Keystone Connection

Utility News in Pennsylvania

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

Winter 2010

Commissioner Kim Pizzingrilli Resigns from the Commission

Commissioner Kim Pizzingrilli

On Feb. 25, Kim Pizzingrilli cast her final votes as a Commissioner and departed the PUC for a job in the private sector. During her parting remarks, Commissioner Pizzingrilli thanked her family; the three Governors who nominated her and the Senate that confirmed her; the House and Senate PUC oversight committees; her fellow Commissioners, past and present; her staff and all PUC employees; her counterparts in other states who she worked with as a member of the National Association of Regulatory Utility Commissioners and several Mid-Atlantic Commissioner committees; the PUC's Consumer Advisory Council; and other stakeholders.

Commissioner Pizzingrilli said, "It has been an honor and a privilege to serve in various Commonwealth agencies over the past 28 plus years – and a great opportunity to serve on the Commission for the past eight years. The Commonwealth is fortunate to have so many dedicated employees here at the Commission. We deal with a unique set of issues every day. Your dedication to serving the public and meeting our goals of ensuring quality utility service does not go unnoticed. I am proud of our accomplishments at the Commission and it is due in large part to your commitment to serving the people of Pennsylvania."

Commissioners Educate the Public about Utility Issues

PUC Commissioners are actively addressing the public and legislature about utility issues during events held throughout the state. In January, Chairman James H. Cawley attended the Central Penn Business Journal Energy Symposium where he spoke about Act 129 and the types of programs offered by electric distribution companies (EDCs).

Also in January, Vice Chairman Tyrone J. Christy presented testimony before the House Environmental Resources and Energy Committee. Commissioner Robert F. Powelson provided a presentation and also facilitated a panel discussion on rate caps, shopping and Act 129 programs at the Pennsylvania Electric Choice Educa-

***Commissioners** Continued on Page 5.*

Connecting in Pennsylvania

Welcome to the 15th 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.

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Act 129 Update

The Autumn 2009 issue of *Keystone Connection* was dedicated to electric issues and contained a comprehensive explanation of the PUC's many responsibilities and initiatives associated with implementation of Act 129 of 2008, which created an energy efficiency and conservation program designed to reduce electricity consumption and demand in Pennsylvania. Since the release of that edition of Keystone Connection:

- Staff convened the Fuel Switching Working Group, which met on Jan. 6, and is currently reviewing cost-benefit analyses of specific fuel switching programs so that recommendations can be offered as to whether electric distribution companies should be permitted, encouraged or required to make these programs part of their Act 129 energy efficiency and conservation portfolio. The last meeting was held on Feb. 26, and a work product is due to the PUC by March 31;
- Staff convened the Low Income Customer Program Working Group, which met on Jan. 6, to discuss methods for ensuring that low-income customers have access to a proportionate share of energy efficiency and conservation measures. Another meeting was held on Feb. 26 and the report is due on March 19;
- The PUC tentatively adopted and released for comment a Technical Reference Manual Update on Jan. 28, as recommended by the Act 129 Statewide Evaluator to make the manual a more effective tool for validating savings and providing support for the consumption and peak demand reduction goals; and
- Initial decisions of administrative law judges were issued on Jan. 28, addressing the Smart Meter Plans filed by Duquesne Light, FirstEnergy Companies, PECO Energy and PPL Electric Utilities on Aug. 14, 2009. These plans proposed timelines and costs for system-wide deployment of smart meters and associated infrastructure such as meter data management systems, IT investments and networks. Exceptions were due on Feb. 17, and reply exceptions were due on March 1. PUC action is anticipated in March. An initial decision has not yet been issued for West Penn Power due to a negotiated extension.

The PUC has also continued to review modifications and monitor compliance with the Energy Efficiency and Conservation Plans approved in October 2009. This work includes evaluation, in conjunction with the Act 129 Statewide Evaluator, to verify the energy savings and demand reductions, as well as the cost-effectiveness of the energy efficiency and conservation programs.

RFP for an Alternative Energy Credits Administrator

On Feb. 9, the Commission issued a Request for Proposal (RFP) for the services of an Alternative Energy Credits Administrator. The services of a credits administrator are needed to assist the Commission in the Implementation of the Alternative Energy Portfolio Standards Act (AEPS Act) of 2004, as amended. Among the services included in the RFP are the verification of electric distribution company and electric generation supplier compliance with the minimum portfolio requirements of the AEPS Act, the calculation of Tier I requirements on a quarterly basis, the review of applications for alternative energy system status, and responding to inquiries about alternative energy credits.

The PUC seeks the services of a credits administrator beginning in June 2010, until Dec. 31, 2013, with the option for two, one-year contract extensions. A preproposal conference was held on March 4 and proposals are due on March 29 at 3 PM. Anyone interested in seeing the RFP or perhaps submitting a proposal can view the proposal on the Commission's website under Electricity - Alternative Energy.

PPL's Time of Use Plan

On Jan. 28, the PUC approved a voluntary program that allows PPL to offer customers a rate based upon the time of day they use electricity. The PUC's action identified areas for improvement in future time-of-use (TOU) filings, including the adoption of automation and technology to enhance consumers' ability to respond to changes in market prices.

PPL's optional pricing program is available to residential and small commercial and industrial customers who may choose to pay different prices for "on-peak" and "off-peak" hours. The prices will be different for summer and non-summer periods. Customers currently receiving service on the Residential Thermal Storage rate schedule may choose to continue with a TOU rate and see their on-peak hours reduced, meaning their systems will be available for use at the off-peak price for longer periods of time.

More information about PPL's plan and the PUC's approval is available at Docket No. R-2009-2122718.

New Flashcut Estimates Released

On Jan. 26, the PUC released its quarterly comparison between current wholesale market prices for electric generation and capped retail rates currently paid by consumers. According to these estimates, which are available on the PUC's website at http://www.puc.state.pa.us/electric/electric_price_estimates.aspx, the market trended upward this quarter by about 5 percent for residential consumers when compared to the October 2009 electric price estimates.

PUC Conducted Binding Poll on PPL Susquehanna-Roseland Transmission Line

On Jan. 14, the PUC conducted a binding poll on the issues related to the application by PPL Electric Utilities to construct a new 500 kV transmission line known as the Susquehanna-Roseland Project. The result of the binding poll was largely consistent with the recommended decision of the administrative law judge, which approved PPL's application with conditions. Staff is now drafting a final order for review by the Commission.

A majority of the Commissioners indicated support for:

- Requiring the company to file a report within 30 days of PJM Interconnection's next update to the 2008 Regional Transmission Expansion Plan;
- Conditioning approval on construction of the project commencing within three years;
- Prohibiting construction on the portion of the line going through the Delaware River Gap until the National Park Service issues the necessary permits; and
- Clarifying that North American Electric Reliability Corporation standards permit planned/controlled firm loads and firm power transfers.

Several other conditions were attached to ensure protection of the public interest, such as the replacement and repair of any damage to homes or other buildings caused by construction of the project, avoidance of archaeological resources, compliance with protocols for cultural resource studies and development of a plan to educate communities.

On Jan. 6, 2009, PPL filed the application to construct this new 500 kV transmission line which will travel about 101 miles in Pennsylvania through portions of Lackawanna, Luzerne, Monroe, Pike and Wayne counties. The PUC held four public input hearings in the area where the proposed line is to be constructed.

PUC Seeks Comment on Proposed Guidelines on Transmission Line Siting

On Jan 28, the PUC proposed interim guidelines regarding transmission line siting in Pennsylvania and asked interested parties to comment on the proposal. If adopted, the PUC's interim guidelines will provide guidance on the information that the Commission believes is relevant and critical to its evaluation of future transmission line siting applications.

The interim guidelines, which are intended to provide direction until regulations can be promulgated, address public notice filing requirements, eminent domain filing requirements, exemption from municipal zoning standards, route evaluation and siting, environmental filing requirements and health and safety considerations.

The due date for filing comments will be 45 days after publication in the *Pennsylvania Bulletin*. More information is available at Docket No. M-2009-2141293.

Transmission Service Charge Reconciliation Filings

On Jan. 28, the PUC addressed Transmission Service Charge (TSC) Reconciliation filings made by Met-Ed and Penelec on April 14, 2008. The TSC filings proposed significant rate increases, with Met-Ed seeking to recover $421.6 million in transmission-related costs, including $144.48 million in under-recovered costs and $277.1 million in projected transmission cost increases. Penelec's under-collection and projected TSC costs were $3.8 million and $16.2 million. The costs described by the companies as being "under-collected" included "transmission marginal energy losses," or "marginal losses."

The contested issues in the case centered on whether line losses or marginal losses are related to transmission or generation. While the companies claimed that they are related to transmission and recoverable under the TSC rate, the representatives of the industrial, small business and residential customers argued that they were related to generation and should not be in the TSC rate. A majority of the Commissioners agreed with the consumer representatives and directed the companies to work with the parties and file a petition to retain any over-collection, with interest, until 2011, in a segregated account for the purpose of providing mitigation of future rate increases starting in 2011 for their customers. The dissenting Commissioners agreed with the companies that the losses are related to transmission.

More information is available at Docket Numbers M-2008-2036188 and M-2008-2036197.

PUC Seeks Comments on Rules Governing Retail Electric Markets

The PUC issued for comment a proposed policy statement and rulemaking on Jan. 14, addressing issues relating to default electricity service. By these actions, the Commission seeks to bring an existing policy statement into compliance with Act 129 through amendments to require that default service be purchased at the lowest cost to consumers over the long term and to address various other items associated with default service procurement and rate design. Interested parties will have 30 days from publication in the *Pennsylvania Bulletin* to submit their comments. More information is available at Docket No.M-2009-2140580.

PASEB Holds Annual Meeting

On Jan. 21, the Pennsylvania Sustainable Energy Board (PASEB) held its 2009 Annual Meeting. The purpose of the meeting was to update interested groups on activities of the regional sustainable energy funds. Presenters for the regional funds highlighted projects they are supporting, such as small business lighting retrofit rebate grants, commercial solar PV installations, and PA Home Energy wind grants, and updated the group on the Pennsylvania Sunshine Program. The representatives of the regional funds also discussed various consumer education initiatives and partnerships they have formed with schools, hospitals and local communities.

