Keystone Connection

Utility News in Pennsylvania

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

Winter/Spring 2007

Working Group Developing Report on Demand Side Response (DSR)

The Demand Side Response (DSR) Working Group is developing a report and recommendations for the PUC's consideration later this spring. The areas being examined by the Working Group include demand side response, energy efficiency and conservation, advanced metering infrastructure, consumer education, and revenue decoupling. Primary objectives of the Working Group include providing information to the PUC on time-based rates and metering, suggesting how current offerings of programs might be improved, and identifying barriers that may preclude participation by consumers in these programs. Descriptions of the process and subgroup structure are shown below. For more information on DSR and the efforts of this group, check out the PUC's Web site at http://www.puc.state.pa.us/electric/electric_dmndsideresp.aspx.

Working Group Report

The Working Group has employed various tools to gather information that will enable the PUC to make informed decisions. Data requests have been sent to electric distribution companies to update current offerings and new program descriptions have been solicited from all participants. Also, informative panel presentations were offered on Jan. 19 and Feb. 9 by experts with experience in implementing or regulating the deployment of these programs and technologies.

Staff's proposed outline of the Working Group's report was discussed at the Feb. 23 meeting. It references numerous issues, including potential reductions in peak demand; the development of policies that will allow customers to take full advantage of these measures; the deployment of advanced metering infrastructure to all customers; funding and cost recovery; third-party administration of programs; and the design and timeline for the deployment of programs and technologies by electric companies.

In April, staff will be finalizing the Working Group report, following input from the participants. Where consensus among the members of the Working Group is not achieved, staff will offer recommendations to the PUC in a separate document. It is expected that the Working Group Report will be submitted to the PUC by early May.

Programs: Conservation/Energy Efficiency and DSR

This subgroup has identified conservation, energy efficiency and demand side response programs for possible expansion or implementation in Pennsylvania. Through this subgroup, staff has collected numerous program descriptions, from which the PUC will be able to choose in encouraging deployment in Pennsylvania. Examples range from various Energy Star Programs aimed at

Demand Side Response *Continued on Page 24.*

Connecting in Pennsylvania

Welcome to the sixth 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.

ON THE INSIDE

Met-Ed/Penelec Proceeding

On Jan. 11, 2007, the Commission voted on the Metropolitan Edison Company (Met-Ed) and Pennsylvania Electric Company (Penelec) rate proceedings. The proceedings were actually a combination of several different actions pending before the Commission. These included a remand action from the Commonwealth Court which required a determination of the amount and allocation of merger savings derived from the FirstEnergy Inc./GPU Inc. merger proceeding; rate transition plans for each company which sought to raise generation rates above each company's rate cap; a transmission service charge (TSC) rider for each company which proposed a pass through of transmission charges; and a request for an increase in the distribution rate for each company.

Met-Ed initially requested an increase of approximately $216 million (19 percent) and Penelec requested an increase of about $157 million (15 percent). The Commission's opinion and order provided for an increase of $58.7 million (5 percent) for Met-Ed and $50.2 million for Penelec (4.6 percent).

Three significant issues in the proceeding included the merger savings remand, the TSC rider and the proposed rate transition plans. The PUC determined that the FirstEnergy/GPU merger provided substantial public benefits without the need to allocate merger savings between shareholders and rate payers. The Commission approved the companies' request for a stand-alone TSC which is a reconcilable charge that includes a pass-through of federally imposed transmission charges and congestion charges triggered by transmission constraints. The PUC denied the companies' proposed rate transition plans which sought to raise generation rates finding that the companies had not shown that the increase in the wholesale cost of supply was out of the control of the companies as required by the Public Utility Code.

Several petitions for reconsideration were filed to the Commission's order. An appeal has been filed by intervenors.

Duquesne Settlement

On April 7, 2006, Duquesne Light Company filed a tariff proposing an increase in rates calculated to produce an additional $143.7 million in annual revenues. The PUC suspended the effective date of the filing until Jan. 7, 2007, and instituted an investigation. Three public input hearings were held in Duquesne's service territory and several members of the public presented testimony. On Sept. 14, 2006, the parties filed a joint petition for settlement.

Duquesne *Continued on Page 3.*

Alternative Energy Update

The Commission continued its implementation of the Alternative Energy Portfolio Standards Act of 2004 in recent months. On Nov. 30, 2006, the Commission selected Clean Power Markets, a subsidiary of Enerwise Global Technologies, to serve as its third-party program administrator. A contract has been executed and approved by the Offices of Comptroller and Attorney General.

Final form net metering and interconnection regulations were approved by the Independent Regulatory Review Commission and went into effect on Dec. 16, 2006. These regulations will enable customers to interconnect and be compensated for distributed generation that uses alternative energy sources. The electric distribution companies filed net metering tariff provisions with the Commission for review in February 2007. The Commission is currently working to develop standardized interconnection forms and fees for interconnection requests.

The PUC also resolved a controversy over the ownership of alternative energy attributes associated with electricity sold under power purchase agreements entered into pursuant to the Public Utility Regulatory Policies Act of 1978. Several electric distribution companies (EDCs) had filed a petition with the Commission on this issue in 2005, and the matter was referred to the PUC's Office of Administrative Law Judge for hearings and a recommended decision. The Commission held that, where the contract language was silent on the ownership of attributes, these attributes were the property of the party that purchased the electricity.

Finally, an audit conducted on the Commission by the Legislative Budget and Finance Committee in 2006 was released in February 2007 and concluded that the Commission was making good progress in implementing the Act.

Penn Power's Provider of Last Resort Service

On Jan. 1, 2007, the new provider of last resort service rates, that include the cost of generation, transmission and ancillary services, took effect for retail electric customers of the Pennsylvania Power Company (Penn Power). The rates were approved by the PUC, at the public meeting of Oct. 19, 2006.

The new rates, effective through May 31, 2008, replace the capped rates that Penn Power customers had been paying pursuant to the company's restructuring settlement in 1999. The electricity that will be supplied during this period was procured by Penn Power through three auctions held in May, July and August 2006. Supply contracts were awarded to the lowest bidders for each of the three auctions. A non-heating residential customer, using 500 kWhs per month, will see an increase in their monthly electric bill of approximately $24.07 or 42.15 percent.

Price Mitigation Order

The Commission commenced an investigation of energy price increases in May 2006, at Docket No. M-00061957. This investigation was initiated with the objective of identifying policies that could mitigate the impact of potential energy price increases. The PUC solicited comments on a range of issues and presided over a public hearing on June 22, 2006. More than 30 parties filed comments. On Feb. 8, 2007, the Commission announced its tentative findings for addressing the issues subject to this investigation. Comments on these findings were requested by March 5.

The proposed policy changes and plans for future action include campaigns to educate consumers about energy prices; alternatives to mitigate abrupt price increases addressed through default service regulations; fostering energy conservation; enhanced low-income programs; and continued active participation before the Federal Energy Regulatory Commission on wholesale market issues.

The PUC recommended that a consumer-education program be implemented by each electric distribution company within the next few years. The PUC also solicited comments on whether it should itself implement a statewide education campaign. The campaign would be designed to educate customers about the causes of price changes, and how they can take steps to mitigate them.

The PUC concluded that various price mitigation strategies, such as deferring a portion of rate increases, may be appropriate, and will address such ideas in its default service rules. The Commission intends to complete its rulemaking process by mid-2007.

In the area of low-income customer assistance, the PUC plans to direct its Bureau of Consumer Services to take a more active role in the Low-Income Home Energy Assistance Program (LIHEAP) Advisory Council, and will itself become an advocate for increased funding before the General Assembly. The PUC will also initiate a rulemaking process to make appropriate changes to its customer assistance program rules and policies.

Duquesne Settlement

Continued from Page 2.

The settlement provided for a rate increase of $117 million as well as increased contributions to LIURP and a commitment by Duquesne to fund the employees' pension plan. On Oct. 4, 2006, the administrative law judge (ALJ) issued a recommended decision approving the settlement. The PUC adopted the ALJ's recommendations and the rates set forth in the settlement became effective on Jan. 6, 2007. Duquesne provides electric distribution and transmission service to approximately 580,000 customers in Allegheny and Beaver counties.

Default Service ANOFR/Policy Statement

The Commission issued an advance notice of final rulemaking and proposed policy statement on default service for retail electric customers at the public meeting of Feb. 8, 2007, at Dockets L-00040169 and M-00072009, respectively. Comments were requested by March 2, 2007, and reply comments by March 23. After reviewing comments, the Commission will prepare a final form rulemaking and policy statement.

The Commission is obligated to promulgate regulations defining the default service obligation of electric distribution companies. This proceeding was initiated through a proposed rulemaking order issued in December 2004. The Commission extended the public comment period in this proceeding to address the requirements of the Alternative Energy Portfolio Standards Act of 2004.

The Commission determined that, based on the comments received and its observations regarding developments in retail and wholesale energy markets, a number of changes to the proposed rule were appropriate. Most significantly, the PUC determined that some issues are best addressed in the context of a policy statement. This will allow the Commission to respond effectively to changes in markets, technologies and applicable law. Key changes to the regulations include:

- Allowing regular adjustments to default service rates to reflect changes in the actual incurred costs of the default service provider (DSP);
- Requiring individual procurement plans to be submitted by DSPs that may include a mix of fixed term and spot market energy purchases;
- Encouraging procurement plans that include purchasing generation supplies in multiple steps to reduce risks of unusual price volatility rather than purchasing all supply at one time;
- Simplifying rate design and providing normal incentives for energy conservation and facilitating customer choice; and
- Offering each default service customer a single rate option known as the "price-to-compare," which represents a blend of all generation and transmission related costs.

Management Audit of FirstEnergy Companies

On March 1, 2007, the PUC released a report on the Stratified Management and Operations Audit of Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company (collectively, the FirstEnergy electric distribution companies operating in Pennsylvania, or FE-PA) which was performed by the Barrington-Wellesley Group Inc. (BWG).

BWG identified potential annual and one-time savings of approximately $8.5 million to $28.8 million and $5.5 million, respectively, by implementing recommendations contained in the audit. However, the estimated annual and one-time costs for achieving these savings are zero to $1.7 million and $0.6 to $187.7 million, respectively. This results in projected net annual savings of $6.8 million to $28.8 million. The one-time net impact, depending on the implementation approach, ranges from a cost of $182.2 million to a savings of $4.9 million.

