Keystone Connection

Utility News in Pennsylvania

A Newsletter published by the Pennsylvania Public Utility Commission regarding utility news in the telecommunications, energy and water markets.

SUMMER 2011

Commissioner Witmer Takes Oath of Office, Votes at First Public Meeting

Commissioner Pamela A. Witmer

Pamela A. Witmer took the oath of office to become a Commissioner of the Pennsylvania Public Utility Commission on June 30, 2011. She was sworn in by her husband, Magisterial District Judge Lowell A. Witmer, in a ceremony attended by her fellow Commissioners, as well as family and friends.

Commissioner Witmer joined her new colleagues by voting at her first Public Meeting on July 14. Commissioner Witmer's term will expire April 1, 2016.

"I very much am looking forward to working with my fellow Commissioners and the bright and dedicated staff here to balance the needs of consumers and the utilities as we work on issues from ensuring that the goals of electric competition are met, to gas safety, to aging infrastructure, and many more," Commissioner Witmer said July 14. "As we work through the issues that come before us, I pledge to review them with an open mind and fairness."

Chairman Powelson welcomed Commissioner Witmer to the bench: "I think the Governor has made a very wise choice in the selection of Pam Witmer to join us as a colleague. I know, on behalf of my colleagues, that we are really looking forward to her being part of this team."

The state Senate voted unanimously on June 27 to confirm Witmer as a Public Utility Commissioner.

"Pam Witmer has more than 20 years of governmental experience as well as a strong background in environmental and energy issues," Gov. Tom Corbett said on June 7. "I am pleased to nominate her to the Public Utility Commission."

Witmer succeeds Commissioner Tyrone J. Christy, whose term on the PUC has expired and whose last Public Meeting was June 30.

Witmer formerly led the energy and environment practice for Harrisburg-based Bravo Group, a governmental and public relations firm. From 2000

Commissioner *Continued on Page 14.*

Connecting in Pennsylvania

Welcome to the 19th issue of *Keystone Connection*, a publication of the Pennsylvania Public Utility Commission (PUC) that gives a "snapshot" view of the utility markets under the jurisdiction of the Commission, and news on consumer and PUC issues.

By using the Docket Number or links referenced in some articles, readers may search on the PUC's website to find additional information related to the articles.

The PUC 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.

On the Inside

Act 129 Update

Total Resource Cost Test

On May 5, 2011, the Commission approved a tentative order to be issued for public comment on an update to the Act 129 Total Resource Cost (TRC) Test. The tentative order proposed resolutions for issues regarding demand response, net-to-gross, fuel switching, TRC calculations and TRC reporting. Comments were due 15 days after entry of the tentative order, with reply comments due 10 days thereafter. This commenting period was then extended, per PUC Secretarial Letter, to have initial comments due on June 3, 2011 and reply comments due on June 15, 2011. Ten parties filed initial comments, with two of those parties also submitting reply comments.

Staff has been working diligently to prepare a final order for a Commission vote, and hopes to have this final order on the public meeting agenda for Commission voting in the near future. Upon its approval, the final order will be posted on the Commission's Act 129 TRC website for public access.

Demand Response Study

Act 129 instituted a demand response mandate for the applicable electric distribution companies (EDCs). This mandate requires that the EDCs reduce their peak demand by 4.5 percent in the 100 hours of highest demand. In order to measure and verify this load curtailment, the EDCs are to utilize PJM's measurement and verification protocols for PJM economic demand response programs. After the expiration of this mandate, the PUC is to determine if the benefits exceed the costs and if so, to set additional incremental requirements for reduction in peak demand. In order to do so, the Commission has directed the EDCs to provide the Act 129 Statewide Evaluator (SWE) with any data and documentation necessary for the SWE to determine whether there is a more optimum method to obtain cost-effective peak demand reductions. This directive, along with further information, was provided in a Secretarial Letter dated March 4, 2011, available at Docket No. M-2008-2069987.

Technical Reference Manual

Commission Staff started work on the 2012 update to the Technical Reference Manual (TRM). This manual provides the EDCs subject to Act 129 compliance mandates with a process to evaluate their energy efficiency and conservation programs. This manual is to be updated on an annual basis and goes into effect on June 1 of the appropriate program year. The 2012 TRM will provide evaluation mechanisms for the programs instituted during the timeframe of June 1, 2012 through May 31, 2013.

CHARGE Update

The Commission's Office of Competitive Market Oversight (OCMO) continues to hold periodic calls with electric distribution companies (EDCs), electric generation suppliers (EGSs) and consumer representatives who participate in the working group known as CHARGE (Committee Handling Activities for Retail Growth in Electricity). The group primarily trouble-shoots short-term issues that are interfering with the development of the competitive market.

An example of a recent issue addressed by CHARGE was the presentation of total state taxes paid by EGSs on residential customers' bills. While EDCs must include total state taxes on residential customers' bills, many participants in CHARGE viewed that requirement as inapplicable to EGSs. After gathering feedback from CHARGE participants, OCMO sought guidance from the Commission.

By Secretarial Letter dated July 7, the Commission clarified that EGSs need not include total state taxes on residential customers' bills. Also in that letter, the Commission stated that when applicable, an EGS's state sales tax must be included on a customer's bill.

As to gross receipts tax, the Commission noted that the requirement for customer bills to indicate that GRT is being charged and a reasonable estimate of that charge is applicable EGSs. However, the Commission was alerted to a problem with the inability of some EDCs to include an EGS's estimated GRT on a customer's bill. Noting that it would be reasonable to grant a temporary waiver of the GRT requirement for affected EGSs, the Commission directed EDCs to advise OCMO as to their ability to include this information on bills. Further, the Commission directed OCMO to raise this issue with CHARGE to discuss possible interim solutions and timelines for remedying this problem.

More information about CHARGE activities is available on the Commission's website under Electricity, Electric Competitive Market Oversight. To be included on the distribution list, interested parties should contact ra-ocmo@state.pa.us.

Retail Markets Investigation

On July 28, the PUC issued an order initiating Phase II of the Retail Markets Investigation, directing the Office of Competitive Market Oversight to work with interested parties and provide recommendations for the Commission to consider implementing to ensure that a properly functioning and workable competitive retail electricity market exists in Pennsylvania. Phase I of the investigation was initiated by order entered on April 29, which sought comments from interested parties and announced an en banc hearing on June 8, at which representatives of consumer interests, electric distribution companies, electric generation suppliers and regulators testified.

Based on the comments filed and the testimony offered during Phase 1, the Commission reached the conclusion that "Pennsylvania's current retail market requires changes in order to bring about the robust competitive market envisioned by the General Assembly when it passed the Electricity Generation Customer Choice and Competition Act." Describing the current default service model as a substantial barrier to market entry and competitive product offerings, the Commission directed that Phase II of the investigation examine that model to determine what changes need to be made to eliminate or at least minimize its impact on the competitive retail market.

In directing the approach to be taken during Phase II of the investigation, the Commission also noted that some changes can be made to the existing market model relatively quickly, such as speeding up the supplier switching process and developing a process that encourages new customers to choose a competitive supplier rather than being automatically placed on default service. In addition, the Commission noted the near unanimous agreement among interested parties that an aggressive consumer education campaign should be initiated to inform consumers about Pennsylvania's retail electricity market and how to take advantage of competitive services.

OCMO is conducting the investigation through a series of technical conferences. Two such conferences were held on Aug. 10 and 31, during which discussions primarily centered on intermediate steps that can be taken to promote the development of a competitive market. Interested parties also began identifying fundamental changes to the default service model that should be considered.

An intermediate work plan will be presented to the Commission in December 2011 and a long range plan will be presented in the first quarter of 2012. Prior to the formulation of OCMO's recommendations for each plan, the Commission plans to hold en banc hearings to give interested parties an opportunity to highlight their positions on the issues involved.

The next technical conference will be held on Sept. 14, 2011. More information about the investigation may be accessed on the Commission's website at www.puc.state.pa.us/electric/Retail_Electricity_Market.aspx or at Docket No. I-2011-2237952. Interested parties may be added to the distribution list by sending an email to ra-rmi@state.pa.us.

Solar Working Group Update

The Small Scale Subgroup of the Solar Projects Working Group met on June 15, July 1 and August 18. Most of the discussions centered on the small-scale solar set-aside program being implemented by PPL Electric Utilities (PPL). This program is aimed at solar aggregators with installations of 15 kW or less in PJM's territory who are certified by Pennsylvania's alternative energy credits administrator.

Solicitation 1 for this program was 1000 solar renewable energy credits (SRECs) for nine years at the price of $149, which was based on the results of the corresponding large-scale solar request for proposals. The offer day for Solicitation 1 was June 22, which resulted in one winning bid out of 32 bids submitted representing over 20,000 SRECs. Selection was handled on a first-come, first-served basis.

Solicitation 2 was launched in July for an eight-year program beginning in June 2012. Solicitation 3 is for seven-year contracts for supply in June 2013.

Overall, solar aggregators are pleased with PPL's program but are continuing to explore avenues to expand their opportunities to participate in this or similar programs offered by either electric distribution companies or electric generation suppliers. To participate in conference calls of the Small Scale Subgroup, interested parties should send an e-mail to ra-solar@state.pa.us.

Management Efficiency Investigation of Met-Ed, Penelec and Penn Power

According to a report on a Management Efficiency Investigation (MEI) released by the PUC on July 14, 2011, at Docket Nos. D-2009-2143263, D-2009-2143264 and D-2009-2143265 three of the FirstEnergy Corporation's Pennsylvania electric distribution companies - Metropolitan-Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec) and Pennsylvania Power Company (Penn Power) (collectively referred to as the FE-PA Companies) could realize combined annual savings of up to $3.2 million by implementing the recommendations contained in the report. These savings are in addition to the annual savings of approximately $1.2 million and one-time savings of $7.4 million that the FE-PA Companies have already realized by implementing recommendations from a Stratified Management and Operations Audit report released by the Commission in March 2007.

The PUC Bureau of Audits' MEI examined the FE-PA Companies' progress in implementing 26 of the 50 recommendations from the March 2007 audit report and its emergency preparedness efforts. The auditors found that the FE-PA Companies effectively implemented 8 of the 26 prior recommendations reviewed and have taken some action on 16 of the 18 remaining recommendations. Some of the changes made by the FE-PA Companies included:

- Developing a Federal Energy Regulatory Commission and Regional Transmission Organization policy department for dealing with transmission related issues and becoming an active participant in PJM's Planning Committee and the regional Transmission Expansion Planning process.
- Improving inventory turnover rates and reducing total inventory levels by a combined $7.4 million resulting in annual savings of approximately $740,000.
- Developing and implementing reliability improvement plans which have helped each of the FE-PA Companies improve their reliability performance.
- Developing a work management initiative group to plan, schedule and manage work across their system and determine current and future staffing levels.
- Rerouting meter reader routes that resulted in reduced annual meter reading costs for Met-Ed and Penn Power.

Additionally, the MEI report included 17 follow-up recommendations for further improvement. In their Implementation Plan the FE-PA Companies accepted 13 recommendations, partially accepted two recommendations and rejected two recommendations. The recommendations accepted or partially accepted by the FE-PA Companies include:

- Conduct an analysis of overtime hours for each FE-PA Company and strive to maintain overtime levels at less than 15 percent of straight time hours. Placing linemen on different shifts and/or hiring additional line workers to offset the overtime could result in a combined net annual savings of approximately $2.2 million.
- Develop a process to track and trend historical budgeted staffing levels and compare them to actual staffing levels while continuing to enhance the Forecasting and Planning Process.
- Strive to consistently achieve injury incidence rate goals by continuing to provide and improve effective safety training to all employees.
- Strive to answer at least 80 percent of calls within 30 seconds by fully leveraging the technology investments made at the Reading Contact Center.
- Complete the implementation of the revenue protection strategy or devise a new strategy and plan accordingly.
- Strive to correct all major deficiencies identified during infrared scans of substations within 7 days and all deficiencies identified within 30 days.
- Take additional actions on circuits that stay on the five percent worst performing circuit list for more than a year.
- Complete the rerouting of the FE-PA Companies' meter reading routes and explore the benefits of expediting large scale deployment of smart meter technology. Upon completion of the rerouting project, Penelec should be able to achieve reductions in meter reading costs per residential meter similar to Met-Ed's experience from 2005 to 2009, and save approximately $971,000 annually.
- Reduce the number of meters not read within six and 12 months to achieve levels comparable to other Pennsylvania electric distribution companies.
- Revise the Amended & Restated Mutual Assistance Agreement to include all affiliates with whom the FE-PA Companies transact business and submit it to the Commission for review and approval.
- Ensure that all employees that have access to cyber assets complete required annual training related to security awareness and procedures by maintaining appropriate training records.