The PASEB was originally established by the PUC in 1999 to provide oversight, guidance and technical assistance to the regional sustainable energy boards that fund projects such as wind farms, solar power systems, smart thermostat programs, and the construction of buildings using energy efficient technologies. On Aug. 7, 2003, the PUC issued an order further defining the role of the PASEB and charging it with holding an annual meeting, enhancing communications among the four funds and state agencies and establishing best practices.

Besides the PUC and the four funds, the PASEB consists of representatives from the Office of Consumer Advocate, the Department of Environmental Protection, the Department of Community and Economic Development and the Pennsylvania Environmental Council. The 2010 annual meeting of the PASEB is planned for Dec. 7, 2010.

CHARGE Addressing Short-Term Issues Affecting Success of Electric Choice

The Commission has formed a working group called CHARGE, Committee Handling Activities for Retail Growth in Electricity, to provide an informal forum for trouble-shooting issues that are interfering with the ability of electric generation suppliers to participate in the retail market and with the overall success of Pennsylvania's electric choice program. Leading the CHARGE is the PUC's Office of Competitive Market Oversight (OCMO), whose role was recently expanded from monitoring the development of the natural gas market to also serve as the Commission's electric choice ombudsman.

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

OCMO is within the office of the PUC's Director of Operations, and relies upon a designated group of legal, technical and policy staff members from various bureaus. In addition to providing a forum to informally address obstacles faced by EGSs, OCMO also shares information with all market participants to facilitate a smoother operation of the retail market. Parties who wish to participate in biweekly conference calls or submit issues for discussion by CHARGE should send an email to ra-OCMO@state.pa.us.

Pike County Light & Power's Management Audit

On Jan. 28, 2010, the PUC released a report on the Focused Management and Operations Audit of Pike County Light & Power (PCLP). The report, issued by the Commission's Bureau of Audits, contained six recommendations for improving the utility's operational effectiveness and efficiency. The Audit Staff rated four of the six areas or functions reviewed as meeting expected performance and the other two as needing minor improvement.

In its implementation plan, PCLP indicated that it accepted all six recommendations. The audit recommendations include:

- Filing an updated affiliated interest agreement to reflect current corporate structure, affiliate relationship and allocation methodologies;

PCLP Audit *Continued on Page 5.*

PCLP Audit

Continued from Page 4.

- Implementing mandatory annual refresher training in Standards of Competitive Conduct for employees who have contact or potential contact with PCLP customers;
- Reporting the age of distribution mains and services by decade of installation in the annual Department of Transportation reports;
- Developing a written damage prevention program and document the continuing public education program and incorporate it into the damage prevention program and consistently comply with these programs;
- Developing a policy that prohibits the use of undocumented business agreements with third-party contractors and incorporating the policy into the damage prevention program; and
- Developing a more accurate budgeting process and implementing variance reporting for PCLP.

PCLP reported that it has already implemented one of the recommendations and plans to complete implementation of the remaining recommendations by the third quarter of 2010. The Commission will conduct a follow-up on the company's implementation efforts during a future Management Efficiency Investigation.

Commissioners

Continued from Page 1.

tion Session organized by the Pennsylvania Economy League and Exelon Energy. Additionally, Commissioner Wayne E. Gardner attended a Weatherization Presentation hosted by state Rep. Louise Williams Bishop in Philadelphia where he spoke about weatherization programs available for low-income consumers.

Electric Supplier Licensing

Activity from Dec. 18, 2009, to Jan. 28, 2010

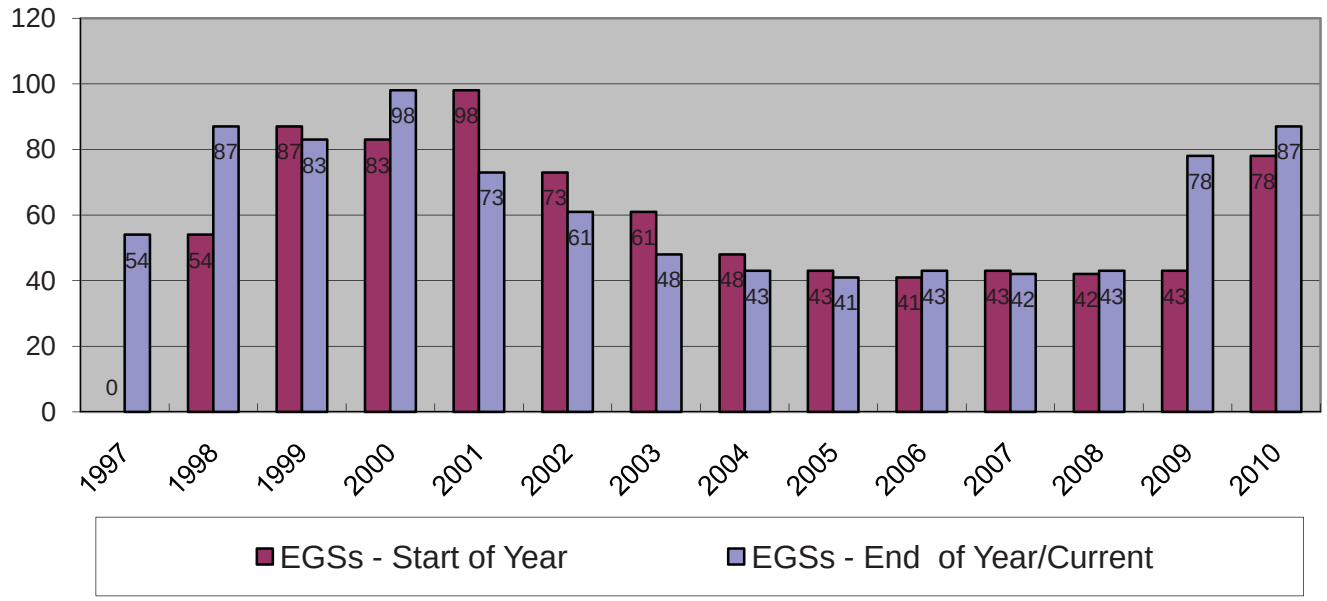
87 Active Licenses

0 licenses canceled

9 licenses approved

16 applications pending

Number of Licensed EGSs



Rail Excursions in Pennsylvania

Pennsylvania is a very diverse state with cities, farm land, mountains and valleys, and most areas are accessible by railroads. These railroads were carved into the landscape as a means of commerce and travel. Thanks to many entrepreneurs, rail enthusiasts and government agencies, these rail lines provide freight service as well as passenger excursions.

The opportunity to ride these rail lines exists in many areas of the Commonwealth. There are more than 20 tourist rail lines that will take one back in history and provide a seldom seen look of the scenic landscapes of Pennsylvania. The excursions are family oriented and provide several options to explore. Many like to ride for the historic value, entertainment, scenery or just the clickity clack of the wheels. Another option for railroad enthusiasts is the State Railroad Museum in Strasburg, Steamtown in Scranton and attractions around Altoona such as the Horseshoe Curve museum.

Even though these are excursion railroads, the equipment and operational procedures are inspected by the PUC Rail Safety Division. They must comply with state and federal safety regulations. A few of the rail excursions include:

Stourbridge Line Rail Excursions located in Honesdale. This is the birthplace of the American railroad. On Aug. 8, 1829, the Delaware & Hudson operated the first commercial locomotive in the western hemisphere at this location.

Strasburg Railroad located in Strasburg. This steam operated train provides a ride through the farm lands of Lancaster County. There are gift shops, restaurants, entertainment and occasionally a visit from Thomas the Tank Engine.

Jim Thorpe Rail Tours located in Jim Thorpe. One can ride in vintage 1920s -1930s era, fully enclosed passenger cars through the woodlands of Northern Pennsylvania.

Reading Blue Mountain & Northern Railroad located in Port Clinton. This rail line travels through the Lehigh Gorge and the anthracite coal region.

Middletown & Hummelstown Railroad located in Middletown. This rail excursion specializes in dinner trains, Santa Claus and Easter Bunny specials and rides to Indian Echo Caverns.

For information about specific excursions, call the railroads or visit the website: www.touristrailways.com.

PUC Motor Carrier Division to Hold Annual Conference

Enforcement Officers with the Bureau of Transportation and Safety, Motor Carrier Services and Enforcement Division will once again gather March 22-26 for their annual training conference in State College. Federal regulations require agencies that participate in the Motor Carrier Safety Assistance Program (MCSAP), to ensure their officers receive annual update training in their safety inspection responsibilities.

This year officers will be provided training in the inspection of vehicles transporting hazardous materials, including those in bulk cargo tanks; techniques and procedures for the detection of violations of hours of service standards; and updated information concerning revisions to the Commercial Vehicle Safety Alliance's North American "Out of Service Criteria".

The training is provided by PUC Enforcement Officers that have volunteered to take on the instructor role responsibilities, and have received specialized instruction themselves to serve as trainers. The Motor Carrier Division has an internal instructor development course tailored to assist those choosing to participate in internal training programs.

As in the past, agency leaders will be invited to attend the conference to recognize the Division Enforcement Officer of the Year, and other award recipients. In recent years Commissioners and the Director of Operations have joined the officers for the recognition ceremonies, and have participated in portions of the training agenda. In addition, guest speakers have come from the Pennsylvania State Police, Office of Public Radio Systems, Federal Motor Carrier Safety Administration (FMCSA), and industry.

This year FMCSA Pennsylvania Division Administrator Tim Cotter will reveal the latest information on CSA 2010 implementation. FMCSA will be launching this innovative program this year that will have a significant impact on how motor carriers and their drivers are evaluated and rated. Now more than ever, the expertise and skill of the roadside inspectors will be paramount, as ratings will be directly related to violations discovered during roadside inspections.

Pennsylvania has conducted over 19,000 roadside inspections in the first quarter of the federal fiscal year which began Oct. 1. The direct safety results of such inspection activity have been realized in an 8 percent decrease in large truck crashes and 10 percent decrease bus crashes in Pennsylvania reported in 2008 from the previous year. PUC Enforcement Officers have been increasing the oversight and inspection activity associated with bus carriers domiciled or traveling through the commonwealth as part of a national agenda to further decrease crashes involving passenger carrier operations.

