



PENNSYLVANIA PUBLIC UTILITY COMMISSION

2014-15 ANNUAL REPORT



The Pennsylvania Public Utility Commission balances the needs of consumers and utilities; ensures safe and reliable utility service at reasonable rates; protects the public interest; educates consumers to make independent and informed utility choices; furthers economic development; and fosters new technologies and competitive markets in an environmentally sound manner.

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Pictured (left to right): Vice Chairman Andrew G. Place, Commissioner Robert F. Powelson, Chairman Gladys M. Brown, Commissioner John F. Coleman Jr. and Commissioner Pamela A. Witmer.

The Honorable Tom Wolf, Governor of Pennsylvania

The Honorable Michael Stack, Lieutenant Governor of Pennsylvania

Members of the General Assembly

We are pleased to submit the FY 2014-15 Annual Report for the Pennsylvania Public Utility Commission (PUC). As required by Section 321 of the Public Utility Code, 66 Pa.C.S § 321, the Annual Report highlights the accomplishments and challenges the PUC faced over the course of the year in fulfillment of our mission as regulators and protectors of the public interest. This year's report highlights how the PUC is adapting to the changing utility marketplace. In the 21st century, the PUC is more than a utility regulator.

This year the PUC took steps to ensure consumers are fully aware of the consumer complaint process by creating a [Consumer Complaint Procedures Guide](#), and also by updating our website to allow users to search by company for formal complaints filed against regulated utilities and suppliers.

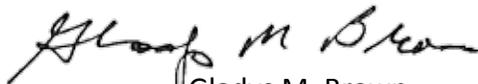
As a way to increase transparency and participation in public input hearings, the Commission introduced a Smart Hearing pilot project aimed to make it easier for utility customers to comment on proposed rate increase requests. Consumers throughout Pennsylvania were able to see and hear testimony being offered during the hearings by watching a live stream on [the PUC website](#), and submit testimony by telephone during the hearing broadcast, rather than traveling to Harrisburg.

As a lead agency in spearheading discussions about cybersecurity in the utility sector, the PUC is nationally recognized as a conduit of information among utility industries and state and federal government agencies - breaking down silos to ensure that important information concerning escalating cyber threats and improved best practices can be shared.

In the natural gas sector, the Commission has approved four pilot projects which feature ways to encourage the extension of natural gas into unserved or underserved areas.

The PUC continues to stress the importance of safety in the area of transportation, and this fiscal year, certificated three transportation network companies (TNCs) for two-year, experimental service in Pennsylvania, and remains vocal in encouraging new legislation as a permanent solution for TNCs in Pennsylvania. The legislation would obviate the need for regulations that will ensure adequate insurance protections, vehicle safety and driver integrity.

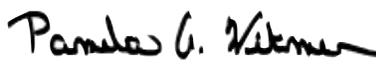
We look forward to continuing our mission to balance the needs of consumers and utilities; ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.



Gladys M. Brown



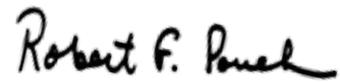
Andrew G. Place



Pam Witmer



John F. Coleman



Robert F. Powelson



INTRODUCTION

Utility service is a critical element to the health and safety of Pennsylvania's consumers and to the Commonwealth's economic growth. The Pennsylvania Public Utility Commission (PUC) ensures that electric, natural gas, water and telecommunications services are available at reasonable rates and are provided safely and reliably. Similarly, customers using taxis, moving services or motor coaches expect fair, reliable and safe service. The Commission also works to promote the safety of public highway-railroad crossings and compliance with railroad regulations.

Under the law, utilities are entitled to an opportunity to earn fair rates of return. The PUC recognizes that it is in the long-term public interest to create a strong financial climate for investment in the Commonwealth's public utilities. By allowing a fair and reasonable return to investors, public utility companies can attract the capital needed to provide and improve utility services for all customers, and make appropriate capital investments in critical infrastructure.

ORGANIZATION

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

The Commission is comprised of five full-time members nominated by the Governor and approved by a majority of the state Senate for staggered five-year terms. The Commissioners set policy on matters affecting utility rates and services, as well as on personnel, budget, fiscal and administrative matters. Commissioners take official action on cases during regularly scheduled public meetings.



Andrew Place (left) is sworn in as PUC Commissioner by Department of State Executive Deputy Secretary Thomas J. Weaver (right) on Oct. 1, 2015. The Commissioners selected Place as the new Vice Chairman, effective Jan. 1, 2016, succeeding John Coleman.

The Commission has its headquarters in Harrisburg with regional offices in Philadelphia, Pittsburgh and Scranton. In Fiscal Year 2014-15, the Commission continued to strive to create a more open and user-friendly PUC. Information about the PUC, including copies of documents filed with and produced by the Commission, audio and video of certain Commission proceedings, forms, applications and summaries of public meetings, is available at www.puc.pa.gov. The Commission maintains a social media presence through Facebook (Pennsylvania Public Utility Commission) and Twitter (@PA_PUC) to create transparency and to actively engage more consumers.

The PUC oversees nearly 8,000 entities furnishing the following in-state services: electricity; natural gas; telephone; water and wastewater collection and disposal; steam heat; transportation of passengers and property by motor coach, truck and taxicab; pipeline transmission of natural gas and hazardous materials; and public highway-railroad crossings. Municipal utility service is exempt from PUC regulation, with the exception of services furnished beyond a municipality's boundaries. Similarly, rural electric cooperatives, municipal authorities, school buses, bottled water, heating oil, cable television, Internet service, bundled telecommunications/Internet services and wireless telecommunications services are exempt from PUC regulations.

Because of the flexibility provided under Act 129 of 2008, the Commission began a comprehensive review of its organizational structure. The first review in decades, and the resulting realignment of bureaus, allowed the

Commission to address significant changes in the utility industry and meet PUC responsibilities efficiently and effectively, in a manner where transparency and employee engagement remain top priorities.

The Commission is funded by assessments of the regulated entities based upon intrastate revenues. Assessments are paid into the state Treasury's General Fund for use solely by the Commission.

BROAD POWERS

The PUC exercises broad powers in meeting its regulatory obligations. In today's rapidly changing business environment, utilities must consider all of their options. Utility mergers, rate change requests, acquisitions and affiliated interest agreements continue to be filed before the Commission at a steady pace. With limited exceptions, utilities are required to obtain Commission approval for these transactions, as well as to operate, extend or abandon service. The PUC's responsibility is to ensure these actions are in the public interest. During the first two quarters of 2015, the PUC received 13,395 filings and served 6,128 documents including consumer and staff-initiated complaints.

The PUC also works diligently to ensure the operation of competitive markets in the electric and natural gas industries. The move toward competitive electricity markets through the passage of the 1996 Electricity Generation Customer Choice and Competition Act was based primarily on the legislative finding that competitive market forces are more effective than economic regulation in controlling the cost of generating electricity. The 1999 Natural Gas Choice and Competition Act also allowed consumers to choose who supplies their own gas.

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

In addition to regulating rates for motor carriers that transport property, passengers and household goods, the PUC is responsible for enforcing rail and motor carrier safety laws. Motor vehicle, railroad facility and track inspections are important components of the PUC's safety program. The PUC also resolves complaints about unsafe conditions at rail crossings and enforces common carrier compliance with safety and insurance requirements.

If customers have complaints about a utility, they may seek help by calling a toll-free number. Trained PUC customer service representatives help to address billing and quality of service issues, establish payment plans or restore service. The toll-free number is 1-800-692-7380.



COMMISSION'S BUDGET

EXECUTIVE GOVERNMENT OPERATIONS

| GENERAL GOVERNMENT FUND | GENERAL FUND | GENERAL FUND |
|---------------------------------|--------------------------------|-------------------------|
| | Estimated 2014-15 Expenditures | Approved 2015-16 Budget |
| State Funds: | | |
| Personnel | \$51,150,000 | \$55,611,000 |
| Operating | 12,898,000 | 13,719,000 |
| Fixed Assets | 204,000 | 210,000 |
| Other | 319,000 | 100,000 |
| Total State Funds | \$64,571,000 | \$69,640,000 |
| Federal Funds: | | |
| Personnel | \$2,716,000 | \$2,739,000 |
| Operating | 1,069,000 | 322,000 |
| Total Federal Funds | \$3,785,000 | \$3,061,000 |
| Other Funds | 1,000,000 | \$1,000,000 |
| Total Commission Budget: | \$69,356,000 | \$73,701,000 |

OTHER REVENUE SOURCES

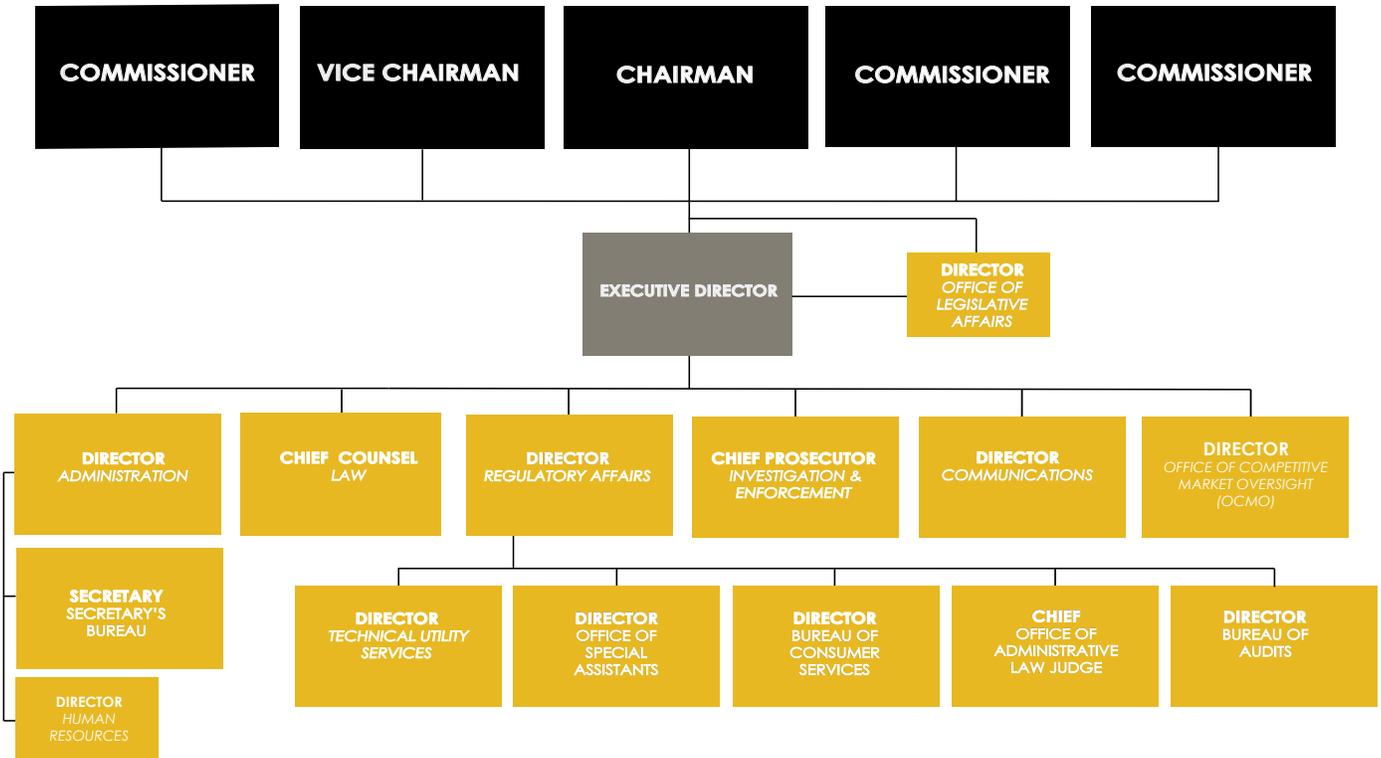
| | 2013-14 RECEIPTS | 2014-15 RECEIPTS |
|---------------------------------------|--------------------|--------------------|
| Unconventional Gas Well Fund - Act 13 | \$1,000,000 | \$1,000,000 |
| Filing & Copy Fees | 283,639 | 15,670 |
| Electric Generation Application Fees | 37,100 | 16,100 |
| Fines* | 2,831,316 | 1,880,650 |
| Federal - Gas Pipeline Safety | 1,104,718 | 1,148,124 |
| Federal - Motor Carrier (MCSAP) | 1,012,205 | 1,105,913 |
| Total | \$5,269,088 | \$5,166,457 |

