

# Keystone Connection

Utility News  
in Pennsylvania

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

Autumn 2008

## Cawley Appointed Chairman, Christy Elected Vice Chairman



From left to right: Commissioner Powelson, Chairman Cawley, Commissioner Pizzigrilli, Vice Chairman Christy and Commissioner Gardner.

Capping a busy summer at the PUC, Gov. Edward G. Rendell on Aug. 19 named Vice Chairman James H. Cawley as Commission Chairman. The next day, the Commissioners elected Tyrone J. Christy as Vice Chairman, succeeding Chairman Cawley.

Earlier in the summer, the PUC welcomed two new Commissioners: Robert F. Powelson and Wayne E. Gardner, who were nominated on June 19 by Gov. Rendell and unanimously confirmed by the Senate on June 30.

Commissioner Kim Pizzigrilli is the longest serving Commissioner among the current Commission, having served since February 2002.

During his announcement, Gov. Rendell praised the skills, experience and vision of Chairman Cawley.

"Jim is an expert in utility regulation and utility law, and he shares my commitment to promoting and expanding our use of alternative energy and conservation measures to reduce demand," said Gov. Rendell. "It may be the most challenging time in our recent history to chair the PUC, but I am convinced that, with his experience, Jim is capable of stepping forward and leading the Commission."

**Chairman Appointment** Continued on Page 21.

## Connecting in Pennsylvania

Welcome to the 11<sup>th</sup> issue of *Keystone Connection*, a publication of the Pennsylvania Public Utility Commission (PUC) that gives a "snapshot" view of the utility markets under the jurisdiction of the Commission: electric, natural gas, transportation, telecommunications, water and the major issues that affect each industry.

The publication contains coverage of all utilities, including news on consumer issues and general information on PUC happenings.

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

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## Inspection and Maintenance Rulemaking

On Aug. 7, 2008, the Independent Regulatory Review Commission unanimously approved the PUC's May 22, 2008, final rulemaking order at Docket No. L-00040167, revising Chapter 57, title 52, of the Pennsylvania Code. The rulemaking creates 52 Pa. Code § 57.198, establishing inspection, maintenance, replacement and repair (I&M) standards for electric distribution companies (EDCs). The regulation creates two EDC compliance groups. The first compliance group must submit an initial inspection and maintenance plan on Oct. 1, 2009, and biennially thereafter, which will cover two calendar years of plans beginning 15 months following Oct. 1. The second compliance group shall submit its plan on Oct. 1, 2010, and biennially thereafter. The plan must detail a program for the maintenance of electric distribution facilities including: poles, wires, conduits, or other fixtures for the distribution of electric current in such a format as the PUC shall prescribe. The plans are subject to acceptance or rejection by the Commission.

On July 17, 2008, the Commission issued an advance notice of proposed rulemaking order asking for comments on the standards that are currently used by EDCs to inspect, maintain, repair and replace neutral connections, as well as comments on whether the Commission should promulgate standards to govern the inspection, maintenance, repair and/or replacement of neutral connections. This order was published in the *Pennsylvania Bulletin* on Aug. 9, 2008, at 38 Pa.B. 4393. Comments were due on or before Oct. 8, 2008. Reply comments were due on or before Nov. 7, 2008.

## PPL Petitions for Approval of a Rate Stabilization Plan

On Aug. 7, 2008, the Commission approved a rate stabilization plan (RSP) filed by PPL Electric Utilities on Nov. 30, 2007, at Docket No. P-2008-2021776. The RSP gives PPL's consumers the option to pay higher rates for the period from October 2008 through December 2009 in order to reduce the impact of projected higher rates when current rate caps expire. It is designed to smooth the transition from a capped rate environment to one in which electric prices more closely reflect market conditions.

The parties to the case had submitted a joint petition for settlement on Feb. 27, 2008, of which the

presiding administrative law judge recommended approval in a decision issued on March 6, 2008. By secretarial letter dated March 17, 2008, the PUC re-opened the record to allow for a public input hearing, which was held in Bethlehem, Pennsylvania on April 2, 2008. Thirty-four witnesses testified at the public input hearing, expressing their general concerns about impending rate hikes.

## PUC Challenges Department of Energy Transmission Corridor Designation

The Public Utility Commission is participating with other states (New York, New Jersey, Virginia, California and Arizona) and several conservation organizations in challenging recent orders issued by the United States Department of Energy (DOE) establishing two National Interest Electric Transmission Corridors (NIETCs) issued pursuant to provisions of the Energy Policy Act of 2005.

The Commission's appeal was filed on March 14, 2008, and is now consolidated with 12 other appeals in the Ninth Circuit Court of Appeals. The basis of the appeal is that the DOE's action was arbitrary, capricious and was an abuse of discretion. Additionally, the appeals allege that the corridor designation was overbroad and failed to take into account state interests. The Commission and other appellants ask the Court to remand the matter and require DOE to re-examine the process for corridor designation and to require DOE to design the corridors in a manner consistent with the requirements of the Energy Policy Act of 2005.

The parties filed a motion for establishment of a briefing schedule in August 2008. The Ninth Circuit granted the petitioners' motion which now has petitioners' initial briefs due Dec. 29, 2008. Briefing will be completed by May 21, 2009. A decision is expected some time in 2010.

The Commission also filed a complaint against DOE in November 2007 challenging DOE's NIETC designation in the United States District Court for the Middle District of Pennsylvania. In this matter, the Commission challenged the lawfulness and reasonableness of the DOE designation and alleged that the proper forum was the federal district court. District Judge Caldwell dismissed the Commission's complaint and two other complaints filed by conservation groups in an opinion and order issued Aug. 21, 2008. The Commission recently filed an appeal of this dismissal with the Third Circuit Court of Appeals.

## PUC Approves EDC Consumer Education Plans

Pursuant to the Commission's May 17, 2007, order, each electric distribution company (EDC) under the PUC's jurisdiction has filed a proposed consumer-education plan that is tailored to their service territory.

The utilities are required to communicate eight Energy Education Standards to their customers:

- The generation component of retail electric rates charged to customers by electric utilities has been capped since 1996, and when the cap for that customer's service territory will expire.
- The rate charged for generation service will change after the rate cap expires, and may significantly increase.
- Customers can take certain steps before the expiration of the rate cap, and other steps at the time the rate caps expire, that may help them control the size of their electric bills.
- Customers can control the size of their electric bills through energy efficiency, conservation and demand side response measures. Customers can benefit from utilizing these measures now, even if the rate cap is still in effect where they reside.
- Cost-effective energy efficiency, conservation and demand side response programs and technologies have been identified and information about them is readily available.
- Customers may reduce the size of their electric bills, or receive service options more suited to their needs, by purchasing generation service from an alternative electric generation supplier.
- Current information that will allow customers to make informed choices about competitive generation alternatives is readily available. In territories where there are not competitive offerings currently, more choices may be available once rate caps expire.
- Programs exist to help low income customers maintain their utility service, and information about them is readily available.

Met-Ed, PECO, Penelec, PPL, and Allegheny Power are required to include all eight standards in their education efforts while Citizens' Electric, Duquesne Light, Pennsylvania Power, UGI, and Wellsboro Electric are not required to cover the first three, rate cap-related, standards since their rate caps have expired. Every company filed a plan by the Dec. 31, 2007, deadline and all plans have been modified and/or approved by the Commission.

The EDCs are directed to submit all materials associated with the plans to the PUC, the Office of Consumer Advocate and the Office of Small Business Advocate for review, comment and approval.

## Flashcut Analysis of Rates

In 2006, the Commission asked the Bureau of Conservation, Economics and Energy Planning (CEEP) to develop a model to look at rates that were capped by the restructuring settlements, and compare them to current market rates. Since that time, CEEP has been preparing flashcut reports for the Commission periodically.

The flashcut analysis calculates the difference in total rates by flashing from today's transitional, capped rates to fully competitive rates. The flashcut model focuses on the five electric distribution companies that remain under rate caps: Allegheny Power, Met-Ed, PECO, Penelec and PPL. The main driver of the mathematical model is the average of the NYMEX PJM on and off-peak 12-month futures price strip and PJM capacity prices.

Between July 2007 and July 2008, estimates of rate increases that would result if rates were raised to reflect the current market prices were increasing dramatically. However, since this past August the estimated increases have been dropping, basically in lockstep with the oil and natural gas prices.

As a part of the public education efforts related to the end of rate caps, the PUC now provides twice annual estimates. These estimates can be found on the PUC's Web site, under the Electric Section. As of Aug. 8, the estimated increase for the average residential customer is 43.1 percent. CEEP will prepare a new estimate for the Web site in January 2009.

## Pike County Light & Power's Rate Request

On July 18, 2008, Pike County Light & Power Company issued Supplement No. 46 to Tariff Electric – Pa. P.U.C. No. 8 to become effective Sept. 16, 2008, proposing an increase of its distribution rates by about \$1.2 million or a 9.6 percent increase in rates for customers.

The company is also requesting an additional increase in revenue of \$56,400 for the fiscal year ending March 31, 2010, and an additional increase of \$23,200 for the fiscal year ending March 31, 2011. The filing, at Docket No. R-2008-2046518, was suspended pursuant to 66 Pa. C.S. §1308(d) on Sept. 11, 2008, until April 16, 2009, unless permitted by Commission order to become effective at an earlier date.

A prehearing conference was held on Sept. 29, 2008, which established a procedural schedule. Evidentiary hearings are scheduled to take place on Dec. 2-4, 2008.



## AEPS Update

The PUC continues to implement several provisions of the Alternative Energy Portfolio Standards (AEPS) Act. First, the 2007-08 compliance period closed with the end of the true-up period on Sept. 1, 2008. The PUC's Bureau of Conservation, Economics and Energy Planning, along with the credits administrator, Clean Power Markets (CPM), are finalizing the 2007-08 compliance review for the six electric distribution companies and 14 electric generation companies who had AEPS credit obligations. The PUC is also compiling average credit prices for Tier I, Tier II and solar photovoltaic credits used for Pennsylvania compliance. Average credit prices should be available on the PUC and CPM Web sites in November 2008.

On Sept. 25, 2008, the PUC issued a final rulemaking order at Docket No. L-00060180, on the implementation of the AEPS Act of 2004. The rulemaking resolves several issues and makes the rules consistent with Act 35 Amendments to the AEPS Act.

The PUC recently released a secretarial letter seeking comments on the need to update the Technical Reference Manual (TRM). The TRM is used to assess energy savings attributable to energy efficiency and demand-response measures.

Interconnection forms for customer generators who wish to connect to the distribution system are now available on the PUC's Web site. Forms are available for Interconnection Levels 1-4. The PUC also anticipates posting the fees that will be charged by the electric distribution companies for Level 1-4 Interconnections.

## Wind Energy Rider Petition

Allegheny Energy proposed to offer an option to customers to purchase wind energy blocks at Docket No. P-00072349. These blocks represent wind generated electricity, which would be delivered primarily to the PJM or MISO grids. The purchase of renewable energy certificates (RECs) would contribute to the return on wind energy generation investment and encourage additional development of renewable energy sources in addition to the requirements of the Alternative Energy Portfolio Standards Act. The Act requires electric distribution companies to utilize certain amounts of renewable energy in their supply mix. The administrative law judge determined that the proposal was not a "public utility service" as defined by the Public Utility Code and therefore recommended against approving the tariff supplements.

At the public meeting of Aug. 7, 2008, the PUC determined that wind energy certificates are an integral part of renewable "public utility service" and approved the petition as refined by the parties.

## PA Sustainable Energy Board Schedules Annual Meeting

On Dec. 3, at 10 a.m., the Pennsylvania Sustainable Energy Board (PASEB) will hold its Annual Meeting in Hearing Room 4 of the Commonwealth Keystone Building in Harrisburg. At this meeting, which is open to the public, the regional sustainable energy funds will offer presentations highlighting projects they have funded over the past year or so. Additionally, a Department of Environmental Protection (DEP) representative will discuss related grants and a Commission representative will provide an update on implementation of the Alternative Energy Portfolio Standards law. The meeting will be followed by an executive session, at which the board members will review a draft of the 2007 Annual Report. It will be released to the public shortly after that meeting.

