

2006-07

PENNSYLVANIA PUBLIC UTILITY COMMISSION  
**A N N U A L R E P O R T**





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

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# CHAIRMAN'S LETTER

The Honorable Edward G. Rendell  
Governor of Pennsylvania

The Honorable Catherine Baker Knoll  
Lieutenant Governor

Members of the General Assembly

I am pleased to share with you the many successes, challenges of and changes as we submit the Annual Report for the Pennsylvania Public Utility Commission. In 2006-07, the PUC has helped utilities save about \$69.3 million annually and \$8.9 million in one-time savings through voluntary improvements to operations, service reliability and safety by regulated utility companies. We are dedicated to ensuring cost-effectiveness when it comes to the operation of our utilities, which goes a long way toward ensuring that ratepayers are getting their money's worth.

We are forging ahead with the ongoing implementation of electric restructuring. As rate caps expire, consumers' bills will reflect the market cost of electricity for the first time in years. We are working with legislators and the public early and regularly. We are taking the time to ensure everyone understands not only the outcome, but the decade-long process that leads to that outcome.

The Commission began to address expiring rate caps earlier than other states. On May 10, 2007, as part of an overall strategy for preparing consumers for potential increases in generation costs, the Commission adopted the final regulations and policy statement that will establish the rules for default service for electric generation. The PUC action also included a plan to mitigate and prepare Pennsylvania electricity customers for potential significant price increases.

We will continue to work with consumers to create an understanding of the energy environment in Pennsylvania and empower them to take responsibility for their energy usage. We recognize that educating consumers is a fundamental part of what we do.

The spotlight also continues on rates, reliability and choice so we can protect the public interest, promote economic development and preserve the environment. In 2006, a Wall Street firm ranked the Pennsylvania PUC as the 10<sup>th</sup> "Most Consumer Oriented" commission and the only Mid-Atlantic State commission in the Top 10.

Meanwhile, another Wall Street report ranked us near the top for Commissions that create a friendly environment for economic development while another called Pennsylvania's regulatory climate one of the most progressive. With that said, mergers and acquisitions continue to be an issue for consideration before the Commission. Throughout the process, the Commission worked to protect the public interest – which includes preserving jobs and maintaining reliability – and in a timely manner.

During FY 2006-07, the Legislative Budget and Finance Committee conducted a performance audit of the PUC. According to the audit, we have “made good progress” in implementing the requirements of the Alternative Energy Portfolio Standards Act, as well as monitoring and maintaining electric reliability, and ensuring the deployment of high-speed Internet service to Pennsylvanians ahead of schedule.

We will continue with the implementation of those three comprehensive laws that represented sweeping changes to the way energy and water utilities terminate customers (Act 201 of 2004); the way electric utilities and their consumers embrace the use of alternative energy sources for generation (Act 213 of 2004); and the way telephone companies are regulated and deploy high-speed Internet services across Pennsylvania (Act 183 of 2004).

The audit presents our PUC with an opportunity to enhance the way we carry out the responsibility the General Assembly has given to us to balance the interests of Pennsylvania consumers and utilities.

The Commission also continued with our education efforts surrounding our most precious resource – water. We remained committed to affordable and quality water as well as ensuring the viability of water companies. We clarified our regulations to define a “service interruption” for water utilities. Through a partnership with Home Depot, the Commission commemorated National Drinking Water Week showing consumers how responsible water usage around the house conserves this resource while saving consumers money.

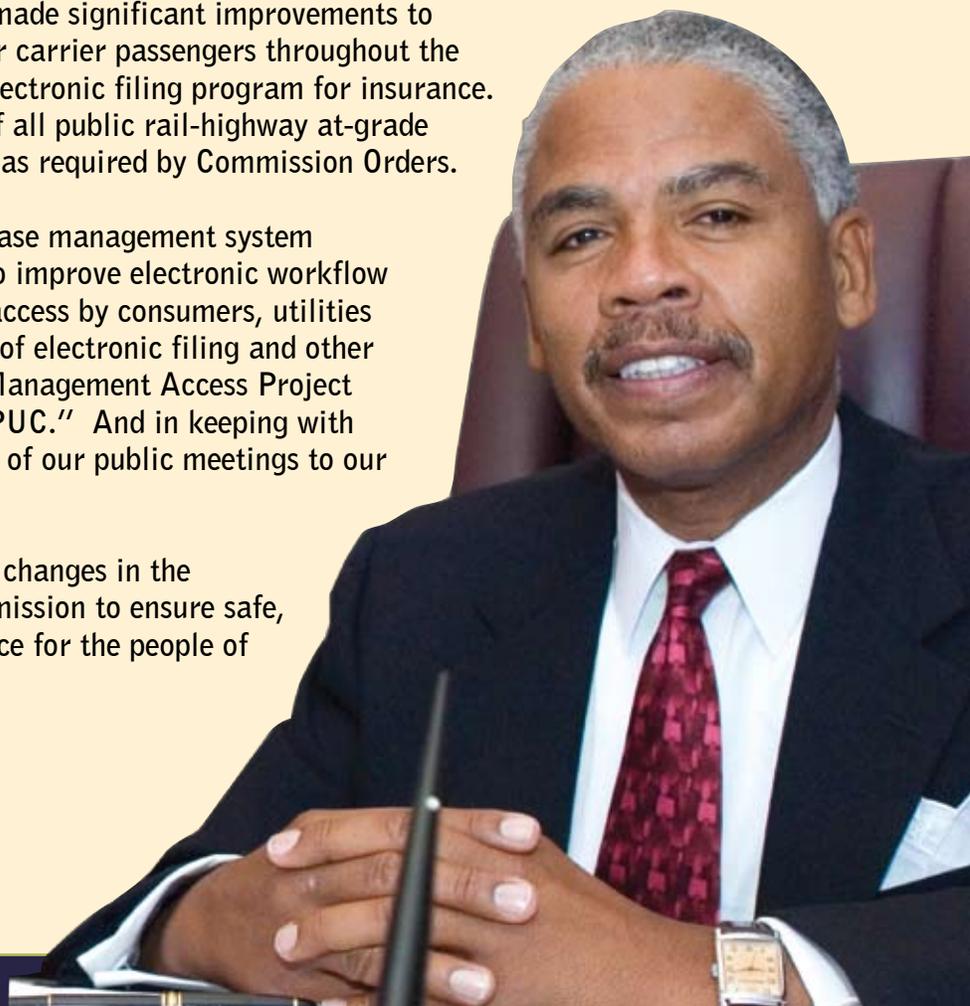
Our Bureau of Transportation and Safety made significant improvements to regulations that impact the safety of motor carrier passengers throughout the state while celebrating the success of an electronic filing program for insurance. The Bureau also completed an inventory of all public rail-highway at-grade crossings to ensure stop signs were placed as required by Commission Orders.

The work to overhaul the PUC’s existing case management system moved forward significantly as we strive to improve electronic workflow capability, and provide for more efficient access by consumers, utilities and practitioners through implementation of electronic filing and other e-commerce initiatives. The Information Management Access Project – InfoMAP – will ensure a “21<sup>st</sup> Century PUC.” And in keeping with our modernization efforts, we added audio of our public meetings to our Web site.

We stand ready to face the challenges and changes in the coming years. We continue to uphold our mission to ensure safe, reliable and reasonably priced utility service for the people of Pennsylvania.



Wendell F. Holland  
Chairman





# INTRODUCTION

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

With the restructuring of Pennsylvania's electric, natural gas and telecommunications industries, the Commission's role also is to educate customers so they may take advantage of the benefits of competition.

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

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. To achieve this, the Commission strives to be prudent, fair and forward looking.

## ORGANIZATION

The Commission is comprised of five full-time members nominated by the Governor for staggered five-year terms. The appointments must be approved by a majority of the Senate. The



Commissioners set policy on matters affecting utility base rates and services, as well as on personnel, budget, fiscal and administrative matters. Commissioners take official action on cases during regularly scheduled public meetings.

The Commission has its headquarters in Harrisburg with regional offices in Altoona, Philadelphia, Pittsburgh and Scranton.

The PUC regulates approximately 6,200 public utilities furnishing the following in-state services for

Left: 2006-07 Public Utility Commissioners. Front row, left to right: Chairman Wendell F. Holland, Commissioner Kim Pizzingrilli and Vice Chairman James H. Cawley. Back row: Commissioner Tyrone J. Christy.

compensation: electricity; natural gas; telephone; water and wastewater collection and disposal; steam heat; transportation of passengers and property by motor coach, truck and taxicab; and pipeline transmission of natural gas; and public highway-railroad crossings. Municipal utility service is exempt from PUC regulation, with the exception of services furnished beyond a municipality's corporate boundaries. Rural electric cooperatives, cable television and cellular telephones also are exempt from PUC regulations.

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

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

## **BROAD POWERS**

The PUC exercises broad powers in meeting its regulatory obligations. In today's rapidly changing business environment, utilities must consider all of their options. The number of utility mergers, acquisitions and affiliated interest agreements has increased significantly during the last several years. With limited exceptions, utilities are required to obtain Commission approval for these transactions, as well as to operate, extend or abandon service. The PUC's responsibility is to ensure these actions are in the public interest.

The PUC also works diligently to ensure an effective transition to competitive markets

in the electric, natural gas and telecommunications industries. The goal of competition and access to market prices for electricity would improve customer services and prompt the development of new technologies.



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

The state is nearing the end of the transition period for the restructuring of the electric utilities. As part of an overall strategy for preparing consumers for potential increases in generation costs, the Commission adopted the final regulations and policy statement that establishes the rules for default service for electric generation. The PUC action also included a plan to mitigate and prepare Pennsylvania electricity customers for potential significant price increases that would initiate consumer-education efforts regarding energy efficiency, conservation, choice, demand side response and low-income programs.

Also, telephone customers who do not select a different provider for local service will continue to receive service from their existing company.

Over and above regulating rates for motor carriers that transport property, passengers and household

goods, the PUC is responsible for enforcing rail and motor carrier safety laws. Motor vehicle and railroad facility and track inspections are important components of the PUC's safety program. The PUC also resolves complaints about unsafe conditions at rail crossings and enforces common carrier compliance with safety and insurance requirements.

If customers have complaints about a utility, they may seek help by calling a toll-free number and speaking with the PUC's Bureau of Consumer Services. Trained customer service representatives help to resolve billing and quality of service issues, establish payment plans or restore service. The toll-free number is 1-800-782-1110.

## LEGISLATIVE BUDGET & FINANCE COMMITTEE

A legislative performance audit released in 2007 found that the PUC has "made good progress" in implementing the requirements of the Alternative Energy Portfolio Standards Act (AEPS), as well as monitoring and maintaining electric reliability, and ensuring the deployment of high-speed Internet service to Pennsylvanians ahead of schedule.

During a Legislative Budget and Finance Committee (LB&FC) hearing, the Committee Chairman, Sen. Robert M. Tomlinson (R-Bucks) commended the PUC on the results of the Audit and specifically noted the Audit's findings related to the reasonable size and budget of the Commission when compared to other states.

The audit included a number of findings and recommendations covering the PUC's operations and responsibilities, including energy, telecommunications,

transportation, water and consumer issues. The audit recommended that the Commission develop a long-range strategic plan, which the PUC began immediately.

According to the audit, "Given that Act 213 (AEPS) was not signed into law until November 2004, the PUC has made good progress in developing proposed regulations, with the regulations in two areas (net metering and interconnection rules), which went into effect upon publication on Dec. 16, 2006."

According to a presentation of the audit made by LB&FC staff to its legislative members, "Perhaps the most substantive of these [previous] recommendations had to do with how the PUC establishes and monitors electric reliability standards, where the PUC has made significant regulatory changes in response to our report."



The audit also noted that, "At least 58 percent of Pennsylvania access lines were broadband capable as of 2004, substantially ahead of the aggregate goal of 45 percent." This speaks to the PUC's implementation of Chapter 30, enacted in 2004.

For more information on the audit, copies are available via the LB&FC Web site at <http://lbfc.legis.state.pa.us>.

## HOMELAND SECURITY & EMERGENCY PREPAREDNESS

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

The Commission also spearheaded an organizational structure of utility support to the Commonwealth's nine regional counter-terrorism task forces. As of Jan. 10, 2007, the Commission had met with utility representatives and task force members in all nine of the regions. At each meeting, a utility representative from both mobile and fixed utilities was placed on the local task force or in a utility subcommittee. The Commission plans to hold follow-up status meetings in the future.

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

The team has responded to several mobilizations at the EOC over the past year concerning winter weather, severe storms and flooding. The Commission also has liaisons from the Bureau of Fixed Utility Services and Bureau of Transportation and Safety that act as 24/7 contacts for PEMA for utility-related emergencies.

The Commission team has undergone Homeland Security sponsored training and is certified in the National Incident Management System and the National Response Plan. In addition, the



team has participated and coordinated with PEMA on several training exercises, including winter weather drills and nuclear power facility emergency exercises.



## RATES

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

Competition is permitted in the supply of electricity and natural gas. Charges for the supply of electricity and natural gas by licensed competitors are not regulated and are based on market prices. Many electric utilities are operating under negotiated generation rate caps for supply services. The prices for the delivery through the distribution system of electric and natural gas continue to be regulated by the PUC.

Competition also is permitted for long-distance and local telephone service. Most local telephone companies operate under a price stability formula that limits their ability to seek rate increases based on the rate of inflation and other factors. The rates for competitive local exchange carriers that are competing against the incumbent local telephone companies also do not require PUC approval.

## FILING FOR A RATE INCREASE

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

## HOW ARE RATES SET

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

## HOW LONG DOES IT TAKE

By operation of law, the rate request is suspended for up to seven months if the PUC does not act before the proposed effective date for the rate increase for electric, natural gas, steam heat, water and wastewater companies. The PUC uses that time to investigate and determine what if any of the requested increase is justified.

During the investigation, hearings are held before an Administrative Law Judge (ALJ) at which the evidence in support of the rate increase is examined and expert witnesses testify. In addition, consumers are offered an opportunity to voice their opinions and give testimony. Briefs may be submitted by the formal parties. A recommendation to the PUC is made by the ALJ. Finally, the matter is brought before the Commissioners for a vote and final decision.

Together with the 60-day notice period, the rate increase process takes about nine months.

## HEARINGS AND RECOMMENDATIONS

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

At the formal hearing, the company, the PUC's Office of Trial Staff (OTS) and other parties such as the state's Office of Consumer Advocate and the state's Office of Small Business Advocate present their cases and are subject to cross-examination. OTS



Parties present sworn testimony before ALJs in hearings.

reviews the company's records and requests, and presents its view on what is in the public interest.

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

After weighing the evidence and hearing the arguments, the ALJ writes a recommended decision addressing each issue in the case within the limits set by law. The recommended decision may approve, disapprove or modify the original request. Parties may file exceptions to the judge's decision and subsequently reply exceptions may be filed. Sometimes, rate cases

ALJ Ky Van Nguyen is one of 20 ALJs who hears cases before the Commission.



are resolved after all of the parties reach a settlement on the issues. The entire matter is then sent to the Commissioners for a vote at a public meeting.

## FINAL ORDER

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

## RATEPAYER ROLE

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

Consumers have a right to participate in the ratemaking process and can do so by filing an informal complaint, which can include attending a public input hearing. They also can file a formal complaint.

*ALJ Charles E. Rainey Jr. presides over a hearing.*



# COMMISSION'S BUDGET

## EXECUTIVE GOVERNMENT OPERATIONS

GENERAL GOVERNMENT	GENERAL FUND ACTUAL 2006-07	GENERAL FUND APPROVED REBUDGET 2007-08
<b>STATE FUNDS :</b>		
PERSONNEL	\$40,078,939	\$42,150,000
OPERATING	10,322,675	9,318,000
FIXED ASSETS	108,590	15,000
<b>TOTAL STATE FUNDS</b>	<b>\$50,510,204</b>	<b>\$51,483,000</b>
<b>FEDERAL FUNDS :</b>		
PERSONNEL	\$1,164,484	\$1,790,000
OPERATING	143,830	1,137,000
<b>TOTAL FEDERAL FUNDS</b>	<b>\$1,308,314</b>	<b>\$2,927,000</b>
<b>TOTAL COMMISSION BUDGET :</b>	<b>\$51,818,518</b>	<b>\$54,410,000</b>

## OTHER REVENUE SOURCES

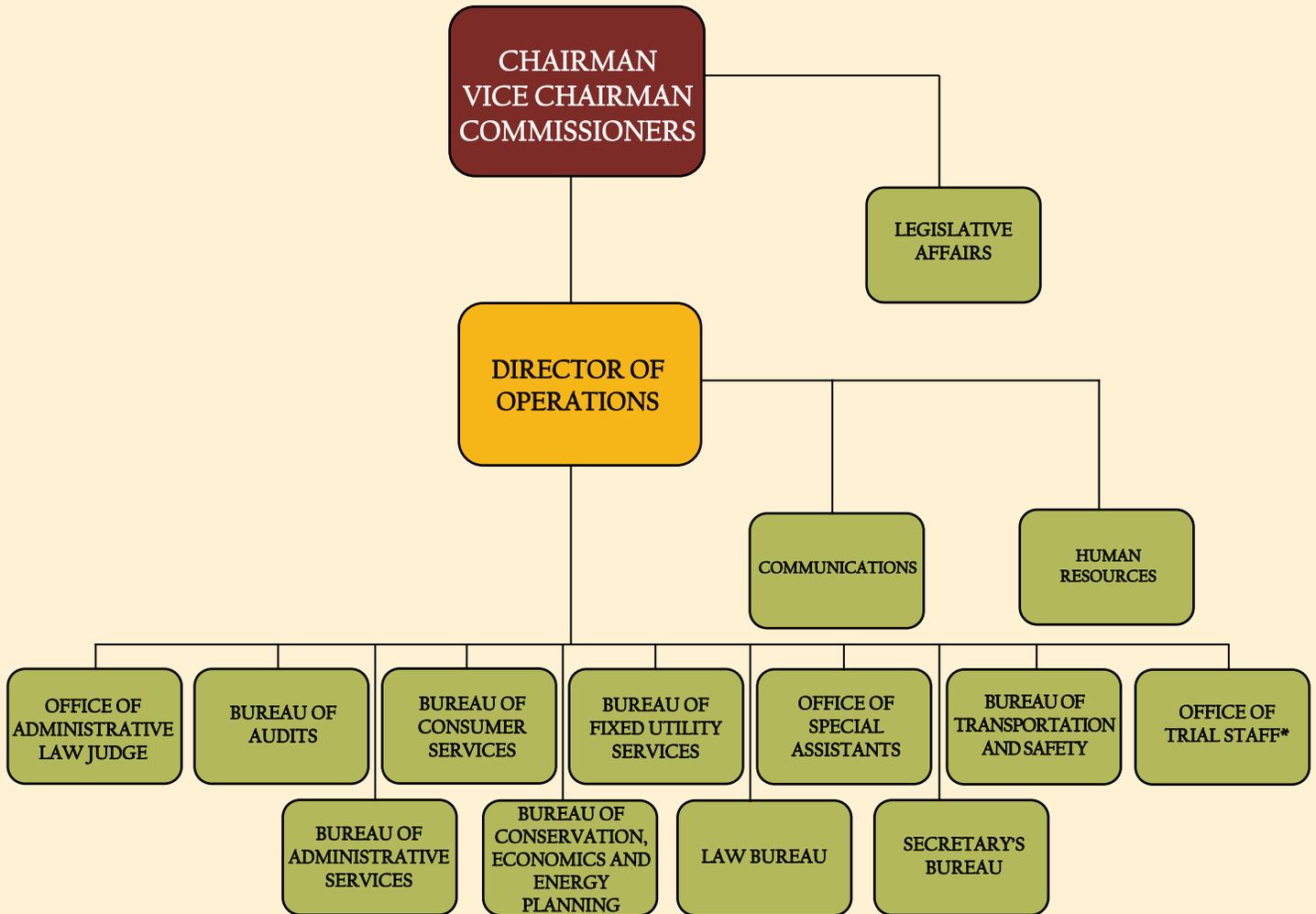
	2005-06 RECEIPTS	2006-07 RECEIPTS
APPLICATION FEES	\$274,587	\$266,558
ELECTRIC GENERATION APPLICATION FEES	11,200	5,950
FINES	339,422	118,471
FEDERAL - GAS PIPELINE SAFETY	350,000	384,000
FEDERAL - MOTOR CARRIER(MCSAP)	1,147,298	924,314
<b>TOTAL</b>	<b>\$2,122,507</b>	<b>\$1,699,293</b>