2013-14 APPLICATION FEES, FILING & COPY FEES & FINES

| | ELECTRIC GENERATION APPLICATION FEES | FINES | FILING & COPY FEES | TOTAL |
|--------------|---|--------------------|-----------------------|--------------------|
| 1st Quarter | \$7,000 | \$1,340,192 | \$6,540 | \$1,353,732 |
| 2nd Quarter | 3,850 | 255,962 | 3,093 | \$262,905 |
| 3rd Quarter | 2,450 | 247,572 | 1,922 | \$215,944 |
| 4th Quarter | 2,800 | 36,924 | 4,115 | \$43,839 |
| Total | \$16,100 | \$1,880,650 | \$15,670 | \$1,912,420 |

* These funds go directly to the General Fund.

ORGANIZATIONAL CHART



BUREAU DIRECTORS



JAN FREEMAN
EXECUTIVE DIRECTOR

THE EXECUTIVE DIRECTOR is responsible for the oversight of the day-to-day management of the Commission's functions and staff. This position is responsible for the overall planning, direction, organization and operation of the Commission. Also, the Executive Director develops, recommends to the Commissioners, and implements the PUC's strategic plans and policies.



MARY BETH O'HARA
OSBORNE
DIRECTOR OF REGULATORY
AFFAIRS

THE DIRECTOR OF REGULATORY AFFAIRS oversees the PUC's bureaus with regulatory functions, including the Bureau of Audits, the Bureau of Consumer Services, the Office of Special Assistants, the Bureau of Technical Utility Services and the Office of Administrative Law Judge. The Director of Regulatory Affairs also is responsible for planning, organizing, coordinating, directing and overseeing regulatory staff.



ROBERT C. GRAMOLA
DIRECTOR OF
ADMINISTRATIVE SERVICES

THE DIRECTOR OF ADMINISTRATION is responsible for overseeing administrative, fiscal and personnel functions. The Bureau of Administration is comprised of the Office of Human Resources; Management Information Systems, which oversees technology; the Secretary's Bureau; and the Office of Administrative Services, which is responsible for office services and the Fiscal and Assessment section that handles budget issues and the financial functions of the Commission.



CHARLES E. RAINEY JR.
CHIEF ADMINISTRATIVE
LAW JUDGE

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



DENNIS HOSLER
DIRECTOR OF AUDITS

THE BUREAU OF AUDITS performs financial, management, operational and specialized audits on electric, natural gas, steam heat, wastewater, water and telecommunications utilities. It also reviews certain adjustment clause rate filings and 1307(e) reconciliation statements. The audits may result in recommendations to refund over-recovered costs and to improve accounting/operational procedures that could save utilities and consumers money.



TOM CHARLES
DIRECTOR OF
COMMUNICATIONS

THE OFFICE OF COMMUNICATIONS is charged with handling Commission media relations, external communications, internal communications and consumer education, in addition to acting as the lead staff for the Consumer Advisory Council. The Office also is responsible for issuing press releases, responding to media calls, conducting special consumer-education campaigns, distributing educational materials, informing consumers about programs and rights, creating internal and external newsletters and other publications, and coordinating the PUC’s website and social media outreach.



KIRK HOUSE
DIRECTOR OF OFFICE OF
COMPETITIVE MARKET
OVERSIGHT

THE OFFICE OF COMPETITIVE MARKET OVERSIGHT serves as the Commission’s electric choice ombudsman and oversees the development and functioning of the competitive retail electric and gas supply markets, in addition to providing a forum for informal dispute resolution.



ALEXIS BECHTEL
DIRECTOR OF CONSUMER
SERVICES

THE BUREAU OF CONSUMER SERVICES investigates informal complaints from residential and small commercial customers and enforces the PUC’s customer service regulations. The Bureau also serves as an intermediary between utilities and consumers, working to mediate complaints or make payment agreements. In addition, the Bureau is responsible for implementing and monitoring universal service and energy conservation programs that help low income consumers. Each year the Bureau prepares utility-related reports that provide an assessment of complaint handling, customer service performance, universal service programs and collection performance.



JUNE PERRY
DIRECTOR OF
LEGISLATIVE AFFAIRS

THE OFFICE OF LEGISLATIVE AFFAIRS acts as the liaison between the PUC and the Governor’s Office, the General Assembly and the Pennsylvania Congressional Delegation; identifies legislation that may affect the Commission or public utilities and obtains staff analysis; provides relevant information to the legislature; and promotes the Commission’s position on legislation and issues with the General Assembly.



JOHNNIE SIMMS
DIRECTOR OF INVESTIGATION
& ENFORCEMENT

THE BUREAU OF INVESTIGATION AND ENFORCEMENT serves as the prosecutory bureau for purposes of representing the public interest in ratemaking matters. The Bureau also prosecutes service matters before the Office of Administrative Law Judge, and enforces regulatory compliance with the state and federal motor carrier safety, electric safety, and gas pipeline safety laws and regulations. The Bureau handles rail safety enforcement proceedings and investigates referrals from other Bureaus. The Bureau also prepares administrative reports for the Commission.

THE LAW BUREAU acts as the Commission's in-house legal counsel in three main areas: advisory, representational and enforcement, providing legal advice to the Commission regarding electric, natural gas, telecommunications, water/wastewater, and transportation matters, as well as proposed legislation, regulatory and policy statements. The Bureau's director serves as Chief Counsel to the Commission. The Law Bureau represents the Commission before state and federal courts and before other state agencies. The Bureau also represents the Commission before federal agencies such as the Federal Communications Commission and the Federal Energy Regulatory Commission.



BOHDAN R. PANKIW
CHIEF COUNSEL

THE SECRETARY'S BUREAU is the PUC's official point of contact with the public. The Secretary serves as the prothonotary of the Commission, and all documents and filings received by the Commission must be officially filed with the Secretary. The Bureau processes, docket, and assigns all filings to the appropriate bureaus within the Commission for review and recommendation. All official Commission actions and decisions are issued over the Secretary's signature. The Secretary's Bureau coordinates the Commission's Public Meeting agendas, records the minutes of each Public Meeting, and issues all Commission Orders, Decisions and Secretarial Letters. The Secretary also is the Commission's official Right-to-Know Officer.



ROSEMARY CHIAVETTA
SECRETARY

THE OFFICE OF SPECIAL ASSISTANTS is the Commission's advisory support bureau, providing legal and technical advice to the Commission primarily regarding challenges to Administrative Law Judge decisions, as well as policy issues; drafts proposed opinions and orders containing a review of the facts, the applicable law and a proposed resolution of the issues raised in contested proceedings; drafts opinions and orders pursuant to motions adopted at Public Meeting; and reviews petitions for relief following the issuance of Commission orders.



CHERYL WALKER DAVIS
DIRECTOR OF SPECIAL ASSISTANTS

THE BUREAU OF TECHNICAL UTILITY SERVICES serves as the principal technical advisory bureau to the Commission regarding fixed and transportation utility regulatory matters, as well as an adviser to the PUC on technical issues for electric, natural gas, water and wastewater, and telecommunications utilities. The Bureau also offers policy recommendations on rates, tariffs and regulatory matters, processes utility applications and coordinates emergency operations of utilities.



PAUL DISKIN
DIRECTOR OF TECHNICAL UTILITY SERVICES



CONSUMERS

During Fiscal Year 2014-15, the Commission continued to focus on educating customers about energy prices and the resources available to assist them in making their utility services more affordable. The Commission continued to educate consumers using PAPowerSwitch.com, a user-friendly tool created by the Commission, to help consumers shop for their electric supplier. This message was communicated at numerous community and consumer education events, and also through regular social media presence on the Commission's Facebook and Twitter pages.

PAPOWERSWITCH.COM

With PAPowerSwitch.com, the PUC is working to ensure consumers have the tools at their fingertips to make informed decisions about choosing an electric generation supplier. Just like consumers shop for other services, they can shop for the generation supply portion of their bill, making a decision based upon their specific needs and preferences. Generation supply costs comprise the majority of the average electric bill. When shopping for electricity, transmission costs are included in the "price to compare" that allows consumers to compare their utility's offer to that of a competitive supplier.

In Fiscal Year 2014-15, the total number of Pennsylvanians shopping for electric supply continued to exceed 2 million customers. In order to better reach customers, the Commission added a series of enhancements to PAPowerSwitch.com including upgrades that offer information in plain sight about what it means to shop, how to save, the different types of rates and products and where to begin shopping. The upgrades also are reflected on the mobile version of the website, which was launched in 2014.

Putting the power in consumers' hands to choose their electric generation supplier began with the 1996 Electricity Generation Choice and Competition Act. Under the law, electric rates were capped to ease the transition to competitive markets. Consumers have the power to switch to a competing supplier who may offer the lowest price, or provide a specific service or product such as green/renewable energy.

SOCIAL MEDIA OUTREACH

The Commission continues to reach consumers through its website www.puc.pa.gov, and separate shopping websites, PAGasSwitch.com and PAPowerSwitch.com. Also, through its presence on social media sites Twitter and Facebook, the Commission is better able to inform Pennsylvania customers on utility issues. The Commission's Twitter feed (@PA_PUC) is dedicated to all things utility, including issues related to industries regulated by the PUC. As a way to broaden messaging to all utility issues affecting consumers, in Fiscal Year 2014-15, the Commission also changed its Facebook page name from "PAPowerSwitch" to "Pennsylvania Public Utility Commission."

CONSUMER OUTREACH SUMMARY

The PUC's consumer outreach specialists have provided utility education and outreach to thousands of consumers by working alongside health and human service providers, consumer advocates, utility community relations specialists, seniors and low-income consumers.

The outreach team travels the state to ensure consumers from all socioeconomic backgrounds are educated about and understand their rights as utility customers. In Fiscal Year 2014-15, the outreach team hosted numerous workshops, free seminars and roundtable discussions throughout the state. Outreach specialists

also support and participate in community fairs, legislative forums, senior expos, public input hearings and other educational events.