The FE-PA companies' implementation plan indicated acceptance of 37 recommendations, partial acceptance of five recommendations, and the rejection of eight recommendations. Some of the most significant recommendations accepted or accepted-in-part by the FE-PA companies are to:

- Develop a detailed plan to improve distribution system reliability and meet the System Average Interruption Duration Index (SAIDI) goals set in a November 2004 electric reliability settlement agreement;
- List and describe remedial actions planned or taken for any circuit that appears on the list of 5 percent worst performing circuits for one year or more, or in four out of six quarters as a supplement to the existing quarterly reports provided to the Commission;
- Conduct a more useful staffing study;
- Appoint the President of Pennsylvania Operations to FirstEnergy's Operational Leadership Council and to the respective boards of the three Pennsylvania regulated utilities;
- Finalize the analysis of the administrative and general expense account mapping verification processes and reduce the threshold for reviewing account variances when preparing regulatory financial reports;
- Submit affiliate transaction contracts for Commission approval for all FE-PA companies' transactions with affiliates in accordance with the Public Utility Code;
- Accelerate the efforts to bring FE-PA companies' customer service levels up to and costs down to the FE Ohio companies' levels;
- Improve customer call center performance in order to achieve the goal set in the Pennsylvania reliability settlement agreement;
- Reduce charge-offs and non-pay disconnects and reconnects;
- Develop a plan and schedule for the implementation of the collections system;
- Take steps to further reduce meter reading costs and develop a plan and schedule for the implementation of automatic meter reading if determined to be cost justified;
- Examine the level of overtime being paid as it relates to ensuring adequate staffing levels; and
- Improve inventory turnover rates and eliminate excess inventory.

As noted earlier, the FE-PA companies also rejected eight of BWG's recommendations. While none of the eight rejected recommendations address items that are required by law or regulation, BWG did make recommendations for adopting preferable practices that would provide benefits to ratepayers. The rejected recommendations were related to improving corporate governance practices, proactive efforts related to reoccurring shareholder proposals, interactions with affiliates, and reducing the number of estimated customer bills.

The Commission's Bureau of Audits will conduct a follow-up review of the FE-PA companies' implementation efforts during a future Management Efficiency Investigation.

Electric Supplier Licensing

Activity from Oct. 1, 2006 to March 31, 2007.

43 Active Licenses

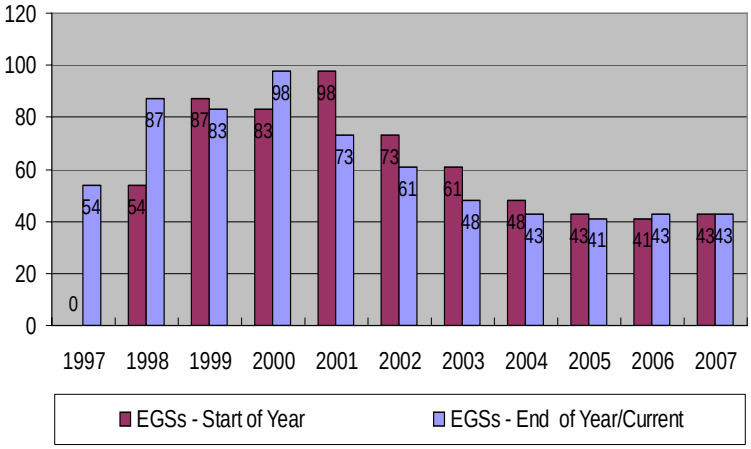
1 license canceled

1 license approved

3 applications withdrawn

1 application pending

Number of Licensed EGSs



Water and Wastewater Company Applications Approved

Applications Approved
Nov. 30, 2006 - March 22, 2007

Utility	Action	Territory	Approval Date
Little Washington Sewer Company	Additional Territory	Thornbury Township, Chester Co.	11/30/06
Pennsylvania-American Water Company	Additional Territory	Buffalo & Canton Townships, Washington Co.	11/30/06
Aqua Pennsylvania Inc.	Additional Territory	Pocopson Township, Chester Co.	12/07/06
Aqua Pennsylvania Inc.	Additional Territory	Caln Township, Chester Co.	12/21/06
Aqua Pennsylvania Inc.	Acquisition & Additional Territory	Palmyra Township, Wayne Co.	12/21/06
Pennsylvania-American Water Company	Additional Territory	Forward Township, Butler Co.	12/21/06
Pennsylvania-American Water Company - Wastewater	Additional Territory	Highland Township, Chester Co.	12/21/06
Pennsylvania-American Water Company	Additional Territory	Silver Spring Township, Cumberland Co.	01/11/07
Valley Run Water Co. LLC	New Company	Washington Township, Berks Co.	01/11/07
Borough of Emmaus	Abandonment	Upper Milford, Salisbury & Lower Macungie Townships, Lehigh Co.	01/26/07
Little Washington Wastewater Company	Additional Territory	Londonderry Township, Chester Co.	03/01/07
Phillip M. Buss Water Company	Abandonment	Upper Milford Township, Lehigh Co.	03/01/07

City of Lancaster's Sewer Fund Rate Increase Case is on Remand

A tentative opinion and order adopted on Jan. 26, 2007, implements a remand from the Commonwealth Court in the City of Lancaster-Sewer Fund's general rate increase proceeding (Docket No. R-00049862). Although the Court affirmed the Commission's determination that costs associated with storm water should not be allocated to jurisdictional customers, it reversed the Commission's finding that the Maple Grove District is part of the combined system, and remanded the proceeding to revise the cost allocation of the Maple Grove District facilities accordingly. The Court also directed the Commission to explain the denial of the City's exceptions pertaining to debt service coverage.

The tentative opinion and order authorizes an additional $30,268 in annual operating revenue, reflecting the elimination of the storm water adjustment to rate base and depreciation expense for the facilities in the Maple Grove District. Comments were due on March 7, 2007.

Emporium Water Base Rate Proceeding

In reviewing a base rate case filed by Emporium Water Company (Docket No. R-00061297 etc.), the Commission had the opportunity to discuss the circumstances occasioning use of hypothetical versus actual capital structure. The Commission determined that, when a company has a capital structure that is heavily weighted on the debt or equity side, adjustments must be made to artificially create a more balanced structure.

One way to make that adjustment is through the use of a hypothetical capital structure based upon the capital structures of similarly situated companies. When a company's debt is through the Pennsylvania Infrastructure Investment Authority (PENNVEST) and included in its rate base, however, use of a hypothetical structure overcompensates the company. The company would be able to earn an equity return on a portion of its low-interest PENNVEST debt.

In Emporium, the PUC determined that use of a hypothetical capital structure would require customers to pay a return of 10 percent on PENNVEST debt that costs Emporium only one percent. To adjust for the atypical capital structure, the Commission employed a cost of equity adjustment to bridge the difference between the principal due on the loan and the depreciation expense related to the PENNVEST-funded plant. This adjustment balanced the interests of the company and the ratepayers and recognized the special nature of PENNVEST financing.

Ultimately, by opinion and order entered Dec. 28, 2006, the Commission directed Emporium to file a tariff allowing recovery of no more than $238,639 (37.63 percent) in additional annual revenues. A petition for reconsideration was granted on Jan. 26, 2007, pending review of the merits.

Water Mergers & Acquisitions

Pennsylvania-American Water Company

On May 5, 2006, Pennsylvania-American Water Company (PAWC) filed an application, docketed at A-212285F0136, for approval of a change in control through a public offering of the common stock of its parent company, American Water Works Inc. American Water is currently owned by Thames Water Aqua US Holdings Inc., which is a wholly owned indirect subsidiary of RWE AG. American Water was purchased by RWE AG in January 2003. RWE AG is one of the largest utility companies in Europe. Protests and/or notices of intervention were filed by several parties. On Dec. 22, 2006, a joint petition for non-unanimous settlement was submitted by PAWC, the PUC's Office of Trial Staff and the state's Office of Consumer Advocate. A settlement hearing was held on Feb. 21, 2007, with main briefs due March 14, and reply briefs due March 23.

United Water Pennsylvania

On Nov. 1, 2006, United Water Pennsylvania Inc. (UWPA) filed an application seeking approval of the proposed merger of its ultimate parent company, Suez, with Gaz de France. The application was assigned to the Office of Administrative Law Judge on Dec. 8, 2006.

An initial prehearing conference was held on Jan. 8, 2007, and a further prehearing conference is scheduled for April 10, 2007. Suez is a French-based multinational corporation with primary operations that include water, electricity and natural gas supply, and waste management. Gaz de France is also a French-based company that is primarily involved in the supply and distribution of natural gas. The combined companies would have revenues of approximately $80 billion and create one of the world's largest utility companies. Gaz de France shareholders are scheduled to vote on the merger on June 25, and Suez shareholders are scheduled to vote on June 21.

There have been a number of issues that have arisen to block the proposed merger. Large shareholders of Suez are threatening to block the merger because they believe they should be compensated for Suez's higher market valuation and the fact that the French government will become the major shareholder with a stake of about 34 percent of the new company. French political parties have sought to block or add conditions to the merger as well.

Additionally, the merger cannot take effect until after July 1, 2007, when France brings its energy market in line with European Union deregulation rules. Also possibly affecting the merger are the French presidential and parliamentary elections, which occur on June 17, 2007. The Socialist presidential candidate, Segolene Royal, is among those opposed to the merger and is currently running slightly behind in the polls behind center right candidate Nicolas Sarkozy.

State Water Plan

The State Water Plan Committee held a meeting on Dec. 20, 2006, in Harrisburg. Several updates were provided by the Department of Environmental Protection (DEP), and the subcommittees informed the statewide committee members of their recent activity. Two presentations were given, one by the Susquehanna River Basin Commission concerning a Lancaster County Groundwater Study. Another was done by the Delaware River Basin Commission focusing on a Southeastern PA Groundwater Protected Area.

PA-American Water Company Outages

On Dec. 10, 2006, approximately 1,000 Pennsylvania American Water Company (PAWC) customers in the Pittsburgh area experienced extended water outages. These outages continued for several days. Similar extended outages 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 Commission, at its public meeting of Dec. 15, 2006, approved a motion that called for an investigation of these outages to examine the PAWC's compliance with the Public Utility Code and the PUC's regulations regarding safe and reliable water service in the Commonwealth. To this end, it was noted in the PUC's order entered on Jan. 5, 2007, at Docket No. I-00060112, that "the Commission has a fundamental duty to ensure that public utilities provide safe, adequate and continuous service to their customers without unreasonable interruptions or delay in accordance with our regulations and orders."

The Commission's investigation will include a determination as to whether:

- PAWC responded to the outages in an effective and timely manner;
- Adequate resources were available to effectively respond to the situation in a timely manner;
- The public received adequate notice and were kept informed in a timely manner;
- Emergency response officials received notice and were kept informed in a timely manner;
- Adequate supplies of drinking water were provided and/or available at convenient locations; and
- Additional steps can be taken by the utility to mitigate main breaks and to respond to future outages in a timely and effective manner.

The PUC's Law Bureau, in conjunction with the Bureaus of Fixed Utility Services and Audits, will prepare a report relating to the Pittsburgh outages that will be submitted to the PUC in April 2007. A second report relating to the extended outages in Lackawanna County and other portions of PAWC's service territory is due to the PUC 120 days after the first report.

