

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.

Summer 2008

PUC Welcomes Commissioners Powelson, Gardner



Robert F. Powelson



Wayne E. Gardner

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

Commissioner Powelson replaces former Commissioner Terrance J. Fitzpatrick, who resigned. Powelson's term expires on April 1, 2009. Commissioner Gardner replaces former Chairman Wendell F. Holland, whose term expired. Gardner's term expires on April 1, 2013.

"The Public Utility Commission's decisions affect every Pennsylvania resident – from protecting consumers from skyrocketing rates and insisting instead on the lowest possible prices for utility service, increasing energy conservation, and regulating utilities to shift energy production to renewable sources," Gov. Rendell said. "I am confident that Wayne Gardner and Robert Powelson will serve the best interests of Pennsylvania consumers in their new roles on the PUC."

During his Senate confirmation hearing, Commissioner Gardner said he will be "an independent thinker. I will focus on price competitiveness, security of supply, and customer service for the consumers and utilities of the Commonwealth, as well as utility reliability, strong consumer protections and other policies as developed by the legislature."

Commissioner Powelson's nomination was supported by Senate Majority Leader Dominic Pileggi (R-9), who said, "The PUC deals with some of the most important issues facing Pennsylvania today, including electric rate mitigation and increasing our use of alternative energy. Rob's ability to find solutions to often complex problems will serve him well in this role."

Commissioner Powelson served as the President of the Chester County

New Commissioners Continued on Page 6.

Connecting in Pennsylvania

Welcome to the 10th 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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PUC Responds to House Resolution 506

In June, the PUC delivered a report to the Pennsylvania legislature responding to House Resolution 506, which was passed on Jan. 16, 2008. HR 506 urged the PUC (and also the Department of Environmental Protection) to identify and evaluate measures taken in other states to manage the expiration of electricity rate caps in a way that minimizes the incidence and impact of rate shock on consumers.

The PUC's response discusses the background and current status of electric competition and notes factors that affect electric prices, as well as the increases in other prices over the past 12 years. The report also:

- Highlights the benefits of competition and the challenges that are presented by a transition to competitive markets without rate caps;
- Addresses the activities in other states in the areas of consumer education, demand side response and energy efficiency, rate increases and price mitigation efforts;
- Describes the PUC's activities in preparing for the transition to competitive markets, including the price mitigation order, default service rulemaking, consumer education and participation in federal proceedings; and
- Indicates whether statutory amendments are needed to pursue any additional mitigation efforts.

In transmitting the response, the PUC noted that individual Commissioners may choose to supplement it with their own views as to additional measures that should be taken. The PUC further offered to provide any other information that the legislature may need. The report can be found on the PUC's Web site under Publications and Reports.



General Assembly's Special Session on Energy Policy

Prior to breaking for summer recess, the General Assembly acted on several Special Session (SS) on Energy Policy bills. SS House Bill (HB) 1 was enacted into law and signed by the Governor on July 9, 2008. It is Act 1 of the Special Session. SS Senate Bill (SB) 22 was enacted and signed by the Governor on July 10, 2008. It is Act 2 of Special Session. Legislation addressing rate mitigation, procurement, and energy efficiency/demand side response is expected to be addressed in the fall.

SS HB 1 provides support for research and development of alternative energy technologies, assistance to consumers to cover up to 25 percent of the cost to install energy-saving equipment and boosts funding of the Low-Income Home Energy Assistance Program (LIHEAP) by \$40 million.

The Alternative Energy Investment Act includes:

- \$165 million for loans to businesses and loans or grants to counties, municipalities and school districts for clean energy projects, as well as loans and grants to businesses that support alternative energy production through the Commonwealth Financing Authority;
- \$100 million to provide loans, grants and rebates of up to 35 percent of the purchase and installation costs of solar and solar photovoltaic panels;
- \$92.5 million for consumer grants, loans, rebates and reimbursements of up to 25 percent of the purchase and installation price for consumer energy conservation projects;
- \$80 million for loans and grants for alternative energy production projects related to solar energy;
- \$50 million for tax credits to increase alternative energy production;
- \$40 million for research and development of alternative energy technologies through the Ben Franklin Technology Development Authority;
- \$40 million to boost funding of the Low-Income Home Energy Assistance Program (LIHEAP);
- \$25 million for loans and grants for geothermal and wind energy projects;
- \$25 million for loans and grants for high-performance buildings;
- \$25 million for pollution control technology grants for small coal-fired power plants;
- \$5 million in loans through the PA Housing Finance Agency for energy efficiency projects; and
- \$2.5 million for data center consolidation projects.

SS SB22 amends the Alternative Fuels and Incentive Fund providing for biomass-based diesel production incentives. The law will require an education and outreach program to car dealers and consumers to educate them on the availability of hybrid vehicle rebates. It also expands the rebates to plug in hybrids or other alternative fuel vehicles. Likewise, it establishes a three-year matching grant program to install nitrogen tire inflation systems which have proven to save on fuel consumption.

Alternative Energy Update

The PUC's implementation of the Alternative Energy Portfolio Standards Act (AEPS Act) continues to progress as the Act evolves and more electric companies make their first attempts at compliance. The most significant development over the past year was the enactment of amendments to the AEPS Act in July 2007, that changed both the requirements for and availability of alternative energy.

Specifically, Act 35 of 2007 expanded the requirement for solar derived energy, increasing the amount required every year from now through 2020, when 0.5 percent of all electricity delivered to retail customers must be from solar photovoltaic systems. The amendment also increased the maximum size of alternative energy generators that can be interconnected with the distribution system, as well as changing the amount and timing of when customer generators receive compensation for excess generation.

This amendment necessitated changes to the PUC's existing and proposed regulations. Specifically, changes to the existing net metering regulations were adopted at the PUC's public meeting of May 22, 2008. Changes to the existing interconnection and the proposed AEPS implementation regulations will follow later this year.

Last year was the first year that a small number of electric distribution companies (EDCs) and electric generation suppliers (EGSs) had to comply with the AEPS Act's requirements, as their rate caps ended. The PUC's Bureau of Conservation, Economics and Energy Planning (CEEP) has confirmed that all of these EDCs and EGSs met their requirements. CEEP will continue to track AEPS Act compliance as more rate caps expire over the next few years.

The PUC also has addressed several issues that have arisen as EDCs and EGSs take actions now to meet compliance requirements as rate caps expire. Notably, the Commission reviewed multiple EDC efforts to purchase and bank alternative energy credits (AECs). In addition, the PUC and the AEPS program administrator continue in their efforts to facilitate compliance by expanding the availability of information regarding AEC brokers and aggregators, and certified alternative energy generators.

Furthermore, the PUC and the program administrator have dealt with issues raised by owners of alternative energy systems regarding the reasonable price for AECs and their eligibility to participate. As this new regulatory requirement continues to evolve and mature, the PUC will continue to address multiple anticipated, as well as, unanticipated issues in a way that will facilitate this important component of the Commonwealth's overall energy policy.

AEPS 2007 Report Released

On May 29, 2008, the Commission released the 2007 Annual Report on the Alternative Energy Portfolio Standards (AEPS) Act of 2004. The report was prepared by the PUC Bureau of Conservation, Economics and Energy Planning in cooperation with the Pennsylvania Department of Environmental Protection.

The AEPS Act requires electric distribution companies (EDCs) and electric generation suppliers (EGSs) to provide an increasing amount of support for renewable energy through the purchase of renewable energy credits. For the initial AEPS compliance period of Feb. 28 through May 31, 2007, Penn Power and UGI Electric, as well as five EGSs operating in the Penn Power service territory, purchased the required amount of alternative energy credits to comply with the AEPS Act. Collectively, the companies purchased 26 solar photovoltaic credits at an average price of \$229.62, 21,784 Tier I credits at an average price of \$3.90 and 61,037 Tier II credits at an average price of \$1.37. The major source of renewable energy in Tier I is wind power, and the major source in Tier II is waste coal. Alternative energy generators can earn credits by generating one megawatt of energy from qualified renewable resources and registering their credits in the PJM-GATS credit registry.

The 2007 AEPS report also provides information on future compliance obligations, estimated costs of renewable resources, the Pennsylvania AEPS marketplace, as well as the certified generators and certificates created. The report is available on the PUC Web site at www.puc.state.pa.us under electricity/alternative energy.

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 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.

PUC Holds Summer Reliability Meeting

On June 12, the Energy Association of Pennsylvania, the Electric Power Generation Association, PJM Interconnection and Pennsylvania One Call System Inc. advised the PUC that they are expecting normal demands for electricity during the summer months while maintaining enough power for emergencies.

The presenters discussed forecasted load and capacity; inspection practices; environmental considerations; plant additions and retirements; and the effect of electric line contacts on electric reliability.

PJM, based in Pennsylvania, is the electricity grid operator for 13 states and the District of Columbia. PJM predicts that customers will drive the net peak demand this summer to 137,950 megawatts, compared to the all-time peak of 144,644 megawatts on Aug. 2, 2006. PJM expects to have a total reserve margin, the extra power on hand to meet unanticipated demand of 23.8 percent.

The Energy Association of Pennsylvania (EAP) member companies serve over 8 million electric and natural gas customers in the Commonwealth. EAP provided updates on how Pennsylvania electric distribution companies are working to improve reliability by using existing operations more efficiently and by continuing efforts to enhance overall load management through the Smart Grid.



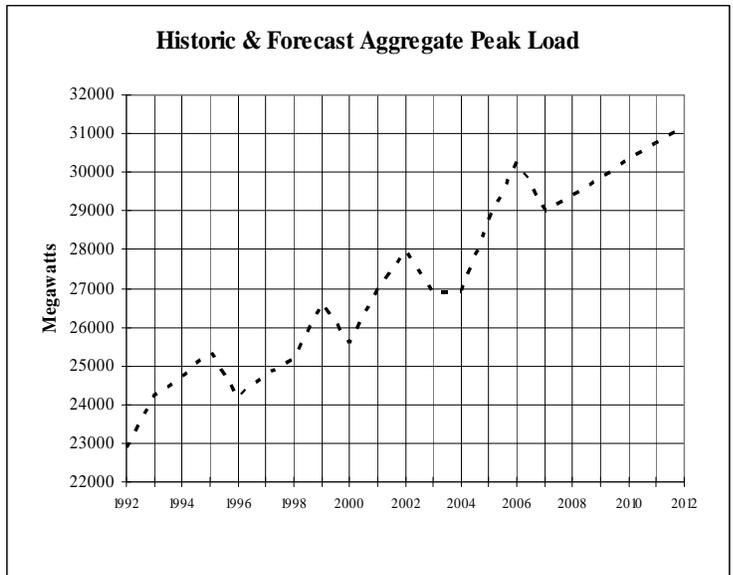
Electric Power Outlook for Pennsylvania 2007-2012

The Bureau of Conservation, Economics and Energy Planning (CEEP) is preparing this year's annual report on the status of Pennsylvania's electric distribution companies' (EDCs) future plans to meet the demands of electric consumers for the next five years.

Between 2006 and 2007, electricity consumption increased approximately 2.8 percent. The current aggregate five-year projection of growth in energy demand is 1.4 percent. This includes a residential growth rate of 1.5 percent, a commercial rate of 1.6 percent and an industrial rate of 1.1 percent.

Peak load is expected to increase from 29,001 megawatts in 2007 to 31,228 megawatts in 2012 at an average annual growth rate of 1.5 percent.