PREPARE NOW



During Fiscal Year 2014-15, the PUC continued to work with electric and natural gas companies to help consumers “[Prepare Now](#)” for the higher costs of winter heating.

In an October 2014 letter, the Commission asked electric and natural gas utilities under its jurisdiction to join the PUC in reaching out and educating consumers. The letter also stressed the importance of the Low Income Home Energy Assistance Program (LIHEAP) and the impact the program has on helping low-income consumers restore and maintain their utility service. In February 2015, the PUC reminded consumers at risk of termination to contact their utility for resources to help maintain electric or natural gas utility service for the winter months.

Winter 2014 was the 12th winter that the Commission urged consumers to “Prepare Now.” The message is simple: “Prepare Now” for winter energy costs. Learn more about conservation. Check your electric and natural gas bills and supplier contracts. Use [PAPowerSwitch](#) to shop for electric service and [PAGasSwitch](#) to shop for natural gas service. Look into programs that help low-income customers maintain service. Visit www.puc.pa.gov and click on “Prepare Now” or call the PUC at 1-800-692-7380.

LIFELINE AWARENESS WEEK

In conjunction with a national initiative to promote the awareness of Lifeline and Link-Up discount programs, the PUC encouraged residents to “stay connected.”

The [Lifeline 135](#) program is available for customers of all qualified telephone service providers. Under the program, households who participate in certain public assistance programs, or who have income at or below 135 percent of the federal poverty income guidelines can receive a discount on their monthly local phone service for one telephone line. The discounts are paid out of the federal Universal Service Fund, which is subsidized by contributions from all telephone companies. In an effort to increase awareness about



Commissioner Witmer is interviewed about Lifeline Awareness Week in fall 2014.

the program, the PUC developed a public service announcement in addition to an informational brochure, “Follow the PATH to PA Telephone Help” to provide information about Lifeline and other programs available to limited-income households.

SETTLEMENTS

In Fiscal Year 2014-15, the PUC approved settlements with utility companies and electric generation suppliers following informal investigations into alleged violations of the Public Utility Code or consumer complaints. In many cases, the companies agreed to improve communications with consumers.

- **West Penn Power Co.** paid a \$1.3 million civil penalty following an investigation into the company’s violation of Act 129 electric consumption requirements.
- **ResCom Energy LLC** was directed to pay a \$59,000 civil penalty as part of a settlement over the company’s unauthorized marketing practices in 2012 and 2013.
- **Columbia Gas** paid a \$200,000 civil penalty that stems from an investigation into various operating practices and incidents involving a third-party contractor.

COLD WEATHER SURVEY RESULTS

Each year, prior to the winter heating season, the PUC requires electric utilities, natural gas utilities, and Class A water utilities to check residential properties where heat-related service has been terminated due to non-payment. The goal of the annual [Cold Weather Survey](#) is for the company to attempt to reach payment agreements with the occupants so service can be restored.

The Commission requires that utilities make four attempts to contact the consumer or a responsible adult occupant at the property where service has been terminated. These contacts include a combination of telephone calls and letters to establish contact, with the fourth attempt being a personal visit to the property.

The companies resurveyed the households without utility service in [February 2015](#).

UNIVERSAL SERVICE PROGRAMS AND COLLECTIONS PERFORMANCE

The PUC issued the 2013 [annual summary](#) of the universal service programs and collections performance of Pennsylvania's major electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) in Fiscal Year 2014-15. Universal service programs are designed to help low-income households afford utility service. Programs include the Low Income Usage Reduction Program (LIURP), Customer Assistance Programs (CAPs), Customer Assistance and Referral Evaluation Services (CARES), and Hardship Funds.

UTILITY CONSUMER ACTIVITIES REPORT AND EVALUATION (UCARE)

Helping Pennsylvania consumers resolve utility problems remains a major concern for the Commission. Full-time investigators handle a variety of consumer contacts related to billing problems, payment and credit issues, and service delivery and repairs. The [2014 Utility Consumer Activities Report and Evaluation](#) shows quarterly report cards and reports to present. Upon publication, the 2014 report will show a record year for informal complaint activity. The PUC's call center handled over 230,000 calls from consumers resulting in over 83,000 cases being taken in for further investigation.

CUSTOMER SERVICE PERFORMANCE REPORT

Each year, the Commission prepares the [Customer Service Performance Report](#). In addition to reporting company submitted data, the report provides information on how customers feel the major electric and natural gas companies are doing with customer service. In 2013, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.



CONSUMER ADVISORY COUNCIL

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



Back row (Left to Right): Javier Toro, Troy Geanopulos and Patrick Cicero. Front Row (Left to Right): Tim Hennessey, Ralph Douglass and Rick Hicks.

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

PA RELAY SERVICE ADVISORY BOARD



Back Row (Left to Right): Lauren Cramer, Hamilton Relay Inc.; Eric Jeschke, TUS; Sharon Behun, PA Department of Labor & Industry's Office for the Deaf & Hard of Hearing; and, Steve Shultz, public member. Front Row (Left to Right): Sherrie Leuvay, Hamilton Relay Inc.; Kay Tyberg, public member; and, Sheila Brown, BCS.

During 2014-15, the [Pennsylvania Relay Service Advisory Board](#) met quarterly to advise the Telecommunications Relay Service (TRS) providers on service issues, to discuss policy issues related to traditional TRS and Captioned Telephone Relay Service (CTRS), and to interact with Commission-appointed members. At each meeting, the traditional TRS provider and CTRS administrator gave the board a status report of their activities, which focused on issues including call volumes, new service offerings, complaint handling equipment enhancements and outreach plans. The board consists of members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Center for Independent Living of South Central Pennsylvania; Office for the Deaf & Hard of Hearing; and individuals from the deaf or hard of hearing community.

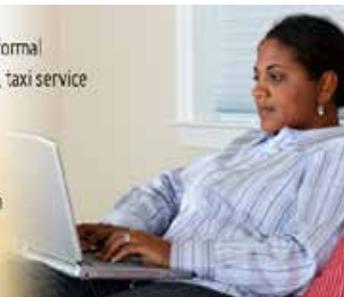
Established in May 1990, the purpose of the board is to review the success of the statewide Telecommunications Relay Service (TRS) and identify improvements that should be implemented. The board functions primarily as a TRS consumer group by providing feedback and guidance to the TRS providers and the Commission regarding communication assistance training, problem solving, outreach initiatives and service enhancements.

CONSUMER COMPLAINT ONLINE SEARCH AND PROCESS GUIDE

In Fiscal Year 2014-15, the Commission created a website feature on www.puc.pa.gov allowing users to search by company for formal complaints filed against regulated utilities and suppliers. The [search feature](#) allows consumers to find and view formal complaints filed against all regulated utilities and suppliers.

Use the [Formal Complaint Search](#) to find out if there are any formal complaints against a utility, energy supplier, moving company, taxi service or other company regulated by the PUC.

Formal complaints filed with the PUC usually concern billing, difficulty contacting the utility/company, dissatisfaction with service, or other issues that may be important to you.

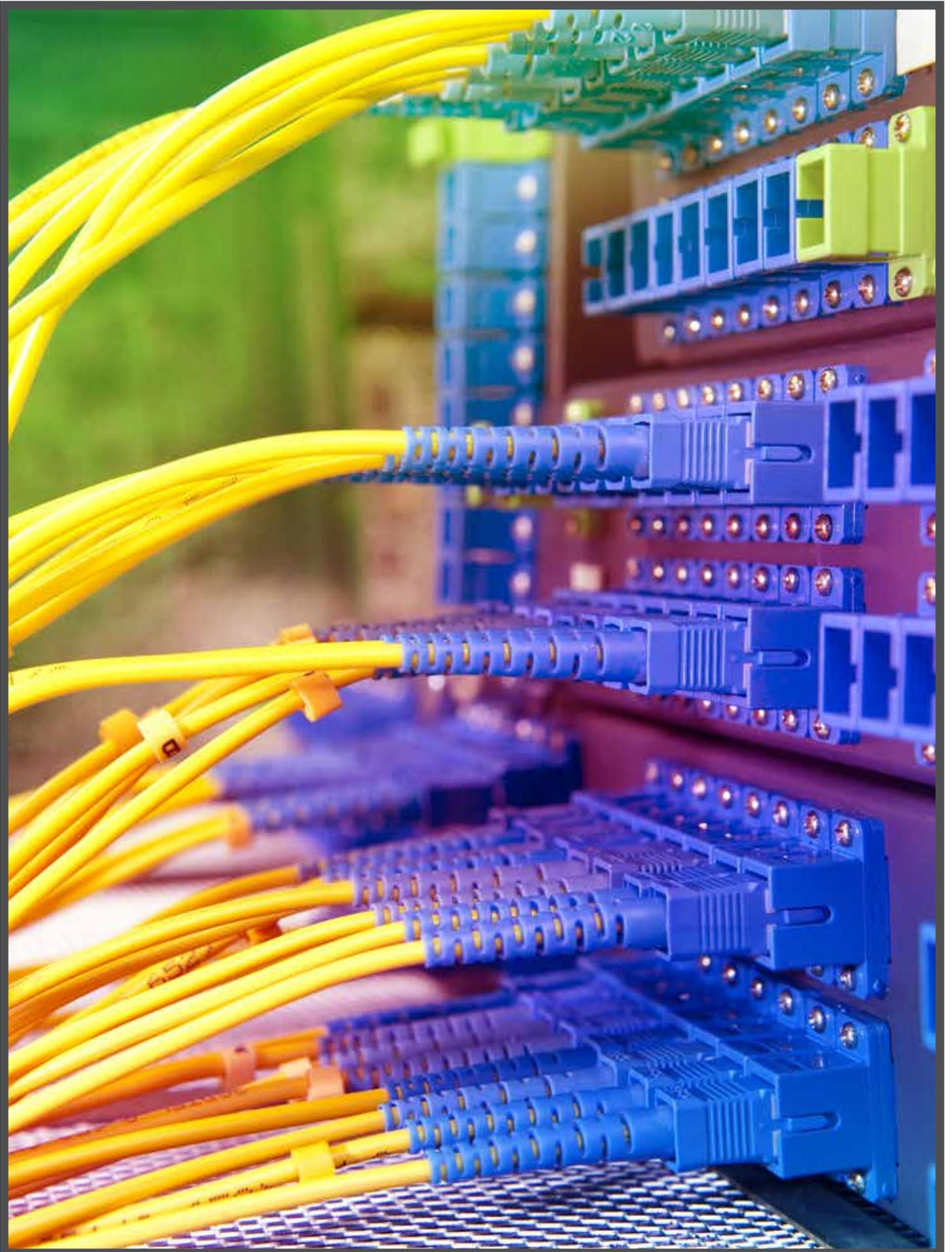


In an effort to educate consumers on the Commission's formal and informal complaint process, the Commission released a new [Consumer Complaint Procedures Guide](#). An additional [quick reference sheet](#), "Know the PUC Complaint Process and Your Options," also offers handy instructions about how to file a complaint with the PUC.