Water and Wastewater Rate Increases

Rate Increase Request Summary

Nov. 30, 2006, to April 1, 2007

Utility Name	Amt. ($) Requested	Amt.($) Granted	% of Inc.	Action	Action Date
Emporium Water Company	316,144	238,639	37.63	Litigation	12/21/06
Corner Water Supply and Service Corporation	41,829	19,100	6.40	Settlement	12/21/06
Factoryville Bunker Hill Water Company	1,909	485	4.80	Proposed Settlement	
Bunker Hill Sewer Company	13,474	12,181	128.50	Proposed Settlement	
Allied Utility Services Inc.	183,902	----------		Mediation	09/28/06
Reynolds Disposal Company	278,969	----------		Mediation	09/28/06
Utilities Inc., - Westgate	161,255	109,917	45.00	Settlement	12/21/06
Imperial Point Water Service Company	80,679	----------		Mediation	10/19/06
Timberlee Valley Sanitation Company	14,400	14,400	57.14	Settlement	3/01/07
Columbia Water Company	519,500	372,000*	11.60	Settlement	12/21/06
Eaton Water Company	71,113			Investigation	12/21/06
Eaton Sewer Company	69,641			Investigation	12/21/06
Borough of Phoenixville-Wastewater Div.	72,575			Investigation	12/21/06
Little Washington Wastewater Company-Little Washington Div.	168,407			Investigation	03/01/07
Little Washington Wastewater Company-Chesterdale/ Williswoods Div.	62,175			Investigation	03/01/07
Little Washington Wastewater Company-Peddlers View Div.	59,165			Investigation	03/01/07
Little Washington Wastewater Company-Media Div.	64,969			Investigation	03/01/07
City of Lancaster Sewer Division	650,465	119,961	10.00	Remand of Court**	01/26/07

* Exclusive of STAS

** The PUC had approved an increase of $89,693 – 7.5 percent on 8/11/05.

Lakeside Water Investigation

Lakeside Water Company Inc., along with its sister wastewater company Edwin Inc., provides certificated service to the public in Palmyra Township, Pike County. Currently, the company provides service to approximately 60 residential customers. On the water side, there are three separate but interconnected systems servicing areas known as White Beauty View Estates, Sky Top Mobile Home Park and the Lower Mobile Home Park. Each system contains its own well water source of supply. The system is metered at the supply sources but was providing unmetered water service to its customers. Accordingly, flat rates are charged. Both companies have been documented as having a long history of non-compliance and customer complaints with the Commission and Department of Environmental Protection (DEP).

An investigation was initiated by a letter from United States Sen. Arlen Specter to Chairman Wendell F. Holland, asking the Commission to look at a situation outlined in a letter from Lakeside customers. This investigation was performed in conjunction with personnel from DEP, and the PUC's Law Bureau, the Bureaus of Consumer Services (BCS) and Fixed Utility Services (FUS). The investigation included a physical inspection of the facilities and a meeting with all the parties to discuss potential solutions. Customers residing in White Beauty View Estates attending the meeting complained of frequent outages and of low water pressure.

The new owners of the company felt that they had been responding in a responsible manner to all reports from customers who had low water pressure by investigating and repairing their mains. The DEP

Lakeside *Continued on Page 8.*

Lakeside Water Investigation

Continued from Page 7.

personnel expressed concerns that these "band-aid" repairs to the mains were not in the best long-term interest to the viability of the system. DEP's concern was that the excessive pumping of the well water sources was showing a noticeable drop-off in their safe yields. The company had future plans to update and replace the entire water system but could not project a starting date. In the interim, it was agreed that the company would replace its entire distribution system in White Beauty View Estates, install water meters on all customers' services, and perform leak detection surveys.

Presently, the distribution system has been replaced and the company reports a huge decrease in the amount of water being pumped into the system. At the time of the initial meeting, the company reported that normal water usage was 12,000 gallons per day (gpd), but now normal water usage is being measured at 3,000 gpd, usage of only 160 gpd by each customer. Staff had asked the company to complete a leak detection survey of the system within 30 days of connecting all of the existing customers to the new system. However, now staff is willing to allow the company to postpone the survey until after the customers are metered. The installation of the meters will allow the customers to monitor their usage and to correct any internal plumbing problems they may have which would have shown up during the survey as leaks.

FUS staff asked BCS to contact a number of customers to find out if they were satisfied with the service that they are now receiving. All customers contacted indicated that they were satisfied. The Senator's Office continues to be updated by the Chairman's Office and the Office of Legislative Affairs as appropriate.

Management Audits of Aqua PA and Superior Water Company

The PUC released Focused Management and Operations Audits of Aqua Pennsylvania Inc. (Aqua-PA) and Superior Water Company in November 2006 and January 2007, respectively. Both audits were performed by the Bureau of Audits' staff. The Aqua-PA management audit report identified potential annual and one-time savings of approximately $1.1 million to $1.2 million and $890,000, respectively, by implementing recommendations contained in the audit. While the Superior Water audit report did not include any quantifiable savings estimates, it nonetheless included 14 recommendations for qualitative improvements.

Aqua-PA's implementation plan submitted in response to the management audit report indicated acceptance of 23 recommendations and partial acceptance of four recommendations. Aqua-PA also indicated that it had already completed two of the 27 recommendations and planned to implement the majority of the remaining recommendations by the end of the first quarter of 2008. Some of the most significant recommendations accepted or accepted-in-part by Aqua-PA include:

- Revising polices and procedures used to calculate and allocate the overhead costs associated with employee labor provided to other affiliates;
- Striving to reduce inventory to an average of a three-month supply on hand;
- Reducing unaccounted for water volumes in certain divisions; and
- Reducing recordable and lost time accident rates.

Superior Water's implementation plan indicated that it accepted 13 of the recommendations and partially accepted one. According to the company, four of the recommendations had been completed and the majority of the remaining items were to be implemented by the end of 2007. The PUC's Bureau of Audits recommendations for the Superior include:

- Expanding the Superior's Board of Directors to include, at minimum, an independent director with financial expertise;
- Establishing policies and procedures for periodically obtaining and evaluating bids and/or price solicitations for ongoing services such as accounting, legal and insurance; and
- Establishing a multi-year capital budget that estimates and prioritizes expenditures by project and indicates potential funding sources.

The Commission will conduct a follow-up on both water companies' implementation efforts during a future Management Efficiency Investigation.

Chapter 30 Updates

LEC's Reporting Requirements

Pursuant to the mandates of the new Chapter 30, the PUC adopted a final rulemaking order on Aug. 17, 2006, amending Chapter 64 of the regulations so as to eliminate several reporting requirements previously imposed on local exchange carriers (LECs). The reporting requirements identified by the Commission for elimination include the financial earnings report, annual depreciation report, capital investment plan report, service life study report, quarterly cramming and slamming reports, and accident reports. In addition, the Commission found that the regulations should be amended to require the filing of residential account information on an annual basis rather than on a quarterly basis.

The Commission also reiterated its earlier directives contained in an order entered on Dec. 30, 2005, for the retention of requirements for the LECs to file Lifeline tracking reports and service outage reports. Specifically, the Commission emphasized that those reports met the standard prescribed by Section 3015(f), regarding the nexus to just and reasonable rates and the reports' benefits substantially outweighing the expense, time and effort required to prepare them. Nonetheless, the PUC noted that it had also directed the development of a streamlined version of the Lifeline tracking report and the establishment of a process to file these reports electronically.

This final rulemaking order was adopted after a review of the comments filed in response to the PUC's proposed rulemaking order entered on Jan. 3, 2006. The Independent Regulatory Review Commission (IRRC) and the Office of Attorney General approved the final rulemaking. On Dec. 16, 2006, the final regulations became effective and were published in the *Pennsylvania Bulletin*.

Verizon's 2006 & 2007 PCO Filings

2006 PCO

In December 2005, Verizon PA and Verizon North filed their 2006 annual Price Change Opportunity (PCO) filings, along with tariffs proposing increases for residential and business dial tone rates, returned check charges and certain operator surcharges applicable to local calls (Docket No. R-00051227, et al.). Under the proposal, Verizon PA's and Verizon North's annual operating revenues would increase by approximately $15,535,600 and $3,257,000, respectively. In addition, Verizon PA and Verizon North proposed to bank $1,229,400 and $69,000, respectively, of the remaining allowed 2006 PCO revenue increase for future rate increases. In accordance with their Chapter 30 Plan, the PUC permitted the tariffs to go into effect pending investigation of the formal complaints against the filings.

By order entered March 22, 2007, the PUC directed the Verizon companies to make the following adjustments to the inputs used in the 2006 price cap formula:

- Disallowed Verizon PA's and Verizon North's access charge revenue attribution adjustments of $116,577,000 and $2,066,000, respectively, to their noncompetitive revenues;
- Disallowed Verizon North's inclusion of $10,750,000 for "inter-company settlements" revenue as noncompetitive revenues in the 2006 price cap calculation; and
- Required the Verizon companies to use the actual telephone line count as of June 30, 2005, rather than a projected forecast proposed by Verizon.

The PUC further concluded:

- That the Office of Small Business Advocate's (OSBA's) position, which endorsed requiring the Verizon companies to increase access charges as part of their 2006 PCO filings, should be rejected; and
- That Act 183 allowed for the elimination of Verizon PA's prior rate cap, which limited rate increases for business customers, with three or fewer telephone lines, to the overall average percentage increase in total noncompetitive ser-vice revenues, pursuant to the price cap formula.

Finally, the PUC directed Verizon to recalculate its PCO formula, based on the revised adjustments, and file revised tariffs to reflect lower rates, as well as a refund plan for any 2006 PCO overcollections that were made, to become effective no later than July 1, 2007.

2007 PCO

Verizon PA and Verizon North filed their 2007 PCO filings on Nov. 1, 2006. (Docket Nos. R-00061914, et al.) Verizon PA's filing proposed rate increases totaling $20,314,000, while Verizon North proposed rate increases totaling $3,420,000.

By order entered Dec. 28, 2006, the PUC deemed that Verizon PA's 2007 PCO was in partial compliance with its PUC-approved Amended Chapter 30 Plan. Verizon PA was ordered to correct its banking calculation, adjust the revenue and rate increases as necessary, and reflect the original revenue allocations on a percentage basis as filed in its original 2007 PCO. The resulting rates were ordered to remain in effect during the pendency of the OSBA's formal complaint and subject to the findings of the Office of the Administrative Law Judge (OALJ). The same day, Verizon PA filed a petition for reconsideration and stay of the order. On Jan. 11, 2007, the PUC granted Verizon's petition, rendering moot the petition for a stay.

The PUC entered an order on Feb. 8, 2007, in which it determined that Verizon North Inc's 2007 PCO complies with its Amended Chapter 30 Plan. The filing was permitted to go into effect, as filed, subject to the findings of the OALJ regarding the complaint filed by the OSBA and subject to refund investigation and recoupment.

PUC Approves Acquisition of Commonwealth by Citizens

At its March 1, 2007, public meeting, the PUC approved the joint application of Commonwealth Telephone Company, CTSI LLC and CTE Telecom LLC d/b/a Commonwealth Long Distance Company (joint applicants) for the acquisition by Citizens Communications Company of all of the stock of the joint applicants' corporate parent, Commonwealth Telephone Enterprises Inc., at Docket No. A-310800F0010. In a 4-0 vote, the Commissioners unanimously approved a settlement agreement between the companies, the state's Office of Consumer Advocate, the PUC's Office of Trial Staff, the state's Office of Small Business Advocate and the Communications Workers of America. In agreeing to the settlement, the Commission determined that the acquisition is in the public interest.