Met-Ed and Penelec MEI *Continued on Page 5.*

Met-Ed and Penelec MEI

Continued on Page 4.

In their Implementation Plan response, the FE-PA Companies indicated that they have begun to implement some of the recommendations and plan to complete implementation of the accepted recommendations by mid-2012. In addition to releasing the MEI report and the FE-PA Companies' Implementation Plan, the Commission issued a tentative order on August 5, requiring the FE-PA Companies to file periodic reports on their improvement efforts to enable the Commission to better track progress on implementation of the follow-up recommendations and encouraging the FE-PA Companies to implement the rejected recommendations.

The FE-PA Companies rejected recommendations related to submitting written explanations to the Commission each time one of the Pennsylvania electric utilities make dividend payments to their parent corporation that exceed 85 percent of their annual net income and to modify the Internal Audit Department's reporting structure so that it no longer administratively reports to the Chief Financial Officer.

Summer Reliability Meeting

The Commission's Summer Reliability Assessment Meeting was held on June 9, at 1:30 PM in Hearing Room No. 1 of the Commonwealth Keystone Building. The purpose of this meeting is to gather information about how the demand for electricity will be met throughout the Commonwealth during the summer of 2011.

Presentations were provided by representatives of the Public Utility Commission, Mid-Atlantic Mutual Assistance Group (MAMA), Energy Association of Pennsylvania, PJM Resource Adequacy Planning Department and the Electric Power Generation Association.

During the opening remarks, Chairman Robert F. Powelson stated "we are confident that our generation supply is adequate due in large part to our base load generation. Pennsylvania also is in a very unique position as we focus on implementing Alternative Energy Portfolio Standards and integrating renewable energy into the mix."

Commissioner Wayne E. Gardner stated that "we continue to take reliability very seriously when working with legislators and while making decisions as a Commission. We take action to make it clear that this is a priority."

The Energy Association of Pennsylvania, the Electric Power Generation Association and PJM Interconnection advised the PUC that they are expecting normal demands for electricity during the summer months while maintaining enough power for emergencies.

Duquesne Light's Change of Control

On Sept. 29, 2010, DUET Investment Holdings Limited announced that it was selling its 29 percent stake ownership in DQE Holdings LLC to the Government of Singapore Investment Corporation Pte Ltd (GIC) for $360 million. On Dec. 2, 2010, a joint application was filed with the Commission seeking our approval of the change of control.

DQE Holdings is the indirect parent company of Duquesne Light Company and DQE Communications Network Services LLC. Duquesne is a jurisdictional utility that provides electric distribution and transmission services to approximately 580,000 customers in Allegheny and Beaver Counties. DQE Communications Network Services LLC is certified throughout the Commonwealth to provide telecommunications services as a competitive access provider.

DUET, based in Victoria, Australia, is a Macquarie Group and AMP Capital Investors Limited (AMPCI) externally managed investment vehicle comprised of three Australian Trusts and an Australian company. The securities of the trusts and the company are stapled together and traded on the Australian Stock Exchange (ASX: DUE). DUET is managed under a 50-50 joint venture between the Macquarie Group and AMPCI. DUET invests primarily in energy utility assets in Australia. Duquesne is its only asset based in the United States.

GIC is a global investment management company which was incorporated to manage Singapore's foreign reserves. GIC is wholly-owned by the Government of Singapore. GIC claims to be one of the largest investment management organizations in the world, investing well over $100 billion in multiple asset classes in more than 40 countries.

In May 2007, Duquesne was acquired by an investor consortium led by affiliates of the Macquarie Group. The Macquarie group is headquartered in Australia and is recognized as a global leader in infrastructure assets and investments.

For more information regarding the Duquesne change of control, see Docket Numbers A-2010-2213369 and A-2011-2221461.

EDC Transmission Filings

Several electric distribution companies filed letters of notice (LON) with the Commission regarding transmission line applications recently.

West Penn Power Company

On Oct. 12, 2010, West Penn Power Company filed an application for the relocation of Social Hall 138 kV Transmission Line in the City of Latrobe, Westmoreland County, at Docket No. A-2010-2204409. On Jan. 13, the Commission entered an order approving the application. On July 1, the application was reopened after West Penn informed the Commission that additional structure which was not indicated in the original application will be required. The matter is being reviewed by the Bureau of Fixed Utility Services (FUS) and the Law Bureau.

West Penn Power filed an application for approval of the reconstruction of Whiteley-Franklin 138 kV Transmission Line in Franklin and Whiteley Townships, Greene County, at Docket No. A-2010-2217409, on Dec. 22, 2010. Additional information was requested by the Commission and on July 15, the PUC received a letter from West Penn Power withdrawing the application. The withdrawal is being processed by FUS.

Metropolitan Edison Company (Met-Ed)

On May 6, Met-Ed filed a LON for approval to reconduct and rebuild the Middletown Junction-Round Top 115 kV transmission line in Newberry Township, York County, at Docket No. A-2011-2240484. The PUC voted on the order at the public meeting of Aug.25.

Pennsylvania Electric Company (Penelec)

Penelec filed a LON on May 16, for approval to install the Niles Valley-Potter 115 kV transmission line tap to Tri-County REC-Tennessee Gas 313 delivery point project in Hebron Township, Potter County, at Docket No. A-2011-2242416. The PUC's Bureau of FUS is reviewing the case.

On June 3, Penelec filed an application for approval to locate and construct the Bedford North-Osterburg East 115 kV HV Transmission Line project situated in Bedford and East St. Clair Townships, Bedford County, at Docket No. A-2011-2247862. The Prehearing Conference was held on Aug. 30.

PPL Electric Utilities Corporation (PPL)

On Jan. 6, PPL filed a LON for approval of the reconstruction of the Pennsylvania portion of the Manor-Graceton 230 kV transmission line in Manor Township, Lancaster County and Chanceford, Lower Chanceford and Peach Bottom Townships in York County, at Docket No. A-2011-2219913. The FUS staff recommendation is being reviewed by the Law Bureau.

A LON was filed by PPL on Feb. 28, for approval of the reconstruction of the Pennsylvania portion of the Otter Creek-Conastone 230 kV transmission line in Chanceford, East Hopewell and Hopewell Townships in York County, at Docket No. A-2011-2228595. The FUS staff recommendation is being reviewed by the Law Bureau.

An application was filed by PPL on March 9, for approval of the Siting and Reconstruction of the Brunner Island – West Shore 230 kV Transmission Line in Cumberland and York Counties, at Docket No. A-2011-2230053. The matter is in the Office of Administrative Law Judge (OALJ). Petitions to intervene have been filed. Evidentiary hearings are scheduled for Sept. 14 and 15.

Again on March 9, PPL filed for approval of the LON filed pursuant to 52 PA Code Chapter 57 Subchapter G with respect to the Tobyhanna #1 and #2 138/69 kV Tap Line to serve the United States Army Depot in Coolbaugh Township, Monroe County at Docket No. A-2011-2230589. A protest was filed. The matter is in OALJ.

On April 25, PPL filed an application for approval of the reconstruction of the Pennsylvania portion of the Hosensack-Wescosville 230 kV Transmission Line in Upper Macungie, Lower Macungie, Upper Milford and Lower Milford Townships, Lehigh County, at Docket No. A-2011-2237599. At the public meeting of Aug. 25, the PUC approved the application

The case at Docket No. A-2011-2239171 was approved on Aug. 25. PPL filed a LON for approval on April 29, for the siting and construction of the Elroy-Hatfield #1 & #2 138/69 kV transmission line in Hatfield and Franconia Townships, Montgomery County.

PPL's LON to site and construct the new Elroy #2 500 kV Tie Line in Hatfield Township, Montgomery County at Docket No. A-2011-2239180, was filed on April 29. This is being reviewed by FUS.

PPL filed an application on May 27 for approval of the construction of the Tafton #2 138/69 kV Tap Line in Blooming Grove Township, Pike County, at Docket No. A-2011-2244371. The PUC approved the application at the Aug. 25, public meeting.

An application for approval of the siting and construction of the Ledgedale 138/69 kV Tap Line in Palmyra Township, Pike County, was approved on Aug. 25, at Docket No. A-2011-2244725.

Transmission Filings *Continued on Page 7.*

Transmission Filings

Continued on Page 6.

On June 23, the PUC received an application from PPL for approval of the reconfiguration of the South Akron-Dillersville #1 and #2 138 kV Transmission Line in East Hempfield, Manheim, Warwick and West Earl Townships, and the City of Lancaster, Lancaster County, at Docket No. A-2011-2248985. The matter is being reviewed by FUS.

PPL filed an application on June 28 for approval of the reconstruction of a portion of the Whitpain-Baxmont 230 kV Transmission Line in Salford, Lower Salford, Franconia and Towamencin Townships, Montgomery County at Docket No. A-2011-2249368. The matter is being reviewed by FUS.

Pennsylvania Sees Steady Growth with Electric Shopping

The number of Pennsylvanians shopping for a competitive supplier continues to climb steadily through summer 2011.

Through July more than 1.26 million Pennsylvanians had switched to a competitive supplier for their electric generation, an increase of more than five percent since the beginning of the year. Even with shopping leveling off in mid-spring within the PECO service territory, the Commonwealth has consistently seen weekly increases of between 10,000 to 15,000 new shoppers for all of Pennsylvania's 11 electric distribution companies.

Overall, 22 percent of Pennsylvania businesses and residents have chosen a competitive supplier for their electric generation, up 16 percent from the last quarter. During this same time period, residential shopping climbed past the 1 million mark, an increase of 18 percent; while both the commercial and industrial categories saw continued gains with the number of shoppers of 11 and six percent, respectively. Equally if not more impressive is the fact that more than 86 percent of the total customer load for the state's largest commercial and industrial customers is now supplied by competitive suppliers.

You can track the most up-to-date electric shopping data on www.papowerswitch.com. Simply click on the "View Detailed Report" directly underneath the statewide total in orange at the top of the page. The report contains detailed information on shopping activity within each EDC service territory, and is updated and distributed each Wednesday.

ECL Reconsideration

The PUC is reconsidering its November 2010 order establishing interim guidelines designed to produce more uniformity in the type of customer information provided by electric distribution companies (EDCs) in their eligible customer lists (ECL). Periodically, these ECLs are made available to electric generation suppliers (EGSs). The Commission is taking this action after the Commonwealth Court stayed the November 2010 order at the request of the Pennsylvania Coalition Against Domestic Violence.

Reasonable access by EGSs to customer information held by EDCs is an essential component to implementation of the retail market. Acting on a recommendation from the PUC's Office of Competitive Market Oversight (OCMO), the Commission issued its order which took steps to standardize this information. It also addressed concerns relating to the release of customer information.

The first related to the treatment of EDC customers who were victims of domestic violence and wished to protect themselves from potential harm by abusers. With regard to such customers, the PUC stated that "victims of domestic violence or customers that are similarly endangered should have the unfettered ability to restrict all of their customer information." The PUC also reiterated the consumer protections available to the general public pursuant to its existing regulation provide that a customer may restrict the release of customer telephone number, customer address, and historic billing data.

The Office of Consumer Advocate and Coalition Against Domestic Violence filed appeals arguing that customers had the right to restrict the release of all information related to their account. Commonwealth Court then stayed the November 2010 order at the request of the Coalition. The PUC asked the court to remand jurisdiction back to the agency so that it could "reconsider our determinations and, after notice and opportunity to be heard, produce a new order that strikes an appropriate and lawful balance between customer privacy rights and the PUC's obligations under the *Public Utility Code*." The court remanded jurisdiction back to the PUC on April 28.

The PUC issued an order on June 13, inviting parties to submit comments on all aspects of the ECL. It also announced its intention to apply the resulting order on reconsideration to all EDCs. The comment period ended in late July with 16 comments and nine reply comments being submitted.

FERC Highlights

The Federal Energy Regulatory Commission (FERC) recently issued several important decisions.

