,118	265,530
Federal - Gas Pipeline Safety	711,726	972,370
Federal - Motor Carrier (MCSAP)	1,275,396	1,099,090
Federal - ARRA Electric Reg. Asst.	272,231	374,263
Federal - ARRA Smart Grid	45,348	37,369
Total	\$2,908,707	\$2,959,662

2011-12 Application Fees, Filing & Copy Fees & Fines

	Electric Generation Application Fees	Fines	Filing & Copy Fees	Total
1st Quarter	\$ 3,850	\$52,780	\$25,625	\$82,255
2nd Quarter	10,500	56,350	50,650	\$117,500
3rd Quarter	7,700	33,400	66,345	\$107,445
4th Quarter	4,200	123,000	42,170	\$169,370
Total	\$26,250	\$265,530	\$184,790	\$476,570

ORGANIZATIONAL CHART



11-12 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 operations of the Commission.



KAREN MOURY
DIRECTOR OF REGULATORY
OPERATIONS

THE DIRECTOR OF REGULATORY OPERATIONS oversees the PUC's bureaus with regulatory functions, including the Law Bureau, the Bureau of Audits, the Bureau of Consumer Services, Office of Special Assistants, Secretary's Bureau, the Bureau of Technical Utility Services and the Bureau of Investigation and Enforcement.



ROBERT C. GRAMOLA
DIRECTOR OF
ADMINISTRATIVE SERVICES

THE DIRECTOR OF ADMINISTRATION is responsible for overseeing administrative and personnel functions. The Office is comprised of the Office of Human Resources; Management Information Systems; and the Office of Administrative Services, which is responsible for budget issues.



TOM CHARLES
DIRECTOR OF
COMMUNICATIONS

THE OFFICE OF COMMUNICATIONS is accountable for Commission media relations, external communications, internal communications and consumer education, in addition to acting as the lead staff for the Consumer Advisory Council.



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.



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 Bureau’s primary duty is to provide fair and prompt resolution of contested proceedings before the Commission. The Administrative Law Judges (ALJs) are attorneys with experience in administrative law, who preside over the hearings in cases, which can include consumer complaints, rate filings, investigations, ability to pay/billing disputes and applications. ALJ decisions are based upon a record of evidence, legal precedent and policy.



M. CARL LESNEY
DIRECTOR OF AUDITS

THE BUREAU OF AUDITS performs financial, management, operational and specialized audits on electric, natural gas, steam heat, wastewater, water and telecommunications utilities. It also reviews certain adjustment clause rate filings and 1307(e) reconciliation statements. The Bureau also conducts a limited number of reviews of the annual assessment reports for transportation companies. The audits may result in recommendations to refund over-recovered costs and/or to improve accounting or operational procedures that, if adopted, may save the utilities, and therefore, consumers, money. The Bureau also is responsible for auditing the annual reconciliation statements for certain companies authorized to use the distribution system improvement charge.



ALEXIS BECHTEL
DIRECTOR OF CONSUMER
SERVICES

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



JOHNNIE SIMMS
DIRECTOR OF INVESTIGATION
& ENFORCEMENT

THE BUREAU OF INVESTIGATION AND ENFORCEMENT serves as the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge, and enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. The bureau handles rail safety enforcement proceedings. The Bureau also prepares reports for the Commission, provides technical support for other bureaus and participates in various working groups.



BOHDAN R. PANKIW
CHIEF COUNSEL

THE LAW BUREAU acts as the Commission’s in-house legal counsel, 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 when the Commission’s decisions are challenged 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 on issues that impact Pennsylvania.

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



ROSEMARY CHIAVETTA
SECRETARY

THE OFFICE OF SPECIAL ASSISTANTS, as the Commission's advisory support bureau, is comprised of attorneys, rate case review specialists and administrative support staff. The Bureau drafts Opinions and Orders for the Commission to vote on at Public Meetings, as well as reviews and offers recommendations on the exceptions to Administrative Law Judge decisions, petitions for reconsideration and requests for extensions of filing deadlines.



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 serves as an adviser to the PUC on technical issues for electric, natural gas, water and wastewater, and telecommunications utilities. The Bureau offers policy recommendations on rates, tariffs and regulatory matters, processes fixed utility applications, and coordinates emergency operations of utilities. The Bureau also reviews motor carrier applications for compliance, processes applications for highway rail crossings, processes complaints concerning unsafe conditions at highway-rail crossing and inspects facilities of railroad companies. The Bureau reviews and maintains county 911 system plans; telecommunications relay service reports; annual financial reports; and utility tariffs.



PAUL DISKIN
DIRECTOR OF TECHNICAL
UTILITY SERVICES





CONSUMERS

During Fiscal Year 2011-12, the Commission focused on educating electricity customers about rising energy prices and the resources available to help them lower and pay their bills. 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 and took the message to the community with consumer education events. The Commission also continued to expand its consumer outreach activities by hosting regional events and visiting local communities.

PAPOWERSWITCH.COM

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



Putting the power in consumers’ hands to choose their electric generation supplier began with the 1997 Electricity Generation Choice and Competition Act. Under the law, electric rates were capped to ease the transition to competitive markets. As of Jan. 1, 2011, all rate caps expired. For many, the expiration of electric rate caps has brought an increase to electric rates. Consumers have the power to switch to a competing supplier who may offer the lowest price, or provide a specific service such as green/renewable energy.

CONSUMER EDUCATION ON ELECTRIC PRICES

The PUC continues to work with electric utilities to implement utility-sponsored consumer-education plans for their service territories. Each of the state’s electric distribution companies (EDCs) under PUC jurisdiction have implemented a consumer-education plan tailored to their service territory as required by Commission Order that established policies to mitigate higher electricity prices. The Commission, along with the Office of Consumer Advocate and the Office of Small Business Advocate, continues to review the consumer-education materials filed by utilities, which contain provisions to educate consumers about price increases while providing information on electric competition, demand side response, low-income programs, and energy conservation and efficiency.

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

CONSUMER OUTREACH SUMMARY

The PUC's consumer outreach specialists have provided utility education and outreach to thousands of consumers by working with health and human service providers, consumer advocates, utility community relations specialists, seniors and low-income consumers.



The outreach team travels the state to ensure consumers from all socioeconomic backgrounds are educated about and understand their rights as utility customers. In Fiscal Year 2011-12, 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 2011-12, the PUC continued to work with electric and natural gas companies to help consumers “Prepare Now” for the higher costs of winter heating.

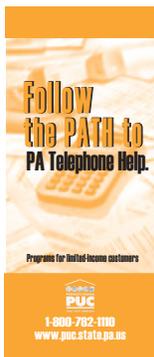
In a November 2011 letter, the Commission asked electric and natural gas utilities under its jurisdiction to join the PUC in reaching out and educating consumers. The letter also stressed the importance of the Low Income Home Energy Assistance Program (LIHEAP) and the impact the program has on helping low-income consumers restore and maintain their utility service. In February 2012, 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.

The winter of 2011 was the ninth 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 various media events and community exposure. Through various media outlets, as well as consumer events, the Commission emphasized the importance of these assistance programs, which offer discounts to help residents gain access to basic local telephone service. In February 2012, the FCC issued an Order and Notice of Proposed Rulemaking to reduce waste, fraud, and abuse in the Lifeline program. The new order eliminated the Link-Up program and promotes expanding access to broadband services.



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 (currently \$31,118 for a family of four) can receive a discount on their monthly local phone service for one telephone line. The discounts are paid out of the federal Universal Service Fund, which is subsidized by contributions from all telephone companies. 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.

I DO MORE WITH HIGH SPEED INTERNET CAMPAIGN

In February 2012, the Commission kicked off a campaign to highlight the societal, medical and

educational benefits of high speed Internet through the stories of residents and business owners in rural parts of the state who regularly use high speed Internet. The campaign is called “I Do More with High Speed Internet”

and promotes adoption of high speed Internet service in rural areas of the Commonwealth, focusing on the counties of Butler, Carbon, Fayette, Mercer, Schuylkill and Westmoreland where Internet providers report below average high speed Internet subscription.



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Apply Today At www.IDoMoreWithHighSpeedInternet.com

PENNSYLVANIA PUC
PUBLIC UTILITY COMMISSION

SETTLEMENTS WITH UTILITY COMPANIES

In Fiscal Year 2011-12, the PUC approved settlements with utility companies 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.

■ **PPL Electric Utilities Corp.** paid a \$15,000 civil penalty and contributed \$10,000 to its Operation HELP hardship fund. The settlement stemmed from an informal investigation concerning a residential account that had been terminated for non-payment.

■ **Equitable Gas Co.** paid a \$125,000 civil penalty and contributed \$40,000 to its Hardship Repair Fund following an investigation into Equitable’s transfer of intellectual property to an affiliated company; an agreement with an affiliated company for the payment of royalty amounts; and Equitable’s failure to seek Commission approval for those transactions.

■ **Columbia Gas of Pennsylvania** was directed to contribute \$318,006 in proceeds stemming from a settlement with Columbia Gulf Transmission Co. to programs that help low-income customers pay their bills and to provide refunds for some small business customers.

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 2012.