The transaction has already been approved by the Federal Communications Commission and by the companies' shareholders. When all other state approvals are completed, the transaction will consummate the acquisition of Commonwealth Telephone Enterprise Inc. by Citizens Communications Company in a cash-and-stock deal worth approximately $1.16 billion.

The Broadband Cable Association of Pennsylvania (BCAP) was originally denied party status in the proceeding by the presiding administrative law judge (ALJ). BCAP then filed a protest with the PUC and was subsequently permitted reinstatement as a party. BCAP later withdrew its protest, and a joint petition for approval of unanimous settlement agreement was filed thereafter. According to the settlement, the merger will provide significant benefits for Pennsylvania customers, including:

- Limited rate increases for customers for the next three years, which also extends to the Frontier telephone subsidiaries of Citizens;
- Deployment of stand-alone high speed internet service for two years and increased 3 Mbps downstream bandwidth availability within three years;
- Consumer-education outreach on Lifeline programs, that provide help for consumers with limited incomes;
- Continued employment levels through the end of the current contract (Nov. 30, 2008) while maintaining the Commonwealth Telephone call center and honoring existing bargaining agreements;
- Certain financial safeguards; and
- Service quality reports to be given to OCA and OSBA through 2008.

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

Cavalier Telephone Acquires Talk America Holdings

Competitive telecommunications providers Cavalier Telephone Corporation and Talk America Holdings Inc. completed their previously announced merger on Dec. 15, 2006. In a deal announced Sept. 22, 2006, Cavalier agreed to purchase Talk America for $8.10 per share for a total purchase price of $251 million. The Commission approved the merger and related financing at a public meeting held Dec. 7, 2006.

The merger will create a company with projected revenues of in excess of $750 million, serving over 550,000 residential and 85,000 business customers, and employing over 2,000 people.

In Pennsylvania, Cavalier owns and operates the jurisdictional utilities Cavalier Telephone Mid-Atlantic LLC, Cavalier Networks LLC, and Elantic Telecom Inc. Talk America's Pennsylvania operating subsidiaries include Talk America Inc. and Long Distance of Michigan Inc. t/a LDMI Telecommunications.

Landmark Decision Furthering Local Telephone Competition

By orders entered Nov. 30, 2006, and Feb. 12, 2007, at Docket No. A-310922F0002AmA, the PUC approved the applications of Core Communications Inc. for authority to expand its operations to provide facilities-based competitive local exchange telecommunications services in all rural incumbent local exchange carrier (ILEC) territories in Pennsylvania. Core was previously only certificated to provide service in the territories of Verizon Pennsylvania Inc., Verizon North Inc. and The United Telephone Company of Pennsylvania d/b/a Embarq Pennsylvania.

In the Nov. 30 order, the PUC reversed the administrative law judge's initial decision that recommended denying the applications in favor of those rural carriers who protested the application. Although the PUC has been allowing facilities-based competition in certain rural telephone company service territories on a case-by-case basis since 1999, competition in the rural territories had been non-existent largely due to additional protections granted by law. In this case, the PUC concluded that approval of Core's applications was consistent with the public interest and statutory objectives of state and federal law, and that the derived benefits of allowing local competition in the rural ILECs' service territories outweighs the concerns raised in the rural carriers' protests.

On Jan. 3, the Pennsylvania Telephone Association and the Rural Telecommunication Carrier Coalition filed an appeal with the Commonwealth Court.

Commission Remains Active on Missoula Plan

The Federal Communications Commission's (FCC) Missoula Plan, docketed at WC 01-92, is a plan to change how companies pay each other for carrying long-distance calls. The Plan, as proposed, would lower the charges consumers pay to make long-distance calls in rural areas. However, most Pennsylvanians could see a big increase in their federal surcharges if the FCC approves the plan.

A group of states and telephone companies, mostly outside Pennsylvania and the Middle Atlantic region, support the Plan, as do a few rural Pennsylvania companies. The Plan compensates rural companies for reductions in long-distance charges.

Rural companies with high long-distance charges support the Plan, but companies with low long-distance charges do not. That is because, for instance, a company could increase their federal charges from an average of $5.50 per month to $10 over a four-step period. After that, this $10 surcharge goes up every year with inflation.

The Commission conducted the first national state seminar on the Plan on Sept. 11, 2006. The PUC filed comments with the FCC.

The PUC is concerned because Pennsylvania has already spent over $1 billion over the past 10 years reducing long-distance charges and increasing local rates. The Commission does not think the Plan compensates consumers in Pennsylvania for changes they have already paid for reform.

The PUC also filed a reply comment, which said the Plan is not favorable for most Pennsylvania consumers. Another concern is that rates will go up in Pennsylvania to pay for lower rates in other states. Most of those states have done little reform over the past 10 years. The Commission thinks it is not fair to make Pennsylvania consumers pay for those reforms.

The Missoula Plan supporters filed an "amended" proposal. The "amended" Plan claims that Pennsylvania consumers will benefit. The FCC is requesting comments and reply comments on these issues. The PUC is looking at the amendments to see if they will benefit Pennsylvania consumers. The Commission has approved filing of comments to the amended Plan. These comments were filed March 28, 2007.

Update on CTVRS

Interim captioned telephone voice-carry-over relay service (CTVRS) will end soon. A regular service provider has been chosen, Hamilton Telephone Company, d/b/a Hamilton Telecommunications, by way of a Request for Proposals process. Contract drafting and negotiations are underway. The underlying carrier, the Ultratec/Captel/Weibrecht consortium, will not change.

CTVRS benefits persons who can speak but not hear well enough over a telephone for ease of use. CTVRS combines speech and the printed word during a telephone conversation, including voice mail, E-911, and other customary telephone services, resulting in functionally equivalent telephone service. Costs of CTVRS beyond users' lines and long distance are paid by the Telephone Relay Service (TRS) surcharge on wireline service. Equipment is the responsibility of the user unless the user qualifies for Telephone Device Distribution Program (TDDP) assistance, which is funded by the TRS surcharge.

The consortium provides proprietary captioning technology, call centers and sells the premises equipment. Hamilton will provide customer service and interface between the consortium and the PUC, and between the consortium and users.

PUC Stays Verizon's Access Charge Proceeding

In an order at Docket No. C-20027195, the PUC stayed the rural telephone companies' access charge investigation pending the outcome of the FCC's *Intercarrier Compensation Proceeding* (CC Docket No. 01-92) or for a period of one year, whichever is less. The investigation is similar to the Rural Telephone Companies' Access Charge Investigation and addresses further access charge reductions relating to the removal of implicit subsidies from traffic-sensitive access charges and further reductions to the carrier charge.

In its order, the PUC expressed concern that the potential impact of the FCC *Intercarrier Compensation Proceeding* and the associated Missoula Plan proposal may affect *both* interstate *and* intrastate access charge reform, and that the end-user consumers of Verizon PA's and Verizon North's basic local exchange services may have to absorb these effects into their local rates. As such, the PUC reasoned that it is best to await a final FCC decision before proceeding any further.

Qwest Communications subsequently filed a petition for reconsideration. By order entered Jan. 26, the PUC delayed taking final action on Qwest's petition pending review of and consideration on the merits.

PPL Gas Base Rate Increase

On April 27, 2006, PPL Gas filed a supplement to their tariff seeking the PUC's approval to increase annual base rate revenues by $12.8 million or 6.2 percent. On Feb. 8, 2007, the Commission voted unanimously to allow PPL Gas to increase its annual base rate revenue by $8.1 million or 3.9 percent, with a return on equity of 10.4 percent.

PPL requested $987,000 in environmental remediation expenses. However, the Commission allowed only $282,000 to be included within the base rate revenue increase. The Commission agreed with the administrative law judge and removed expenses associated with unknown sites and also reduced the inflation factor from 3.0 percent to 2.4 percent representing the low end of the range of forecasted increases to the consumer price index (CPI) introduced into the record.

The Commission directed PPL Gas to develop an alternative program which would replace a traditional low income usage reduction program (LIURP). This alternative program is to be submitted to the Commission by Aug. 8, 2007, and is to include a proposed funding level and a funding or recovery mechanism for consideration by the Commission.

Petitions for reconsideration, which were due by Feb. 23, 2007, were not filed. The compliance filing has been reviewed by the PUC's Bureau of Fixed Utility Services and it is anticipated to be finalized by Secretarial Letter.

Under the new base rates, the annual bill for an average customer using eight dekatherms of natural gas will increase by about $80 (4.5 percent). The average annual residential bill would increase from about $1,796 to $1,876.

The company's proposal, had it been approved, would have increased the annual bill for an average customer using eight dekatherms of natural gas by about $127, or to $1,923 annually. The rates went into effect on or after Feb. 9, 2007.

NFG Rate Case Settlement

On May 31, 2006, National Fuel Gas Distribution Corporation (NFG) filed Supplement No. 61 to Tariff Gas – Pa. PUC No. 9 proposing an increase in rates calculated to produce an additional $25.8 million in annual revenues. The Commission suspended the effective date of the filing until March 2, 2007, and instituted an investigation. Five public input hearings were held and 168 people presented testimony.

On Oct. 12, 2006, a joint petition for settlement was filed providing for a $14.3 million rate increase, an increase in LIURP funding, funding for research and provisions to ensure adequate funding of post-employment benefit plans. On Oct. 31, two administrative law judges (ALJs) issued their recommended decision approving the settlement. By order entered Dec. 4, 2006, the PUC adopted the ALJs' recommendations and the rates set forth in the settlement became effective on Jan. 1, 2007. NFG provides retail gas sales and transportation services to 14 counties in northwestern Pennsylvania.

Gasco Distribution, Knox Energy and Utility Pipeline Decision

During public meeting on Sept. 28, 2006, the Commission approved the application of Gasco Distribution Systems Inc. for the transfer of its Claysville Division's assets and facilities to Utility Pipeline Ltd. and immediately thereafter to Knox Energy Cooperative Association Inc. The transaction involved the unique circumstance of the transfer of a portion of a regulated public utility natural gas distribution system to a non-profit, member-owned cooperative corporation.

The Commission approved the transaction subject to several conditions. The Commission ordered the applicants to notify the PUC within 30 days of the occurrence of any event relative to Knox Energy's status as a bona fide cooperative, including, but not limited to, any ruling or determination by the IRS or any state. The Commission also directed the applicants to do the following:

- to freeze base rates for a period of three years;
- to invest a minimum of $35,000 per year for the next five years in new construction and pipeline replacement; and
- to adopt written winter termination procedures applicable to the Claysville members that are equivalent to those in Chapters 14 and 56 that will remain effective for three years.

To ensure that these conditions are met, the Commission's Bureau of Audits and Gas Safety Division will monitor UPL and Knox Energy for compliance for three years. This monitoring will include, but not be limited to, the above conditions and the operations and financial condition of the companies.