FERC Rulemaking on Transmission Planning and Cost Allocation

On July 21, 2011, FERC issued Final Rule, Order No. 1000, reforming FERC's electric transmission planning and cost allocation requirements for public utility transmission providers. The Final Rule builds on the previously-issued Order No. 890, which requires a coordinated, open, and transparent regional transmission planning process that corrects undue discrimination. Order 1000 has two main directives:

1. The transmission planning process at the regional level must consider and evaluate possible transmission alternatives and produce a regional transmission plan; and
2. The cost of transmission solutions chosen to meet regional transmission needs must be allocated fairly to the beneficiaries.

In addition, Order 1000 removes any federal rights of first refusal from FERC-approved tariffs with respect to new transmission facilities that are selected in a regional transmission plan for purposes of cost allocation, subject to several exceptions. Each transmission provider is required to make a compliance filing within twelve months of the effective date of the Final Rule and another compliance filing for interregional transmission coordination and interregional cost allocation within eighteen months.

Potomac-Appalachian Transmission Highline (PATH) Project (ER08-386)

In this proceeding, PATH has requested formula rates, cancellation cost guarantees, and incentive wholesale transmission rate of return for the proposed PATH 765 kV line. The proposed price for this line is $1.8 billion. The PUC, together with many other parties, intervened in this proceeding to oppose the requested rate of return by PATH of 14.3 percent, which included 150 basis points reflecting various adders. FERC initially granted PATH's request for an incentive return by order issued Feb. 29, 2008. A number of parties, including the PUC, sought rehearing on March 31, 2008. FERC recently granted rehearing and assigned the matter to a settlement judge for further consideration of the incentive rate of return. A settlement is expected to occur in this matter. It should be noted that the PATH project has been subject to a number of delays resulting from PJM's re-assessment of its need based on more recent Regional Transmission Expansion Plan (RTEP) analysis. Applications for state approvals of portions of this project have been withdrawn in West Virginia, Virginia and Maryland.

Rulemaking on Frequency Regulation Compensation in Organized Wholesale Markets (RM11-7-000)

FERC issued a Notice of Proposed Rulemaking (NOPR) seeking to remedy undue discrimination in the procurement and compensation of frequency regulation service by ordering regional transmission organizations (RTOs) and independent system operators (ISOs) to provide:

1. A uniform price for regulation capacity paid to all cleared resources, and
2. A performance payment for the provision of fre quency regulation.

The NOPR proposes to require regional RTOs and ISOs to adopt tariff revisions in line with the contemplated compensation structure. The new payment structure is expected to result in market efficiencies with the more frequent dispatch of faster-ramping resources, such as flywheels, battery systems, and EVs. The PUC filed comments in support of the NOPR on April 29, 2011.

Cyber Security Congressional Initiatives

In recent months, Congress has renewed attempts to introduce legislation about cyber security of the bulk-power system and electric infrastructure. On May 5, 2011, the United States Senate Committee on Energy & Natural Resources held a hearing to receive testimony on a joint staff Discussion Draft aimed at designating critical electric infrastructure and addressing cyber security threats. The Draft proposed to require North American Energy Reliability Corporation to submit to FERC for approval a reliability standard that will provide adequate protection of critical electric infrastructure from cyber security vulnerabilities. Additionally, FERC would have jurisdiction over the designated critical electric infrastructure, including generation and distribution facilities, for purposes of cyber security oversight. Several other bills from the previous congressional session have been or are in the process of being reintroduced.

Electric Supplier Licensing

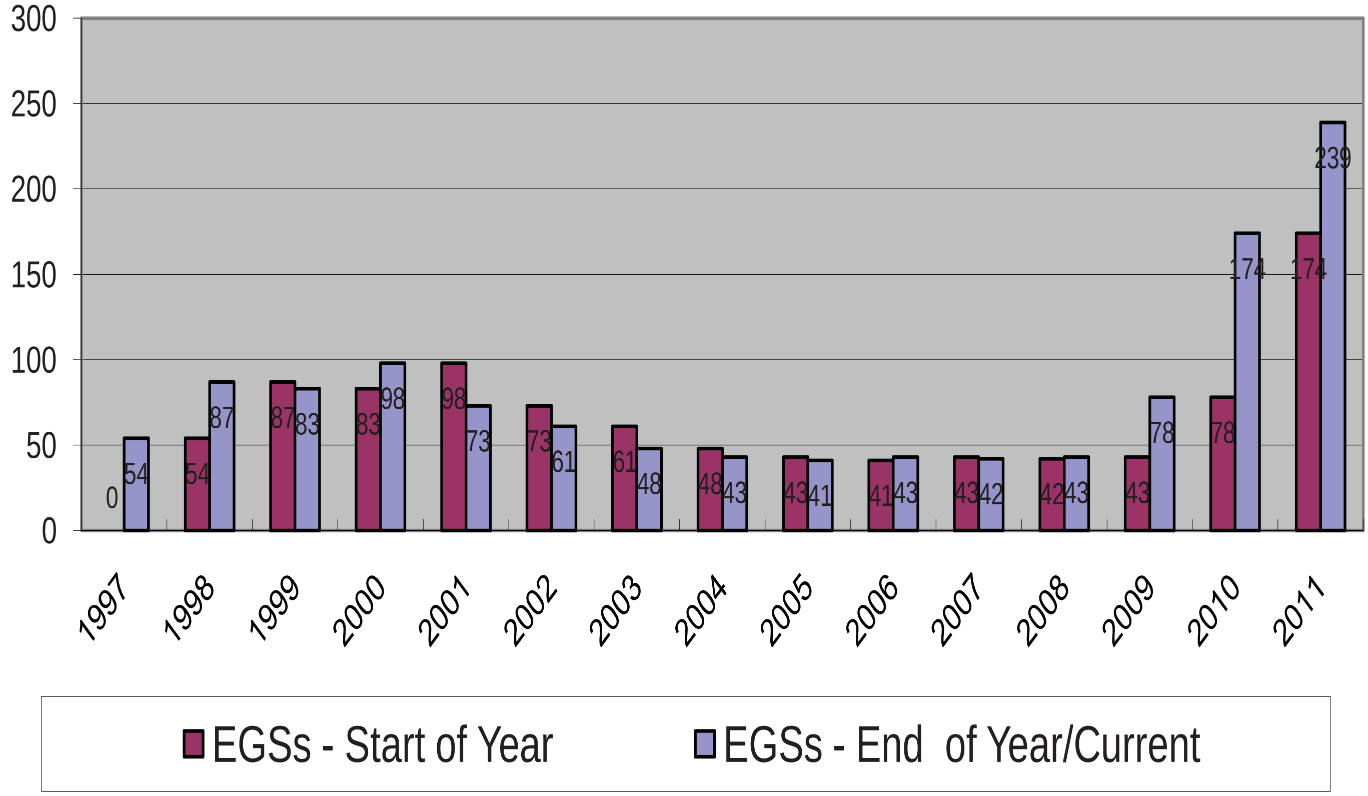
Activity from April 1, 2011, to August 12, 2011

239 Active Licenses

0 Licenses Cancelled

23 Licenses Approved

9 Applications Pending



PUC Weighs Rulemaking on Safeguards for Electric Industry, Customers

The PUC issued for comment a proposed rulemaking related to the competitive safeguards that govern the relationships between electric distribution companies (EDCs), electric generation suppliers (EGSs) and customers.

At the public meeting of Aug. 25, the Commission voted to issue for comment the proposed rulemaking, which encompasses the Competitive Safeguards Regulations at 52 Pa. Code §§ 54.121 – 123 and draft a proposed rulemaking order at Docket No. L-2010-2160942. The safeguards, which were codified in July 2000, were designed to assure the provision of direct access on equal and nondiscriminatory terms, to prevent cross subsidization between EDCs and their affiliated suppliers, to prohibit unfair or deceptive practices by suppliers, and to establish and maintain an effective and vibrant competitive market in the purchase and sale of retail electric energy in Pennsylvania.

The proposed rulemaking realigns the regulation according to subject matter for a more convenient use. It divides the regulation into the following six subject matter categories: non-discrimination requirements; customer requests for information; prohibited transactions and activities; accounting and training requirements; dispute resolution procedures; and penalties.

Interested parties may submit comments up to 45 days following the publication of the proposed rulemaking in the *Pennsylvania Bulletin*.

Water and Wastewater Company Rate Increases

Rate Increases Approved
March 18, 2011, through July 14, 2011.

Utility Name	Amount($) Requested	Amount($) Granted	% of Increase	Action	Action Date
Deer Haven, LLC d/b/a Deer Haven Water Company	29,266	-	378.10	Withdrawn	3/31/11
Newtown Artesian Water Company	999,839			Investigation	5/5/11
Deer Haven, LLC d/b/a Deer Haven Sewer Company	40,314	25,715	133.00	Litigation	5/19/11
Little Washington Wastewater Company - Masthope Division	161,426	115,000	32.70	Settlement	6/9/11
Little Washington Wastewater Company - Southeast Consolidated Division	1,078,436	999,000	29.90	Settlement	6/9/11
Pennsylvania American Water Company	70,676,379			Investigation	6/9/11
United Water Pennsylvania Inc.	2,823,179			Investigation	6/30/11
Kensington Water Company	11,303	11,303	75.00	Approved as filed	6/30/11
Manwalamink Sewer Company	73,381	73,381	14.74	Approved as filed	6/30/11
Manwalamink Water Company	65,128	65,128	19.92	Approved as filed	6/30/11
City of Lancaster - Bureau of Water	8,608,024	6,265,621	7.21	Litigation	6/30/11
City of Bethlehem - Bureau of Water	996,710			Investigation	7/14/11

United Water Pennsylvania Inc. Requests a Base Rate Increase

On May 9, United Water Pennsylvania Inc. (UWPA) filed Supplement No. 23 to Tariff Water-Pa. P.U.C. No. 7 to become effective July 8, containing proposed changes in rates, rules, and regulations calculated to produce $2,823,179 (8.6 percent) in additional annual revenues based on a future test year ending Dec. 31, 2011. By letter dated April 26, UWPA was granted an extension of time to file until May 13. Pursuant to 66 Pa. C.S. §1308(d), the filing was suspended by operation of law on July 8, 2011, until Feb. 8, 2012, unless permitted by Commission order to become effective at an earlier date.

Under proposed rates, a customer using 4,000 gallons per month would see their bill increase from $33.50 to $35.97 per month. The company has proposed to increase their customer charge from $10.25 to $14.50 per month.

A prehearing conference has been held and a procedural schedule has been set in this case.

Water and Wastewater Company Applications

Applications Approved
March 18, 2011, through July 14, 2011.

Utility Name	Action	Territory	Action Date
Aldick Associates Inc. - Water Division/Pine Grove Twp. Authority	Abandonment	Pine Grove Township, Schuylkill County	3/17/11
Aldick Associates Inc. - Wastewater Division/Pine Grove Joint Authority	Abandonment	Pine Grove Township, Schuylkill County	3/31/11
Aqua Pennsylvania Inc.	Additional Territory	Coolspring Township, Mercer County	3/31/11
Pennsylvania-American Water Company	Additional Territory	West Caln Township, Chester County	4/28/11
Pennsylvania-American Water Co. (Wastewater)	Additional Territory	West Caln Township, Chester County	4/28/11
Pennsylvania-American Water Company	Additional Territory	Knox and Highland Townships, Clarion County	5/19/11
Hopkins & Reedy Water Company	Decertification/Abandonment	Summit Station, Schuylkill County	6/9/11

City of Lancaster Files a Base Rate Increase Request for Water Customers

In August 2010, the City of Lancaster Bureau of Water filed a base rate increase request proposing an annual increase in rates of $8,608,024, or 99.8 percent, applicable to outside-city water customers. This filing was docketed at R-2010-2179103 and, after several protests were filed against the rate increase, the Commission suspended the effective date until July 15, 2011, and instituted an investigation into the reasonableness of the proposed rates. Besides protests being filed by the Office of Consumer Advocate, the Office of Small Business Advocate and Kellogg Company, 25 individual water customers filed protests. The Commission's Office of Trial Staff also participated in the proceeding.