The annual training conference is a time when officers can join in an educational atmosphere to share techniques and recharge their energy to prepare for another year.

Distribution Integrity Management is Mandatory

As of Feb. 2, 2010, natural gas distribution companies (NGDCs) must develop and implement the new requirements for integrity management (IM) of their pipeline facilities. The overall purpose of the new requirements is to enhance public safety by having NGDCs identify those pipeline facilities that pose the most risk, and to take specific actions to monitor, and if necessary, correct the discovered deficiencies.

The IM programs required by this rule are similar to those required for gas transmission pipelines, but tailored to reflect the differences in and among distribution pipelines. There are three components to DIMP:

1. Damage Prevention
2. Corrosion
3. Operator Qualification

Each natural gas distribution utility must develop a program and procedures to minimize the risk associated with each of the three components. For example, each gas distribution utility will develop a detailed risk assessment related to corrosion. This risk assessment will examine the type of pipe, age of pipe, leak history, pipe location, and environmental factors and determine a failure risk factor. For the pipelines with a high failure risk factor, the gas distribution utility will develop a program to retire and replace such pipe. Examples of pipelines that have a high failure risk factor are cast iron and bare steel pipelines. Pennsylvania currently has approximately 13,000 miles of cast iron and bare steel pipe.

In accordance with federal law, the rule also requires operators to install excess flow valves on new and replaced residential service lines, subject to feasibility criteria outlined in the rule. Excess flow valves (EFVs) are inexpensive safety devices that are usually installed in the gas line at the point where the customer service line joins to the gas main line in the street. If there is an excessively large flow of gas in the service line, as happens when there is a rupture, the EFV will stop the flow of gas into the service line until the problem has been determined, thus limiting the amount of gas that might leak into a home or larger building. Many NGDCs providing service in Pennsylvania currently install EFVs on new services and retrofit EFVs on services that require repair or maintenance.

Trigen-Philadelphia Energy's Base Rate Case

On June 26, 2009, Trigen-Philadelphia Energy Corporation filed a tariff supplement as a base rate case with the PUC seeking an increase of $3,381,804 to base rates effective Sept. 1, 2009. The requested additional revenue represented a 7.06 percent increase over existing base rates. Trigen offers steam service to approximately 278 customers in the City of Philadelphia. The tariff supplement was suspended by operation of law until April 1, 2010. The suspension date was voluntarily extended to June 1, in order to allow the intervening parties sufficient time to explore resolution through the Commission's mediation services.

The Office of Trial Staff filed its notice of intervention. In addition, the Philadelphia Large Steam Users Group and the Trustees of the University of Pennsylvania and the Hospital at the University of Pennsylvania filed formal complaints against the proposed tariff. Finally, Thomas Jefferson University and Thomas Jefferson Hospital filed a petition to intervene.

After three mediation sessions and several settlement conferences, the parties to this proceeding reached a comprehensive settlement of all disputed issues in the proceeding. The terms of the settlement limit the annual increase to base rates to $2,275,000 which represents an increase of 4.75 percent over existing base rates. Customers without long-term contracts with Trigen will have their rates increase by 5.37 percent. Existing customers under long-term contracts or customers receiving service under other available contract riders will experience an increase of 4.48 percent.

The Commission approved the comprehensive settlement without modification at its public meeting on Dec. 17, 2009.

Water and Wastewater Company Rate Increases

Rate Increases Approved
June 19, 2009, through Jan. 28, 2010

Utility Name	Amount($) Requested	Amount($) Granted	% of Increase	Action	Action Date
Little Washington Wastewater Company - East Bradford Division	17,819	17,795	20.25	Settlement	7/23/09
Little Washington Wastewater Company - Northeast PA Consolidated Division	633,942	556,307	34.90	Settlement	7/23/09
Can Do Inc. - water	176,913	176,913	14.00	Approved as Filed	7/23/09
Little Washington Wastewater Company - Links at Gettysburg Division	34,469	26,913	52.79	Settlement	8/6/09
Little Washington Wastewater Company - Bridlewood Division	97,411	97,411	64.20	Settlement	8/6/09
Little Washington Wastewater Company - Deerfield Knoll Division	20,486	20,486	35.20	Settlement	8/6/09
Sugarcreek Water Company	4,686	2,469	7.40	Alternative	8/6/09
Needmore Water Supply Company Inc.	53,335	19,600	99.00	Settlement*	8/27/09
Pennsylvania American Water Company	58,062,930	30,750,000	6.60	Settlement	11/6/09
Borough of Hanover - water	308,586	308,586	10.24	Approved as Filed	11/19/09
Templeton Water Company	16,228	14,235	50.00	Corrected/Approved	11/19/09
Cooperstown Water Company	13,998	10,900	25.70	Settlement	12/17/09
Fryburg Water Company	29,974	23,000	31.49	Settlement**	1/14/10
Penn Estates Utilities Inc. - water	281,927	162,543	40.00	Settlement	1/14/10
Penn Estates Utilities Inc. - wastewater	318,297	139,992	20.30	Settlement	1/14/10
Utilities Inc. - Westgate - water	158,326	44,452	12.68	Settlement	1/28/10

* This settlement agreement consisted of a two step increase; $12,000 immediately and an additional $7,600 after nine months.

** This settlement agreement consisted of a two step increase; $13,800 immediately and an additional $9,200 after 12 months.

PUC Acts to Increase Aqua's DSIC

In an order entered July 23, 2009, at Docket No. R-2008-2079310, the PUC honored a request by Aqua Pennsylvania to increase its distribution system improvement charge (DSIC) cap by an additional 2.5 percent – from 5 percent to 7.5 percent. When the cap is reached, the DSIC surcharge for an average residential customer would increase by $1.28, from about $2.57 to $3.85 a month.

The DSIC, which was implemented in 1997, is an automatic adjustment charge that enables water companies to recover certain infrastructure improvement costs between base rate cases through a quarterly surcharge on customers' bills. The costs of the infrastructure improvements are not flowed through the DSIC until after the improvements are operational and the DSIC resets to zero when a company files a base rate case or if the utility is over-earning. The company must notify customers of any change in the DSIC and an annual reconciliation audit is conducted by the PUC to ensure that no over-collections or under-collections have occurred.

Pennsylvania was the first state in the nation to implement the DSIC. Because of the DSIC, Pennsylvania water customers have experienced improved water quality, greater rate stability, improved fire protection and increased water pressure. Customers also experienced fewer main breaks and service interruptions.

Water and Wastewater Company Applications

Applications Approved

June 25 2009, through Jan. 29, 2010

Utility Name	Action	Territory	Action Date
PA-American Water Company/Saxonburg Borough	Water System Acquisition	Saxonburg Borough, Jefferson & Clinton Townships, Butler County	9/24/09
PA-American Water Company/South Coatesville Borough	WW Additional Territory	South Coatesville Borough, Chester County	11/19/09
Aqua Pennsylvania Inc./Paupackan Lake Association	Water System Acquisition	Lake & Paupack Townships, Wayne County	12/17/09
Aqua Pennsylvania Inc./Athens Township Authority	Water System Acquisition	Athens Township, Bradford County	12/17/09
PA-American Water Company/Mount Pleasant Township	Additional Territory	Mount Pleasant Township, Washington County	12/17/09
PA-American Water Company/Jackson Township	Additional Territory	Jackson Township, Butler County	12/17/09

Pennsylvania American Water Rate Increase

Pennsylvania American Water Company (PAWC) requested an overall rate increase of $58.1 million (12.5 percent) in April 2009 that would affect around 635,000 customers in 35 counties. The Commission's final decision to allow rates to increase by $30.75 million became effective in November 2009, resulting in a 6.6 percent increase to overall revenues after a settlement had been entered into with the opposing parties.

PAWC had proposed an increase in annual rates of $58.1 million (12.5 percent). Under the company's proposal, the average annual residential bill for the company's main division based on an annual usage of 50,400 gallons would increase from $515.76 to $586.80. According to the company's filing, the proposed increase is necessary to obtain additional funds needed for the company's substantial investment in new utility plant as well as increases in production costs and post employment benefits.

The Commission voted 4-0 to suspend the proposed increase for up to seven months from the proposed effective date and assigned the matter to a PUC administrative law judge for public hearings and a recommended decision or settlement.

Under the settlement, PAWC will increase rates by about $30.75 million (6.6 percent). The average residential customer will see their monthly water bill go from $42.98 a month to $46.14 a month. Under the company's original proposal, the monthly bill would have increased to about $48.90.

According to the settlement, PAWC has agreed not to file for a rate increase before April of 2011. The company also agreed to install distribution lines at company expense in specific areas of Washington County, incorporate several commitments addressing concerns of Camp Hill residents and increase the annual shareholder contribution from $150,000 to $250,000 for its assistance program.

Management Efficiency Investigations of Aqua and Superior Water Companies

The PUC released the audit reports on the Management Efficiency Investigations (MEI) of Aqua Pennsylvania Inc and Superior Water Company (SWC), in August 2009 and November 2009, respectively, which examined the companies' progress in implementing recommendations from prior Focused 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 15 new recommendations for Aqua PA and seven for SWC and that Aqua PA could realize annual savings up to $113,600 and one-time savings of up to $251,000 by implementing the recommendations contained in its report.

The Audit staff found that Aqua PA has effectively implemented nine of the 20 recommendations reviewed from its October 2006 management audit and has taken some action on the other 11 prior recommendations. As a result of its implementation efforts, Aqua PA is realizing annual savings of about $801,000 and a one-time savings of $15,000. Some of the changes made by Aqua PA since the 2006 audit include:

- Adopting policies and procedures to address the allocation of costs incurred by Aqua Services while providing shared services to Aqua PA and its affiliates resulting in a savings of about $83,000;
- Adopting a policy of applying a 60 percent overhead factor to all labor costs charged to affiliates for service provided by Aqua PA resulting in an additional $268,000 in overhead charges being recovered;
- Standardizing its distribution mapping administrative controls and tracking mechanisms; and
- Reducing unaccounted-for-water levels in the northeast region realizing avoided production and purification expenses of about $370,000.