The PASEB was created by Commission order in July 1999, to provide oversight, guidance and technical assistance to the regional boards, which were established to administer the funds set aside by restructuring settlement agreements for sustainable energy projects. In 2003, the Commission adopted an order further defining PASEB's role, including a directive to hold annual meetings.

PASEB is comprised of representatives of the PUC, DEP, Department of Community and Economic Development, Office of Consumer Advocate, Pennsylvania Environmental Council, and each of the four regional funds for the service territories of PPL Electric, PECO Energy, Met-Ed and Penelec, and Allegheny Energy Company.



*A windmill from the Locust Ridge Wind Farm in Schuylkill County, Pennsylvania. See related article on Page 25.*

## General Assembly's Special Session on Energy

During the General Assembly's summer recess, the House Environmental Resources and Energy Committee held several hearings on electric price volatility after rate caps expire. The Committee held a hearing on July 22, in Pittsburgh. At this hearing, Vice Chairman Tyrone J. Christy testified and responded to questions from members. Another hearing was held on Aug. 5, in Allentown, and a final hearing was held on Sept. 9, in Philadelphia.

On July 30, the House Republican Policy Committee held a public hearing on the issues of rate caps and conservation. Commissioner Robert F. Powelson testified at the hearing and responded to members' questions.

In mid-September, the legislature returned from its summer recess to continue work on energy policy. On Sept. 23, the Senate Consumer Protection and Professional Licensure Committee amended and reported out House Bill (HB) 2200. HB 2200 amends Title 66 Pa.C.S. providing for energy efficiency and conservation, for certain duties of electric distribution companies (EDCs), and for default service provider competitive procurement plans. The bill was recommitted to the committee, and further amended and reported out on Oct. 7, 2008. The Senate passed HB 2200 on Oct. 8, by a vote of 47-3. The House concurred in Senate amendments on the same day by a vote of 186-4. The bill was approved by the Governor and signed into law on Oct. 15. It is Act 129 of 2008.

Act 129 amends Title 66 Pa.C.S. eliminating references to several bureaus in the law while providing for the establishment of other bureaus, offices and positions to perform functions specified by the law. On Nov. 6, 2008, the PUC adopted an order maintaining the status quo of the duties, responsibilities and functions of these bureaus and offices, and highlighted the enhanced operational flexibility the law gives the Commission to realign the agency to meet the needs of a changing utility regulatory environment.

In addition, the law requires the PUC to adopt an energy efficiency and conservation program, and requires EDCs to adopt and implement approved plans to reduce peak demand by 4.5 percent by 2013 and reduce energy consumption by 1 percent in 2011 and by 3 percent in 2013. Also, the new law would permit the installation of smart meters in accordance with a 15-year depreciation schedule; in new building construction; and upon request of a customer who agrees to pay the cost of the smart meter.

Further changes to the law include the requirement that generation be purchased to ensure

adequate and reliable service at least cost to customers over time, and permitting the acquisition of electric generation by auction, RFPs and bilateral contracts entered at the sole discretion of the provider. The acquisition must include a prudent mix of spot market purchases, short-term contracts, and long-term contracts (more than four and not more than 20 years).

Finally, Act 129 expands Tier 1 sources under AEPS to include certain hydropower facilities and biomass energy from products of the paper pulping process (if generated in Pennsylvania) and requires the Department of Conservation and Natural Resources to conduct an assessment to identify suitable geological formations for the location of a state carbon dioxide sequestration network. The department, in consultation with the PUC, shall hire an expert to conduct an assessment of fiscal soundness, safety features and exposure to risk associated with a network. The assessment shall be completed by Oct. 1, 2009, and completed documents shall be provided to standing committees and the Governor by Nov. 1, 2009.

### PUC Implementing Act 129

Gov. Edward G. Rendell signed House Bill 2200 into law as Act 129 of 2008 on Oct. 15, with an effective date of Nov. 14. This law amends the Public Utility Code, expanding the PUC's oversight responsibilities and imposing new requirements on electric distribution companies (EDCs). The overall goals of Act 129 are to reduce energy consumption and demand, enhance default service procurement and expand alternative energy sources.

Even before the law was signed, the Commissioners adopted a motion at the public meeting on Oct. 9, directing the Director of Operations to convene a staff working group to develop an implementation plan. Under Act 129, the PUC's first obligation is to adopt an Energy Efficiency and Conservation (EE&C) program by Jan. 15, 2009.

On Oct. 21, the Commission issued a secretarial letter seeking comments from interested parties by Oct. 31, on the various statutory provisions addressing the EE&C program. Specifically, the Commission sought stakeholder input on procedural, technical, interpretative and implementation issues; measurement of EDC compliance; and the level of detail required for providing adequate direction to EDCs in developing their plans that must be filed by July 1, 2009.

After reviewing the comments, PUC staff will formulate and distribute a draft staff proposal regarding the EE&C program in late November. To provide further opportunity for stakeholder input, the staff will convene a working group meeting open to all interested parties on Dec. 10.

Subsequent phases of the Act 129 implementation process will address such matters as EDC and default service provider responsibilities, conservation service providers, smart meter technology, time-of-use rates, real-time pricing plans, default service procurement, market misconduct, alternative energy sources and cost recovery.

## Demand Side Response and Energy Efficiency Experts Testify at *En Banc* Hearing

The Commissioners heard testimony on Nov. 19, from experts on alternative energy resources, as well as energy conservation and efficiency, and demand side response tools and programs to assist consumers. At this hearing, speakers included Rep. Bud George (D-Clearfield) and Acting Secretary of the Department of Environmental Protection, John Hanger, as well as electric and natural gas distribution companies, electric retail suppliers, demand side response (DSR) and energy efficiency (EE) experts, environmentalists and consumer advocates.

This special public hearing was originally scheduled for Nov. 13 as announced by secretarial letter released on Oct. 3. Interested speakers were asked to notify the Commission if they wished to testify or provide comments at the hearing. Due to an overwhelming response from experts wishing to testify, a secretarial letter was issued on Oct. 29, announcing that a full day would be set aside on Nov. 19, for the hearing. A series of questions was provided to obtain information about the standards, policies and practices that should be employed by the Commission and electric distribution companies to enhance the availability of cost-effective DSR and EE tools to assist consumers in managing their electricity consumption and prices.

Presenters at the hearing also were welcome to address Act 129 subjects and were encouraged to file written comments related to the implementation of Act 129 in a separate filing as part of a comment period opened by the Commission. The comment period closed on Nov. 3, and deals with the Commission's obligation to adopt an energy efficiency and conservation (EE&C) program by Jan. 15, 2009.



The PUC Commissioners conducted the *en banc* hearing to solicit comments from over 30 presenters, including public officials; electric and natural gas utilities; electric suppliers; demand side response and energy efficiency experts; consumers and environmental and advocacy groups.

## TrAILCo Update

The Trans-Allegheny Interstate Line Company (TrAILCo) filed five applications regarding a proposed transmission line project running through portions of Pennsylvania and into West Virginia and Virginia:

1. An application for a certificate of public convenience to offer, render, furnish and/or supply transmission service in the Commonwealth of Pennsylvania;
2. An application for authorization to locate, construct, operate and maintain certain high-voltage electric substation facilities;
3. An application for authority to exercise the power of eminent domain along the proposed transmission line routes in Pennsylvania;
4. An application for approval of an exemption from municipal zoning regulation with respect to the construction of buildings; and
5. An application for approval of certain affiliated interest agreements.

The proposed project would consist of more than 52 miles of transmission line, two 500 kV transmission lines,

*TrAILCo Update Continued on Page 26.*

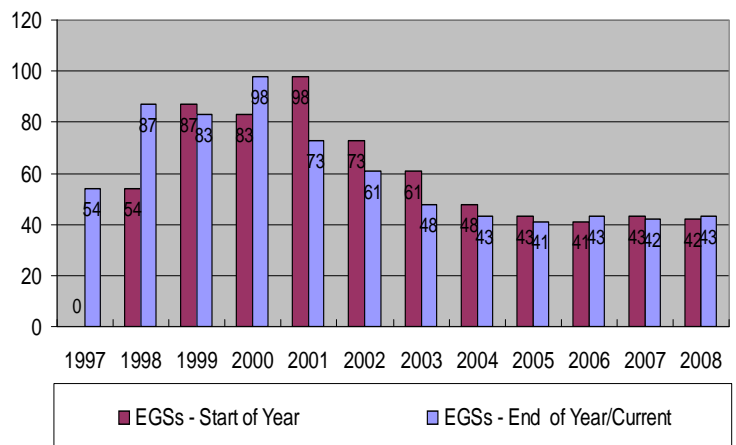
## Electric Supplier Licensing

Activity from July 1, 2008, to Oct. 31, 2008.

### 43 Active Licenses

- 1 license canceled
- 0 licenses approved
- 1 application pending

## Number of Licensed EGSs





## Water and Wastewater Company Applications Approved

**Applications Approved**  
**June 6, 2008, through October 9, 2008**

Utility Name	Action	Territory	Approval Date
Aqua Pennsylvania Inc./ Pennsylvania Utility Company (Water)	Acquisition/ Abandonment	Lehman Township, Pike County	6/24/08
Little Washington Wastewater Co./ Pennsylvania Utility Company (Wastewater)	Acquisition/ Abandonment	Lehman Township, Pike County	6/24/08
Columbia Water Company	Additional Territory	West Hempfield Township, Lancaster County	6/24/08
Columbia Water Company	Additional Territory	Manor Township, Lancaster County	6/24/08
Glendale Yearound Water Company	Abandonment*	White & Chest Townships, Cambria County	8/7/08
Glendale Yearound Sewer Company	Abandonment*	White & Chest Townships, Cambria County	8/7/08
Shady Lane Water Company Inc.	Abandonment*	East Allen Township, Northampton County	8/21/08
Hidden Valley Public Utility Services LLC/ Hidden Valley Utility Services L.P. (W/WW)	Acquisition/ Abandonment	Jefferson Township, Somerset County	9/11/08
The York Water Company/ Stahlman Enterprises LLC	Acquisition/ Abandonment	East Manchester Township, York County	9/11/08
* - Service now provided by a Municipal Authority.			

## Pennsylvania American Water Outage Investigation Update

On Oct. 9, 2008, the PUC voted to release the phase II investigation report into the Pennsylvania American Water Company's (PAWC) water main breaks that caused 2,000 customers in portions of Lackawanna County to be without water service over a period of time in November 2006. The PUC also recommended in a tentative order that PAWC continue to implement best practices, which had been previously identified in phase 1 of the investigation that focused on outages in the Pittsburgh area during the same time period.

The report explains that the Lackawanna County outages were caused by a heavy rain storm that swept across the Commonwealth on Nov. 16, 2006, with over four inches of rain falling in less than two hours in portions of Lackawanna County. This caused flash flooding in streams and waterways, resulting in stream embankment and streambed erosion along portions of Leggett's Creek, undermining the soil supporting PAWC's water transmission mains.

During the investigation, PUC staff examined PAWC's main replacement policy, the company's level of funding for main replacement and main rehabilitation,

their compliance with the Public Utility Code and PUC regulations regarding safe and reliable water service and the applicable public notification procedures. PUC staff concluded that PAWC's response was more than adequate and that proper notice was given to customers, governmental agencies and emergency providers. On issues relating to infrastructure, leak detection, and main replacement, the staff found that PAWC had already begun improvements to ensure that this type of situation does not occur again.

The staff investigation was ordered by the PUC on Dec. 31, 2006. The phase 1 report was issued for public comment on June 21, 2007, proposing 15 directives requiring the company to take measures related to reevaluation of staff complement, customer and other external communications, training of personnel, and infrastructure and technology improvements. The PUC issued a final order on July 26, 2007 regarding the Pittsburgh outages.

The tentative order releasing the phase II report suggests that PAWC implement these directives in all of its service districts throughout the state. Comments will be due within 15 days after entry of that tentative order.

## Clarendon Water Company Update

At the public meeting of Jan. 24, 2008, the PUC directed staff to conduct a non-prosecutory investigation into Clarendon Water Company. This action was in the context of a formal complaint by a Clarendon Water customer alleging poor water service. Clarendon provides service to approximately 300 customers in Warren County.