UNIVERSAL SERVICE PROGRAMS AND COLLECTIONS PERFORMANCE

The PUC issued the 2010 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 2011-12. 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 within the PUC's Bureau of Consumer Services (BCS) handle a variety of consumer contacts related to billing problems, service delivery and repairs. The 2010 Utility Consumer Activities Report and Evaluation shows that BCS investigated 13,341 consumer complaints in 2010, with 11,602 of those complaints coming from residential consumers and 1,739 from commercial 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 2010, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.

CHAPTER 56/CHAPTER 14 RULEMAKING

In October 2011, a rulemaking was finalized that addresses such provisions as winter termination; definition of customer; user without contract; application and credit standards; security deposits; the service termination process; medical emergency procedures; dispute procedures; protections for victims of domestic violence; electronic billing and payment; and medical certificates. The revised rules make Chapter 56 consistent with Chapter 14 of the Public Utility Code.

Chapter 56 of the Pennsylvania Code contains the Standards and Billing Practices for Residential Utility Service, and includes the regulations governing the termination process, credit, applications, billing, payment and dispute procedures. Chapter 14 seeks to eliminate opportunities for customers capable of paying their utility bills to avoid payment, and to provide utilities with the means to reduce their uncollectable amounts. The law changed the way regulated electric, water, and major natural gas utilities handle cash deposits; reconnection of service; termination of service; payment arrangements; and the filing of termination complaints by residential customers.

CONSUMER ADVISORY COUNCIL



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

PUC Consumer Advisory Council: Front row, left to right: Robert Christianson, Tim Hennessey (Chairman), Cindy Datig. Back row, left to right: Lee Tolbert, Michael Bannon, George Silvestri, Tina Serafini, Tom LeCrone, John Detman, Harry Geller.

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 appointive or elective office of the Commonwealth. Council members serve two-year terms and may be reappointed. Council officers serve two-year terms. The Chairperson may not act for more than two consecutive terms.

PA RELAY SERVICE ADVISORY BOARD

During 2011-12, Pennsylvania Relay Service Advisory Board met four times 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 give 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.



Pennsylvania Relay Service Advisory Board: Seated, from left: Sheila Brown, Lauren Cramer and Steven Semara. Standing, from left, Christa Cervantes, Mina Knezevich, Sudan Khan, Leslie Kelly, Todd Behanna, Sharon Behun, Steve Schultz, Eric Jeschke and Chuck Hafferman.

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.



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

On Feb. 14, 2012, Governor Corbett signed Act 11 of 2012, which allows jurisdictional water and wastewater, natural gas and electric utilities to petition the Commission for approval to implement a distribution system improvement charge (DSIC) to fund infrastructure upgrades. Under the law, the DSIC must be designed to provide for “the timely recovery of the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable services.”

On May 10, 2012, the Commission issued for comment a Tentative Implementation Order that addresses the Act 11 initiatives. Comments were received on establishing procedures for implementation of a voluntary DSIC for utilities; filing long-term infrastructure improvement plans; revising the method used to fix the value of and return on the property for ratemaking purposes; establishing procedures for the use of a fully-projected test year in base rate proceedings; allowing utilities to combine for ratemaking purposes different types of utility service; and establishing customer protections and notifications. A Final Implementation Order is expected in the first quarter of Fiscal Year 2012-13.

ALTERNATIVE FUEL VEHICLES

In order to examine the increased use of alternative fuel vehicles (AFVs), specifically electric and natural gas, the Commission held a Forum in Philadelphia on May 31, 2012, which included 17 senior-level presenters representing government, utility, and business interests.

The Forum explored how the PUC can foster policies and regulatory frameworks that support the development of natural gas and electric vehicles and their required infrastructure. The move toward increased use of AFVs creates numerous issues and questions, some of which may impact the PUC’s core functions.



The Forum was the first step in an ongoing discussion of AFV issues under PUC jurisdiction, creating a foundation for possible future action by the Commission.

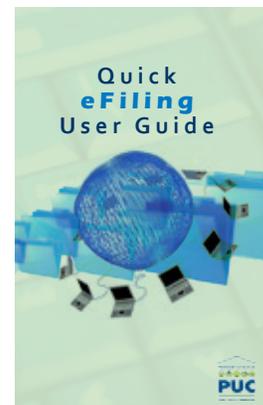
OUTAGE RULEMAKING/POLICY STATEMENT

On Sept. 22, 2011, the PUC finalized amendments to regulations regarding service outage and reportable accidents. The goal of the rulemaking – which was approved by the Independent Regulatory Review Commission and went into effect on Jan. 7, 2012 – was to have even more effective responses to unscheduled outages for electric, natural gas, water, wastewater and telephone utilities and to establish a uniform approach for reporting standards among industries in the event of a service outage. The amendments to the regulations addressed accidents involving injury for the electric, natural gas, water and wastewater industries; service outages; the ability to capture more reportable events, such as physical or cyber security attacks; deadlines for reporting accidents; the expansion of provisions regarding reporting of service outages to include the number of customers interrupted during the event, the number of outage cases and trouble cases for each count affected, and the number of outages exceeding six hours; and reports to track the number of utility workers, contract and mutual aid workers assigned to repair work.

On Dec. 15, 2011, the Commission adopted a policy statement intended to improve electric, water, wastewater and natural gas utility communications with customer including recommending the use of social media and other new technology. The policy statement established guidelines for how utilities should communicate with the public during outages to ensure that timely and accurate information is provided to customers. The policy statement contains a series of methods for improving the timeliness and effectiveness of notice to customers during an outage, including the use of social media, e-mail and text messaging.

eFILING

During the fiscal year, eFiling continued to gain popularity as more and more parties turned to filing electronically 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 also has been expanded. The Commission actively encourages those who do business with the Commission to eFile, offering a how-to online tutorial and in-person training. In 2012, eFilings rose to 33 percent of all filings – an increase of 10 percent over 2011. 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 initiated rulemakings and issued secretarial letters to eliminate additional copies our current filing regulations now require. All of these actions are cost-saving measures.

HOMELAND SECURITY & EMERGENCY PREPAREDNESS

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

During emergencies, a Commission team mobilizes at the Pennsylvania State Emergency Operations Center (SEOC) in Harrisburg. The PUC Emergency Management Response Team (ERT) provides assistance to utilities responding during an emergency, and coordinates with other state agencies to ensure that all available resources are being used. Its primary goal is to quickly and effectively meet the needs of those responding to an emergency. The team also makes sure a clear line of communication is available from the utilities to the PUC, PEMA, the Governor and his staff, as well as other Commonwealth agencies and commissions such as the Department of Environmental Protection (DEP) Energy Office. In addition, throughout the stormy winter and summer months, the Emergency Preparedness Coordinator participates in conference calls and emergency meetings with PEMA, the National Weather Service, and other Commonwealth agencies and commissions to discuss the preparedness of the utilities and the ERT for the potential effects of an anticipated storm.

The PUC works with the Pennsylvania Office of Homeland Security, the Pennsylvania State Police, and the three regional Department of Homeland Security (DHS) Protective Security Advisors (PSAs) to maintain situational awareness of homeland security issues. Also, during emergencies the ERT may work with the PSAs and the PA Office of Homeland Security on issues of critical infrastructure.

All jurisdictional utilities are required to have written and maintained physical security, cyber-security, emergency and business continuity plans. By regulation, utilities must yearly certify to the Commission that they have the plans and that the plans are updated and tested. This regulation followed a recommendation from the PUC's investigative report on House Resolution 361.





ELECTRIC

This marked the first full fiscal year where capped electric generation rates were not affecting the competitive electric markets. As Pennsylvania is participating in a fully restructured electric market, the wholesale energy market rules continue to grow in importance. At the close of the fiscal year, Pennsylvania had 11 electric distribution companies (EDCs) and 272 licensed electric generation suppliers (EGSs). Since a properly functioning and competitive wholesale market for electricity also is essential for reasonable retail rates, the Commission moved forward with its investigation into Pennsylvania's electric retail market, determining which aspects of the market are functioning properly and which issues may need to be addressed. The Commission also continues to work to implement Act 129, reducing energy consumption and peak demand throughout Pennsylvania.

RETAIL MARKETS INVESTIGATION

In Fiscal Year 2011-12, the Commission continued with its investigation into the state's retail electric markets. A [webpage](#) was dedicated to the subject and contains all documents related to the process. The goal was for stakeholders and staff to make recommendations for improvements in the functioning of the retail market. During the fiscal year, the statewide investigation examined both the legislative and regulatory framework behind Pennsylvania's retail market, including an analysis of the current default service model and whether, as currently structured, that model is hindering competition.

The Commission conducted the investigation in two phases. The first phase was designed to assess the status of the current retail market and explore what changes needed to be made to allow customers to best realize the benefits of competition. The second phase examined and addressed how to best resolve the issues raised and implement the changes identified based upon its review of the comments received.

On March 1, 2012, the PUC finalized an intermediate work plan that provided a framework for more specific action items, including recommendations and proposals regarding the expansion of consumer education to drive electric customers to www.PAPowerSwitch.com; initiation of a customer referral program; initiation of a retail opt-in auction program; improving the presentation of the electric utilities' price to compare on customer bills; and increasing coordination between utilities and suppliers. The issues and goals included in the intermediate work plan are to be implemented prior to, or in conjunction with, the expiration of the electric distribution companies' next round of default service plans. The investigation was completed in spring 2012 and the Commissioners are considering further action based upon the investigations' findings.