The final report is to be submitted to the Governor and the General Assembly by Sept. 1, 2008. The report will also be available on the PUC Web site under "Publications and Reports."



Penn Power POLR II

A competitive bidding process was conducted by an independent group on behalf of Penn Power's residential and commercial customers. The Commission verified that the new prices accurately reflect the results of the competitive bidding process and checked Penn Power's calculations to ensure the new retail electricity prices accurately reflected the electricity costs resulting from the competitive bidding process. The prices are not set by the PUC, but rather are set by the wholesale market, over which the PUC exercises no jurisdiction.

Penn Power POLR II Continued on Page 5.

TrAIL Co Update

On April 13, 2007, the Trans-Allegheny Interstate Line Company (TrAILCo) filed an application seeking PUC approval to locate, construct and operate a proposed Trans-Allegheny Interstate transmission line project to be located in portions of Washington and Greene Counties. Specifically, the Pennsylvania portions of the TrAILCo project include a new 500/138 kV substation in Washington County, a new 500 kV substation in Greene County, a new 500 kV transmission line extending from Washington County south into West Virginia, and three new 138 kV double circuit transmission lines in Washington County. Over 300 protests and interventions were filed on behalf of various parties, including House Majority Leader H. William DeWeese, and the Greene County and Washington County Commissioners. In addition, the PUC's Office of Trial Staff and the Office of Consumer Advocate have intervened and actively participated in this proceeding.

Twelve public input hearings were held in Washington and Greene Counties in autumn 2007, and site visits to the affected properties were made subsequent to the public input sessions. Ultimately, technical evidentiary hearings were held before two administrative law judges in Pittsburgh during the weeks of March 24 and March 31, 2008. Briefs and reply briefs were submitted by the parties and a recommended decision is pending.

New PPL Transmission Line

As part of PPL Electric Utilities' preliminary siting activities for its Susquehanna-Roseland 500 kV electric transmission project, on Feb. 14, 2008, PPL filed with the PUC an application for approval of the siting and reconstruction of the proposed Coopersburg No. 1 and No. 2 138/69 kV Tap in Upper Saucon Township, Lehigh County, and Springfield and Richland Townships, Bucks County.

On April 24, 2008, the PUC received PPL's petition to build a shelter for its control equipment at the substation that PPL proposes to construct in Springfield Township, Bucks County. On the same day, PPL also filed seven eminent domain applications. By order issued June 9, PPL's siting application, its petition and the seven eminent domain applications were consolidated into one proceeding at Docket No. A-2008-2022941.

Public input hearings were held during the week of July 14. Parties have suggested alternate sites to be toured the week of Aug. 11. Evidentiary hearings are scheduled to be held before an administrative law judge on Nov. 5-7 and 10, in Philadelphia.

PUC Challenges DOE Transmission Corridor Designation

The Pennsylvania PUC is participating with other states (New York, New Jersey, Virginia, California and Arizona) 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, in the United States Court of Appeals for the Second Circuit. The basis of the appeal is that the DOE's action was arbitrary, capricious and not supported by substantial evidence. Additionally, the appeal alleged that the corridor designation was overbroad and failed to take into account state interests. The Commission asks 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.

Because of the numerous appeals filed in various regions in the United States, all appeals have been consolidated in the Ninth Circuit Court of Appeals in San Francisco. The parties are currently engaged in establishing timelines for designation of the record and for the filing of briefs. Briefs will be filed later this year and the matter will be argued in late 2008 or early 2009.

Penn Power POLR II

Continued from Page 4.

The prices below compare the current average total bill to an average total bill using the new tariff prices effective June 1, 2008. The monthly bill for an average residential customer using 750 kWh a month will increase from \$111.62 to \$114.21 (2 percent). The monthly bill for an average residential heating customer using 2,000 kWh a month will decrease from \$186.26 to \$167.97 (10 percent).

The monthly bill for an average small commercial customer on rate schedule GS using 2,000 kWh (10 kW demand) will increase from \$224.04 a month to \$230.12 (2.72 percent). The monthly bill for an average medium commercial customer on rate schedule GM using 57,000 kWh (200 kva demand) will increase from \$5,610.70 a month to \$5,826.21 (3.84 percent).

Inspection and Maintenance Rulemaking

On May 22, 2008, the PUC approved and entered the final rulemaking order at Docket No. L-00040167, revising Chapter 57, Title 52, of the *Pennsylvania Code*. The rulemaking adds a regulation, Section 57.198, establishing inspection, maintenance, replacement and repair (I&M) standards for electric distribution companies (EDCs).

The Commission voted 4-0 to require EDCs to make biennial filings explaining their plans for the inspection, maintenance, replacement and repair of their facilities that are designed to meet their reliability performance benchmarks and standards. The rulemaking establishes standards for a variety of activities such as vegetation management, pole inspections, distribution overhead line inspections, distribution transformer inspections, and substation inspections. These standards are based on current industry practices and comments submitted during the rulemaking proceeding.

EDCs will be separated into two compliance groups. The first group will file the initial plans on or before Oct. 1, 2009, to be implemented on Jan. 1, 2011, and to remain in effect for two years. The second group will file plans on or before Oct. 1, 2010, to be implemented Jan. 1, 2012, and to remain in effect for two years.

On May 22, 2008, the Commission also adopted a motion, which requires the Law Bureau to prepare an advanced notice of proposed rulemaking (ANOPR) order asking for comments from the parties on the standards that are currently used by EDCs to inspect, maintain and repair neutral connections, as well as comments on whether the Commission should promulgate standards to govern the inspection, maintenance and repair of neutral connections. At the public meeting of July 17, the Commission approved the ANOPR initiating a Chapter 57 rulemaking proceeding on neutral connection standards.

Electric Supplier Licensing

Activity from Jan. 1, 2008, to June 30, 2008.

44 Active Licenses

1 license canceled

3 licenses approved

0 applications pending

New Commissioners

Continued from Page 1.

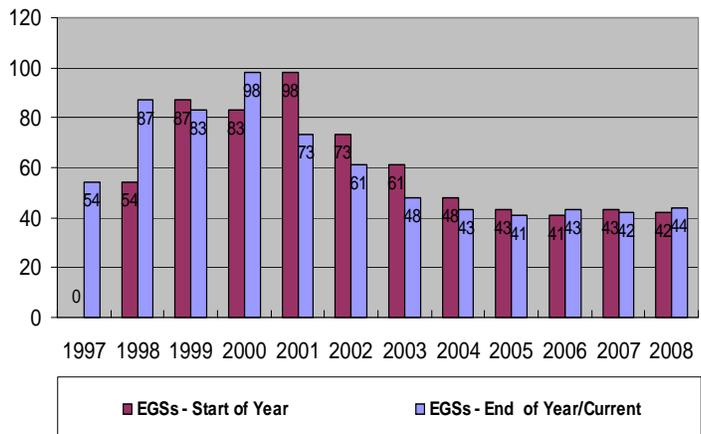
Chamber of Business & Industry, a 1,600-member business organization that he joined in 1994. During his service as Chairman, the Accrediting Board of the U.S. Chamber of Commerce awarded the Chester County Chamber a Three Star Accreditation standard of excellence. Commissioner Powelson holds a Bachelor of Administration degree from St. Joseph's University and a Master of Governmental Administration degree from the University of Pennsylvania with a concentration in public finance.

Since January 2006, Commissioner Gardner has partnered in developing wind power projects in South Africa. From April 2002 to December 2005, Commissioner Gardner served as vice president and general manager of Franklin Fuel Cells Inc., where he oversaw its formation, development and day-to-day operations. Previously, Commissioner Gardner served in several operational and managerial capacities over a 20-plus-year career at PECO Energy Company, including investments, strategy, new business development, field service and power plant operations. Upon formally retiring from Exelon Corporation in 2002, Commissioner Gardner joined EnerTech Capital Partners as a venture partner, where he led and/or supported investment transactions in the energy and telecom technology sectors, and worked as an operational consultant to EnerTech companies on an interim basis.

Commissioner Gardner holds a Bachelor of Science degree in Business Administration from Drexel University in Philadelphia. He also has earned certificates from studies at The Wharton School of the University of Pennsylvania, Cornell University, and the American Management Association in Chicago.

To date, Commissioner Powelson has chosen the following staff: Bobbie Malinak, Rik Hull, Mike Blodgett and Carol Kozloff. Commissioner Gardner has selected the following staff, to date: Teri Mathias, Kim Barrow and Tom Maher.

Number of Licensed EGSs



Water and Wastewater Company Applications Approved

Applications Approved
March 16, 2008, through June 5, 2008

Utility Name	Action	Territory	Approval Date
Aqua Pennsylvania Inc.	Additional Territory	Dallas Township, Luzerne County	3/27/08
The York Water Company	Additional Territory	York Township, York County	5/1/08
Pennsylvania-American Water Company	Additional Territory	Hanover Township, Washington County	5/1/08
Pennsylvania-American Water Company	Additional Territory	Valley Township, Chester County	5/1/08
Beaver Lake Sewer Company	Abandonment	Penn Township, Lycoming County	5/1/08
Aqua Pennsylvania Inc.	Additional Territory	Dallas Township, Luzerne County	5/22/08
Aqua Pennsylvania Inc.	Additional Territory	Pocopson Township, Chester County	5/22/08
Pennsylvania-American Water Company	Additional Territory	Highland Township, Chester County	6/5/08
Pinebrook II (Water & Wastewater)	Abandonment	West Brunswick Township, Schuylkill County	6/5/08

PAWC Chloraminated Water Case Interim Decision

Several complaints were filed against Pennsylvania American Water Company (PAWC) in response to PAWC's announcement that it intended to convert the West Shore Regional Water Treatment Plant and the Silver Spring Water Treatment Plant from chlorinated water to chloraminated water. A recommended decision granting PAWC's preliminary objections and dismissing the complaints for lack of jurisdiction was issued on Oct. 5, 2007. At the public meeting of March 13, 2008, the Commission granted the complainants' exceptions and reversed the administrative law judge's (ALJ) initial decision.

The matter was remanded to an ALJ for expedited hearing on the issues of water service quality. On May 16, 2008, the complainants filed a petition for interlocutory review of a material question for resolution by the Commission.

At the public meeting of July 17, the Commission considered whether the ALJ erroneously prohibited the

introduction of evidence regarding the public health determinations made by the Department of Environmental Protection (DEP) in permitting PAWC to use chloramine. The Commission determined that the ALJ's rejection of information regarding the public health determinations made by DEP was appropriate because determinations of the effect of water quality on public health are matters under the jurisdiction of DEP and not this Commission.

Relevant non-public health evidence within the PUC's jurisdiction, however, will be accepted, even if previously submitted to DEP. Such evidence includes whether reasonable notice had been given to customers by PAWC; whether the company's choice of treatment alternatives, its cost and implementation was prudent and appropriate; and whether the water provided at the tap is suitable for all household uses and constitutes the provision of safe, adequate, efficient and reasonable service and facilities under 66 Pa. C.S. Section 1501.

Update on the PAWC Outages Investigation

On Dec. 10, 2006, approximately 1,000 Pennsylvania American Water Company (PAWC) customers in the Pittsburgh area and two nearby schools experienced extended water outages. These outages continued for several days. Similar extended outages had occurred in November 2006, when 2,000 PAWC customers in portions of Lackawanna County lost their water service.