Aqua PA's implementation plan submitted in response to the MEI indicated acceptance of 12 and partial acceptance of the other three follow-up recommendations. Some of the most significant recommendations accepted by Aqua PA included:

- Charging and collecting the interest that should have accrued on its affiliate, Suburban Environmental Resources, accounts receivable during the period monthly inter-company account balances were occurring and also for the period of delayed interest payment;
- Striving to further strengthen and more effectively utilize the internal audit function;
- Striving to drive the unaccounted-for-water levels in the northeast region to 20 percent or less to achieve additional savings and continuing participation in the Commission's non-revenue water pilot program;
- Creating a damage prevention program in the northeast and western regions that standardizes a statewide procedure for facility hit data capture, tracking and analysis methods; expand customer, contractor and employee education in all regions; and eliminate gentleman's agreements; and
- Reevaluating inventory management performance by correcting the inventory order quantities to maintain current inventory turnover levels.

The Audit staff found that SWC has effectively implemented five of the 10 recommendations reviewed from its November 2006 management audit and has taken some action on the five remaining prior recommendations. Some of the changes made by SWC since the 2006 audit include:

- Adding an independent member to the company's Board of Directors;
- Documenting procedures for inspecting and testing backflow prevention devices;
- Conducting customer satisfaction surveys; and
- Developing a management succession plan.

SWC's implementation plan submitted in response to the MEI indicated acceptance of six follow-up recommendations and partial acceptance of the other. SWC reported that it plans to complete implementation of the recommendations by 2010. Some of the most significant recommendations accepted or accepted-in-part by SWC included:

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

Area Codes are Exhausting

Pennsylvania is the first state to undergo three area code exhausts simultaneously. The area code relief planning continues for area codes 570, 814, and 717. There are basically two solutions:

- **An Area Code Split divides the area.** One section retains the existing code. The other section(s) are assigned a new code. Usually, consumers retain their same 7 digit telephone number. Calls within the same area code are still dialed using 7 digits. Calls between area codes require 1+10-digit dialing. Existing wireless numbers retain the old area code.
- **An Area Code Overlay adds a new code across the whole region.** All existing consumers retain their same telephone numbers. New consumers may be assigned a telephone number from either the new or the old area code. All calls require 10-digit dialing.

The industry proposes an area code overlay in all three cases.

In reviewing the area code relief plans, the Commission has ordered comments and public input hearings in designated locations. Visit our website at www.puc.state.pa.us for more information, such as the industry petition, public comments and hearing dates.

Regardless of which solution is adopted, there will not be a change in local (toll-free) calling. Calls that were local prior to the adopted area code relief will not become toll calls.

The comment period for area code 570 has closed, and public input hearings are scheduled. The meetings were scheduled for Wilkes-Barre on Feb. 1, Jim Thorpe on Feb. 2, and Williamsport on Feb. 3. The Scranton hearing was postponed from Feb. 5 to March 11, due to a snow storm. An additional hearing has been set for March 30 in Lock Haven.

The comment period for area code 814 is closed. The public input hearings were held for Altoona on Feb. 22, Johnstown on Feb. 23, State College on Feb. 24, Erie on Feb. 25, and Somerset on March 4.

The comment period for area code 717 ended on Feb. 23, 2010. The public input hearings are scheduled for March 18 in Harrisburg, March 22 in Lancaster, March 23 in Chambersburg, March 24 in York and March 25 in Gettysburg.

Pre-paid Landline Phone Service

Full Service Network (FSN) developed and tested a pre-paid landline service in Pittsburgh. FSN is currently expanding its service territory in Pennsylvania. FSN's pre-paid landline service consists of local dial tone, unlimited local exchange calling to customers in the local calling area, access to 911 and 711, operator assistance, call waiting, caller ID deluxe, return call (*69), caller ID blocking, unlimited sent-paid incoming calling, and one directory listing at a single pre-paid price.

No credit check or deposit is required, no bills are rendered, and service continues uninterrupted as long as the customer prepays on a monthly basis. The service is beneficial to consumers who cannot obtain service on a credit-based system, or who may be the victim of identity theft and are in the process of restoring their credit history. Additionally, the service is less costly than regular landline service, as there is less risk of uncollectables with a pre-paid service.

Last year FSN requested a declaratory order or waiver of certain Title 52, Chapter 64 regulations regarding traditional customer protection issues at Docket No. P-2009-2097542. The Commission was persuaded by FSN that certain consumer protection regulations regarding payment and billing standards, suspension and termination of service standards, and disputes and restoration practice standards did not apply to FSN's pre-paid service, and on Dec. 7, 2009, the Commission entered an order granting FSN a temporary two-year waiver of certain regulations.

Customers that have medical conditions still have consumer protection and service may not be terminated if medical certification is provided to FSN, even if pre-payments are not timely made. Customers also have 911 service for 5 days after service is discontinued.

Programs for TDDP & PMAS

On Oct. 1, 2009, the Commission submitted its annual report to the General Assembly for the Telecommunications Device Distribution Program (TDDP) and the Print Media Access System Program (PMAS). The TDDP provides free devices, such as text telephones and amplifiers, to qualifying persons with gross incomes of less than 200 percent of the federal poverty level. PMAS, also known as Newsline, is a reading service for persons with certain vision and physical disabilities.

Funded from the Telecommunication Relay Service surcharge, the TDDP and PMAS are operated by the Office of Vocational Rehabilitation with Commission oversight. In our report, the Commission confirms that all monies drawn from the fund were used only for qualifying services and equipment. To learn more about these important services and to see the report, please visit us at http://www.puc.state.pa.us/telecom/telecom_relay_service.aspx.

AT&T/TCG Pittsburgh/TCG New Jersey vs. Rural ILECs

In March 2009, AT&T, TCG Pittsburgh and TCG New Jersey filed 96 complaints against the rural incumbent local exchange carriers (RLECs) at Docket Nos. C-2009-2098380, C-2009-2098735 and C-2009-2099805. The complaints were alleging a violation of § 1301 requiring rates to be just and reasonable and § 3001(3)(4)(5)(8) and (9), which establish the policy of the Commonwealth to promote competition and a level playing field among all companies.

The companies allege "[t]he RLECs subject to the complaints maintain intrastate switched access rates that substantially exceed their corresponding interstate switched access rates for materially identical functionality." The matter consolidated into the Commission's ongoing investigation concerning intrastate access charges.

On Aug. 5, 2009, the Commission entered an order (Docket No. I-00040105) to discontinue the three-year stay that it previously imposed on this investigation. The same order consolidated 96 separate formal complaints (see Docket No. C-2009-2098380) against each of the rural telcos' access charges into this investigation. Evidentiary hearings are being conducted and a recommended decision is expected to be issued on or before Aug. 5, 2010.

In addition, in a separate phase of this investigation, on April 24, 2008, the Commission entered an order that reopened the then-stayed investigation for the limited purpose of addressing whether the monthly Universal Service Residential One-Party Service Rate Cap of $18 should be raised and other Pennsylvania Universal Service Fund issues.

A recommended decision on this phase of the investigation was issued on July 23, 2009. Exceptions and replies were filed and a staff recommendation is expected to be submitted for Commission action during the first quarter of 2010.

PUC Issues Decision on Basic Service in Bundled Service Packages

The PUC recently issued its decision upon reconsideration, revising the final form regulations previously adopted by the Commission for consumer protections applicable to basic services provided in bundled service packages at Docket No. L-00060179. The final form regulations were revised to reflect the Commission's previously granted waivers from consumer protection regulations.

The now final form regulations codify the existing waivers previously granted to local exchange carriers (LECs) that provide bundled service packages and, at the same time, ensure that residential telephone customers are protected from an abrupt termination of basic service if the customer fails to make full payment for the bundled service package. Continuation of "basic service" for residential telecommunications customers is essential for emergency services, for contact with schools, doctors, hospitals and family, and for Telecommunications Relay Services. The revised final form regulations strike an appropriate and lawful balance between the LECs' right to offer bundled service packages at a single rate and consumer protection in regard to continuation to basic service.

PUC Will Convene SEARCH to Review Standard Business Pactices for NGDCs

On Oct. 17, 2009, the PUC's proposed regulations seeking to establish standard business practices for implementation by natural gas distribution companies (NGDCs) were published in the Pennsylvania Bulletin for comment by interested parties. By encouraging the use of a common set of business practices, operating rules and supplier coordination tariffs, the proposed rulemaking seeks to increase efficiency in industry operations and facilitate the entry and participation of natural gas suppliers (NGSs) in the retail natural gas supply market.

PUC staff is currently reviewing comments and reply comments filed in December 2009. As provided for in the PUC's order adopted in April 2009 initiating this proposed rulemaking, the Director of Operations will be convening stakeholders to address details associated with the supplier coordination tariffs, best business practices and communications standards. The stakeholder process is contemplated to run concurrently with the rulemaking proceeding. An announcement will be made in the upcoming weeks about the stakeholder process.

Under the proposed regulations, a NGDC would be required to file a customer choice system operations plan for Commission review. Such a plan would include a supplier coordination tariff, business practices and standards, communication standards and copies of standard agreements, forms or contracts for use by NGSs.

The proposed regulations also provide that NGDCs may, as part of their next annual filing under 66 Pa.C.S. §1307(f), include a proposed tariff rider to establish a nonbypassable reconcilable surcharge designed to recover the reasonable and prudently incurred costs of implementing and promoting natural gas competition within the Commonwealth.

Specific business practices and standards identified by the proposed regulations include imbalance trading, tolerance bands, cash out and penalties, nominations and capacity. The reference to communications standards entails the use of electronic transactions to exchange data needed for nominations and delivery requirements, customer enrollment and usage and billing and payments.

This proposed rulemaking proceeding and stakeholder process was directed by the Commission's Sept. 11, 2008, Final SEARCH Order and Action Plan, which was aimed at increasing effective competition in Pennsylvania's retail natural gas market. The working group - SEARCH, Stakeholders Exploring Avenues for Removing Competition Hurdles – was formed by the Commission in accordance with the Section 2204(g) of the Public Utility Code after finding that effective competition does not exist. The docket number for this proceeding is L-2009-2069117 and to participate in stakeholder discussions, interested parties may send an email to ra-OCMO@state.pa.us.

Task Force for Small Gas Companies

The Small Gas Task Force is currently in the process of conducting detailed financial reviews on a number of small gas companies, as well as evaluating their current rates and recent rate case filings, to determine their overall financial viability.