## 2006-07 APPLICATION &amp; FILING FEES, FINES &amp; PENALTIES

	ELECTRIC GENERATION APPLICATION FEES	FINES	FILING & COPY FEES	TOTAL
1ST QUARTER	\$2,800	\$15,053	\$74,165	\$92,018
2ND QUARTER	1,400	17,818	65,929	\$85,147
3RD QUARTER	700	31,400	59,389	\$91,489
4TH QUARTER	1,050	54,200	67,075	\$122,325
<b>TOTAL</b>	<b>\$5,950</b>	<b>\$118,471</b>	<b>\$266,558</b>	<b>\$390,979</b>

THE FISCAL OFFICE RECEIVED \$51,431,000 FROM ASSESSMENT BILLINGS WITHIN THE 2006-07 FISCAL YEAR.

# ORGANIZATIONAL CHART



\*THE DIRECTOR OF OPERATIONS HAS RESPONSIBILITY FOR THE OFFICE OF TRIAL STAFF ONLY WITH REGARD TO ADMINISTRATIVE MATTERS.



# 2006-07 BUREAU DIRECTORS

## OFFICE OF THE DIRECTOR OF OPERATIONS



**KAREN MOURY**  
DIRECTOR OF OPERATIONS

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



**TOM CHARLES**  
MANAGER OF COMMUNICATIONS



**KEVIN HOFFMAN**  
DIRECTOR OF HUMAN RESOURCES

## BUREAU OF ADMINISTRATIVE SERVICES



**ROBERT C. GRAMOLA**  
DIRECTOR OF  
ADMINISTRATIVE SERVICES

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

## OFFICE OF ADMINISTRATIVE LAW JUDGE



**VERONICA A. SMITH**  
CHIEF ADMINISTRATIVE LAW  
JUDGE

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

## BUREAU OF AUDITS



**M. CARL LESNEY**  
DIRECTOR OF AUDITS

The Bureau of Audits performs financial, management and specialized audits on electric, natural gas, water and telecommunications utilities. The Bureau also reviews certain adjustment clause rate filings. The audits may result in recommendations to improve accounting or operational procedures that, if adopted, may save the utilities money, which may be a significant one-time savings or become annual savings. The Bureau also is responsible for auditing the annual reconciliation statements associated with stranded costs of electric distribution companies and certain water companies which are authorized to use the Distribution System Improvement Charge.

## BUREAU OF CONSERVATION, ECONOMICS AND ENERGY PLANNING



**WAYNE WILLIAMS**  
DIRECTOR OF  
CONSERVATION, ECONOMICS  
& ENERGY PLANNING

As the research arm of the PUC, the Bureau of Conservation Economics and Energy Planning gathers data on energy market issues, serves market monitoring functions and focuses on development in the energy market related to prices and supply. The Bureau studies and researches energy matters and advises the Commission of results to assist in making policy decisions. The Bureau monitors developments in energy markets such as pricing trends, demand forecasts and the availability of supply to meet demand. The Bureau also makes certain electric utilities are meeting the required benchmarks and standards for reliability to ensure the continued safety, adequacy and reliability of generation, transmission and distribution of electricity in the Commonwealth.

## BUREAU OF CONSUMER SERVICES



**MITCH MILLER**  
DIRECTOR OF  
CONSUMER SERVICES

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

## BUREAU OF FIXED UTILITY SERVICES



**ROBERT WILSON**  
DIRECTOR OF FIXED UTILITY  
SERVICES

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

## LAW BUREAU



BOHDAN R. PANKIW  
CHIEF COUNSEL

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

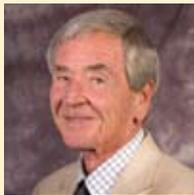
## OFFICE OF LEGISLATIVE AFFAIRS



JUNE PERRY  
DIRECTOR OF  
LEGISLATIVE AFFAIRS

The Office of Legislative Affairs acts as the liaison between the PUC and the Governor's Office, General Assembly and the Pennsylvania Congressional Delegation. The Office identifies legislation that may affect the Commission or public utilities and obtains staff analysis; provides bill analysis and relevant information to the legislature; and promotes the Commission's position on legislation and issues with the General Assembly. The Office also handles requests for information from the Governor, legislators and constituents.

## SECRETARY'S BUREAU



JAMES J. MCNULTY  
SECRETARY

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

## OFFICE OF SPECIAL ASSISTANTS



CHERYL  
WALKER DAVIS  
DIRECTOR OF SPECIAL  
ASSISTANTS

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

## BUREAU OF TRANSPORTATION & SAFETY



MIKE HOFFMAN  
DIRECTOR OF  
TRANSPORTATION & SAFETY

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

## OFFICE OF TRIAL STAFF



JOHNNIE SIMMS  
DIRECTOR OF  
TRIAL STAFF

The Office of Trial Staff represents the public interest in all matters having an impact on rates before the PUC. The Director is designated as the Commission's chief prosecutor, and the Office is made up of the administrative, legal and technical divisions. The Office of Trial Staff is responsible for reviewing Commission filings made by utilities involving rate-related matters. The Office has an obligation to ensure that utilities charge rates that are reasonable, non-discriminatory and at a level that allows the utility to provide safe and reliable service that is affordable. Due to its prosecutory role, the Office of Trial Staff works independently of the other bureaus within the Commission.



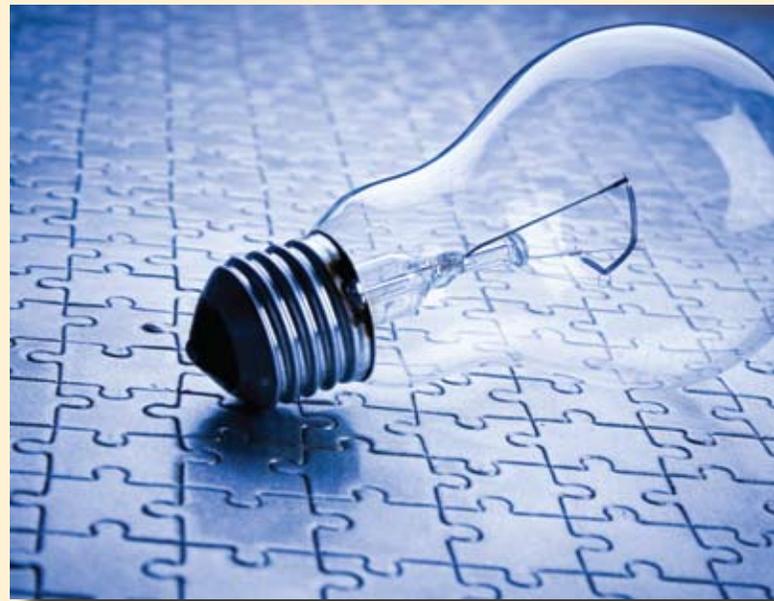
## CONSUMERS

During Fiscal Year 2006-07, the Commission remained committed to monitoring and evaluating utility performance, as well as working aggressively to educate consumers about critical utility issues, including the possibility of significant price increases for electricity.

The Commission also continued with the implementation of the changes to the utility termination rules while working to educate consumers about the changes and their rights. The PUC embarked upon several rulemakings dealing with consumers such as proceedings on Customer Assistance Programs and bringing its Standards and Billing Practices for Residential Utility Service (Chapter 56) in compliance with the Responsible Utility Customer Protection Act (Chapter 14). The Commission also expanded its consumer-outreach activities, which included participating in the Commonwealth's annual Farm Show, educational workshops and community events.

### CONSUMER-EDUCATION CAMPAIGN ON ELECTRIC PRICES

Part of the Commission's policies to mitigate and prepare Pennsylvania electricity customers for potential significant price increases included approving a potential \$5 million consumer-education campaign. The action represented an important milestone in the Commission's efforts to respond to the potential for significant electricity price increases as generation rate caps expire.



On May 19, 2006, the Commission engaged the stakeholders in the process to develop policies to mitigate higher electricity prices. More than 30 parties filed comments with the Commission regarding ideas to assist in addressing potential significant price increases. Many of the comments said that consumer education is a vital element of any plan to mitigate price increases. To be consistent with the Public Utility Code, the Commission will include the \$5 million in funding in its FY 2008-09 budget request to be submitted to the General Assembly and the Governor.



The consumer-education campaign assessment will be paid only by electric utilities as electric generation prices will be the focus of the information presented. These costs may be recovered from customers similar to the way utilities recover other costs assessed by the Commission. Per the Commission's Final Order, the Commission's Office of Communications is currently working with interested stakeholders to begin developing the campaign.

Under the plan, the state's Electric Distribution Companies also will implement consumer-education plans for their service territory that will help mitigate the impact of price increases or educate customers about energy conservation and efficiency, and demand side response. The plans will be subject to Commission approval and be tailored to each service territory.

#### CHAPTER 14 IMPACT REPORT

The Responsible Utility Consumer Protection Act of 2004 added Chapter 14 to the Public Utility Code. Chapter 14 seeks to eliminate the opportunities for customers capable of paying to avoid paying their utility bills, and to provide utilities with the means to reduce their uncollectible accounts. The law changed the way regulated electric, water and major natural gas utilities handle cash deposits; termination of service; reconnection of service; payment arrangements; and the filing of termination complaints by residential customers.

The Commission is required to submit a biennial report to the Governor and legislature updating the effects of implementing Chapter 14. The first report was submitted on Dec. 14, 2006. In it, the Commission concluded that a comprehensive evaluation of the impact of Chapter 14 is premature at this time. However, the PUC did find sufficient evidence that a number of significant compliance issues have occurred.

The impact on residential collections needs more time to fully develop. However, data shows that companies terminated and reconnected more customers in 2005 than in the recent past, which produced a decline in the percentage of billings in debt. The increase in terminations shifted many accounts from active to inactive status. The full impact of the 2005 termination levels will need more time to play out as the debt from terminated accounts works its way through the collections cycle to write-offs. The Commission's Cold Weather Survey continues to be the best indicator when it comes to access to service.

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

The report included:

- The degree to which the Chapter's requirements have been successfully implemented.
- The effect upon the cash working capital or cash flow, uncollectible levels and collections of the affected public utilities.
- The level of access to utility services by residential customers, including low-income customers.
- The effect upon the level of consumer complaints and payment arrangement requests filed with and adjudicated by the PUC.

The full report is available at the Commission's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us). The Commission will issue its next biennial report by Aug. 31, 2008, and will include data from Fiscal Year 2006-07.

### COLD WEATHER SURVEY RESULTS

Each year prior to the winter heating season, the PUC requires electric and natural gas utilities to check residential properties where service has been shut off. The goal of the annual Cold Weather



Survey is for the company to attempt to reach payment agreements with the occupants so service can be restored. The Commission requests that utilities make four attempts to contact the consumer or a responsible adult occupant at the property where service has been terminated. These contacts include a combination of telephone calls and letters to establish contact, with the fourth attempt being a personal visit to the property.

In December 2006, the survey found that 16,051 occupied households were without heat-related utility service. An additional 3,694 homes were using unsafe heating sources, bringing the total homes not using a central heating system to 19,745; this is down from 21,063 in 2005.

Residential electric households not using a central heating system totaled 2,939, while 16,806 natural gas households had no service. About 10,812 households -- 55 percent of the total accounts without service -- were in the Philadelphia area. The results also show an additional 16,945 residences where services were terminated appear to be vacant.

The companies resurveyed the households without utility service in February 2007. At that time, the total number of homes not using a central heating system decreased by 21 percent to 15,537.

## CUSTOMER ASSISTANCE PROGRAM REVIEW

On Oct. 16, 2006, the Commission ended a nearly yearlong review of the state's Customer Assistance Programs (CAPs) and provided direction on creating new program guidelines. CAPs are programs that allow low-income electric and natural gas



customers to pay discounted bills. While the state's electric and natural gas competition laws require that every electric and major natural gas utility establish a CAP, the funding levels and program designs vary from company to company.

It is anticipated that the costs of these programs will continue to rise along with energy costs. In order to balance the interests of CAP beneficiaries with other customers, the Commission's goal is to move toward a comprehensive, integrated consideration of CAP design and cost recovery.

The Commission is currently engaging stakeholders in a rulemaking process as well as the process of updating CAP policy statements to reflect concerns about funding mechanisms and program design.

## APPLYING NEW PUC RULES TO CONSUMER COMPLAINTS

Supporting case management practices that would allow parties some form of limited participation in complex multi-

party proceedings, the Commission issued a policy statement on April 13, 2007, that clarified the role of consumers as parties to cases pending before the Commission.

In April 2006, concerns had been raised about some interpretations of changes to the Commission's rules of practice and procedure, specifically as applied to individual consumer complaints. The revisions were designed to reflect significant changes in the PUC's jurisdiction and responsibilities. The Commission's final rules of practice and procedure struck a balance for utilities, consumers and the public without imposing unnecessary delays, burdens or costs. The rules also struck a balance between proceedings where the parties are represented by attorneys and proceedings where the parties represent themselves.

## KEYSTONE CONNECTION

The Commission continued its publication of the "Keystone Connection," a newsletter that is released quarterly to about 700 subscribers, including news media and industry stakeholders. "Keystone Connection" provides a snapshot of activities in Pennsylvania's competitive and regulated environment. The goal is to provide beneficial information to the public about important developments in the electric, natural gas, transportation, telecommunications and water industries.

## UTILITY CONSUMER ACTIVITIES REPORT AND EVALUATION

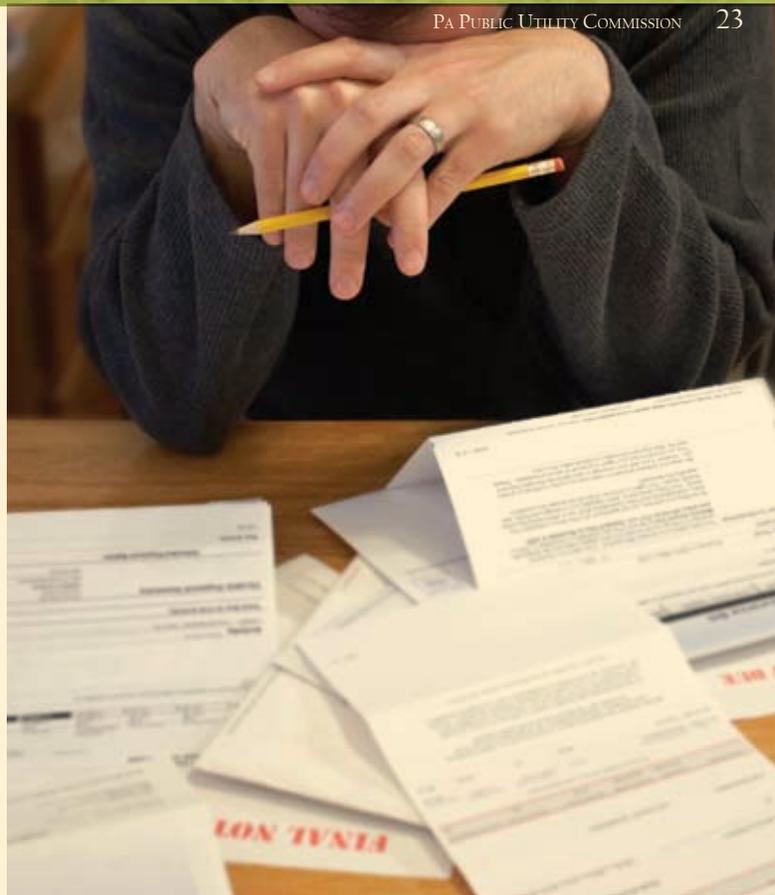
Helping Pennsylvania consumers to resolve utility problems remains a major concern for the Commission. Full-time investigators within the PUC's Bureau of Consumer Services (BCS) handle a variety of consumer contacts related to billing

problems, service delivery and repairs. Preliminary numbers show that the PUC investigated 21,454 consumer complaints in 2006, with 19,438 of those complaints coming from residential consumers and 2,016 from commercial consumers. That represents a decrease of 5 percent for both total consumer complaints and for residential consumer complaints from 2005.

Preliminary statistics show that the PUC also handled 48,946 requests for payment arrangements from residential customers in 2006, a 20 percent decrease from 2005. The majority of requests for payment arrangements in 2006 involved electric or natural gas companies, with 43,319 residential customers requesting payment arrangements. This represents a 19 percent decrease from 2005. In addition, 2,120 residential telephone consumers requested assistance in setting up payment arrangements in 2006, which is a 21 percent decrease from the number of payment arrangements requested in 2006.