On Jan. 10, 2007, Gasco, Knox, and UPL filed an application under which Gasco would sell its Kane division to Knox/UPL. On March 22, the Commission unanimously voted to approve the application, subject to certain conditions.

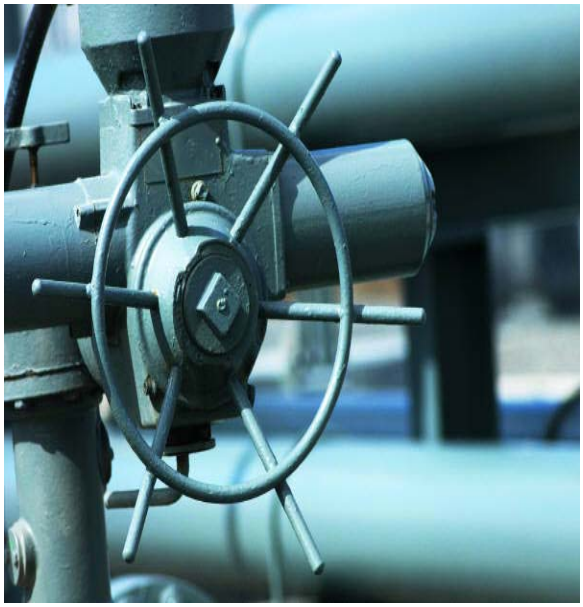
Philadelphia Gas Works Rate Filing

The Philadelphia Gas Works (PGW) filed a request on Dec. 22, 2006, to increase its distribution charges by $100 million to cover certain operating expenses that have increased substantially since their last rate increase. The increase is needed to assure that the city's natural gas system continues to remain safe, reliable and financially viable.

If the request is approved as filed, it would increase the bill of a typical residential heating customer by around 9.3 percent. A typical commercial customer would receive an increase of approximately 13.2 percent and industrial heating customers can expect the same increase projected for residential customers.

Increases in pension and health care expenses along with the interest expense on additional debt are the main reasons for the revenue increase. PGW's last rate increase was approved in 2002.

The PUC, at its public meeting on Feb. 8, suspended the rate increase and ordered further investigations into the claimed increase. The matter was assigned to the Office of Administrative Law Judge for public input and evidentiary hearings. Four public input hearings were scheduled in Philadelphia to allow consumers the opportunity to provide comments. Two hearings were held in March and two are scheduled for April 9. A final decision will be rendered by mid-September 2007.



SEARCH Working Group Report Expected in June

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

This group was convened pursuant to the Natural Gas Choice and Competition Act, which required the PUC to conduct an investigation five years after enactment of the law in 1999 to determine whether effective competition exists in the Commonwealth. That investigation was concluded in October 2005, and the PUC's report to the General Assembly indicated that effective competition did not exist on a statewide basis. Under that law, the PUC was then required to reconvene stakeholders to explore avenues, including legislative, for increasing competition.

Gas Supplier Licensing

Activity from Oct. 1, 2006 to March 31, 2007.

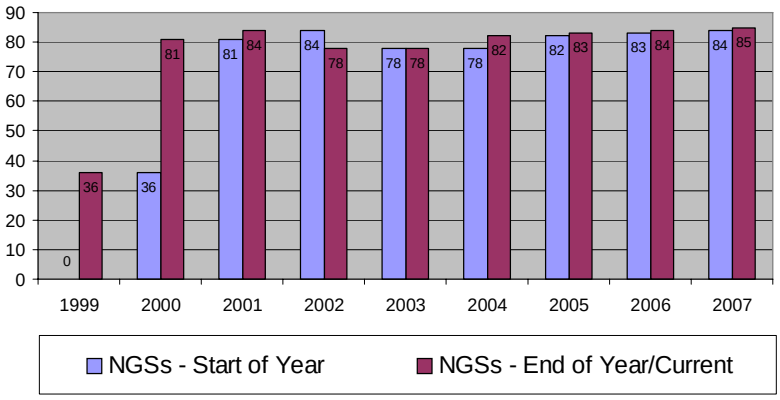
86 Active Licenses

1 license canceled

2 licenses approved

2 applications pending

Number of Licensed NGSs



Energy Price Forecast for March 2007

The Energy Information Agency's (EIA's) March 2007 *Short Term Energy Forecast* reports that world oil markets tightened in recent weeks in response to production cuts by members of OPEC and the return of cold winter weather in North America. February's cold weather and higher demand for heating fuels raised spot prices for crude oil and natural gas, which had fallen in January.

West Texas Intermediate (WTI) crude oil is the benchmark crude oil in the United States. In 2006, WTI crude averaged $66.02 a barrel. WTI crude oil is expected to average around $62 per barrel in 2007 and $63 in 2008.

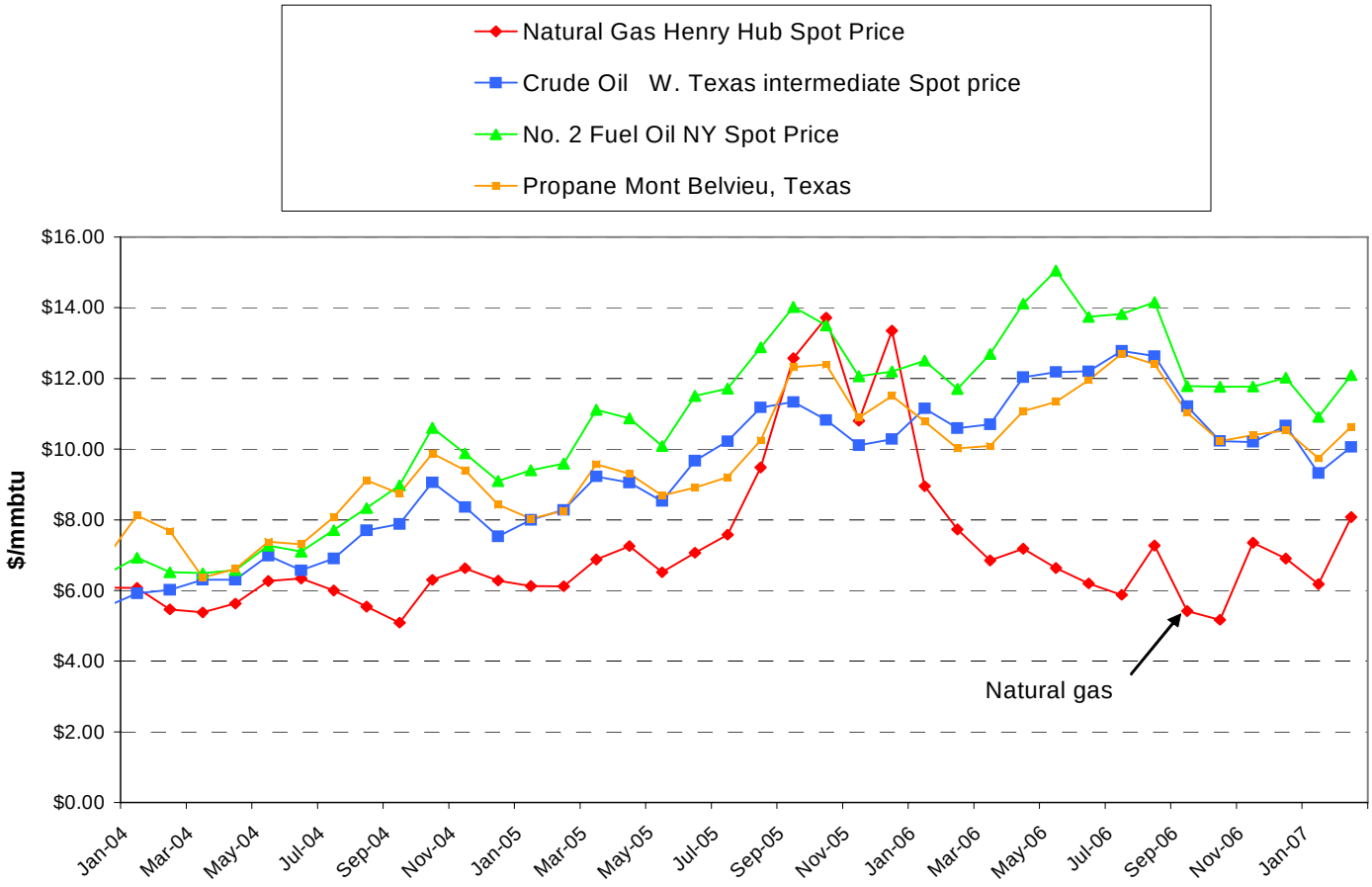
EIA estimates that average United States households heating with natural gas will end up spending 11.5 percent less for fuel this winter than last winter. Households heating with heating oil can expect to pay about 0.5 percent less than last winter. Households heating primarily with propane can expect to pay about 4.5 percent more than last winter.

EIA shows that Henry Hub (Louisiana) wholesale natural gas prices averaged $6.41 per Mcf in 2006, and are projected to average $6.83 per Mcf in 2007. For 2008, the Henry Hub average price is projected to move up to an average of $7.08 per Mcf.

With the recent increase in prices, 2007 regular gasoline pump prices are now expected to average $2.58 per gallon. Rising crude oil prices and seasonal demand growth will push up average monthly motor gasoline prices from $2.28 per gallon in February 2007 to a peak of $2.67 per gallon in June 2007. Nevertheless, the projected average of about $2.60 per gallon for the upcoming driving season (April-September) would be about 20 cents per gallon less than last year's driving season average. Additional forecast details can be found at http://www.eia.doe.gov/oiaf/forecasting.html .

Wholesale Fuel Prices by Heat Content

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



Rail Safety Communication & Annual Work Plan

The PUC and the Federal Railroad Administration (FRA) are responsible for rail safety in the Commonwealth. The two agencies have inspectors who are equally qualified to inspect railroad facilities, and enforce the applicable safety regulations. To improve the effectiveness and efficiency of each agency's safety programs, the PUC and FRA established an agreement called the Safety Communication and Annual Work Plan. The plan provides optimum use of available resources, while promoting cooperation between the agencies. The FRA liaison officer and the state program manager are responsible for the development and implementation of the plan. The agencies meet annually to develop and sign the agreed upon work plan. It is then reviewed quarterly to determine updates and progress. The work plan includes discussions to coordinate inspections, development of plans for focused inspections, training needs, personnel changes, and review of inspection and accident data to develop appropriate responses.

Pennsylvania's position as the Keystone State is fitting as it relates to rail transportation. The volume of rail traffic is near the highest of any state. Pennsylvania is also home to the largest number of short line railroads of all states, and fifth among the nation in track mileage. As a result there is more than enough inspection and compliance work for both the PUC and FRA to deal with, and the work plan allows both agencies to appropriately focus their resources.

The work plan addresses all railroads in the state, including short lines. It details a comprehensive inspection effort, including procedures to ensure adequate inspection coverage without duplication of effort. For instance, the state and federal track inspectors have specifically assigned inspection territories. Although both have the jurisdiction to conduct safety inspections on any track outside their respective territories, the work plan ensures that the inspections are coordinated and not duplicative unless necessary. Since trains and railroad personnel move throughout the state, there isn't a need for specific inspection territories for the other safety disciplines, such as equipment, operating practices and hazardous material compliance. However, the work plan coordinates these inspection activities as well.