On Feb. 13, 2008, PUC staff traveled to Clarendon to view the Clarendon water system, interview customers, and consult with officials from the Department of Environmental Protection (DEP). As part of their investigation, staff attended the public input hearings there regarding Clarendon's then pending section 1308 general rate increase investigation at Docket No. R-00072491. Staff also traveled to Meadville to meet with regional DEP officials regarding DEP's ongoing work with Clarendon Water.

On Sept. 30, 2008, the Commission released the results of the investigation of Clarendon. The PUC also tentatively directed a series of remedial actions to bring the company into compliance with its duty to provide safe, adequate and reliable service to its customers, as well as its obligations regarding certain filing, customer notice and record-keeping requirements.

The investigation found Clarendon's water is safe, although the taste is affected by manganese and iron, but current levels of both substances are within guidelines. The Commission also found that the water was not suitable for all household purposes at the time of the investigation, with customers experiencing problems such as staining on white clothes, dishes and appliances.

The Commission further found that similar problems were being experienced by other customers and that Clarendon is not in compliance with recording and appropriately addressing customer complaints nor properly maintaining customer billing/payment records.

The Commission directed Clarendon to:

- Maintain at its business office a copy of Chapters 56 and 65, relating to standards of billing practices for residential utility service;
- Maintain information regarding record keeping policies and customer complaint procedures in the company's office for the company's use and access by customers;
- Annually mail to all customers the "Rights and Responsibilities" handbook; and
- File with the Commission, within six months, a notarized statement regarding the operational status of the improvements and the effect they are having upon mitigating the excessive levels of iron and manganese reported in the water.

Clarendon was provided an improvement plan that was designed to remedy the water quality problems. Interested parties had 15 days to comment on the Commission action or request a hearing. Nothing was filed in response and the Commission action became final.

## York Water Company Rate Increase

The York Water Company filed a rate increase on April 25, 2008, to increase rates by about \$7 million or 21 percent. The proposed bills for customers using the gravity system with a monthly usage of about 5,265 gallons would go from \$27.75 to \$33.19 a month. The bills for customers using the repumped system with a monthly usage of about 4,532 gallons would go from \$33.96 to \$40.62 a month. The company provides service to approximately 58,500 customers in portions of York and Adams counties.

The PUC voted unanimously to approve the settlement, which was reached between the company and the state's Office of Consumer Advocate, the state's Office of Small Business Advocate, the PUC's Office of Trial Staff and consumers who had filed formal complaints.

Under the settlement, York Water will increase rates by about \$5.9 million or 18 percent. The bills for customers using the gravity system with a monthly usage of about 5,265 gallons will increase to \$31.81 a month. The bills for customers using the repumped system with a monthly usage of about 4,532 gallons will increase to \$39.35 a month. York Water has also agreed not to file for an additional rate increase before April 28, 2010.

## Aqua Pennsylvania Base Rate Case

On July 31, 2008, the PUC allowed Aqua Pennsylvania to establish rates that will produce an additional \$34.4 million in annual revenues, compared to the original request of \$41.7 million. This represents an 11.2 percent increase over revenues generated by current rates.

Aqua filed this general base rate case on Nov. 21, 2007 (Docket No. R-00072711). The PUC suspended the filing so that an investigation could be held to determine if the proposed rates are lawful, just and reasonable. Following public input hearings and evidentiary hearings, two administrative law judges

*Aqua Rate Case Continued on Page 20.*



## Water and Wastewater Rate Increases

### Rate Increase Request Summary

June 6, 2008, through October 9, 2008

Utility Name	Amount(\$) Requested	Amount(\$) Granted	% of Increase	Action	Action Date
Sand Springs Water Company Inc.	30,086	30,086	32.5%	Approval	6/24/08
Superior Water Company	599,771			Investigation	6/24/08
Pennsylvania-American Water Company City of Coatesville Division (Wastewater)	2,685,488			Investigation	6/24/08
The York Water Company	7,086,005			Investigation	6/24/08
United Water Bethel Inc.	79,445	59,991	4.8%	Settlement	6/24/08
Total Environmental Solutions Inc. Treasure Lake Water Division	272,121	8,128	1.4%	Litigation	7/17/08
Total Environmental Solutions Inc. Treasure Lake Wastewater Division	286,615	73,318	7.5%	Litigation	7/17/08
Aqua Pennsylvania Inc. (Water)	41,700,000	34,427,517	11.2%	Litigation	7/17/08
Can Do Inc. (Wastewater)	362,010	362,010	50.0%	Approval	7/17/08
Manwalamink Sewer Company	124,600	124,600	33.6%	Approval	8/21/08
The Newtown Artesian Water Company	695,802			Investigation	8/21/08
Blue Knob Water Company	114,374	53,521	100.4%	Settlement	8/21/08
Clarendon Water Company	21,759	21,684	21.0%	Settlement	8/21/08
Manwalamink Water Company	78,100	78,100	30.0%	Approval	9/11/08
The Columbia Water Company	616,402			Investigation	9/11/08
Needmore Water Supply Company Inc.	53,335			Investigation	10/9/08

## Emporium Water Company Update

On June 4, 2008, the Commonwealth Court affirmed Commission decisions dated Dec. 28, 2006, and April 24, 2007, at PUC Docket No. R-00061297, which concluded that it would be unfair to the ratepayers of Emporium Water Company to use a hypothetical capital structure to determine the rates of Emporium. In general, the Commonwealth Court opinion provided an important benchmark for the PUC and for all parties who appear before the Commission since the issue of the appropriate capital structure to use for ratemaking purposes comes before the Commission with regularity. In particular, the Emporium opinion is important because it clarifies that the determination as to the appropriate capital structure to use for ratemaking is a matter of Commission discretion.

For background, on March 29, 2006, Emporium filed a tariff supplement, that contained proposed changes in rates, rules and regulations calculated to produce \$316,144 (49.85 percent) in additional annual revenues. This rate filing was based upon the use of traditional rate base/rate of return methodology. By

order entered May 19, 2006, the PUC instituted an investigation.

On Dec. 28, 2006, a final opinion and order was entered. The PUC concluded that Emporium should be allowed a revenue increase of \$238,639, or 37.63 percent. Although the PUC administrative law judge (ALJ) had recommended a revenue increase of \$220,862, the PUC made two adjustments to the ALJ's recommendation, which resulted in Emporium receiving an additional \$17,777. The PUC approved the ALJ-proposed 60-basis-point adjustment to Emporium's equity return of 9.4 percent. The PUC also approved an additional 60-point upward adjustment to Emporium's equity return to reflect the financial risk difference of the company's actual equity ratio of 30.76 percent vis-à-vis the Small Water Company Groups' equity ratio of 46.20 percent.

On May 24, 2007, Emporium filed a petition for review of the PUC's opinion and order in the Commonwealth Court. After the Commonwealth Court affirmed the PUC decision, Emporium, on July 7, 2008, filed a petition for allowance of appeal in the Supreme Court of Pennsylvania. Emporium's petition is pending in the Supreme Court.

## PUC Releases Management Audits for PAWC and York Water

The PUC released Management and Operations Audits of the Pennsylvania American Water Company (PAWC) in November 2008, which was performed by the Schumaker & Company Inc. and The York Water Company in October 2008, which was performed by the PUC's Bureau of Audits' staff. The PAWC audit report identified potential quantifiable annual savings of \$0.9 to \$1.1 million and one-time savings of \$400,000 by implementing recommendations contained in the report. York Water's report identified potential annual savings of \$63,500 to \$87,500 and one-time savings estimated from \$211,000 to \$375,000 by implementing recommendations resulting from the audit.

### PAWC Management & Operations Audit

PAWC's Implementation Plan submitted in response to the management audit report indicated acceptance of 106 recommendations, partial acceptance of seven recommendation, and rejection of one recommendation. PAWC also indicated that it had already completed nine of the 114 recommendations and planned to implement the majority of the accepted and partially accepted recommendations by December 2010. Some of the most significant recommendations accepted or accepted-in-part by PAWC included:

- Expediting efforts to develop a long-range Information Technology (IT) plan, and subsequently perform yearly review and update activities;
- Addressing organizational issues involving vacancy of the director positions, appropriateness of various IT services groups staffing size and the reporting of IT security functions;
- Updating the IT disaster recovery plan;
- Performing a server consolidation study;
- Performing an internal audit of the inventory data accuracy;
- Implementing a company-wide integrated inventory-management system and establish a central point of responsibility;

- Developing strategies to reduce call center turnover;
- Lowering the number of over estimated meter readings;
- Assessing the human resource functions needs and staff accordingly;
- Conducting comprehensive workforce planning and providing resources for implementation;
- Developing a leak tracking and reporting database and integrate with other performance reporting processes;
- Developing a comprehensive damage prevention program;
- Allocating infrastructure improvement budgets on a state-wide basis; and
- Updating affiliate interest agreements and submitting them for regulatory approval.

PAWC rejected the recommendation to modify the internal audit department reporting structure so that it no longer administratively reports to the American Water Chief Financial Officer.

### York Water Company's Management & Operations Audit

York Water's Implementation Plan indicated acceptance of all 13 recommendations contained in the report. York Water also indicated that it had already completed three of the 13 recommendations and planned to implement the remainder by May 2009. Some of the most significant recommendations accepted by York Water include:

- Developing and adhering to a proactive long-range component to the main replacement program;
- Accelerating the main replacement program to achieve a main replacement rate of approximately 100 to no more than 120 years;
- Adding an education component to the damage prevention program;
- Enhancing efforts to locate and encourage minority, women and persons with disabilities-owned business enterprises to submit bids for products and services used by York Water;
- Increasing the inventory turnover level;
- Including current PUC contact information in the Emergency Response Plan; and
- Striving to improve collections performance by using more than one collection agency to identify the best performing agencies.

The Commission's Bureau of Audits will conduct a follow-up on both water companies' implementation efforts during future Management Efficiency Investigations.

## 2008 PCO for Verizon and Verizon North

On Nov. 1, 2007, Verizon Pennsylvania Inc., Docket No. P-00930715F1000, and Verizon North Inc., Docket No. P-00001854F1000, (collectively Verizon) separately filed with the PUC their 2008 Price Change Opportunity (PCO) filings pursuant to their respective Chapter 30 Plans. Pursuant to the price stability mechanism contained in each company's plan, Verizon PA proposed an annual revenue increase of \$14,617,000 and Verizon North proposed an annual revenue increase of \$2,793,000. Because of various adjustments from their respective 2006 (Docket No. R-00051227, et al) and 2007 (Docket No. R-00061914, et al) filings, no immediate rate increase was associated with either filing. Verizon PA proposed that it delay the rate increase for non-competitive services until June 2009, while Verizon North proposed to delay the non-competitive services rate increase until February 2009.

The following filings were made in each of the dockets: on Nov. 13, 2007, the Office of Small Business Advocate (OSBA) filed and served complaints and public statements; on Nov. 26, 2007, the Office of Consumer Advocate (OCA) filed and served a notice of intervention and public statement; and on Dec. 10, 2007, the PUC's Office of Trial Staff (OTS) filed a consolidated notice of appearance. On Dec. 17, 2007, Verizon filed answers to each of the OSBA complaints, denying the material averments of the complaints.

Verizon had filed a petition with the PUC seeking approval of a settlement between Verizon and the OSBA on certain issues from Verizon's 2006 PCO filings revised PCO filings also contained rate increases that Verizon will be making to noncompetitive residence and business dial tone line rates to implement the allowed increase to noncompetitive revenue starting Oct. 1, 2008, that had been outstanding as the result of appeals to the Commonwealth Court. Since those issues directly impact the instant proceeding, in our April 8, 2008 scheduling order we stayed this proceeding until after the entry of a final Commission order acting on the petition and the filing of revised 2008 PCO filings to implement that order.