The City of Lancaster indicated that the primary reason for the requested increase was to recover the city's more than $99 million investment in upgrading its two existing water treatment plants with state-of-the-art membrane filtration technology. These two water treatment plants had been under continuous operation without significant upgrades for over 55 years. Lancaster provides water service to over 29,000 customers subject to Commision jurisdiction located outside of the city limits, as well as over 17,700 customers located inside the city and not subject to the Commission's jurisdiction.

A joint petition in partial settlement of some of the major issues in the case was submitted on Feb. 22, by the City and the Office of Consumer Advocate. A PUC administrative law judge (ALJ) issued a recommended decision on April 27, recommending approval of the partial settlement and making recommendations on the remaining litigated issues. The ALJ's recommended decision resulted in a recommended base rate increase of $7,393,104 for the city.

Exceptions to the ALJ's recommended decision were filed by each of the major parties to the proceeding. As a result of the various exceptions, on June 30, 2011, the Commission conducted a binding polling of the issues. The result of the Commission polling was an allowable rate increase for the city of $6,265,621, or 72.7 percent. Lancaster was permitted to place the increase into effect on July 15, 2011.

MEI Investigations of PA-American Water and The York Water Company

On June 30, the Commission released Management Efficiency Investigations (MEIs) of Pennsylvania-American Water Company (PAWC), at Docket No. D-2010-2192659, and The York Water Company, at Docket No. D-2011-2218791. Each MEI examined the companies' progress in implementing recommendations from prior Management and Operation Audits and their emergency preparedness efforts. Both audits were conducted by staff from the PUC's Bureau of Audits. The MEIs identified 47 new recommendations for PAWC and one for York Water and that PAWC could realize annual savings up to $2.6 million and one-time savings of up to $650,000 by implementing the recommendations contained in its report.

Pennsylvania-American Water Company

The Audit staff found that PAWC has effectively implemented 49 of the 81 recommendations reviewed from its November 2008 management audit and has taken some action on 31 of the remaining 32 recommendations. As a result of its implementation efforts, PAWC is realizing annual savings of $223,500 to $323,500 and has realized a one-time savings of $67,000. Some of the changes made by PAWC since the 2008 audit include:

- Enhancing the Company's software to enable electronic deployment of software updates to remote workstations;
- Performing a server consolidation study and developing a long-range information technology (IT) plan, which is reviewed and updated annually;
- Updating its IT disaster recovery plans and testing the plans on a regular basis;
- Implementing new financial monitoring processes to initiate actions to achieve improved profitability and financial health;
- Significantly reducing the number of billing over estimates;
- Allocating infrastructure improvement resources on a statewide basis rather than on a district by district basis;
- Reducing unplanned production overtime by approximately 11 percent;
- Improving the call centers' core infrastructure and introducing website self service capabilities and electronic billing; and
- Finalizing a supplier diversity program and significantly increasing diversity participation and contract awards.

PAWC's Implementation Plan submitted in response to the MEI indicated acceptance of 43 recommendations, partial acceptance of three and rejection of one. Some of the most significant recommendations accepted or partially accepted by PAWC included:

- Implement the procurement/materials management application of the new software system across the PAWC organization in a timely manner which should allow it to reduce its inventory on a one time basis by up to $650,000 with associated annual savings of up to $162,500;
- Conduct an internal audit of the smaller inventory locations to determine the accuracy of the inventory data and develop comprehensive materials management policies and procedures;
- Accurately report Unaccounted for Water (UFW) levels to the Commission and implement long term initiatives designed to achieve actual UFW levels of no more than 20 percent which could result in annual production cost savings of up to $2.1 million;
- File an updated affiliated interest agreement with the PUC for review and approval; and
- Create a comprehensive damage prevention manual and establish goals to strengthen the damage prevention program.

York Water Company

Staff found that York Water has effectively implemented all eight of the recommendations reviewed from its October 2008 management audit and as a result of its implementation efforts is realizing annual savings of $26,000 and has realized a one-time saving of $174,000. Some of the changes made by York Water since the 2008 audit include:

- Reducing its inventory and increasing its inventory turnover rates;
- Accelerating its main replacement rate from 232 years in 2008 to 143 years in 2010;
- Updating its emergency response plan; and
- Educating its employees on proper treatment of confidential customer information.

The staff further recommended that York Water should strive to achieve the Company's goal of attaining a main replacement rate and rehabilitation interval not to exceed 120 years. This follow-up recommendation was accepted in York Water's Implementation Plan, which indicated plans to achieve the goal starting in 2011.

Aqua PA Wastewater Rates Increase

At the public meeting of June 9, rate increase requests for two separate wastewater divisions of Aqua Pennsylvania were approved. An annual increase in rates of $999,000 ($852,314 in the first year; $146,686 in the second year) was granted to Little Washington Southeast Consolidated Division, which provides wastewater service to approximately 4,349 customers in portions of Chester, Bucks and Delaware counties. The company had filed an original request of $1.078 million. The settlement was reached among the company, the Office of Consumer Advocate (OCA), and the PUC's Office of Trial Staff (OTS). As part of the settlement, the monthly bill for an average residential customer will change as follows:

- $17.23 to $34.06 (97 percent) in the first year and from $34.06 to $37.88 (11.2 percent) in the second year for customers using 3,800 gallons per month in the Media Division.
- $95.10 to $106.00 (11.46 percent) for customers using 3,400 gallons per month in the Greens at Penn Oaks Division.
- $54.74 to $67.42 (23.16 percent) for customers using 4,400 gallons per month in the Twin Hills Division.
- $66.67 to $70.64 (5.95 percent) for customers who pay a flat rate in the New Daleville Division.
- $100.20 to $161.00 (60.68 percent) for customers using 6,800 gallons per month in the Newlin Green Division.
- $71.33 to $77.74 (8.99 percent) for customers using 4,700 gallons per month in the Peddlers View Division.
- $85.03 to $93.95 (10.5 percent) for customers using 3,500 gallons per month in the Little Washington Division.
- $49.68 to $52.60 (5.88 percent) for customers using 3,200 gallons per month in the Chesterdale Division.

In addition, a settlement agreement was approved which allows the Little Washington Wastewater – Masthope Division, which provides wastewater service to 1,206 residential customers, 639 availability customers and eight commercial customers in Lackawaxen Township, Pike County, to increase its annual rates by $115,000 (32.7 percent). The company had originally proposed an increase in annual revenue of $161,426 (45.9 percent).

The settlement was reached among the company, the OCA, the PUC's OTS and the Masthope Rapids Property Owners Council. The average monthly residential wastewater bill based on a quarterly usage of 2,900 gallons will increase from $20.66 to $28.41 (27.3 percent). Under the company's original proposal, the quarterly increase would have been from $20.66 to $34.62 (40.3 percent) a month.

PUC Enforcement Officer Graeser Named Champion of Change

In May of this year, Ralph Graeser, PUC Gas Safety Inspector, made a special trip to Washington, D.C. While at the White House, Graeser represented the national transportation industry as a Champion of Change.

As part of its Champions of Change Program, the White House honored individuals who embody the concepts of "Innovate, Educate, and Build" across a range of transportation careers. These are individuals who are "Winning the Future," and can further empower and inspire other members of their respective industries and communities.

"I feel very honored to represent the transportation industry as a Champion of Change. There are not a lot of people that recognize the pipeline industry as a transportation mode. This is because it goes unnoticed due to its underground location," said Graeser. "Currently, Pennsylvania is a key state for the transportation of commodities in the Northeast, especially natural gas. This can help to revitalize our Pennsylvania economy."

Graeser began his career as a PUC gas safety inspector in 1984. Since then, he's experienced and seen a lot as part of his position.

"My most memorable experience was February 1985 at my first gas explosion investigation on Woodward Avenue in Stowe Township. There was one person injured and the rear wall of the home was lying in the alley. There were four children that had escaped from the building after the explosion," added Graeser. "My supervisor had notified me of a small explosion. I could not believe the destruction that occurred as a result of this incident."

As part of this honor, Graeser participated in a roundtable discussion at the White House on May 16. You can learn more about Graeser's participation and the program by visiting http://www.whitehouse.gov/champions/transportation/ralph-graeser.

Ralph Graeser

New Entrant Safety Audit

The Motor Carrier Services & Enforcement (MCS&E) Division of the PUC has assumed a new role in assisting the Federal Motor Carrier Safety Administration (FMCSA) in assuring the safe operations of motor carriers based in Pennsylvania. As of October 2010, MCS&E is solely responsible for the New Entrant Safety Audit (NEA) program in Pennsylvania, a program in which PUC Enforcement Officers had previously participated with assistance from the Pennsylvania State Police. Certified MCS&E Enforcement Officers dedicate approximately two days each week to complete NEAs. Currently, there are 20 Enforcement Officers certified to conduct the audits, and since January 2011, 567 audits have been completed by PUC Officers.

The NEA program is a safety assurance program for motor carriers seeking to register with the FMCSA as USDOT carriers. During NEAs, Enforcement Officers review carriers' insurance Information, drug and alcohol testing information, driver qualification files, and vehicle maintenance files, as well as other information that is required. During these reviews, Enforcement Officers educate the carriers about their responsibilities to ensure safe operations that are compliant with both state and federal regulations. Also, if necessary, the Enforcement Officers will conduct inspections on carriers' vehicles to determine if their vehicles are being properly maintained.

The MCS&E Division has had a similar program in place for several years- the Safety Fitness Review Program. A Safety Fitness Review (SFR) is conducted on all property, household goods and motor coach carriers. Under both the NEA and SFR programs, if a carrier is found to be unsatisfactory in any safety related categories, the carrier must correct all deficiencies prior to operating.

The NEA program is considered to be closely related to the mission and scope of the PUC MCS&E Divisions' mission of reducing accidents and making the highways of the Commonwealth safer through education and verification of sound safety practices by carriers.

Enforcement Officers Prepare Bureau Complaints

In April, the Bureau of Investigation and Enforcement's Motor Carrier Division Enforcement Officers began preparing bureau complaints. The officers are now able to cite safety and administrative violations against small trucks (10,000 lbs or less), small buses (15 or less passengers), and other vehicles (such as vans, sedans, limos) used in passenger transportation. Previously, all bureau complaints were prepared by Compliance Specialists, who will continue to prepare complaints regarding violations that require research, such as improper charges, operating outside of territory, no authority, no insurance, unpaid fines, past-due assessments, discontinuance of service, audits, and safety fitness reviews.

The volume of work in the Compliance Office has created a continuous backlog of Driver-Vehicle Compliance Reports and informal complaints. Addressing violations expeditiously, particularly safety related violations, is beneficial to the public, and helps carriers recall the incident clearly. Another advantage to the procedural change is that Enforcement Officers are better able to judge the severity of certain violations since Compliance Specialists do not always know the circumstances behind possible violations. For example, if an Enforcement Officer describes a vehicle as "unclean," which is a potential violation, the report he or she prepares does not differentiate between a vehicle that contains a minute amount of debris or dirt that could have accumulated throughout a day and a vehicle laden with trash or dirt.

Commissioner Witmer

Continued from Page 1.

to 2007, she was president and CEO of the Pennsylvania Chemical Industry Council, a trade association. She formerly served in the Department of Environmental Protection under Gov. Tom Ridge as the lead legislative liaison, where she successfully steered legislation through the General Assembly to create the Department of Environmental Protection and the Department of Conservation and Natural Resources. She also served on the Corbett Transition Team's Energy & Environment Committee.

Witmer earned a bachelor's degree in public service from the Pennsylvania State University. She lives in Hummelstown, Dauphin County.

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 the 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 for railroads to employ" – 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.

The development of new regulations and adherence with SOFA recommendations combined with labor and industry commitments will create a safety culture with increased communications and decreased rail accidents. With a dedication to safety, the FRA and PUC Rail Safety Inspectors work to enforce compliance with regulations and safety rules. This collective effort will provide a strong roadbed for reducing human factor incidents in the rail industry.

Penalties for Carriers Who Fail to File Assessment Reports

The *Public Utility Code* - 66 Pa. C.S. §510(b) - requires public utilities, which includes motor carriers, to file assessment reports by March 31 of each year. Assessment Report Forms are distributed to carriers annually and are accompanied by cover letters stating that carriers which fail to submit an Assessment Report are subject to penalties, including cancellation and fines up to $1,000. At this time, there are approximately 200 carriers that have not filed Assessment Reports for the past four years. During a meeting between the Bureau of Administrative Services, the Bureau of Technical Utility Services (TUS), and the Law Bureau, it was concluded that TUS will begin instituting bureau complaints against carriers who have consistently failed to file these reports. The initial proposed civil penalty will be $1,000, but no fine will be imposed against carriers that elect not to contest the complaint by filing their overdue assessment reports. Cancellation will be the proposed penalty for carriers that do not file their assessment reports the year after they receive a complaint.