The work plan also provides for communication procedures so that personnel in both agencies receive needed information. For example, the FRA provides the program manager with reports and access to all inspection data, technical bulletins and accident summaries. The data helps the PUC to focus future inspections and investigations, and to forward the results of completed inspections and investigations to the FRA for analysis. The communication protocols allow both agencies to share their respective knowledge about particular situations in order to identify problems with particular carriers, and possibly regional and systemic problems.

The Safety Communication and Annual Work Plan provides the structure for the FRA and PUC to work together as a team to pursue rail safety in Pennsylvania. It has provided the PUC, FRA, rail carriers, and the public with an effective and efficient compliance tool to provide safe rail transportation of freight and passengers throughout the Commonwealth. As a result, both agencies have confidence and respect for the other's safety efforts.

Motor Carrier Division Employs Wireless Cards

Prompted by a requirement for receiving funding from the Motor Carrier Safety Assistance Program (MCSAP), the Commission purchased wireless air cards for its Motor Carrier Division enforcement staff in spring 2006. Enforcement officers now have access to driver and motor carrier information through their laptop computers while seated in their patrol vehicles. Furthermore, the enforcement staff has gained an additional communication tool by enabling email capability from the roadside.

The MCSAP has periodically established conditions for its grantees, and recently required participants to begin deploying electronic technologies in order to obtain real-time information about carriers and drivers during roadside inspections. The wireless air cards are used in conjunction with the officer's laptop to access safety Web sites operated by the federal government. Enforcement officers are able to access the Federal Motor Carrier Safety Administration (FMCSA) Web sites to obtain commercial driver license (CDL), driver information from the Commercial Drivers License Information System (CDLIS), and are also able to determine if a "for hire" carrier is operating with the required operating authority.

Officers also have the ability to access previous inspection query (PIQ) and review actual inspection reports that were completed previously on the driver and/or vehicle they currently have stopped for inspection. Based on the information received from the FMCSA Web sites, officers take the appropriate enforcement action. The PUC will receive an 80 percent reimbursement for the purchase of the air cards, however in the case of officers engaged in the new entrant safety audit effort, 100 percent reimbursement will be received for costs associated with this technology.

Wireless cards use technology directly connecting to cellular telephone towers and deliver an encrypted signal that allows the access to the Internet at broadband speeds in selected areas, and 1x speed in other areas. The implementation of the wireless card technology has greatly enhanced the efficiency and accuracy of reporting, as carrier and driver information may be directly imported into the inspection report from the FMCSA webpage.

FCC Highlights

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

Petition of Frontier and Citizens ILECs for Forbearance under Section 47 USC 160(c) from Title II and *Computer Inquiry* Rules with Respect to Their Broadband Services, WC 06-147

On Aug. 4, 2006, Frontier and Citizens Communications filed a petition asking the FCC to forebear from imposing Title II Common Carrier obligations, including providing high capacity transmission and special access services, for their broadband and network services that are non-tariffed under the Telecommunications Act of 1996 (TA-96). Special access is all other methods of accessing a carrier's PSTN other than switched access.

In September 2006, the PUC filed reply comments in which it made a number of points, including:

- A previously filed Verizon forbearance may not be an appropriate precedent for this petition for forbearance;
- Record evidence in other proceedings may be better for addressing forbearance, market power and access to "last mile" facilities;
- If the FCC grants the petition as requested, it should retain non-rate obligations in public tariffs;
- The FCC should retain and preserve state authority to protect consumers, conserve numbers and guard public tariffs; and
- Tariffs are alternative methods of recovering costs of universal service, intercarrier compensation and broadband deployment.

Petition of XO Communications, LLC, Covad Communications Group, Inc., NuVox Communications and Eschelon Telecom, Inc, A Rulemaking to Amend Part 51 Rules Applicable to Incumbent LEC Retirement of Copper Loops and Copper Subloops, RM – 11358

On Jan. 20, 2007, the FCC issued a notice on rulemaking regarding the amendment and clarification of the FCC's rules on the retirement of copper loops and subloops. The Copper Petitions ask the FCC to amend and clarify the FCC's rules on the retirement of copper loops and subloops.

In March 2007, the PUC filed comments on the rulemaking suggesting that some preliminary observations warrant initiation of the rulemaking. Those preliminary observations include: that the petitions urge the FCC to examine the abandonment or retirement of copper loops given the FCC's Triennnial Review Order; identify alleged deficiencies with the current rules; propose substantive amendments; and recommends examination of the alleged anti-competitive impacts.

In The Matter of Verizon's Petitions for Forbearance in the Boston, New York, Philadelphia, Pittsburgh, Providence, and Virginia Beach Metropolitan Statistical Areas (MSA), WC 06-172

On Sept. 6, 2006, Verizon filed six petitions seeking forbearance from Section 251(c) and Section 271 obligations imposed on Verizon under TA-96. On Sept. 14, 2006, the FCC issued a Public Notice on the rulemaking.

In March 2007, the PUC filed comments urging the FCC to reject the Verizon forbearance petitions. In its comments, the PUC stated that the basis for its request for rejection included the following reasons:

- A grant of forbearance will effectively overturn the PUC's state-specific merger conditions;
- The Verizon forbearance petitions include three requests that reflect a basic misstatement on the FCC's holding in the *Omaha Forbearance Order* thus, the *Omaha Order* decision is inapplicable to these petitions; and
- Failure to provide extensive evidence establishing the availability of competitive alternatives throughout every MSA subject to a forbearance petition.

In the alternative, if the FCC decided to grant forbearance, the grant must continue the status quo for residential local exchange access and broadband internet access obligations.

In the Matter of Developing a Unified Intercarrier Compensation Regime, CC 01-92

On Feb. 16, 2007, the FCC issued a Notice of Comment pertaining to an *ex parte* letter identifying an amended analysis of the benefits of the Missoula Plan. The Missoula Plan was to assist in developing a revised and unified intercarrier compensation regime.

On March 28, the PUC filed reply comments. In those reply comments, the PUC stated that it was concerned:

- About the continuing lack of compensation for states that pursued a blending of universal service, local rate increases and access rate decreases;
- About a Federal Benchmark Mechanism (FBM) proposal that picks policy winners and losers with the support of a few states after implementation;
- About support for the low rate adjustment in the FBM and that a $2 cap will come from surcharges on customers in states that increased local rates far more than $2 in the 10 years since enactment of TA-96;
- That larger surcharges will aggravate existing declines in the penetration rate in the net contributor states and result in greater declines in the penetration rate;
- That this amended version of the Missoula Plan does not comprehensively address the difficult problem of costs of service and deployment of a modern network in less populated rural areas; and
- That the amended version of the Missoula Plan contains many of the problems associated with the original proposal such as cost-based compensation, the difference in ARMIS-based rates of return, and Section 251(f).

FERC Highlights

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

Duquesne Light Company Filing

On Sept. 29, 2006, Duquesne Light Company filed with the FERC a petition for declaratory order to confirm incentive rate treatment for high voltage transmission project and revised tariff sheets to the FERC's open access transmission tariff pursuant to section 205 of the Federal Power Act. The petition requests the Commission to issue a declaratory order approving certain incentive treatments authorized by FERC Order No. 679 in connection with a new high voltage transmission upgrade project that Duquesne is planning to construct, or cause to be constructed, to enhance the reliability of 138 kV and 345 kV transmission service to the City of Pittsburgh and surrounding areas.

Duquesne requested this transmission plan was eligible for the following rate incentives: an authorized return on equity (ROE) for the plan's capital costs of 150 basis points above the base ROE established in Duquesne's 2005 rate proceeding, with such ROE not to exceed the upper end of the zone of reasonableness as determined in that proceeding; authorization to recover 100 percent of prudently incurred transmission-related construction work in progress prior to the in-service date of the plan; and authorization to recover all prudently incurred transmission-related development and construction costs if the plan is cancelled or abandoned, in whole or in part, as a result of factors beyond Duquesne's control.

On Feb. 6, 2007, FERC issued an order, by a 3-2 vote, conditionally granting Duquesne's petition for declaratory order seeking a determination that it is eligible to recover certain transmission investment rate incentives associated with its proposed transmission project. FERC granted the incentives requested and accepted the proposed formula rate, subject to conditions and established hearing and settlement procedures. FERC stated that:

- Duquesne's request satisfied the nexus requirement;
- Conditionally granting an upward adjustment regarding the ROE in the upper end of the range of reasonableness up to 150 basis points was appropriate;
- Inclusion of Duquesne's construction work in progress (CWIP) in rate base was appropriate;
- Preconstruction and pre-commercial costs can be expensed and recovered in current rates; and
- Allowing recovery of prudently incurred costs associated with abandoned transmission projects would be appropriate, if the abandonment is outside of the control of management.

In addition, FERC found that Duquesne satisfied the rebuttable presumption applicable to its section 219 burden regarding the "Baseline" upgrades but not for the "Transmission Owner Identified" (TOI) upgrades. However, FERC conditionally granted Duquesne's eligibility requests regarding TOI upgrades pending the filing of additional evidence. Finally, FERC accepted Duquesne's proposed formula rate subject to conditions and nominal suspension and established hearing and settlement procedures to determine the justness and reasonableness of the proposed ROE and other elements such as the proxy group and a methodology for tracking recovery of capital costs.

Allegheny Energy Inc., et al

On Feb. 28, 2006, Allegheny filed a petition for declaratory order with FERC. In the petition Allegheny requested that the Commission approve its proposed incentive rate treatment including that the:

- Return on equity (ROE) be set at the high end of the zone of reasonableness or, in the alternative, the Commission approve a 200 basis point adder;
- Commission permit Allegheny to recover construction work in progress (CWIP) prior to the in-service date of the proposed project;
- Commission offer Allegheny the option to expense and recover on a current basis the costs that the companies incur during the preconstruction/pre-operating period; and
- Commission allow Allegheny to recover all development and construction costs if the proposed project is abandoned as a result of factors beyond its control.

In addition, Allegheny requested certain accounting authority for the deferral for future recovery of such costs not yet being recovered, plus related carrying costs as well as reservation of the right to request additional incentive rate treatments authorized by a final rule in the promoting transmission investment through pricing reform rulemaking or approved by future Commission orders.

On July 20, 2006, FERC issued its order in which it granted the petition for declaratory order. In the order FERC approved the incentive rate treatments proposed by Allegheny, found that Allegheny demonstrated a nexus between each of its proposed incentive rate treatments and the proposed project, and the approval was predicated on the Allegheny making a subsequent filing pursuant to section 205 of the FPA and that Allegheny must demonstrate the justness and reasonableness of its overall rates in that filing.

On Aug. 21, 2006, and Sept. 1, 2006, Old Dominion filed a request for rehearing and Allegheny filed an answer, respectively. On Jan. 19, 2007, FERC denied Old Dominion's request for rehearing.