The Commission entered those orders on March 22, 2007, and April 25, 2007, at Dockets R-00051227-28. The orders required certain alterations to the calculation of the 2006 PCO and they resulted in reducing the allowable revenue increase. In addition, those orders also required changes to the 2007 PCO which resulted in reducing its allowable revenue increase. An order entered Oct. 12, 2007 at Dockets R-00061914-15 approving a settlement in the matter memorialized the impact on the 2007 PCO. The adjustments to the 2008 PCOs, as a result of the Commission approved settlement regarding the 2006/2007 PCOs, are to reduce Verizon PA's 2008 PCO to \$10,398,000 and Verizon

North's 2008 PCO to \$2,431,000. In addition, the implementation dates were moved from Jan. 1 and Feb. 15, respectively to Oct. 1, 2008, for both companies. Due to the revisions to the 2008 PCO original filing required by the settlement of the 2006/2007 PCOs, Verizon's June 6, 2008.

By orders entered, Dec. 28, 2007, and Feb. 19, 2008, respectively, the Commission permitted Verizon PA's and Verizon North's 2008 PCO filing to go into effect, subject to "investigation and potential refund pursuant to final adjudication of the issues raised by OSBA." The Commission also directed that this proceeding address certain other issues, specifically, for both companies the rounding of inputs for average dial tone line rate increases and the impact on the Broadband Outreach and Aggregation Fund (BOAF or Broadband Fund); and for Verizon PA the implementation of any additional banked difference between Verizon PA's available 2003 PCO monies and its required contribution to the Pennsylvania Universal Service Fund (USF) for 2007.

On July 30, 2008, a joint settlement petition was filed and served. The PUC unanimously approved the settlement agreement at the public meeting of Sept. 25, 2008.

The issues subject to the settlement agreement fall into two categories. The first category includes the issues directed to be addressed by the PUC's Dec. 28, 2007, (Verizon PA) and Feb. 19, 2008, (Verizon North) orders. The second category includes the issues raised by the OSBA's complaints at Docket Nos. C-20078513 (Verizon PA) and C-20078514 (Verizon North).

### Commission-Directed Issues

#### Rounding of Inputs

In the revised 2008 PCO filings on June 6, 2008, Verizon corrected for the inconsistent rounding by rounding the inputs to the nearest penny and agreed to be consistent in future filings in the number of decimal places to which it rounds its inputs.

#### Accounting for gap between Verizon PA's 2003 PCO and 2007 Universal Service Fund Payments

As part of the settlement, Verizon agreed to account for the gap by using it to delay the start of its 2009 PCO rate increases for several months. As the parties noted in their respective statements of support, applying the funds as a credit to the 2009 PCO rather than to the 2008 PCO increases the time between the 2008 and 2009 PCO rate increases, and is thereby less confusing to customers.

#### Broadband Fund Payments

Under the terms of the joint settlement, Verizon proposed to recoup those overpayments by subtracting the amount of the overpayments from this year's required fund payments and paying the balance in four equal quarterly installments.

*Verizon PCO Continued on Page 12.*



## Audit of Verizon PA's NMP

On Sept. 25, 2008, the Commission released an audit report evaluating Verizon Pennsylvania Inc.'s Network Modernization Plan (NMP) implementation progress as of Dec. 31, 2006, as reported in Verizon's biennial NMP update filed June 30, 2007. The audit found that Verizon has met all but one of its NMP commitments and is generally compliant with the PUC's reporting guidelines.

The purpose of the audit, conducted by The Liberty Consulting Group, was to provide a comprehensive overview to determine whether Verizon's sixth biennial update on its broadband deployment is accurate and if Verizon is complying with other biennial update reporting rules required under state law. The findings include:

- Verizon has met all of its NMP commitments through 2006, with the exception of the commitment to make broadband available for 100 percent of public schools, health care facilities and industrial parks;
- Verizon's actual broadband availability as of Dec. 31, 2006, was higher than reported;
- Some numbers reported in the biennial report may be incorrect in that some numbers are based on assumptions rather than actual data or derived from incomplete or inaccurate data sources; and
- Some information reported provides an incomplete picture of the status of the company's compliance with its NMP commitment.

The audit report included 23 recommendations. Verizon agreed with 14 of the recommendations, agreed in part with two and disagreed with seven. In a secretarial letter, also issued on Sept. 25, the PUC stated that it expects Verizon to implement the recommendations that they accepted and to participate in a workshop with Commission staff to address the remaining unresolved recommendations and issues. Within 120 days, the workshop results, including any proposed agreements, will be submitted to the PUC for approval.

## Verizon PCO

*Continued from Page 11.*

### OSBA's Issues

#### Calculation of the Business Competitive Overlay Adjustment (BCOA)

Pursuant to the terms of that settlement, Verizon recalculated its 2008 BCOA employing the Commission approved methodology, resulting in a reduction in its 2008 BCOA thereby resolving the issue and OSBA's concerns.

#### Intercompany (ITC) Settlements

In the joint settlement petition, the parties agreed to a phase-out of the inclusion of ITC settlement revenue in non-competitive revenue over the next three PCO filings. Verizon will be permitted to include 100 percent of the ITC revenue as reflected in its revised 2008 PCO, 50 percent in its 2009 PCO, 25 percent in its 2010 PCO and none in subsequent PCO filings.

## PUC Again Stays Verizon's Access Charge Proceeding

In an order entered Sept. 12, 2008, at Docket No. C-20027195, the PUC again stayed the Verizon companies' access charge investigation pending the outcome of the Federal Communications Commission's (FCC) *Intercarrier Compensation Proceeding* (CC Docket No. 01-92) or for a period of another year, whichever is less. The investigation was initiated to address further access charge reductions relating to the removal of implicit subsidies from traffic-sensitive access charges and further reductions to the carrier charge.

The PUC entered a similar order last year wherein it expressed its concern about completing the investigation in light of the potential impact that the FCC *Intercarrier Compensation Proceeding* and the associated Missoula Plan proposal might have on *both* interstate *and* intrastate access charge reform, and that the end-user consumers of Verizon PA's and Verizon North's basic local exchange services may have to absorb these effects into their local rates. The PUC remained of the same opinion this year in ruling on the further stay.

Although, it appears that an FCC decision is more likely in the near future compared to last year, it may still be sometime before any definitive action is taken at the federal level.

## EAS Working Group

At the public meeting of May 22, 2008, the Commission declined to adopt final revised regulations on Extended Area Service (EAS) at 52 Pa. Code §§ 63.71-63.77. Those regulations govern when the Commission will change a carrier's local calling area by including additional in-state toll calling areas within the local calling area. Instead, the Commission created an internal EAS Working Group to get additional input from the interested public and to provide the Commission with a recommendation on the future of EAS.

The EAS Working Group met several times since May 2008. At the last meeting on Oct. 14, 2008, the Commission staff finalized the EAS options in consultation with the interested public. The EAS Working Group is developing on a final recommendation that will be provided to the Commission by early December 2008.

More information on the EAS Working Group can be found on the Commission's Web site at [http://www.puc.state.pa.us/telecom/telecom\\_index.aspx](http://www.puc.state.pa.us/telecom/telecom_index.aspx). The Commission's contact for the EAS Working Group is Joe Witmer, Assistant Counsel, Law Bureau, (717) 787-3663.

## Confidentiality of Customer Information

By order entered on July 9, 2008, at Docket No. C-20066397, *et al.*, the PUC dismissed multiple formal complaints filed by the American Civil Liberties Union of Pennsylvania (ACLU) and the Communications Workers of America (CWA) in which the complainants alleged that certain named telephone companies violated Pennsylvania Statutes and PUC regulations by disclosing customer calling records to the National Security Agency (NSA), as part of an alleged domestic surveillance program initiated shortly after Sept. 11, 2001. The ACLU requested the PUC to order telephone companies to reveal what information was disclosed to the NSA; to hold such releases in violation of Pennsylvania law; and to prohibit future releases to the NSA. The CWA requested that the Commission investigate whether the telephone companies cooperated with the NSA "data mining program."

In the order of July 9, the PUC noted that it may only exercise the authority granted to it by the legislature and that no statute or regulation exists that confers authority to the PUC to investigate issues that implicate national security. As such, the PUC adopted the administrative law judge's initial decision that dismissed the complaints without prejudice to the complainants' right to refile their complaints following a federal district court ruling that the disclosure of the information sought by the complainants does not involve questions of national security.

Various court decisions have been issued across the country on similar complaints. More specifically, the United States Court of Appeals for the Sixth Circuit vacated and remanded the District Court order, with instructions to dismiss for lack of jurisdiction. *ACLU v. NSA*, 493 F.3d 644 (2007). On Feb. 19, 2008, the United States Supreme Court denied certiorari.

## Verizon Metrics & Remedies

The metrics and remedies (in the PA Carrier-to-Carrier Guidelines and the PA Performance Assurance Plan, respectively) used by competitive local exchange carriers (CLECs) and the PUC to evaluate Verizon's wholesale and resale performance were further modified in the Performance Metrics & Remedies 2008 PA PAP Updates order (PMO III F0011), Docket No. M-00011468F0011, entered Sept. 11, 2008. The order addressed a Verizon petition for reconsideration of the Commission's June 27, 2008, order at this docket. Upon reconsideration: (1) Verizon will be required to provide six months of historical parallel reporting (in lieu of 12 months of prospective parallel reporting); and (2) Verizon will fund annual audits of the metrics and remedies (in lieu of reconstitution of the FSSO fund). No CLECs objected to the changes.

## Revisions to Procedures for Transfers of Control

The Commission staff is now reviewing the filed comments, including those filed by the Independent Regulatory Review Commission (IRRC), as part of the development of final revised regulations for Transfers of Control and Affiliate Filings for Telecommunications Carriers.

The rulemaking was started in late 2007 in response to a petition by Level 3 Communications Inc. Level 3 asked the Commission to streamline Pennsylvania's merger review and approval process to make them more consistent with federal regulations.

The proposed regulations would revise the standards that currently govern review of transfers of control for all classes of PUC-regulated telecommunications public utilities under 66 Pa.C.S. §§ 1102 and 1103. Currently, the PUC's full review process for Transfers of Control and Affiliate Filings takes about six to nine months to complete depending upon the complexity of the proposed transaction. The comments generally support the need for revisions in the regulations with some reservations. The PUC currently plans to complete its consideration of this rulemaking by spring 2009.

Additional information on the proposed regulations can be found at Docket No. L 00070188. The PUC contact for this rulemaking is Joe Witmer, Assistant Counsel, Law Bureau, (717) 787-3663.

## Update to Telco Application Form and Procedures

On Dec. 21, 2006, the Commission adopted an order to consider revisions to the application requirements imposed on carriers seeking to obtain certification to provide telecommunications services in the Commonwealth. In that order the Commission sought comments regarding the proposed revisions to the application form and processes. The Commission also established a work group consisting of members of several Commission bureaus and offices. The work group was responsible for preparing a final recommendation after examining the comments and reply comments.

The PUC considered revision of the application requirements originally set out in the Commission's implementation orders at Docket No. M-00960799, implementing provisions of TA-96. Those forms and procedures have not been systematically updated since their inception in 1996. The proceeding was initiated because many

*Application Form Continued on Page 20.*

## En Banc Hearing Held on Winter Energy Prices

On Thursday, Sept. 11, the five PUC Commissioners presided over an *en banc* hearing on the expected impact of winter energy prices, conservation and energy efficiency education; availability of low-income programs; and home heating safety at the Commonwealth Keystone Building, in Harrisburg.

"We want our utilities to be ready. We want customers to be ready for increased utility bills this winter," said Chairman James H. Cawley, who opened the hearing.

"I believe it's vitally important that all of us work together now to ensure that we have concrete solutions and action plans that are in place to address the rising energy prices and the effect that those prices will have on all the Pennsylvania consumers," added Vice Chairman Tyrone J. Christy.

Testimony was presented at the hearing by 12 parties, including Consumer Advocate Sonny Popowsky, Small Business Advocate William Lloyd Jr., and John Hanger, Acting Secretary of the Department of Environmental Protection. After the testimony, the Commissioners directed questions to the presenters.

The hearing also kicked off the Commission's annual "Prepare Now" campaign, which helps educate Pennsylvanians to prepare for the higher energy costs that accompany the colder fall and winter months. This marks the sixth winter in which the Commission is urging consumers to "Prepare Now." The message is simple: "Prepare Now" for higher energy costs this winter. Learn about changes in the law related to utility shut-offs and know your rights. Save money by learning how to conserve energy. Heat your home safely. Explore budget billing options.