Virgin Mobile Granted ETC Status

The Commission granted Virgin Mobile USA LP status as an eligible telecommunications carrier (ETC) for the purpose of offering Lifeline Service. In making this determination, the PUC considered whether Virgin Mobile satisfied federal statutory requirements for designation as an ETC.

The PUC also examined each of the FCC's regulations governing ETC status and concluded that Virgin Mobile not only met the regulatory requirements but also satisfied the requirements of the FCC's Universal Service order and the ETC order. Lastly, the PUC examined whether Virgin Mobile satisfied the Pennsylvania requirements for ETC status. The PUC reviewed Virgin Mobile's petition in light of its ETC Guidelines, and the statutory requirements under 66 Pa. C.S. § 3019(f). In addition, Virgin Mobile agreed to:

- Abide by the requirements set forth in the PUC's Lifeline and Link-Up order;
- Abide by the applicable requirements set forth in the Commission's Tracking Report order; and
- Have the PUC's Bureau of Consumer Services handle consumer Lifeline-related complaints.

Rural Local Exchange Company Access Charge Investigation and PAaUSF Rulemaking

On June 30, 2011, the Commission acted upon the Rural Local Exchange Company (RLEC) Access Charge Investigation and ordered a rulemaking to examine the effectiveness of the current Pennsylvania Universal Service Fund (PaUSF).

As a result of the Commission's June 30, 2011 action, all affected RLECs 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. The Commission also directed that a rulemaking proceeding be instituted to consider potential changes to the PaUSF regulations in light of interacting market realities, including intermodal wireline and wireless competition, as well as changing policy goals before the FCC and this Commission which affect affordable service to end users.

The major rulings made by the Commission, which are addressed in detail in the opinion and order entered on July 18, 2011, at Docket No. I-00040105, et al., include the following:

- RLECs shall file tariffs to mirror their intrastate Traffic Sensitive (TS) switched access rates with their interstate TS switched access rates. In a few instances where certain RLECs' intrastate TS switched access rates are below their federal counterparts, those RLECs have the option of increasing their intrastate TS switched access rates to match their interstate TS switched access rates.
- RLECs with a Carrier Charge (CC) greater than $2.50/line/month are directed to decrease their CC to a rate not to exceed $2.50/line/month. The CC is a non-traffic sensitive monthly charge that carriers pay to RLECs in order to cover the joint and common costs of the local loop. Current CCs range from $0.00/line/month to $17.99/line/month. In the few instances where an RLEC's CC is less than $2.50/line/month, those RLECs have been given the option of maintaining their CC at the current level or increasing it to a rate not to exceed $2.50/line/month.
- The Commission established an access charge rate rebalancing schedule, which will provide an opportunity for the RLECs to increase their non-competitive service rates to produce a sufficient level of revenue to offset the lost revenue from decreases to their intrastate TS switched access rates. The rebalancing will be accomplished in three phases over a four-year period in a revenue-neutral manner as required by Chapter 30 of the Public Utility Code.
- The previously-established $18.00/line/month benchmark for basic local exchange residential rates, which qualified an RLEC to receive PaUSF support, has been eliminated. In addition, the Commission concluded that the $18.00/line/month benchmark was established to allow RLECs to recover associated lost revenues through rebalancing of their access charges and not as an entitlement for RLECs to receive PaUSF funding when their annual revenue increases under their Chapter 30 Plans result in an average monthly rate above the $18.00/line/month benchmark.
- The order institutes a rulemaking to evaluate potential reforms to the PaUSF regulations and the PaUSF itself. Certain determinations made by the PUC in the RLEC Investigation that are relevant in considering potential PaUSF reforms in the PaUSF Rulemaking include:
  1. The size of the PaUSF shall not increase;
  2. RLECs will not receive financial support from the PaUSF by merely maintaining an $18.00/month local rate benchmark; and
  3. An affordability rate of $23.00/line/month has been found to be reasonable.

  At the same time, the following issues have been deferred to the PaUSF Rulemaking:
  1. Whether the PaUSF should be reformed?;
  2. A review of any anticompetitive effects that a reformed PaUSF may have with regard to the operation of the wireline and wireless telecommunications services marketplace within the Commonwealth; and
  3. Whether a needs-based test should be established to determine if assistance should be provided to RLECs for service in high cost service areas and/or for assistance to low-income customers?

The RLEC investigation had been stayed for three years, from 2006 to 2009, because of uncertainties concerning intercarrier compensation issues pending before the Federal Communications Commission (FCC). FCC action had the potential to significantly affect intrastate access charges as well as federal Universal Service support for Pennsylvania telephone customers. After waiting for a decision from the FCC for some time, the Commission ultimately decided to lift the three-year stay in August 2009.

Petitions for reconsideration have been filed by several entitities involved in the proceeding.

814 Area Code Update

Based upon the latest projection of exhaust for the 814 area code, Neustar Inc., the neutral third party numbering plan administrator (NPA) relief planner for Pennsylvania, informed the PUC that the 814 area code will exhaust its supply of telephone numbers in the first quarter of 2015. Exhaustion triggers the need for new area codes and exhaust procedures usually start 36 months prior to the projected exhaust date. NeuStar petitioned the PUC to institute an "overlay" as the form of area code relief in the 814 area code. An overlay plan means that once the existing telephone numbers are exhausted, new telephone services in that region would be assigned telephone numbers from the new area code which is "overlaid" over the existing geographical area. Because the local area then would have more than one area code, 10-digit local dialing would be necessary for all phone calls.

The PUC denied the petition in order to elicit comments on the appropriate form of area code relief. The PUC decided that a geographic split was the more appropriate form of area code relief for the 814 area code (582). Nevertheless, that decision is now being reconsidered by the Commission. The PUC held a second round of public input hearings to hear from the residents and businesses regarding its decision to implement a geographic split or an alternative form of area code relief. The second round of public input hearings recently concluded and were held in State College, Erie, Oil City, Bradford, DuBois, Bedford, Punxsutawney, Somerset, Mount Union, Altoona and St. Marys.

TRS Surcharge Recalculation from July 2011 through June 2012

The Commission completed the recalculation of the Telecommunications Relay Service (TRS) surcharge as it applies to residence and business wireline access lines for July 1, 2011, through June 30, 2012. The monthly residential and business wireline access line surcharges will remain set at $0.08. Since the 2011-12 surcharge remains unchanged, revised tariff supplements are not required. A copy of the Order and Remittance sheet may be accessed on the PUC website at the Online Forms tab, Telecommunications Forms.

Broadband Outreach and Aggregation Fund

Act 183 of 2004 established the Broadband Outreach and Aggregation Fund (BOAF) as a grant program administered by the Department of Community and Economic Development. The BOAF is designed to help communities aggregate demand for broadband service and create outreach programs for the use of broadband services by public entities. Annually, the Commission assesses four telephone companies - Verizon PA, Verizon North, Windstream PA and CenturyLink - for contributions to this fund. Only these four companies are assessed because they elected to extend their compliance with Act 183 broadband mandates until 2013-15 while other, albeit much smaller, telephone companies completed their broadband commitments in 2008. In the event that any of these four telephone companies file rate increases, the Commission will assess 10 percent of the company's first year revenue increase for contribution to the fund. In June 2011, the Commission approved a BOAF fund size of $50,000 and $100,000 for Fiscal Year 2011-12.

Third Circuit Appeal of the Broadview Decision

The Commission filed an appeal of the Federal District Court's decision in *Verizon PA Inc. & Verizon North Inc. v. PaPUC, et al.*, Docket No. 08-CV-3436 (Broadview). The *Broadview* decision reversed a 2008 Commission order that had determined that a competitive local exchange carrier (CLEC) that leases only a part of a fiber-optic cable from a competitive fiber provider (CFP) should not be counted as a fiber-based collocator when determining if a wire center is "impaired" under the FCC's *Triennial Regulatory Review Order of 2005* (2005 TRRO). Impairment of a wire center affects certain rates Verizon may charge the CLECs. The 2008 Commission order further held that a CLEC with a fiber-optic cable that leased a competitive alternate transport terminal (CATT) from Verizon could be counted as a fiber-based collocator when determining if a wire center was "impaired." Verizon did not appeal this aspect of the 2008 Commission order.

FCC Highlights

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

Universal Service

The FCC's efforts to provide federal universal service fund (FUSF) support to carriers so that reasonable local rates can be maintained in high-cost areas, typically rural areas. The FUSF is supported by an assessment on carriers' interstate calling revenues. Those revenues have declined due to technological changes even as the FUSF support distributions have increased. The four parts of the FUSF are High-Cost, Schools and Libraries, Rural Health and Low Income.

Pennsylvania annually pays $158 million more into the FUSF than it receives although some rural carriers do receive more in support than they pay. The FCC is examining ways to limit burgeoning FUSF costs, particularly for the high-cost and low-income programs. The FCC is also considering including broadband deployment as a new program initiative within the FUSF.

As described below, the FCC is attempting to reform the federal USF.

Intercarrier Compensation

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

The FCC proposed establishing a national compensation rate for all calls at one rate, including the rate for local and in-state long distance calls traditionally set by the states. The FCC claims this is necessary in order to prevent carriers from unfairly classifying calls in a way that permits carriers to receive a more favorable compensation. The Commission has been very active in this proceeding, submitting comments developing and supporting the Joint Board Alternative and opposing other plans and legal theories supporting preemption of state authority.

Form 477 Revisions

Form 477 is the term that refers to the FCC's filing requirements on broadband that requires some parties to submit information on broadband data. The United States General Accounting Office (GAO) recently noted that the FCC's Form 477 data is limited and needs revision. On Feb. 8, the FCC issued a notice seeking comment on proposed revisions. The Commission submitted a comment on April 1, outlining several improvements the FCC should make on its current broadband data collection practices. The Commission supported data filing on deployment, pricing, service quality, customer satisfaction, subscription data, and competitive information.

The Commission noted that states rely on this information and noted that it is more cost-effective to file broadband data in one forum compared to various mandates although any final requirement should be imposed on all providers not just a limited subclass as is currently the case. The Commission noted information on some areas like income, race, subscribership, and household is very good on a national level but that the same information is not provided on a state-by-state or study area (service territory) basis. Since that kind of information is important to states and providers, the FCC should address that need as well.

Finally, the Commission noted the regulatory inconsistency between the determination here that more information is needed compared to earlier FCC decisions where similar information was no longer required from some carriers. The FCC has not acted on the rulemaking.

Windstream BFRR

At the public meeting of Aug. 11, the PUC voted unanimously to grant the petition (Docket No. P-2011-2248534) of Windstream Pennsylvania for Bona Fide Retail Request (BFRR) deployment extensions involving several communities. The Commission granted extensions of up to six-months for Windstream's to deploy broadband services to the following communities: Rimersburg, Coalport, Albion, Conneautville, Shippenville, Rockland, Rural Valley and Sigel.

The PUC may grant an extension of up to 6 months, as a result of property acquisition, including acquiring rights-of-way or new construction, a carrier is unable to provide the requested broadband service within a one-year period.

Windstream asked for the extensions because the

Windstream BFRR *Continued on Page 19.*

FCC Proposed Reforms to Intercarrier Compensation and Federal USF

On April 21, 2010, the Federal Communications Commission (FCC) released a Notice of Inquiry (NOI) and a Notice of Proposed Rulemaking (NPRM) that seek public comment on the FCC's effort to replace the legacy high-cost universal service fund (USF) with a broadband fund. In effect, the FCC seeks to eliminate USF funding and redirect it to promoting broadband in rural areas. The replacement for the USF will be called the Connect America Fund (CAF).

The NPRM seeks comments on a number of proposals to cut legacy universal service spending in high-cost areas and to shift support to broadband communications. These proposals include:

1. Capping the overall size of the high-cost program at 2010 levels;
2. Re-examining the current regulatory framework for smaller carriers in light of competition and growth in unregulated revenues; and
3. Phasing out support for multiple competitors in areas where the market cannot support even one provider.