Terminations of electric and natural gas service have decreased from 2005 to 2006. Statewide electric and natural gas terminations went from 255,394 in 2005 to 225,496 in 2006 – a 12 percent decrease. Likewise, reconnections of electric and natural gas service decreased during the same time period going from 161,108 in 2005 to 148,582 in 2006 – an 8 percent decrease.

At this time, water utilities are not required to report termination and reconnection data to the Commission. Aqua Pennsylvania and Pennsylvania-American have voluntarily provided termination data. Terminations for these companies have decreased from 27,932 in 2005 to 25,869 in 2006 – an 8 percent decrease. Likewise, reconnections for Aqua Pennsylvania and Pennsylvania – American decreased during the same time



period from 22,311 in 2005 to 19,856 in 2006 – an 11 percent decrease. Since Chapter 14 included water utilities, the Commission will have better statistical data from these utilities in coming years.

The PUC received 90,940 inquiries in 2006, a 16 percent increase from the previous year. Inquiries include information requests, requests for payment arrangements that BCS cannot accommodate and opinions from consumers. For the most part, these contacts did not require investigation by BCS. These inquiries came to the attention of BCS through the Commission's toll-free hotlines, other telephone numbers, U.S. mail service and e-mail communication.

The PUC surveys consumers who have contacted BCS with a utility-related problem or payment arrangement request in order to monitor its own customer service. The 2006 survey results show that 82 percent of consumers said they would

contact the PUC again if they were unable to resolve their problem by talking with the utility. More than 79 percent of consumers rated the service they received from the PUC as "good" or "excellent."

### CUSTOMER SERVICE PERFORMANCE REPORT

Each year, the Commission prepares the 2005 Customer Service Performance Report, which provides information on how customers feel the major electric and natural gas companies are doing with customer service. In 2005, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls. The companies surveyed include: Allegheny Power; Duquesne Light Co.; Metropolitan Edison; Pennsylvania Electric Co.; PECO Energy Co.; Pennsylvania Power Co.; PPL Electric Utilities; UGI Electric; Columbia Gas; Dominion Peoples; Equitable Gas Co.; National Fuel Gas; PG Energy Corp.; Philadelphia Gas Works; and UGI Gas.

Based on customer surveys, an average of 89 percent of electric and 77 percent of natural gas customers said they were satisfied with the ease of reaching their company. A greater percentage of customers said they were satisfied with the way company representatives handled their calls: 92 percent of electric customers and 85 percent of natural gas customers. A majority of the customers were

satisfied with both the courtesy and level of knowledge demonstrated by customer service representatives.

The annual report also includes data provided by the utilities on the performance of the company's customer service operations. All but one of the seven electric companies reported that their call abandonment rate either improved or remained the same as the previous year. Abandoned calls represent the number of customers who hang up while on hold to speak to a representative. UGI Electric reported a 13 percent call abandonment rate: up from the 9 percent for the previous year and more than three times the 4 percent rate reported for 2003. The other electric companies' call abandonment rates either fell slightly or remained the same.

The average call abandonment rate of 9 percent for the natural gas companies is more than twice that of the electric companies. Although its call abandonment rate decreased from 18 percent to 14 percent, Equitable Gas reported the highest call abandonment rate for the second year in a row.

Of the major electric companies, the FirstEnergy companies offered the poorest access to their call centers in 2005 with the percentage of calls answered within 30 seconds going from 76 percent in 2004 to 64 percent in 2005. The average percent of calls answered within 30 seconds for the electric companies in 2005 is 74 percent, down from 77 percent in 2004.



Although showing a slight improvement from 2004, Equitable still reported the lowest percent of calls answered within 30 seconds in 2005 at 37 percent. The average percent of calls answered within 30 seconds for natural gas companies decreased from 65 percent in 2004 to 60 percent in 2005.

The full report for 2005 is available on the PUC's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under the link for Publications and Reports. In addition, the telephone access charts covering performance in 2006 are available on the Web site under the Announcements link.

### CHAPTER 56/CHAPTER 14 RULEMAKING

On Nov. 30, 2006, the Commission began the process of bringing its Standards and Billing Practices for Residential Utility Service (Chapter 56) in compliance with the Responsible Utility Customer Protection Act (Chapter 14). In issuing an Advance Notice of Proposed Rulemaking Order, the Commission invited all interested parties to comment on the Chapter 56 provisions that have been impacted by Chapter 14 and how the Commission should make the two compatible.

The Advance Notice of Proposed Rulemaking Order includes 10 specific subject areas on which the Commission is especially interested in receiving comments. Those issues include the termination process; winter termination rules; application and credit procedures; service restoration requirements; and collection reporting requirements.

The rulemaking is not restricted to just Chapter 14 issues. Parties also may comment on any other issue they believe the Commission needs to address regarding Chapter 56, which was last revised in the mid-1990s. Since that time, utilities and consumers have employed numerous technological advances such as electronic billing and payment, the Internet, and e-mail. The Order encourages parties to comment on how these advances should be incorporated into the regulations.

This Advance Notice enables the Commission to gather input from the industry, consumer groups and advocates before drafting the proposed revisions. The Commission expects this process will lead to a clear, cohesive, thorough and analytically sound proposed rulemaking order.

The Commission has received comments from 22 parties, all of which are available by using the search function on the Commission's Web site and entering the docket number L-00060182. Commission staff is currently reviewing the comments and will be drafting proposed new regulations for future publication and comment.



## InfoMAP

The PUC partnered with Pennsylvania-based Unisys, a worldwide technology services and solutions company, to develop the PUC's Information Management and Access Project (InfoMAP). Deployment of InfoMAP is expected to be completed in 2008.



InfoMAP will overhaul the PUC's case management system, improving the Commission's docketing, tracking and sharing of information. It will also provide a single-entry point to submit and access information, initiate transactions and conduct business, thereby permitting electronic filings and giving the public electronic access to information filed with and produced by the PUC.

InfoMAP is a \$6.6 million project that began in March 2006 to replace the PUC's case management system that was developed in-house in 1978. InfoMAP will allow the PUC to operate with a new system that automates workflows and relies less on paper.

## CONSUMER OUTREACH SUMMARY

The PUC's consumer outreach specialists provided utility education and outreach to thousands of consumers focusing on working with senior citizens and low-income residents. The outreach team conducted a grassroots effort to reach out to consumers by regularly traveling throughout the state conducting or participating in workshop events, free seminars, roundtable discussions and community fairs. During those events,

plain language materials and literature were given to consumers about complex utility issues, including changes in the law. Public outreach specialists also assisted consumers in addressing their specific individual concerns with a utility or utility related issue.

In 2006, the team focused on educating Pennsylvanians and non-profit, community-based organizations through its "Prepare Now" and "Be Utility Wise" campaigns. Messages encouraged consumers to:

- Use electricity, natural gas and water wisely to potentially save money. Consumers were provided with informational materials and tips on how to become more responsible in their utility usage;
- Know their rights as a responsible utility consumer and be aware of important changes in the law related to utility shut-offs (Chapter 14);
- Consider budget billing options as a way to make heating bills more predictable and affordable throughout the year. Budget billing spreads monthly payments over the year, avoiding the potential price spikes of the winter months, and requires no income guidelines to enroll.

The PUC's consumer outreach specialists, such as Jim Rowland, right, travel throughout the state to provide utility education to thousands of consumers.



Along with the current messages previously mentioned, the outreach team also introduced new educational materials in 2006-07 by providing information about the state's Bona Fide Retail Request program to get high-speed Internet into homes (See Telephone); the restructuring of the electric industry and the state's transition to higher generation rates (See Electric); and how the net metering and interconnection standards impact residents under the Alternative Energy Portfolio Standards Act. (See Electric)

In order to establish networking relationships and enhance its outreach methods and effectiveness, the consumer outreach specialists also attended training sessions and informational meetings with other state agencies, and community-based and national organizations.

### FARM SHOW

In January 2007, the Commission expanded its consumer-education outreach by participating at the 91st Annual Farm Show with an informational booth. In taking an active role in one of the Commonwealth's oldest traditions, the PUC built on the Farm Show's mission to educate Pennsylvanians by informing its more than 400,000 visitors about the role of the PUC as a resource available to them when they have utility questions or concerns.

The PUC booth contained information about energy, telephone, transportation, water and wastewater issues. Keeping in line with the Farm Show's 2007 spotlight on energy, the Commission's primary focus is to educate consumers to prepare now for higher energy costs, providing tips for weatherizing homes and conserving energy. Information also was available on private and public programs designed to help low-



PUC staff volunteered at the 2007 Farm Show providing information about energy, telephone, transportation, rail safety, water and wastewater issues.

income consumers pay their utility bills.

The PUC also provided information on a provision in Act 183 of 2004, which requires telecommunications companies to provide access to high-speed Internet to all customers by 2015. Finally, the Commission exhibit provided information about Telecommunications Relay Service (TRS), which enables Pennsylvanians to communicate by telephone with people who are deaf, hard of hearing or speech disabled. (See Telephone)





The CAC includes, from left, front row: Vice Chairman Robert A. Christianson, Linda Roth and Joseph Capozzolo. From left, back row: Chairman Renardo L. (Rick) Hicks, Robert N. Dampman, Cindy Datig, Thomas A. Leach, Harry Geller and Lee Tolbert.

### CONSUMER ADVISORY COUNCIL

The Consumer Advisory Council (CAC) was created through a regulation in 1977 to advise the Commission on matters relating to the protection of consumer interests under the Commission's jurisdiction. CAC members are appointed with the following elected officials having the ability to appoint one representative: the Governor; Lieutenant Governor; Democratic and Republican Chairpersons of the Senate Consumer Protection and Professional Licensure Committee; and Democratic and Republican Chairpersons of the House Consumer Affairs Committee.

In addition, the Commission appoints "at-large" representatives that reflect a reasonable geographic representation of the Commonwealth, including low-income individuals, members of minority groups and various consumers. A person may not serve as a member of the Council if the individual occupies an official relation to a public utility or holds or is a candidate for a paid appointive or elective office of the Commonwealth. Council members serve two-year terms, and may be reappointed.

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

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

In this fiscal year, the CAC continued to focus on issues arising from the restructuring of the electric, gas and telecommunications industries, the passage of Act 201 of 2004 and universal service programs issues. The Council:

- Received briefings on issues that the Commission has dealt with, including Chapter 14, Chapter 30, House Bill 824, InfoMAP and Alternative Energy Portfolio Standards;
- Submitted comments to the Commission expressing their requests on the Chapter 56 Advance Notice of Proposed Rulemaking Order (ANOPR);
- Received updates on the Captioned Telephone Relay Service (CTRS);
- Discussed universal service plans and energy conservation programs and water, electric and gas service terminations;
- Appointed members to attend stakeholder meetings to make recommendations on how to educate consumers about the potential electric price increases;
- Received reports and periodic updates concerning the Demand Side Response Working Group;
- Considered the feasibility of expanding the use of energy gift cards and the alternate dispute resolution process; and

- Recommended that a summary of Commission decisions relating to consumer-related matters be provided and that the Commission clarify its policy relating to consumer participation at public input and formal hearings.

### PENNSYLVANIA TELECOMMUNICATIONS RELAY SERVICE ADVISORY BOARD

The Commission established the Pennsylvania Relay Service Advisory Board in the May 29, 1990, action that also established a statewide Telecommunications Relay Service (TRS). The purpose of the board is to review the success of TRS and identify improvements that should be implemented. The board functions primarily as a TRS consumer group by providing feedback and guidance to the TRS provider and the Commission regarding communication assistant training, problem solving, outreach, and service enhancements.

The Board meets four times a year to advise the TRS provider on service issues, to discuss policy issues related to traditional TRS and Captioned Telephone Relay Service (CTRS), and interact with Commission appointed members. At each meeting, the traditional TRS provider and CTRS administrator give the board a status report of their activities, which include call volumes, new service offerings, complaint handling equipment enhancements and outreach plans.

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

disabled communities. During 2007, board members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Pennsylvania Society for Advancement of the Deaf; the Hearing Loss Association of Pennsylvania; National Federation of the Blind; and the Pennsylvania State Grange and the Center for Independent Living of South Central Pennsylvania.



The TRS board includes, from left, front row: Chuck Hafferman, Diana Bender and Pat Brockley. From left, back row: Robert J. Davis, Mitchell Levy, Gary Bootay, Todd Behanna, Holly Frymoyer, Lawrence Brick and Eric Jeschke.

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

In 2007, the PUC, the PA Relay Service Advisory Board and the CTRS provider worked closely to provide quality captioned telecommunication relay service and outreach regarding the program. The CTRS contract was signed in August 2007 with Hamilton Telephone Co. The CTRS provider is required to report on issues related to service and outreach.

The TRS outreach campaign officially ended Dec. 31, 2006. The focus of that campaign was to educate the hearing public about relay technology and enhance the opportunities of people with hearing loss and speech disabilities to communicate with the hearing public in their daily lives. Statewide survey results indicate that in Pennsylvania the public's awareness of the TRS more than doubled during the three-year campaign.

Highlighting the 2006 campaign activities was the use of the Orlons' hit song "Don't Hang Up" in 30-second statewide radio advertisements. The phrase also appeared statewide on billboards, bus posters, transit shelter advertising and the PA Relay Web site. In addition, Lt. Gov. Catherine Baker-Knoll recognized July 11, 2006, as "7-1-1/PA Relay Day." "PA Relay on the Road," a traveling road show related to TRS criss-crossed the Commonwealth visiting numerous county fairs, festivals and other venues with large audiences to educate Pennsylvanians about the telephone relay service.

Although the official consumer-education campaign ended, the Commission's Office of Communications will continue the campaign indefinitely with three full-time educators and the preservation of the TRS materials and the Web site, [www.parelay.net](http://www.parelay.net).

**"KNOW WHAT'S BELOW." "CALL BEFORE YOU DIG." BY DIALING 8-1-1**

During the height of summer construction season and with backyard projects in full swing, the PUC and Pennsylvania One Call System Inc. (PA 1 Call) introduced Pennsylvanians to the new abbreviated dialing system of 8-1-1 to make certain underground utilities are marked before digging begins.

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



Vice Chairman James H. Cawley operates a backhoe during an 8-1-1 demonstration.

In May 2007, the PUC launched statewide radio ads as part of an effort to increase awareness of the new abbreviated dialing. An informational brochure on the "Know what's below. Call 8-1-1 before you dig" campaign also is available on the PUC Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under the Consumer Education link.

With the implementation of the federal Pipeline Safety Act of 2002, 8-1-1 has been assigned for accessing One Call centers, as mandated by the Federal Communications Commission. The PUC received grant money from the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration to conduct the campaign.



## ELECTRIC

The PUC regulates electric distribution rates, ensures service reliability and fosters the development of competitive electricity markets. The PUC also participates in matters that impact the wholesale energy market.

The state is nearing the end of the transition period for the restructuring of the electric utilities. Recognizing the ongoing need to provide guidance to the industry, the Commission finalized its default service regulations, combining it with a policy statement to provide flexibility in decision-making for this evolving market. Additionally, the PUC finalized action on its policy options that could mitigate possible price spikes for consumers as the rate caps on electricity prices expire. The Commission also focused on demand side response (DSR) by re-engaging the DSR Working Group to seek specific action items as part of a comprehensive energy plan.

Currently, 11 electric distribution companies and 43 licensed electric generation suppliers operate in Pennsylvania.

### ELECTRIC RESTRUCTURING, DEFAULT SERVICE

On May 10, 2007, as part of an overall strategy for preparing consumers for potential increases in generation costs, the Commission adopted the final regulations and policy statement that will

establish the rules for default service for electric generation. The PUC action also included a plan to mitigate and prepare Pennsylvania electricity customers for potential significant price increases that would initiate consumer-education efforts regarding energy efficiency, conservation and demand side response, choice, and low-income programs.

### RULEMAKING FOR DEFAULT SERVICE REGULATIONS

The default service regulations are one of the most important rulemakings for the Commission since the restructuring of the electric industry. The Commission reopened the public comment period for the regulations in November 2005 to address conditions in the wholesale market and the





relationship between the default service rulemaking and the Alternative Energy Portfolio Standards Act of 2004.

In developing the final rulemaking, the Commission attempted to craft rules that represent a balanced approach to acquiring reasonably priced supply in a manner that balanced the interest of all stakeholders, while meeting the requirements of the 1996 electric competition law. The law requires electric distribution companies, or a Commission- approved alternative supplier, to provide default electric generation service to customers who have not selected an alternative electric generation supplier.

The final rulemaking addresses:

- Competitive safeguards;
- Program terms and conditions of service;
- Procurement and implementation plans;
- Standards for transferring customer accounts;
- Rate design, including the “price to compare,” and
- Recovery of costs.

On July 19, 2007, the state’s Independent Regulatory Review Commission (IRRC) approved the final rulemaking.

#### POLICY STATEMENT FOR DEFAULT SERVICE REGULATIONS

The policy statement contains guidelines for the default service providers in the areas of procurement, rate design and cost recovery. The Commission recognized that some elements of the default service rules should be addressed in a policy statement rather than a rulemaking, because changes in markets and technology may result in an approach that is too narrowly tailored or too unresponsive to serve the state’s interests.

The policy statement:

- Addresses retail market issues;
- Recommends that default service providers give customers the option to defer paying some portion of a rate increase for a period of time under certain conditions;

- Addresses interim price adjustments and cost reconciliation;
- Allows default service providers to craft an approach for electric generation supply procurement that is best suited to its own territory; and
- Includes an array of guidelines intended to improve competitive solicitation processes.

The policy statement also establishes a Retail Markets Working Group to develop policy recommendations, which are aimed at removing barriers to retail market development, including rate-ready billing, customer referral programs, uniform statewide supplier tariffs and a retail choice ombudsman at both the Commission and Electric Distribution Companies.

### POLICIES TO MITIGATE POTENTIAL ELECTRICITY PRICE INCREASES

The Commission developed policies to mitigate and prepare Pennsylvania electricity customers for potential significant price increases that included a \$5 million consumer-education campaign. (See Consumers)

On May 19, 2006, the Commission began a process that led to the development of policies to mitigate higher electricity prices. More than 30 parties filed comments with the Commission regarding ideas to assist in addressing potential significant price increases.