Media from throughout the state reported on the findings from the *en banc* hearing.

## PUC Held Winter Reliability Assessment Meeting

On Oct. 1, 2008, the Pennsylvania Public Utility Commission held its annual Winter Reliability Assessment Meeting.

The information shared during this meeting provided a snapshot of various conditions that may affect supply, price and service reliability of natural gas over the upcoming winter. Presentations and other informational materials were offered by the Energy Association of Pennsylvania, Texas Eastern Interstate Pipeline, UGI Energy Services, the Department of Public Welfare, Pennsylvania One Call System and PUC staff. Topics covered during the meeting included supply and demand forecasts, storage levels, anticipated prices and service reliability issues.

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

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

Pennsylvania One Call System officials presented information on the impact that disrupting natural gas lines can have on service and reliability.

The Department of Public Welfare (DPW) presented the Low-Income Home Energy Assistance Program (LIHEAP) plans for assisting Pennsylvania consumers this winter. Opening day for consumers to apply for LIHEAP grants is Nov. 3, 2008, and the program will close on March 31, 2009.

## Pike County-Gas Division's Rate Increase Request

On July 17, 2008, Pike County Light & Power Company filed Supplement No. 82 to Tariff Gas-Pa. P.U.C. No. 6 to become effective Sept. 16, 2008, containing a proposed base rate increase of \$424,900 for customers. The company's proposal would increase the monthly bill for an average residential customer using 10 Mcf per month from \$143.23 a month to \$176.31 a month (23.1 percent). The filing was suspended pursuant to 66 Pa. C.S. §1308(d) on Sept. 16, 2008, until April 16, 2009, unless permitted by Commission order to become effective at an earlier date.

A prehearing conference was held on Oct. 7, 2008, which established a procedural schedule. Evidentiary hearings are scheduled to take place on Dec. 9-11, 2008. The case is docketed at R-2008-2046520.



## Energy Price Forecast for November 2008

The Energy Information Agency's November 2008 *Short Term Energy Forecast* reports the economic downturn has led to a decrease in global energy demand and a rapid and substantial reduction in crude oil and other energy prices. As a result, projections for both energy demand and prices are considerably lower.

West Texas Intermediate crude oil (WTI) is the benchmark crude oil in the United States. The monthly average price of West Texas Intermediate crude oil fell from over \$133 per barrel in July to about \$77 per barrel in October. WTI oil prices, which averaged \$72 per barrel in 2007, are projected to average \$101.45 per barrel in 2008 and \$63.50 per barrel in 2009.

Average United States prices for regular-grade gasoline and diesel fuel, at \$2.22 and \$2.94 per gallon respectively on Nov. 10, were both more than \$1.80 per gallon below their highs in mid-July. Average retail

gasoline and diesel prices in 2009 are projected to be \$2.37 and \$2.73 per gallon, respectively.

EIA shows that Henry Hub (Louisiana) wholesale natural gas prices averaged \$7.17 per thousand cubic feet (Mcf) in 2007 and are expected to average \$9.27 per Mcf in 2008 and \$6.82 per Mcf in 2009. Even with the recent price declines, average residential natural gas prices are projected to average \$13.02 per Mcf, an increase of 2 percent from last winter.

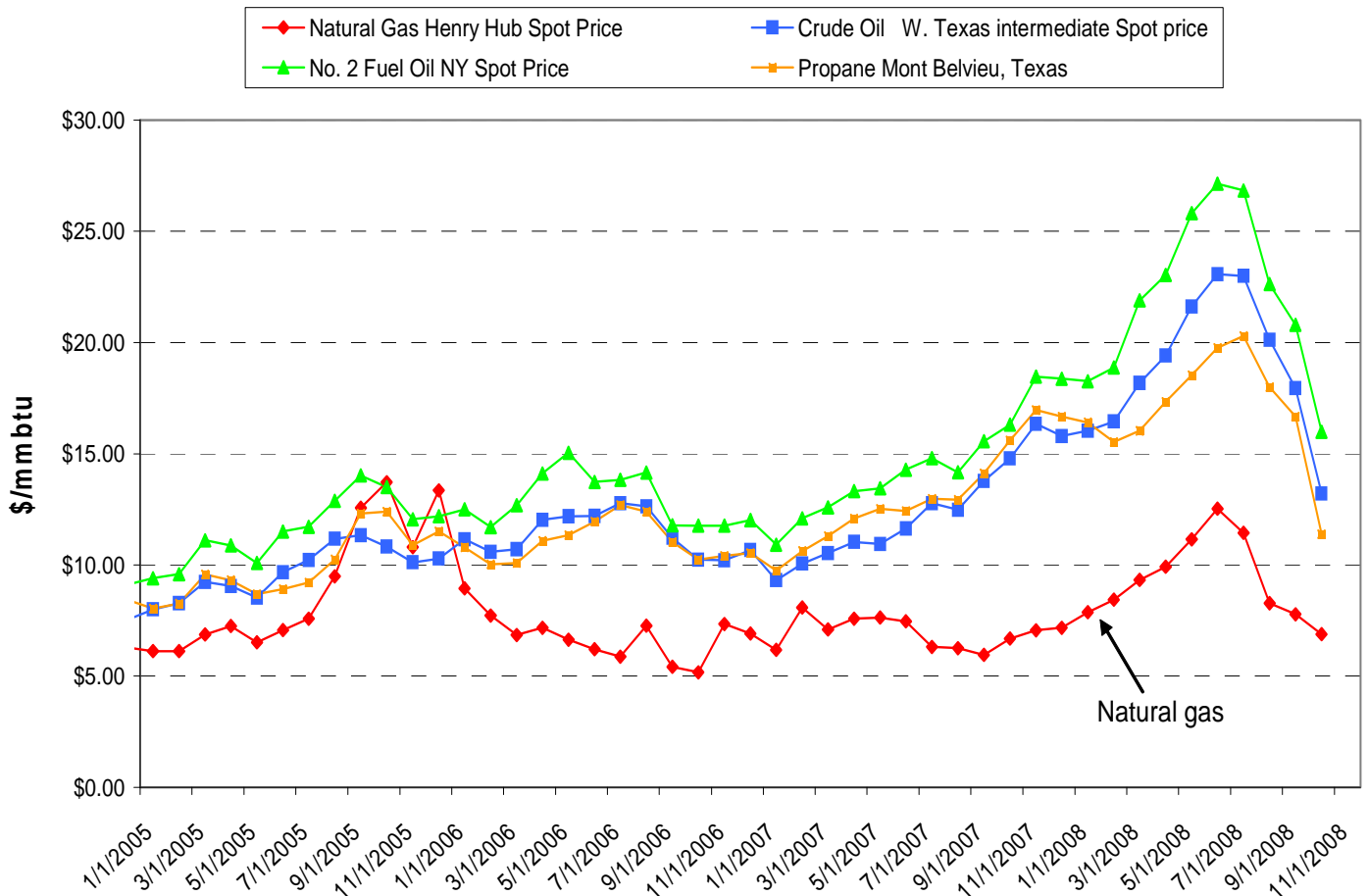
Residential propane prices are projected to average \$2.22 this winter, a decrease of 10 percent from last winter. Residential heating oil retail prices this winter are projected to average \$2.75 per gallon, a decrease of 56 cents from last winter's average.

Additional forecast details can be found at:

<http://www.eia.doe.gov/oiaf/forecasting.html>.

## Wholesale Fuel Prices by Heat Content

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



## Audits of UGI and UGI Penn Natural Gas

According to a Management Efficiency Investigation (MEI) released by the PUC on Oct. 9, 2008, UGI Utilities Inc. (UGI) and UGI Penn Natural Gas Inc. (UGI Penn) could realize combined yearly savings up to \$1.8 million and one-time savings of up to \$240,000 by implementing the recommendations contained in the report. Concurrently, the Commission also approved a motion directing Commission staff to open a docketed, non-prosecutory investigation to review the PUC's jurisdiction over propane distribution systems and whether the Commission is appropriately regulating jurisdictional utilities' gas beyond the mains programs.

UGI Penn, the former PG Energy Company, is now owned by UGI but operated separately. The MEI conducted by the PUC's Bureau of Audits examined UGI's progress in implementing 20 of the 23 original recommendations from a February 2005 Focused Management and Operations Audit of UGI, the companies' compliance with the order approving the acquisition of PG Energy, and their emergency preparedness.

The auditors found that UGI effectively implemented 10 of the 20 prior recommendations reviewed and had taken some action on the 10 remaining recommendations resulting in realized annual savings of approximately \$489,000 and one-time savings of \$48,000. Some of the changes made by the companies included:

- Initiating efforts to fully deploy automated meter reading devices to both gas and electric customers;
- Revitalization of its theft of service program;
- Reducing call center staffing requirements;
- Eliminating substation inventory; and
- Providing justification to the Commission for gas beyond the mains systems that have been served with propane for more than five years.

Additionally, the audit report contained 15 follow-up recommendations for improvement, which the companies accepted. The follow-up recommendations include:

- Initiating steps to remove long-term individual customers from the gas beyond the main program;

- Completing full deployment of automated meter reading devices;
- Replacing defective cutouts in order to reduce electric outages due to equipment failure;
- Fully complying with recently established tree trimming cycle standards that prescribe a four to eight-year trimming cycle;
- Striving to improve safety performance and consistently meet Electric Division safety goals;
- Completing a feasibility study to determine whether additional consolidation of call centers is appropriate;
- Annually reviewing and updating certain emergency response and physical security plans as appropriate; and
- UGI Penn taking corrective actions in order to improve quality of service performance and achieve the benchmark levels not currently being met, regularly monitoring ongoing service quality, and as necessary taking action to correct deficiencies that occur.

UGI and UGI Penn's implementation plan indicates that they plan to complete implementation of the vast majority of the follow-up recommendations by September 2009.

## Gas Supplier Licensing

Activity from July 1, 2008, to October 31, 2008.

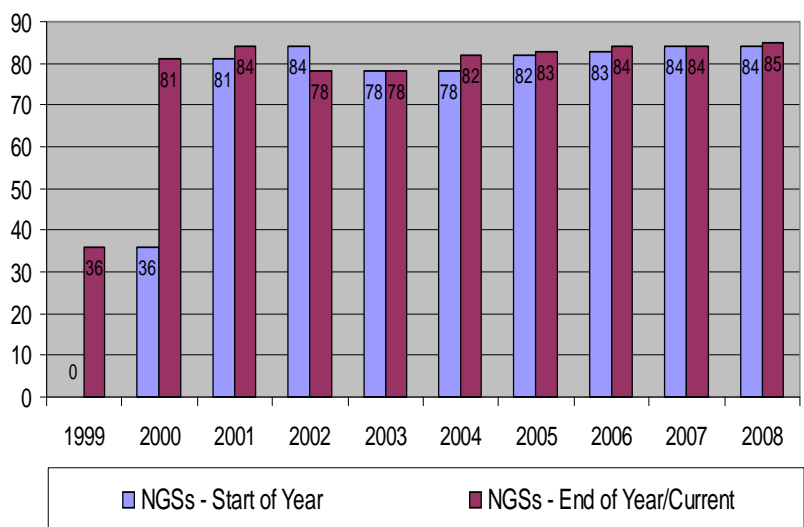
### 85 Active Licenses

1 license canceled

2 licenses approved

1 application pending

## Number of Licensed NGs



## SEARCH Update

On Sept. 11, 2008, the Commission adopted an action plan to increase effective competition in Pennsylvania's retail market for natural gas supply. The action plan concentrates on changing the structure and the operation of the retail market to reduce or eliminate barriers to supplier entry and participation.

The action plan will be implemented in two phases and is to be completed within two years. The first phase will address items that the Commission can implement immediately including:

- Creating an Office of Competitive Market Oversight within the Commission;
- Expanding purchase of receivables programs; and
- Pursuing legislative changes regarding capacity assignment/release.