The FCC provided the states an unprecedented opportunity to address its Connect America Fund (CAF) reform proposal, a proposal to reform universal service and intercarrier compensation issued on Feb. 9, 2011, at Docket Nos. 96-45, 09-51, and 10-90. The Federal-State Joint Board state members, chaired by Commissioner James H. Cawley from the Commission, used the opportunity to submit an alternative plan that better focuses on delivering broadband to all Americans while reforming intercarrier compensation. The PUC sent comments to the FCC on April 1 and reply comments on May 23.

While the State Members of the Joint Board do support expanding the goals and mechanisms of universal service to cover broadband and mobility services, the State Members of the Joint Board urged the FCC to define both "broadband Internet access service" and "mobility" service as included in the list of services supported by the federal universal service program. The State Members of the Joint Board proposed creation of three new funds to both broadband and mobility: Provider of Last Resort (POLR) Fund; Mobility Fund; and Wireline Broadband Fund.

On July 11, the Pennsylvania Commission coordinated a meeting with the other state members and the FCC in an Ex Parte meeting on the CAF. At the meeting, the Pennsylvania PUC repeated its opposition to preemption and auctions, outlined how the Joint Board Alternative promotes broadband deployment compared to proposals that rely on end-user surcharges, and expressed serious concern that the FCC not adopt a mandatory $.0007 rate because the result would undermine current broadband deployment programs and minimize the role the states.

On July 29, members of the industry filed a proposal under the banner of the US Telecom Association (USTA) or the "ABC Plan." On Aug. 3, the FCC solicited further comments in view of the USTA proposal. The PUC, and many other states, filed comments regarding the ABC plan on Aug. 24. Reply comments were due Sept. 6.

Call Recording Rulemaking

Commission regulations at 52 Pa. Code § 63.137 prohibit jurisdictional telecommunications utilities from recording calls between their employees and their customers. Several local exchange carriers received waivers of this regulation to allow recording of such calls for quality of service and training purposes. Rather than continue to address this issue in a case-by-case basis, on July 23, 2009, the Commission approved guidelines for telcos wishing to record calls with customers. Since then, the PUC initiated a rulemaking to replace the guidelines with regulations.

Under the proposed terms of the rulemaking, a telco seeking to record calls would have to provide notice to the Commission and provide its customers with a bill insert explaining the call recording process and an opt-out process to customers at least 30 days before the telco starts recording calls. Customers calling a telco 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.

Comments and reply comments have been received from interested parties. The Independent Regulatory Review Commission (IRRC) has provided its comments. The final rulemaking order is being drafted.

Windstream BFRR

Continued on Page 18.

affected communities are in sparsely populated and rural to heavily wooded, mountainous areas. The company agreed to offer one free month of Internet broadband service to the affected customers for every month delayed beyond the original due date. The PUC did not accept Windstream's argument that the BFRR extensions were necessitated by a delay in receipt of federal funding. The PUC noted that the availability of such funding is not one of the statutory standards under which extensions may be granted.

Commission Decides Application of Laser Northeast Gathering Company LLC

On Jan. 19, 2010, Laser Northeast Gathering Company LLC filed an application for a certificate of public convenience authorizing it to offer natural gas gathering and transporting service by pipeline in portions of Susquehanna County, Pennsylvania. Laser proposes to construct a natural gas gathering and transportation pipeline that will extend into New York, to a tie-in with an interstate pipeline.

Public input hearings and evidentiary hearings were held on the matter. On Sept. 10, 2010, Laser, the PUC's Office of Trial Staff, Silver Lake Association, and two individual protestants filed a non-unanimous joint petition for settlement. On Dec. 1, 2010, the Commission issued the recommended decision of an administrative law judge (ALJ), in which it was recommended that the settlement be rejected and the application be denied. She found that the service Laser proposes to offer does not meet the definition of "public utility" service under the Public Utility Code. Exceptions to the recommended decision were filed by various parties.

At the May 19, 2011 public meeting, the Commission modified the ALJ's recommended decision. It found that Laser satisfied the threshold issue that its proposed service meets the definition of "public utility" service. The Commission remanded the proceeding to the Office of Administrative Law Judge for the limited purpose of determining whether the granting of a Certificate of Public Convenience is "necessary or proper for the service, accommodation, convenience, or safety of the public," and for further development of the record to address certain questions. Parties have filed petitions for reconsideration and appeals of the Commission's determination.

On Aug. 25 public meeting, the Commission voted to provide clarification by further defining the parameters of the determination that Laser's proposed service meets the definition of a "public utility." Commissioner James H. Cawley issued a dissenting statement

Based on that review, the Commission considered various facts including:

- Laser will be transporting or conveying natural or artificial gas by pipeline or conduit for compensation.
- Laser will serve any and all potential customers needing to move gas through the pipeline system.
- Laser intends to utilize negotiated contracts to secure customers; contracts are not meant to be exclusionary, but rather to establish technical requirements,

Laser Northeast *Continued on Page 25.*

SteelRiver Acquires T.W. Phillips

At a public meeting on May 19, the PUC approved the acquisition of T. W. Phillips Gas and Oil Company by LDC holdings II LLC, an indirect subsidiary of SteelRiver Infrastructure Fund North America LP. On May 24, SteelRiver announced it had finalized the transaction and had assumed operational control of TW Phillips.

SteelRiver is a San Francisco based infrastructure fund that owns and manages energy and infrastructure assets throughout North America. Peoples Natural Gas Company, a jurisdictional utility that provides natural gas distribution services to approximately 360,000 customers throughout all or a portion of 16 counties in western Pennsylvania, is also a subsidiary of SteelRiver.

TW Phillips is a natural gas distribution utility that serves approximately 63,000 customers in 10 counties in western Pennsylvania. After the change of control, TW Phillips changed its name to Peoples TWP LLC.

As part of a settlement agreement approving the change of control, TW Phillips agreed to maintain its corporate headquarters in Butler, Pennsylvania, and has committed to investing $36 million between 2012 and 2014 in its distribution system. This capital investment is designed to improve safety and reliability of service such as the removal of bare steel and aging infrastructure, reduce lost and unaccounted for gas, and improve customer service. For additional information see Docket Number A-2010-2210326.

Marcellus Shale Commission Issues Report

On July 22, the Marcellus Shale Advisory Commission officially issued its report laying out its recommendations to address the needs and impacts of natural gas development on local communities, as well as promote the efficient, environmentally sound and cost-effective development of Marcellus Shale and other natural gas resources. The Commission made several recommendations related to public health, the promotion of natural gas vehicles and increased fines for environmental regulations. The panel called for the PUC to begin regulating the safety of natural gas pipelines being built across the state - including those in the most rural areas. The panel also recommended that the state make it easier for pipeline companies to obtain permits.

PUC Chairman Robert F. Powelson was nominated by Governor Tom Corbett to participate as a member of the Marcellus Shale Advisory Commission.

Led by Lt. Governor Jim Cawley, the Advisory Commission was tasked to report to the Governor with its findings within 120 days of its first meeting.

Peoples Natural Gas Company's Proposed Changes in Rates

On Oct. 28, Peoples Natural Gas Company filed Retail Tariff Gas – PA PUC No. 44 and Supplier Tariff Gas – PA PUC No. S-2 containing proposed changes in rates, rules, and regulations calculated to produce approximately $70.2 million in additional annual revenues (Docket No. R-2010-2201702).

The parties to the case successfully negotiated resolution of the proceeding without the need for evidentiary hearings. The settlement reached by the parties provided for a distribution revenue increase of $53 million annually. Under settlement rates, the total bill of an average Peoples' residential customer using 90.7 Mcf per year will increase from $73.90 per month to $85.02 per month. However, this increase is mitigated by an acquisition adjustment. Factoring in this adjustment, the average residential bill will be reduced to $82.62.

The PUC administrative law judges (ALJs) in this proceeding recommended that the Commission adopt without modification the settlement proposed by the parties. The ALJs stated that the Settlement was a just and fair compromise of serious issues that had been raised in this proceeding. On June 9, 2011, the Commission entered its final order in this proceeding adopting the ALJs recommended decision without modification.

Rulemaking on Natural Gas Competition Issues

Upon finding that "effective competition" did not exist in the statewide retail natural gas market, the PUC convened a natural gas stakeholders group to explore ways to increase effective competition, as required by the natural gas competition law. This stakeholder group was named "SEARCH" which is an acronym for "Stakeholders Exploring Avenues for Removing Competition Hurdles." On Sept. 11, 2008, the PUC issued the work and report of that stakeholders' working group (SEARCH Order). Based upon the SEARCH Order, the PUC initiated a rulemaking for the intended purpose of creating a more level playing field in the retail natural gas market and promoting effective competition for natural gas supply service pursuant to Chapter 22 of the *Public Utility Code*.

The proposed rulemaking established, inter alia, rules regarding the formulation of an appropriate Price to Compare (PTC) as a means to compare the commodity prices of the Supplier of Last Resort (SOLR) and NGSs and make an informed decision regarding shopping for natural gas supply service and the implementation of Purchase of Receivables (POR) programs. The proposed rulemaking order was entered on March 27, 2009, and was published on July 11, 2009, in the *Pennsylvania Bulletin* at 39 Pa.B. 3461. The order established a 45-day comment period. Reply comments were not permitted to be filed. Comments were filed by 20 interested parties.

The PUC reviewed and addressed those comments and on Aug. 10, 2010, issued an order which incorporated the revisions made to the proposed regulations based on the first round of public comments. The PUC requested interested parties to file further comments on these revisions. The Commission received additional comments from 15 interested parties.

Based upon these additional comments, the Commission reformulated the PTC so as to make the PTC rate reflect the same type of commodity costs which are incurred and charged to their customers by the NGSs, and allow consumers to make an "apples to apples" comparison between an NGDC's offer and an NGS' offer, adopted permanent rules for voluntary POR programs, and adopted rules for the non-discriminatory release, assignment and transfer of capacity when customers chose a competitive natural gas supplier. By order entered Feb. 23, 2011, the Commission adopted a Final Rulemaking Order based upon its review of the additional comments submitted.

Subsequently, the Commission submitted the Final Rulemaking Order to the Independent Regulatory Review Commission (IRRC) for its review and approval. IRRC Staff requested that the Commission clarify various aspects of the proposed final regulations. Based upon IRRC staff's comments and further supplemental comments submitted to the IRRC by interested parties, such as the EAPA and the OCA, the Commission voluntarily withdrew the rulemaking from IRRC's consideration in order to address the various clarification issues raised by IRRC and the additional comments.

In light of the latest comments to the Final Rulemaking Order, the PUC, via a Secretarial Letter dated June 9, 2011, proposed several revisions to Annex A. Parties were invited to file comments to the proposed revisions. The Commission reviewed those comments and approved the revisions to the final form regulation. The substantive revisions made to the proposed regulations may be summarized as follows:

Natural Gas Rulemaking *Continued on Page 23.*

Energy Price Forecast for Summer 2011

The Energy Information Agency's (EIA) July 2011 Short-Term Energy Outlook expects that West Texas Intermediate (WTI) crude oil spot prices, which averaged $79 per barrel in 2010, will average $98 per barrel in 2011 and $103 per barrel in 2012. EIA estimates the average cost of crude oil to refiners in 2011 will be $102 per barrel and $108 per barrel in 2012.

The United States' price for regular-grade gasoline is expected to average $3.56 per gallon in 2011 and $3.65 in 2012. EIA asserts that higher retail prices reflects higher crude oil prices and also the increase in refining margins on gasoline in United States (the difference between refinery wholesale gasoline prices and the average cost of crude oil) from an average of $0.34 per gallon in 2010 to $0.45 in 2011 and $0.42 per gallon in 2012.

The Henry Hub (Louisiana) natural gas spot price is expected to average $4.26 per million Btu (MMBtu) for the second half of 2011, and increase to $4.54 per MMBtu during 2012. EIA expects slowing growth in production will contribute to tighter domestic natural gas markets.