COMPETITIVE MARKETS OVERSIGHT

The Commission continues with its oversight of the development and functioning of the competitive retail electric supply market. The Office of Competitive Markets Oversight, a group of legal, technical and policy PUC staff members from various Commission bureaus and offices informally addresses obstacles faced by EGSs and EDCs in participating in the retail market. The group responds to questions from electric generation suppliers, monitoring issues potentially hindering the development of a competitive retail market and facilitating informal dispute resolution between default service providers and EGSs.

In Fiscal Year 2011-12, as part of the efforts to enhance the competitive electric markets, the Commission issued interim guidelines designed to accelerate the time it takes for a customer to switch EGSs. They also set standards for electronic data transfers and exchange between EDCs and EGSs as well as worked toward providing uniform guidelines for eligible customer lists. A full tracking of the activities to provide competitive market oversight is available on the PUC website.

ACT 129 PHASE TWO

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 are to demonstrate electricity consumption reductions of 1 percent by May 31, 2011, and 3 percent by May 31, 2013. The Act also requires a 4.5 percent reduction in peak demand by May 31, 2013.

Act 129 "phase 2" planning, which continues the momentum of existing EDC Act 129 plans, began in Fiscal Year 2011-12. The PUC asked the Statewide Evaluator (SWE) to conduct studies to determine whether additional targets can be met in a cost-effective manner and what those targets could be.

Act 129 requires the Commission to adopt additional incremental reductions in consumption by Nov. 30, 2013, and every five years thereafter, if the Commission determines that the benefits of the program exceed its costs.

The Commission has also been developing a process and timeline to set additional required incremental reductions in consumption, the filing of new energy, efficiency and conservation plans and Commission rulings on those plans so that the EDCs may begin implementing their plans by June 1, 2013. Throughout this process, the Commission is soliciting comments and input from all interested stakeholders.

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

OUTAGE RESPONSE

Extreme weather events in 2011 caused more than 3.8 million electric outages in Pennsylvania, representing the highest number of customer electric outages in the past nine years. Many of these customers experienced outages greater than 72 hours. Pennsylvania's EDCs were affected by several strong storm systems of varying meteorological circumstances in 2011. The significant events included: heavy snow and some ice in February; strong thunderstorms in late May; a direct impact by Hurricane Irene in late August; flooding rains from the remnants of Tropical Storm Lee in early September; and an early-season heavy, wet snow in late October.

Although the Commission reviews the performance of EDCs following every major storm event, the multiple, long-duration events presented an opportunity for additional review, especially due to the significant number of affected customers and some patterns that emerged during the utilities' responses to the various storms. In particular, the Commission received numerous complaints about the inability of customers to contact the EDC to report outages; a lack of specific restoration information; or in some cases, inconsistent information about restoration.

The PUC understands the concerns of residents who were without power for many days, especially as they tried – with little or no success – to get information from their electric utility. The PUC takes each storm incident seriously and makes changes to our regulations and procedures to minimize future storm impacts. The





Commission took specific actions during the fiscal year to address many of the issues including encouraging the use of new technology and social media to communicate with customers. The PUC met with all affected utilities individually and during the Oct. 12, 2011, Special Reliability Forum to discuss what worked, what didn't and next steps. The PUC continues to evaluate the data that is being provided from the EDCs and will issue reports complete with findings and recommendations in Fiscal Year 2012-13.

DISTRIBUTION RATE INCREASE REQUESTS

During Fiscal Year 2011-12, the Commission did not complete consideration of any electric rate increase requests. At the end of the year, one electric rate increase request was pending before the Commission: PPL (\$104.6 million). Information about the ratemaking process is available on the PUC website.

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 the decisions being made by FERC about wholesale electric markets and interstate transmission of electricity.

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

The RTO in which Pennsylvania operates is the PJM Interconnection LLC (PJM). The PUC is a member of one organization of state commissions jointly interested in wholesale market issues – the Organization of PJM States Inc. (OPSI). OPSI represents the interests of member states before the FERC.

Proceedings at the federal level that the PUC is monitoring or participating in include proposals to conduct a new electric congestion transmission study; plans to enhance electric market surveillance and analysis; actions on transmission planning and cost allocation; issues with cyber security; 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.

More than enough alternative energy credits were available on the market to meet all EDC/EGS requirements for the reporting year. While one EGS did not meet their AEPS requirements during the last reporting year, it was found that it was due to a lack of familiarity or understanding of the AEPS Act, the alternative energy credit market and the process for retiring credits for compliance. The Commission expects this is likely to continue over the next couple of years as more EDCs and particularly EGSs have their first encounter with the alternative energy credit market and compliance requirements.

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 June 2011. The report trends reliability performance from March 2004 through March 2011, and includes the causes of outages, by percentage, and information on all major events. It can be viewed at the Commission's website at www.puc.pa.gov under Publications and Reports.

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.

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

INSPECTION AND MAINTENANCE STANDARDS



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

Biennial plans for the periodic inspection, maintenance, repair and replacement of facilities, which are designed to meet performance benchmarks and standards, were filed with the Commission on Oct. 1, 2009, by FirstEnergy (Met-Ed, Penelec and PennPower), West Penn Power and UGI, became effective on Jan. 1, 2011. Inspection and maintenance plans were filed by Duquesne Light, PECO, PPL, Citizens', Pike County and Wellsboro on Oct. 1, 2010 and became effective Jan. 1, 2012.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses on making sure that customers are protected, the company is a viable public utility and 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 2011-12.

ELECTRIC COMPANY AUDITS

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

In addition to the periodic MAs and MEIs, the PUC annually conducts a variety of other EDC audits. During the fiscal year, the Bureau of Audits completed 39 audits, involving competitive/intangible transition charges, default service, purchased power, non-utility generation, transmission service costs, consumer-education programs and universal service programs. Also, 119 filings requesting changes to established adjustment clause rates were reviewed and processed, implementing revised surcharge rates. Among the MAs and MEIs completed within the 2011-12 fiscal year were:

FirstEnergy Co. – On July 14, 2011, the PUC released [a report on the MEI](#) of three Pennsylvania FirstEnergy Companies of Metropolitan-Edison Co., Pennsylvania Electric Co. and Pennsylvania Power Co. The Audit Staff found that the companies are realizing combined annual savings of \$1.2 million and realized \$7.4 million of one-time savings from implementing recommendations from the prior Stratified Management and Operations Audit. Furthermore, the report indicated that the companies could realize combined annual savings of up to \$3.2 million by implementing follow-up recommendations contained in the MEI report.

West Penn Power Co. – On Aug. 25, 2011, the PUC released [a report on the MEI](#) that indicated that the company could save up to \$1.3 million annually by implementing the follow-up recommendations contained in the report.



KORDEIGHT

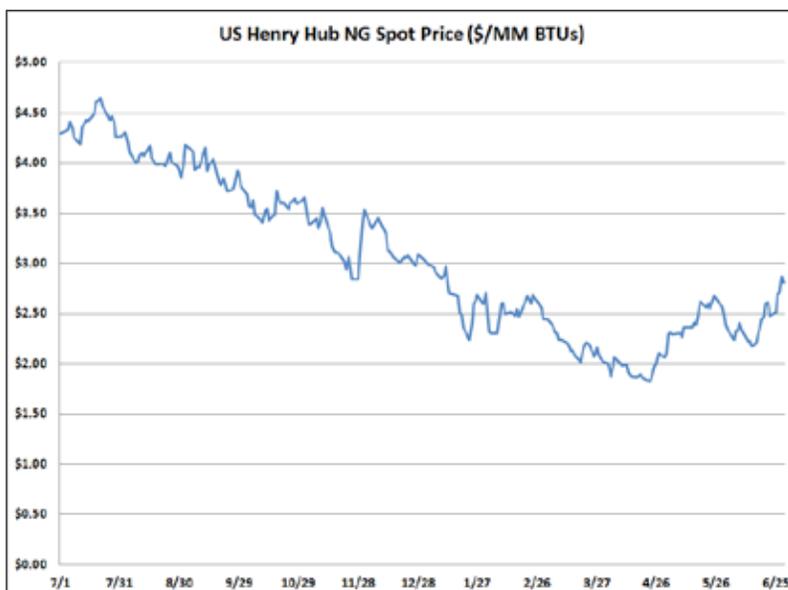
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NATURAL GAS

Increased natural gas supply in the state played a part in reducing and stabilizing natural gas prices in Fiscal Year 2011-12. More than 46,000 miles of natural gas distribution pipelines crisscross Pennsylvania. Non-public utility pipelines transport natural gas from the wellhead to compressor stations, including many new pipelines being constructed to transport gas from the Marcellus Shale. Some high profile incidents – both nationally and here in Pennsylvania – combined with the expansion of the industry in Pennsylvania as it relates to Marcellus Shale have increased the spot light on natural gas and pipeline safety. At the end of the fiscal year, Pennsylvania had 28 regulated natural gas distribution companies (NGDC) and 125 licensed natural gas suppliers (NGS).

WHOLESALE NATURAL GAS PRICES

For Fiscal Year 2011-12, natural gas prices were much lower and showed very little volatility – even during the extremely cold winter months. During the fiscal year, Pennsylvania natural gas spot prices averaged \$3.85/MM BTUs and the United States had a lower spot price of \$3.47/MM BTUs. The winter months of 2011-12 were much warmer than normal (by 8.3 percent) with less heating degree days. As shown in the graph, prices decreased for most of the fiscal year, including all of the winter months.