Phase two will include three rulemakings to address issues relating to natural gas distribution companies (NGDCs); natural gas suppliers (NGSs) and business practices. NGDC issues include price to compare; reconciliation and quarterly adjustments; purchase of receivable programs; mandatory capacity release and non-discrimination; and cost recovery of competition-related activities.

NGS issues include creditworthiness of suppliers and reasonable security requirements. Business practice issues include standardization of NGDC system operating rules; specific operation rules regarding nomination and delivery requirements, tolerance bands, cash out/penalties; and the standardization of electronic bulletin boards.

The action plan also includes a formal milestone review to be conducted five years into the future. The review will evaluate the efficacy of the changes made to the natural gas retail market to increase supplier participation, and thereby, effective competition in Pennsylvania's retail natural gas market.

The Commission also released a staff report that documented the discussions of the SEARCH working group. The group, which included NGDCs, NGSs, pipelines, commercial, industrial and residential customers and the statutory advocates, met over a six month period, and discussed ways to increase effective competition in the retail natural gas market. SEARCH is an acronym for "Stakeholders Exploring Avenues for Removing Competition Hurdles." The staff's *SEARCH Report* served as the basis for the Commission's action plan.

The *SEARCH Report*, the action plan and additional information about its implementation is available on the Commission's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under the "natural gas tab," then "issues," and then select "stakeholders working group."

## UGI Purchases PPL Gas

On April 2, 2008, UGI and PPL Gas filed a joint application with the PUC for the sale of PPL Gas to UGI. UGI serves approximately 307,000 natural gas customers in 14 Pennsylvania counties including Harrisburg, Lancaster, Reading, the Lehigh Valley and their surrounding suburbs while PPL Gas serves about 75,000 customers in 27 counties in Pennsylvania.

A partial settlement was submitted by the companies and several parties in the case including: the state's Office of Consumer Advocate; the PUC's Office of Trial Staff, the state's Office of Small Business Advocate; the Commission on Economic Opportunity; as well as several labor unions. The settlement was opposed by Hess Corporation. The Commission voted unanimously to approve the acquisition, 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.

Under the terms of the settlement, the company agreed to:

- Not request a base rate increase for PPL Gas for one year while maintaining the current PPL Gas purchased gas cost rates;
- Include a \$2.5 million credit in its next base rate proceeding;
- Maintain employment levels and honor existing collective bargaining agreements;
- Provide annual reports for five years regarding the quality of customer service;
- Expand PPL Gas funding for the Low Income Usage Reduction Program from \$378,000 to \$500,000; and
- Meet with community organizations before making any changes to Customer Assistance Programs.



## Babcock & Brown to Purchase the Dominion Companies

On July 3, 2008, international investment fund and asset management group Babcock & Brown announced that Babcock & Brown Infrastructure Fund North America (BBIFNA) plans to acquire the Peoples Natural Gas Company (Dominion Peoples) and Hope Gas Inc. (Hope Gas) from Dominion Resources Inc. for approximately \$910 million pursuant to a stock purchase agreement dated July 1, 2008.

BBIFNA and Dominion Peoples filed a joint application on Sept. 16, 2008, seeking Commission approval of the sale of Dominion Peoples' natural gas distribution utility in Pennsylvania to Equitable. The Office of Consumer Advocate has filed a protest and Office of Trial Staff filed a notice of appearance.

Babcock & Brown, directly or through its funds such as BBIFNA, are owners of asset-intensive businesses such as gas and electric transmission and distribution companies as well as fossil and renewable generation assets worldwide. Babcock & Brown was founded in 1977 and is listed on the Australian Securities Exchange.

BBIFNA is a San Francisco based infrastructure fund that owns and manages energy companies throughout North America. Investors in BBIFNA include employee pension plans located in North America and Europe.

Dominion Peoples is a public utility that serves approximately 359,000 homes in central and southwestern Pennsylvania. Hope Gas is a natural gas public utility operating in West Virginia. Dominion Peoples and Hope Gas were previously part of a planned sale to Equitable Resources Inc., but the sale was terminated due to anticompetitive concerns raised by the Federal Trade Commission.

## Natural Gas Rate Increases

In the last issue of the *Keystone Connection*, it was reported that customers of Columbia Gas, PECO Gas and Equitable may face higher distribution rates as a result of the filings recently made by these companies. In addition, it was also reported that NRG Energy Center Harrisburg LLC filed for an increase to base rates.

As of this issue, resolution of two of these rate cases are resolved. Columbia Gas, serving 370,556 residential, 37,914 commercial and 327 industrial customers sought to increase its base rates by \$58.9 million or 10.3 percent over existing rates. The administrative law judges (ALJs) issued a recommended decision on Aug. 19, 2008. At the public meeting of Oct. 23, 2008, the Commission voted unanimously to adopt the recommendation of the ALJs. PECO Energy Company sought an increase of \$98.3 million, or 11.2 percent, for its approximately 439,924 residential and 41,314 commercial and industrial customers. A settlement was reached by the litigating parties and a recommended decision was issued by the ALJ on Sept. 10, 2008. The Commission also unanimously adopted the recommended decision of the ALJ at the Oct. 23, 2008, public meeting.

NRG Energy Center's filing, seeking an additional \$1.8 million from its 232 customers, resulted in the ALJ issuing a recommended decision on Oct. 15, 2008. The order approving the settlement was entered on Nov. 7, 2008.

In addition, Equitable Gas Company filed for an increase of \$51.9 million over existing rates. Equitable serves approximately 238,366 residential, 17,312 commercial and 155 industrial customers in western Pennsylvania. The Equitable proceeding is in the middle stages of the procedural schedule with the intervening parties having filed direct testimony. Rebuttal testimony was received from the company on Oct. 31, 2008. Surrebuttal testimony is anticipated with evidentiary hearings scheduled for Nov. 18 - 21, 2008.

## Settlement Reached in Explosion that Destroyed a Home

At the Oct. 23, 2008, public meeting, the Commission gave final approval to a modified settlement with UGI Utilities Inc. relating to an explosion that destroyed a home on Apple Blossom Drive in East Lampeter Township, Lancaster County. In the settlement presented to the Commission by the parties, UGI agreed to:

1. Pay a \$40,000 civil penalty;
2. Re-train and re-qualify employees regarding emergency response procedures; and
3. Review its program for testing, repairing and replacing mechanical service tees.

At the public meeting of Aug. 7, 2008, the PUC tentatively approved the settlement with one modification. Specifically, the Commission directed that the \$40,000 civil penalty be applied to UGI's Operation Share hardship fund that helps low income customers maintain service. This tentative order was entered on Aug. 22, with comments due 20 days later. The Law Bureau prosecutory staff filed comments asserting that applying the civil penalty to the hardship fund would frustrate the purpose of such a penalty by indirectly increasing UGI's profits through reduced uncollectible expenses.

At the Oct. 23, 2008 public meeting, a majority of the Commission adopted a motion to finalize the tentative order. In the motion, it was noted that a reduction in uncollectible expenses will lower the cost of service for all customers.

## Technology Helps with Rail Safety Track Inspection

Everyday, the PUC track inspectors are walking or riding on railroad tracks in the state, armed with their level boards, track gauges and tape measures to check the condition of track. The inspectors are looking for rail structural deficiencies and irregular track geometry to reduce the risk of derailments. Another inspection tool that is periodically available is the track geometry car. This car is part of the Federal Railroad Administration's (FRA) Automated Track Inspection Program (ATIP).

ATIP utilizes state-of-the-art inspection cars with measurement systems that produce a load on the track and accurately (within .1 inch) records gauge, alignment, track surface, and calculates a safe travel speed for trains. Through the use of advanced electronic sensing and data processing, the vehicle is able to collect track geometry data while traveling at speeds up to 110 mph. After data is compiled on reports which indicate the track deficiencies and locations by GPS, the rail safety track inspectors verify the results of the geometry car inspection through field examination. The ATIP process has increased the effectiveness and efficiency of the track inspection efforts for both industry and safety regulators.

The geometry cars are frequently scheduled for Pennsylvania main lines because of the high-speed passenger lines, the large number of track miles with heavy tonnage, the high volume of hazardous material shipments, and the designation of the Department of Defense Strategic Corridor rail routes.

Technology is currently available to "x-ray" the rails, looking for internal defects that may eventually fail and potentially cause a derailment. Additionally, some railroads utilize inspection vehicles equipped with ultrasonic and electromagnetic technology instruments. These vehicles traverse the track at speeds up to 15 mph, testing the rail for various types of failures. The FRA has established regulations requiring the use of this rail flaw detection technology on certain high density and passenger lines. The PUC inspectors ensure that the railroads in Pennsylvania are in compliance with this regulation.

Rail inspections performed by visual means can only detect external defects, excessive wear and subtle signs of large internal problems. Although steel rails today are vastly superior to those of years ago in both strength and wear qualities, defects still occur. With increased traffic at higher speeds, and with heavier axle loads, internal rail inspections are more important than ever before.

The geometry car and the rail flaw detection car are used throughout the rail network in Pennsylvania. These cars have proven to be a tremendous benefit to the rail industry, customers and public safety. With the utilization of ever evolving technology and training, the safety record of rail transportation will continue to improve.

## PUC's Motor Coach Program

Over the past months, there have been several fatal bus crashes that have raised serious questions about the safety of the nation's motor coach carriers. These questions point to the bus construction specifications, as well as, the level of oversight by federal and state safety regulators. The Bureau of Transportation and Safety's Motor Carrier Division has implemented an oversight plan to monitor the safety compliance of Pennsylvania's bus companies that it believes provides a satisfactory monitoring of Pennsylvania's motor coach operators to ensure the public's protection.

The Motor Carrier Division has implemented a four-prong approach to oversee the safety of bus companies operating in the state. First, all new bus carriers must satisfactorily complete a Safety Fitness Review (SFR) within the first 180 days of operation. The SFR is an evaluation of the bus company to determine if the carrier has implemented safety management procedures and other controls to ensure compliance with the PUC's safety regulations. If the new bus company fails to complete the SFR satisfactorily, the carrier must correct the deficiencies and submit to a new review. A second failure may result in revocation of the company's operating authority. Second, the Division's enforcement staff conducts annual fleet inspections of 25 percent of Pennsylvania's bus companies that hold intrastate operating authority from the PUC. Carriers with a previous history of safety violations are also subject to the fleet inspections. Third, the enforcement staff conducts driver/vehicle inspections at various sites across the state where a high volume of buses transport passengers.

The Farm Show, Philadelphia Flower Show, and amusement parks are examples of events and venues where "destination" inspections of buses are conducted. The enforcement staff only inspects the buses when passengers have disembarked the vehicle, and the staff provides repair and replacement bus information to drivers if the driver and/or bus is placed out of service. Finally the Division is an active partner with the Federal Motor Carrier Safety Administration's bus safety efforts through the PUC's participation in the Motor Carrier Safety Assistance Program (MCSAP).

The Motor Carrier Division's enforcement staff completes new entrant audits of new interstate bus companies, performs driver/vehicle inspections as part of National Strike Force activities, and conducts compliance reviews of Pennsylvania-based interstate motor coach carriers. The compliance review process may result in PUC imposed penalties when violations of PUC regulations are discovered. The PUC has also established an educational outreach to bus carriers that primarily addresses maintenance procedures to abate the increase in bus fires that have recently occurred throughout the nation.