As a result of these events, the PUC, at the public meeting of Dec. 31, 2006, adopted a motion that called for an investigation of these outages to examine the utility's compliance with the Public Utility Code and the PUC's regulations regarding safe and reliable water service in the Commonwealth.

The PUC's Law Bureau, in conjunction with the Bureau of Fixed Utility Services and the Bureau of Audits, prepared a report relating to the Pittsburgh outages that was submitted to the Commission in April 2007. On June 21, 2007, the report, which contained 15 directives for PAWC to implement, was released to the public for comment. On July 26, 2007, the Commission's final order regarding the Pittsburgh outages was entered.

As part of the investigation, Commission staff are continuing to collect data for a second joint staff report relating to the aforementioned extended outages in Lackawanna County and other portions of PAWC's service territory. After the investigation is complete, the Commission expects to issue a public report regarding the staff's findings and recommendations.

As to the PAWC management audit, Schumaker & Company is in the process of reviewing PAWC's comments on its draft and is preparing a consolidated final report. It is projected that Schumaker & Company's final report and PAWC's Implementation Plan should be ready for public release at the second public meeting in August.

Aqua Pennsylvania's Rate Case

On Nov. 21, 2007, Aqua Pennsylvania Inc. filed proposed changes in rates, rules and regulations calculated to produce \$41.7 million (13.6 percent) in additional annual revenues. The Commission suspended the filing until Aug. 21, 2008, so that an investigation could be held to determine whether the proposed changes in rates, rules and regulations are lawful, just and reasonable.

The case was assigned to the Office of Administrative Law Judge. The statutory advocates, several entities and a number of individuals filed complaints against Aqua's filing. On June 16, 2008, the two administrative law judges (ALJs) assigned to the case issued a recommended decision. The ALJs recommended an increase of approximately \$40.2 million.

The parties had until July 3 and July 10, 2008, to file exceptions and reply exceptions, respectively.

At the public meeting of July 17, the Commission conducted a binding poll on the issues related to Aqua's proposed rate increase for water service. At this time, the increase granted by the Commission is estimated to be approximately \$34.4 million. This change in rates is expected to take effect in August 2008.

PUC Approves Settlement for the City of Bethlehem's Base Rate Case

The City of Bethlehem filed proposed changes to its water rates affecting customers outside its municipal boundaries. The City proposed a rate increase of \$827,455, or a 12.5 percent increase. The Commission instituted an investigation into the justness and reasonableness of the proposed rates. The City reached a settlement agreement with all but one of the parties. The settlement provided for an increase of \$240,000, with a 3.6 percent increase in rates for each customer class except Public Fire, which would not receive any increase. Additionally, the City agreed to wait until at least June 29, 2009, before filing its next base rate case.

On April 7, 2008, the Commission issued the recommended decision of an administrative law judge (ALJ), which recommended approval of the non-unanimous joint petition for settlement, without modification. The Lower Saucon Authority filed exceptions to the ALJ's recommendation to adopt an across the board revenue increase and cited *Lloyd v. Pa. PUC* to support its claim for cost-based rates.

At the public meeting of May 22, 2008, the Commission approved the settlement. The Commission denied the Authority's exceptions and allowed the across the board increase, finding that the City was under no obligation to submit a cost of service study, which would be necessary to develop cost-based rates.

The Commission also directed the City to incorporate into its tariff the privately contracted legacy rate between the City and the Authority regarding water deliveries. Lastly, the City was directed to install meters, which would measure deliveries to the Authority, prior to its next base rate case.

Water and Wastewater Rate Increases

Rate Increase Request Summary

March 16, 2008, through June 5, 2008

Utility Name	Amount(\$) Requested	Amount(\$) Granted	% of Increase	Action	Action Date
Warwick Water Works Inc.	22,227			Investigation	3/27/08
Warwick Drainage Company Inc.	21,858			Investigation	3/27/08
Blue Knob Water Company	114,374			Investigation	3/27/08
Keystone Utilities Group Inc.	48,816	29,181	25.3%	Settlement	5/1/08
City of Bethlehem	827,455	240,000	3.6%	Settlement	5/22/08

The York Water Company Rate Increase Request

In May 2008, the York Water Company filed for a \$7.1 million overall rate increase. According to the company, the increase is required to provide sufficient revenues to recover the cost of providing water service to its customers, to allow it to discharge properly its public duties by continuing to furnish an adequate, safe and reliable level of service, to maintain its facilities properly and to afford the opportunity to more nearly approach a fair and reasonable rate of return on the original cost measure of value of its property used and useful in rendering water service.

On June 24, 2008, the Commission voted 4-0 to open an investigation and assigned the request to an administrative law judge for public input hearings, evidentiary hearings and a recommended decision. The Commission will make a final decision by Feb. 15, 2009.

Under the company's proposal, the annual bill for an average gravity system residential consumer using 63,204 gallons of water would increase in the range of 18.9 percent. An average repumped residential consumer using 54,276 gallons of water would see an increase of 19.6 percent. The rate change would affect all of York's 60,458 customers.

Update on Clarendon Water

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

On Feb. 13, 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.

After the investigation is complete, the Commission expects to issue a public report regarding the staff's findings and recommendations.



Small Water Company Task Force

In 1988, the Commission formed an internal working group to address the many challenges confronting the small water systems in Pennsylvania that are regulated by the PUC. Known originally as the Problem Water Company Task Force, now the Small Water Company Task Force, this group meets on a bimonthly basis to discuss pertinent water matters and to exchange timely information that relates to the plethora of issues facing these small water systems.

Initially, the Task Force only consisted of PUC staff and Commissioners' water assistants. However, in 1993, the Commission realized that broader communication was necessary to address the rapidly changing water industry. Now, Task Force membership includes representatives from the Department of Environmental Protection (DEP), the Pennsylvania Infrastructure Investment Authority (PENNVEST), the Commission's Office of Trial Staff and the Office of Consumer Advocate.

Consistent with its efforts to formalize the interagency commitments of the PUC and DEP and to harmonize policies and programs that would strengthen the ability of both agencies to comprehensively address the multifaceted issues facing the small water systems, the Commission, through the joint effort of the Task Force, entered into a memorandum of understanding (MOU) with DER (now DEP) in November 1993. This MOU signified a formal commitment on behalf of the two agencies to more closely coordinate regulatory efforts to improve water system viability.

At the same time the PUC adopted the MOU, the Commission approved a policy statement on small water system viability that discourages the creation of new nonviable small systems and encourages the restructuring of existing nonviable small systems. See 52 Pa. Code §§ 69.701 and 69.711.

In April 1997, the Commission entered into a MOU with PENNVEST, another important state agency that assists in fostering acquisitions between small water systems, viable public utilities, municipalities and municipal authorities.

Currently, the Commission and DEP are reexamining the parameters of the 1993 MOU between the respective agencies to determine if modifications are appropriate.

Emergency Preparedness Audits of Small Water Utilities

The Commission has begun to conduct Emergency Preparedness Audits (EPAs) of the smaller jurisdictional water utilities that are not subject to routine periodic management and operations audits and management efficiency investigations during which similar reviews are conducted of the state's larger water, gas and electric utilities.

The objective of the EPAs is to ensure that the small water utilities have emergency response plans that are up to date and in compliance with all applicable laws and regulations, including the annual self-certification process required by PUC regulations at 52 Pa. Code §§ 101.1 101.7. The EPAs include a review of the utilities' physical security, cyber security, emergency response, and business continuity plans and, as applicable, result in recommendations for improvements.

Representatives of the Department of Environmental Protection and the Commission's Bureau of Fixed Utility Services (including the Commission's Emergency Management Coordinator) are invited to participate with the Audit Bureau staff in the on-site portion of the EPA.

The EPA on-site visits are normally completed in one to two days depending on the size of the utility and the number of facilities to be visited.

Decision on Total Environmental Solutions' Rate Case

Total Environmental Solutions Inc. (TESI), Treasure Lake Water and Wastewater Division, filed proposed changes to its water and wastewater rates. TESI proposed an annual rate increase of \$272,121 or 45.66 percent for its water division. TESI also proposed an annual rate increase of \$286,615 or 29.5 percent for its wastewater division. The Commission instituted an investigation into the justness and reasonableness of the proposed rates. On May 23, 2008, an administrative law judge (ALJ) issued a recommended decision, which recommended approval of a tariff designed to produce a decrease in annual revenues of \$3,584 or 0.6 percent for the Treasure Lake Water Division and an increase of \$72,793 or 7.5 percent in annual revenues for the Treasure Lake Wastewater Division. Exceptions were filed by TESI and the Office of Consumer Advocate. At the public meeting of July 17, 2008, the Commission, by binding poll, modified the ALJ's recommended decision. The binding poll, resulted in an increase in annual revenues of \$8,128 or 1.4 percent to TESI Water Division and an increase in annual revenues of \$73,318 or 7.5 percent to TESI Wastewater Division.

Settlement Approved in Verizon's 2006 PCO Appeal

By an order entered May 27, 2008, at Docket No. R-00051228, the PUC approved a joint settlement agreement between Verizon Pennsylvania Inc., Verizon North Inc. (Verizon) and the Office of Small Business Advocate (OSBA). Approval of this settlement led to the withdrawal of the current appellate case before the Pennsylvania Commonwealth Court at Docket No. 988 CD 2007.

This proceeding originated with the Verizon's 2006 price change opportunity (PCO) filings wherein the two companies proposed increases to various rates in accordance with their price-cap formulas, which allow for inflation-based annual rate increases to noncompetitive services. The OSBA filed formal complaints against the filings alleging various errors and inconsistencies in the assumptions used by the companies in calculating the annual revenue increases. The matters proceeded to hearings, and the PUC subsequently resolved all of the contested issues in the OSBA complaints with the exception of two outstanding issues pertaining to the removal of "attribution revenue" from the PCO calculations and the calculation of access line counts.

Attribution revenue pertains to access charge revenues based on the assumption that Verizon pays itself for noncompetitive switched access service in order to ensure that it prices its own competitive toll services at rates that it included access charges, so as to put Verizon on the same footing with competitors that pay for access to provide similar competitive services. The PUC's orders in this proceeding directed the companies to remove the attribution revenues from its 2006 PCO calculation because the new Chapter 30, which was enacted in 2004, specifically prohibits it. Under the settlement, the Verizon companies will be allowed to include attribution revenue for the 2006 PCO, but leave the previous PUC orders in place disallowing attribution for the 2007 and future PCOs.

With regard to the access line count issue, the PUC had ordered the Verizon companies to recalculate the rate increases using historical customer line counts as of June 30, 2005, rather than allowing Verizon to use an estimated count. Under the settlement, if historical line counts are used, the companies will be allowed to make a true-up adjustment in the following year in accordance with the specific terms of the settlement.

The settlement provides for an agreed methodology between the companies and OSBA for estimating noncompetitive business revenues for the 2008 and future PCOs. This issue is currently being contested by the OSBA in the Verizon companies' 2008 PCO investigation.

PUC Creates Working Group to Focus on the Future of Extended Area Service

The Commission's extended area service (EAS) regulations govern the circumstances under which the Commission mandates an extension in a wireline carrier's local calling area, the area in which a consumer can place a call without incurring a toll charge. These regulations have not been revised in several years despite large changes in technology and the market for telecommunications service in Pennsylvania.