SMART HEARINGS

As a way to increase transparency and participation, the Commission introduced a Smart Hearing pilot project aimed to make it easier for utility customers to comment on proposed rate increase requests. Two Smart Hearings were held in June regarding a proposed distribution rate increase by a jurisdictional electric company. Consumers throughout Pennsylvania were able to see and hear testimony being offered during the hearings by watching a live stream on [the PUC website](#).





TELECOMMUNICATIONS

The Commission monitors the aggressive broadband deployment initiatives required by Act 183 of 2004 (Act 183 or Chapter 30), which requires participating incumbent local exchange carriers (ILECs) to provide access to broadband service to all Pennsylvanians by 2015. The Commission also ensures that telecommunications services for eligible low-income consumers and households meet or exceed national standards when determining whether a wireline or wireless carrier is entitled to offer such services with federal universal service fund (USF) support as an Eligible Telecommunications Carrier (ETC).

REGULATED TELEPHONE COMPANIES

The Commission continues to regulate wireline ILECs and competitive local exchange carriers (CLECs) throughout the Commonwealth. The three largest ILECs are Verizon Pennsylvania LLC (Verizon PA), Verizon North LLC (Verizon North) and The United Telephone of Pennsylvania LLC d/b/a CenturyLink (CenturyLink).

TYPE OF CARRIERS IN PENNSYLVANIA

- Incumbent Local Exchange Carriers - 37
- Competitive Local Exchange Carriers - 168
- Interexchange (Toll) Carriers - 60
- Interexchange (Toll) Resellers - 300
- Competitive Access Providers - 89

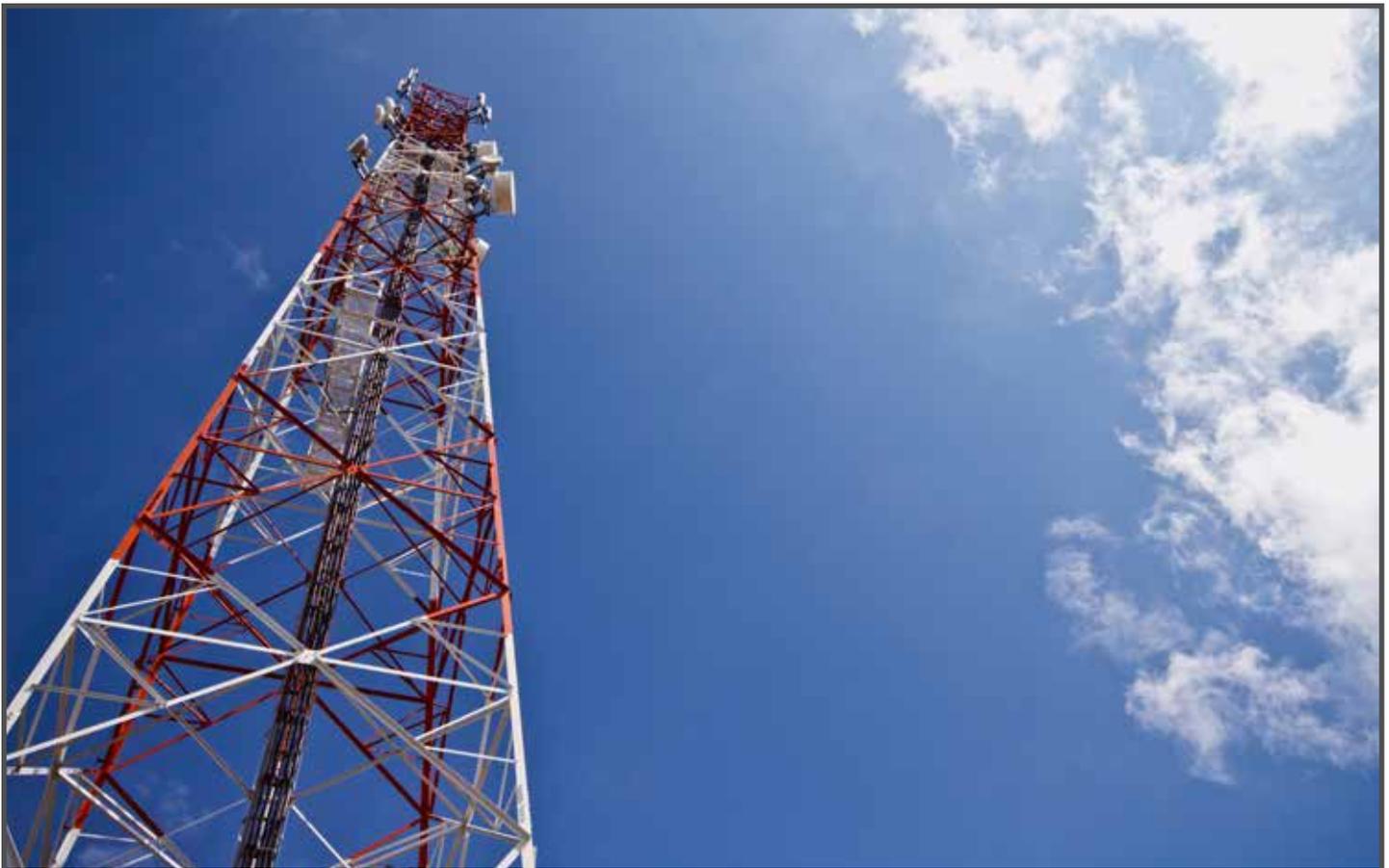
TELEPHONE NUMBERS AND AREA CODES

Due to rigorous number conservation efforts implemented by the Commission, most of our intrastate area codes are no longer in jeopardy of exhaustion. On a semi-annual basis, the North American Numbering Plan Administrator (NANPA), Neustar (an FCC contractor and neutral third party), informs Pennsylvania and the other states of their current and projected numbering resources. Commission staff closely monitors this information in all of the Commonwealth's area codes to ensure the availability of adequate numbering resources.

INTERCARRIER COMPENSATION/UNIVERSAL SERVICE REFORM/CONNECT AMERICA FUND

In April 2015, the FCC announced the availability of Connect America Fund Phase II (CAF II) annual funding support amounts for certain ILECs operating in Pennsylvania that are classified as federal price cap carriers. The total CAF II annual support amount for Pennsylvania is \$50.97 million. The CAF II support will assist the continuous deployment of wireline broadband networks and services both within Pennsylvania and the U.S. In June 2015, Frontier Communications announced that its ILEC subsidiaries and affiliated operating in Pennsylvania had accepted \$3.89 million of CAF II annual support. Acceptance of such support entails the deployment of wireline broadband networks capable of 10 megabits per second (Mbps) download and 1 Mbps upload speeds. These federal broadband speed standards are higher than those contained in Pennsylvania's Chapter 30 law.

On Nov. 18, 2011, the Federal Communications Commission (FCC) had issued the Intercarrier Compensation/ Universal Service Reform Order creating a Connect America Fund (CAF) that affected a series of changes and



reforms in the federal universal service fund mechanism and in various parameters of intrastate and interstate intercarrier compensation. The Order is a complex and comprehensive proposal to restructure the nationwide telecommunications marketplace. The Commission continues to implement this complex FCC decision which impacts Pennsylvania markets, providers, end-user consumers and the Commission's jurisdiction to manage certain regulatory matters under both federal and Pennsylvania law. More information on the steps the PUC is taking is available on the Commission's [website](#).

The Commission, along with other parties and state utility commissions, appealed the FCC's Nov. 18, 2011 Order to the U.S. Court of Appeals for the 10th Circuit, Denver, Colorado. The U.S. Court of Appeals for the 10th Circuit issued a decision in May 2014 which upheld all appealed provisions of the FCC's Nov. 18, 2011 Order. On May 4, 2015, the U.S. Supreme Court announced that it had denied all petitions that had been filed asking the court to review the U.S. Court of Appeals for the 10th Circuit's 2014 decision.

Despite these significant changes, the Commission grants eligible telecommunications carrier (ETC) status to wireline and wireless carriers if they are in compliance with federal and state laws as well as Commission regulations. ETC status allows carriers to receive funding support from the federal universal service fund for the provision of services within Pennsylvania (e.g. provision of Lifeline services to eligible low-income consumers and households).

INTERCARRIER COMPENSATION DISPUTES IN PENNSYLVANIA

Intercarrier compensation is the term for payments between carriers for the exchange of various types of traffic and for the use of telecommunications networks. In addition to the Commission's work regarding compliance with the FCC's November 2011 mandates, litigation continues before the PUC on various complaints filed by both ILECs and CLECs concerning the application and payment of intercarrier compensation. Some cases hinge on whether intercarrier compensation can be assessed on certain types of traffic such as Internet, broadband, wireless, local calls and wholesale service.

The Commission appealed a decision of the U.S. District Court for the Eastern District of Pennsylvania holding that the Commission lacked jurisdiction to adjudicate an intercarrier compensation dispute between [AT&T](#) and Core Communications. In the underlying case, the Commission — through the enforcement of applicable federal law — had directed AT&T to compensate Core for the termination of certain local dialed-up calls directed to Internet service providers (ISPs), where such calls had been initiated by AT&T end-users. The Commission filed its appeal with the U.S. Court of Appeals for the 3rd Circuit, Philadelphia, Pennsylvania.

Additionally, the Commission filed a separate petition with the FCC seeking clarification on state jurisdiction to enforce applicable federal law in this type of intercarrier compensation disputes arising under the FCC ISP Remand Order. Comments and reply comments have been filed and an FCC decision is currently pending.

The Third Circuit requested periodic updates on the status of the pending PUC petition before the FCC. The Commission awaits a decision from either the court or the FCC.

INTERCONNECTION ISSUES

The Commission continues to deal with complex wholesale interconnection proceedings and related arbitrations that arise from the application of the federal Telecommunications Act of 1996 and relevant Pennsylvania law. The Commission concluded two such arbitration cases in the July – November 2014 time frame involving interconnection arrangements and agreements between two major ILECs, The United Telephone Company of Pennsylvania (CenturyLink) and Windstream Pennsylvania, and Core Communications, a CLEC. These proceedings concluded with the submission of finalized interconnection agreements to the Commission.

MANDATED ACCESS CHARGE REDUCTIONS & REVISIONS

The FCC's Nov. 18, 2011 Order required all ILECs and CLECs (collectively LECs) to begin a transition of certain intercarrier compensation rates to a bill-and-keep regime rate of zero. All intrastate switched access rate elements for LECs classified as federal price cap carriers are capped at current levels in effect on Dec. 29, 2011, and all terminating switched access rate elements for LECs classified as federal

rate of return carriers are capped at current levels in effect on Dec. 29, 2011. Subsequently, LECs make tariff filings with the Commission effective on or about July 1 of each year to gradually transition certain intrastate switched access rates to meet the federal directives of the FCC's Nov. 18, 2011 Order. In addition, LECs submitted tariff amendments addressing intercarrier compensation for Voice over Internet Protocol (VoIP) traffic that is exchanged with other carriers. The Commission has examined and approved these amendments on a case-by-case basis. To date, the Commission has implemented the first four steps of the nine-year phase down of intrastate access charges required for all carriers with reductions that took place in 2012, 2013, 2014 and 2015.