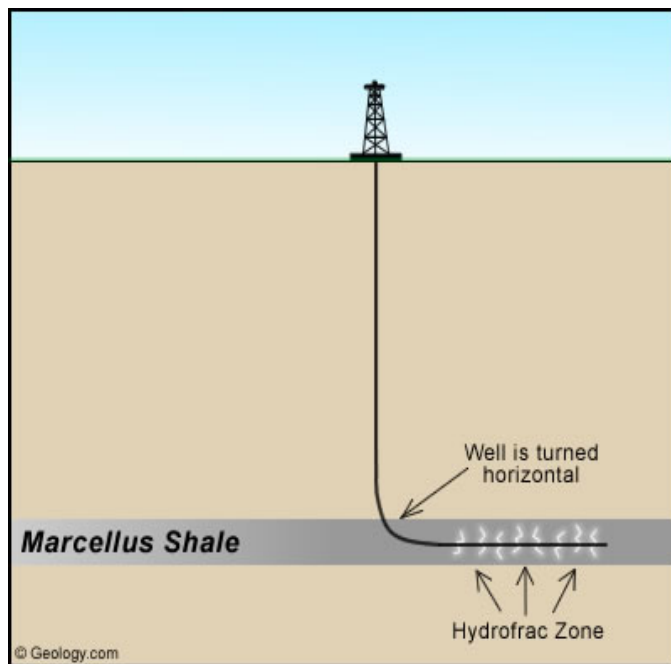
*Motor Coach Continued on Page 20.*

## Motor Coach

*Continued from Page 19.*

The Motor Carrier Division believes its current bus safety efforts, if continued at the same level or increased level of oversight, will provide for a sound foundation for Pennsylvania's motor coach carriers to provide safe passenger service. However, the level of oversight will be continually monitored against accident and safety violation findings to ensure needed adjustments are made so that bus transportation is safe in Pennsylvania.

## Gas Safety's Concern with Marcellus Shale Gas



*From Geology.com*

Recent new production methods for horizontal drilling of natural gas have opened an enormous volume of potentially recoverable gas in the eastern United States that will have a great economic significance. This new production will provide sources of gas supply to the high population areas of New Jersey, New York and New England. This transportation advantage will give Marcellus gas a distinct advantage in the marketplace. Few if any in the natural gas industry suspected that the Marcellus shale deposit would develop into a major contributor to the natural gas supply of the United States - large enough to be spoken of as a "super giant" gas field.

The Marcellus Shale is a Middle Devonian-age black, low density, carbonaceous (organic rich) shale that occurs in the subsurface beneath much of Ohio, West

Virginia, Pennsylvania and New York. Throughout most of its extent, the Marcellus shale deposit is located more than a mile below the surface. Successful wells must yield large volumes of gas to pay for the drilling costs that can easily exceed a million dollars.

Pennsylvania is at the center of this new gas producing area. Thousands of new Marcellus Shale wells will be drilled in Pennsylvania contributing to lower natural gas prices, stabilizing gas supplies, and benefiting Pennsylvania's economy.

Although the Marcellus shale gas provides the opportunity for a large input of gas into the supply side, the additional drilling and exploration for Marcellus shale gas will also increase the miles of gathering, production, and intra-state transmission pipelines through Pennsylvania. Potentially much of this new pipeline system will not be inspected because no agency in Pennsylvania has jurisdiction over production and gathering lines. Even if an agency is provided with safety oversight of the currently non-jurisdictional pipelines, the inspection process will require an extensive effort to ensure safety. In some instances, some producers will begin to provide metered service to customers as their pipeline travels to an interstate pipeline connection. These producers may become newly regulated gas utilities which will add to the PUC's responsibilities for safety inspections and rate regulation.

## Aqua Rate Case

*Continued from Page 8.*

issued their recommended decision on June 18, 2008. Exceptions were filed July 3, 2008, and reply comments were filed July 10, 2008. The PUC then conducted a binding poll at public meeting on July 17, 2008. The change in rates took effect in August 2008.

## Application Form

*Continued from Page 13.*

technological and legal changes had taken place since implementation, and so the Commission determined to consider revisions to the application.

The PUC established a 60-day comment period for input from the public. After that, the work group began a series of meetings to discuss the comments and issues including how best to revise the application form and procedures to bring the application process up to date. The Commission is currently considering the staff recommendation.



## FCC Highlights



*The Federal Communications Commission (FCC) recently issued several important decisions that impact Pennsylvania.*

### The Matter of Intercarrier Compensation Reform CC Docket No. 01-92.

Several carriers have filed intercarrier compensation proposals with the FCC, at CC Docket 01-92, on the long-standing and controversial issue of intercarrier compensation. Intercarrier compensation is the payment that a carrier makes to and receives from other carriers to provide telecommunications over the network. Many carriers, particularly AT&T and Embarq, filed proposals with the FCC. Other carriers, like Verizon, have filed similar proposals as Ex Parte filings instead of a petition.

The FCC recently published the AT&T and Embarq proposals to get input from the interested public before making a decision on future intercarrier compensation reforms. Given the cost of the reforms and the possibility of increased rates in Pennsylvania, the PUC has actively participated in the proceedings with comments and reply comments. The PUC has also worked with other states in the Mid-Atlantic Conference of Regulatory Utility Commissioners (MACRUC) to present the FCC with concerns of the regional state commissions.

These new reform proposals arose in response to a requirement that the FCC act on at least one part of intercarrier compensation, the reciprocal compensation rate paid for dial-up internet calls. A decision of the federal court expressly required the FCC to act no later than Nov. 5, 2008, and explain the legal basis for their current dial-up Internet compensation rates. Without the explanation, the federal court has said that it will invalidate the long-standing compensation regime in its entirety. The possibility of such a drastic result has produced several proposals on that issue. However, the proposals go much further. Most proposals want the FCC to set one national rate for network access and to prevent the states from setting intrastate access rates (the charges that carriers collect from each other to provide in-state toll service in each state). The proposals would drastically lower intrastate access rates in rural territories.

The PUC's comments raised several concerns. The first issue was the ultimate cost to end-user consumers in Pennsylvania and the MACRUC Region. The PUC also expressed a concern that revenue losses from a drastically lowered intrastate access rate in rural service territories could result in more rate increases for consumers in rural Pennsylvania. The PUC also noted that the FCC's most recent reports show that the number of Pennsylvanians that buy telephone service from a carrier has declined since the FCC implemented the cost for the last reforms in 2001. In that reform, the FCC increased the surcharges paid by consumers to fund lower interstate access rates.

Finally, the PUC has expressed a particular concern with proposals to preempt the state commissions from setting future rates for intrastate access. Current state and federal law appear to give the authority over intrastate communications to the state commissions.

On Nov. 5, 2008, the FCC issued an order that responded to the federal court's mandate on dial-up Internet compensation. The FCC also issued a notice of proposed rulemaking on intercarrier compensation. The PUC and the MACRUC states are examining the FCC's proposed rulemaking given the scope and cost of reform in Pennsylvania.

### Petition of NEP Cellcorp Inc. for Designation as an ETC in Pennsylvania CC Docket No. 96-45, DA 07-360.

On May 1, 2008, the FCC issued an opinion and order granting the request of NEP Cellcorp Inc. for designation as an eligible telecommunications carrier (ETC). This order permits NEP to obtain federal funding so that it can provide wireless service in parts of Pennsylvania where such service is currently not available. Since then, NEP has filed a petition with the FCC in which NEP proposes to establish rural service territory consistent with that ETC status. The Commission is reviewing that filing and may respond to NEP's proposal.

## Chairman Appointment

*Continued from Page 1.*

Background information on the Chairman and the other Commissioners can be found at the following link: <http://www.puc.state.pa.us/general/meetcommissioners.aspx>.

"I am honored to have the Governor's confidence in my ability to serve in this position, especially at a time when energy prices are rising and people need to know what can be done to manage higher utility bills," said Chairman Cawley. "I look forward to working with the administration to protect consumers, especially through expanded energy conservation and efficiency programs and programs that aid low-income families."

The Governor also announced that Chairman Cawley intended to ask the commission to support Commissioner Tyrone J. Christy as Vice Chairman of the PUC. The Commissioners elected Commissioner Christy as Vice Chairman the next day.

In other Commissioners' news, Vice Chairman Christy added Frank Sparrow to his staff; Commissioner Powelson added Steve Klick and Alison Pipitone to his staff; and Commissioner Gardner added Alphonso Arnold to his staff.

## Chapter 56 Rulemaking

The Commission is continuing 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).

A notice of advance rulemaking was published in the *Pennsylvania Bulletin* after an order was issued at the public meeting of Nov. 30, 2006. Comments on the advance rulemaking were received from the industry, consumer groups, and advocates. After carefully reviewing and considering the comments, Commission staff drafted proposed new rules that will revise its regulations at 52 Pa. Code Chapter 56, to ensure they are consistent with Act 201 of 2004, also known as Chapter 14. The Commission also will use the opportunity to address other issues with Chapter 56, including updates needed due to technological advances such as electronic billing and payments, e-mail and the Internet.

The proposed rulemaking addresses provisions such as:

- Billing information, including transfer of accounts and electronic bill payments;
- Security and cash deposits;
- Termination of service;
- Disputes, termination disputes, informal and formal complaints; and
- Public information procedures and record maintenance.

On Sept. 25, 2008, the Commission voted to adopt the revised rules and again invited interested parties to comment on these important regulations as it strives to balance the needs of consumers and utilities as it prepares the regulations for a future final order. This notice of proposed rulemaking will be published in the *Pennsylvania Bulletin* in early 2009. Interested parties have 60 days from publication to submit written comments. The case is docketed at L-00060182.

## Consumer Services Released 2007 Universal Service Report

On July 9, 2008, the PUC released the Bureau of Consumer Services' report on *2007 Universal Service Programs and Collection Performance of the Pennsylvania Electric Distribution Companies and Natural Gas Distribution Companies*.

The report is based primarily on 52 Pa. Code §§ 54.75 and 62.5, Universal Service and Energy Conservation Reporting Requirements. It includes reviews of the assistance programs that help low income customers maintain their utility service, including the Low Income Usage Reduction Program (LIURP), the Customer Assistance Programs (CAPs), CARES Programs and Utility Hardship Fund Programs. Residential collection data is reported for all

residential customers and further segmented for the confirmed low income customers.

Overall, 828,342 out of the 7,333,296 households receiving service from the major electric and gas companies were confirmed to be low income. Of those, 390,762 participated in CAP in 2007 at a total cost of \$330 million. Overall, the utilities spent just over \$28 million in 2007 on the Low Income Usage Reduction Program (LIURP) while treating 24,753 households. Overall, 19,477 customers received nearly \$7 million in Hardship Fund benefits in 2007.

The full report is on the PUC Web site at: [http://www.puc.state.pa.us/General/publications\\_reports/pdf/EDC\\_NGDC\\_UniServ\\_Rpt2007.pdf](http://www.puc.state.pa.us/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2007.pdf).

## PUC Releases the 2007 Customer Service Performance Report

The Commission released the *2007 Customer Service Performance Report: Pennsylvania Electric & Natural Gas Distribution Companies* on Sept. 4, 2008. The report, prepared by the Bureau of Consumer Services, appears on the PUC Web site ([www.puc.state.pa.us](http://www.puc.state.pa.us)) under Publications & Reports.

The report's data falls into two categories: company-reported performance data and customer survey results. The company-reported data measures telephone access, the timeliness of meter reading and billing, and the time a company takes to respond to disputes. The report measures three different factors to ascertain the quality of telephone access: the percent of calls that received a busy signal; the percent of calls abandoned by callers; and the percent of calls answered within 30 seconds.

The second section of the report provides the results of uniform surveys of randomly selected consumers who interacted with the electric distribution companies and the natural gas distribution companies during 2007. The purpose of the transaction survey is to assess those consumers' perceptions regarding the interactions. The survey questions the consumers on different aspects of customer service such as ease of reaching the company, employee courtesy and knowledge, promptness and timeliness of a company's response or visit, and satisfaction with the handling of the interaction.

## Anatomy of a Rate Case

It's not difficult to find an example of a utility company's request for a general rate increase, but are you aware of the steps involved for the Commission in the process?

The process begins when the Commission receives notice of a tariff filing from a jurisdictional utility. The review process begins in earnest when the company provides its actual base rate filing. This filing includes testimony and support for its requested tariff change. The filing in a base rate case must include mandated information as provided for in the Commission's regulations. This information is provided to the Office of Trial Staff (OTS) and the Bureau of Fixed Utility Services (FUS).

From there, staff from OTS and FUS analyze the filing and prepare a report that gives a recommendation to the Commission to be voted upon at a public meeting. These recommendations vary and can differ between the two bureaus. Typical recommendations from the respective staffs in base rate proceedings are either to open an investigation and assign the matter to the Office of Administrative Law Judge for a decision or allow the requested increase. The Bureau of Fixed Utility Services may recommend an alternate increase. The OTS analysis is limited to recommending the full request or to suspend and investigate.