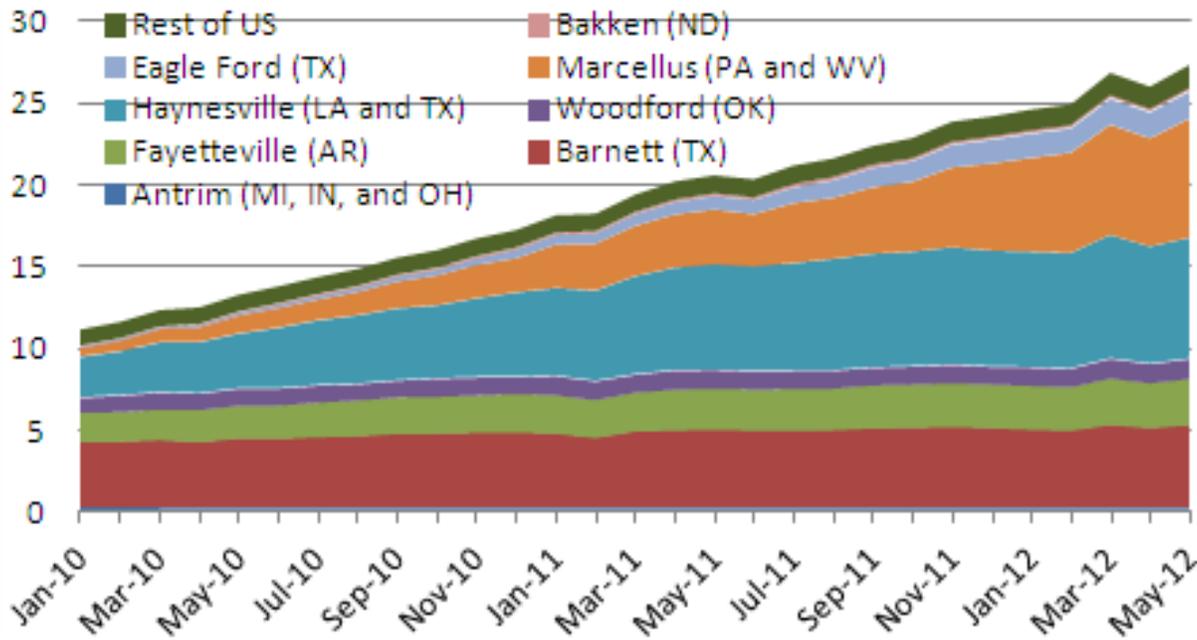
The U.S. Energy Information Administration (EIA) notes that natural gas production continues to grow at a strong pace despite a significant decline in gas-directed drilling activity. According to Baker Hughes, the natural gas rig count nationally was 588 as of June 1, 2012, down from a 2011 high of 936 in mid-October, making it the lowest rig count since 1999.

EIA expects projected consumption of natural gas in the electric power sector to grow by nearly 20 percent in 2012, primarily driven by the increased relative cost advantages of natural gas over coal for power generation in some regions. Consumption in the electric power sector peaked in the third quarter of 2012, at 30.2 Bcf/d, when electricity demand for air conditioning was highest. This compares with 27.7 Bcf/d during the third quarter of 2011.

Total marketed production of natural gas grew by 4.8 Bcf/d (7.9 percent) in 2011. This strong growth was driven in large part by increases in shale gas production (See graph below.) While EIA expects year-over-year production growth to continue in 2012, the projected increases occur at a slower rate than in 2011, as low prices reduce new drilling plans.

MONTHLY DRY SHALE GAS PRODUCTION

billion cubic feet per day



Source: Lippman Consulting, Inc. Gross withdrawal estimates are as of May 2012 and converted to dry production estimates with EIA-calculated average.

Working natural gas inventories continue to remain at high levels, although the surplus relative to last year's level and the five-year average (2007-2011) level has eroded in the past month. As of June 1, 2012, according to EIA working inventories totaled 2,877 Bcf, 713 Bcf greater than last year's level and 687 Bcf above the five-year average. EIA expects that inventory levels at the end of October 2012 will set a new record high at 4,015 Bcf.

ACT 13 OF 2012 (IMPACT FEE)

The Act Amending Title 59 (Oil and Gas) of the Pennsylvania Consolidated Statutes (Act 13 of 2012) was signed by Governor Corbett on Feb. 14, 2012. Chapter 23 provides for the imposition of an unconventional gas well fee (also called an impact fee). Chapter 33 governs local ordinances that impose conditions, requirements or limitations on oil or gas operations. More information on Act 13 implementation including forms needed by producers and municipalities can be found on the PUC's [Act 13 webpage](#).

Act 13 specifically provided for the imposition of an impact fee by county or alternatively municipalities compelling the imposition of an unconventional well fee. All eligible gas producing counties adopted fee ordinances, so municipalities did not have to exercise the option to adopt resolutions to compel the imposition of a fee.

The PUC is tasked with the collection and distribution of the impact fee money. For 2011, the fee was \$50,000 per horizontal well and \$10,000 per vertical well. The distribution of the funds generated by that impact fee to local and state purposes is specifically outlined in the law. About \$25 million is earmarked for state agencies to offset the statewide impact of drilling with 60 percent of the remaining funds going to counties and municipalities. The remaining 40 percent is for statewide initiatives with potential local impacts and value.

The fee is due to the PUC by Sept. 1, 2012. The PUC will distribute the money to local governments by Dec. 1, 2012. At the end of Fiscal Year 2011-12, the PUC was still developing algorithms and computer programs necessary to distribute impact fees, so specific amounts to be allocated were not available. The law says that the amount allocated shall not exceed \$500,000 or 50 percent (whichever is higher) of the total budget for the prior fiscal year for eligible municipalities.

At the end of Fiscal Year 2011-12, Chapter 33 of the law was subject to proceedings before the state appellate courts. Because of that, the PUC delayed final implementation of the PUC's duties for reviewing local municipal ordinances.



PIPELINE SAFETY

The PUC has long been charged with the safety 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, 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 our 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 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. The PUC created a [webpage](#) dedicated to Act 127.

As directed under the Pipeline Act, the PUC has developed a registry of all "pipeline operators" in the state that includes mileage of pipe and country of manufacture for that pipe. The registry allows the Commission to track the development of pipelines throughout the state including those in less populated areas that transport gas from Marcellus Shale wells. The PUC has identified entities that are required to register. The PUC also began conducting safety inspections of many of those pipelines. Under the Act, the cost of the inspections is recovered through assessments on pipeline operators based on the total miles of jurisdictional pipelines in operation in Pennsylvania.

While gaining this jurisdiction was a priority for the PUC, it was part of a comprehensive strategy to increase the safety of all natural gas lines within the state. We have required the state's natural gas distribution utilities to enhance [frost patrol measures](#). Frost patrols are pipeline surveys that the natural gas utilities conduct during the

winter months to assess the pipelines for problems due to the frost and thaw cycles associated with cold-weather conditions.

We also are reviewing comments to a Commission proposal that calls for the natural gas utilities to file Pipeline Replacement and Performance Plans with the Commission for review. According to the proposal, the Commission will direct the companies to implement plans in the near future that include replacement timeframes and performance metrics such as efforts on damage prevention, corrosion control and distribution system improvement leaks.

In another step to increase monitoring of natural gas pipelines, the Commission also is weighing comments on proposed regulations to create a uniform definition of unaccounted-for-gas (UFG) and level metrics for natural gas distribution system losses for the NGDCs. The proposed rulemaking is designed to help eliminate any reporting inconsistencies of UFG that may currently exist. Creating a uniform definition for UFG will provide the Commission with a consistent, fair, clear and concise method to assess UFG within gas cost proceedings and filings, annual reports and other investigations.

In addition, the Commission is considering comments on a proposed rulemaking related to the location of gas meters, which would make state regulations more consistent with the federal regulations the PUC has already adopted. The proposed rulemaking includes language that allows the natural gas utilities to have sole determination for meter set (meter and regulator) location, and that the determination should be based upon public safety. The proposed language also requires NGDCs to relocate current inside regulators that are connected to steel service lines to the outside within 10 years except in historic districts and high risk vandalism districts.

Natural Gas Pipeline Reportable Incidents

During the fiscal year, the Commission investigated two reportable incidents. During the previous four fiscal years, natural gas utilities reported incidents, including two in fiscal years 2008 and 2009, three in fiscal year 2010 and three in fiscal year 2011. 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 2011-12, the PUC filed formal complaints or considered settlements with natural gas companies following informal investigations into alleged violations of the Public Utility Code.

PGW – On Dec. 15, 2011, the PUC’s independent Prosecutory Staff filed a formal complaint against PGW following an investigation into a Jan. 18, 2011, explosion in Philadelphia that killed one person. Prosecutory Staff filed allegations that PGW violated the Public Utility Code or federal regulations 334 times in connection to the explosion. Prosecutory staff asked that PGW be ordered to change procedures and pay a civil penalty of \$500,000. PGW responded, denying the complaint, which sends the matter to a PUC administrative law judge for hearings or the parties may enter into settlement talks.

Peoples Natural Gas Co. – On March 1, 2012, the Commission issued for a comment a settlement that included a \$5,000 civil penalty following an informal investigation by the PUC’s independent Prosecutory Staff. The investigation stemmed from an incident that involved damage to a service line owned by Peoples.