At the public meeting on May 22, 2008, the Commission closed the final rulemaking to revise the Commission's EAS regulations at 52 Pa.Code §§ 63.71-63.77. The PUC concluded that additional input from interested parties was appropriate before the Commission decided on any future direction for EAS regulations. The PUC took that action in light of the changes in technology and the amount of time that had elapsed since starting the rulemaking.

The Commission created an EAS Working Group under direction of the Law Bureau, in conjunction with the Bureau of Fixed Utility Services, to make recommendations on what, if any, future EAS policy is appropriate. The Commission's EAS Working Group had its first meeting on Tuesday, June 24, 2008. The next meeting is scheduled for August. The Commission intends to complete consideration of the future direction of EAS within 120 days from the first meeting of the EAS Working Group.

Additional information on the EAS Working Group can be found on the Commission's website at http://www.puc.state.pa.us/telecom/telecom_index.aspx. The EAS Working Group is docketed at M-2008-2043928. The Commission's contact for the EAS Working Group is Joe Witmer, Assistant Counsel, Law Bureau, (717) 787-3663



Price Stability Mechanism

The Price Stability Mechanism (PSM) is a formula which may be included in an incumbent local exchange carrier's (ILEC) Commission-approved alternative form of regulation Chapter 30 plan. It permits rates for noncompetitive services to be adjusted upward or downward based on the annual change in the United States Commerce Department's Gross Domestic Product – Price Index (GDP-PI) inflation factor. Currently 23 ILECs operate using a PSM. Each year, these ILECs file an annual Price Stability Index (PSI) report based on this change in GDP-PI, less an inflation offset. The PSI is an index that tracks these GDP-PI changes cumulatively, adjusted for any exogenous events, indicating the maximum amount an ILEC may raise its rates.

When the change in the GDP-PI is positive, the ILEC has the option of taking the full amount of the increase available to it; taking part of the allowed increase and “banking” the remainder for future use; or banking the increase in its entirety. Most of the ILEC Chapter 30 plans state that the ILEC must implement any banked increases within four years or forfeit them.

Since January 2008, the Commission has approved annual PSI filings for 20 of the 23 ILECs operating with a PSM. Six of these ILECs implemented part of the increases available to them, while forfeiting the remainder due to a settlement agreement. Three implemented part of their allowed increase while banking the remainder for future application, one has the implementation of its rate increase delayed due to settlement agreements, and 10 ILECs banked their allowed revenue increases in their entirety. To date in 2008, these companies implemented approximately \$4.107 million in increases while banking approximately \$5.877 million for future use.

Audit of Verizon PA's Network Modernization Plan

The Liberty Consulting Group is conducting a review and evaluation of Verizon Pennsylvania Inc.'s Network Modernization Plan (NMP) implementation progress as reported in its biennial NMP update of June 30, 2007, representing its progress as of Dec. 31, 2006. Liberty concluded its field work in early February and is finalizing its report which is expected to be released in August 2008. Liberty's field work included visits to selected test locations to verify the accuracy of Verizon's records of deployed broadband equipment; their location next to schools, health care facilities and business parks; lengths of circuit loops; and testing for broadband speed accuracy.

PUC Proposes to Streamline the Review of Transfers of Control

In late 2007, the Commission initiated a formal rulemaking proceeding to streamline the PUC's process for reviewing and approving transfers of control and affiliate filings for telecommunications carriers. The Commission's action addressed a petition that Level 3 Communications Inc. filed with the PUC. Level 3 asked the Commission to streamline Pennsylvania's merger review and approval process.

The Commission published the proposed rulemaking on Feb. 9, 2008, in the *Pennsylvania Bulletin*. Several interested parties filed comments and replies. The Commission is currently reviewing those filings, including comments filed by the Independent Regulatory Review Commission (IRRC).

The proposed regulations would revise the standards that currently govern review of transfers of control for all classes of PUC-regulated public utilities under 66 Pa.C.S. §§ 1102 and 1103. Currently, the Commission's full review process takes about six to nine months to complete depending on the complexity of the proposed transaction.

The proposed regulations would shorten the process for reviewing telecommunications transactions. The proposed regulations create two categories for streamlined review. These are “general” or “pro forma” with different reviewing times based on the complexity of the transaction. General transactions would be reviewed within 60 days and pro forma transactions would be reviewed in 30 days. Under the regulations as proposed, the Commission retains the discretion to remove any transaction from these streamlined procedures. This would subject the transaction to the longer six-to-nine-month review process that currently governs similar transactions.

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.



Chapter 63 Petition

In October 2002, the Office of Consumer Advocate (OCA) petitioned for a rulemaking to revise Chapter 63 of the Public Utility Code. In 2004, in light of the General Assembly's Legislative, Budget and Finance Committee (LB&FC) report on local service provider (LSP) reporting requirements and the new Chapter 30, the Commission postponed action on the OCA petition. In 2006 the PUC solicited updated comments and reply comments on the OCA petition. On April 2, 2008, OCA petitioned for leave to withdraw the petition, asserting that OCA and Verizon had reached a settlement that resolved OCA's concerns raised in the 2002 petition. Neither party sought PUC approval of the settlement. No objections to the settlement were filed.

Under the terms of the settlement, Verizon will provide OCA with quarterly data, which Verizon termed proprietary, and will meet with OCA quarterly for three years, regarding: (1) trouble reports; (2) missed repair appointments; (3) restoration times; (4) major outages; and (5) primary service order installations. OCA has agreed not to use this information in litigation but may initiate and participate in other service quality proceedings and may seek this information through discovery for litigation purposes. Verizon may terminate the agreement as to any subject that becomes litigated. Verizon agreed to install some additional network interface devices (NIDs) and to look into large weekend outages more quickly.

The PUC granted the petition to withdraw without prejudice. Any entity or the Commission itself is free to consider in a new proceeding whether the telephone service quality regulations should be updated. Pursuant to 66 Pa. C.S. §§ 504 – 506, the PUC can request access to the information that Verizon provides to OCA under the settlement.

The 411 on 511

On May 22, 2008, the Pennsylvania Department of Transportation (PennDOT) issued a request for proposals to design, build, implement, operate, host and maintain a statewide traveler information service called "511 Pennsylvania." It 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 the Web site and telephone. The Federal Communications Commission designated 511 as the universal dialing code for use by government entities in providing transportation and travel-related information. It is scheduled to be operational by June 1, 2009.

Rural Access Charge Investigation Reopened

The PUC has acted to reopen the previously stayed investigation involving the rural carriers' intrastate access charges, intraLATA toll rates and the Pennsylvania Universal Service Fund (PaUSF) for the limited purpose of determining whether there is a need to increase the existing \$18 benchmark/cap for residential one-party (R-1) service established under the Pennsylvania Universal Service Fund (see order entered April 24, 2008, at Docket No. I-00040105). The limited investigation will also determine whether to increase the PaUSF and whether to adapt a "needs based" test (and applicable criteria) for rural carrier support funding from the PaUSF.

The Commission reopened the limited investigation in light of the fact that increases to rural carriers' R-1 service rates, resulting from annual Chapter 30 price cap filings, have started to exceed the established R-1 benchmark/cap of the PaUSF. Carriers are currently only permitted to collect the revenues lost due to reductions in intrastate access charges and intraLATA toll rates on a revenue-neutral basis while raising local rates up to the \$18 R-1 benchmark/cap. However, if the annual Chapter 30 price cap filings result in average R-1 rates that pierce the \$18 benchmark/cap, rural carriers must recover the difference between the higher average R-1 rate and the benchmark/cap from their local exchange customers and not the PaUSF. The investigation will also determine whether it would be appropriate to recover the difference between the higher R-1 rates and the \$18 benchmark/cap from the PaUSF.

Last year, the PUC stayed this investigation either for a period of 12 months or the issuance of a Federal Communications Commission (FCC) ruling in the *Unified Intercarrier Compensation* proceeding (CC Docket No. 01-92), whichever occurred earlier. Parties were directed to submit status reports to the PUC either 30 days prior to the expiration of the stay or 30 days after an FCC decision on the federal *Unified Intercarrier Compensation* proceeding.

To date, the FCC has not made a decision on its intercarrier compensation proceeding. As such, based on the comments and status reports received from the parties, the PUC acted to stay all other aspects of the investigation for another 12 months, or upon the issuance of a FCC ruling in the *Unified Intercarrier Compensation* proceeding, whichever occurs earlier.

E-Fund Grant Program

Act 183 of 2004, commonly known as the New Chapter 30, established the Broadband Outreach and Aggregation Fund (BOAF) and the Education Technology Fund (E-Fund). Annually, the Commission is responsible for assessing Verizon PA, Verizon North, Windstream and Embarq (Pennsylvania's four largest incumbent local exchange carriers (ILECs)) for contribution to these funds. The BOAF is a grant program administered by the Pennsylvania Department of Community and Economic Development (DCED) designed to help communities aggregate demand for broadband service and create outreach programs for the use of broadband services by public entities. In the event that any of these four ILECs file rate increases, the PUC will assess 10 percent of the ILEC's first-year revenue increase for contribution to the BOAF fund. In June 2008, the Commission approved a BOAF fund size of \$1.009 million for Fiscal Year 2008-09.

The E-Fund is a grant program with an annual fund size of \$10 million administered by the Pennsylvania Department of Education. The E-Fund was established to assist schools with the purchasing of services, hardware, technical assistance, and distance education.

Assessments are based on three parts:

- 10 percent of the projected revenue increase from any rate increase by each of the four ILECs;
- \$7 million prorated between Verizon North and Verizon PA based upon their access line counts; and
- The difference between \$10 million and parts one and two, payable by Verizon North and Verizon PA.

In June 2008, the Commission approved E-Fund assessments for the coming fiscal year of \$9.74 million on Verizon North and Verizon PA; \$175,000 on Windstream; and \$85,000 on Embarq.



New Federal Rules Honor Do-Not-Call Lists Indefinitely

On June 17, 2008, the Federal Communications Commission (FCC) issued rules that now require telemarketers to honor consumer registrations on the National Do-Not-Call Registry indefinitely. Under the older rules, consumers must register their telephone number on the national Do-Not-Call registry every five years if they wanted to stop getting calls from telemarketers.

The FCC took this action under the federal Do-Not-Call Improvement Act of 2007. This 2007 federal law prohibits the removal of numbers from the national Do-Not-Call Registry unless the consumer cancels the registration or the number has been disconnected and reassigned or is otherwise invalid. The Federal Trade Commission (FTC), which maintains the Do-Not-Call registry, already committed to keeping numbers in the federal Registry indefinitely.

This rule minimizes the inconvenience of requiring consumers to re-register their phone numbers every five years. This indefinite extension continues protecting consumer privacy.

To further make it easier for consumers, the FCC encourages telephone companies to convey information on disconnected and reassigned numbers to the FTC. The FCC also said it will work with the FTC to improve administration of the Do-Not-Call registry.

Similar legislation in Pennsylvania is under consideration in Senate Bill 1116, was referred to the Appropriations Affairs Committee on June 24, 2008.

TRS Surcharge Changes

The Commission has completed the 18th annual recalculation of the Pennsylvania Telephone Relay Service (TRS) surcharge as it applies to residence and business wireline access lines for July 1, 2008, through June 30, 2009. The monthly residential and business monthly wireline access line surcharge are each set at \$0.08. The residential rate remains the same as the current rate, and the business rate will decrease by \$0.01. The PUC order directs all local exchange carriers to file revised tariff supplements to become effective July 1, 2008, on at least one day's notice, which reflect the surcharge in accordance with the new rates.