Under the mitigation policies, the Commission also will:

- Conclude its Investigation of Conservation, Energy Efficiency Activities, and Demand Side Response by Energy Utilities and Ratemaking Mechanisms to Promote Such Efforts;

- Consider proposals to avoid large, abrupt retail electric rates on a case-by-case basis;

- Initiate a rulemaking process to modify its Customer Assistance Programs (CAPs) policy statement and regulations to address funding levels and cost recovery;

- Actively participate in the Universal Service Task Force and the Low Income Home Energy Assistance Program (LIHEAP) Advisory Committee to secure state funding for low-income energy customers;

- Address specific requests for Low Income Usage Reduction Program (LIURP) funding increases when opportunities arise; and

- Continue its policy of active participation in federal and regional proceedings that impact electricity prices.

### RATE CAPS

Under restructuring, consumers pay unbundled prices for generation, transmission and distribution services, which were capped during the state's restructuring proceedings. With the exception of West Penn Power Co., all of the distribution rate caps have expired. The West Penn distribution rate cap will expire Dec. 31, 2007. All of the transmission caps have expired. Transmission costs are regulated by the Federal Energy Regulatory Commission and the PUC.



PUC Chairman Wendell F. Holland talks with consumers about the benefits of conserving electricity, including simple steps you can take around the home such as the installation of compact florescent light bulbs.

Also, under the law, each utility's stranded costs were permitted to be recovered through a nonbypassable competitive transition charge on each customer's bill. Those competitive transition charges (CTC) expire as the generation rate caps expire.

The graph below is a list of electric companies and the status of the generation rate cap:

Company	Generation Rate Cap Status	% of PA Ratepayers
Citizens Electric Co.	Expired	0.1
Duquesne Light Co.	Expired	10.6
Pennsylvania Power Co.	Expired	2.8
Pike County Light & Power Co.	Expired	0.1
UGI Utilities Inc.	Expired	1.1
Wellsboro Electric Co.	Expired	0.1
PPL Electric Utilities Inc.	Dec. 31, 2009	24.6
Metropolitan-Edison Co.	Dec. 31, 2010	9.5
Pennsylvania Electric Co.	Dec. 31, 2010	10.6
PECO Energy Co.	Dec. 31, 2010	27.8
West Penn Power Co.	Dec. 31, 2010	12.7

### DEFAULT SERVICE ACTION

The electric competition law requires electric companies, or a Commission-approved alternative supplier, to provide default electric generation service to customers who have not selected an alternative generation supplier. This is commonly called default service or provider of last resort service (POLR).

According to the law, the default service prices for electric generation service are required to reflect "prevailing market prices." The Commission's role is to ensure that the process utilities use to achieve the default service electricity generation prices reflects prevailing market prices. The generation prices are not set by the PUC, but rather are set by the wholesale market, over which the PUC exercises no jurisdiction.

The following actions were taken on default service plans in Fiscal Year 2006-07:

[Citizen's Electric Co. and Wellsboro Electric Co.](#) – On March 1, 2007, the Commission approved changes to Citizen's and Wellsboro's Fixed Generation Supply Service Rate (GSSR).

The changes to the Fixed GSSR reflect updated estimates to forecast costs and sales, which are then reflected in the rates. The Fixed GSSR is based upon the total amount of annual estimated purchased power costs, plus the total annual estimated administrative charges associated with the purchasing of generation supply to serve the default service customers, divided by the projected total kWh sales for the application period.

[Duquesne Light Co.](#) – On June 21, 2007, the Commission approved a settlement for a new default service plan for the company, which establishes generation rates for default service customers.

The Commission approved the plan saying that it provides customers with reasonable default service rates and removes certain barriers to competition for each of the major customer groups. The settlement was reached between the company and the formal complainants in the case which included consumer advocate groups, multiple electric generation suppliers, and large customer groups.

Under the settlement, Duquesne will rely on competitive wholesale market purchases to obtain power for the company's default service customers. The settlement also eliminates declining block rates for residential default customers by Jan. 1, 2010.

[Pike County Light & Power \(PCLP\)](#) – The Commission ordered a fact-finding investigation into the competitive market conditions in the PCLP service territory following significant generation price increases on Jan. 1, 2006. In an effort to provide price relief, the Commission approved a retail aggregation program in April 2006. Most of Pike's customers were transferred to a competitive supplier through this program and realized modest savings as a consequence. The aggregation program will continue through at least the end of 2007.

On July 25, 2007, the Commission conducted a binding poll on the issues related to the petition for approval of a default service implementation plan by PCLP. The current default service prices expire Dec. 31, 2007. Under the approved plan, the PCLP will implement a 17-month default service implementation plan,



starting on Jan. 1, 2008, and ending on May 31, 2009, during which PCLP will procure all energy from the New York Independent System Operator on the spot market. The plan covers default service provided from Jan. 1, 2008, to May 31, 2009.

The Commission also released its fact-finding investigation report in June 2006, and continues to study ways to address the price increases for Pike customers. This includes the consideration of a complaint filed by the County of Pike with the Commission, in which it is seeking various forms of relief.

[Pennsylvania Power Co. \(Penn Power\)](#) – On Oct. 19, 2006, the Commission determined that the default service prices for Penn Power customers were transparent and non-discriminatory, and reflected market-based prices. The company's rate cap expired Dec. 31, 2006.

The Commission verified that the new prices accurately reflect the results of the auction and checked the company's calculations to ensure the new retail electricity prices accurately reflected the electricity costs resulting from the auction.

The new market-based pricing has triggered electric generation supply marketers to come into the territory and begin to offer alternative products.

[PPL Electric](#) – On May 10, 2007, the Commission approved PPL Electric Co.'s Revised Competitive Bridge Plan that allows the company to begin purchasing generation supplies over the next three years for use after the expiration of a current generation rate cap.

The Revised Competitive Bridge Plan, which included reconciliation requirements, additional reporting requirements for

the company and consumer protections, is designed to provide a transition from capped rates to prevailing market prices for default electric generation service for PPL consumers. Currently, PPL consumers are paying capped generation rates and will continue to do so until the end of 2009.

PPL filed the Competitive Bridge Plan on Aug. 6, 2006. The plan was revised following separate stipulations between the company and the formal complainants in the case, which included consumer advocate groups, multiple electric generation suppliers, and large customer groups.



## DISTRIBUTION RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to about \$225.9 million in rate increase requests:

### Duquesne Light Co.

*Customers Served:* 600,000 in Allegheny and Beaver counties.

*Requested Rate Increase:* \$143.7 million (18.8 percent)

*Approved Rate Increase:* \$117 million (15.3 percent)

*Primary Reasons:* To provide needed funds for the company to operate while providing a fair rate of return on the company's investment and enabling the company to maintain its creditworthiness.

### Metropolitan Edison Co.

*Customers Served:* 535,000 in Adams, York, Cumberland, Dauphin, Lebanon, Northampton, Monroe and Pike counties.

*Requested Rate Increase:* \$216 million (19 percent)

*Approved Rate Increase:* \$58.7 million (5.1 percent)

*Primary Reasons:* To allow the recovery of the costs of distribution, transmission and generation services, which have increased during the last several years while attempting to restore the balance intended by the 1998 restructuring plan.

### Pennsylvania Electric Co.

*Customers Served:* 588,000 in Erie, Crawford, Warren, Venango, Jefferson, Indiana, Somerset, Cambria, Clearfield, Centre, Blair, Bedford, Huntingdon, Franklin, Mifflin, Juniata, McKean, Potter, Tioga, Lycoming, Bradford, Sullivan, Susquehanna, Wayne and Wyoming counties.

*Requested Rate Increase:* \$157 million (15 percent)

*Approved Rate Increase:* \$50.2 million (4.6 percent)

*Primary Reasons:* To allow the recovery of the costs of distribution, transmission and generation services, which have increased during the last several years while attempting to restore the balance intended by the 1998 restructuring plan.



At the end of Fiscal Year 2006-07, three rate increase requests still pending before the Commission included: Citizen's Electric Co. (\$898,363); PPL Electric (\$83.6 million) Wellsboro Electric Co. (\$900,537).

## FIRSTENERGY RATE TRANSITION PLAN

On Jan. 11, 2007, the Commission approved lower rates than requested by Met-Ed and Penelec in a multi-issue filing that addressed a distribution rate increase request, Rate Transition Plan and merger savings.

The Commission allowed Met-Ed to increase its revenues by about \$58.7 million (5.1 percent) and Penelec by about \$50.2 million (4.6 percent). Met-Ed had requested an increase of about \$216 million (19 percent) and Penelec for an increase of \$157 million (15 percent).

The distribution rate increase allowed by the PUC is previously addressed. The Commission denied the companies' Rate Transition Plan that included increases in generation costs. On March 10, 2006, Met-Ed and Penelec filed a Rate Transition Plan and request for a general rate increase. According to the filing, the proposed increases would allow Met-Ed and Penelec to begin to recover the costs of distribution, transmission and generation services, which have increased during the last several years.

Met-Ed serves about 534,966 customers in Eastern and Southeastern Pennsylvania. Penelec serves about 587,975 customers in Western and Southwestern Pennsylvania.

### DEMAND SIDE RESPONSE

On Sept. 28, 2006, the Commission initiated a proceeding to identify cost-effective energy management programs for retail customers, appropriate cost-recovery mechanisms, and the potential for and barriers to deployment of advanced metering infrastructure.



The Demand Side Response Working Group (DSRWG) was reconvened and charged with examining the issues subject to this investigation. The DSRWG collected information, solicited comments and identified areas of policy consensus. Where consensus was not obtained, Commission staff was to provide specific policy recommendations to the Commission, on which the stakeholders would have the opportunity to comment. The DSRWG completed its investigation in May 2007, and a report summarizing its findings was provided to the Commission. The report is available on the PUC Web site at [http://www.puc.state.pa.us/electric/pdf/DSR/DSRWG\\_Draft\\_Report041307.pdf](http://www.puc.state.pa.us/electric/pdf/DSR/DSRWG_Draft_Report041307.pdf).

### ALTERNATIVE ENERGY PORTFOLIO STANDARDS ACT OF 2004

AEPS was signed into law on Nov. 30, 2004. Generally, it requires that electric

distribution companies (EDCs) and electric generation suppliers (EGSs) include a specific percentage of electricity from alternative resources in the generation that they sell to Pennsylvania customers. During 2006, the Commission completed rulemaking proceedings for the interconnection and net metering of distributed generation systems that rely on alternative energy sources. These regulations became effective on Dec. 16, 2006, and net-metering tariffs have been approved.

The Legislative Budget and Finance Committee (LB&FC) said the Commission "made good progress" in implementing the requirements of the Alternative Energy Portfolio Standards Act (AEPS) during a performance audit of the Commission.

The Commission also selected Clean Power Markets to serve as its alternative energy credit program administrator in November 2006. A contract between the Commission and Clean Power Markets was executed and approved in March 2007. They are responsible for verifying and tracking the energy or demand reductions claimed by the electric distribution companies and determining the number of Renewable Energy Credits purchased for compliance under AEPS. They will maintain a database to provide an annual report to the Commission for compliance reporting.

The Commission is currently evaluating the compliance of EDCs and EGSs with the portfolio standard during the first reporting period, which ended on May 31, 2007. The Commission hopes to complete all necessary rulemakings required by the Act after reviewing and evaluating amendments to the Act passed by the General Assembly and signed into law by Governor Rendell in July 2007. The Commission will deliver its first annual

report to the General Assembly on the implementation and effect of the Act in Fiscal Year 2007-08.

On July 25, 2007, the Commission initiated a rulemaking process to revise its net-metering and interconnection regulations to reflect the requirements of Act 35 of 2007, which recently amended a number of provisions of AEPS as part of the Governor's Energy Independence Strategy. Electric distribution companies also were directed to work with Commission staff to revise their currently effective net-metering tariffs to reflect the requirements of Act 35.

## RELIABILITY

Under the Electric Generation Customer Choice and Competition Act, each electric distribution utility is obligated to ensure that its service does not deteriorate below the level of service reliability that existed prior to the Jan. 1, 1997, effective date of the Act.

The monitoring efforts by the Commission's Bureau of Conservation, Energy and Economic Planning were focused on reviewing annual and quarterly reports filed by the electric distribution companies. Large electric companies have to stay within 10 percent of a PUC-established benchmark for a rolling three-year period and within 20 percent of the benchmark during a rolling 12-month period. Four smaller electric companies – UGI Electric Co., Citizen's Electric Co., Pike County Light & Power and Wellsboro Electric Co. – also must stay within 10 percent of their benchmark for a rolling three-year period, but will be allowed to go up to 35 percent of the benchmark for the rolling 12-month period. Benchmarks are the Commission's goals for each utility on the number and duration of outages.

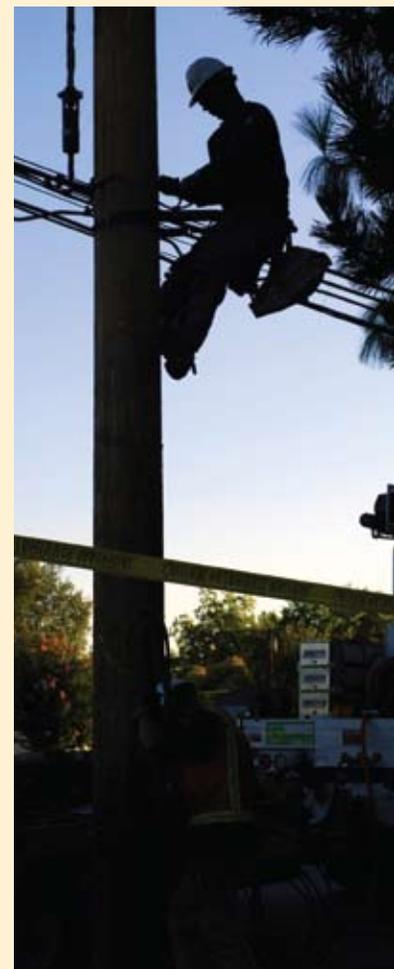
The annual reliability report – Electric Service Reliability in Pennsylvania – was issued by the Commission in July 2007. The public report trends reliability performance from 1994 to the first quarter of 2007 and includes the causes of outages, by percentage, and information on all major events. It can be viewed at the Commission's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under the link for Publications & Reports.

A LB&FC audit found that for the most part Pennsylvania's EDCs are meeting or exceeding their reliability performance standards.

## INSPECTION AND MAINTENANCE STANDARDS

On April 21, 2006, the Commission issued a proposed rulemaking for the purpose of establishing inspection and maintenance standards for EDCs.

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





Comments on the proposed rulemaking have been received and are under review by the Commission in advance of the final rulemaking.

### MERGERS & ACQUISITIONS

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

The following proceeding was before the Commission in the electric industry:

[Duquesne Light Co.](#) – On April 24, 2007, the Commission approved the acquisition of the company by Macquarie Consortium, finding that the settlement was in the public interest because it affirmatively promotes the service, accommodation, convenience or safety of the public in some substantial way. The settlement placed terms and conditions on the agreement to protect consumers. The settlement was reached between the company and the formal complainants in the case, which included consumer advocate groups, multiple electric generation suppliers and large customer groups.

The companies filed a joint petition for the acquisition on Sept. 6, 2006. Duquesne Light serves more than 580,000 customers in Allegheny and Beaver counties. Macquarie is one of the world's largest owners and managers of infrastructure assets, managing over \$25 billion in infrastructure equity around the world.

## TRANS-ALLEGHENY INTERSTATE LINE Co. (TRAIL Co.)

On April 13, 2007, TrAIL Co. filed several applications with the PUC that related to gaining authorization to locate and construct high-voltage electric lines in Western Pennsylvania. The case is ongoing.

When an application of this nature is received, the Commission is required to hold hearings to consider the necessity, safety and environmental impact of the proposed line. The Commission also considers a variety of other issues, including need for the proposed line, risk of danger to the health and safety of the public, compliance with applicable statutes and regulations providing for the protection of natural resources, and minimal adverse environmental impact.

In addition to a series of formal evidentiary hearings, the Commission's Office of Administrative Law Judge conducts public input hearings. By attending a public input hearing and providing testimony, residents place their views in the official record on which the PUC will base its decision. Residents did not have to file a formal protest in order to participate in the public input hearings.

## NATIONAL INTEREST ELECTRIC TRANSMISSION CORRIDOR

Calling the plan overly broad and unreasonable, on July 6, 2007, the PUC called on the U.S. Department of Energy (DOE) to withdraw its proposed National Interest Electric Transmission Corridor (NIETC) designation for the Mid-Atlantic region.

The PUC comments were filed as part of the DOE's considerations of two NIETC designations. Section 1221 of the Energy

Policy Act of 2005 directed DOE to conduct studies of electric transmission congestion every three years, and authorized the federal agency to designate NIETCs based on those studies.

The PUC said DOE "has misinterpreted and failed to follow the legal requirements set forth by Congress for NIETC designation, has failed to make the detailed factual findings required by Congress and should not be adopted by the Department."

The proposed NIETC includes 52 out of Pennsylvania's 67 counties in the corridor's Mid-Atlantic region. Cameron, Clarion, Crawford, Elk, Erie, Forest, Lawrence, Lycoming, McKean, Mercer, Potter, Sullivan, Tioga, Venango, Warren counties are not included in the draft corridor designation. Besides Pennsylvania, the Mid-Atlantic region encompasses all or portions of Maryland, New Jersey, New York, Virginia and West Virginia.

The PUC asked the federal agency to issue a new designation that has a more narrow scope and better reflects Congressional intent in establishing a NIETC.

## RENEWABLE AND SUSTAINABLE ENERGY

This year, the PUC finalized the Pennsylvania Sustainable Energy Board (PASEB) best practices which are the suggested operational procedures for the regional funds.

The annual meeting of PASEB was held on Dec. 11, 2006. Presentations were made by each of the funds on their activities during 2005. Presentations also were made by staff of the Commission on the topics of alternative energy and Act 213 of 2004.



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

In 2006, the funds provided slightly less than \$4.5 million in loans and slightly more than \$4.5 million in grants for investments in renewable and clean energy, and energy efficiency projects. Commission staff continues its liaison role with the regional sustainable energy funds

### ELECTRIC COMPANY AUDITS

The Commission's Bureau of Audits periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of

the jurisdictional energy distribution companies. Among the MAs and MEIs completed within the 2006-07 fiscal year were:

[FirstEnergy Companies](#) – (Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company) – The MA of the state's FirstEnergy companies found that the companies have the opportunity to achieve annual and one-time benefits or savings of up to \$28.8 million and \$4.9 million, respectively, by implementing recommendations. The recommendations included reducing meter-reading cost, overtime levels, inventory and customer account charge-offs while improving its collection system and developing a plan for implementation of automated meter reading if determined to be cost justified.