UGI – Allentown – On June 11, 2012, the PUC’s independent Prosecutory Staff filed a formal complaint against UGI following an investigation into a Feb. 9, 2011, explosion in Allentown that killed five people. Prosecutory Staff filed allegations that PGW violated the Public Utility Code or federal regulations 179 times in connection to the explosion. Prosecutory staff asked that PGW be ordered to change procedures and pay a civil penalty of \$386,000. UGI responded denying the complaint, which sends the matter to a PUC administrative law judge for hearings or the parties may enter into settlement talks.

UGI – Millersville – On March 30, 2012, the PUC’s independent Prosecutory Staff filed a formal complaint against UGI following an investigation into an Oct. 11, 2011, explosion in Millersville that caused about \$455,000 in damage to two properties. Prosecutory Staff filed allegations that UGI violated the Public Utility Code or federal regulations 26 times in connection to the explosion. Prosecutory staff asked that UGI be ordered to change procedures and pay a civil penalty of \$200,000. UGI responded, denying the complaint, which sends the

matter to a PUC administrative law judge for hearings or the parties may enter into settlement talks.

PECO – On May 24, 2012, the Commission issued for a comment a settlement and a \$75,000 civil penalty following an information investigation by the PUC’s independent Prosecutory Staff. The investigation stemmed from a house explosion in Swedeland, Montgomery County.

UGI – Mountville – On May 24, 2012, the Commission rejected a settlement agreement between the PUC’s independent Prosecutory Staff and UGI. The issue is returned to Prosecutory Staff for further consideration. The proposed settlement followed an investigation into an Aug. 6, 2009, incident which involved a UGI backhoe bucket striking a tapping tee and damaging it, resulting in the failure of the distribution main and the release of natural gas.

Additional Gas Safety Activities Included:

- 1,270 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line, and compressor station inspections);
- Two investigations of reportable incidents;
- 54 non-compliance letters issued;
- 130 gas safety violations issued;
- 120 violations handled by non-compliance letters; and
- 10 violations pursued by prosecutory staff.

NATURAL GAS CO. APPLICATIONS FOR PUBLIC UTILITY STATUS

In Fiscal Year 2011-12, the Commission considered with applications by three pipeline companies regarding PUC certificates of public convenience authorizing natural gas gathering and transportation service by pipeline. Laser Northeast Gathering Co. sought a PUC certificate for service in Susquehanna County. Peregrine Keystone Gas Pipeline sought a PUC certificate for service in portions of Green, Fayette and Washington counties. Pentex Pipeline Co., which already holds a PUC certificate, sought additional territory and proposed offering service in Bradford County.



The cases were referred to the PUC’s Office of Administrative Law Judge, and evidentiary and public input hearings were held. All three companies eventually withdrew their applications.

SEARCH

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). SEARCH is a working group comprised of stakeholders representing residential, commercial and industrial customers, natural gas distribution companies, suppliers, and pipelines. SEARCH was created as a result of an October 2005 Commission report that found that effective competition did not exist in Pennsylvania’s natural gas retail market.

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

The Commission expects to initiate a five-year review of efforts to remove barriers to effective competition in 2013.



SMALL NATURAL GAS COMPANY TASK FORCE

On April 12, 2011, the PUC’s Small Natural Gas Company Task Force issued a report that included eight recommendations, many of which would require changes to existing regulations through the rulemaking process. Many of the recommendations address the treatment of the gas cost rate (GCR) mechanism used by small gas companies, which are those companies having annual intrastate operating revenues under \$40 million. The PUC has 20 small natural gas companies under its jurisdiction.

The recommendations include: permitting the recovery of interest from ratepayers on net undercollected gas costs; applying six percent interest on both over and under collections; maintaining current monthly reporting of over and under collections; consistent handling of audit findings regarding the collection of interest; removing the base cost of gas from base rates on the GCR spreadsheet; reflecting all gas costs in a GCR beginning in 2013; promoting interim filings by authorizing GCRs to become effective immediately; and eliminating group designations for small gas companies.

BASE RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to about \$102 million in rate increase requests:

Columbia Gas

Customers – 359,258 in 25 counties

Requested Rate Increase – \$37.8 million (7.7 percent)

Approved Rate Increase – \$17.7 million (3.5 percent)

Primary Reason – To increase rate base, modernize and create an energy efficiency program for seniors

At the end of Fiscal Year 2011-12, one natural gas rate increase request for about \$28.4 million from Peoples was pending before the Commission. 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 that customers are protected, the company is a viable public utility and 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 mergers or acquisitions of natural gas companies occurred in Fiscal Year 2011-12.

GAS COMPANY AUDITS

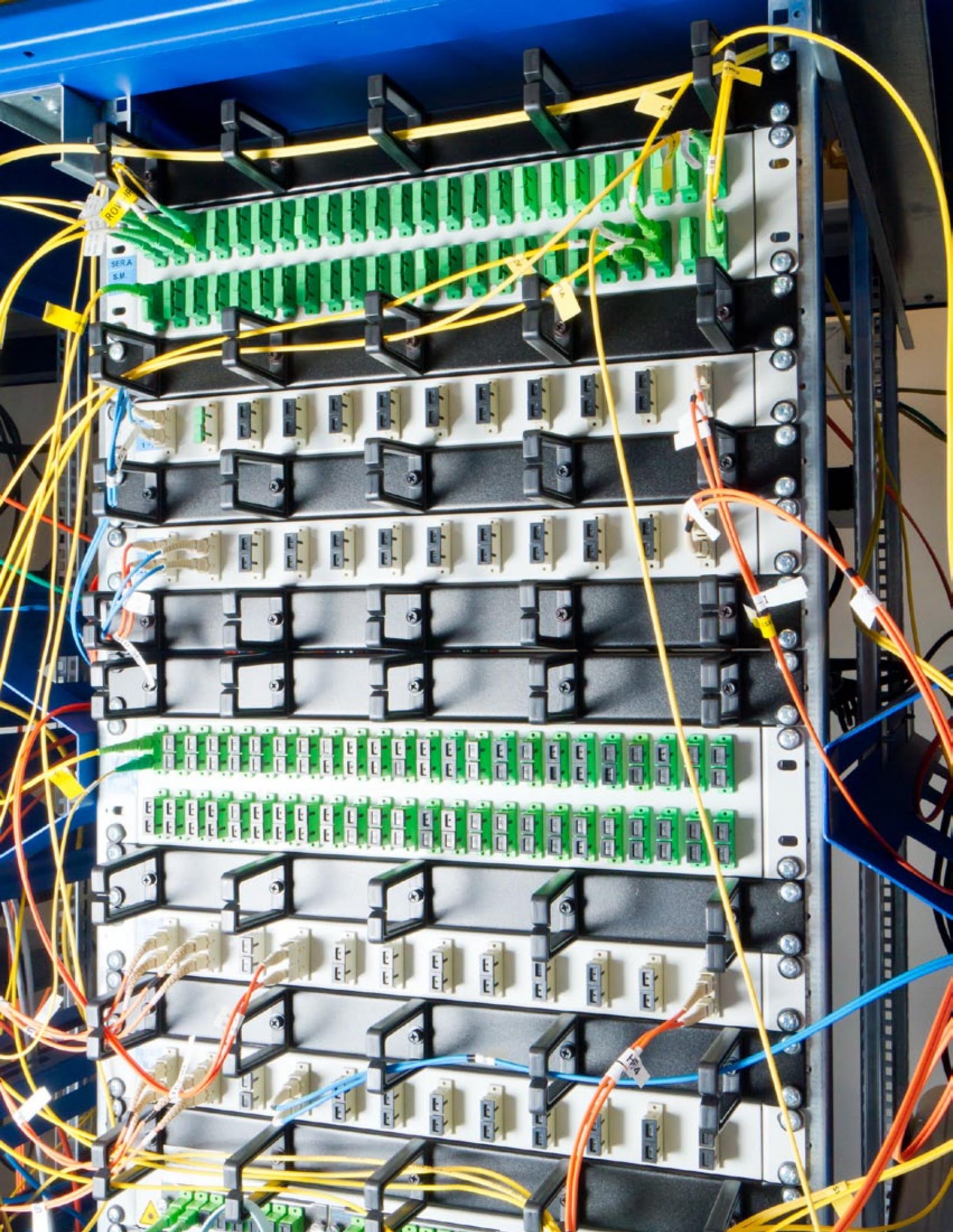
During the fiscal year, the Commission's Bureau of Audits completed six purchased gas cost (PGC) audits, eight gas cost rate (GCR) audits, one universal service audit and three consumer-education audits. The Bureau of Audits also reviewed 14 (GCR) and one universal service fund charge (USFC) adjustment clause filings implementing revised GCR and USFC rates. In addition, the Bureau performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas companies. Among those MAs and MEIs completed during the 2011-2012 fiscal year were:

UGI Utility Group – On May 24, 2012, the PUC released a [report on the MA](#) of UGI Utilities Inc., UGI Central Penn Gas Inc. and UGI Penn Natural Gas Inc. (collectively the UGI Utility Group) that contained recommendations that could save the companies a combined \$787,300 to \$1,066,600 annually and one-time savings of \$2,544,000 to \$4,405,000.