The annual recalculation is in accordance with the Commission's May 29, 1990, order at Docket No. M-00900239, which established TRS and a surcharge funding mechanism. Act 34 of 1995, 35 P.S. §§ 6701.1 – 6701.4, established the Telephone Device Distribution Program (TDDP) to be funded by the TRS surcharge, and codified TRS and use of the TRS surcharge funding mechanism. The Print Media Access System Program (PMASP) is also funded in part by the TRS surcharge according to Act 174 of 2004, 35 P.S. §6701.3a.

Energy Price Forecast for July 2008

The Energy Information Agency's (EIA's) July 2008 *Short Term Energy Forecast* reports that global supply uncertainties, combined with significant demand growth in China, the Middle East and Latin America are expected to continue to pressure oil markets. West Texas Intermediate crude oil (WTI) is the benchmark crude oil in the United States. WTI oil prices, which averaged \$72 per barrel in 2007, are projected to average \$127 per barrel in 2008 and \$133 per barrel in 2009.

Regular-grade gasoline is expected to average \$3.84 per gallon in 2008, more than \$1 per gallon above the 2007 average price. The United States average regular-grade gasoline price, about \$4.10 per gallon on June

30, is projected to remain over \$4 per gallon until the fourth quarter of 2009. Retail diesel fuel prices, which averaged \$2.88 in 2007, are projected to average \$4.35 per gallon in 2008 and \$4.48 per gallon in 2009.

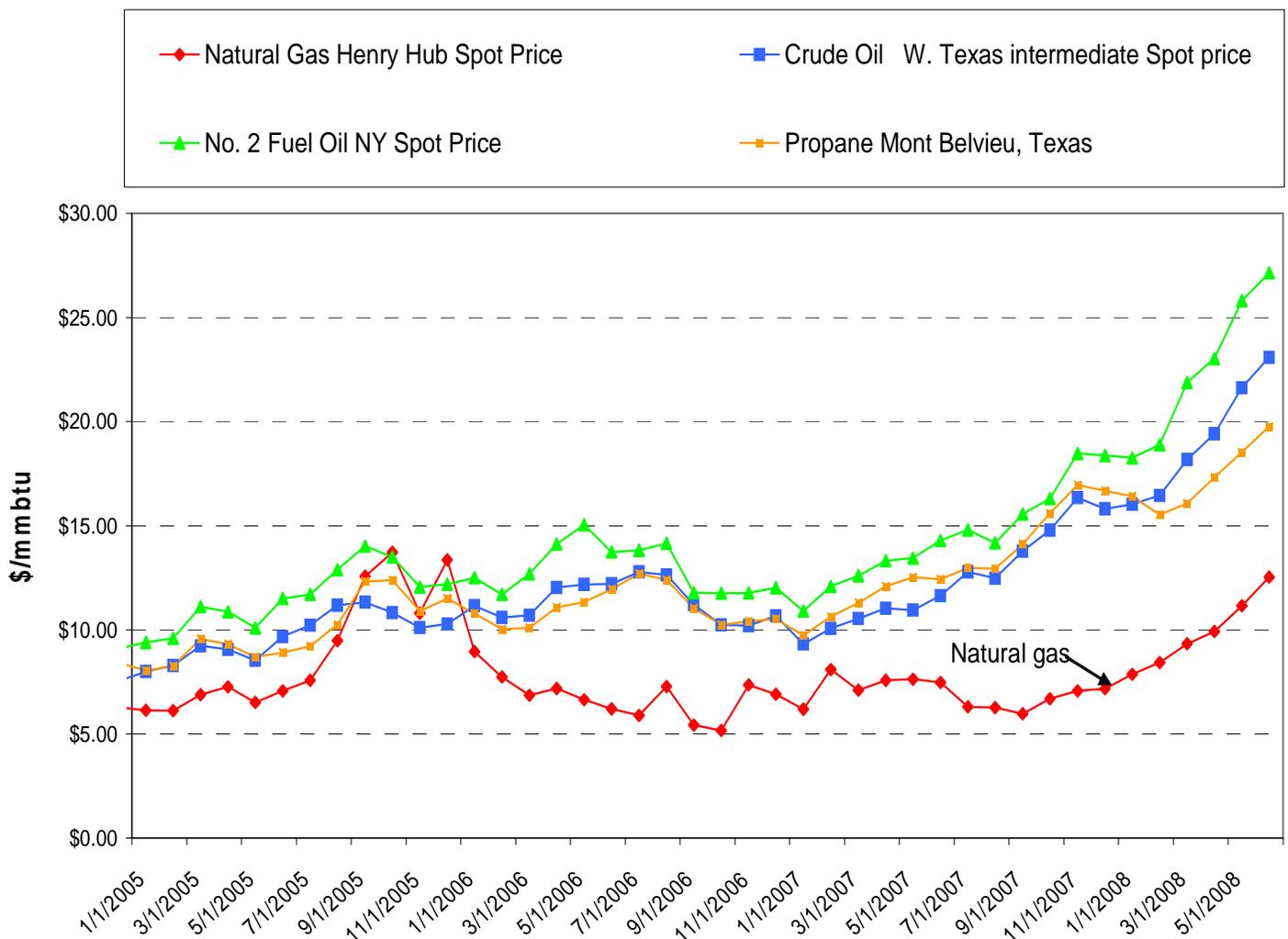
EIA shows that Henry Hub (Louisiana) wholesale natural gas prices averaged \$7.17 per thousand cubic feet (Mcf) in 2007 and are expected to average \$11.86 per Mcf in 2008 and \$11.62 per Mcf in 2009.

Home heating oil will continue to follow the price of crude and is expected to average \$4.04 a gallon for 2008 and \$4.42 for 2009.

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)



SEARCH UPDATE

In mid-May, PUC staff distributed a SEARCH (Stakeholders Exploring Avenues for Removing Competition Hurdles) working group report, following a stakeholder process that explored ways to promote the development of competition in the natural gas supply market in Pennsylvania. The report identifies several measures that could be taken, summarizes the positions of the participants, sets forth the requisites for implementation, describes the potential effect on competition, and outlines the disadvantages and costs.

Topics addressed by the report include:

- Price to Compare;
- Consumer Education;
- Purchase of Receivables;
- Creditworthiness/Security;
- Municipal Aggregation;
- Marketer Referral Programs;
- Sustained PUC Leadership in Competitive Markets; and
- Future Evaluation of Effective Competition.

Under the Natural Gas Competition Act (Chapter 22 of the Public Utility Code), the Commission was required to convene the stakeholders for this purpose upon concluding that effective competition for natural gas supply does not exist in the Commonwealth.

The PUC expects to take action later this summer on staff recommendations arising from the stakeholder process. This action is likely to be in the form of a tentative order or proposed policy statement seeking comments from interested parties.

Natural Gas Supplier Licensing

Activity from Jan. 1, 2008, to June 30, 2008.

83 Active Licenses

1 license canceled

0 licenses approved

0 applications pending

Natural Gas Base Rate Increase

In addition to the annual purchased gas costs (PGC) proceedings that were described in the last issue of the *Keystone Connection* several natural gas distribution companies (NGDC) applied for increases to their base rates. Natural gas customer's bills consist of the purchased gas portion as well as a charge to deliver the gas. 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, NRG Energy Center Harrisburg LLC filed for an increase to base rates.

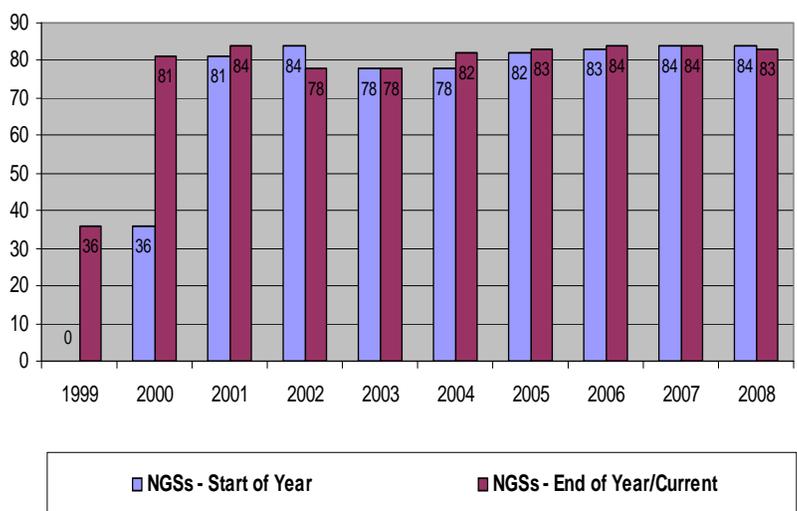
Columbia Gas was the first to file, on Jan. 28, 2008, when it sought to increase its base rates by \$58.9 million or 10.3 percent over existing rates. Columbia serves approximately 370,556 residential, 37,914 commercial and 327 industrial customers and is based in Canonsburg.

On March 31, 2008, PECO Energy Company and NRG Energy Center filed tariff supplements seeking increases to base rates of \$98.3 million and \$1.8 million, respectively. PECO serves approximately 439,924 residential and 41,314 commercial and industrial customers, and its request represents an 11.2 percent increase while NRG provides steam heat to approximately 232 customers in the City of Harrisburg. It is seeking a 42.34 percent increase over existing rates.

Finally, on June 30, 2008, Equitable Gas filed for an increase of \$51.9 million over existing rates. This represents an increase of 10 percent. Equitable serves approximately 238,366 residential, 17,312 commercial and 155 Industrial customers.

All of these rate increase requests are under review by the Commission and are expected to be resolved at various times in the fall and winter.

Number of Licensed Natural Gas Suppliers



National Fuel Gas Distribution's MEI

On June 24, 2008, the PUC released a Management Efficiency Investigation (MEI) that examined National Fuel Gas Distribution Corporation, Pennsylvania Division's (NFGDC-PA) progress in implementing seven recommendations from a February 2005 Focused Management and Operations Audit and a review of the company's emergency preparedness. The Audit staff found that NFGDC-PA has effectively implemented two of the seven recommendations reviewed and has taken some action on the other five recommendations from the 2005 audit.

The MEI, which was conducted by the PUC's Bureau of Audits, resulted in eight follow-up recommendations for improvements. In response to the MEI report, NFGDC-PA submitted an implementation plan that indicated the company accepted seven of the follow-up recommendations and partially accepted the other. The Commission directed NFGDC-PA to proceed with its plan to implement the MEI report's eight follow-up recommendations.

Some of the changes made by NFGDC-PA since the 2005 audit include:

- Updating its Operations & Maintenance Manual to include procedures associated with federal regulations relating to the installation of telemetering or recording pressure gauges; and
- Resuming submission of annual diversity reports to the PUC.

The eight follow-up recommendations contained in the MEI include:

- Documenting justification for each instance of supervisory spans of control that vary from the normal range and periodically review management positions and adjusting as appropriate;
- Implementing actions to further improve its damage prevention program to decrease the number of service outages and improve public safety;
- Implementing a defined strategic programming process within the corporate strategic plan that includes long-term strategic goals, action plans and tactics;
- Continuing efforts to reduce the under-representation of women and minorities within the company's workforce;
- Continuing vendor updates and community outreach programs, with particular focus on finding methods to identify persons with disabilities-owned enterprises and continuing the positive trends in minority- and women-owned vendor utilization; and
- Merging data recovery and system restoration guidelines into the Business Continuity Plan.