CHAPTER 30

[Chapter 30 of Title 66](#), Pennsylvania Public Utility Code, governs the Commission's oversight of ILEC incentive alternative regulation and network modernization plans. The Chapter 30 ILEC network modernization plans involve the deployment of broadband facilities and services for high-speed access to the Internet with certain standards (e.g., 1.544 megabits per second or Mbps download speed and .128 Mbps upload).

Most of the Chapter 30 ILECs completed their respective broadband deployment commitments in 2008 and 2013. Verizon PA and Verizon North are expected to complete their respective broadband deployments by December 2015. Carriers have also undertaken obligations outlined in Chapter 30 for the [Bona Fide Retail Request Program](#) (BFRR), the [Business Attraction or Retention Program](#) (BARP) and the [Broadband Outreach and Aggregation Fund](#) (BOAF).

PUC-APPROVED PRICE CAP FILINGS

Most of the incentive regulation plans for Chapter 30 ILECs use price stability mechanisms with price cap formulas. These formulas provide for annual ILEC revenue and rate increases on the basis of the gross domestic product price index (GDP-PI, a measure of inflation in the general U.S. economy), minus a statutorily-set inflation offset. The ILECs have the option to implement such annual revenue

increases in actual rates or bank such increases totally or in part for later use. Through past settlements reached with the state's Office of Consumer Advocate, most of the ILECs are required to implement banked revenue changes in actual rates within four years or forego the revenue increase. Verizon PA, Verizon North and CenturyLink are required to immediately implement any rate decrease of more than \$500,000. In the period from Nov. 1, 2014, through May 1, 2015, Chapter 30 ILECs were authorized a total of \$5.92 million in revenue increases under their respective price cap filings. Of this, the companies banked \$4.3 million for future use. During this same period, Chapter 30 ILECs with price stability mechanisms and price cap formulas implemented a total of \$3.88 million into rate increases.

PA UNIVERSAL SERVICE FUND

The [PA Universal Service Fund](#) (PaUSF or Fund), initially set at \$32 million annually, supports the affordability of basic local telephone service that is provided by rural ILECs in Pennsylvania. Universal service is the term referring to the support provided to carriers under state and federal law to keep telecommunications rates affordable for consumers. About 300 telecommunications services providers contribute to the Fund and payments are disbursed monthly to 32 qualified ILEC recipients. At the current time, wireless carriers are not required to contribute to the Fund.

In December 2014, the Commission approved a state USF contribution rate for the 2015 calendar year calculated to produce a total fund size of approximately \$34.065 million. The amount is divided as follows: approximately \$33.826 million is distributed among recipient carriers; \$1.5 million is held in reserve for uncollectibles; \$97,680 is paid to the third-party administrator; and \$24,405 is paid to an external auditor.

On Feb. 20, 2015, the Commission issued a Request for Proposal (RFP) to select a new external auditor for the PaUSF. There were eight companies that submitted proposals. On May 19, 2015, the Commission selected Hurlbert CPA, LLC, as the new external auditor. The term of the contract is five years expiring on July 31, 2020, with an optional one-year extension.

HB 1417

Introduced June 26, 2015, [HB 1417](#) would require the Commission to conduct an on-the-record investigation to determine whether the continuation of the PaUSF is necessary to maintain universal service objectives. If the Commission determines that the future operation of the PaUSF is necessary it must address the appropriate base of fund contributors and recipients, the appropriate funding level, the potential expansion of the fund to address broadband deployment and the establishment of a state program to reduce the cost of basic service to low income consumers. The Commission would be required to enter a Final Order containing the findings of the investigation by Jan. 1, 2021. The Commission would then have to initiate a rulemaking to implement the findings of the investigation within 30 days of its Final Order.

HB 1417 would also require the Commission to continue to administer the PaUSF until Jan. 1, 2022, to recipients that received money from the fund before Jan. 2, 2015, at amounts no less than the amounts received in 2014. Any recipient of funding after Dec. 31, 2014, and before Jan. 1, 2022, is obligated to provide basic local exchange service throughout its service territory and is prohibited from declaring competitive a particular geographic area, exchange or group of exchanges pursuant to 66 Pa. C.S. § 3016(a).

The Commission would be proscribed from implementing any changes or revisions to the Fund until Jan. 1, 2022.

LIFELINE PROGRAM CHANGES

During the 2014-15 fiscal year, the FCC continued to monitor the reforms it implemented with the February 2012 Lifeline Reform Order and related regulations designed to reduce waste, fraud, and abuse in the federal Lifeline program. On June 18, 2015, the FCC released an Order and Notice of Proposed Rulemaking to strengthen existing reforms and sought comments from state commissions on additional reforms and ways to modernize its Lifeline program. The FCC's efforts to modernize the Lifeline service include proposals for the provision of broadband access services, "essential to participation in modern society, offering access to jobs, education, health care, government services and opportunity." Lifeline services for wireline and wireless customers are monetarily supported by the federal Universal Service Fund mechanism. The current FCC rules require a carrier to certify a customer's eligibility when they first apply for service; thereafter the consumer



re-certifies their eligibility. Pennsylvania requires a provider to certify a consumer's eligibility initially and on an ongoing annual basis thereafter to minimize waste, fraud, and abuse. The National Lifeline Accountability Database (NLAD) is used to reduce fraud so eligible telecommunications carriers could identify and resolve duplicate claims for Lifeline service. The Commission works with industry and other state agencies, particularly the Department of Human Services, on providing information so that carriers can verify a customer's eligibility under federal and state rules.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission's regulations governing approval focus on making sure that customers are protected, the company is a viable public utility and the transaction is in the public interest. In Pennsylvania the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. The phrase "public benefit" is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

On July 21, 2014, the Commission issued a Secretarial Letter approving the joint application filed by Comcast and Time Warner for the indirect transfer of control of Time Warner Cable Information Services

(Pennsylvania) LLC and Time Warner Cable Business LLC (Telco subsidiaries of Time Warner) from Time Warner to Comcast. The Secretarial Letter directed the applicants to promptly notify the Commission if the proposed transaction would not take place. In a letter dated April 20, 2015, the applicants informed the Commission that the transaction approved by the Commission in July 2014 has been terminated and would not be consummated.

PUC INVOLVEMENT AT THE FCC

The Commission has been active in several FCC proceedings primarily opposing proposals that can lead to the unnecessary federal preemption of Pennsylvania law and Commission jurisdiction, while ensuring that Pennsylvania's interests are adequately represented and protected before the FCC. Recent filings and PUC comments relate to:

- Lifeline and Link Up Reform and Modernization proceeding, which will impact Lifeline and Universal Service expansion to broadband services.
- FCC Authorization process for VoIP providers to have direct access to numbering resources.
- FCC Net Neutrality Proceeding, in which the FCC used Title II of the Communications Act to ban throttling, blocking, and paid prioritization of Internet traffic.
- FCC Improving 911 Architecture Reliability, considering the transition to Internet Protocol, in which the FCC seeks to increase end-to-end accountability and address interstate IP-based 911 networks.
- Backup Power for Customer Premises Equipment and Copper Retirement, regarding reliable backup power during the transition from copper-based TDM switched service to Internet Protocol networks.
- Rates for Inmate Calling Services, in which the FCC sought preemption of state jurisdiction over exorbitant rates for intrastate inmate calls and established an interstate rate higher than the rate in Pennsylvania.

Commission personnel serve as lead on the Telecommunications Staff Committee, which is part of the Mid-Atlantic Conference of the Regulatory Utility Commissions (MACRUC). The Commission also is actively involved with the National Association of Regulatory Utility Commissioners (NARUC) to ensure that Pennsylvania and MACRUC regional concerns are considered in making decisions about what services should be supported at what funding level. A PUC Commissioner serves on the FCC's Council on Communications, Security, Reliability and Interoperability (CSRIC) which covers numerous topics including cybersecurity.

TELECOMMUNICATIONS RELAY SERVICE

The Commission completed the annual recalculation of the [Telecommunications Relay Service](#) (TRS) surcharge for residence and business wireline access lines for July 1, 2015, through June 30, 2016. The monthly residential and business monthly access line surcharge will remain set at \$0.08.



In Fiscal Year 2013-14, the Commission released a [RFP](#) as it began its search for a vendor to provide TRS services, after AT&T Corp. advised the Commission that it intended to vacate the TRS market in every state where it served as a vendor. The selected vendor of this RFP is Hamilton Relay, Inc. (Hamilton). As a condition of the RFP, Hamilton filed an application at [A-2014-2447601](#), which the Commission approved Dec. 4, 2014. Hamilton now holds the TRS Certificate of Public Convenience to provide TRS throughout Pennsylvania. A sister company, Hamilton Telecommunications, provides the Captioned Telephone Voice-Carry-Over relay Service (STRS)

throughout Pennsylvania through a contract with the Commission. This contract was extended in April 2015 for an additional 2-year term to June 30, 2017.

The Commission received information that certain devices that enable communications for the hearing and/or speech-impaired and are provided to qualified recipients through the Telecommunications Device Distribution Program (TDDP) were incompatible with modern Internet Protocol (IP) based networks and communications services. The Commission engaged in a collaborative process with the Pa. Department of Labor and Industry, Office of Vocational Rehabilitation (OVR), that administers the TDDP through the Temple University Institute on Disabilities. In July 2014, the Commission issued a formal advisory letter to OVR that the TDDP can distribute IP-enabled wireline communications devices to qualified recipients thus solving the equipment compatibility issue.

On May 21, 2015, OVR filed a petition with the Commission seeking funding from the TRS Fund for a two-year surcharge wireless device distribution pilot program entitled “Wireless Expansion Initiative: Promoting Telecommunications Equity for People with Disabilities in Pennsylvania.” The Commission solicited and received public comment on the merits of this proposal by various interested parties. The Commission will be formally ruling on this petition at a Public Meeting in Fiscal Year 2015-16.

PAPER BILLING INVESTIGATION

In March 2014, following a [joint investigation](#) into the practice of charging a fee for paper bills, the Commission decided it will not approve tariff provisions authorizing telecommunications carriers to charge residential or business customers a separate fee to receive a paper bill. Reconsideration of the March Order was denied in July 2014. The Commission’s Order had been appealed to the Commonwealth Court and that appeal was later withdrawn.

The Commission also has directed that a Notice of Proposed Rulemaking be issued so that formal regulations can be adopted addressing this matter. The Commission expects that the Final Rulemaking will be issued before the end of 2015.