National Fuel Gas Distribution Corp. (NFG) – On May 24, 2012, the PUC released a [report on the MA](#) of NFG that contained recommendations that could improve the company through an analysis and evaluation of management performance in eight functional areas.

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 2011-12, the PUC's Bureau of Audits reviewed and processed 21 (monthly and annual) steam cost rate adjustment clause filings submitted by jurisdictional steam heat companies. In addition, two steam cost rate audits were completed.





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 universal service federal funding as an Eligible Telecommunications Carrier.

REGULATED TELEPHONE COMPANIES

The three largest incumbent local exchange carriers (ILECs) are Verizon Pennsylvania Inc., Verizon North LLC and The United Telephone of Pennsylvania LLC d/b/a CenturyLink (CenturyLink). The current certifications for telecommunications are as follows:

Competitive Local Exchange Carrier:	176
Incumbent Local Exchange Carrier:	37
Competitive Access Provider:	95
Interexchange Carrier, Toll Facilities-Based:	62
Interexchange Carrier, Toll Reseller:	<u>345</u>
Total	715

NUMBERING PLANS

The North American Numbering Plan Administrator, “NeuStar Inc” (Neustar), which is the neutral third party Number Planning Area (NPA) relief planner for Pennsylvania, petitioned the PUC on behalf of Pennsylvania’s telecommunications industry because the 570, 814 and 717 area codes were projected to run out of telephone numbers. Due to strident number conservation encouraged by the Commission, petitions for area code relief in the 717 and 814 area codes were deemed moot. However, an overlay where a new area code is issued within an existing area code, for area code 570 is pending implementation with a new code 272. The Commission required all carriers to prepare for the 570 overlay in January 2012. Neustar, agreed to alert the Commission three months in advance before relief is necessary so the Commission can instruct the industry to complete the final implementation including consumer education and permissive dialing.





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 is evaluating this complex decision to determine the impact to Pennsylvania markets, providers, consumers and our laws. More information on the steps the PUC is taking is available on the Commission's [website](#).

The FCC Order mandates the states to implement various provisions of the Order by certain timelines. The PUC opened a [proceeding](#) in order to address various requirements that have been triggered by the FCC Order, and convened a technical collaborative conference. The FCC imposed a July 1, 2012, deadline for certain reforms to be implemented by carriers on the state level. Additional reforms are scheduled to take place in subsequent years.

The Commission recently [granted eligible telecommunications carrier \(ETC\) status](#) to several carriers who wanted to bid in the upcoming federal auction of \$300M in support for wireless service in unserved areas under the FCC's Order.

The Commission grants ETC status to wireline and wireless carriers if they are in compliance with federal and state laws as well as Commission regulations.

The Commission also appealed certain provisions of the FCC Order to federal court. The PUC opposed the FCC's claim in the Order that it has legal authority to preempt Pennsylvania regulation of intrastate rates, the process by which the FCC made its decision, and the undermining of existing Pennsylvania laws. A decision is expected sometime in 2013.

INTRASTATE RLEC ACCESS CHARGE INVESTIGATION

In March 2012, the PUC [reopened the record](#) in its investigation regarding intrastate access charges paid by long distance companies to incumbent rural local exchange carriers (RLECs) for the limited purpose of examining the cross-effects of the FCC Order discussed above on the PUC's July 2011 access charge ruling. The PUC will consider the petitions for reconsideration filed in this proceeding and issue a decision in the first quarter of Fiscal Year 2012-13.

In July 2011, the Commission [directed](#) further reductions to intrastate access charges for the RLECs. All affected companies were ordered to rebalance their switched access charges with offsetting increases to local service rates so that the net effect of the access charge reductions would be revenue neutral.

In addition to the major access charge investigation, litigation continues before the Commission for various complaints filed by both ILECs and CLECs concerning the application and payment of intercarrier compensation. Some cases hinge on whether intercarrier compensation can be assessed on certain types of traffic.

MANDATED ACCESS CHARGE REDUCTIONS, REVISIONS

In addition, the FCC order required all Pennsylvania ILECs and CLECs (collectively LECs) to begin a transition of intercarrier compensation to a bill-and-keep methodology. At the outset of this transition, 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. Subsequent to this, the FCC's order instructs LECs to make filings effective on July 1 of each year to gradually transition certain interstate and intrastate switched access rates to bill-and-keep. In addition, LECs were required to insert new intrastate language concerning intercarrier compensation for calls originating from VoIP (voice over internet protocol) providers and delivered to the LEC networks by long distance carriers. Overall, the Commission processed over 300 filings resulting from the FCC order.

REQUIREMENT TO OPERATE TELECOMMUNICATIONS AUTHORITY

On March 1, 2012, the Commission issued a Tentative Order seeking comments on a proposal to implement a one-year timeframe requirement for telecommunication carriers to actively provide service on an annual basis to customers within the state. The Commission proposes that the timeframe, for new applicants, would begin on the entry date of an order or issuance of a Secretarial Letter that formally grants a certificate of public convenience from the Commission. A final decision is expected in Fiscal Year 2012-13.

VERIZON'S PERFORMANCE ISSUES

The PA Carrier Working Group (CWG) – comprised of Verizon PA, competitive local exchange carriers (CLECs), the Office of Consumer Advocate, the Office of Small Business Advocate, Commission staff, and other interested parties – focuses on

the quality of the wholesale service 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 service is evaluated using metrics that measure Verizon PA's wholesale service against Verizon PA's retail service or against benchmarks if there is no comparable retail service, as detailed in the PA Carrier-to-Carrier (C2C) Guidelines. The parties expect work to report on the audit results in Fiscal Year 2012-13.

INFORMATIONAL TARIFFS FOR COMPETITIVE SERVICES

In July 2011, Verizon Pennsylvania Inc. and Verizon North LLC appealed a June 24, 2011, PUC Order suspending tariff revisions filed by Verizon that withdrew the company's informational tariffs and instead made all rates, terms, and conditions associated with its competitive products and services available in a "Price List and Product Guide" maintained on its website. The PUC said Verizon's revisions could violate the company's amended Chapter 30 alternative regulation and network modernization plan. The Commission directed that the revisions were suspended for six months and provided for a comment period with respect to the proposed revisions. Commonwealth Court was expected to issue a decision in Fiscal Year 2012-13.

CHAPTER 30

Chapter 30 of Title 66 authorizes the Commission to oversee the ILECs' network modernization plans (NMPs) for the deployment of broadband connections to the Internet and other services along with specific rate-making principles.

Twenty-nine ILECs completed their broadband commitments by Dec. 31, 2008. CenturyLink, Windstream PA, Verizon PA and Verizon North plan to complete their broadband deployments by 2013-2015 and undertook 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.

PUC-APPROVED PRICE CAP FILINGS

Many incumbent local exchange carriers (ILECs) adopted price caps using the gross domestic product price index outlined in Chapter 30. As a result, the annual price cap calculations are either accompanied by rate changes or the company takes the opportunity to bank the changes. 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 Fiscal Year 2011-2012, ILECs were authorized a total of \$11.979 million under their respective price cap filings. Of this, the companies banked \$5.953 million for future use while \$3.556 million was netted against mandated rate decreases or foregone due to settlement agreements. Inclusive of previously authorized banked amounts, price cap companies implemented a total of \$2.557 million into rate increases during Fiscal Year 2011-2012.

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. About 300 telecommunications service providers contribute to the Fund and payments are disbursed monthly to 32 qualified recipients. At the current time, wireless carriers are not required to contribute to the Fund.

The Commission approved a state USF contribution rate for 2011 calculated to produce approximately \$33.873 million to be distributed among recipient carriers. Of the \$33.873 million, \$1.5 million is held in reserve for uncollectibles, \$155,778 is paid to the third-party administrator and \$25,000 is paid to an external auditor. Through a rulemaking proceeding, the Commission is evaluating potential reforms to the PaUSF and its regulations.

LIFELINE PROGRAM CHANGES

During the fiscal year, the FCC issued a lifeline reform Order and Notice of Proposed Rulemaking on procedures the FCC will implement to reduce waste, fraud, and abuse in the Lifeline program, particularly the pre-paid wireless service supported by the Lifeline program. 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). This could greatly increase FUSF costs, a fund into which Pennsylvania paid \$65 million more than it received in last year.

GLOBAL NAPS LITIGATION

On June 12, 2012, the PUC approved the application by Global NAPS South, Inc., to discontinue offering service in Pennsylvania. With the action, the PUC staff complaint against Global NAPS for failure to comply with the Commission's decision in the Palmerton Telephone Co. case against Global NAPS is rendered moot. In the Palmerton case, the Commission ordered Global NAPS to compensate Palmerton for use of Palmerton's network,

particularly the termination of calls. Global NAPs did not comply with the Order, leading to the Commission complaint that, among other things, sought to end the ability of Global NAPs to offer service in Pennsylvania.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses 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. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment. Forty-three mergers or acquisitions of telephone companies occurred in Fiscal Year 2011-12.

PUC INVOLVEMENT AT THE FCC

Federal telecommunications regulation by the FCC is playing an increasingly important role in Pennsylvania telecommunications. The activity has increased dramatically because of the Nov. 18, 2011 FCC Order that was previously discussed. The Commission continues to be very active at the federal regulatory level. The Commission is expending resources for involvement in FCC proceedings and federal appeals. A few of the most critical proceedings include the FCC's ICC/USF Order, Universal Service, Intercarrier Compensation, and Forbearance.