Among the MA report's non-quantifiable recommendations were suggestions to develop a plan to improve distribution system reliability and meet reliability goals; conduct a more useful line/substation workforce staffing study; appoint the president of Pennsylvania operations to the FirstEnergy's Operational Leadership Council and the Boards of the three Pennsylvania regulated utilities; accelerate efforts to bring Pennsylvania customer service levels up to and costs down to the FirstEnergy Ohio companies' levels; and improve customer call center performance.

In addition to the periodic MAs and MEIs, the Bureau of Audits conducts a variety of other electric company audits annually. During the fiscal year, Bureau staff completed 20 competitive transition cost, purchased power or consumer-education audits of jurisdictional electric companies with recommended adjustments of \$25 million.



## NATURAL GAS

Working to ensure safety, the PUC inspects the state's more than 40,000 miles of natural gas pipelines, regulates natural gas distribution company rates and service, investigates gas cost rates, and encourages the development of competitive supply markets.

**W**hile some of the the tensions in the natural gas markets have eased, prices continue to fluctuate as the weather remains the driving force. Summer electricity demand and the use of natural gas fired electric generators have expanded the use of natural gas. The Commission continues to work to enhance competition in the natural gas industry. The number of natural gas base rate cases is on the rise, as are mergers and acquisitions. The PUC's Gas Safety Division continues to monitor the safety of the fuel that heats more than 4 million homes in the state. Two settlements for about \$100,000 were reached with natural gas companies who were accused of violating portions of the Public Utility Code.

Currently, 30 regulated natural gas distribution companies and 85 licensed natural gas suppliers operate in Pennsylvania.

### WHOLESALE NATURAL GAS PRICES

Lower winter heating demand during Fiscal Year 2006-07, coupled with growth of onshore natural gas production and above-average storage supplies, relieved tightness in the natural gas markets in 2005-06. Market pressure was further alleviated by a lack of severe hurricanes and steady recovery from damage sustained during Hurricanes Katrina and Rita in 2005.

A driving force behind many of the 2006 natural gas trends was the weather. As measured by the National Oceanic and Atmospheric Administration's (NOAA) heating and cooling degree-days, temperatures for most of 2006 were significantly warmer than normal resulting in a mild winter and relatively hot summer. The relatively warmer-than-normal temperatures during the summer prompted demand for natural-



### SPOT PRICE FOR NATURAL GAS AT THE HENRY HUB 7/1/2006 TO 6/30/07 (\$/MM BTUs)



gas-fired electric generation, which resulted in expanded natural gas use by the electric power sector and the first summer storage weekly net withdrawals on record.

The relationship between price and weather is shown in the above graph. As shown, the hot weather late last summer had a significant effect on prices. Then, consumers enjoyed a relatively normal fall 2006. This was followed by a very late start to winter. When winter did arrive in late January, prices responded. The prices moderated over the spring and early summer periods. The only real factor holding prices as high as they are is the threat of hurricane activity in the energy intensive Gulf of Mexico region.

Looking forward, the Henry Hub natural gas spot price is expected to average \$7.96 per thousand cubic feet (mcf) in 2007, a \$1.02-per-mcf increase from the 2006 average, and to average \$8.15 per mcf in 2008.

### SEARCH

The PUC's working group called Stakeholders Exploring Avenues for Removing Competition Hurdles (SEARCH) is preparing a report to the Commission to identify various measures the PUC may choose to implement to promote the development of competition in the natural gas supply market in Pennsylvania. Besides describing steps that might be taken, the report will note the general support or opposition to certain proposals, identify what would need to be done to implement the measures, discuss the degree to which they would promote the development of competition, and explain the potential downsides or costs of those proposed measures.

This group was convened pursuant to the Natural Gas Choice and Competition Act, which required the PUC to conduct an investigation, five years after enactment of the law in 1999, to determine whether

effective competition exists in the Commonwealth. That investigation was concluded in October 2005, and the PUC's report to the General Assembly indicated that effective competition did not exist on a statewide basis. Under that law, the PUC was then required to reconvene stakeholders to explore avenues, including legislative, for increasing competition.

### BASE RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to about \$225.9 million in rate increase requests:

#### Dunmire Gas Co.

*Customers Served:* 66 in North Buffalo, East Franklin and Washington townships, Washington County.

*Requested Rate Increase:*  
\$180,000 (41.2 percent)

*Approved Rate Increase:*  
\$170,000 (38.2 percent)

*Primary Reasons:* To restore the company's rate of return to a more reasonable level, which reflects the current market conditions, and enable the company to generate revenue sufficient to pay ongoing operating expenses.

#### National Fuel Gas Distribution Corp.

*Customers Served:* 210,000 in Armstrong, Butler, Clarion, Clearfield, Crawford, Elk, Erie, Forest, Jefferson, McKean, Mercer, Venango and Warren counties.

*Requested Rate Increase:*  
\$25.8 million (6.1 percent)

*Approved Rate Increase:*  
\$14.3 million (4 percent)

*Primary Reasons:* To provide revenues sufficient to recoup decreased sales, increased operating expenses and increases to rate base.

#### PPL Gas Co.

*Customers Served:* 75,000 in 27 counties  
*Requested Rate Increase:* \$12.8 million (6.2 percent)

*Approved Rate Increase:*  
\$8.1 million (3.9 percent)

*Primary Reasons:* To allow the company to earn a fair return on the value of its gas utility property and recover substantial increases in its level of investment in gas plant, primarily for replacements.

At the end of Fiscal Year 2006-07, two rate increase requests still pending before the Commission included: PGW (\$100 million) and Valley Energy Inc. (\$630,025).

### MERGERS AND ACQUISITIONS

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





The following proceedings were before the Commission in the natural gas industry:

[UGI Utilities Inc./PG Energy](#) – On Aug. 17, 2006, the PUC gave conditional approval to the settlement agreement for UGI Utilities Inc. to purchase PG Energy, taking exception with the portion of a settlement agreement in the case dealing with the gas supply portion of the settlement. The parties – which included consumer, industry and union advocates – accepted the Commission condition, making the acquisition final.

The Commission determined that the remaining issues in the settlement agreement were in the public interest because the merger will ensure continuous and reliable service to PG Energy customers.

On Feb. 16, 2006, UGI filed with the Commission to acquire PG Energy from Southern Union Co. for about \$580 million. PG Energy, based in Wilkes-Barre, serves 158,000 customers in 13 counties in Northeastern and Central Pennsylvania, including Scranton and Williamsport. UGI serves 307,000 natural gas customers in 14 Pennsylvania counties, including Harrisburg, Lancaster, Reading, the Lehigh Valley and their surrounding suburbs.

[Equitable Energy/Dominion People Natural Gas Co.](#) – On April 13, 2007, the PUC approved the settlement agreement for Equitable Resources Inc. to purchase Dominion Peoples, finding that the partial settlement reached in the case was in the public interest by affirmatively promoting the service, accommodation, convenience or safety of the public in some substantial way. The partial settlement was filed by the companies and several parties in the case such as consumer, industry and union

advocates and members of the General Assembly.

The merger has yet to become final after the Federal Trade Commission filed with federal court to stop the action. The case is still pending.

On March 31, 2006, Equitable and Dominion Peoples filed a joint application with the PUC for the sale of Dominion Peoples' natural gas distribution utilities in Pennsylvania to Equitable. Dominion Peoples serves about 357,000 homes in Central and Southwestern Pennsylvania. Equitable serves about 270,000 homes in Southwestern Pennsylvania and West Virginia. Dominion's parent company also is seeking to sell its West Virginia operations to Equitable.

### GAS SAFETY DIVISION

The PUC's Gas Safety Division is responsible for enforcing federal and Commission pipeline safety regulations as they apply to the certificated natural gas utilities in Pennsylvania. Acting as an agent for the federal Office of Pipeline Safety and the U.S. Department of Transportation, the Gas Safety Division

enforces the federal pipeline safety regulations as adopted by the PUC. The division monitors compliance with these regulations by conducting frequent inspections of pipeline facilities and records of regulated gas utilities. It also investigates incidents which could include fires, explosions and major outages.

### EXCESS FLOW VALVES

Properly installed excess flow valves may protect against the migration of natural gas to nearby homes and other structures if the service line is damaged at a point subsequent to the valve location. An excess flow valve is a device that can limit natural gas flow from the main distribution line in emergencies, when the flow of gas exceeds the safety level. In other words, if natural gas begins to flow at a rate higher than the pre-established rate of the excess flow valve, the valve will automatically close and reduce the flow of gas from the distribution main.

In Pennsylvania, most natural gas utilities had voluntarily installed excess flow valves for all new and renewed residential service lines. In fact, Pennsylvania leads the nation in the installation of excess flow



valves. However, with the passage of the Pipeline Safety Act of 2006, excess flow valves are now required to be installed on all new service lines and whenever a service line is replaced.

Some controversy exists about the mandatory installation of excess flow valves in all types of applications. Generally the concern is that excess flow valves may not function properly during times when system pressure is reduced or if contaminants become lodged in the valve preventing it from functioning as designed. After reviewing the arguments for and against the use of excess flow valves, Congress believed the safety advantages demanded the law requiring their use.

#### NATURAL GAS PIPELINE REPORTABLE INCIDENTS

In 2006, eight reportable natural gas incidents occurred that resulted in one injury. No fatalities occurred as the result of a reportable incident. Over the previous three years, natural gas utilities reported 40 incidents, including 12 in 2003, 19 in 2004 and nine in 2005.

A reportable incident may involve an explosion, a release of gas, and, unfortunately, sometimes personal injury or loss of life. The PUC's regulations require a utility to submit a report of an accident involving facilities or operations that meet one or more of the following circumstances: 1) a release of gas involving death or injury; 2) a release of

gas and \$50,000 in property damages, including lost gas; and 3) a release of gas that results in an event considered significant by the operator. A public utility must also immediately notify the federal government through the National Response Center (NRC) of all reportable incidents.

The cause of the incidents has varied over the last several years, but the most frequent causes were excavation damage, natural causes such as flooding, automobile accidents, pipeline leaks caused by corrosion, and human error. In 2006, the incidents were caused by human error, vehicle accidents, corrosion and equipment failure. For the first time in the past four years, there were no reportable incidents caused by excavation damage.

Over the past five years, the most frequent causes of reportable incidents are line hit damage and corrosion. Therefore, the Gas Safety Division will continue using public education, communication with utilities and inspection and investigation efforts to reduce reportable incidents.

#### NATURAL GAS SAFETY INVESTIGATION SETTLEMENTS

In Fiscal Year 2006-07, the PUC approved two settlements with utility companies that totaled \$100,000 in settlement monies. The settlement agreements, reached between the PUC's independent prosecutory staff and the utilities, followed informal investigations into alleged violations of the Public Utility Code and U.S. Pipeline Safety Act. In each case,



the company denied the prosecutory staff's assertions.

**Dominion Peoples** – \$50,000 settlement that ended an informal investigation that alleging that the company had failed to adequately examine a section of buried pipeline for evidence of external corrosion or deterioration; had failed to minimize the detrimental effects of stay currents; had improperly capped lines at 33 sites when disconnecting customers who had transferred service to a competitor; and had failed to promptly repair a gas leak under an intersection in Altoona.

**Columbia Gas Co.** – \$50,000 settlement that ended an informal investigation into a gas explosion that injured two children in Moon Township, Allegheny County. The company agreed to develop and implement a Gas Awareness and Safety Program for middle school and latchkey children; revise its Incident Management Plan; perform a system-wide engineering study to determine whether other sites exist that require emergency valve installation; create a written test for their incident management training and review; and modify its damage prevention program. The costs of establishing these programs will offset the \$50,000 penalty.

#### ADDITIONAL GAS SAFETY ACTIVITIES INCLUDE:

- 832 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line and compressor station inspections);
- 10 investigations of reportable incidents;
- 31 non-compliance letters issued; and
- 59 gas safety violations issued.

## GAS COMPANY AUDITS

The Commission's Bureau of Audits performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas companies. Among those audits completed during the 2006-07 fiscal year were:

**Columbia Gas Co.** – The MA of Columbia found that the company has the opportunity to achieve annual and one-time benefits or savings of up to \$8.9 million and \$900,000 million, respectively, by implementing recommendations to refinance its long-term debt; reducing its accounts receivable write-offs and long-term arrearages; increasing its collection agency recovery rates; and improving its allocation of Customer Contact Center costs among affiliates.

The MA report also includes non-quantifiable recommendations such as expediting the replacement of bare steel facilities; adjusting the budget billing process; establishing a cost allocation manual; and adding staffing to the gas control facility during summer and overnight shifts.

**Equitable Gas Co.** – The MEI was limited to a review and evaluation of the company's efforts to implement 21 recommendations from the Bureau's January 2003 focused management and operations report. During the MEI, the auditors found that Equitable had realized average annual savings of \$9 million by effectively achieving the past management audit recommendation to reduce its uncollectible account write-off expenses.

The MEI also resulted in 19 additional recommendations for improvement that, if fully implemented, could result in additional annual and one-time savings

of approximately \$30.4 million and \$2.2 million, respectively, by initiating cost-effective efforts to reduce its high levels of unaccounted-for-gas; distribution expense; its uncollectible account write-offs by continuing efforts such as the outbound calling campaign and other non-termination collection tactics; and its inventory while effectively tracking third-party line hits and consistently recovering damages from the responsible parties.

In addition to the periodic MAs and MEIs, the Bureau of Audits conducts annual gas cost rate and purchased gas cost rate audits of the small and large gas companies. Bureau staff completed 33 of these audits during the year, with recommended adjustments of more than \$2.86 million.

### STEAM HEAT

Three steam heat utilities currently operate in Pennsylvania. Generally, steam heat is produced in central generation plants by heating water to its boiling point, and then distributing the steam heat to users through a series of underground pipes. Community Central Energy Corp. (CCEC) ceased to be a utility this fiscal year after its abandonment proceeding was approved.

Community Central Energy Corp. – CCEC provided heat for about 27 industrial, commercial, institutional and residential entities in the Scranton area. On May 17, 2006, CCEC filed its application for abandonment, which the Commission approved at its public meeting on Aug. 17, 2006.

The viability of the company came into question after the loss of a contracted natural gas supplier in February 2006 affected the company's ability to ensure reliable service. A PUC report, released in June 2006, concluded that the company

experienced net losses during the calendar years 2003 through 2005. For 2003 and 2004, the Commission also found a disturbingly low ratio between the company's current assets and current liabilities.

TRIGEN Philadelphia – On July 2, 2007, TRIGEN Philadelphia filed with the Commission to sell its operations to Veolia Energy North America. The matter will be referred to the PUC's Office of Administrative Law Judge for hearings and a recommended decision.

Trigen Philadelphia serves more than 300 commercial, government, institutional and hospitality customers in the central business district of Philadelphia. Veolia Energy provides energy services employees in 38 countries, serving nearly 96,000 sites.

NRG Thermal – On June 1, 2007, NRG Thermal filed an application to abandon specific customers in eight low-pressure areas in Harrisburg. No protests have been filed and the PUC is expected to make a decision in Fiscal Year 2007-08.

### BASE RATE INCREASE

During the fiscal year, the Commission approved one base rate increase request:

#### NRG Thermal (Pittsburgh operations)

*Customers Served:* 18 in the 22nd Ward on the North Side of Pittsburgh

*Requested rate increase:*  
\$1.14 million (21 percent)

*Approved rate increase:*  
\$.78 million (14 percent)

*Primary Reason:* To provide sufficient funds to provide proper maintenance to the system, recover the increased operating cost of the company and provide a fair rate of return on the company's investment.



## TELECOMMUNICATIONS

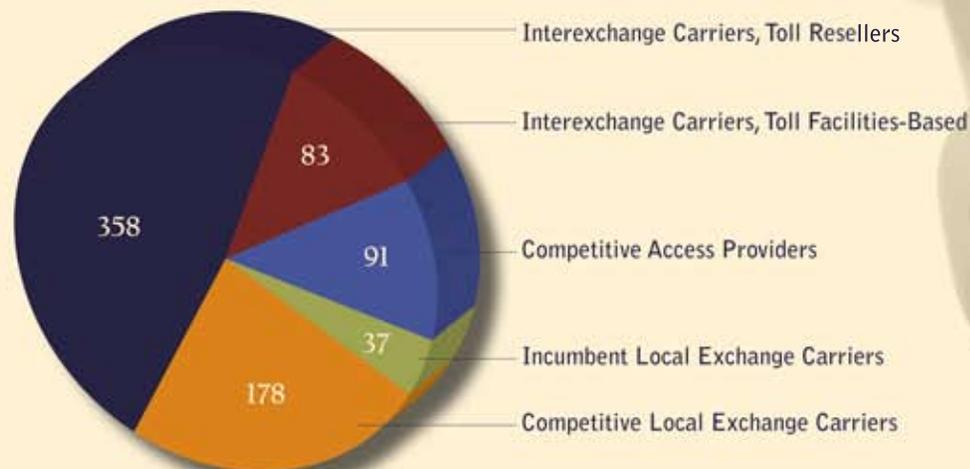
In promoting a competitive telecommunications market, the PUC works to ensure reasonable local rates and service quality, accelerate the deployment of high-speed Internet service, and make programs available so that no consumer is left without access to local telephone service.

During this fiscal year, the Commission took action on mergers for telecommunications providers while protecting jobs when the Commission determined that these mergers were in the public interest. The Commission also licensed five new local exchange carriers. The Commission also moved forward with its implementation of key provisions of Act 183 of 2004 (Chapter 30), which encourages accelerated deployment of high-speed Internet services in exchange for alternative regulation and included the reduction of reporting requirements for local telephone companies. The PUC continued efforts to ensure that no customer is left without local telephone service by improving the availability of local service provider abandonment programs. The Commission also maintained the PA Telecommunications Relay Service and other services that allow consumers who are deaf, hard of hearing and speech disabled to communicate by telephone with the hearing public.

### LICENSED TELEPHONE COMPANIES

Five new competitive local exchange carriers (CLECs) were added during the fiscal year. The three largest incumbent local exchange carriers (ILEC) are Verizon Pennsylvania Inc., Verizon North Inc., and Embarq. Currently, the number of telecommunications carriers certified by the Commission is as follows:

TELECOMMUNICATIONS CARRIERS  
TOTAL: 747



## MERGERS AND ACQUISITIONS

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

On March 1, 2007, the Commission approved a settlement agreement that supported the purchase of Commonwealth Telephone Co. and its affiliates by Citizens Communications Co. The settlement was reached between the companies, the state's Office of Consumer Advocate (OCA), the Commission's Office of Trial Staff, the state's Office of Small Business Advocate (OSBA) and the Communications Workers of America.