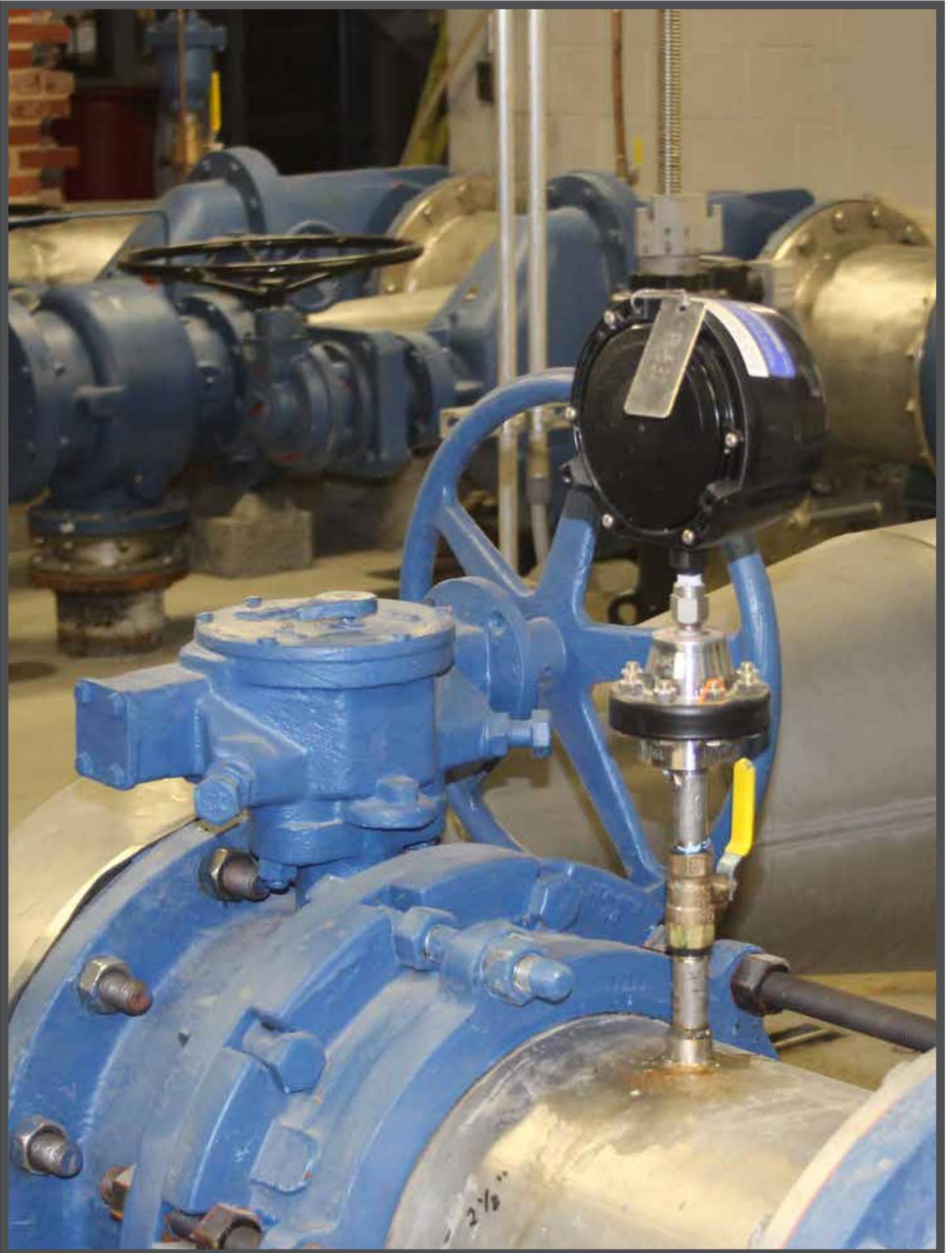
VERIZON RECLASSIFICATION

On Feb. 26, 2015, the Commission adopted a Joint Motion determining that standalone basic local telephone service is competitive for residential and small business customers in 153 Verizon PA and Verizon North (collectively, Verizon) wire centers serving geographic areas in or adjacent to Verizon’s Philadelphia, Scranton/Wilkes-Barre, Harrisburg, Pittsburgh, Allentown, and York service territories. Standalone basic local telephone service in these areas is now de-tariffed, and Verizon can price the service in these areas without Commission approval. However, the Commission will continue to oversee the safety, adequacy, reliability and privacy of telecommunications services provided by Verizon in competitive wire centers. In adopting the Joint Motion, the Commission also partially granted Verizon’s request to waive the Commission’s quality of service and billing regulations (Chapters 63 and 64), pending data collection and a rulemaking to address the status of these regulations on a permanent and industry-wide basis. The length of the waiver period is five years. On May 19, 2015, the Commission adopted an Implementation Order clarifying certain aspects of its prior reclassification decision. The Commission expects to issue further decisions in Fiscal Year 2015-16 pertaining to the reclassification.

911 FUNDING

HB 911, introduced April 13, 2015, and signed into law on June 29, 2015, as [Act 12](#), amends Pa. 35 C.S. (Health and Safety) Chapter 53 provisions for emergency telephone service. Effective immediately, PEMA is given expanded authority and there is a requirement to establish a 911 Board, on which the Commission will hold a non-voting seat. Act 12 prescribes a uniform \$1.65 monthly fee on consumer bills (wireline, wireless and VoIP) as opposed to the varying fees in effect today that differ by technology. The change in fee and most other pertinent parts of the statute take effect Aug. 1, 2015, to give providers time to update their billing systems. Act 12 eliminates the Commission’s role in reviewing public service answering point (PSAP) 911 renewal plans and audits. Likewise, the Commission is no longer required to approve wireline 911 surcharges submitted by the PSAPs. Act 12 sunsets on June 30, 2019.





WATER/WASTEWATER

The Commission regulates the rates and services of about 150 water and wastewater companies, including extraterritorial service in a number of municipal water and wastewater systems, and continues its oversight of the water affected by Marcellus Shale drilling and its supply. In Fiscal Year 2014-15, the Commission completed 11 water and wastewater rate increase requests. The Commission notes an increase in water/wastewater applications for additional territory, abandonments, formation of new companies and mergers/acquisitions. The Commission completed 31 such cases during the fiscal year and anticipates an equal or higher number of cases to be processed during the upcoming fiscal year. The Commission continues to implement a water audit program, which is intended to enhance the companies' tracking of levels of unaccounted-for water.

WATER AND WASTEWATER PLANT INSPECTIONS

Although plant inspections are a critical function of the Commission, no such inspections were conducted during Fiscal Year 2014-15 due to the severe shortage of trained staff in the Water/Wastewater unit of the Bureau of Technical Utility Service. The Commission did add two new water engineers to its staff in early 2015. Plant inspections are performed for several purposes: security audits, to ensure plant and consumer safety; random inspections, particularly if staff has not visited the company for a period of years; compliance issues; rate cases; miscellaneous investigations; and plant tours. If violations are found, the utility is directed to correct the problem. If the problem is not corrected, Commission staff conducts an informal investigation and recommends appropriate action.

MERGERS & ACQUISITIONS/ REGIONALIZATION

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

During Fiscal Year 2014-15, the Commission finalized four mergers and acquisitions in the water and wastewater industry, including transfers to or from municipalities. In addition, the Commission approved 27 applications for water/wastewater territory expansion. Many of the water/wastewater applications upon which the Commission acts are a form of regionalization. In general, regionalization is the consolidation of resources beyond recognized boundaries (townships, boroughs, city limits, municipalities, service territories, etc.). Regionalization typically results in a cost-effective solution or alternative that works to ensure system reliability and water/wastewater standards for companies or municipalities that may be unable to sustain on a stand-alone basis.

The Commission continues to promote water system viability and support regionalization efforts, through public statements and meetings with water company executives, to allow customers of smaller, troubled systems to receive improved service after being acquired by better-managed and financially stronger companies.

UNCONVENTIONAL WELL DRILLING

The Commission continues to monitor the concerns about the availability of water supplies required for Marcellus Shale gas development, as well as questions about the disposal of water used in hydraulic fracturing. The PUC stays current on all of the water-related situations/occurrences related to Marcellus Shale, while noting that the Department of Environmental Department (DEP) has primary jurisdiction in this area.

DISTRIBUTION RATE INCREASE REQUESTS

During the fiscal year, the Commission concluded 11 water/wastewater rate increase requests. Overall, the companies proposed annual increases equaling \$8,776,929, of which the Commission granted \$5,600,433, a reduction of 36.2 percent of the total amount requested:

CMV SEWAGE COMPANY

Customers Served: 271 in Chanceford Township, York County
Requested Rate Increase: \$29,343 (21.7 percent)
Approved Rate Increase: none
Primary Reason: To recover improvement costs required by DEP. Upon receipt of staff data requests, the company withdrew its filing.

EMPORIUM WATER COMPANY

Customers Served: 1,057 in Shippen Township, Cameron County
Requested Rate Increase: \$401,903 (52.8 percent)
Approved Rate Increase: \$297,805 (38 percent)
Primary Reason: To recover increased operating expenses.

HANOVER MUNICIPAL WATER WORKS

Customers Served: 10,037 in Adams County
Requested Rate Increase: \$1,698,301 (41.1 percent)
Approved Rate Increase: \$939,990 (22.7 percent)
Primary Reason: To recover increased operating and annual depreciation expenses.

LANCASTER CITY

Customers Served: 29,305 in Lancaster County
Requested Rate Increase: \$6,458,300 (45.8 percent)
Approved Rate Increase: \$4,200,047 (29.8 percent)
Primary Reason: To recover operating expenses and new utility plant.

MANWALAMINK SEWER COMPANY

Customers Served: 1,208 in Smithfield and Middle Smithfield Townships, Monroe County
Requested Rate Increase: \$54,106 (10 percent)
Approved Rate Increase: \$54,106 (10 percent)
Primary Reason: To recover operating expenses.

PLUMER WATER COMPANY

Customers Served: 58 in Cornplanter Township, Venango County
Requested Rate Increase: \$11,409 (34.9 percent)
Approved Rate Increase: \$11,409 (34.9 percent)
Primary Reason: To recover operating expenses and provide sufficient funds to cover investments; increase to be phased in over two steps.

POCONO WATER WORKS COMPANY (WASTEWATER)

Customers Served: 92 in Damascus Township, Wayne County
Requested Rate Increase: \$14,466 (49 percent)
Approved Rate Increase: \$9,500 (32.2 percent)
Primary Reason: To recover operating expenses.

POCONO WATER WORKS COMPANY (WATER)

Customers Served: 308 in Jefferson Township, Lackawanna County; and Damascus, Lake and Salem Townships, Wayne County
Requested Rate Increase: \$60,456 (52 percent)
Approved Rate Increase: \$48,000 (41.3 percent)
Primary Reason: To recover operating expenses.

RHODES, BLAINE E. (WASTEWATER)

Customers Served: 224 in Sugarcreek Borough, Venango County
Requested Rate Increase: \$20,267 (29.4 percent)
Approved Rate Increase: \$17,800 (25.9 percent)
Primary Reason: To recover operating expenses.

VENANGO WATER COMPANY

Customers Served: 224 in Sugarcreek Borough, Venango County
Requested Rate Increase: \$13,692 (10 percent)
Approved Rate Increase: \$7,100 (5.2 percent)
Primary Reason: To recover operating expenses and enable payments on short- and long-term debt.

WONDERVIEW WATER COMPANY

Customers Served: 164 in Main Township, Columbia County
Requested Rate Increase: \$14,686 (17.4 percent)
Approved Rate Increase: \$14,686 (17.4 percent)
Primary Reason: To recover all of its costs and earn a return on investment.



PUC employees participate in an onsite visit where they received a demonstration of United Water Co.'s newest piece of equipment, a hydro vacuum excavator.