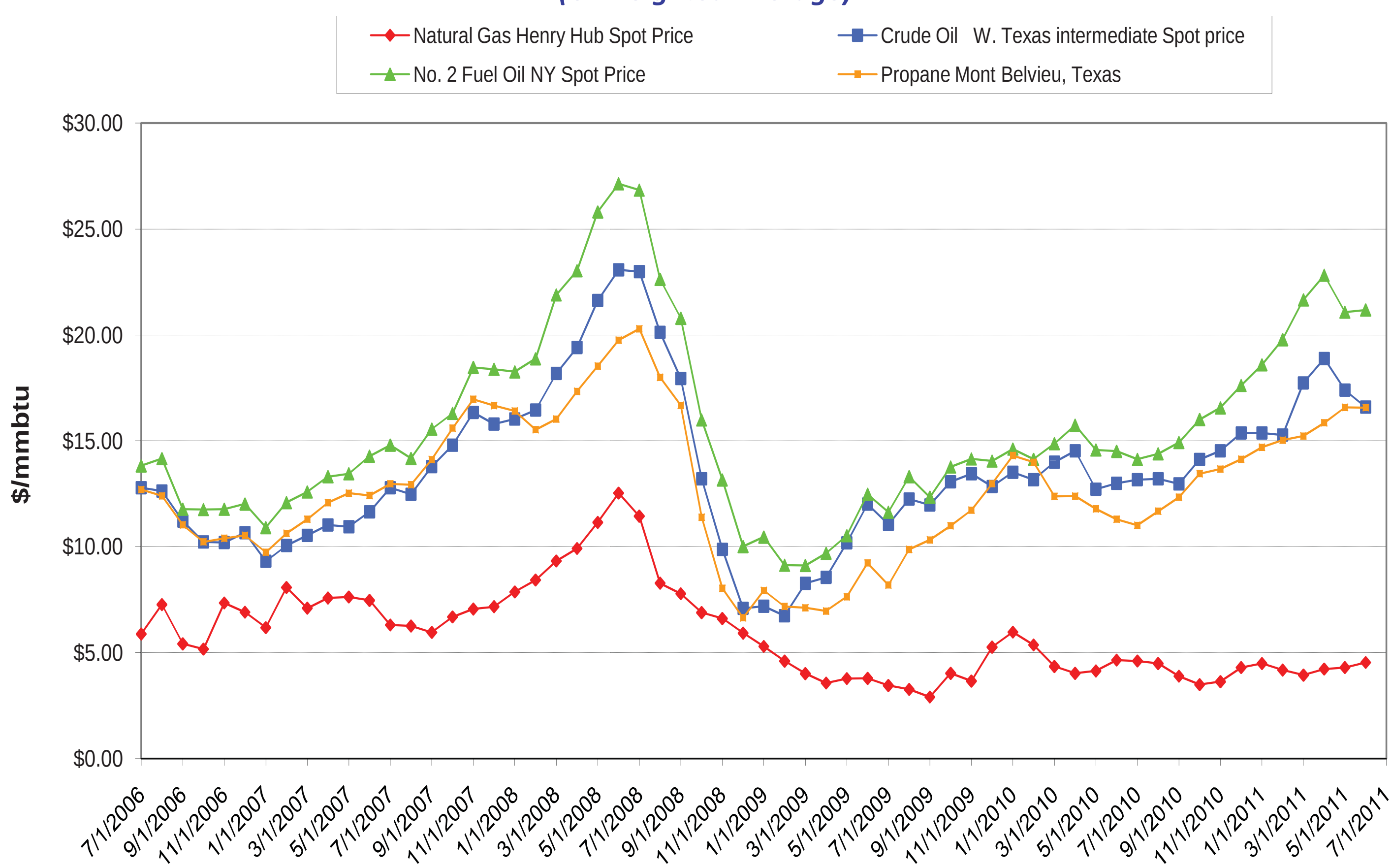
EIA expects annual average retail electricity prices to rise from 11.6 cents per kWh in 2010 to 11.9 cents per kWh in 2011, for an increase of 2.9 percent. Total consumption of electricity for all sectors is expected to show little growth this year. Residential use through the summer months is expected to be lower than last year due to cooler weather and reduced cooling needs resulting in a drop of approximately 5.3 percent from last year.

EIA projects coal consumption in the electric power sector to fall by 2.5 percent as electricity demand remains flat. Power-sector delivered coal price averaged $2.26 per MMBtu in 2010 and is projected to remain steady at $2.32 per MMBtu in 2011 and 2012.

Additional forecast details can be found at: http://www.eia.doe.gov/oiaf/forecasting.html.

Wholesale Fuel Prices by Heat Content

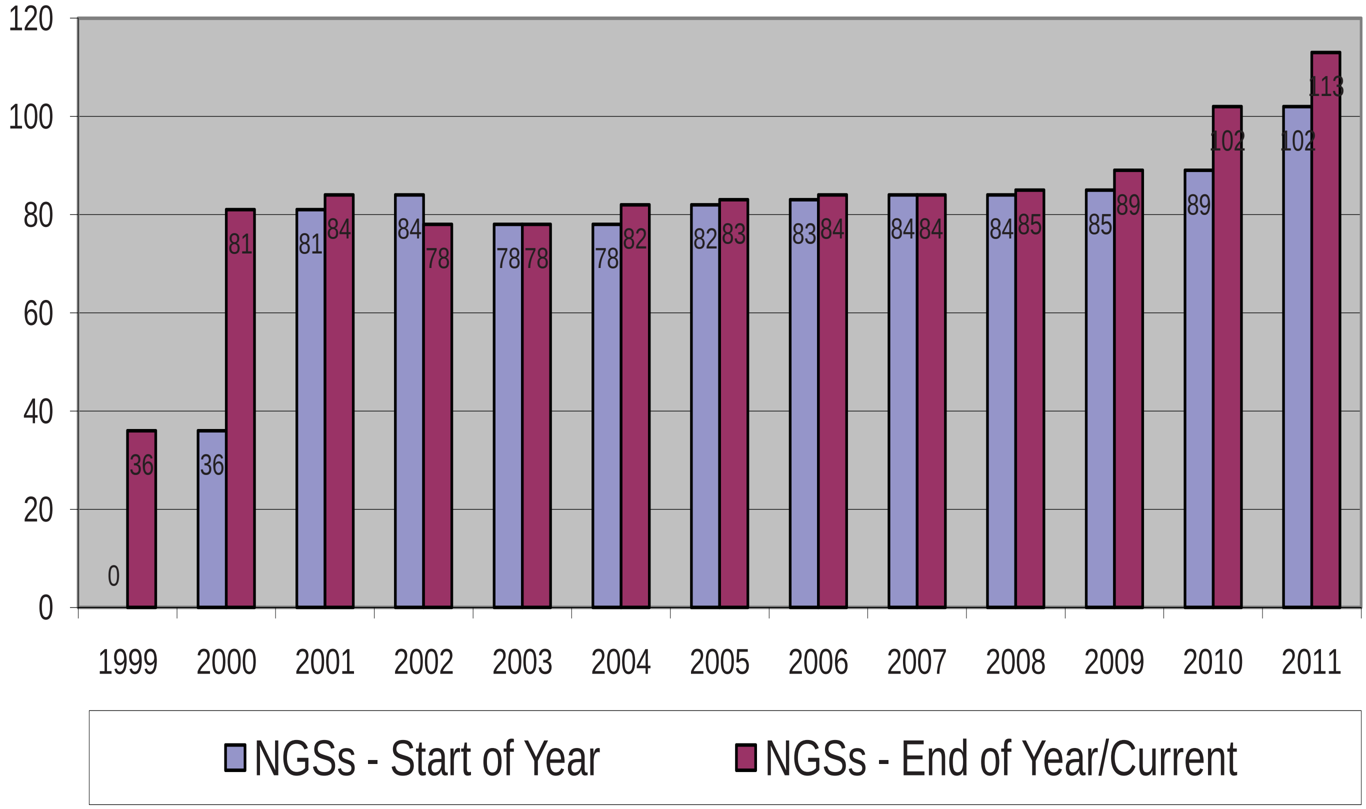
Data from EIA's *Weekly Gas Report* and *Weekly Petroleum Status Report*
(Unweighted Average)



Natural Gas Supplier Licensing

Activity from April 1, 2011, to August 12, 2011

113 Active Licenses | **3 License Approved** | **0 Licenses Cancelled** | **6 Applications Pending**



Natural Gas Rulemaking

Continued on Page 21.

- Revised the regulation to include, inter alia, the development of a PTC that will appear on the NGDC's bill so that consumers can make an informed choice of whether the price offered by the competitive NGS is more or less than the default service rate charged by the incumbent NGDC.
- Clarified the section of the regulation setting forth permanent rules for POR programs which are critical to the ability of NGS firms to enter the market.
- Revised the section of the regulation concerning capacity release to ensure that the capacity released to serve shopping customers is non-discriminatory both as to availability and price.
- Eliminated several of the adjustment clauses previously proposed in the regulations.

In addition, the clarification revisions made to Annex A in response to IRRC's clarification comments and the supplemental comments. Accordingly, the Commission re-submitted a Revised Final Rulemaking Order to the IRRC for its review and approval.

Chapter 56 Rulemaking

On June 9, the PUC approved revised final rules that will update its regulations dealing with residential utility service standards in order to make the regulations consistent with legislative changes regarding how utilities address delinquent residential accounts and to modernize the regulations as to accommodate technological advances. The Commission revised the final rules (Docket No. L-00060182) it had originally adopted on Feb. 24, in response to concerns expressed by the Independent Regulatory Review Commission (IRRC).

The Commission voted 5-0 to approve the final rules that will revise its regulations at 52 Pa. Code Chapter 56, to ensure they are consistent with Act 201 of 2004, also known as Chapter 14. Section 6 of Act 201 requires the Commission to amend Chapter 56 to comply with the provisions of Chapter 14.

Throughout this process, the Commission strove to implement Chapter 14 in a manner that will allow it to achieve the policy goals of increasing utility account collections and eliminating the subsidization of bad debt costs by paying customers while also being as fair as possible and ensuring that service remains available to all customers on reasonable terms and conditions. The Commission used a collaborative process that took into account the perspectives and needs of both utilities and consumers and provided all parties an opportunity to participate in these efforts.

The rulemaking addresses provisions such 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.

On July 21, 2011, the revised final regulations were approved by IRRC. The new rules will become effective upon their publication in the *Pennsylvania Bulletin*.

Customer Service Performance Report Issued

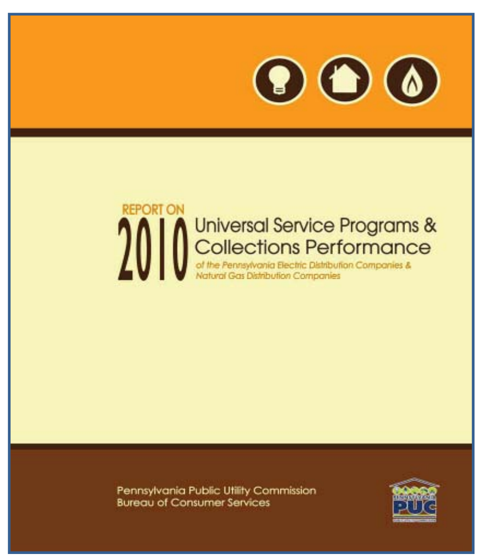
The 2010 Customer Service Performance Report was released by the Commission on August 1st. In addition to reporting company submitted data, the report provides information on how customers feel the major electric and natural gas companies are doing with customer service.

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. Based on customer surveys, an average of 89 percent of electric and 84 percent of natural gas customers said they were satisfied with the ease of reaching their company. A greater percentage of customers said they were satisfied with the way company representatives handled their calls– 92 percent of electric customers and 87 percent of natural gas customers.

The report also includes data provided by the utilities on the performance of the company's customer service operations. Two of the major electric companies reported an improvement in the percentage of calls answered within 30 seconds, while four reported a decline. The average percentage of calls answered within 30 seconds for the electric companies in 2010 is 76 percent, the same as in 2009 and down from the 77 percent in 2008.

Three major natural gas companies reported a decline in the percentage of calls answered within 30 seconds. The average percentage of calls answered within 30 seconds for natural gas companies increased from 78 percent in 2009 to 81 percent in 2010.

The full report is available at www.puc.state.pa.us under Publications and Reports.



New Executive Director Joins Commission

Mr. Jan H. Freeman of Camp Hill, Cumberland County, recently joined the Commission as Executive Director. The newly created position is part of the PUC's planned reorganization.