Commission staff also serves as lead on the Telecommunications Staff Committee, which is part of the Mid-Atlantic Conference of the Regulatory Utility Commissions (MACRUC). As part of our participation, we monitor FCC developments and develop joint MACRUC recommendations for adoption by the MACRUC states on matters of joint state concerns. 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.



PAPER BILLING FEE

The Commission is considering information that grew out of an investigation on the practice of charging a fee for a paper bills by certain facility-based and non-facility-based telecommunications carriers is consistent with the Public Utility Code, Commission billing regulations and other relevant authority. The Commission expects to make a final determination in Fiscal Year 2012-13 based upon the investigation.

CALL RECORDING RULEMAKING

On May 8, 2012, the Commission finalized a rulemaking eliminating the prohibition on call for telecom utilities. Under the rulemaking, a utility seeking to record calls would have to provide notice to the Commission, as well as provide its customers with a bill insert explaining the call recording process at least 30 days before the utility begins recording calls. Customers calling the telecommunications company would be provided a pre-recorded message to the effect that the call may be monitored or recorded for training or quality control purposes. The recorded calls would have to be erased after a 90-day (or shorter) retention period.





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 2011-2012, the Commission acted on 15 water and wastewater rate increase requests. The Commission also processed 20 requests for additional territory, abandonments and formation of new companies. The Commission also 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. 27, 2012, a Secretarial Letter finalized the Tentative Opinion and Order directing five water companies 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. The water audit was designed to provide an effective, standardized structure by guiding the water utility to quantify apparent and real loss volumes in a systemized approach and assigning cost impacts to the losses

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 through Fiscal Year 2011-12. Random inspections are conducted at various times, usually to inspect companies that have not had any recent inspections. If violations are found, the company is directed to correct the problem. If the problem is not corrected, Commission staff conducts an informal investigation. The 17 inspections conducted this fiscal year included nine random and three plant tours by Commission staff. One of the random inspections was completed in connection with the Emergency Preparedness Audit inspection. Commission staff also



conducted four compliance inspections. Compliance inspections are spot inspections conducted on compliant utilities to ensure that the recommendations in the Audits report were completed. One investigative inspection was also conducted in connection with an application.

RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to about \$115.8 million in rate increase requests:

Aqua Pennsylvania, Inc.

Customers Served: More than 400,000 customers in 30 counties

Requested Rate Increase: \$38,600,000 (9.4 percent)

Approved Rate Increase: \$16,700,000 (4.1 percent)

Primary Reason: To recover funds invested in infrastructure upgrades to its distribution and treatment systems, to improve its drinking water quality and service reliability since its last request in 2009.

CAN-DO, Inc. – Water Division

Customers Served: 177 customers in portions of Hazle and Butler townships in Luzerne County and Banks Township in Carbon County

Requested Rate Increase: \$266,344 (19 percent)

Approved Rate Increase: \$40,000 (2.84 percent)

Primary Reason: To cover operating expenses, repay the PENNVEST loans, and earn a return on the original cost value of the utility plant in service

CAN-DO, Inc. – Wastewater Division

Customers Served: 72 customers in portions of Hazle and Butler Townships in Luzerne County.

Requested Rate Increase: \$437,564 (37.31 percent)

Approved Rate Increase: \$325,000 (27.71 percent)

Primary Reason: To cover operating expenses, repay the PENNVEST loans, and earn a return on the original cost value of the utility plant in service

City of Bethlehem

Customers Served: 13,504 customers in portions of Salisbury, Upper Saucon, Lower Saucon, Bethlehem, Hanover and East Allen townships, and Fountain Hill and Freemansburg boroughs in Lehigh and Northampton counties

Requested Rate Increase: \$996,710 (13.6 percent)

Approved Rate Increase: \$730,000 (10 percent)

Primary Reason: To provide sufficient revenue and cash flow necessary to operate, maintain and renew its facilities properly and meet its financial obligations

Corner Water Supply & Service Corp.

Customers Served: 614 customers in portions of Paint and Elk townships, Clarion County

Requested Rate Increase: \$38,791 (11.8 percent)

Approved Rate Increase: \$34,900 (10.64 percent)

Primary Reason: To improve the company's operating income and to obtain a fair and reasonable rate of return on the shareholders' investment

Fairview Sanitation Co.

Customers Served: 175 customers in portions of Fairview Township, Erie County

Requested Rate Increase: \$43,095 (80 percent)

Approved Rate Increase: \$22,500 (44 percent)

Primary Reason: To realize a reasonable rate of return the Company's fixed capital investment and to recover increased operating cost

Newtown Artesian

Customers Served: 10,000 customers in portions of Newtown Borough, Newtown Township and northern portion of Middletown Township, Bucks County

Requested Rate Increase: \$999,839 (18.6 percent)

Approved Rate Increase: \$350,000 (6.5 percent) in addition to purchase water rate increase

Primary Reason: To improve security and reliability as well as water quality

Penn Estates Utilities, Inc.

Customers Served: 1,666 customers in portions of Stroud and Pocono Townships, Monroe County

Requested Rate Increase: \$157,511 (29.2 percent)

Approved Rate Increase: \$85,000 (15.73 percent)

Primary Reason: To recover increase in the cost of operations and compensation

Pennsylvania-American Water Co.

Customers Served: 640,000 customers in 36 counties

Requested Rate Increase: \$70,676,379 (13.8 percent)

Approved Rate Increase: \$36,000,000 (7 percent)

Primary Reason: To construct and replace treatment facilities, infrastructure and equipment needed to provide high-quality water service and continue to meet state and federal drinking water standards

Quentin Water Co.

Customers Served: 268 customers in portions of Cornwall Township, Lebanon County

Requested Rate Increase: \$16,631 (24.8 percent)

Approved Rate Increase: \$16,631 (24.8 percent)

Primary Reason: To recover cost of drilling a well and cover additional cost to upgrade the present system

Tri-Valley Water Supply, Inc.

Customers Served: 278 customers in portions of Mahoning Township and the Borough of Lehighton and Lower Towamensing Township, Carbon County, and portion of Polk Township, Monroe County.

Requested Rate Increase: \$54,430 (44.3 percent)

Approved Rate Increase: \$24,000 (19.5 percent) - Three-phase rate increase

Primary Reason: To realize a reasonable return on the company's fixed capital investment and to recover increased operating expenses that will provide the company with rates more closely related to the cost of rendering services

Twin Lakes Utilities, Inc.

Customers Served: 120 customers in portions of Shohola Township, Pike County

Requested Rate Increase: \$124,420 (367.67 percent)

Approved Rate Increase: \$42,060 (124.29 percent) – Three-phase rate increase

Primary Reason: To recover cost of capital investment and higher operations and maintenance cost

United Water Bethel

Customers Served: 2,428 customers in portions of Bethel and Concord townships, Delaware County

Requested Rate Increase: \$498,495 (37.05 percent)

Approved Rate Increase: \$437,500 (32.50 percent)

Primary Reason: To maintain the integrity of its existing capital, to attract necessary capital at reasonable costs, and to achieve a fair rate of return

United Water Pennsylvania, Inc.

Customers Served: 165,000 customers in portions of Columbia, Cumberland, Dauphin, Luzerne, Perry, Schuylkill, Wyoming, and York counties

Requested Rate Increase: \$2,823,179 (8.6 percent)

Approved Rate Increase: \$1,450,000 (6.82 percent)

Primary Reason: To cover capital investments that ensures continued water system reliability

Wonderview Sanitary Facilities, Inc.

Customers Served: 150 customers in Catawissa and Main townships, Columbia County

Requested Rate Increase: \$23,065 (29.6 percent)

Approved Rate Increase: \$14,053 (13.99 percent)

Primary Reason: To recover the increase in the cost of operations.

At the end of Fiscal Year 2011-12, four rate increase requests for more than \$1.8 million were still pending before the Commission including: Borough of Quakertown (\$278,854); Audubon Water Co. (\$540,686) and Hanover Municipal Waterworks (\$980,973); Conewago Industrial Park Water & Sewer Co.-Wastewater (\$30,029). Information about the [ratemaking process](#) is available on the PUC website.

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 DEP has primary jurisdiction in this area.

MERGERS & ACQUISITIONS/ REGIONALIZATION

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

During Fiscal Year 2011-12, the Commission approved 12 mergers in the water and wastewater industry.

On May 24, 2012, in keeping part with a policy of regionalization of troubled small water companies, the Commission approved the acquisition of Clean Treatment Sewage Co. by Pennsylvania American Water Co.

Many of the water/wastewater mergers and acquisition applications that the Commission acts on are a form of regionalization. In general, regionalization is the consideration of water resources in terms beyond artificial boundaries (townships, boroughs, city limits, municipalities, service territories, etc.). Regionalization typically results in a cost-effective solution or alternative that works to ensure system reliability and water/wastewater standards for companies 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 in 2012, to allow customers of smaller, troubled systems to receive improved service after being acquired by larger, 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.