Should a tariff be suspended by operation of law and set for investigation, the following will occur:

1. The proceeding will be assigned to the Office of Administrative Law Judge for the development of a record including the issuance of a recommended decision;
2. The Office of Trial Staff will make official notice of attorney assignment as a party to the case through a Notice of Appearance;
3. An administrative law judge (ALJ) will be assigned to the proceeding, and a hearing notice will be conveyed to the parties;
4. A prehearing conference will be held at which time a procedural schedule will be established. Any other matters pertaining to the adjudication of the rate case will be reviewed at the prehearing conference;
5. OTS staff, as well as any interested party, will engage in discovery – requesting responses and documentation from the filing company in order to review the filing and make the appropriate recommendations;
6. OTS staff and interested intervening parties will prepare direct testimony in order to present its recommendations;
7. If scheduled, public input hearings are held within the service territory and ratepayers are given the

- opportunity to comment on the company's request;
8. OTS staff may prepare rebuttal and/or surrebuttal testimony, as the case progresses;
9. In the absence of a comprehensive settlement, evidentiary hearings may be necessary for the admission of evidence and to further develop a complete record. This may involve cross-examination of witnesses. At the close of the record, no additional evidence is allowed. The record developed throughout the proceeding is the basis for further arguments and is the source, along with applicable law, for OTS and the other interested parties to prepare main and/or reply briefs;
10. The ALJ reviews the record evidence as well as the briefs provided by the parties and issues a recommended decision; and
11. Parties are generally provided with the opportunity to clarify positions and argue any perceived misapplication of the law or facts presented in the ALJ's recommended decision through the filing of exceptions. Reply exceptions are also permitted to address the arguments presented during exceptions. After the exceptions/reply exceptions period, the Commission has all the necessary information upon which to issue an order. The Commission review includes the record evidence and the subsequent filings as provided above.

The recommended decision and any subsequent arguments are dealt with at a public meeting wherein the Commission presents its resolution of any and all issues pertaining to the requested base rate increase. Once the order is entered, the base rate case is considered completed. There are administrative matters including the filing of a compliance tariff and any other directives issued by the Commission.

Although the base rate case is now considered as having been completed, the parties are not precluded from further action based on the record. These actions include petitions for reconsideration or clarification. In addition, appeals to Commonwealth Court are an option.

The steps presented above are general in nature. Each rate case has its own unique circumstances that may call for variations in the procedures outlined above, but the common denominator is that every rate case gets the proper level of review and every interested party has the opportunity to participate. In addition, the review is done in a timely manner so as to fulfill the Commission's responsibility to protect the public interest while balancing the needs of the private sector.



## InfoMAP Update



### Electronic Filing Pilot Underway

The PUC's final electronic filing regulations went into effect upon their publication in the *Pennsylvania Bulletin* on Sept. 27. The regulations are a transitional step toward replacing paper with electronic documents. Electronic filing (eFiling) will be optional at the outset, but the PUC expects to revisit this aspect of the regulations after users gain familiarity with the system. The PUC may eventually require that documents be filed and served electronically by some users, such as law firms and major public utilities. The regulations eliminate the need for parties to submit paper copies of documents that are filed electronically, except that one copy (rather than an original and three copies) is still required for documents that are over 250 pages or exceed 5 megabytes.

On Oct. 31, over a dozen utilities and law firms began participating in the PUC's electronic filing pilot, where they are able to create accounts and submit filings in a simulated test environment. Their participation has given them the opportunity to submit feedback to the PUC on the functionality and usability of the system. By early December, the pilot participants will move into a production environment where they will be able to make electronic filings. During that phase, the PUC hopes to reduce or eliminate their paper copy filing requirements. Once eFiling is fully available to all users in early 2009, the pilot participants will already be familiar with the system. Enhanced searches and e-payment are also key components of the PUC's eFiling project.

On Nov. 13, the PUC tentatively issued a list of qualified documents that may be electronically filed. The proposed document types include affiliated interest agreements, applications, formal complaints, exceptions, petitions, protests, tariff filings and securities certificates. Interested parties have 14 days after entry of the order to file comments.

Electronic filing is the last phase of the PUC's Information Management and Access Project, InfoMAP, which has also entailed an overhaul of the internal case and document management system and resulted in automated workflow, replacing manual processes and reliance on paper copies. All documents filed with the PUC are currently being scanned and published on the Web site, along with all decisions and orders issued by the Commission.

### OALJ Holds Conference

Over two days in September, the PUC's Office of Administrative Law Judge (OALJ) held their annual conference. Guest speakers reviewed utility issues and recent developments in administrative law.

Administrative Law Judge Charles E. Rainey Jr. received the OALJ's Golden Gavel Award. The award is presented annually to the ALJ who has gone above and beyond his or her duty as an ALJ.

## PUC Submits Budget Request to the Governor's Office

On Oct. 9, the PUC submitted its Executive Budget Request to the Governor's Budget Office for Fiscal Year 2009-10 seeking approval of almost \$58 million, including about \$3.4 million in federal funds. The state funding sought by this request is \$54.6 million and is an increase over the current fiscal year budget of about \$2.4 million, which results from contractually mandated salary increases and additional benefit costs. The Commission proposed no increase in operating costs or fixed assets. This submission fully complied with the instructions issued by the Governor's Budget Office.

For the current fiscal year, the PUC has been requested by the Governor's Budget Office to join agencies under the Governor's jurisdiction in reducing spending.

Specifically, the Commission has been asked to reduce spending by about 4.25 percent, or \$2.2 million, and is achieving that level of savings through restrictions on hiring and out-of-state travel. These savings will be used to offset utility assessments to support the 2009-10 fiscal year budget.

## PUC Names New Assistant Secretary

With the retirement of Elaine Deichmiller, who served as Assistant Secretary for the Commission for almost 17 years, the PUC has named Sara Miller-Williams as the new Assistant Secretary.

Sara began her new position on Sept. 15 and recently reached her 30-year service milestone with the PUC. Starting in the typing pool in 1978, where she worked for one month, Sara has served in various positions in the Bureau of Consumer Services since that time. Most recently, Sara was the bureau's well-organized and extremely efficient administrator. We are confident that she will apply those skills to good use as Assistant Secretary, where her primary responsibility is the coordination of the PUC's public meeting agenda.

## PUC Joins PA One Call to Promote Safe Digging at PA Safety Day Event

To promote the importance of safe digging, the Pennsylvania Public Utility Commission (PUC) and Pennsylvania One Call System Inc. (PA 1 Call) joined efforts to remind Pennsylvanians planning a project that requires digging to “Know What’s Below” by calling 8-1-1. Commissioner Kim Pizzigrilli and PA 1 Call President and Executive Director Bill Kiger spoke at a media event during PA 1 Call’s Western PA Safety Day held in Cranberry Township on Sept. 18, 2008. This was the third time this year the PUC joined Safety Day efforts to educate Pennsylvanians on what to do before beginning any digging or excavation project.

In Pennsylvania, homeowners and contractors are required by law to call 8-1-1 at least three business days before beginning any digging or excavation projects to make certain underground utility lines are marked. The PUC provided the regulatory support needed to allow Pennsylvania to join the nation with 8-1-1 abbreviated dialing. In 2006, the PUC ordered 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.



*PUC Commissioner Kim Pizzigrilli and PA 1 Call President and Executive Director Bill Kiger used the backdrop of backhoes, trench diggers, as well as emergency personnel and equipment attending PA One Call’s “Central PA Safety Day” at the Cranberry Township Public Works Building, to drive the point home.*

## Touring Wind Farm



*Promoting the importance of renewable energy, Commissioner Robert F. Powelson and his staff toured the Locust Ridge Wind Farm in Schuylkill County on Oct. 1, 2008. The project features 13 of the latest-technology wind turbines, which stand about 400 feet tall and generate clean, renewable electricity. The PUC continues to implement and enforce requirements outlined in the Alternative Energy Portfolio Standards (AEPS) Act of 2004. The AEPS Act requires that a percentage of all electric energy sold to retail customers within the state be derived from alternative energy sources.*

## Feedback



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

Staff from the Office of Administrative Law Judge,

Bureau of Audits, Bureau of Conservation, Economics and Energy Planning, Bureau of Consumer Services, Office of Communications, Bureau of Transportation and Safety, Office of Special Assistants, Bureau of Fixed Utility Services, Office of Trial Staff, and the Law Bureau all contribute and write articles for this publication.

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

## TrAILCo Update

*Continued from Page 6.*

three 138 kV transmission lines and two substations in Washington and Greene Counties. After 12 public input sessions and eight days of hearings, the ALJ issued a decision recommending denial of all five applications. Exceptions were filed. Additionally, TrAILCo filed a Motion for Partial Stay and Request for Expedited Consideration, requesting that the Commission expedite its decision on the exceptions to the ALJ's decision regarding the Pennsylvania 502 Junction Facilities, but stay the portion of the application concerning the Prexy Facilities and direct the active parties to establish a collaborative process to discuss, analyze and develop new alternatives to the Prexy Facilities, which involved the most contentious issues in the case. Answers to the Motion for Stay were filed. Most recently, TrAILCo filed a partial settlement agreement between TrAILCo, West Penn Power Company and Greene County, essentially securing Greene County's withdrawal from the proceedings. Comments to the partial settlement agreement were received.

At the public meeting of Nov. 13, 2008, Docket No. A-110172 *et al.*, the Commission adopted two motions addressing the outstanding issues. Specifically, the Commission approved the settlement agreement and encouraged the parties to participate in a collaborative to develop a cost-effective solution concerning the Prexy area. The Commission also stayed consideration of the application concerning the Prexy Facilities pending the outcome of the collaborative and the filing of a new or amended application and rejected a Memorandum of Understanding that applied to the Prexy Facilities.

The Commission also:

- Approved the portion of the application addressing a 1.2 mile Pennsylvania segment known as the 502 Junction Facilities, as further conditioned by Appendix A to TrAILCo's exceptions;
- Authorized TrAILCo to exercise the power of eminent domain for this particular portion of the project;
- Granted TrAILCo an exemption from local zoning regulations; and
- Approved a service agreement with Allegheny Energy Services Corporation, a capital contribution agreement, and a tax allocation agreement.

No determination was made regarding recovery of any of the costs of this project as rate recovery was not an issue before the Commission.

## PUC Holds *En Banc* Hearings on Wholesale Electricity Markets

On Oct. 23, 2008, representatives from PJM Interconnection, Midwest ISO, PJM Market Monitor, and PJM Power Provider Group testified in front of the five PUC Commissioners at an *en banc* hearing. The hearing focused on current and future wholesale electricity markets, with the Commissioners posing questions to the speakers after their comments.

Another *en banc* hearing on these topics was held on Nov. 6. Presenters offered testimony on the current and future wholesale electricity markets, with different views and opinions on the topic being represented. Testimony was heard from American Public Power Association, the Electricity Consumers Resource Council, Alcoa Inc., the law firm of McNees, Wallace and Nurick, and Kenneth Rose, Ph.D., an independent energy consultant.

A third hearing on this topic is scheduled for Dec. 18. More information will be released as it becomes available. Some of the parties scheduled to present include the Electric Power Generation Association and COMPETE Coalition.

## 511 Update

At the Oct. 23, 2008, public meeting, the PUC established the Pennsylvania Department of Transportation (PennDOT) as the sole administrator for the state's 511 abbreviated dialing code. The Commission unanimously approved PennDOT's application to utilize the dialing code for the establishment of an intelligent statewide traveler information service titled "511 Pennsylvania." *511 Pennsylvania* will allow travelers to easily obtain accurate, up-to-the-minute information on traffic, roadway conditions, regional weather, transit options, tourism information and more via Web and telephone access.

The PUC found that PennDOT had shown good cause to grant its request and that a statewide 511 traveler information service would benefit the citizens of Pennsylvania by providing a simple, universal, easy-to-remember number to access transportation and travel-related information. In addition to granting the application, the Commission directed all jurisdictional local exchange carriers to perform the analyses required to quantify the costs associated with and estimate the time required to perform the necessary translations and facilities work to allow for 511 call completion.

*511 Pennsylvania* is scheduled to be operational by June 1, 2009.