According to the settlement, the merger will provide significant benefits for Pennsylvania customers, including:

- Limited rate increases for the next three years, which also extends to the Frontier telephone subsidiaries of Citizens;
- Deployment of standalone high-speed Internet service to customers for two years and increased 3 Mbps downstream bandwidth availability within three years;
- Consumer education on Lifeline programs, which provide help for consumers with limited incomes;
- Continued employment levels through the end of the current contract (Nov. 30, 2008) while maintaining the

Commonwealth Telephone call center and honoring existing bargaining agreements;

- Certain financial safeguards; and
- Service quality reports to be given to OCA and OSBA through 2008.

Commonwealth Telephone provides service to 312,375 access lines in Berks, Bradford, Bucks, Carbon, Chester, Columbia, Dauphin, Lackawanna, Susquehanna, Tioga, Wyoming and York counties. Citizens owns and operates five local exchange companies – the Frontier companies – which provide service to about 38,700 access lines in Bedford, Berks, Bradford, Fulton, Lancaster, Lycoming, McKean, Potter, Schuylkill and Tioga counties.

Also, the following proceeding is before the Commission in the telecommunications industry:

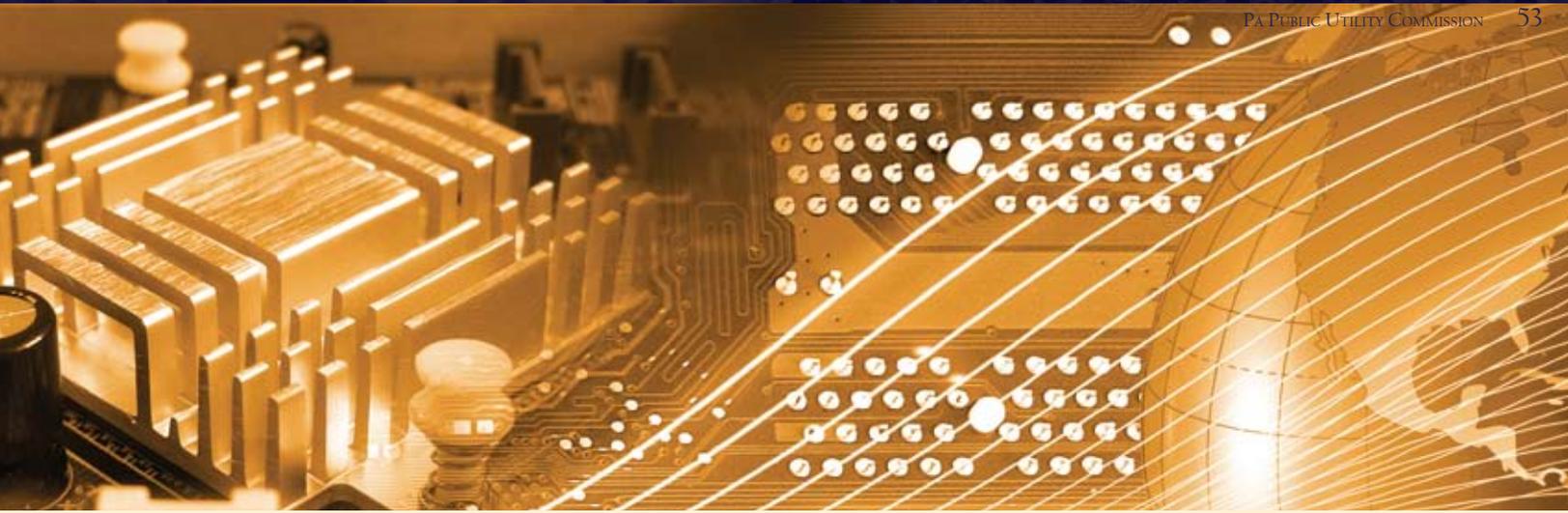
[North Pittsburgh Systems Inc.](#) – On July 16, 2007, the company and Consolidated Communications filed a joint application for the purchase of North Pittsburgh by the Illinois company.

The application has been referred to the PUC's Office of Administrative Law Judge for hearings and a recommended decision.

North Pittsburgh provides service to about 61,000 ILEC customers north of Pittsburgh. Consolidated is the fifth-largest telephone company in the United States with operations in Illinois and Texas.

## CHAPTER 30 IMPLEMENTATION

The Commission continues to implement key provisions of Act 183 of 2004, which seeks to encourage earlier completion of existing network modernization plans (NMPs) by incumbent local exchange



carriers (ILECs) with more economic incentives and less Commission regulation. The continued Commission-approved alternative regulation encourages companies to accelerate high-speed Internet development. It also reduces filing and reporting requirements for incumbent local exchange carriers; establishes a Bona Fide Retail Request program; and creates the Broadband Outreach and Aggregation Fund and Education Technology Fund.

### ILEC CHAPTER 30 PLAN SELECTIONS

Pennsylvania has 37 ILECs. All but four are under Chapter 30 Plans containing alternative regulation and accelerated NMPs. The four non-Chapter 30 companies were granted waivers due to their extremely small size (40 to 300 access lines). Companies had three options under the Act. Twenty-nine chose the first option, which demands 100 percent high-speed Internet deployment by 2008 with an inflation offset of zero for those electing price cap regulation.

Two companies (Windstream and United d/b/a Embarq PA) chose the second option of a zero inflation offset with a commitment to 80 percent broadband availability by 2010 and 100 percent by 2013 plus implementation of a Bona Fide Retail Request (BFRR) program and creation of a Business Attraction and Retention Program (BARP). Verizon

PA and Verizon North, the only non-rural ILECs, elected under Option 3 for a 0.5 percent inflation offset, 100 percent broadband availability by 2015, implementation of a BFFR program and creation of a BARP.

A Legislative Finance and Budget Committee found that Pennsylvania is “substantially ahead of the pre-Act 183 aggregate goal for these companies.” The goal was 45 percent of access lines to have broadband capabilities, and, as of the report date, 58 percent had access.

### PUC-APPROVED PRICE CAP FILINGS

To date, 23 ILECs adopted price caps using the Gross Domestic Product – Price Index outlined in the Act as the inflation factor under the alternative regulation portion of their Chapter 30 Plan. As a result, the carriers file their annual price stability mechanism index either accompanied by tariffed rate increases and/or banked revenue increases. Through past settlements reached with the state’s Office of Consumer Advocate, most of the ILECs are required to implement banked revenue increases in actual rates within four years or forego the revenue. During the fiscal year, companies with price cap mechanisms collectively were permitted to increase local service rates \$29.1 million with accumulated banked revenues of \$8.3 million.



## UPDATED REPORTING AND FILING REQUIREMENTS

During the last two years, the Commission has taken action to continue, consolidate, and/or eliminate general filing and reporting requirements imposed on incumbent local exchange carriers (ILECs). On Oct. 5, 2005, the PUC eliminated or modified reporting requirements in accordance with the implementation of the changes to Chapter 30. These proposed changes were subject to the regulatory review process, including the submission of comments from affected parties. The Independent Regulatory Review Commission approved the Commission's final regulations eliminating or modifying 10 reporting requirements, including accident reports under the Public Utility Code and Chapter 30. The regulations went into effect on Dec. 16, 2006. Also, during 2006, the Commission streamlined the Lifeline report and preserved the service outage report.

In addition, the Commission adopted a new format for the annual financial report. The revised annual financial report appreciably abridged the information to be filed thereby reducing this reporting requirement for telecommunications carriers. The annual financial report for calendar year 2006 was due March 31, 2007. Further, the Commission has taken a number of steps over the years to reduce the regulatory burdens on ILECs by granting various waivers and by reducing the paperwork as well as adjusting the timeframes for submitting various reports.

The Commission did opt to do investigative audits for the purpose of verifying reported progress by ILECs toward their Chapter 30 NMP obligations and to

Basil Arena works in the PUC's Secretary's Bureau, which maintains and files all public documents submitted to the Commission.

require ILECs to pay for the audits. The Commission also directed that the balance of Verizon's unencumbered escrow fund monies be used to pay for its NMP audit, and determined that it was appropriate to wait until Verizon's next biennial report, due in 2007, to conduct the initial NMP audit. Accordingly, The Liberty Consulting Group has been contracted to conduct a review and evaluation of Verizon's NMP implementation progress as reported in its June 30, 2007, biennial NMP update, representing its progress as of Dec. 31, 2006. Liberty began its work in late June 2007. Its report is expected to be released during the second quarter of 2008.



### BROADBAND DEPLOYMENT

Pennsylvania is home to one of the country's most aggressive high-speed Internet deployment commitments. By 2015, and as early as 2008, every city, town and village will have access to high-speed Internet service, even in the most rural areas. The Act also contains several programs designed to accelerate broadband deployment:

#### BONA FIDE RETAIL REQUEST PROGRAM (BFRR)

Act 183 established a program to help customers get high-speed access to Internet service sooner than the proposed deadlines. Through the BFRR, customers must show that there is demand for high-speed access to Internet service within their "Carrier

Serving Area." The Carrier Serving Areas are geographic areas designated by each local telephone company. Customers demonstrate there is demand by submitting a special application to their local telephone company. The program requires local telephone companies to provide high-speed access to Internet service sooner if there is a sufficient demand for it.

Verizon, Verizon North, Embarq PA and Windstream are required to offer BFRR programs under the provisions of Act 183. Those customers may submit an application to their company asking them to make high-speed access available.

Each of the above companies has information about the BFRR Program and an application on its Web site. Consumers can reach the Web sites through the state's Department of Economic Development (DCED) Web site: [www.newpa.com/broadband](http://www.newpa.com/broadband).

When the company receives applications for high-speed Internet service for 50 telephone lines or 25 percent of the telephone lines in a Carrier Serving Area, whichever is less, the company must make that service available to customers in that area. When the company receives applications from enough customers, the company will notify those who applied. The company also will provide the price and terms of high-speed Internet service. These customers must agree with the price and terms and commit to subscribe to high-speed Internet service for one year.

The company has one year to make the service available. The company will provide the expected date that high-speed Internet service will be available. The company will be able to help consumers learn about the boundaries of their Carrier Serving Area so consumers can encourage neighbors to sign up.



### BUSINESS ATTRACTION AND RETENTION PROGRAM (BARP)

In addition to a BFRR, companies electing broadband deployment in 2013 or 2015 (Verizon PA, Verizon North, Embarq and Windstream) are required to create a BARP to permit DCED to aggregate customer demand where DCED seeks to attract or retain qualifying businesses in the state. Under this program, DCED may submit a request to these four ILECs on behalf of qualifying businesses in areas that DCED deems as a priority for economic development.

### BROADBAND OUTREACH AND AGGREGATION PROGRAM (BOAF)

To further broadband deployment, this DCED-established program exists to make expenditures and provide grants from the BOAF for business and residential consumers, political subdivisions, economic development entities, schools, and health-care facilities. The Commission receives an annual report from DCED to verify the accuracy of the contributions from the four ILECs opting to complete broadband deployment by 2013 to 2015.

### EDUCATION TECHNOLOGY PROGRAM

The Act required the Department of Education to create this program to provide grants to school entities from the Education Technology Fund (E-Fund) to purchase or lease telecommunications services and equipment related to broadband. Applicant schools must be able to match their E-Fund grants. Unlike the BOAF, the E-Fund is funded only by the non-rural ILECs such as Verizon PA and Verizon North.

### FUNDING HIGH-SPEED INTERNET AND EDUCATION

The Act requires the Commission to annually assess on June 30 the four ILECs opting to complete their broadband in 2013 or 2015 at 20 percent of the first year's annual revenue effect gained from the elimination or reduction in the inflation offset. The acquired funds are divided between the E-Fund and the BOAF. The E-Fund receives 50 percent of the acquired funds until June 30, 2011, when the E-Fund is terminated. Thereafter, the assessment is reduced to 10 percent until the utility achieves full broadband deployment or the termination of the BOAF.



at July 1, 2016. At no time may the BOAF exceed \$5 million.

The E-Fund also receives an assessment from the non-rural ILECs (Verizon PA and Verizon North). For the fiscal years 2005-06 and 2006-07, the assessment was \$7 million. For the Fiscal Years 2007-08 through 2010-11, the assessment is the difference between \$7 million and any unencumbered amount remaining in the E-Fund. In addition, Verizon PA expressed a commitment in 2004 to Gov. Rendell that, if the assessment amounts for E-Fund were less than \$10 million, Verizon would provide an additional contribution up to \$3 million annually to make up the difference during the life of the fund. Verizon PA's additional contribution for the Fiscal Year 2007-08 is slightly more than a half-million dollars.

### PA UNIVERSAL SERVICE FUND

The PA Universal Service Fund (USF) ensures a gradual and smooth transition for the removal of subsidies in local rates by lowering access charges paid by long-distance toll providers in the rural ILEC territories. The Administrator of the PaUSF is Solix Inc. The company is under contract with the Commission to administer the fund through Dec. 31, 2010, with a possible one-year extension. On July 1, 2007, auditor Withum, Smith & Brown submitted an auditor's report on the financials of the fund's activities during 2006. This report is on the PUC's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us).

### 8-1-1 THREE-DIGIT DIALING (SEE CONSUMERS)

The Federal Communications Commission recently mandated 8-1-1 abbreviated dialing to be used by PA 1 Call notification



Vice Chairman James H. Cawley, right, joined PA 1 Call President and Executive Director Bill Kiger in reminding residents to “Call before you dig.”

systems in compliance with the federal Pipeline Safety Improvement Act of 2002. The PA 1 Call systems provide advanced notice of excavation activities to underground facility operators. In Pennsylvania, the system was accessed via a toll-free 800 number. On Jan. 3, 2007, the Commission issued an Order for the implementation of 8-1-1 by April 13, 2007. The deadline was met, and 8-1-1 has been implemented.



PHOTO PROVIDED BY HAMILTON RELAY

Incidents involving utility line damage continue to occur because of the failure to use this type of system prior to excavation activities. The 8-1-1 abbreviated calling is designed to encourage compliance, and reduce the number of incidents caused by excavation.

The 8-1-1 national awareness campaign was launched in May. The PUC received grant money from the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration to conduct a public education campaign.

**PA TELEPHONE RELAY SERVICE, THE TELECOMMUNICATIONS DEVICES FOR THE DEAF PROGRAM AND NEWSLINE (SEE ALSO CONSUMERS)**

During the fiscal year, the Bureau of Audits concluded its first audit of the underlying costs of the Telephone Relay Service (TRS) program. The audit covered

the fiscal years ending June 30, 2004, and 2005. Also during this fiscal year the Bureau of Audits completed its audit of the underlying costs of the Telecommunications Devices for the Deaf Program (TDDP) for the fiscal year that ended June 30, 2005. Audits of these programs will continue on an ongoing basis.

The TRS, TDDP and Print Media Access System Program (Newsline) continue to be funded from the TRS monthly surcharge on wireline access lines. The goal is to provide functionally equivalent access to telecommunications and print media. AT&T has provided traditional TRS in the state since 1990.

Technological advances since then have established Captioned Telephone Relay Service (CTRS) as an alternative to traditional TRS for individuals with some degree of hearing in the speaking segment of the deaf and hard-of-hearing community.

The TDDP, instituted in 1996, provides free telecommunications devices for members of the community who meet eligibility requirements relating to disability, income level, age and residence. Newline, instituted in 2005, is an on-demand, newspaper reading service for the blind and others who cannot physically read a newspaper, accessible via toll-free telephone lines.

The combined monthly line-item surcharge on customer bills for the TRS, CTRS, TDDP, and "Newline" programs for 2007-08 continues at the same level as the 2006-07 surcharge on all wireline access lines.

### VERIZON'S PERFORMANCE ISSUES

The PA Carrier Working Group (CWG) – comprised of Commission staff, Verizon PA, competitive local exchange carriers, the Office of Consumer Advocate, Office of Small Business Advocate, and other interested parties – focuses on the quality of the wholesale service (primarily interconnection) that Verizon renders to the CLECs. The service is assessed using metrics that measure wholesale service against Verizon's retail service or against benchmarks if there is no comparable retail service, as detailed in the PA Carrier-to-Carrier Guidelines.

Remedies, as detailed in the PA Performance Assurance Plan (PAP), are assessed if it appears that the wholesale service was deficient. The PA CWG also works with a Verizon-footprint-wide CWG group to resolve issues in a manner consistent with Verizon and the CLEC's multi-state operations. Work continues in the PA CWG on PA-specific operations and problems, as well as incorporating footprint changes into the PA Guidelines and PAP.





## OP-12

In Ordering Paragraph No. 12 (OP-12) of its “Functional/Structural Separation Order” relating to Verizon Pennsylvania Inc., the Commission agreed to host meetings to aid in the resolution of operational and performance issues arising between Verizon and its wholesale customers. Issues that have been addressed include billing errors, invalid queries, difficulties with claims processing, and unimpaired wire centers. This forum provides an opportunity for improved communications between Verizon and its wholesale customers, and is facilitated by Commission staff.

Considerable time has been spent delving into complex technical issues and factual details to identify root causes of problems and resolve operational and performance issues without the time, expense and acrimony of litigation. The work of the OP-12 differs from the work of the PA CWG in that OP-12 focuses more on policy questions and on what services should be available and how they should be made available. The PA CWG primarily focuses on what should be measured, how to measure it, and what the measurements mean in terms of quality of wholesale service.

## DECISION DESIGNED TO FURTHER LOCAL TELEPHONE COMPETITION

In Fiscal Year 2006-07, the PUC took action that allowed Core Communications Inc. the authority to expand operations to provide facilities-based CLEC services in certain rural ILEC territories in Pennsylvania. Another carrier, Sprint, was granted additional CLEC authority to provide competitive alternatives by assuming certain functions of telecommunication services for those that intend to provide such services (mainly cable providers) limited to three rural ILEC territories (Windstream PA, Commonwealth Telephone Co. and Palmerton Telephone Co.).

The Commission concluded that the companies’ requests were in the public interest and consistent with the statutory objectives of state and federal law. Also, the Commission concluded that the derived benefits of allowing local competition in the rural ILECs’ service territories outweigh the concerns raised in the rural carriers’ protests.

An appeal was filed by the Pennsylvania Telephone Association and the Rural Telecommunication Carrier Coalition in the Commission’s Core Communications’ decision. The Commonwealth Court upheld the Commission decision.



## WATER/WASTEWATER

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

The Commission regulates the rates and service of about 185 water and wastewater companies, including a number of municipal water and wastewater systems. In Fiscal Year 2006-07, the Commission acted on 28 water and wastewater rate increase requests, up from 13 in 2005-06. The Commission also processed 55 applications for Certificates of Public Convenience, including requests for additional territory, abandonments, formation of new companies, mergers and acquisitions.