Equitable Restructuring

After more than a year of negotiations among the parties of record, a motion offered at the public meeting held on May 22, 2008, resulted in approval of the application of Equitable Resources Inc., for approval of the reorganization into a holding company structure with the Equitable Gas Company division becoming a separate legal entity.

Equitable filed the initial application on Jan. 8, 2007, and various protests and interventions were received from the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the PUC's Office of Trial Staff (OTS) and the Independent Oil and Gas Association (IOGA).

On Jan. 8, 2008, Equitable filed a supplement to application setting forth agreed upon conditions for approval of the reorganization executed by Equitable, OTS, OCA and OSBA. On Jan. 28, IOGA filed a response to the supplement to application seeking additional conditions for approval or, in the alternative, assignment to an administrative law judge. Equitable filed a reply, on Feb. 8, in opposition to the response of IOGA on the basis that the Commission should recognize the public benefit of the reorganization and approve the application subject to the agreed upon conditions in the supplement to application.

After a few more months of no resolution, Equitable filed a motion for acceptance of additional terms and conditions, if necessary, and approval of reorganization without hearing, or, in the alternative, motion for expedited hearing pursuant to 52 Pa. Code § 5.103(a). Equitable requested that the Commission itself act on its motion pursuant to 52 Pa. Code § 5.103(d).

A motion was adopted at the public meeting of May 22, to approve the application contingent upon acceptance by Equitable of the additional conditions, as stated in the motion, that were proposed by IOGA.

A final order adopting the application, as amended by the supplement to the application, and contingent upon acceptance by Equitable of the additional conditions proposed by IOGA, as limited by the motion, was adopted on May 22, 2008.

Generic Transportation Assessment Investigation

By order entered on Feb. 14, 2008, the Commission initiated a Generic Investigation Regarding Transportation Assessments and held a technical conference, which was attended by Commissioners and interested parties, on March 19, 2008. Subsequently, evidentiary hearings were held before a PUC administrative law judge. This proceeding was in response to concerns expressed by the railroad industry and motor carriers of passengers over significant increases in their annual assessments for the Fiscal Year (FY) 2007-08 as compared to the prior fiscal year.

While the total assessment to the transportation industry, including railroad, passenger and property carriers, did not differ significantly from recent prior fiscal years, the FY 2007-08 assessments significantly shifted among these utility groups so that property carrier assessments declined while railroad and passenger carrier assessments increased. These allocations were based on a study of how PUC employees spend time engaging in regulatory activities associated with each transportation group. Recognizing the difficulty that the affected carriers were facing in paying the significant increases, the PUC had afforded them more time to pay their assessments and had given them the option of paying in three equal installments.

At the public meeting of June 5, 2008, the Commission adopted an order approving the methodology used by the Fiscal Office to assess the three transportation groups. However, the Commission also recognized that the general reasonableness of an assessment under Section 510(f) of the Public Utility Code should be measured, to some extent, based on the level of assessments in prior years. Since the railroads and passenger carriers have become accustomed to lower levels of assessments over the past five years, the Commission found that some additional mitigation was appropriate. Therefore, the Commission opted to forego collection of the third installment, and ordered that credits for the third payment would be given to railroads and passenger carriers who had paid their assessments in full.

On June 20, 2008, the Union Railroad Company and the McKeesport Connecting Railroad Company, and Norfolk Southern Railroad filed petitions for reconsideration, asking the PUC to reconsider portions of the order adopted June 5, 2008. On June 24, 2008, the PUC granted one petition pending review of and consideration on the merits, so as to preserve the Commission's jurisdiction over the case. The PUC will address the merits of the petition at a meeting later this summer.



Inspections Emphasize Railroad Worker Safety

During the spring and summer months, there is an increase in construction work on the highways. The railroad industry operates similarly during this time, as "Maintenance of Way" gangs are busy changing rail, replacing ties, and surfacing track to create a smooth and safe roadbed for the trains hauling freight and passengers. Maintenance of Way workers operate machinery and use hand tools to accomplish their work. Just as highway workers must be very aware of their surroundings to maintain a safe work environment, the railroad gangs also need to take steps to establish a safe work environment since they work by adjacent tracks with moving trains, while working with very noisy machinery.

Many occupational hazards exist for railroad roadway workers, so the Federal Railroad Administration (FRA) partnered with labor unions and the railroad industry to create regulations to make the railroad and the worker responsible for safe working practices. Even though there have been significant reductions in roadway worker fatalities over the years, accidental deaths still occur. Most recent incidents could have been avoided if good safety practices had been utilized, and if workers were vigilant about their surroundings. The message the PUC rail safety inspectors attempt to instill in all railroad roadway workers is awareness of potential surrounding dangers, and the need to maintain a high level of concentration.

The FRA issued Roadway Worker Life Tips following an increase in fatalities in 2003. These 14 Life Tips were presented to railroad roadway workers to remind them of the dangers. The PUC continues to conduct Life Tip presentations, along with Roadway Worker Protection enforcement during every track inspection. The FRA recently initiated a country-wide, four-week "Power Project" to get the Life Tips in the hands and minds of the roadway workers. The PUC's Rail Safety Division efforts have led to nearly complete compliance by Maintenance of Way offices in posting Life Tips conspicuously to help remind employees of their responsibilities. This level of compliance is evidence that the PUC rail safety inspectors have delivered a valuable safety message to the workers.

Motor Coach Safety

Although bus transportation remains a very safe means of travel, over the past two years the bus passenger industry and safety regulators have received criticism due to some high-profile, but tragic motor coach accidents. The Public Utility Commission's Motor Carrier Division has been carrying out a structured motor coach safety program since the early 1990s, including driver/vehicle inspections at main office terminals and trip destination points, safety fitness reviews, and safety audit investigations. The Motor Carrier Division is also a participant in the Federal Motor Carrier Safety Assistance Program (MCSAP), and partners with the Pennsylvania State Police, Federal Motor Carrier Safety Administration (FMCSA) and several local police agencies to increase safety compliance and enforcement of bus transportation in Pennsylvania.

The PUC has issued approximately 300 certificates to carriers operating motor coaches. The Motor Carrier Division's enforcement staff visits at least 25 percent of these carriers each year to conduct vehicle inspections of buses that are readily available to provide transportation service. Carriers are cited for out-of-service violations, and return visits are made to verify that serious defects have been corrected. Inspections of motor coach vehicles and their drivers are also carried out at trip destinations, such as amusement parks, the Farm Show, and other venues holding special events attracting a high volume of buses. The Motor Carrier Division's enforcement officers utilize ramps to raise buses sufficiently to gain access for examination of the undercarriage components. Drivers and vehicles are placed out of service if serious violations and/or vehicle defects are found. Drivers and carriers may be issued traffic citations for the violations. In addition, enforcement officers assist in the post-crash investigation of buses involved in fatal accidents. Upon notification from the Pennsylvania Emergency Management Agency (PEMA), the appropriate PUC district office coordinates with the police agency conducting the crash investigation, and responds to conduct a post-accident inspection of the vehicle. This inspection is a North American Standard inspection of the bus to identify all equipment violations, which may require using specialized equipment to reestablish an air system that powers the foundation brake system on the bus.

Over the past year, as part of the Motor Carrier Division's MCSAP participation, the enforcement staff began conducting Federal Compliance Reviews (CR) of Pennsylvania bus companies. The CR is a thorough audit of the carrier's safety records and safety management systems to identify violations. A safety rating based on the findings is one result of the CR, and the carrier may be subject to civil prosecution by either or

both the FMCSA and PUC. In November 2007, the first Northeast Passenger Carrier Strike Force was held. This joint effort involving law enforcement and safety regulators from 13 states and the District of Columbia resulted in over 1,200 bus inspections, 101 out-of-service vehicle defects discovered, and 50 out-of-service driver violations identified. As a result of the success of the Strike Force, additional similar efforts are being planned.

Gas Safety Officials Meet for Annual Meeting

The National Association of Pipeline Safety Representatives (NAPSR) met from June 5 to 9 in Newport, Rhode Island. Paul Metro attended for the PUC. This meeting is a gathering of 14 Northeast states and the United States Department of Transportation, Pipeline and Hazardous Material Safety Administration (PHMSA). PHMSA requires each state to send a representative to the meeting as part of the federal grant guidelines.

The meeting consisted of four days of roundtable-type discussions, with the focus on gas safety issues that the state jurisdictions are currently facing. This year's meeting highlighted the proposed Distribution Integrity Management Program (DIMP), for which a rulemaking should soon be released by PHMSA. DIMP will require gas utilities to meet certain metrics associated with Damage Prevention, Operator Qualification, Corrosion, and Pipeline Replacement. Other issues raised during the meeting included damage prevention, state program audits, propane distribution, gathering lines, and the dangers of inside meter sets.

Several hours of the meeting were set aside to discuss the dangers of inside meter sets. A couple of Northeastern states still permit the installation of inside meter sets with inside regulators. However, most Northeast states do not permit the inside meter sets due to the extreme dangers caused by the service line being pulled and the meter snapping off the inside wall and allowing medium and high pressure gas into the building.

Another issue discussed at length was the increased use of propane distribution systems, as well as the inspection of these systems. Many states, including Pennsylvania, have experienced an increase in propane systems. Propane has different characteristics from natural gas and creates particular personal safety concerns for gas safety inspectors.

FCC Highlights



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

In the Matter of High-Cost Universal Service, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, WC 05-337.

On May 1, 2008, the FCC released an opinion and order at Docket No. 96-45 limiting the amount of federal universal service fund (FUSF) support that competitive eligible telecommunications carriers (CETCs) could receive from the FUSF. The FCC limited support in each state to the support that CETCs were eligible to receive as of March 2008. The FCC allowed two very limited exceptions: (1) where a CETC can demonstrate from cost studies that their costs meet the threshold support level of an incumbent carrier (ILEC); or (2) services provided to tribal lands or Alaska native regions.

The PUC already filed comments with the FCC on the FUSF, and urged the FCC to take decisive action to limit the explosive growth in the FUSF. The PUC is concerned because Pennsylvania is a net contributor to the FUSF. Pennsylvania pays \$124 million more into the FUSF than Pennsylvania receives from the FUSF.

The overwhelming increase in FUSF support arose primarily because wireless carriers get FUSF support based on the costs of the incumbent local phone companies, primarily rural companies in Pennsylvania. Most carriers, particularly Verizon, pay more than they receive in Pennsylvania, and those costs are ultimately paid for by Pennsylvania consumers.

Petition of NEP Cellcorp Inc. for Designation as an Eligible Telecommunications Carrier in the Commonwealth of 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. (NEP) 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. As reported in the Winter/Spring 2008 edition of this newsletter, the PUC had opposed this designation because other carriers were already receiving support in some of the areas served by NEP. The PUC further noted that increasing federal universal service fund costs for wireless service results in an increase in costs to Pennsylvania consumers. In granting NEP's request, the FCC referenced prior PUC secretarial letters that declined to address ETC designations in Pennsylvania for wireless carriers.

NEP is the wireless affiliate of Northeast Telephone, a rural telephone company in Pennsylvania. NEP bought spectrum from another company to provide wireless service in territories where it was not available.