On Jan. 15, the Commission voted unanimously to establish a task force to evaluate each small gas utility under PUC jurisdiction to determine the sufficiency of the company's current rates as well as the ability of its distribution system to provide safe and adequate service to its customers.

A face-to-face meeting was convened in Mars, Butler County on June 17, 2009, in which members of the Commission's Gas Safety, Office of Communications and Bureaus of Audits, Fixed Utility Services and Law met with representatives from various small gas utilities to discuss a range of issues. Among those items discussed were:

- The array of reports the companies are required to file;
- Gas safety issues of concern to the PUC;
- An overview of the ratemaking process;
- Processes for terminations and abandonments;
- The need to maintain accurate records for plant and expenses;
- The ability to maintain sufficient funds and earn a fair return by filing a base rate case and keeping current with gas cost rate adjustments; and
- Suggestions for customer notifications.

Through the efforts of this task force, information intended to help small gas companies better understand the ratemaking process, affiliated interest agreements, consumer protections, and weatherization is available on the PUC's website at http://www.puc.state.pa.us/naturalgas/naturalgas_small_ng_companies.aspx.

Natural Gas Explosion Settlements

After concluding investigations into various incidents concerning natural gas explosions across the Commonwealth, the PUC recently approved the following settlements with Equitable Gas Company, Columbia Gas and UGI Utilities Inc.

In August 2009, the PUC finalized a settlement with Equitable following a formal investigation by the PUC's independent prosecutory staff into an Aug. 21, 2004, natural gas explosion in Ross Township, Allegheny County. The resident of the home suffered burns on his face and arms and his home was destroyed. Under the terms of the settlement, which was modified by the PUC, Equitable was directed to contribute $25,000 to its Hardship Fund and $25,000 to its Hardship Repair Fund. In addition, Equitable was directed to:

- Provide 20 combustible gas indicators to small natural gas distribution companies with training in the use of the equipment;
- Maintain a permanent record file, for future reference, of any written or computer-generated engineering analysis pertaining to the review and potential determination of safety-related conditions; and
- Amend its operating procedures to provide that information related to any main line valve that is partially or fully closed due to unusual operating conditions be recorded in the valve inspection report when that main line is returned to the full position.

In December 2009, a settlement with Columbia was finalized based on an incident that occurred on Aug. 10, 2006, in which a small leak in a gas pipe resulted in an explosion and fire at a residence in Mount Pleasant Township, Westmoreland County. The explosion and fire injured the occupant of the house, who suffered second degree burns. The PUC's investigation alleged that Columbia violated certain sections of the Public Utility Code and federal regulations pertaining to maintaining records on the corrosion of its pipelines. The settlement's terms require Columbia to cease and desist from committing any further violations of gas safety regulations and to pay $50,000 into the Dollar Energy Fund.

In January 2010, the PUC approved a $160,000 settlement with UGI related to a natural gas explosion on Mohawk Street, Allentown, Lehigh County, which destroyed a building and adjacent row homes and caused one minor injury. The explosion occurred in connection with an attempt to remove a meter. The PUC imposed a $160,000 penalty on UGI, half of which is a civil penalty and half of which is to be paid to the Low-Income Usage Reduction Program (LIURP). The settlement also requires UGI to do as follows:

- Hire an outside consultant to review and recommend changes to its procedures, training and operator qualifications with regard to the meter replacement task;
- Submit its revised procedures to the PUC's Gas Safety Division for approval;
- Retrain and re-qualify all required employees and contractors using the revised procedures within six months of the PUC's Gas Safety Division's approval of those procedures;
- Review and rewrite its drug and alcohol program so that UGI's drug and alcohol rules and requirements extend to its contractors and subcontractors;
- Include in the revised meter shutoff procedure the requirement, if applicable, that the curb valve be closed in addition to the meter valve; and
- Cease and desist from committing any further violations of gas safety regulations.

In all of the settlement cases, the utilities are not permitted to claim or include for recovery in future ratemaking proceedings any costs or penalty monies related to the settlements.

Prepare Now Campaign Continues

The Commission's focus for the seventh year of its *Prepare Now* outreach campaign is:

- Increasing consumer awareness on rising energy prices;
- Exploring ways to reduce energy usage;
- Educating consumers about the availability of low-income programs; and
- Increasing awareness for safe home heating.

In October, the Commission sent a letter signed by all five Commissioners to electric and natural gas utilities under the PUC's jurisdiction asking the utilities to join the PUC in reaching out and educating consumers. The letter contained specific suggestions as to how the utilities can help and urged the utilities to take extra steps to help consumers *Prepare Now* for the higher costs of winter heating. The utilities were asked to inform PUC Chairman James H. Cawley of any of the suggested actions they implement. The Commission issued a press release in February detailing the information in those letters.

In addition to its *Prepare Now* campaign, the PUC also is actively participating in Gov. Rendell's annual *Stay Warm PA* campaign – "Turn Down. Seal Off. Save Up."

Visit www.turnsealsave.org for more information.

Philadelphia Gas Works 2009 Rate Increase Filing

Philadelphia Gas Works (PGW) filed a rate increase request of $42.5 million or a 5.1 percent increase on Dec. 18, 2009. A customer using 92 Mcfs would pay $8.54 more per month or a 6.5 percent increase. There are two main reasons for the rate increase filing. First, the utilities are attempting to recover the investments which have been made since its last rate increase. Second, operating expenses have increased especially in the areas of health care and fuel expenses. Current rates and customer growth (or lack of it) are not sufficient to cover these increases, according to PGW.

PGW was granted emergency rate relief in December for $60 million to cover interest costs. The previous base rate increase was in Sept. 2007, at which time PGW was granted an increase of $25 million.

Winter Reliability Meeting

The PUC held its annual Winter Reliability Assessment Meeting on Nov. 5, 2009.

Presentations were given by PUC staff, the Energy Association of Pennsylvania, PECO Energy Company, Texas Eastern Interstate Pipeline and UGI Energy Services.

At the meeting presenters discussed the various conditions that may affect supply, price and service reliability of natural gas this winter. The general presenter consensus was that natural gas and propane companies across Pennsylvania are equipped to meet the conditions forecast for this winter.

An Energy Association of Pennsylvania representative said member natural gas companies across the state are well-prepared to accommodate the conditions forecasted in their winter season planning.

A representative with PECO Energy Company said its supply outlook is good as the storage of natural gas is at record levels and demand has not rebounded.

Texas Eastern Interstate Pipeline officials presented information on the expansion of its system to meet the needs of shippers as its supply dynamics are changing.

A UGI Energy Services representative said propane supply and transportation are positioned for normal weather patterns and demand.

The individual presentations can be viewed on the PUC website under Natural Gas.

PUC Approves Settlement for Sale of Dominion Peoples to Peoples Hope

By opinion and order entered Nov. 19, 2009, the PUC approved a settlement involving the sale of Dominion Peoples Natural Gas Co. (PNGC) to Peoples Hope Natural Gas Cos. In approving the settlement, the Commission determined that it was in the public interest and provided substantial public benefits. The settlement also includes the following conditions:

- Application of a $35 million base rate credit over three years beginning with the next base rate case;
- Cap existing base rates until Jan. 1, 2011;
- Improve funding for low-income programs including $300,000 for Hardship Funds and $768,000 for its Low-Income Usage Reduction Program;
- Improve customer service;
- Return customer service functions to Pennsylvania, creating Pennsylvania-based jobs and producing better customer service by employees more familiar with Pennsylvania standards;
- Return senior management functions to Pennsylvania, coupled with a commitment to maintain the company headquarters in or near Pittsburgh for at least 10 years;
- Provide pension security for employees and retirees; and
- Insulate PNGC from activities of the parent company's other investments.

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

Gas Supplier Licensing

Activity from June 20, 2009, to Jan. 27, 2010.

92 Active Licenses

2 licenses canceled

9 licenses approved

5 applications pending

See related chart on Page 16.

Pennsylvania's LIHEAP Funding

Pennsylvania's portion of federal LIHEAP funding for Fiscal Year 2009-10 is about $274.9 million, the same as last fiscal year's basic award. Of this amount, Department of Public Welfare (DPW) allocated $178.7 million for the LIHEAP Cash component and $63.7 million for the Crisis component.

The LIHEAP Cash Program opened on Nov. 2, 2009, and closes April 2, 2010, extended from March 15. Cash benefits can range from a minimum of $100 to a maximum of $1,000. The factors that determine the amount of a Cash grant are household size, household income, heating region, and fuel type.

The Crisis Program runs from Jan. 4 to April 2, 2010, also extended from March 15. The minimum Crisis benefit is $25 and the maximum Crisis benefit is $400, with the average being $326. There will be only one Crisis benefit payment per household.

On Jan. 20, the federal government released $490 million in LIHEAP emergency contingency funds of which Pennsylvania's share will be $26,205,777. Last year Pennsylvania received $33.4 million in contingency funds. In recent years, DPW used a large portion of contingency money to fund the informal "termination program" where DPW begins to pay Crisis grants to customers of regulated utilities who receive termination notices dated Feb.1 or later. Those customers are not usually eligible for Crisis funds during the winter termination period.