"I am excited to be associated with an organization made up of such knowledgeable and committed individuals," Freeman said, in words directed to PUC employees. "I see my role as helping all of you to do your jobs as effectively as possible. With public service comes responsibility – and with your support, and the support of the Commissioners, together I know that we will accomplish great things."

A former Executive Director of the Pennsylvania Energy Office, Freeman most recently ran a consulting firm that specializes in government affairs and strategic planning on energy issues.

Throughout his career, Freeman has continuously been involved with utility issues, encompassing electric, natural gas, water and telecommunications. Over the past 20 years, that experience has included working on numerous regulatory and legislative efforts specifically associated with the electricity and natural gas industries. Freeman has wide-ranging administrative and managerial experience, including the creation of teams to develop statewide energy policies, the reorganization of corporate departments, and leadership of efforts on a variety of emerging wholesale and retail electricity market issues.

Freeman received his bachelor's degree in economics from Duke University.

The Executive Director position will plan, organize, direct and administer the overall operations of the Commission.

The Commission expects to make other announcements later this summer concerning other new positions included in the "Implementation Plan for the Reorganization of the Public Utility Commission" circulated by Chairman Powelson in June.

PUC Reorganization Update

At public meeting of Aug. 11, the Commission adopted a Reorganization Order, eliminating the Bureau of Fixed Utility Services (FUS), the Bureau of Conservation, Economics and Energy Planning (CEEP), the Office of Trial Staff (OTS), and the Bureau of Transportation and Safety (T&S). In the same order, the Commission created the Bureau of Technical Utility Services (TUS) and the Bureau of Investigation and Enforcement (BI&E).

Through this reorganization, the Commission is consolidating all technical staff from the Bureau of FUS and the Bureau of CEEP and motor carrier compliance staff and rail safety staff from the Bureau of T&S into the Bureau of TUS. This new bureau will be directed by Paul Diskin and will serve as the primary technical adviser to the Commission on all fixed utility and transportation applications, tariffs and other filings.

Additionally, all functions previously performed by OTS, as well as staff from OTS, have been transferred to BI&E. Prosecutory functions formerly handled by the Law Bureau have been assigned to BI&E, and staff members will be transferred from the Law Bureau to BI&E in the near future. Also moving into BI&E are motor carrier enforcement officers and gas safety inspectors who were previously part of T&S.

Directed by Johnnie Simms, BI&E will serve as the prosecutory arm of the Commission, entering proceedings before the Administrative Law Judge on all fixed utility and transportation matters involving services or rates. Technical from other bureaus, such as the Bureau of Consumer Services, the Bureau of TUS and the Bureau of Administrative Services, will be temporarily assigned to BI&E as necessary to handle prosecutions in their areas of expertise.

Laser Northeast

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delivery points, and other terms and conditions of service.

- Laser has made a commitment to expand its capacity, as needed, to meet increased customer demand.

In a separate action, Commissioner Cawley also requested a Secretarial Letter be issued asking that the parties in the case address his questions and areas of concern as part of the remand of the case.

Additional information about this case can be found on the PUC's website at Docket No. A-2010-2153371.

PUC Budget News

The Commission's budget submission for the 2011-12 fiscal year was approved by the House and Senate and signed by Governor Corbett by the June 30th deadline. This year's budget request is for $58,898,000 in state funding and $4,481,000 in anticipated federal funds for a total request of $63,379,000. The federal funds include our Gas Pipeline Safety Program, Motor Carrier Safety Assistance Program and the ARRA (Federal Stimulus) Electric Regulation Assistance Program.

This FY 2011-12 budget was an increase of approximately 5 percent. The increase is associated with state funding for our Operating and Fixed Asset line items and mandated Personnel costs. The Commission has maintained a "zero dollars" increase the past three budget years in our Operating and Fixed Asset line items. Our expenditures in these line items have risen steadily over this period to pay for the continuing increase in recurring operating expenditures. Examples of such expenditure increases are new office leases in the Pittsburgh and Philadelphia State Office buildings; increased technology requirements such as the Date Powerhouse expenses and Verizon data and telephony costs; and incremental increases in almost all vendor goods and services.

The personnel costs have risen to sustain the current approved complement of 519. Total personnel costs are $48,894,000 which is comprised of $45,889,000 from state funds and $3,005,000 in federal funds and will fund the corresponding salaries and required fringe benefit increases.

The five Commissioners have also committed to continued cost saving measures and Chairman Powelson reinforced that during his testimony to the House and Senate Appropriation Committees. The Chairman indicated that as part of our commitment to fiscal responsibility, the Commission has identified at least $1.5 million in personnel and operating expenses that we plan to reduce during the 2011-12 fiscal year. This reduction will be a combination of items such as reducing overtime and wage expenses, minimizing travel costs associated with training, reducing or eliminating specific contract expenses, foregoing some technology upgrades, delaying the filling of certain vacancies and scrutinizing all operating expenses.

Changes and Updates to eFiling

The Secretary's Bureau has been very active in the Commission's electronic eFiling pilot as the PUC moves to accept larger size documents – up to 10 mb – and expand the list of qualified documents that can now be e filed. New documents now being accepted for eFiling include: Reply to Data Request, Withdrawal Request, Application Updates/Revisions, 911 Plan, and Petition for Default Service Plan.

The pilot has been extended until Dec. 31, 2011, as the Commission prepares to embark on a rulemaking that will allow us to be more flexible in 52 Pa. Code Chapters 1, 3, and 5 as the PUC gains more experience in electronic filings and service of documents. The Commission also intends to reexamine the number of copies required to be filed with pleadings. With the expansion of eFiling, the three copies required by 52 Section 1.37 is no longer necessary when accompanying the original document or pleading.

In other related news, the Secretary's Bureau is working with Commission staff to clean up multiple eFiling accounts made by our customers utilizing electronic filing when practicing before the Commission. Some users are creating multiple eFiling accounts due to forgetting or misplacing their passwords to enter the system, and instead simply create another account with a new password.

Right to Know News

Changes that have occurred in the contracts of the various court reporting companies used by the Commission now reflect a new policy allowing requestors under the Pennsylvania Right to Know Law access to copies of PUC hearing transcripts under certain restrictions. First, the transcript can be provided only if the subject case of the transcript has been finally adjudicated and the appeal period has expired or appeals have been exhausted. Second, transcripts will be made available by the Secretary's Bureau for the cost of 25 cents per page. This policy is effective immediately.

Emerging Leaders Program

The Chairman, Vice Chairman and Commissioners are pleased to announce the introduction of the PUC Emerging Leaders Program. The Emerging Leaders Program is a nine-month training and developmental program aimed at enriching the leadership skills and professionalism of the PUC's most important resource – our staff. Geared toward developing the knowledge and skills of current and future supervisors and managers, the program will lead participants through a series of monthly training sessions on topics such as leadership practices, decision-making, customer service, public speaking, and more. Participants will also identify their individual management style using a work style assessment. They will use the results to build on their style in activities throughout the training year.

One unique aspect of this program is that each participant's supervisor will play an active role in their development. Supervisors will not only participate in some of the training, they will also periodically meet with the emerging leaders to encourage them to incorporate their new knowledge and skills in their current job.

The inaugural class of the Emerging Leaders Program will run from September 2011 through May 2012. A total of 23 employees are participating in this program. Training sessions will be held in Harrisburg. Participants were selected from nominations submitted by their supervisors. Both individual contributors as well as those who may already have supervisory responsibilities were considered.

Feedback

We welcome any feedback on the Pennsylvania PUC's quarterly newsletter, *Keystone Connection.*

Staff from the Bureau of Administation, Office of Administrative Law Judge, Bureau of Audits, Bureau of Technical Utility Services, Office of Communications, Bureau of Investigation and Enforcement, Office of Special Assistants, the Secretary's Bureau and the Law Bureau all contribute and write articles for this publication.

For media inquiries or to share ideas, feel free to contact Cyndi Page of the Office of Communications at (717) 787-5722.

MACRUC Regional States Jointly File Comments on FCC's Broadband Reform Proposals

For the first time, the state members of the Middle Atlantic Conference of Regulatory Utility Commissioners (MACRUC), including Pennsylvania, successfully filed comments in a federal proceeding under a new bylaw governing when, and how, the MACRUC regional members express concerns to the FCC about federal actions.

The MACRUC comments were filed on May 23, 2011 in Docket No. 10-90 addressing preemption, universal service and intercarrier compensation reform set out in the Connect America Fund proposed rulemaking. The MACRUC comments opposed preemption and urged the FCC to examine the extent to which carriers have complied with the merger commitments they made to the FCC when the FCC earlier approved their proposed merger with other carriers. The MACRUC comments listed several mergers warranting examination and noted that many of those merger commitments expressly disavowed any reliance on federal universal service support to meet those commitments.

MACRUC comments told the FCC to refrain from providing federal support for those broadband commitments. MACRUC regional members are concerned because the region contributed $700 million more into the federal fund last year than it receives from the fund. The MACRUC states and Pennsylvania in particular, are concerned about growth in the size of the fund because increases in fund size without an expansion of the contribution base will likely increase the assessment on the 22.7 million access lines in the MACRUC region. A Telecommunications Committee resolution somewhat similar to the MACRUC comments was adopted by the Telecommunications Committee in Los Angeles but was not ratified by the Board of Directors at the meeting.

PUC, WPXI-TV Stage First PowerSwitch Event in Western Pennsylvania

In July the PUC teamed with WPXI-TV, Pittsburgh, to successfully stage the first major PAPowerSwitch event in western Pennsylvania.

An estimated 500 Pennsylvanians turned out with their electric bills for the event on Thursday, July 21, at The Mall at Robinson in the Duquesne Light service territory. Vice Chairman John Coleman and Commissioner Wayne Gardner joined nearly a dozen PUC educators to demonstrate www.papowerswitch.com and show consumers how they can save money by switching to a competitive supplier for their electric generation.

"It was a great turnout for the PUC's first major PowerSwitch event in the Pittsburgh area," Vice Chairman Coleman said. "It was a true pleasure to help so many consumers right on the spot reduce their electric costs simply by logging onto PAPowerSwitch and looking at what competitive suppliers were offering."

"Any time you can help people put dollars back in their pocketbooks, it is a good thing," Commissioner Gardner added. "Western Pennsylvanians were the direct beneficiaries of very compelling offers from several competitive suppliers here today – some of the offers coming in at two cents or more below Duquesne's current Price to Compare."

In co-sponsoring the event, WPXI-TV provided live coverage throughout the day with its consumer reporter, Robin Taylor. Also taking part in the event were the Office of Consumer Advocate, officials from Duquesne Light, and representatives from five of the eight electric generation suppliers currently offering their products and services to Duquesne Light customers.

Additional PowerSwitch events are currently being planned for western Pennsylvania as well as in the PECO service territory this fall.

Vice Chairman Coleman helped to teach consumers how to shop for electricity at the event.

MACRUC Focuses on Technology, Regulatory Change and the Role of State Commissions

From June 26 through June 30, the Mid-Atlantic Conference of Regulatory Commissioners (MACRUC) regional members held their annual meeting in Hershey, PA. The regional members consist of the state commissions from Delaware, the District of Columbia, Kentucky, Maryland, New Jersey, New York, Pennsylvania, Virginia, West Virginia, and the United States Virgin Islands. At the June meetings, MACRUC convened several panels addressing telecommunications and water industries, renewable energy, the national broadband plan, electric vehicles, Marcellus Shale, wholesale and retail electricity markets, and consumer service issues.

Chairman Robert Powelson served as the moderator for the Marcellus Shale: Water and Environmental Issues panel. Commissioner James Cawley was a participant on a panel examining whether the current wireline telephone companies would go the way of the milkman because of technological and regulatory changes. He also moderated the ethics panel. Commissioner Wayne Gardner was a participant on the Water Industry Taps Green Initiatives panel. Remarks by Commissioner Tyrone Christy were given at a second Marcellus Shale panel. Lenora Best, Chief Policy Division of the Bureau of Consumer Services sat on the panel for Help! The Evolving Role of PUC Consumer Service Departments. Joe Witmer from the Law Bureau convened a panel examining the MACRUC Regional states' concern with the FCC's Connect America Fund proposal. Commissioner Cawley also participated in a candid roundtable discussion with other MACRUC commissioners to close out the conference.

Chairman Powelson served as a session moderator at MACRUC's 16th Annual Education Conference in Hershey.