Petition of TracFone Wireless Inc. for Designation as an Eligible Telecommunications Carrier in the Commonwealth of Pennsylvania, CC Docket No. 96-45, DA 08-57.

On April 11, 2008, the FCC issued an opinion and order granting the request of TracFone Wireless Inc. for designation as an ETC. TracFone had sought this designation solely to provide Lifeline service to qualifying customers in Pennsylvania, saying it would offer free, not reduced, wireless service to these customers. The PUC had opposed TracFone's petition, citing concerns about the increasing federal universal service fund costs to Pennsylvania carriers and consumers.

FERC Highlights

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

PJM Declines to Schedule Dialogue on RPM Issues at PJM Annual Meeting

On April 22, 2008, in the aftermath of FERC's rejection of PJM's call to boost RPM prices in future auctions (*PJM Interconnection L.L.C.*, FERC Docket ER08-516), an *ad hoc* coalition of wholesale and retail electricity buyers, consumer advocates and state commissions, including the Pennsylvania PUC, asked the PJM Board of Managers and PJM management to schedule an open dialogue discussion at its annual meeting in Williamsburg, Virginia.

The requested dialogue would have included issues such as how PJM management reached its decision to make the cost of new entry (CONE) increase filing, how that decision was executed, why clear tariff requirements were overlooked or ignored, why stakeholder consultation was left to the last minute, and why PJM told FERC that the filing was necessitated by a capacity emergency that it was later unable to substantiate.

PJM's CEO Terry Boston responded on April 25, declining to schedule such a dialogue session and directing coalition members to address their concerns through "available processes and forums."

Motion for Clarification of FERC/Edison Mission Energy Settlement

On May 19, 2008, FERC approved a proposed settlement between the FERC enforcement staff and

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FERC Highlights

Continued from Page 20.

Edison Mission Energy Inc. (EME), a major generation supplier in the Mid-Atlantic Region, calling for EME to pay \$7 million in civil penalties and other costs as a penalty for misleading FERC's Office of Enforcement during the investigation of EME bidding practices in PJM wholesale electricity markets. The FERC order did not make any finding or further order with respect to the underlying investigation – the penalty was levied solely in response to EME's actions in misleading and misdirecting investigatory staff.

An *ad hoc* coalition of wholesale and retail electricity buyers, consumer advocates and state commissions, including the PUC, filed a motion to intervene and requested clarification from FERC whether the bidding strategy, as contained in the FERC consent order, was intended to extinguish any rights under the Federal Power Act of customers to seek recovery of any damages caused by EME's "high offer strategy." EME filed a lengthy answer on July 3 seeking to have the intervention and request for clarification dismissed; the matter is still pending.

Complaint Filed with FERC Requesting RPM Refunds

On June 2, 2008, four state commissions (Maryland, New Jersey, Pennsylvania and Delaware), along with the United States Department of Defense, a number of consumer advocates, electric co-ops, utilities, and large customers filed a FERC complaint, supported by an affidavit by a nationally known expert in wholesale markets, against PJM's interim RPM auctions. The complaint alleged that PJM was not competitive and produced unjust and unreasonably high capacity prices. Refunds were requested amounting to \$12 billion over the first three interim auction period years. PJM was granted an extension of time in which to answer the complaint until July 11, 2008.

Fourth Circuit Amicus Brief in Connecticut PUC v. FERC

On July 2, 2008, the National Association of Regulatory Utility Commissioners, the Organization of MISO States Inc., and the state regulatory commissions of California, Kentucky, Michigan, Minnesota, New Jersey, New York, North Carolina, Pennsylvania and South Carolina filed an *amicus* brief supporting the Connecticut Department of Public Utility Control in its challenge to FERC's assertion of jurisdiction over state generation resource adequacy. (Connecticut Department of Public Utility Control v. FERC, Nos. 07-1375, etc. United States Court of Appeals, District of Columbia Circuit). The brief argues that FERC has gone beyond its expressly stated Federal Power Act boundaries and that resource adequacy has historically been and continues to be a matter solely within state jurisdiction. The matter remains pending and is likely to be decided in early 2009.

Serbian Delegation Visits

From March 31-April 2, a delegation from the Energy Agency of the Republic of Serbia visited the PUC as a part of a partnership sponsored by the United States Agency for International Development and the National Association of Regulatory Utility Commissioners. The delegation, which was comprised of legal and technical experts, met with several members of the PUC staff over the course of three days. During this activity, the group discussed a myriad of issues, including cross-border trade mechanisms, security of supply, market development and monitoring, generation adequacy, transmission system reliability, supplier of last resort and universal service.

On May 19 and May 20, two interns from Serbia worked side-by-side with members of the PUC staff. Throughout the week, the interns heard presentations on a variety of topics, including energy restructuring, reliability, ratemaking, mediation, cost allocation, revenue adjustments and rate of return.

These activities provided learning opportunities for both agencies. In addition, after hours, the Serbian delegation and interns enjoyed a variety of Central Pennsylvania attractions.



The Serbian interns learned about the PUC by shadowing members of the Bureau of Fixed Utility Services (FUS). From left: Bob Wilson, FUS Bureau Director; Nebojsa Despotovic, intern; Dale Kirkwood, Manager of the Finance/Tariff Industry Group; Aca Vuckovic, intern; Dan Searfoorce, Coordinator of the Emergency/Security Industry Group; and Sager Patel, Analyst from the Finance/Tariff Industry Group.

Annual Service Reports

Chapter 64 of the Public Utility Code requires that, within 90 days after the end of each calendar year, all local exchange carriers (LECs) must file a report of residential account information with the Commission. The reports include the average number of residential accounts, average monthly bill amounts, suspensions/terminations, revenues and write-off information.

Based on the reports filed in 2007, the number of residential accounts for the nine largest LECs decreased by 6.9 percent from 2006. A breakdown shows the major incumbent local exchange carriers posted a decline of 4.9 percent, while the major competitive local exchange carriers recorded a much larger drop of 27.2 percent since 2006.

Each year, Bureau of Consumer Services (BCS) reports the termination data filed by the nine largest LECs in the Commission's Utility Consumer Activities Report and Evaluation (UCARE). This year terminations fell from 194,508 in 2006 to 130,980 in 2007, a decrease of approximately 33 percent.

BCS carefully monitors and analyzes these reports to detect trends in the telecommunications industry concerning residential customers. BCS also makes sure that each LEC submits its report and takes enforcement action against any company that fails to submit its annual report. This year, most companies filed their reports timely. BCS began enforcement action against the few companies that did not file timely. All companies have now filed their 2007 reports.

Lifeline Service in Pennsylvania

In 2007, over 236,700 telephone customers in Pennsylvania received Lifeline Service. In addition, more than 42,800 telephone customers participated in Link-Up America last year. For the first time, statistics for each local exchange carrier (LEC) offering Lifeline Service and Link-Up America will be available on the PUC's Web site at www.puc.state.pa.us under "Publications and Reports." The Commission traditionally publishes this information for the largest LECs in its annual Utility Consumer Activities Report and Evaluation (UCARE). This year, the Commission will make the data available for all LECs that offered these programs to their eligible customers in 2007.

Link-Up America (Link-Up) and Lifeline Service (Lifeline) are universal service programs designed to ensure that low-income consumers have access to telephone service. The programs provide discounts or credits for service installation and basic telephone services. LECs submit a yearly report to the PA Public Utility Commission about the participation in these programs during the previous calendar year. Verizon PA also reports information about its Universal Telephone Assistance Program (UTAP).

More information about telephone universal service programs is available in the Commission's 2006 UCARE on the Commission's Web site under "Publications and Reports."

PUC Reviews Proposed 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. These plans were all filed by the deadline of Dec. 31, 2007.

The Commission has been in the process of reviewing each plan, has tentatively approved all nine of the submitted plans and has finally approved four plans. On May 1, 2008, the Commission tentatively approved (entered May 6) plans for Allegheny Power, Citizens' Electric Company, PPL Electric Utilities, and Wellsboro Electric Company. The public comment period for these plans expired on June 6. Comments were filed for each plan by the Consumer Advisory Council (CAC), Office of Consumer Advocate (OCA), Office of Small Business Advocate (OSBA), and the Pennsylvania Utility Law Project (PULP). Additionally, the PPL Industrial Customer Alliance (PPLICA) filed comments on PPL's plan and PPL filed reply comments. The Commission issued final orders on July 17, 2008, (entered July 18, 2008) approving these four plans, as modified by the order.

On May 22, 2008, the Commission tentatively approved PECO Energy Company's education plan. The comment period ended on June 22. Comments were filed by the CAC, the OCA, the OSBA, PULP, and joint comments were filed by the Reinvestment Fund and Affordable Comfort Inc., Citizens for Pennsylvania's Future, the Clean Air Council, the Energy Coordinating Agency of Philadelphia, Maureen Mulligan Communications Consulting, PennEnvironment, and Warren Energy Engineering. PECO filed reply comments.

On June 5, 2008, the Commission tentatively approved plans for Duquesne Light, the FirstEnergy Companies (Met-Ed, Penelec and Penn Power), and UGI Utilities Inc. The comment period for the FirstEnergy Companies and UGI ended

EDC Plans Continued on Page 26.

Energy Universal Service

On Sept. 4, 2007, the PUC initiated two rulemakings to revise its regulations relating to universal energy service, specifically related to Customer Assistance Programs (CAPs). CAPs make electric and natural gas utility service more affordable for low-income customers.

One rulemaking order proposed revisions to Sections 54.74 and 62.4 (relating to universal service and energy conservation reporting). These sections were revised and expanded to create a unified proceeding that would allow the PUC to approve a distribution company's CAP design and funding level, to determine the level of recoverable costs, and to establish a cost recovery mechanism. The proposed regulations also require that a company submit its universal service plan as a tariff filing and that the tariff include rules governing CAP participation, including rules for applying for Low-Income Home Energy Assistance Program (LIHEAP) grants to customer accounts. *Proposed Rulemaking on Universal Service and Energy Conservation Reporting Requirements and Customer Assistance Programs*, Docket No. L-00070186.

The second order from Sept. 4, revised the CAP Policy Statement at 52 Pa. Code § 69.261 - § 69.267. Changes proposed to the CAP Policy Statement include (1) the addition of a statement that CAP funding decisions should consider the interests of all residential customers and funding decisions made regarding other similar companies; (2) the elimination of enrollment ceilings; (3) the recognition of the companies' right to full cost recovery; (4) the establishment of a surcharge, subject to annual reconciliation or prospective quarterly adjustment, for cost recovery; (5) the revision of CAP cost control features; and (6) the ability of a company to propose for PUC approval rules related to the coordination of energy assistance benefits and the application of those benefits to a CAP customer's account. *Proposed Policy Statement on Customer Assistance Programs*, Docket No. M-00072036.

The order revising the CAP Policy Statement requires a less involved regulatory review process prior to publication, and was published in the *Pennsylvania Bulletin* on Nov. 10, 2007. Comments were due 60 days later, or on Jan. 9, 2008. Twelve comments were filed in response. The order proposing to revise Sections 54.74 and 62.4 was published on Feb. 9, 2008. Comments were due within 60 days of publication in the *Pennsylvania Bulletin*. On April 7, 2008, the PUC extended the deadline for comments to April 18, 2008. Sixteen comments were submitted in response, and may be accessed on the PUC Web site.