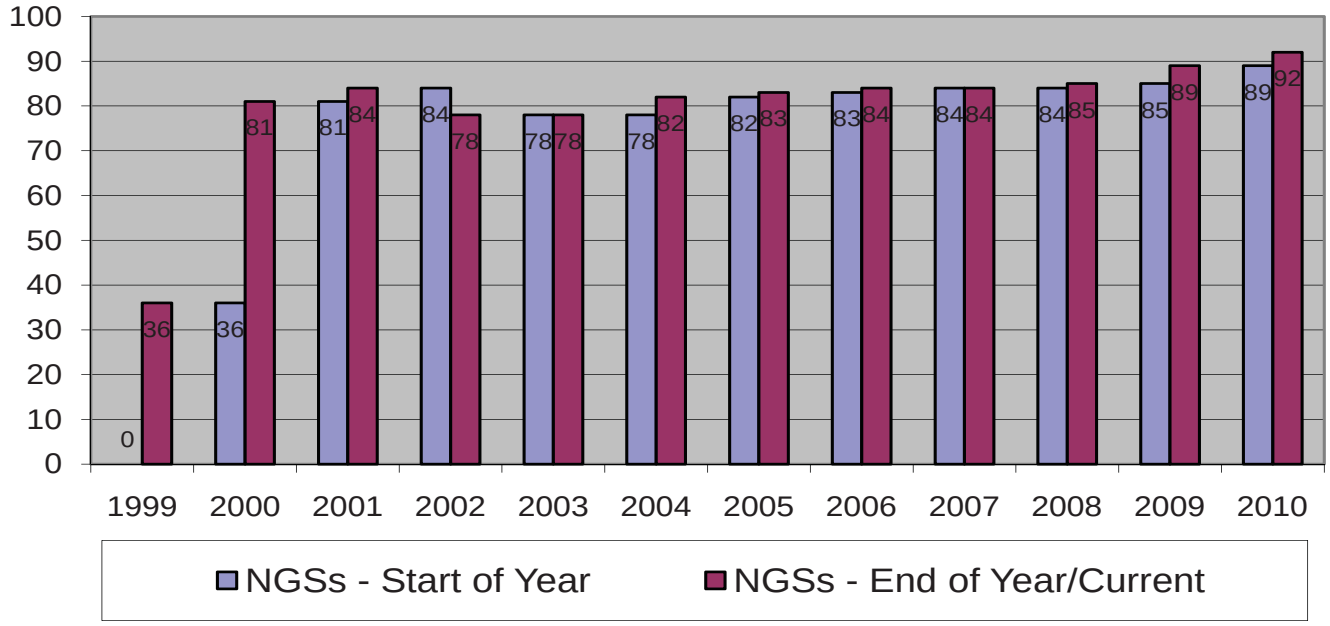
Feedback

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

Staff from the Office of Administrative Law Judge, Bureau of Audits, Bureau of Conservation, Economics and Energy Planning, Bureau of Consumer Services, Office of Communications, Bureau of Transportation and Safety, Office of Special Assistants, Bureau of Fixed Utility Services, Office of Trial Staff, 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.

Number of Licensed NGSs



Energy Price Forecast for January 2010

The Energy Information Agency's (EIA) January 2010 Short Term Energy Outlook reports that West Texas Intermediate (WTI) crude oil prices averaged $62 per barrel in 2009 and will average about $80 per barrel in 2010. EIA assumes the United States real gross domestic product will grow by 2 percent in 2010.

Average United States price for regular-grade gasoline was $2.35 per gallon in 2009 and is expected to increase to $2.84 in 2010. Prices at the pump are expected to exceed $3 per gallon in the upcoming spring and summer. Diesel is expected to reach an average cost of $2.98 in 2010.

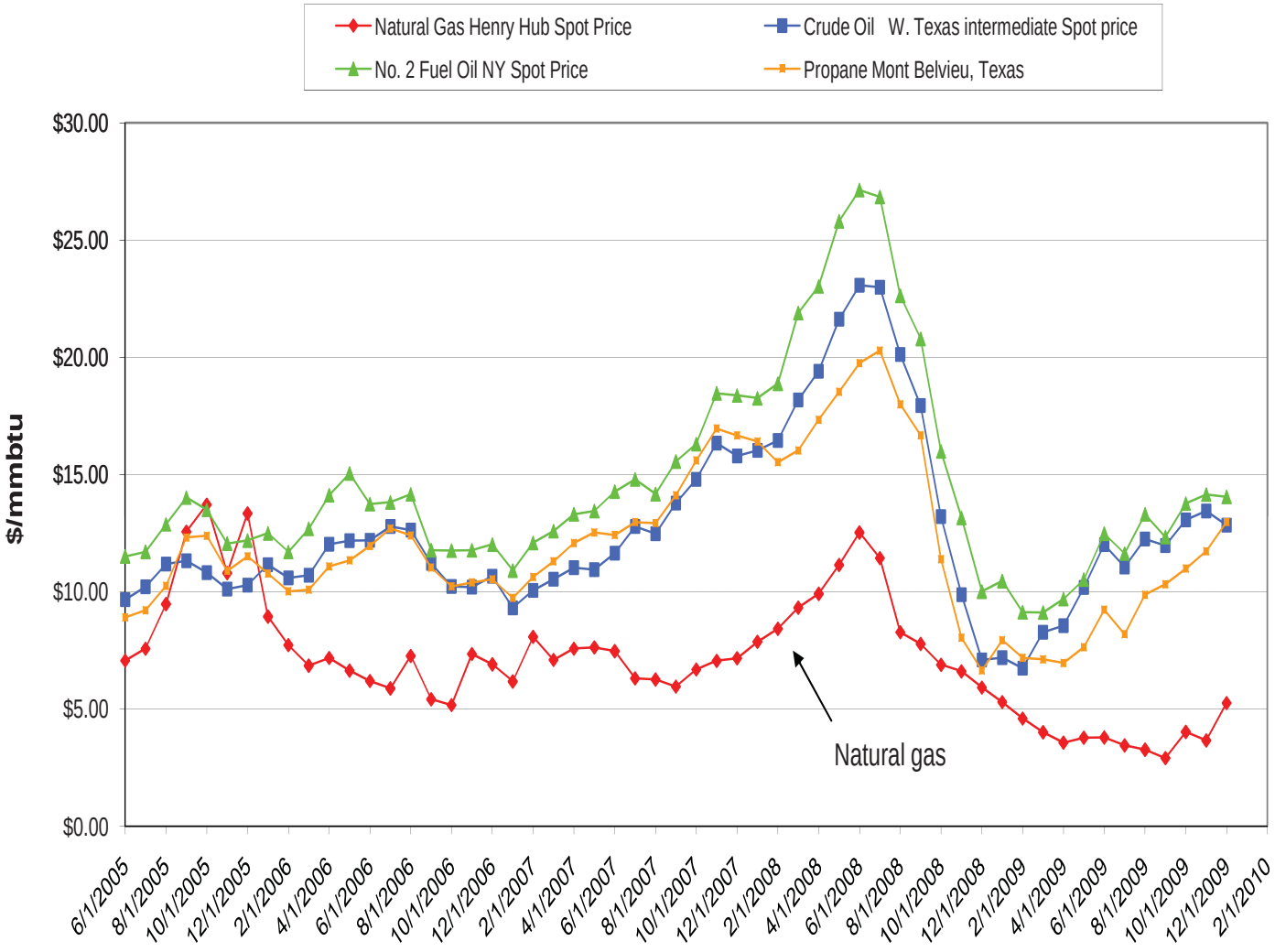
The annual average Henry Hub (Louisiana) wholesale natural gas price is expected to rise in 2010 to $5.36 per thousand cubic feet (Mcf) from $4.06 per Mcf in 2009.

Residential propane prices are projected to average $2.54 per gallon in the northeast for 2010. Residential heating oil retail prices for 2010 are projected to average $2.88 per gallon, an increase of 36 cents from the 2009 average.

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)



FCC Highlights

The Federal Communications Commission (FCC) recently issued several important decisions.

In the Matter of a National Broadband Plan for Our Future, Docket No. 09-51.

Starting in August 2009, the FCC issued several notices seeking comment on the changes needed to provide broadband throughout America. The FCC must submit a report to Congress with recommendations in March 2010. The Commission is involved because the FCC is considering use of the Federal Universal Service Fund (FUSF), a $7 billion fund to which Pennsylvania now pays $176 million more than it gets back, to finance broadband. Pennsylvania's payments could greatly increase given the FCC's own estimate that using the FUSF to pay for broadband could increase the fund another $20 to $350 billion depending on how broadband is defined. Pennsylvania's Chapter 30 law, which authorizes local rate increase opportunities to fund broadband and which the United States Internet Industry Association considers the most aggressive rural broadband deployment program in the country, is attaining broadband availability throughout Pennsylvania independent of the FUSF. Every rural Local Exchange Carrier, except for Windstream and Embarq (now CenturyLink), completed their broadband availability programs in December 2008. Windstream and CenturyLink will complete their programs in 2013. Verizon will complete their program in 2015.

Universal Service and Reseller Low-Income Programs. Motion for Reconsideration of the Pennsylvania Public Utility Commission on Petition of TracFone Wireless Inc. for Modification of Public Safety Answering Point (PSAP) Condition to Eligible Telecommunications Carrier (ETC) Designation; Virgin Mobile USA, L.P's Petition for Forbearance and Designation as an Eligible Telecommunications Carrier, Docket No. 96-45.

The Commission's Motion for Reconsideration of an April 2009 decision is still pending before the FCC. The FCC's April 2009 opinion and order allowed TracFone Wireless, a provider of wireless Lifeline service, to "self certify" that customer 911 calls from TracFone will reach the right Public Safety Answering Points (PSAP) in Pennsylvania if the PSAP operator refuses, within 90 days of being asked, to certify that those calls are reaching the PSAP. The FCC granted similar relief to Virgin Mobile, another wireless Lifeline provider, when granting Virgin Mobile forbearance from the obligation to own facilities, a requirement to get federal universal service fund support. The FCC directed Virgin Mobile to file for ETC designation with the Commission because Pennsylvania is now exercising federal jurisdiction to make those designations in the future. The PUC is particularly concerned now that the FCC's Universal Service Monitoring Report shows that Pennsylvanians are contributing $176 million more into the fund than is returned. Recent Universal Service Corporation (USAC) data shows that 92 percent of the cost increase is for reseller low-income programs.

Petition Of TracFone Wireless Inc. For Modification Of Conditions Adopted In the FCC's Order Granting TracFone Forbearance From Eligible Telecommunications Carrier (ETC) Requirements, CC Docket No. 96-45.

The FCC has not yet acted on the April 27, 2009, TracFone petition asking the FCC for special treatment on compliance with annual verification requirements imposed on TracFone when the FCC granted forbearance in 2005. At that time, the FCC required TracFone to verify that each of its Lifeline customers has annually self-certified that the customer is the head of their household and that the customer receives Lifeline-supported service only from TracFone. The FCC imposed this special condition because TracFone was the only carrier not required to own facilities in order to get the ETC Designation that allows a carrier to get federal universal service support. The Commission filing opposed removing the condition given the increased costs for the Low-Income Program due to resellers providing Lifeline service and to minimize fraud to the fund.

Core Communications Inc. v. Federal Communications Commission, USDC DC CV No. 08-1365.