The Commission moved forward with efforts to enhance emergency communications and related actions for water utilities during service interruptions. The Commission also issued investigative reports related to the high number of water main breaks in the Pittsburgh area. The report contained a number of action items for improved service to customers. The Legislative Budget and Finance Committee (LB&FC) audit found that, while the state's Department of Environmental Protection (DEP) has primary responsibility to ensure drinking water is safe, the PUC also plays an important role in regulating rates and quality of service, establishing various programs to achieve this – several of which are recognized as models and best practices at the national level.

### OPPORTUNITIES FOR ENHANCED EMERGENCY COMMUNICATIONS

Aiming to provide further benefits to water service ratepayers, the Commission adopted a new policy statement to help water utilities enhance service for their customers, including communications during unscheduled service interruptions, new methods to provide timely notice to the public and the availability of alternative water supplies during an outage.

The policy statement – adopted after soliciting input from consumer advocates and water utilities – advises water utilities of acceptable methods of public notification during unscheduled service interruptions, or situations that impact health and safety of water consumers such as “boil water” or “do not consume” orders.

It also encourages use of new technology to more readily deliver critical information to the public,





media and direct customer contacts, such as schools, health-care facilities and restaurants, closer to real time. Acceptable communication methods include taking advantage of the latest technology such as using automated dialer system notifications to affected ratepayers' landline or cellular telephones; sending e-mail and text messages to affected ratepayers who have opted to receive such notifications; and utilizing Web sites. The policy statement also highlights other types of acceptable communications with consumers, as well as sending fax and/or email notification to local radio and TV stations, cable systems and newspapers.

The policy statement also addresses the importance of making reasonable efforts to ensure adequate quantities of alternative supplies of water are made available in pre-determined, conspicuous and sufficient locations in the affected area.

When there is an unscheduled service interruption involving the quality of water, water utilities should follow DEP public notification requirements. Timely notification of customers in other incidents affecting the quantity or quality of water, such as water in short supply, discolored or sediment-laden, is recommended.

### AUDITING EMERGENCY RESPONSE PLANNING

The Commission requires that companies certify that their physical and cyber, emergency response and business continuity plans are current. During Fiscal Year 2005-06, the PUC found that deficiencies in the plans that the companies previously had certified were corrected and the plans were now in accordance with Commission requirements. In some cases, the plans were outdated and phone numbers for Commission contacts were obsolete. To correct the deficiencies, the PUC has begun to initiate an audit program to ensure that all water utilities' emergency response plans are current and in compliance with all applicable laws and regulations, including cyber and physical security along with business continuity.

### WATER SYSTEM VIABILITY

Pennsylvania has more than 2,200 community drinking water systems, many of which are small water systems serving less than 3,300 consumers. The PUC regulates the rates and service of 110 of those water companies. Many were built decades ago, and a number now face operational, technical and financial challenges that could affect customer service.

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

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

## REGIONALIZATION

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

The benefits of regionalization include increased economies of scale and service efficiencies, improved operations, management and technology. Approaches to regionalization can include mergers,

acquisitions, physical interconnections, satellite management agreements and cooperative purchasing/operational pools. Regionalization is not limited to large jurisdictional companies buying or taking over smaller companies. In some cases, nearby non-jurisdictional water companies such as municipalities or authorities also have participated in regionalization efforts.

## POLICY STATEMENT ON ACQUISITION INCENTIVES

On Aug. 17, 2006, the PUC adopted a final policy statement on water and wastewater system acquisition incentives which enhances the Commission's goals to promote water system viability and regionalization.

The policy statement provides additional guidance for companies acquiring small, chronically challenged or otherwise troubled water systems, while ensuring fair treatment of customers.

The policy statement provides direction on when and how utilities interested in making an acquisition should prepare and submit original cost documentation that determines the appropriate value of the assets of an acquired system. In addition, it provides the opportunity for acquiring utilities to earn an acquisition premium for the purchases of companies that may not be as severely troubled, but where the purchase will still improve the overall long-term viability of the water and wastewater industry.

Many small water systems have varying degrees of operational constraints that impact their viability. The Commission has a policy of encouraging well-operated water and wastewater utilities to regionalize or consolidate with smaller systems. The limited resources — managerial, financial



PUC employees got a sneak peek at some of the underground facilities owned and operated by Aqua Pennsylvania.

or technical — of these smaller systems can result in less than reliable service for ratepayers.

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

**MERGERS & ACQUISITIONS**

In reviewing mergers and acquisition, the Commission works to make certain that customers are protected and the company is a viable public utility and a good neighbor. The PUC gives each application

a thorough and comprehensive review. In Pennsylvania, the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

The following proceedings are before the Commission in the water industry:

**PA-American Water Co. (PAWC)** – On May 5, 2006, the company filed an application to establish new corporate control through a public offering of the stock of American Water Works Company Inc., PAWC’s parent company. On July 25, 2007, the Commission voted to approve the settlement agreement that was filed in the case.

The approval was conditional on the company keeping its corporate headquarters in Pennsylvania; maintaining the pension, health-care, welfare or life insurance benefits of PAWC’s retired employees or their dependents; and maintaining its community involvement levels, including funding for the company’s program to assist low-income customers with paying their bills. The company also will install without customer contributions the facilities necessary to provide service to about 800 customers in portions of Mount Pleasant and Hanover townships, Washington County, and Collier Township, Allegheny County.

Upon the sale of the stock, American Water Works will no longer be owned by RWE Aktiengesellschaft, a German multi-national holding company, and will become an independent, publicly traded company focused on the water and wastewater business in the United States. RWE purchased the company in January 2003.

PAWC is the largest water utility in Pennsylvania providing service to more than 2 million customers in 35 counties. The company operates 38 water treatment facilities and three wastewater facilities.

**United Water Co.** – On Nov. 1, 2006, the company filed an application seeking Commission approval of the proposed merger of Suez – the parent company of United Water – with Gaz de France.

The merger has been contested by various parties including the Commission’s Office of Trial Staff, the state’s Office of Consumer Advocate and the state’s Office of Small Business Advocate. The proceeding has been referred to the Commission’s Office of Administrative Law Judge for hearings and a recommendation.

United Water provides water service to approximately 175,000 people in nine counties in Pennsylvania. Based in Paris, France, Suez is one of the oldest multinational corporations in the world. The company’s primary operations include water, electricity and natural gas supply, and waste management. Gaz de France is also a French-based company of which the French government owns 80 percent.

### PAWC OUTAGES IN THE PITTSBURGH AREA

On Dec. 10, 2006, about 1,000 PAWC customers in the Pittsburgh area, including two schools, experienced water outages that continued for several days. Similar extended outages arose in November 2006 when 2,000 PAWC customers in portions of Lackawanna County lost their water service.

As a result of those events, the Commission initiated an investigation on Dec. 15, 2006, to examine the utility’s compliance

with the Public Utility Code and the Commission’s regulations regarding safe and reliable water service in the Commonwealth. The Commission did so because of its fundamental duty to ensure that public utilities provide safe, adequate and continuous service to their customers without unreasonable interruptions or delay, in accordance with regulations and orders.

The Commission’s investigation was to include a determination as to whether PAWC responded to the outages in an effective and timely manner; adequate resources were available to effectively respond to the situation in a timely manner;



the public received adequate notice and were kept informed in a timely manner; emergency response officials received notice and were kept informed in a timely manner; adequate supplies of drinking water were provided and/or available at convenient locations; and additional steps that can be taken by the utility to mitigate main breaks and to respond to future outages in a timely and effective manner.

The Commission's Law Bureau and Bureau of Fixed Utility Services prepared a report relating to the Pittsburgh outages that contained 15 directives for PAWC to implement.

A second report relating to the extended outages in Lackawanna County and other portions of PAWC's service territory will be submitted to the Commission in Fiscal Year 2007-08.

Below, PUC Vice Chairman James H. Cawley and PUC employees, above right, take a closer look at pieces of water pipe.



#### INVESTIGATION OF TOTAL ENVIRONMENTAL SOLUTIONS INC. BEECH MOUNTAIN LAKES DIVISION

On Feb. 22, 2006, the Commission initiated an investigation after receiving customer complaints regarding quality of service by Total Environmental Solutions Inc. (TESI). The complaints included frequent and lengthy water service outages for the Luzerne County water company.

While the investigation revealed that TESI's facilities are adequately operated and in generally good condition, the overarching concern was the number of outages during 2005. The Commission ordered the company to implement a number of system improvements and report periodically regarding outages and progress toward compliance with improvements.

The company complied with the Commission Order and continues to report quarterly on the number of outages and its distribution system repair work in compliance with the Commission's Order.

## RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to about \$15.2 million in rate increase requests:

### Allied Utility Services Inc.

*Customers Served:* 301 in North Whitehall Township, Lehigh County  
*Requested Rate Increase:* \$183,902 (130.2%)  
*Approved Rate Increase:* \$115,000 (81.0%)  
*Primary Reasons:* To realize a rate of return on fixed capital investment and to cover increased operating costs.

### B.E. Rhodes Sewer Co.

*Customers Served:* 225 in Venango County  
*Requested Rate Increase:* \$14,174 (25.1%)  
*Approved Rate Increase:* \$13,153 (23.3%)  
*Primary Reasons:* To provide the necessary revenues to cover operating expenses and investments.

### Borough of Phoenixville (wastewater)

*Customers Served:* 66 in East Pikeland and Schuylkill townships, Chester County  
*Requested Rate Increase:* \$72,575 (98.9%)  
*Approved Rate Increase:* \$65,000 (88.6%)  
*Primary Reasons:* To bring the rates to a level to recover the borough's costs, including its capital costs.

### Bunker Hill Sewer Co.

*Customers Served:* 57 in Clinton Township, Wyoming County  
*Requested Rate Increase:* \$13,474 (130.8%)  
*Approved Rate Increase:* \$12,181 (121.1%)  
*Primary Reasons:* To bring the company to a financial break-even point.

### Can Do Inc. – Water Division

*Customers Served:* 67 in Luzerne, Schuylkill and Carbon counties  
*Requested Rate Increase:* \$202,062 (25%)  
*Approved Rate Increase:* \$202,062 (25%)  
*Primary Reasons:* To allow the water system the opportunity to earn a reasonable rate of return.

### City of DuBois – Bureau of Water

*Customers Served:* 698 customers outside the city limits in Clearfield County.  
*Requested Rate Increase:* \$129,350 (36.4%)  
*Approved Rate Increase:* \$92,000 (25.9%)  
*Primary Reasons:* To realize a rate of return on fixed capital investment and recover increased operating expenses.

### City of Lancaster – Sewer Fund

*Customers Served:* 3,356 outside the city limits in Lancaster County  
*Requested Rate Increase:* \$650,465 (54.5%)  
*Approved Rate Increase:* \$119,961 (10%)  
*Primary Reasons:* To restore the jurisdictional rate of return and net operating income to a more reasonable level.

### Columbia Water Co.

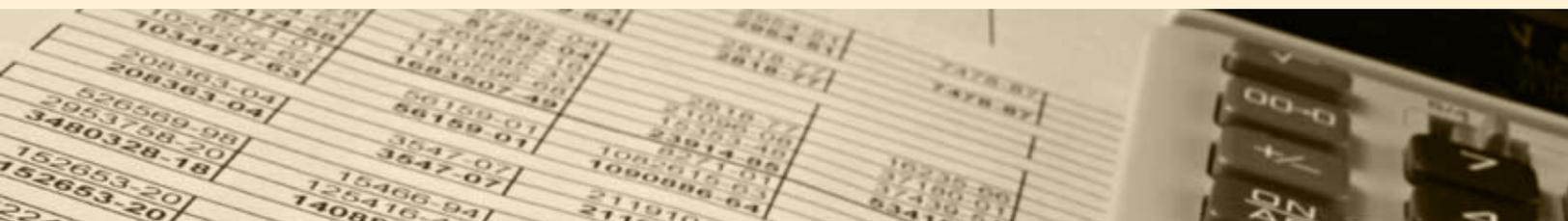
*Customers Served:* 8,285 in West Hempfield and Manor townships, Lancaster County  
*Requested Rate Increase:* \$519,500 (15.9%)  
*Approved Rate Increase:* \$372,000 (11.4%)  
*Primary Reasons:* To realize a reasonable rate of return on fixed capital investment and recover increased operating expenses.

### Cooperstown Water Co.

*Customers Served:* 129 in Venango County  
*Requested Rate Increase:* \$8,917 (21.9%)  
*Approved Rate Increase:* \$5,897 (14.5%)  
*Primary Reasons:* To cover operating expenses and enable payments on long- and short-term debt.

### Corner Water Supply and Service Corp.

*Customers Served:* 566 in and around Shipperville, Clarion County  
*Requested Rate Increase:* \$41,829 (13.9%)  
*Approved Rate Increase:* \$19,100 (6.4%)  
*Primary Reasons:* To obtain a fair and reasonable rate of return on the shareholders' investment.



Eaton Sewer and Water Co. Inc. (wastewater)

*Customers Served:* 81 in Eaton Township, Wyoming County  
*Requested Rate Increase:* \$69,641 (91.1%)  
*Approved Rate Increase:* \$32,973 (49.9% – two-step increase)  
*Primary Reasons:* To realize a reasonable rate of return on fixed capital investment and recover increased operating costs.

Eaton Sewer and Water Co. Inc. (water)

*Customers Served:* 82 in Eaton Township, Wyoming County  
*Requested Rate Increase:* \$71,113 (118.9%)  
*Approved Rate Increase:* \$41,080 (71.6% – two-step increase)  
*Primary Reasons:* To realize a reasonable rate of return on fixed capital investment and to recover increased operating costs

Emporium Water Co.

*Customers Served:* 1,466 in Shippen Township, Cameron County  
*Requested Rate Increase:* \$316,144 (49.8%)  
*Approved Rate Increase:* \$254,741 (40.2%)  
*Primary Reasons:* To realize a reasonable rate of return on fixed capital investment and recover increased operating costs.

Factoryville Bunker Hill Water Co.

*Customers Served:* 57 in Clinton Township, Wyoming County  
*Requested Rate Increase:* \$1,909 (20.6%)  
*Approved Rate Increase:* \$485 (5.3%)  
*Primary Reasons:* To bring the company to a financial break-even point.

Fairview Sanitation Co.

*Customers Served:* 175 in Fairview Township, Erie County  
*Requested Rate Increase:* \$8,400 (19.0%)  
*Approved Rate Increase:* \$7,086 (16.1%)  
*Primary Reasons:* To maintain the company's economic viability.

Imperial Point Water Service Co.

*Customers Served:* 501 in Girard Township, Erie County  
*Requested Rate Increase:* \$80,679 (45.9%)  
*Approved Rate Increase:* \$40,000 (22.8%)  
*Primary Reasons:* To realize a reasonable rate of return on fixed capital investment and recover increased operating expenses.

Little Washington Wastewater Co. – Chesterdale/Willistown Woods Division

*Customers Served:* 819 in Willistown Township, Delaware County  
*Requested Rate Increase:* \$62,175 (14.1%)  
*Approved Rate Increase:* \$54,362 (12.4% – two-step increase)  
*Primary Reasons:* To comply with state and federal environmental requirements and earn a reasonable return on investment.

Little Washington Wastewater Co. – Little Washington Division

*Customers Served:* 346 in E. Brandywine Township, Chester County  
*Requested Rate Increase:* \$168,407 (56.6%)  
*Approved Rate Increase:* \$118,386 (53.5% – two-step increase)  
*Primary Reasons:* To comply with state and federal environmental requirements and earn a reasonable return on investment.

Little Washington Wastewater Co. – Media Divison

*Customers Served:* 2,049 in the Borough of Media, Delaware County  
*Requested Rate Increase:* \$64,969 (9.6%)  
*Approved Rate Increase:* \$64,695 (9.5%)  
*Primary Reasons:* To comply with state and federal environmental requirements and earn a reasonable return on investment.

Little Washington Wastewater Co. – Peddlers View Division

*Customers Served:* 214 in Solebury Township, Bucks County  
*Requested Rate Increase:* \$59,165 (44.7%)  
*Approved Rate Increase:* \$56,012 (42.5% – two-step increase)  
*Primary Reasons:* To comply with state and federal environmental requirements and earn a reasonable return on investment.

**Plumer Water Co.**

*Customers Served:* 61 in Cornplanter Township, Venango County  
*Requested Rate Increase:* \$3,066 (10.4%)  
*Approved Rate Increase:* \$1,590 (5.4%)  
*Primary Reasons:* To pass through increased costs for water received from the Borough of Rouseville.

**Reynolds Disposal Co.**

*Customers Served:* 680 in Mercer County  
*Requested Rate Increase:* \$278,969 (87.7%)  
*Approved Rate Increase:* \$90,000 (28.3%)  
*Primary Reasons:* To realize a reasonable rate of return on fixed capital investment, allow proper system maintenance and recover the increased operating costs.

**York Water Co.**

*Customers Served:* 55,731 in the City of York and York County  
*Requested Rate Increase:* \$4.5 million (16.0%)  
*Approved Rate Increase:* \$2.6 million (9.0%)  
*Primary Reasons:* To maintain its facilities and provide a fair and reasonable rate of return.

**Timberlee Valley Sanitation Co. Inc.**

*Customers Served:* 60 in Connoquenessing and Lancaster townships, Butler County  
*Requested Rate Increase:* \$14,400 (57.1%)  
*Approved Rate Increase:* \$14,400 (57.1%)  
*Primary Reasons:* To restore rate of return and net operating income and recover increased investments in sewer plant.

**United Water Co. Inc.**

*Customers Served:* 150,000 in Columbia, Cumberland, Dauphin, Luzerne, Perry, Schuylkill, Wyoming and York counties.  
*Requested Rate Increase:* \$7.5 million (32.4%)  
*Approved Rate Increase:* \$5.9 million (24.9%)  
*Primary Reasons:* To recover the cost of the improvements to the Sixth Street, Harrisburg, and Hummelstown treatment plants.

**Utilities Inc. - Westgate**

*Customers Served:* 721 in Hanover Township, Northampton County  
*Requested Rate Increase:* \$161,255 (72.6%)  
*Approved Rate Increase:* \$109,917 (45.0%)  
*Primary Reasons:* To allow essential and

continuing plant investment and earn a reasonable rate of return on investment.