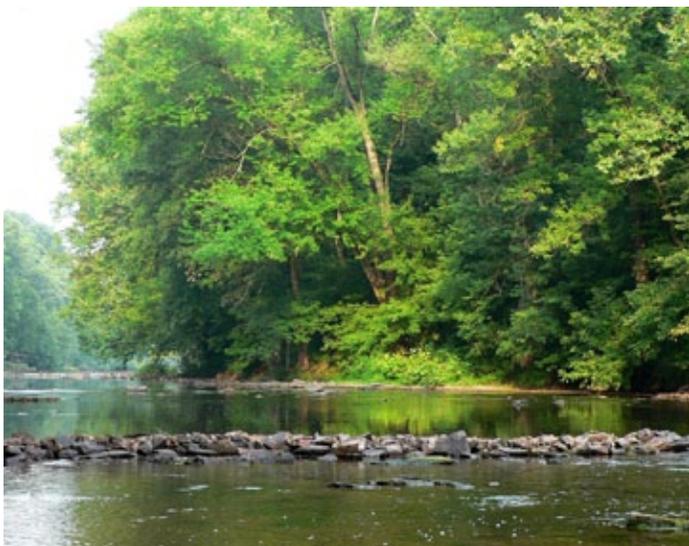
MANAGEMENT AUDITS AND EFFICIENCY INVESTIGATIONS

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 2011-12 fiscal year were:

Columbia Water Co. - On Sept. 22, 2011, the Commission released a report on the Focused Management and Operations Audit of Columbia Water Co. that contained seven recommendations to improve company efficiency. In its implementation plan, the company indicated acceptance of six recommendations and partial acceptance of one.

STATEWIDE WATER RESOURCES

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



every five years thereafter. The updated plan, issued in March 2009, addresses the quantity of water available in the Commonwealth, the amount used, and the amount needed.

AUDITING EMERGENCY RESPONSE PLANNING

The Commission requires that companies certify that their physical and cybersecurity, emergency response and business continuity plans are current. 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 2011-2012, emergency response plans were audited for 12 of the small water utilities, 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 (LB&FC) performance audit recognized the Commission's work in this area, highlighting efforts to encourage the commitments to enhancing water system viability to ensure that consumers of small water/wastewater systems receive the same quality of service provided by larger, viable water/wastewater companies.







Transportation

During Fiscal Year 2011-12, the Commission continued to focus on passenger carrier safety compliance and the safety education of new truck and bus carriers. As part of its enhanced oversight of the motor coach industry, the PUC performed inspections of motor coaches at various destinations across Pennsylvania, conducted inspections of busses at motor coach carrier home offices, and completed post-accident motor coach inspections. The Commission increased its inspections of motor coaches by 34 percent, while increasing its inspections of taxicabs, limousines and vans by 6 percent. In regard to its enhanced safety education of new truck and bus carriers, the PUC entered into an agreement with the Federal Motor Carrier Safety Administration (FMCSA) to conduct audits of interstate carriers who are based in Pennsylvania, leading to the completion of 1,620 federal new entrant audits of interstate carriers and 643 safety fitness reviews of new carriers licensed by the PUC. The Commission also processed applications to approve the construction, alteration and abolition of more than 100 rail-highway crossing cases. It completed informal investigations of complaints about unsatisfactory crossing surface conditions, as well as unsafe crossings. The PUC also conducted inspections of locomotives, rail cars, tracks and rail operations.

INCREASED ENFORCEMENT RELATED TO NATURAL GAS EXPLORATION

The PUC has increased its motor carrier enforcement presence in the areas of the Commonwealth that are experiencing increased truck traffic due to unconventional well exploration.

The increase in motor carrier enforcement is a result of several complaints received by the Commission involving carriers transporting commodities without a PUC certificate, and trucks being operated in an unsafe manner. In addition, the PUC has participated in inspection efforts organized by the Pennsylvania State Police (PSP). Increased inspections are taking place in many northern tier counties and southwestern counties of the state to ensure the motor carriers are complying with PUC regulations.

The Commission completed 104 Marcellus Shale inspections during special inspection efforts with the PSP. As a result, 34 vehicles were placed out of service – most due to brake deficiencies and unsafe loading. Nine drivers were placed out of service due to driver license problems, log book violations, and exceeding the hours of service limitations.

ANNUAL ASSESSMENT REPORT REVIEW OF MOTOR CARRIERS

The Commission conducted six reviews of selected motor carrier Annual Assessment Reports, during Fiscal Year 2011-12 and continues to conduct reviews of selected motor carrier Annual Assessment Reports.

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



MOTOR COACH SAFETY PROGRAM

The Commission has implemented an oversight plan to monitor the safety compliance of Pennsylvania’s motor coach operators to ensure the public’s protection. The major component in the PUC’s oversight plan is inspections of motor coaches at various destination points throughout the Commonwealth, as well as at bus carrier home terminals.

The Commission is an active partner with the Federal Motor Carrier Safety Administration’s (FMCSA) bus safety efforts through participation in the Motor Carrier Safety Assistance Program (MCSAP). As part of its participation in the MCSAP, the FMCSA asked Pennsylvania to enhance its oversight of the motor coach industry, following a number of significant crashes that resulted in injuries and fatalities across the state. In 2010, PUC officers conducted 1,818 bus inspections, 520 at terminals and 1,298 at destination inspection sites. As a result of these inspections, 82 buses were placed out of service and 50 drivers were placed out of service.

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

The PUC has participated in the UCR program from 2008 through 2012. Thus far, the PUC has collected the following monies: \$4.3 million for 2008, \$4.4 million for 2009, and \$4.95 million in 2011 and 2012. Although the registration and fee payment deadlines have expired for the 2010, 2011 and 2011 years, the PUC continues to pursue and collect delinquent fees.

REGULATED MOTOR CARRIERS

- 6,194 properties
- 370 taxis
- 474 limousines
- 598 paratransit
- 84 airport transfer
- 635 group and party
- 65 scheduled route
- 331 household goods movers

2011-12 ENFORCEMENT ACTIVITIES

- 8,652 truck, bus, small passenger vehicle inspections
- 303 informal complaint investigations
- 643 safety fitness reviews
- 1,620 federal safety audits

NATIONAL RAIL PLAN

The PUC is dedicated to providing the safest mode of transportation and is closely watching the changes associated with the Consolidated Appropriations Act of 2010 directed the Federal Railroad Administration (FRA), which established strategic goals and delivered to Congress the first ever long range National Rail Plan (NRP). When completed, the first-ever National Rail Plan will establish the framework necessary to begin laying a foundation that will improve our transportation network for future generations. The necessary improvements in passenger and freight mobility will lead to economic, environmental, and societal benefits for all Americans.

Smaller railroads also play a critical role in providing transportation services. These generally lower-cost railroads preserve transportation options for local shippers, and thus play an important part in the national transportation system by providing the link to connect local shippers with the larger, Class 1 carriers for efficient, long-haul service. Pennsylvania has more short-line railroads than any other state.

It is expected that the National Rail Plan will not only provide the framework for rail transportation improvements for the nation, but also important economic and social enhancements for the Commonwealth of Pennsylvania.

THE ROADBED TO ELIMINATING HUMAN FACTOR INCIDENTS IN THE RAILROAD INDUSTRY

The roadbed of a railroad track structure is the solid foundation on which the trains distribute their weight and provide a safe passage for train traffic. Railroad maintenance crews work daily to preserve the roadbed and track structure, but minimizing “human factor” incidents is just as important as a sound physical roadbed to provide a safe and efficient railroad system. The human factor causes a large percentage of railroad accidents, and the elimination of human factor incidents



is a common priority shared between the Federal Railroad Administration (FRA), the PUC, and railroad industry.

Since rail accidents are most likely to occur in rail yards where there are many tracks, switches, and train movements, a voluntary, non-regulatory workplace safety partnership was created to develop safe practices that reduce fatalities and injuries in rail yard switching operations. This partnership, Switching Operations Fatalities Analysis (SOFA), is recognized and accepted throughout the country. SOFA identifies five “Lifesavers” – secure equipment before action is taken, protect employees against moving equipment, discuss safety at the beginning of a job or when a project changes, communicate before action is taken, and mentor less experienced employees.

PUC rail safety inspectors stringently enforce a wide array of regulations and safety procedures that specifically target operating practices involving train movements. For instance, regulations presently prohibit the use of electronic devices by transportation employees involved in train movements. These regulations eliminate potential distractions. Another regulation has also been proposed that would require certain railroads to develop Risk Reduction Plans. These plans will identify and analyze operational hazards and develop methods to mitigate those risks.



OPERATION LIFESAVER

During Fiscal Year 2011-12, rail safety personnel attended a dozen events across the state to promote Operation Lifesaver, a nonprofit, national public education program dedicated to eliminating collisions, deaths and injuries at rail-highway crossings and on railroad rights-of-way. Operation Lifesaver strives to increase public awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

The program seeks to improve driver and pedestrian behavior by encouraging compliance with traffic laws relating to crossing signs and signals. It also points out the dangers on railroad rights-of-way. Designated PUC employees are certified to provide Operation Lifesaver presentations to various groups, such as school children, businesses and civic organizations. The Rail Safety Division's four trained presenters also provide information concerning railroad safety at outreach events. The Rail Safety Division 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. Visit Pennsylvania's Operation Lifesaver's web site at www.paoperationlifesaver.org

2011-12 INSPECTIONS

- 20,465 railroad car
- 421 locomotive
- 3,498 miles of railroad track
- 2,365 Hazardous Materials Units
- 319 Operating Practices Inspections

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