In January 2010, the United States District Court for the District of Columbia issued an opinion affirming the FCC's legal theory that the provision giving the FCC authority to ensure that interstate rates are "just and reasonable" for interstate services, applies to dial-up internet calls to the internet. This is the third time the FCC has defended their authority to set the compensation rate for dial-up Internet calls even though the calls are local calls that terminate in an end-office before going to the Internet. The decision was limited to dial-up Internet calls without expressly addressing federal authority to set intercarrier compensation rates for intrastate calls. However, language in the court's decision raises the issue whether the FCC can now use the decision to assert the authority to set intercarrier compensation for all calls, including local and long-distance intrastate Voice over Internet Protocol (VoIP) calls.

FERC Highlights

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

PUC Participates in Federally Funded Transmission Study

As a result of passage of the American Recovery and Reinvestment Act of 2009 (ARRA), funding was made available on a competitive bid basis to support a cooperative effort by state governments (including public utility commissions) and regional transmission organizations (RTOs) to develop recommendations to be submitted to Department of Energy (DOE) for expansion of the United States transmission system. In August 2009, a consortium of 40 states filed an application with DOE, in response to a funding opportunity notice, seeking millions of dollars to support the state-related portion of the collaborative effort captioned the Eastern Interconnection States Planning Council (EISPIC). The PUC is one of the 40 states participating in this effort. A similar bid request was filed by the RTO group (Eastern Interconnection Planning Collaborative or EIPC).

DOE has decided to pursue a cooperative approach with the states and RTOs in light of recent litigation in federal court that has delayed implementation of aspects of the Energy Policy Act of 2005 which proposed the establishment of National Interest Electric Transmission Corridors, a process that allows for little state input.

On Dec. 18, 2009, the DOE announced that the EISPIC group would receive $14 million in funding and the EIPC group would receive $16 million in funding. With this financial support, the EISPIC and EIPC groups will now work collaboratively toward their common goal of developing a proposal for the future development of the national transmission system. This multi-year effort is expected to continue through fiscal year 2013.

The EISPIC/EIPC collaborative process is a pro-active attempt by the federal government to solicit state input into the planning process for design of the eastern interconnection portion of the electric grid. This process will emphasize the integration of renewable resources. In this effort, the PUC will work closely with the Governor's representative from the Pennsylvania Department of Environmental Protection toward maintaining a reliable electric transmission system for PA while developing avenues for the utilization of Pennsylvania renewable resources. The joint efforts of EISPIC and EIPC will hopefully result in the production of a recommendation for future expansion of the eastern interconnection transmission system.

FERC Technical Conference on RTO Governance, Seeks Comments

FERC's 2008 Order 719 rulemaking ordered Regional Transmission Organizations to modify their tariffs to address a perceived need to improve RTO operations and increase the competitiveness of wholesale electricity markets. In its December 2009 review of RTO filings, FERC ordered that RTO governance and responsiveness issues be reserved for additional review, scheduling a Feb. 4, 2010, public technical conference to obtain additional input from RTOs, RTO members and the public, receiving a number of presentations both supportive and critical of RTO governance and responsiveness. Comments on the hearing and issues raised are invited from the public.

FERC Seeks Comments on Proposed RTO Metrics

FERC has invited public comment on performance metrics developed jointly with the United States General Accounting Office and RTOs/ISOs to measure the benefits of organized markets and the organizations that have been created by FERC to foster such markets. Comments on the proposed metrics were due March 5, 2010, and reply comments are due on March 19, 2010.

FERC Announces New Transparency in Federal Enforcement Investigations

FERC has revised its procedures for finalizing enforcement actions in an order issued in December 2009 (FERC Docket PL10-2). Previously, FERC's Office of Enforcement conducted non-public investigations into alleged violations of statutes, rules or orders. The first time that the public would become aware of the matter would be through the issuance of a final agency order approving a settlement or enforcement action, with no opportunity for the public to comment. New procedures provide for the issuance of a Staff Preliminary Notice of Violation. Although this notice does not provide any public right to intervene or become a party to FERC's investigation, it does provide the public with an opportunity to call the agency's attention to facts or issues that may be relevant to the investigation and provides useful transparency in wholesale market enforcement matters.

FERC Reopens Paper Hearing into Backbone Transmission Cost Allocation

As a result of a federal appeals court remand, FERC has initiated a paper hearing into the appropriate allocation methodology for backbone transmission facilities (FERC Docket EL05-121). FERC's prior order directed all new transmission facilities with voltages 500 kV and above, FERC directed a postage stamp allocation process. The Seventh Circuit Court of Appeals found record evidence in support of FERC's order lacking, vacating it and remanding for further proceedings. FERC directed PJM to make an informational filing by Feb. 20, 2010, and parties 45 days thereafter to make responsive filings.

Rulemaking to Revise 52 Pa. Code Chapter 56

On Sept. 25, 2008, the Commission adopted a Notice of Proposed Rulemaking (NOPR) that will amend 52 Pa. Code Chapter 56 to bring it into compliance with Act 201 (Chapter 14 of Title 66). Chapter 56 contains the Standards and Billing Practices for Residential Utility Service and includes the regulations governing the termination process, credit, applications, billing, payment, and dispute procedures. The Commission also will use this opportunity to address other issues with Chapter 56, including updates needed due to technological advances including electronic billing and payments.

Twenty-four parties submitted comments on the proposed regulations by the April 20, 2009, deadline and on May 20, 2009, the Independent Regulatory Review Commission submitted their comments. The comments, along with the proposed regulations, are available on the Commission's website under "Consumer Education."

At the Aug. 27, 2009, public meeting, the Commission addressed one part of the rulemaking by approving a blanket waiver of 56.21 relating to the physical delivery of bills while the rulemaking is pending. This will allow utilities to implement electronic billing programs while the Commission promulgates permanent regulations in the revised Chapter 56.

Upon review of the comments and input from the General Assembly oversight committees, the Office of Attorney General and the Independent Regulatory Review Commission (IRRC), the Commission will publish final regulations. The Commission strives 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 is dedicated to using a collaborative process that takes into account the perspectives and needs of both utilities and consumers and providing all parties an opportunity to participate in these efforts. For more information, see Docket No. L-00060182.

Settlement with PAWC over Terminations Without Proper Notice

On March 26, 2009, the PUC finalized a settlement agreement that ended an informal investigation into an alleged failure to provide the required notices of termination at least three days prior to the scheduled terminations of service by Pennsylvania American Water Company (PAWC). On Dec. 17, 2007, Commission staff initiated an informal investigation into the company's alleged failure to provide the required statutory notices of termination.

As part of the investigation, Commission staff determined that the company violated a section of the Public Utility Code, resulting in 1,666 terminated accounts in August 2007. Additionally, 697 of those affected customers had service restored within 24 hours, and 969 of those customers had service restored over 24 hours later. The company required 1,236 of the affected customers to pay a reconnection fee in order to have their service restored.

As part of the settlement, PAWC agreed to pay a $3,000 civil penalty and will provide each of the 969 customers who were terminated, but not reinstated within 24 hours, a $150 credit toward their accounts. For each of the 697 customers who were terminated but reinstated within 24 hours, PAWC will provide a $125 credit toward their account. Additionally, for each of the 1,236 customers who were improperly charged a reconnection fee, the company either provided a refund or will credit the full amount charged to their accounts. Also as part of the settlement, the company will begin a "spot check" process to ensure that the correct number of attempts is made prior to any discontinuance of service, and also will begin quality analysis and additional training. See Docket No. M-2008-2066530 for more information on this settlement.

FirstEnergy Settlement Regarding Terminations

On Dec. 03, 2009, the Commission approved a settlement with FirstEnergy that includes a $200,000 contribution and restitution for some customers, ending an informal investigation into terminations that occurred between Aug. 11-26, 2008. The Commission directed the company to pay a $175,000 contribution to the Dollar Energy Fund and $25,000 to FirstEnergy's Low Income Usage Reduction Program (LIURP). Dollar Energy is a non-profit organization that provides financial assistance to customers who are on a low or fixed income. LIURP helps reduce household electric use through weatherization and education. Also as part of the settlement agreement, FirstEnergy agreed to credit each unlawfully terminated customer $50-$200 to their accounts.

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FirstEnergy Settlement

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On Oct. 29, 2008, the PUC's prosecutory staff initiated an informal investigation into FirstEnergy's handling of 492 unlawful terminations. It was determined that due to a computer system malfunction, FirstEnergy failed to properly deliver the 10-day notice of terminations required by law under Chapter 14 of the Public Utility Code. In addition, 446 of the 492 terminations were unable to be reached in the required 3-day notice of termination. The accounts terminated were located in the Penelec, Met-Ed and Penn Power territories. For more information on the case, see Docket No. M-2009-2112849.

PPL Settlement over Termination-Related Activities

On Nov. 19, 2009, the Commission finalized two settlements with PPL Electric Utilities Inc. that include $471,000 in monetary penalties and contributions to low-income programs, as well as improvements to customer service procedures and training, ending two informal investigations into the company's termination practices.

The one settlement deals with the Aug. 8, 2008, termination of electric service to a residence in Lancaster, Lancaster County. A fire destroyed the home on Aug. 9, 2008, killing a resident. Although Pennsylvania State Police were unable to determine the fire's cause, the PUC's independent Prosecutory Staff began an informal investigation into PPL's termination practices. If the issue had been litigated, prosecutory staff would have contended the company violated various portions of the state's Public Utility Code and Commission regulations including provisions on termination notices, medical certificates, payment arrangements, restoration of service and dispute rights.

Under the settlement, the company agreed to not terminate service to residential customers on Fridays before Jan. 1, 2013, contribute $400,000 to its Operation HELP program, pay a civil penalty of $50,000 and revise customer service procedures concerning terminations, medical certificates and disputes.

The other settlement involves an April 9, 2008, termination of electric service to an apartment in Mechanicsburg, Cumberland County. A fire destroyed the apartment and six other apartments on May 3, 2008. Following the incident, the PUC's independent prosecutory staff began an informal investigation into PPL's termination practices. If the issue had been litigated, prosecutory staff would have contended the company violated various portions of the state's Public Utility Code and Commission regulations including provisions on termination notices, medical certifications and dispute rights.