***FERC HIghlights** Continued on Page 18.*

FERC Highlights

Continued from Page 17.

FERC Orders

Order 890

On Feb. 16, 2007, FERC issued Order 890. In Order 890, *Preventing Undue Discrimination and Preference in Transmission Services*, FERC amended the regulations and pro forma open access transmission tariff that was previously adopted in Order Nos. 888 and 889. Orders 888 and 889 were issued to ensure that transmission services are provided on a just, reasonable and not unduly discriminatory or preferential basis. In Order 890 FERC set forth a final rule that is designed to:

- Strengthen the open access transmission tariff to ensure remedying undue discrimination;
- Provide greater specificity to reduce opportunities for undue discrimination and facilitate enforcement; and
- Enhance transparency in the rules applicable to the planning and usage of the transmission system. The rule will become effective 60 days after publication in the *Federal Register*.

Order 679

On July 20, 2006, FERC passed a final rule amending its regulations regarding establishing incentive-based rate treatments for interstate transmission of electricity by public utilities. Providing a public utility with the opportunity to file for incentive-based rate treatments regarding interstate transmission would benefit consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion.

Many parties to the matter sought rehearing and clarification of the order. On Dec. 22, 2006, FERC issued its order on rehearing in which it denied in part and granted in part the requests for rehearing and/or clarification.

Suspension of Transmission Cost Allocation Dockets

On Feb. 27, 2007, FERC suspended ongoing administrative litigation (ER06-456, etc) over PJM's transmission cost allocation process, pending its consideration of the Administrative Law Judge's decision in a parallel case (ER05-121). There was no indication as to the timeframe for resolution. The issue of regional transmission cost allocation has been the subject of considerable FERC litigation without resolution over the last several years. A regional transmission cost allocation plan, submitted by the Midwest ISO and supported by numerous Midwest ISO stakeholders, was approved by FERC on Feb. 15, 2007 (ER06-18).

Technical Conferences

Competition in Wholesale Power Markets Conference

On Feb. 27, 2007, FERC Commissioners hosted a technical conference in Washington, D.C. on the state of competition in United States wholesale electricity markets. Invited speakers included many well known representatives of transmission and generation owners, large and small customers, vertically integrated utilities and consumer advocates. Judging from comments and questions by the FERC Commissioners, the agency intends to consider improvements to the existing LMP/FTR security constrained dispatch model utilized by all of the major RTOs, and will not seek to make fundamental structural changes to the existing model. In addition, better integration of customer load response in wholesale markets will also be a priority.

Regional Transmission Seams Issues

On March 29, 2007, FERC held a one day technical conference on regional transmission seams issues in Washington, D.C. The FERC Commissioners were in attendance. The event was web cast live, with links available on the Web site at www.ferc.gov. Issues relating to physical, operational, market and commercial seams were explored.

Market Monitoring

On April 5, 2007, FERC held a technical conference in Washington, D.C. on the issue of market monitoring and the role of RTO market monitoring units. The FERC Commissioners were in attendance, and the event was web cast live, with links available on FERC's Web site. FERC's second notice of this conference indicate that it will:

- Explore the effectiveness of MMUs and IMMs both in performing market oversight and in serving a variety of interested stakeholders. The Commission does not intend to evaluate any individual MMU or IMM or to discuss issues in any pending proceeding. Rather, the Commission would like to focus on the concepts and principles involved in market monitoring and the relationship between the market monitors and the Commission market monitoring staff…

Although the names of invited panelists were not posted as of the date of this writing, it is expected that the Organization of PJM States Inc., an organization of state regulatory commissions within the PJM region, will be represented.

Chapter 56 Update

On Nov. 30, 2006, the Commission approved an advance notice of proposed rulemaking order (Docket No. L-00060182) inviting all interested parties to comment on the Chapter 56 provisions that have been impacted by Chapter 14 and asking how the Commission should revise Chapter 56 to bring it into compliance with Chapter 14. Chapter 14 (66 Pa.C.S. §§ 1401-1418), the *Responsible Utility Customer Protection Act,* was added to Title 66 in late 2004. It is applicable to electric distribution companies, water distribution companies and larger natural gas distribution companies (those having an annual operating income in excess of $6 million). Steam, telephone and wastewater utilities are not covered by Chapter 14.

The order includes an appendix that lists 10 specific subject areas on which the Commission is especially interested in receiving comments. These issues include the termination process, winter termination rules, application and credit procedures, service restoration requirements and collection reporting requirements.

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

This advance notice will enable the Commission to gather input from the industry, consumer groups and advocates before drafting the proposed revisions. The Commission expects that this process will lead to a clear, cohesive, thorough and analytically sound proposed rulemaking order. The Commission received comments from 22 parties, all of which are available at the Commission's Web site by using the "Search for Documents" feature and entering the Docket No. L-00060182. Commission staff is currently reviewing the comments and will be drafting proposed new regulations for future publication and comment.

Chapter 14's Biennial Report

Chapter 14 (66 Pa. C.S. §§ 1401-1418) (*Responsible Utility Customer Protection*) requires the PUC to report to the General Assembly and the Governor every two years to keep them abreast of the implementation of Chapter 14. The Commission submitted its first report on Dec. 14, 2006.

The report concludes that a comprehensive evaluation of the impact of Chapter 14 is premature. However, it cites a number of significant compliance issues that occurred during 2005-06. The report indicates that the Chapter's impact on residential collections will need more time to develop fully as the debt from terminated accounts works its way through the collections cycle to write-offs. As for access to utility service, the report references the Cold Weather Survey data from Dec.15, 2005, that show that more than 17,400 households entered the 2005-06 winter season without heat-related utility service, and an additional 4,000 residences were using potentially unsafe heating sources. According to the report, payment arrangement requests (PARs) to the Commission declined significantly. The Commission turned away 33,647 customers seeking PARs who were deemed ineligible under Chapter 14. The Commission will issue its next biennial report by Aug. 31, 2008, and will include data from 2006-07.

UCARE Report

In December 2006, the PUC released the Bureau of Consumer Services' (BCS) annual assessment of the major utilities in the *2005 Utility Consumer Activities Report and Evaluation* (UCARE).

According to the report, BCS received 84,273 contacts from utility customers that required investigation in 2005, a decrease of 30 percent from 2004. Of these contacts, 22,590 were consumer complaints and 61,683 were payment arrangement requests (PARs).

For the electric industry, service interruptions produced the most residential complaints in 2005. Metering issues generated the highest number of complaints about the gas industry. In the telephone industry, service delivery was the number one reason for complaints while billing disputes generated the largest number of residential consumer complaints about the major water companies.

PARs from residential customers of the electric, gas, water, sewer and steam heat utilities decreased 35 percent from 2004. In large part, the implementation of Chapter 14 (66 Pa.C.S. §§ 1401-1418) was responsible for this decrease, as BCS was not able to accept PARs from many customers due to the requirements of the chapter. BCS turned away more than 28,000 electric, gas and water customers who were requesting PARs in 2005. Residential PARs from residential telephone customers decreased by 34 percent from the previous year.

811 for One Call Notification

At its public meeting of Dec. 7, 2006, the PUC adopted an order that requires Pennsylvania's telecommunication carriers to implement the 811 abbreviated dialing for One Call notifications. Telecommunications carriers must modify their equipment by April 13, 2007, to translate and route an 811 dialed call to PA One Call. It is believed the 811 abbreviated dialing will encourage people to contact state One Call administrators, and thus further provide for safe excavations.

The Federal Communications Commission (FCC) approved the use of 811 as the national abbreviated telephone number for commercial and residential consumers to use to provide advanced notice of excavation activities. In Pennsylvania, persons are required to contact PA One Call at least three business days before beginning an excavation project. PA One Call will alert the involved utilities that have underground facilities of the intended excavation. The underground facility owners will identify any underground lines by clearly marking the lines that are located within the work site. When executed properly, the One Call protocols reduce the opportunity for damage to underground utilities.

During the month of April, all telecommunication providers, as well as electric, gas, water and wastewater utilities, must include a notice to their respective customers about the 811 abbreviated dialing code. The PUC is working with PA One Call and the state's utilities to inform and educate Pennsylvanian homeowners and excavators about 811. The official national launch date is set for May 1, 2007, in Washington, D.C.

On Dec. 29, 2006, the Pipeline Inspection, Protection, Enforcement and Safety Act (Pipeline Safety Act) of 2006 was signed by President George W. Bush. The Pipeline Safety Act requires anyone who is conducting excavation to not only comply with existing state One Call laws, but also contact the 911 emergency telephone number if an underground gas pipeline is damaged that allows an escape of gas. The Pipeline Safety Act also requires anyone who damages a pipeline to immediately report the incident to the owner of the pipeline. It should be noted that Pennsylvania's One Call Law requires anyone who damages any underground facility that results in an emergency to call 911. Remember, call 811 before you dig; call 911 if you damage a gas pipeline.

Customer Service Report on Energy

The 2005 *Customer Service Performance Report: Pennsylvania Electric & Natural Gas Distribution Companies* prepared by the Bureau of Consumer Services, has been published to the PUC Web site. It can be found in Yearly Reports under Publications & Reports. The first section of the annual report presents data collected from the major electric distribution companies (EDCs) and the natural gas distribution companies (NGDCs) on how their customer service operations performed in 2005. The second section presents customer satisfaction survey data gathered by an independent survey company.

The six charts covering telephone access that will be included in the 2006 Customer Service Performance Report will be available on the PUC Web site in April.

Working on Broadband Deployment Issues

Under Chapter 30, companies that opted not to accelerate the deployment of broadband to 2008 were required to implement "bona fide retail request" programs. The general rule is that if a specified number of customers within a community or "carrier serving area" request high-speed Internet services and agree to subscribe for a year, the company is required to deploy those services within a year. Four companies selected this option: Verizon PA, Verizon North, Embarq (formerly Sprint) and Windstream (formerly Alltel).

As a result of legislative and consumer inquiries, PUC staff initiated discussions with these companies in summer 2006 to improve consumer access to information they need to meaningfully participate in these programs. These efforts have also included the Department of Community and Economic Development (DCED). The Office of Consumer Advocate also has been involved in this initiative.

Through these discussions, the state agencies and telephone companies have developed a brochure explaining the programs and educating consumers as to how they can benefit from them. More information may be obtained about these programs from DCED's Web site at www.newpa.com/broadband.

Part of the focus of the inter-agency group is on ensuring that consumers know about the program; that information is easily accessible via the Web; that information is written in plain and customer-friendly language; that consumers can obtain access to user-friendly maps to help identify others in their community or carrier service area; and collaborating on consumer outreach.

Spotlight on the Office of Trial Staff

The Office of Trial Staff (OTS) was created by statute in 1986 to undertake the prosecutory function previously fulfilled by two bureaus – the Law Bureau's Rates Division and the Bureau of Rates. OTS' Bureau Director is also the Commission's Chief Prosecutor, and the bureau is made up of three divisions: administrative, legal and technical. The administrative area is made up of an administrative officer, executive and technical secretaries; the legal division is comprised of five prosecuting attorneys, and the technical division consists of economists, accountants and engineers who serve as expert witnesses.