Consumer Decision Highlights

Maureen Christian v. Duquesne Light Company, Docket No. F-02126762

On May 5, 2008, the Commission entered an order clarifying that reconnection of service "is governed by Section 1407, and nothing in Chapter 14 indicates that Customer Assistance Program (CAP) customers are excluded from this rule." The order further clarified that 66 Pa.C.S. §1407 supersedes 52 Pa. Code §56.35 whenever a former residential customer who owes an outstanding balance to a utility requests reconnection of service at the same or another location within the utility's service territory.

In this case, an applicant requested service at a new location. The applicant had been on the utility's CAP program at her prior address and had requested discontinuance at the prior address. She had not defaulted on her CAP program payments, but two weeks elapsed after the due date of her final bill before she applied at the new residence. Duquesne's policy is to require payment in full of a past due final bill from applicants for new service as a condition for furnishing service (52 Pa. Code §56.35). In its May 5 order, the Commission noted that the company should have considered 52 Pa. Code §56.16(b) and transferred the unpaid balance to the complainant's new account without requesting either full or partial payment for reinstatement of service. With acceptance back into the CAP program, the PUC ordered application of §1407(c)(2)(iii), which supersedes 52 Pa. Code §56.35, so the applicant would pay 1/24th of the outstanding balance from the old address each month plus her current bills as due.

UCARE Quarterly Reports

In response to utility company requests for current numbers on consumer complaints and payment arrangement requests, the Bureau of Consumer Services (BCS) prepares a quarterly update to the annual Utility Consumer Activities Report and Evaluation (UCARE). The update is published on the PUC's Web site and provides a streamlined version of data about customer service performance for jurisdictional utilities in the electric, gas, water, and telephone industries that appear in the traditional UCARE. The latest edition presents data for the first quarter of 2008.

BCS will publish the information on the PUC's Web site every three months in a rolling year-to-date format. The updates provide an overall snapshot of BCS activity including the volume of consumer complaints, payment arrangement requests (PARs) and inquiries. Industry specific tables show the volume of activity for the major utilities within the electric, gas, water, and telephone industries. The PUC will continue to produce a hard copy of the annual UCARE report as a means of satisfying statutory reporting requirements.

Allegheny Power Retail Electric Default Service Program

On Oct. 25, 2007, Allegheny Power filed a petition (Docket No. P-00072342) for approval of its Retail Electric Default Service Program and Competitive Procurement Plan (DSSP) to establish the terms under which West Penn would supply provider of last resort (POLR) service beginning Jan. 1, 2011. The supply procured under the DSSP must also satisfy Allegheny Power's obligations under the Alternative Energy Portfolio Standards Act of 2004. The initial program term was designed to last approximately 41 months.

By initial decision issued on May 23, 2008, the administrative law judge (ALJ) rejected Allegheny Power's full-requirements contract approach to the DSSP and adopted the alternative "full-requirements based" procurement plan offered by the Retail Energy Supply Association (RESA). Exceptions to the initial decision were filed by Allegheny Power, the Office of Consumer Advocate (OCA), the PUC's Office of Trial Staff (OTS), the Office of Small Business Advocate (OSBA), RESA, Dominion Retail Inc., and Constellation New Energy Inc./Constellation Energy Commodities Group Inc.

Reply exceptions were filed by: Allegheny Power, the OCA, the OTS, the OSBA, Reliant, Dominion, RESA, Constellation, Exelon Corporation, Pennsylvania State University, and West Penn Power Company Industrial Intervenor.

The most pressing issue raised in the exceptions is which procurement method Allegheny Power may utilize to obtain POLR supply:

- (1) Full-requirements contracts;
- (2) A full-requirements based plan; or
- (3) A managed portfolio.

The Commission conducted a binding poll on the issues raised on exception at the July 17, 2008, public meeting and determined that a modified version of the full-requirements contract approach is in the public interest. To mitigate the impact of price spikes, the plan provides for the purchase of power using 12-, 17- and 29-month contracts and spot-market purchases. The plan also includes a rate increase mitigation option that would allow customers to defer portions of a large rate increase for up to three years. The plan covers default service from Jan. 1, 2011, through May 31, 2013.



PUC Holds Employee Appreciation Day



On May 22, 2008, the PUC celebrated Employee Appreciation Day. An Employee Recognition Ceremony showcased the dedication, professionalism and commitment that exists throughout the PUC.

Employees were also recognized for their years of service to the state and the PUC. Elaine Deichmiller (left) of the Secretary's Bureau, and David Fischer of Rail Safety, were honored for their 35 years of service to the Commonwealth.

Truck Inspections



The PUC's Motor Carrier Enforcement Officers held a truck inspection along Route 81 in Grantville on June 24, 2008. The PUC's Safety Committee was invited to observe the Enforcement Officers on the job.

John Bumstead, of the Harrisburg Office, inspects a tanker truck to see if it is in compliance.

InfoMAP Update

E-Filing Coming Soon



After about six months of operating with a new case and document management system – InfoMAP (Information Management and Access Project), the PUC implemented Phase 2 in early July, adding several new workflows, and making various change requests. Staff continues to gain familiarity with the new system as the PUC transitions toward an electronic environment that is more automated and less reliant on paper copies.

Access by external users to information maintained by the PUC has improved significantly over the past several months, with most filings being scanned and published to the Web site. Unisys technicians are now focused on developing a system to allow for electronic filing.

On May 22, the PUC approved final regulations establishing the rules of the road for parties using the e-filing system. The final regulations, which are scheduled for consideration by the Independent Regulatory Review Commission on Aug. 7, include the following provisions:

- E-filing will be optional;
- Qualified documents will be accepted;
- No confidential information will be accepted via e-filing;
- To file electronically, a user will need to register, create an ID and a password;
- E-filers will receive a confirmation of receipt, along with an e-confirmation number and link to the document;
- Filings must be made in PDF format;
- No paper copies need to be filed when the document is less than 250 pages/5 megabytes;
- Only one copy (instead of three) of larger documents need to be filed; and
- Parties accepting e-service will receive notice of the filing with a link to and brief description of the document.

The PUC plans to implement e-filing in phases through pilot projects later this year. Anyone interested in participating in the pilots should send an e-mail to ra-infomap@state.pa.us. Full e-filing capability is expected by early 2009.

On Thursday, April 22, the PUC participated in Take Your Children to Work Day. The PUC had over 35 children attend the event. The children were able to shadow the PUC employee that they came with, created energy conservation posters, and witnessed a demonstration of a truck inspection. The highlight for most attendees was the demonstration by the Capitol Police of the drug sniffing dog (right). At the end of the demonstration, everyone was allowed to pet the dog.

PUC Budget Approved

On July 9, 2008, Governor Rendell signed Act 37.A of 2008 (Senate Bill 1348 or House Bill 2461), approving the PUC's budget for the fiscal year starting on July 1, 2008. This approval provided the PUC with \$52,162,000 in state funds and authorizes expenditures of anticipated federal funds in the amount of \$2,564,000. The state funds represent an increase in operating costs over the prior fiscal year of \$679,000, or about 1.3 percent, to fund contractually required salary and benefit increases and cover the costs associated with the relocation of the Philadelphia State Office building.

The PUC's budget is supported by assessments on utilities on the basis of time spent regulating each industry and the operating revenues of each company.

Bench-Bar Conference

On May 9, 2008, the Pennsylvania Bar Institute held its biennial Public Utility Bench-Bar Conference at the Crowne Plaza hotel in downtown Harrisburg with a mix of presentations from lawyers representing both the public and private sectors. The morning session of this year's conference included practice tips from the Office of Administrative Law Judge, an update on InfoMAP and a discussion of the impact of the 2006 Lobbying Disclosure Act on lawyers' practices before the Commission. The afternoon session focused on energy issues, with panels providing legislative and legal perspectives on pending legislation being considered during the Special Session on Energy, and debating whether the current wholesale market is broken.

Take Your Child to Work



PUC Call Center

Every year the Commission receives tens of thousands of calls from utility consumers. Most are calling to file a complaint against a utility or to request payment terms to avoid termination of service. Others want information, or wish to express an opinion about a utility-related issue. These calls are handled by the Commission's Harrisburg and Philadelphia Call Centers which operate out of the Bureau of Consumer Services (BCS). Mitchell Miller, Director of the BCS, summarizes the importance of the call centers this way: "To the tens of thousands of utility consumers that call each year, the 36 call center interviewers that handle these contacts are literally the voice of the Commission. By providing responsive, efficient, and accountable management of consumer contacts, these call center employees play a vital role in promoting the Commission's image and fulfilling its mission."

The Commission is mandated by law to receive, investigate, resolve and report annually on utility customer complaints. The Commission decided in 2005 to have all call center activities handled by Commission staff instead of through outsourced contracts. The Harrisburg Call Center was established in fall 2005, and the Philadelphia Center was in operation by winter 2005. The staffs of 18 interviewers, in each center, receive ongoing comprehensive training on proper communication skills and securing the information necessary to process a wide variety of complaints, inquiries, and opinions. Their performance is constantly measured to ensure timely and proper handling of calls, as well as accurate data entry.

Overall, the Call Centers have consistently performed better than the goals set for the toll-free lines. For example with respect to data accuracy, the call centers scored 96 percent for the most current scoring period. Further, the interviewers correctly handled complaints based on the information provided by callers 97.7 percent of the time. These hard-working employees deserve to be commended for doing work that has proven to be a benefit to the Commission and the consumers we serve.



Russell Mayett of the Philadelphia Call Center.

National Conference on Regulatory Attorneys

The 31st Annual National Conference of Regulatory Attorneys met in Charleston, South Carolina from June 8 through 11. This year's conference was organized by Cheryl Walker Davis along with several members of her staff: Kathryn Sophy, Karen Goss and Susan Meehan. Approximately 80 individuals from the United States and Costa Rica were in attendance, including a good representation from the Pennsylvania PUC. An interesting and broad range of topics was presented from *Regulation's Contribution toward Promoting the Public Welfare to Deregulation and Competition in Telecommunications: Are they Synonymous and What is the Role of the States?* This year, special emphasis was given to the water industry; with two different panels discussing cross border jurisdiction, water quality, diminished supply and sustainable resources.

End of Fiscal Year Statistics

Over \$267 million – that is the amount of utility-requested revenue increases analyzed by the Office of Trial Staff (OTS) during the period July 1, 2007, to June 30, 2008. This figure encompasses fixed utilities – water/wastewater, electricity and gas. On Page 16, more information can be found regarding Natural Gas Distribution Companies (NGDCs) requested increases.

Additionally, there are 10 major NGDCs who make annual filings, commonly referred to as 1307(f) proceedings. The increase over the prior year rates for this fiscal year is over \$500 million. OTS has submitted over 90 sets of testimony addressing general and non-general rate increases, as well as 1307(f) proceedings.

EDC Consumer Education Plans

Continued from Page 22.

July 6 and comments were filed by the CAC, the OCA, the OSBA, and PULP. Both companies have filed reply comments. Duquesne's comment period was extended to July 21 to allow the company to provide additional information to the Commission and parties. Comments have been filed by the CAC, the OCA, the OSBA, and PULP.

On July 17, 2008, the Commission tentatively approved (entered July 18) Pike County Light & Power's education plan. Pike's comment period is scheduled to end on Aug. 17.

All filed comments are public and can be found using the document search on the Commission's Web site by searching the docket number of each case.

The Commission will review each of the comments and will address them appropriately in forthcoming final orders.