Under the settlement, the company agreed to contribute $20,000 to its Operation HELP program, pay a civil penalty of $1,000 and revise its procedures for customer service representatives receiving calls on terminations. The cases are searchable under Docket Nos. M-2009-2058182 and M-2009-2059414.

Verizon Transfer Pilot Program

In July 2009, Verizon met with the PUC's Bureau of Consumer Services (BCS) staff to discuss a proposal by the company to conduct a 6-month "Warm Transfer Process" that would change the way in which BCS handles service complaints. This trial will only involve Verizon service complaints and not affect any other complaints against Verizon.

Verizon's proposal is as follows: when a customer contacts BCS with a complaint about a Verizon service issue, BCS will record the typical information from the customer (name, address, telephone number, etc.). BCS will verify that the customer has already contacted Verizon about the problem, but was not satisfied with Verizon's response and/or resolution to the complaint. Once the information has been documented BCS will offer the customer two options. The first option the customer may choose is to continue to file an informal complaint against Verizon and follow the informal complaint process.

The second option that the customer may choose is to allow BCS to transfer the customer to a special hotline of Verizon service representatives, who will immediately begin to work to resolve the customer's complaint. The customer will be told this is a voluntary option and the customer may call BCS back if they are not satisfied with Verizon's resolution of the complaint. BCS will also provide the customer with the toll-free telephone for Verizon's special hotline.

This transfer to Verizon will be considered a "warm transfer," meaning that the BCS representative will transfer the customer to Verizon and stay on the line to verify that the call has been completed to Verizon. When a customer chooses this option, the BCS will record this as an Inquiry and take no further action.

Approval was granted for Verizon's trial, and the trial began on Sept. 22, 2009. BCS is tracking and monitoring the progress of the trial and will provide monthly updates to the Commission on the progress of the trial until the trial period elapses.

From the beginning of the trial, Sept. 28, 2009, to Jan. 29, 2010, a total of 300 customers have opted to be transferred to Verizon's Warm Transfer line. Of those, 11 returned to BCS because they were dissatisfied with the Warm Transfer process. These 11 cases were taken in as informal complaints for investigation.

UCARE Report

The *2008 Utilities Consumer Activities Report and Evaluation: Electric, Gas, Water and Telephone Utilities* (UCARE) is available on the PUC's website. This report provides consumers with the ability to review their local utility's customer service performance for the past two years. It also allows utilities the opportunity to compare their performance to other utilities within their industry.

The 2008 UCARE reveals that the Bureau of Consumer Services (BCS) received 81,494 contacts from utility customers that required investigation. Consumer complaints were down by one percent from 2007 to 2008. Complaints about the performance of company personnel was the main reason for residential consumers filing complaints in the electric industry, while billing disputes were the main reason in the gas and water industries in 2008. Billing disputes also registered the highest volume of complaints over the year in the telephone industry. Meanwhile, the number of payment arrangement requests (PARs) handled by BCS rose by 21 percent from 2007 to 2008.

Preliminary statistics from 2009 are also available on the website. Further analysis and details of the 2009 complaint and PAR data will appear later this year in the 2009 UCARE.

Commission Appoints New Director for BCS

On Jan. 28, the PUC approved the appointment of Alexis Bechtel of Reading as the next director of the Bureau of Consumer Services (BCS). During Alexis' career, she has developed significant expertise in several public utility matters, has held several high level management positions and has focused on customer service and regulatory compliance.

BCS responds to and investigates informal complaints by residential and small commercial customers. It also serves as the mediator between utilities and consumers, working to resolve complaints or develop payment arrangements.

PUC Posts Positions Created by Federal Stimulus Funds

In January, the PUC posted two limited term positions to assist with the regulatory oversight of the electric industry. Creation of these positions is possible because of $1.067 million in federal stimulus funds received by the PUC from the Department of Energy. The funds must be used for job creation and staff training in the areas of net metering, interconnection, renewable energy, energy efficiency, conservation and demand side response. A third position was posted in February to assist in providing consumer outreach on electric issues.

PUC Seeks Approval to Spend $60 Million

The PUC's budget request for Fiscal Year 2010-11 seeks approval to spend about $60 million, of which roughly $56 million would come from assessments on utilities while the remaining $4 million would be received from the federal government for gas safety and motor carrier enforcement efforts. This budget supports a complement of 519 and represents an increase of $3.4 million in state funds over the level approved for the current fiscal year, which is completely driven by required salary and benefit increases. The request seeks no increase in operating or fixed asset categories. Budget hearings were held before the House Appropriations Committee on Feb. 3 and the Senate Appropriations Committee on Feb. 23.

PUC Partners with Widener Law School on Pilot Program

Chairman James H. Cawley's wish to provide pro bono legal representation for customers appearing without attorneys in cases before the Commission took shape last fall, as a committee comprised of the Chairman, members of the Office of Consumer Advocate, Commission staff, and the Public Utility Law Project (PULP) and MidPenn Legal Services initiated a new program with the cooperation of PPL and UGI. Under the plan, Widener Law School law students participating in a clinic, under the supervision of licensed attorneys, are available to represent customers of PPL or UGI in central Pennsylvania in formal complaint proceedings before the Commission. In late August, law students attended a day-long training session, where topics included how a complaint is handled at the informal stage at BCS and its progression to a formal hearing before an administrative law judge.

Customers are introduced to the program when BCS sends the result of an informal complaint against PPL or UGI. The notice includes a paragraph which tells customers that if they want to file a formal complaint and household income is at or below 150 percent of federal poverty guidelines, they may request free legal assistance by contacting MidPenn Legal Services. MidPenn refers them to the clinic at Widener, where a law student, under the supervision of a licensed attorney, aids in the preparation of the pleadings, negotiations with the utility and, if necessary, in a formal hearing.

The program began for residents of Dauphin County but quickly expanded to include Cumberland, York, Lebanon and Lancaster Counties.

Verizon-Frontier Transaction

The Commission recently had an opportunity to provide further guidance in defining what constitutes a "change of control" for purposes of applying the Statement of Policy on Utility Stock Transfers under 52 Pa. Code § 69.901. On Oct. 13, 2009, the Communications Workers of America filed a petition for declaratory order asking the PUC to declare that the Commission has jurisdiction over the proposed transaction between Verizon Communications Inc. and Frontier Communications and that Frontier's jurisdictional utilities must file an application pursuant to section 1102 of the *Public Utility Code*.

This case involved a matter of first impression where Verizon was transferring all its Verizon North operations except its Pennsylvania North operations to Frontier. At the same time, Frontier owns and operates several incumbent local exchange carriers in Pennsylvania. In return for acquiring Verizon's wireline operations in 14 states, Frontier transferred stock to Verizon's existing shareholders and assumed over $3 billion in debt. Depending on the actual value of Frontier's stock at the time of closing, Verizon's shareholders would own between 66 percent and 71 percent of Frontier. Verizon would also be able to name three of the 12 members of Frontier's board of directors.

Under the Commission's policy statement, a transaction is considered jurisdictional if the effect of the transaction, regardless of the tier in the corporate organization, results in a "change in control" of the utility. A change in control is defined in the statement as a person or a "group acting in concert" controlling at least 20 percent of the voting interest in the utility or its parent.

Applying the change-in-control test, the Commission found, by order entered Jan. 29, 2010, that the transaction is not jurisdictional, and, therefore, denied the petition. The two most important facts relied upon in reaching this decision were (1) the shares of Frontier were being conveyed to Verizon shareholders, and not to Verizon, the corporate entity, and (2) the proposed transaction does not involve the transfer of any assets located in Pennsylvania. The Commission made clear that a different result would have been reached if either fact were different, or if there were credible evidence showing that Verizon shareholders constituting at least 20 percent of the reconstituted Frontier will act "in concert" once the transfer occurred.

Finally, the Commission noted that the fact Verizon could appoint three of 12 board members were not enough to change the result. Frontier's appointed board members will remain the clear majority on the post-merger board and Frontier's present group of executives will continue to control the day-to-day operations of the company. In any event, it is the shareholders who have ultimate control of a corporation and not the board of directors who serve at the pleasure of all the shareholders.

Palmerton Telephone Company vs. Global NAPs

On Feb. 11, the Commission voted unanimously to adopt a motion that disposed of the intercarrier compensation dispute between Palmerton Telephone Company and Global NAPs South Inc. (GNAPs). Palmerton had filed a formal complaint with the PUC alleging that GNAPs did not pay intrastate carrier access charges for the indirect termination of interexchange calls. GNAPs justified its non-payment largely on the basis that this traffic was Voice over the Internet Protocol (VoIP) IP-enabled "enhanced" traffic that was not subject to intrastate carrier access charges and, broadly, not subject to the Commission's jurisdiction.

This was a case of first impression for the Commission. The motion established that GNAPs provides common carrier telecommunications services in its wholesale transport and indirect termination of traffic at Palmerton's facilities — inclusive of interexchange nomadic VoIP calls — that was subject to the Commission's intrastate jurisdiction on the basis of applicable Pennsylvania and federal law. The motion concluded that GNAPs was liable to Palmerton for the non-payment of intrastate carrier access charges, directed their payment, and assessed a $50,000 civil penalty on GNAPs for its lack of compliance with prior Commission orders in this proceeding. For more information, see Docket No. C-2009-2093336.

NTIA Grants to Pennsylvania

Pennsylvania was the recipient of monetary grants from the federal National Telecommunications and Information Administration (NTIA) under the American Recovery and Reinvestment Act of 2009 (ARRA). These grants included the amounts of $1.7 million and $500,000 to the Department of Community and Economic Development for the mapping of broadband facilities and services within the state and related planning. Additionally, a $99.7 million broadband infrastructure grant was provided for the creation of the Pennsylvania Research and Education Network (PennREN) that will expand broadband Internet access among 60 critical community anchor institutions in 39 counties across south and central Pennsylvania (the applicant will provide $29 million of matching funds). The state also received a $28.8 million broadband infrastructure grant (with $7.2 million applicant-provided matching funds), for increased connectivity and Internet broadband connection speeds in the difficult terrain of the "Northern Tier" counties. This project will utilize the state's existing wireless tower microwave public safety communications network. PUC staff provided technical and legal-regulatory support in the grant application phase.