OTS represents the public interest in all proceedings before the PUC having an impact on rates. On matters involving transportation safety, eminent domain, siting and service issues having no impact on rate and ability to pay cases, OTS may petition the PUC, or may be directed by the Commission to intervene to protect the public interest. The term "public interest" generally means that the OTS staff is obligated to ensure that utilities charge rates that are reasonable, non-discriminatory and at a level that allows the utility to provide safe and reliable service that is affordable. Additionally, OTS strives to balance what is best for the customers, utility and the welfare of the state.

OTS is responsible to the PUC through the Director of Operations office for purposes of administrative matters. Due to its prosecutory role, OTS staff works independently of the other bureaus within the PUC. Staff is prohibited from communicating with the Commissioners, the assigned administrative law judge or any other PUC employee who may be advising in matters of an on-the-record proceeding, except through practices and procedures available to all parties.

OTS case work includes applications, complaints, mergers, proposed rulemakings, rate proceedings (electric, gas, 1307(f) rates, telephone, water) and tariff revisions.

PUC's Budget Holds the Line

The PUC's 2007-08 Budget Request seeks approval for state funds of $51.4 million, which is slightly less than the level authorized for the current fiscal year. The request also includes $2.9 million in expected federal funds for a total budget of $54.4 million. This budget would fully fund the recently-negotiated salary increases, support the complement of 509 staff, and permit the PUC to fulfill statutory responsibilities in all program areas. With assessments on public utilities of $51.4 million, which may be recovered from ratepayers, the PUC's budget costs the Pennsylvania's 5 million utility customers about $10 per year.

PUC Recieves Positive Performance Audit

On Jan. 31, 2007, the Legislative Budget and Finance Committee (LB&FC) released a Performance Audit of the PUC. In this report, the LB&FC found that, given the PUC's statutory responsibilities, the size and cost of the agency appears reasonable when compared to other regulatory utility commissions.

The PUC's response, dated Jan. 24, 2007, welcomed the opportunities offered for enhancing performance of its statutory responsibilities and noted an expectation to promptly implement many of the recommendations. A key suggestion of the audit team relates to development of a long-term strategic plan, which the PUC has already commenced.

The report also observed that the PUC has enhanced the monitoring of electric reliability and made good progress in implementing the requirements of the Alternative Energy Portfolio Standards Act. Other positive observations include the strides made to ensure the timeliness of decisions and the good customer service provided by the PUC. The report further recognizes Pennsylvania as a national leader in the regulation of water companies.

In addition, the report illustrates the collaborative work performed by the PUC with other state agencies. One example is the excellent arrangement with the Pennsylvania State Police in fulfilling motor carrier safety duties.

The report contains several recommendations for legislative action in the areas of management audits, gas safety, a collection system improvement charge for wastewater utilities, municipal water authority jurisdiction, and the recovery of regulatory expenses. While the PUC has generally expressed support for exploring most of these areas, it emphasized concerns about any effort to raise the threshold for mandatory management audits since they examine critical areas that are important to the public interest, such as cyber and physical security, reliability, and corporate governance.

The performance audit was directed by House Resolution 695 of 2006. The Report is available on LB&FC's Web site at http://lbfc.legis.state.pa.us/.

InfoMAP On Track for Summer 2008 Deployment

The PUC-Unisys team is on track to implement the first phase of Information Management and Access Project, InfoMAP, in the fall 2007. This phase entails replacement of the PUC's case management system that was developed in-house in 1978. Also at that time, the PUC will be automating workflows and relying less on paper and manual processes. By summer 2008, the PUC expects to complete the second and third phases, enhancing public access to information and giving consumers, utilities and practitioners the opportunity to file documents electronically and to engage in e-commerce.

An important component of the project in the upcoming months is the development of rules governing electronic filings. The PUC staff has been drafting proposed regulations, using feedback from stakeholders and models in place in other jurisdictions. The topics for the proposed rulemaking include:

- Whether paper copies will be required;
- How service on parties will be handled;
- The size and type of documents that may be electronically filed; and
- Registration of e-users.

A stakeholder meeting has been scheduled for May 4, 2007, to discuss a staff proposal that will be circulated by April 24. If you wish to be added to the distribution list for this project, please send an email to ra-infomap@state.pa.us.

More information about InfoMAP is available on the PUC's Web site at www.puc.state.pa.us/general/infomap.aspx.

Celebrating Black History Month

On Feb. 8, 2007, eight state agencies joined together to mark Black History Month.

The PUC, Historical and Museum Commission, the Governor's Advisory Commission on African American Affairs and the departments of State, Community and Economic Development, Aging, General Services and Banking celebrated the contributions of Africans and African- Americans at the Forum Building this year.

This year's theme, "From Slavery to Freedom: The Story of Africans in the Americas," featured a theatrical presentation by the Washington, D.C.-based Pin Point Theater, an explanation of the struggles of people of African descent by Dr. Rita Smith Wade-El, coordinator of African American studies at Millersville University, and a musical performance from the Nativity School Boys Choir.

PUC Hosts Informational Booth at the Farm Show

The Public Utility Commission expanded its consumer-education outreach by hosting an informational booth at the 91st Annual Pennsylvania Farm Show, Jan. 6 - 13, 2007, at the State Farm Show Building in Harrisburg. Considered by many to be the nation's top agriculture expo, the Pennsylvania Farm Show attracted hundreds of thousands of people from across the Commonwealth.

The Commission's booth contained a variety of consumer-education information materials about energy, telephone, transportation, water and wastewater issues. Keeping with the Farm Show's 2007 theme "Growing Pennsylvania Agriculture to Feed and Fuel our Future," the Commission's primary focus was on educating consumers to prepare now for higher energy costs, providing tips for weatherizing homes and conserving energy. Additionally, information was also available on a host of programs designed to aid low-income consumers in paying their utility bills.

As part of Act 183 of 2004, the Commission worked with the Department of Community and Economic Development (DCED) to inform consumers about the Bona Fide Retail Request (BFRR) Program. This program was established to accelerate access to high-speed Internet service when consumers demonstrate sufficient demand.

Finally, the PUC exhibit provided information about Telecommunications Relay Service (TRS), the service which enables Pennsylvanians to communicate by telephone with people who are deaf, hard of hearing or speech disabled.

Jason Kean, of the PUC's Bureau of Consumer Services, staffed the informational booth at the 2007 Pennsylvania State Farm Show that took place in Harrisburg in January.

Commissioners Testify at Legislative Hearing on Electric Rate Caps

On Feb. 7, the Commissioners testified at a hearing of the Senate Consumer Protection & Professional Licensure Committee regarding the impending expiration of rate caps for major electric companies in Pennsylvania. At the hearing, the Commissioners collectively presented comprehensive testimony outlining the steps being taken to prepare for the expiration of rate caps.

As explained by the Commissioners, these efforts include price mitigation strategies, consumer education, demand side response and participation before the Federal Energy Regulatory Commission on wholesale market design issues. The Commissioners also described the history of the restructuring of the electric industry and highlighted the fact that electric prices have remained the same for over 10 years while prices for other commodities and services have increased. Noting that the prices of natural gas and coal have doubled in the last ten years, the Commissioners explained that market prices for electricity have likewise risen during that time.

Duquesne Default Service

Duquesne Light Company filed a petition on Jan. 25, 2007, requesting approval of a plan that will supply a secure source of electricity for residential and small commercial customers from 2008 through 2010. The petition was filed now since the current supply plan for customers who have not chosen a generation supplier expires at the end of 2007.

Duquesne Light's proposal is intended to provide a bridge to the time when generation rate caps will expire for most other major electric distribution companies in the state. The petition seeks approval of the following elements:

- Fixed-price generation service for non-electric heat residential customers through 2010;
- Fixed-price generation service for non-electric heat small commercial and industrial (C&I) customers over the same period that will be adjusted annually, in 2009 and 2010, to reflect changes, up or down, in market prices; and
- Continuation of hourly pricing as the default service for large C&I customers.

This matter has been assigned to the Office of Administrative Law Judge for hearings. Technical evidentiary hearings are scheduled for the end of April with main and reply briefs due in May.

Motor Carrier Holds Conference

The Bureau of Transportation and Safety's Motor Carrier Division held its Annual Training Conference for its enforcement staff from March 12-16, at the Willow Valley Resort and Conference Center in Lancaster.

Commissioner Kim Pizzingrilli and Director Karen Moury addressed the staff to open the conference. The meetings primarily focused on annual update training required for the enforcement staff. However, one day provided instruction on the Commission's new regulations for passenger carriers, including a presentation about the capabilities of taxi meters from a representative of a major taxi meter company.

PUC Enforcement Officer Phillip C. Jones Jr., was presented with the 2007 Officer of the Year award by Commissioner Kim Pizzingrilli at the Motor Carrier Division's Annual Training Conference. Officer Jones joined the PUC in 2003 and works out of the Scranton Office. He has participated in outreach educational training programs for the carrier industry and has consistently provided support to the Safety Office in preparing material and organizing events for its annual conference. His inspection expertise allows him to conduct a comprehensive demonstration of inspection procedure and use of the wireless technology for Commission staff.

Guest speaker Byron Corcoran (left) explains how a taxi meter operates to PUC Enforcement Officer Charles Bowser of the Pittsburgh Office. Byron Corcoran, of Taximeter Centrodyne Corporation of America, presented a session on the latest technology in taxi metering.

Demand Side Response

Continued from Page 1.

residential homes to on-bill financing to assist small business customers with the start-up costs of efficiency programs.

Advanced Metering Infrastructure

This subgroup is describing the capabilities of a "fully functional" advanced metering infrastructure, identifying steps that are needed to accomplish that end state, and providing estimates of costs and deployment timeframes. Through this subgroup, staff has received descriptions of some pricing options that might be offered if the technology is deployed. An example that is already available to some Pennsylvania residential customers is a time-of-use rate that provides an incentive to shift load from on-peak periods to off-peak periods during the summer.

Consumer Education

This subgroup is researching successful general education about DSR, energy efficiency and conservation to heighten awareness of the existence of these programs and building acceptance for programs and technologies as they are offered. Staff plans to coordinate this effort with the Commission's recent tentative order regarding mitigating potential significant electric price increases and a possible consumer-education component.

Cost Recovery

This subgroup is reviewing ratemaking mechanisms for recovery of DSR-related costs. One particular mechanism is revenue decoupling, which separates the recovery of fixed costs from variable costs or usage. Utilities in several states have implemented measures which increase the customer charge and reduce the usage rate of a customer's bill, or even charge a flat rate amount for distribution charges. This mechanism allows a utility to recover its authorized revenues at the same time it is promoting conservation or other projects that can lead to reduced consumption of its customers.

Telecom Egypt Visits the Commission

On Tuesday, Feb. 6, the Commission welcomed 25 delegates from Telecom Egypt. During their time at the PUC, the group heard presentations from Commission experts on the telephone industry in Pennsylvania.

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.