At the end of Fiscal Year 2014-15, five rate increase requests totaling approximately \$10.1 million were still pending before the Commission. The involved utilities are: Allied Utility Services (\$154,013 – 61 percent); Corner Water Supply & Service Corp. (\$89,155 – 27.3 percent); Delaware Sewer Company (\$67,663 – 285 percent); Schuylkill Haven Water (\$246,462 – 30 percent); and United Water PA (\$9,592,302 – 26.7 percent). In addition, several other companies have informally advised Commission staff of their intent to file rate cases in the near future.

POLICY STATEMENT ON ACQUISITION INCENTIVES

The PUC continues to implement a longstanding policy on water and wastewater system acquisition incentives to promote water system viability and regionalization. The policy statement provides additional guidance for companies acquiring small, chronically challenged or otherwise troubled water systems, while ensuring fair treatment of customers. It also provides direction on when and how utilities interested in making an acquisition should prepare and submit original cost documentation that determines the appropriate value of the assets of an acquired system.



The Commission has a policy of encouraging well-operated water and wastewater utilities to regionalize or consolidate with smaller systems. The limited resources — managerial, financial or technical — of these smaller systems can result in less-than-reliable service for consumers. The policy statement supports the Commission’s regionalization efforts.

MANAGEMENT AUDITS AND EFFICIENCY INVESTIGATIONS

The Commission periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the larger jurisdictional water companies. Among the MAs and MEIs completed within Fiscal Year 2014-15 were:

Columbia Water Company – The MEI, released Oct. 23, 2014, examined Columbia’s progress in implementing the seven original recommendations from the August 2011 MA. According to the MEI, Columbia has effectively implemented three of the seven prior recommendations and has taken some action on the remaining four recommendations.

[The York Water Company](#) – On May 7, 2015, the Commission released a report on the Focused Management and Operations Audit of The York Water Company that contained 16 recommendations to improve company efficiency. In its implementation plan, the company indicated acceptance of 15 recommendations and partial acceptance of one recommendation. Implementation of the audit recommendations could result in various operational improvements.

AUDITING EMERGENCY RESPONSE PLANNING

The Commission requires companies to certify that their physical, cybersecurity, emergency response and business continuity plans are current. In previous years, the PUC found deficiencies in several of the certified plans that had to be corrected to comply with Commission requirements. In March 2006, the Commission initiated an audit program to ensure that all water utilities' emergency response plans are current and in compliance with all applicable laws and regulations, including cyber and physical security, along with business continuity. During Fiscal Year 2014-15, emergency response plans were audited for eight of the larger utilities during the course of routine management audits and management efficiency investigations.

WATER AND WASTEWATER SYSTEM VIABILITY

Pennsylvania has more than 2,200 community drinking water systems, many of which are small water systems serving fewer than 3,300 consumers. The PUC regulates the rates and service of about 150 water and wastewater companies. Most were built decades ago, and a number now face operational, technical and financial challenges that could affect customer service.

Many small water and wastewater systems have varying degrees of operational constraints that impact their viability. Operational constraints inherent to small systems typically include: compliance problems; limited technical and managerial expertise; lack of capital for improvements with a limited ability to borrow at reasonable rates; deferred maintenance; deteriorated and undersized infrastructure; and minimal sources of supply or storage. A viable water/wastewater system is one that is self-sustaining and has the financial, managerial and technical capabilities to reliably meet both PUC and DEP requirements on a long-term basis.

The Commission's Small Water Company Task Force meets bi-monthly to identify and initiate assistance to small water companies that are in distress from financial, operational or regulatory issues. In addition to providing support to companies in distress, the task force also seeks to develop preventative measures to keep small water companies from lapsing into distress.



TRANSPORTATION & SAFETY

During Fiscal Year 2014-15, the Commission continued to focus on passenger carrier safety compliance and the safety education of new truck and bus carriers. In 2014, the Motor Carrier Enforcement staff continued its covert enforcement program to identify and prosecute illegal household goods carriers. During the fiscal year, the Commission began to reexamine the state's transportation regulations and changes that may be needed to adapt to changing technology, and certificated three Transportation Network Companies (TNCs).

ANNUAL ASSESSMENT REPORT REVIEW OF MOTOR CARRIERS

The Commission conducted six reviews of selected motor carrier Annual Assessment Reports during Fiscal Year 2014-15 and continues to conduct reviews of selected motor carriers.

The future reviews of selected motor carriers may result in adjustments to assessable revenues and/or recommendations for improved record-keeping and reporting. In addition, future reviews may provide the Commission with the necessary information to determine what, if any, subsequent steps may be required to move toward consistency in claimed exemptions within each segment of the motor carrier industry.

UPDATED HOUSEHOLD GOODS RULEMAKING

On June 19, 2014, the PUC voted to amend regulations governing Pennsylvania household goods and property carriers in light of increased competition in the industry. The rulemaking became final, and the regulations became effective, on May 23, 2015. Modifications include or result in: eliminating the requirement that an applicant for authority establish a public demand or need for the proposed service; removing the annual revenue threshold and permitting all household goods carriers with qualifying operating ratios to change rates without filing financial justification; eliminating current territorial restrictions to give household goods carriers statewide authority; and increasing minimum insurance requirements for property and household goods carriers to be consistent with federal law.

Due to the nature of the competitive market with low entry barriers, the Commission said competition between household goods carriers in regard to price, quality and reliability should determine whether a carrier's service is needed by the public, deeming the Commission's administrative process unnecessary. Industry competition will be further promoted by lowering these barriers and will provide customers with more choices, lower prices and better, more reliable service.

TRANSPORTATION NETWORK COMPANIES

During Fiscal Year 2014-15, the PUC certificated three TNCs for two-year, experimental service in Pennsylvania. TNCs match drivers with passengers through a mobile app, using drivers' personal vehicles, and link all payments to the customer's account on his/her mobile phone. Yellow Z, under the umbrella of Yellow Cab in Allegheny County, was granted a two-year certificate on July 31, 2014, to operate in Allegheny County. Rasier-PA (an affiliate of Uber) received its two-year, experimental authority on Jan. 29, 2015, and Lyft was certificated on Feb. 12, 2015.

Both Uber and Lyft have authority throughout a majority of counties in Pennsylvania, excluding Philadelphia. The two companies received authority after a year of conflict with the Commission, facing cease-and-desist



orders by the Office of Administrative Law Judge and two formal complaints filed by the Bureau of Investigation and Enforcement. Both formal complaints were pending at the end of the fiscal year.

The Commission has been vocal in encouraging new legislation as a permanent solution for TNCs in Pennsylvania that will ensure adequate insurance protections, vehicle safety and driver integrity. The Commission was on record during the fiscal year in support of Senator Fontana's legislation, Senate Bill 447, and on June 11, 2015, Chairman Brown testified before the House Consumer Affairs Committee on Representative Killion's TNC bill, House Bill 1065.

EXAMINING TRANSPORTATION REGULATIONS

In light of TNCs and new technology in the transportation field, the Commission undertook an examination of issues in the industry, including adequacy of driver integrity regulations, vehicle safety regulations and current insurance requirements. On Aug. 28, 2014, the Commission held an *en banc* hearing. Issues discussed included adequacy of driver integrity regulations; adequacy of vehicle safety regulations; adequacy of current insurance requirements; elimination of the need standard; rules for TNCs; enforcement of the Commission's transportation regulations; and geographic scope of authority.

As a result of the hearing, on June 11, 2015, Vice Chairman Coleman and Commissioner Powelson issued a Joint Motion proposing a review of current regulations to ensure that they are up-to-date with changes in the industry. The review will identify several categories of regulations that require updates, and the updates will be divided into several stages of proposed rulemakings, to be introduced at Public Meetings.

ENFORCEMENT OF ROGUE HOUSEHOLD MOVERS AND UNLICENSED LIMOUSINES



Chairman Brown is interviewed by a TV station on the importance of using PUC-certificated limousines for events like proms and weddings.

The PUC continues to monitor websites such as Craigslist for unlicensed household movers and unlicensed limousine carriers offering their services to the public. Undercover sting operations are carried out across the state. Officers use non-traceable cell phones to request the service. PUC Enforcement Officers are then assisted by local police, who search the individuals for weapons and any outstanding arrest warrants.

This past fiscal year, PUC Enforcement Officers cited 16 unlicensed household movers and 10 unlicensed passenger carriers for operating illegally in Pennsylvania.

MOTOR COACH SAFETY PROGRAM

Motor coach inspections took place at various venues across the state, including casinos, amusement parks and baseball stadiums. In May 2015, PUC Enforcement Officers, along with the Pennsylvania State Police and agents from the Federal Motor Carrier

Safety Administration, conducted a two-day motor coach inspection operation at Hersheypark. During these inspections, bus drivers are checked for a valid operator's license, Department of Transportation physical cards and log books. The buses are inspected to ensure the lights, exhaust, brake components and suspension are in safe operating condition. Unsafe drivers and buses are placed out-of-service and are subject to additional penalties.

UNIFIED CARRIER REGISTRATION

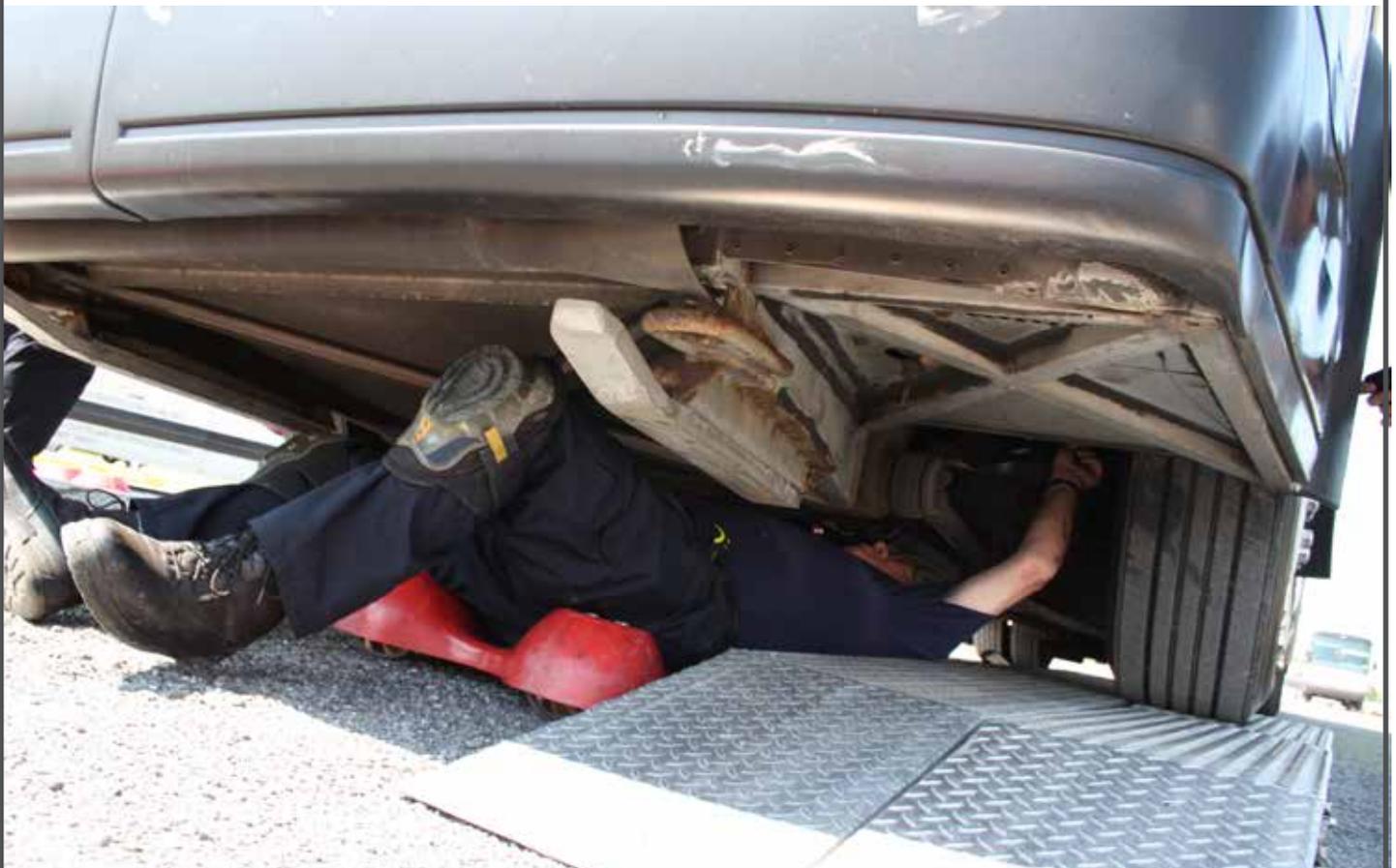
The Unified Carrier Registration System Plan and Agreement (UCR Act) became effective Jan. 1, 2007. In accordance with the UCR Act, all motor carriers that operate commercial motor vehicles in interstate commerce must pay a fee based upon the size of the carrier's fleet. The UCR fees collected by the states are to be used for their motor carrier enforcement programs.