**Venango Water Co.**

*Customers Served:* 226 in Venango County  
*Requested Rate Increase:* \$33,217 (35.8%)  
*Approved Rate Increase:* \$30,288 (32.6%)  
*Primary Reasons:* To cover operating expenses, enable payments on its long- and short term-debt and provide funds to cover investments.

**West Hickory Water Co.**

*Customers Served:* 197 in Harmony Township, Forest County  
*Requested Rate Increase:* \$10,677 (24.9%)  
*Approved Rate Increase:* \$10,422 (24.3%)  
*Primary Reasons:* To cover operating expenses, enable payments on its long- and short term-debt and provide funds to cover investments.

At the end of Fiscal Year 2006-07, 10 rate increase requests still pending before the Commission included: Borough of Ambler – Water (\$454,798); Audubon Water Co. (\$477,975); Pennsylvania-American Water Co. (\$59,236,366); Little Washington-Twin Hills Division (\$67,479); Little Washington-Rivercrest Division (\$63,573); Keystone Utilities Group Inc. (\$48,816); Village Water Co. (\$42,575); Glendale Yearound Sewer Co. (\$142,655); Wonderview Sanitary Facilities (\$18,577); and Bethlehem City Water Dept. (\$827,455).

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

The Distribution System Improvement Charge (DSIC) allows water companies to use a surcharge to fund more upgrades of aging infrastructure than would otherwise be feasible at a reasonable rate for customers. The DSIC was developed in Pennsylvania and several other states have since adopted a similar mechanism.



Because of the DSIC, water customers experience improved water quality, greater rate stability and increased water pressure. Further benefits result due to fewer main breaks and service interruptions, along with lower levels of unaccounted for water.

The Commission regularly reviews the DSIC expenditures by companies making certain that the amount of money expended is on DSIC-eligible property, including main and valve replacement; main cleaning and relining; fire hydrant replacement, main extensions to eliminate dead ends; solutions to regionalization projects; and meter change outlets. In Fiscal Year 2006-07, the Commission completed an audit of a jurisdictional water company's DSIC expenditures and found that about \$133,000 of ineligible costs were included in the company's DSIC calculation. However, if the company had petitioned for a waiver from its tariff to cover the costs, staff believed it may have been granted given the type of expenditures that were made. The recommendation adopted by the Commission was that the company should petition the PUC for a waiver prior to including such costs in their DSIC calculation.

Implemented in 1997, DSIC is an automatic adjustment charge that enables companies to recover certain infrastructure improvement costs between base rate cases through a quarterly surcharge on customers' bills. DSIC is a tool to be used by companies between base rate cases to ensure recovery of capital expenses in a reasonable manner. When a company is granted a base rate increase, the DSIC automatically resets to zero.

The cost is small when compared to the noticeable benefits, with approximate average monthly costs to ratepayers ranging from a few cents a month to about \$1.50.

The DSIC has had substantial impact on accelerating infrastructure remediation in Pennsylvania. Prior to the DSIC, water utilities' progress in upgrading infrastructure relative to actual service lives was a major challenge. For example, one large company would have taken 900 years to complete its entire system and another would have taken 225 years. This problem is due in part to the fact that the original cost of the distribution systems has increased substantially over the past century. Today, because of DSIC, projected timeframes for upgrades of entire distribution systems range from 117 years to 160 years which more closely match that of actual service lives.

The value of accelerated infrastructure remediation is substantial, benefiting customers not only today but well into the future due to noticeable improvements in water quality, pressure, fire protection, service reliability and rate stability. Numerous customer protections are included as well, such as a 5 percent cap on the total bill, an annual reconciliation audit and the requirement for customer notice.

Due to the DSIC and other innovative regulatory mechanisms, Standard & Poor's has recognized the PUC for effectively encouraging water company investment.

### PA-AMERICAN WATER CO. REQUEST TO REVISE ITS DSIC

On Oct. 17, 2006, PAWC filed with the PUC to increase its maximum allowable DSIC from 5 percent of billed revenues to 7.5 percent.

The Commission voted on July 11, 2007, to approve the increase to the surcharge cap, calling the DSIC a valuable regulatory tool. When the cap is reached, the maximum increase for an average residential customer would be about \$1, increasing the surcharge from \$1.75 to \$2.75 a month.

### COLLECTION SYSTEM IMPROVEMENT CHARGE

On May 10, 2007, the Commission released its audit report which found that refunds of about \$85,200 were appropriately refunded by the PAWC, which ended a more than two-year discussion over the Collection System Improvement Charge (CSIC).

The refunds were part of a settlement agreement that resulted after the Pennsylvania Commonwealth Court reversed a PUC Order that approved the company's petition to implement the CSIC. This audit report found that PAWC had complied with the Commission approved CSIC refund plan.

The case revolved around a September 2003 PUC decision to allow the company to recoup approximately \$3 million to replace collection mains in three wastewater systems it purchased between 1995 and 2002.

On March 14, 2005, the Commonwealth Court concluded that the PUC did not have the authority to approve a rate mechanism such as CSIC to recover the fixed costs of a wastewater utility plant placed into service between base rate cases. On March 6, 2006, the Pennsylvania Supreme Court denied petitions to appeal.

An audit by the Legislative Budget and Finance Committee recommended that the General Assembly amend the Public Utility Code to give the PUC authority to establish a CSIC program for wastewater companies.

### MANAGEMENT AUDITS AND EFFICIENCY INVESTIGATIONS

The Commission's Bureau of Audits periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the larger jurisdictional water companies. Among the MAs and MEIs completed within the 2006-07 fiscal year were:

[Aqua Pennsylvania](#) – The MA found that the company has the opportunity to achieve annual and one-time benefits or savings of up to \$1,246,000 and

\$890,000, respectively, by implementing recommendations to revise its procedures for allocating overhead cost; identifying all employees who provide services to affiliates and allocating the appropriate cost to those affiliates; charging a market rate interest for funds advanced to an affiliate; reducing its inventory; and reducing recordable and lost-time accidents to industry standards.

Among the MA report's non-quantifiable recommendations were suggestions to update and submit for approval all necessary affiliated interest agreements; implement unaccounted-for-water (UFW) recommendations for two divisions; complete the internal UFW studies for two other divisions; modify the reporting relationship of the internal audit function; reduce the number of reporting relationships of one to three and less; and strive to increase the utilization of minorities and females in under-utilized job categories.

[Superior Water Company](#) – The MA found that the company has the opportunity to

improve the efficiency or effectiveness of its operations by implementing recommendations to expand its board of directors to include, at a minimum, an independent director with financial expertise; establish policies and procedures to periodically obtaining bids for ongoing services; develop a short-term contingency plan and a long-term management succession plan for the operations manager's position; perform a study to determine the cost/benefits of continuing to employ an in-house engineer; establish a multi-year capital budget and prioritization of projects; insure that all commercial backflow prevention devices are inspected, maintained and tested on a periodic basis; and comply with physical security, cyber security, business continuity and emergency response planning regulations.

### STATEWIDE WATER RESOURCES

The PUC participates on the Statewide Water Resources Committee charged with carrying out Act 220 of 2002. This law



requires the development of a statewide plan to manage the Commonwealth's water resources more effectively. Act 220 calls for the 25-year-old state Water Plan to be updated within five years, with regular updates every five years thereafter. The updated plan is to address the quantity of water available in the Commonwealth, the amount used, and the amount needed.

The Committee, which has adopted draft regulations and bylaws, holds regional and statewide meetings. The Committee is in the process of collecting sound scientific data on a watershed basis, which will allow the Committee and all other concerned parties to assess the cumulative impact of these activities in order to preserve and protect water resources for future generations of Pennsylvanians.

### WATER CONSUMER EDUCATION

Showing consumers how to "Be Water Wise," the PUC commemorated National Drinking Water Week in May by

demonstrating the simple steps consumers can take around the house to save money and this valuable resource.

Through a partnership with Home Depot, the PUC highlighted home improvements such as low-flow showerheads, simple adjustments to bathroom fixtures, and frontload washing machines that allow consumers to conserve this valuable resource while saving money.

The Commission urged consumers to "Prepare Now: Be Water Wise" by illustrating how saving water is easy. The public was welcome to tour exhibits from water companies, state agencies and organizations

The event also highlighted WaterSense – a program launched earlier this year by the U.S. Environmental Protection Agency for residential consumers. Products bearing the WaterSense mark are guaranteed to meet thresholds for conservation, much like the EnergyStar program for electricity.





Commissioners also used the celebration as an opportunity to educate consumers on changes in the laws that govern utility consumers. Changes in 2004 to create Chapter 14 also changed the way regulated water utilities handle cash deposits; reconnection of service; termination of service; payment arrangements; and the filing of termination complaints by residential customers.

The Commission is encouraging water consumers to learn more about these laws and how they impact water consumers. The state's four largest regulated water companies – Aqua Pennsylvania, PAWC, United and York Water Co. – have established programs to help low-income consumers pay their water bills.



PUC Commissioners and employees, members of the water industry, and Home Depot kick off the PUC's annual celebration of National Drinking Water Week. With displays, informational brochures and hands-on examples the PUC showed consumers how to "Be Water Wise" by demonstrating the simple steps consumers can take around the house to save money and this valuable resource.



## TRANSPORTATION & SAFETY

The PUC regulates motor carriers that transport property, passengers and household goods, and conducts motor vehicle, and railroad facility and track inspections.

**D**uring Fiscal Year 2006-07, the Bureau of Transportation and Safety's Motor Carrier Division made significant improvements to regulations that impact the quality of motor carrier passengers throughout the state. The division also celebrated the success of its electronic filing program for insurance and opted to continue the pilot program for motor carriers throughout the state. During the year, the division conducted about 16,520 enforcement activities.

The Rail Safety Division completed an inventory of all public rail-highway at-grade crossings to ensure stop signs were placed as required by Commission Orders. The division – a participant in the national Operation Lifesaver rail education program – also conducted more than 25,366 inspections of locomotives, rail cars, tracks and rail operations as well as 4,160 miles of track.

### MOTOR CARRIER SERVICE AND ENFORCEMENT DIVISION

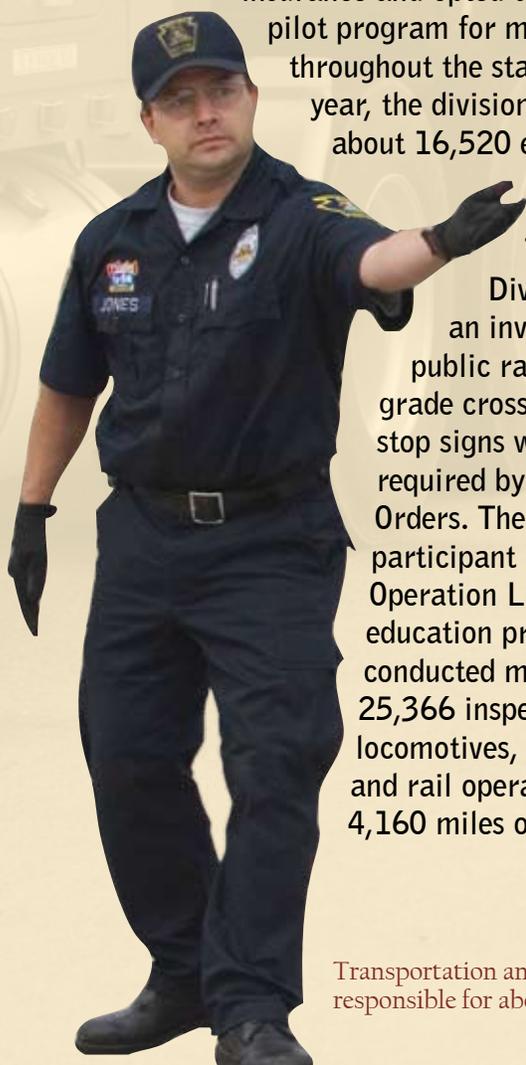
#### REGULATION REVISIONS

On Aug. 5, 2006, the PUC final rulemaking that revised its regulations for motor carriers of passengers and property became final. The regulation changes were driven primarily by changing dynamics within the transportation environment.

Significant changes were made to the regulations for motor carriers of passengers – especially for those with seating capacities of 15 passengers or less. The regulations can be found at 52 Pa. Code, Chapter 29. Some of the more notable changes included:

- Taxicabs and limousines may not be more than eight model years old;
- A vehicle's exterior may not have significant dents or damage;
- Vehicles must have operative air conditioning;
- Carriers must obtain driving and criminal histories for new and current drivers; and
- Carriers must provide consumer information to passengers upon request.

Transportation and Safety Enforcement Officers, such as Phillip Jones, were responsible for about 17,000 enforcement activities in 2006-07.



The Commission's regulations for motor carriers that transport household goods in use are found at 52 Pa. Code, Chapter 31, and some of the more significant changes affecting those carriers included:

- The "Information for Shippers" document was revised to provide for a thorough explanation of each consumer information subject, including information for consumers to provide complaints to the Commission;
- Carriers must prepare a written estimate for each move;
- Carriers shall issue a bill that provides a detailed accounting of the charges; and
- Carriers must obtain and review the criminal history of each person that will provide moving services in a shipper's dwelling.



### ELECTRONIC FILING OF INSURANCE FORMS

Due to the success of its pilot program to permit the electronic filing of proof of insurance for regulated motor carriers, the Commission decided to continue the program.

On April 3, 2006, the Commission initiated a pilot program where insurance companies could electronically file proof of insurance on behalf of PUC-certificated carriers. The insurers use a Web site established by National Online Registries, a company which acts as a conduit between states and insurance companies. The yearlong program found that electronic filing provided more timely filings and saved money for both the insurers and the Commission.

The Commission will continue with the program, but re-evaluate how electronic filing may be affected with the implementation of the Commission's Information Management and Access Project (InfoMAP). Once completed, InfoMAP is designed to provide easier access to the Commission through systems such as electronic filing, as well as electronic payment systems. (See Consumers)

### NEW ENTRANT AUDITS

As part of its participation in the Motor Carrier Safety Assistance Program (MCSAP), the Commission's Motor Carrier Division enforcement staff completed safety audits of new motor carriers located in Pennsylvania. The Motor Carrier Division's Safety Office oversees the program.

As required by the Motor Carrier Safety Improvement Act of 1999, the Federal Motor Carrier Safety Administration established the New Entrant Safety Assurance Program. This program requires new interstate property and passenger motor carriers to submit to a safety audit within 18 months of beginning transportation service. The purpose of the safety audit is to provide an opportunity for the new carrier to receive educational and technical assistance about the safety regulations. In addition, it allows



regulators to make an assessment of the new carrier's safety management systems in order to ensure these systems are adequate so that the carrier can comply with the safety regulations.

In 2006-07, the enforcement staff completed 360 audits, and their investigations identified another 98 carriers who are no longer operating. More than 4,600 work hours were committed to this program. On average, 170 motor carriers that are located in Pennsylvania enter the transportation business each month.

The LB&FC audit of the PUC found that the Commission's current arrangement with the State Police for handling the MCSAP is working well and is a cooperative effort. The PUC responded to the report and agreed with this finding.

The Federal New Entrant Audit Program is similar to the Commission's Safety Fitness Review Program that the Motor Carrier Division has conducted since 1995. The most notable difference is that the Commission's program requires the carrier to correct deficiencies discovered during the first review, or the second review may result in the cancellation of the motor carrier's operating authority.

### OFF-HOURS INSPECTIONS

In addition to its inspection effort during normal business hours, the PUC's Motor Carrier Division has committed to commercial vehicle inspections during off hours such as evenings and weekends. During Fiscal Year 2006-07, the division's enforcement staff expended more than 2,200 hours in off-hours inspections, resulting in 977 truck and bus inspections. About 230 vehicles were placed out of service for serious mechanical defects, while 66 drivers were placed out of service.

### REGULATED MOTOR CARRIERS

- 5,426 property
- 520 taxis
- 432 limousines
- 360 paratransit
- 73 airport transfer
- 328 group and party
- 61 scheduled route
- 306 household goods movers



## 2006-2006-07 ENFORCEMENT ACTIVITIES

- 11,261 truck, bus, small passenger vehicle inspections
- 433 informal complaint investigations
- 1,366 safety fitness reviews
- 1,946 cases reviewed
- 1,514 prosecutory actions

### RAIL SAFETY DIVISION

#### FOCUSED INSPECTIONS

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

In addition to regular inspections, the PUC's Rail Safety Inspectors also participate in focused inspections, which are completed when data indicates an increase in incidents and violations at specific locations or with particular carriers or shippers. Focused inspections include a team of PUC and FRA inspectors who perform inspections and/or a review of records over an extended period of time at a specific location.

During the past year, the PUC has participated in focused inspections involving the disciplines of operating practices and track. Since most rail

accidents and incidents are caused by human error, the operating practices focused inspection attempts to identify deficiencies and violations attributable to human factors, such as hours of service, dispatch operations and switching operations. Another leading cause of rail accidents is track defects. Track focused inspections concentrate on those lines with a history of defects and derailments.

### STOP SIGN INVENTORY

The Rail Safety Division completed an inventory of all public rail-highway at-grade crossings to ensure stop signs were placed as required by Commission Order. In addition, the review also checked that stop signs and other warning devices were in compliance with the Manual of Uniform Traffic Control Devices.

The purpose of the stop sign review was to ensure the public was adequately warned prior to rail crossings that motor vehicles must stop before proceeding across tracks. It is believed that adequate warning to the public will help to reduce accidents between motor vehicles and trains at grade crossings. The review showed that most crossings were compliant with current warning sign standards.



### OPERATION LIFESAVER

Operation LifeSaver is a non-profit, national public education program dedicated to eliminating collisions, deaths and injuries at rail-highway crossings and on railroad rights-of-way. Operation LifeSaver strives to increase public



Pat Edwards, left, and Dave Hart of the PUC's Rail Safety Division used the 2007 Farm Show to increase public awareness about the dangers at rail-highway crossings.

awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

The program seeks to improve driver and pedestrian behavior by encouraging compliance with traffic laws relating to crossing signs and signals. It also points out the dangers on railroad rights of way. The Rail Safety Division has five employees who have been certified to provide Operation LifeSaver presentations to various groups, such as school children, businesses and civic organizations. The Rail Safety presenters also provide the outreach at events with large public gatherings, such as the Pennsylvania Farm Show.

### 2006-07 INSPECTIONS

- 24,550 railroad car
- 469 locomotive
- 4,160 miles of railroad track
- 347 operating practice

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2007 marked the  
Pennsylvania Public Utility Commission's 70th anniversary.  
The Commission has evolved over the past 70 years, becoming  
more accessible to the public, and better able to balance the needs  
of both consumers and utilities.

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