The PUC cap is set at \$4.9 million; fees collected above the cap are then sent to the UCR depository. This is the first year that all 41 participating states have reached their cap. As a result, administrative money is now available that will be used for UCR board meetings and future mailings.

FEDERAL NEW ENTRANT SAFETY AUDIT PROGRAM

The PUC continues to be the grant holder of the Federal New Entrant Audit Program. The PUC is responsible for conducting safety audits of all new motor carriers based in Pennsylvania. The audit provides educational and technical assistance on safety and operational requirements of the federal safety regulations. Twenty PUC Enforcement Officers are trained and federally certified to conduct these safety audits.

This past fiscal year, officers conducted 1,955 safety audits, and 243 carriers failed the audit and were required to submit a Correction Action Plan.



REGULATED MOTOR CARRIERS

- 6,216 property carriers
- 225 taxis
- 376 limousines
- 482 paratransit companies
- 59 airport transfer companies
- 524 group and party bus companies
- 32 contract passenger companies
- 3 experimental service companies
- 277 household goods movers

2014-15 ENFORCEMENT ACTIVITIES

- 8,416 safety inspections of trucks, buses, taxis, paratransit vehicles and limousines
- 270 informal consumer and carrier complaint investigations
- 470 safety fitness educational reviews for newly certificated PUC carriers

HIGH-TECH TRACK INSPECTIONS REMAIN EFFECTIVE

PUC track inspectors continue to utilize the Track Geometry Car to reduce the risk of train derailments. The Track Geometry Car is a high-tech vehicle used to help inspect railroad tracks for rail structural deficiencies and irregular track geometry. The car is a part of the Federal Railroad Administration's (FRA) Automated Track Inspection Program (ATIP). ATIP utilizes state-of-the-art inspection cars with measurement systems that produce a load on the track and accurately (within .1 inch) records gauge, alignment and track surface. It also calculates limiting speed of trains. Through the use of advanced electronic sensing and data processing, the vehicle is able to collect track geometry data while traveling at speeds of up to 110 miles per hour. The data is compiled into reports, which indicate the track deficiencies and locations by GPS. The ATIP has increased the effectiveness and efficiency of the railroad safety programs for the industry and the PUC.

Rail inspections performed by visual means can only detect external defects, excessive wear and subtle signs of large, internal problems. Steel rails are vastly superior to those of years past, in both strength and wear qualities; however, defects still occur. With increased traffic at higher speed and with heavier axle loads, internal rail inspections are more important than ever before. New technology is available to "x-ray" the rails, looking for internal defects that may fail under a train. Ultrasonic and electromagnetic technology instruments are installed on inspection vehicles. These vehicles traverse the track at speeds up to 15 miles per hour, testing the rail for various kinds and percentage of failures. The FRA has established regulations requiring the use of this rail flaw detection technology on certain high-density and passenger lines. PUC inspectors ensure that the railroads in Pennsylvania are in compliance with this regulation.



OPERATION LIFESAVER

During Fiscal Year 2014-15, rail safety personnel attended several events across the state to promote [Operation Lifesaver](#), a nonprofit, national public-education program dedicated to eliminating collisions, deaths and injuries at rail-highway crossings and on railroad rights-of-way. Operation Lifesaver strives to increase public awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

The program seeks to improve driver and pedestrian behavior by encouraging compliance with traffic laws relating to crossing signs and signals. It also points out the dangers on railroad rights-of-way. In 1972, when Operation Lifesaver began, there were roughly 12,000 train/vehicle collisions nationwide. Now, that annual number has been reduced to approximately 2,287 such accidents in 2014, thanks in part to the efforts of the Operation Lifesaver program. In 2014, there were 27 trespasser fatalities in Pennsylvania. Designated PUC employees provide Operation Lifesaver presentations to various groups, such as students, businesses and civic organizations. The Rail Safety Section's three trained volunteers also provide information concerning railroad safety at outreach events. The Rail Safety Section has the expertise with regard to engineering at highway-rail crossings, and participation in the program complements the division's goals for the prevention of accidents and the promotion of public safety.

2014-15 INSPECTIONS

- 24,179 railroad cars
- 463 locomotives
- 1,270 miles of railroad track
- 1,600 hazardous materials units
- 964 operating practices inspections

2014-15 ENGINEERING

- 185 formal proceedings processed
- 215 field meetings/inspections conducted
- 36 bridge projects approved at \$438.1 million
- 125 at-grade crossing projects approved at \$55.5 million
- 6 public utility municipal contracts approved



After the Polar Vortex events during the winter of 2013-14, steps directed by the Federal Energy Regulatory Commission (FERC) and PJM Interconnection, L.L.C. (PJM) prevented the previously experienced wholesale market volatility. Generators were prepared and produced as directed. In addition, this Commission's new regulations on accelerated switching and improved customer-information measures enabled consumers to quickly switch out of higher priced products. At the close of the fiscal year, Pennsylvania had 11 electric distribution companies (EDCs) and approximately 390 licensed electric generation suppliers (EGSs). The Commission also continues to focus on energy efficiency and conservation, as well as alternative energy.

WHOLESALE ELECTRIC MARKETS, VOLATILITY

A highly competitive and efficient wholesale electric market is integral to a properly functioning Pennsylvania retail electric market that supplies retail power at reasonable prices for consumers. Pennsylvania's electric utilities operate in the PJM transmission zone. PJM is a regional transmission organization (RTO) that manages the electric transmission system in Pennsylvania, as well as 12 other states and the District of Columbia.

Analysis of the Polar Vortex events of 2014 revealed that a number of forced generation outages resulted in substantial reductions in generation supply while demand spiked simultaneously. A number of root causes for the outages were found, including equipment failures due to the intensely cold weather and, in some cases, an inability of gas generators to obtain sufficient supplies on short notice, due to both the availability of gas and transportation restrictions. In addition, some generators were simply unprepared to meet the unprecedented demand.

As a result, both FERC and PJM directed generators to take several steps to prevent the unprecedented forced outage rate experienced during the Polar Vortex events. These steps included pre-winter testing to ensure that physical plant was capable of cold weather operations, as well as the use of winter preparation checklists and better coordination of gas supply and transportation. PJM experienced a new record winter peak on Feb. 20, 2015. The Feb. 20 peak was 143,086 megawatts, compared to 142,863 megawatts on Jan. 7, 2014. Despite the record peak, forced outages were well below those experienced in 2014, and PJM was able to operate normally, albeit in cold-weather conditions.

During PJM's record peak on Feb. 20, 2015, the real-time locational marginal price (LMP) hit a high of \$418.67 per megawatt-hour (hour beginning 0600) – the highest LMP reached this winter. By comparison, on Jan. 7, 2014, LMPs exceeded \$1,800 per megawatt-hour. In addition to reduced forced outages, coordination with gas supplies was improved. Also, the quantity of available gas was greater than in 2014 and gas was available at lower prices.

COMPETITIVE MARKETS OVERSIGHT

As a result of the winter volatility of the wholesale electric markets during the January 2014 Polar Vortex, which resulted in some Pennsylvania electric customers receiving electric bills in abnormally high amounts – especially those with variable-rate contracts – the Commission introduced several rulemakings for enhanced consumer protections, which went into effect during Fiscal Year 2014-15.

As a general rule, the rate that consumers pay in the competitive retail electricity market is governed by the terms of their contract with their supplier. While the PUC immediately took steps to highlight the variable-rate issue and help customers cope with their high bills, Commissioners and staff also took a deeper look into the marketplace to determine if any longer-term fixes could help address this situation. After doing so, the PUC determined that two major changes would improve Pennsylvania's retail electricity market. With that, the PUC undertook two accelerated rulemakings in order to provide consumers with the flexibility they needed to move quickly away from one electricity supplier to another and have all of the information needed to make an informed decision.

The supplier disclosure statement regulations provide electric shopping customers with greater, uniform detail in electric supplier disclosure statements and more timely information on “contract renewal” and “change in terms” notices. EGSs are required to display key contractual terms and conditions more prominently, especially for customers on variable-priced products; provide historical pricing data on their products; and prominently mark customer notices prior to contract expiration or changes in terms. The changes, which went into effect the first quarter of Fiscal Year 2014-15, are designed to provide additional information and greater protections for residential and small business customers choosing a competitive supplier for their electric generation.

The accelerated switching regulations dramatically reduce the time it takes customers to change electricity suppliers. The regulations require EDCs to accelerate switching time frames through off-cycle meter readings that allow consumers to switch suppliers within three business days of the EDC being notified of a request for a switch. The EDCs have been working to implement accelerated

switching. As of December 2014, most EDCs had the capability to provide one three-business-day, off-cycle switch and an additional three-business-day, off-cycle drop to default service. Full implementation of accelerated switching in most service territories is expected to be completed by the end of 2015.

The Commission's Office of Competitive Market Oversight (OCMO) is a group of legal, technical, communications and policy staff members from various Commission bureaus and offices that addresses obstacles faced by EGSs and EDCs participating in the retail market. The group led the Commission's Electric Retail Markets Investigation (Electric RMI), which resulted in recommendations to improve the competitive market, in which consumers have the choice of different competitive pricing options and a variety of innovative product offerings. OCMO responds to questions from EGSs, monitoring issues potentially hindering the development of a competitive retail market, including EGS marketing and sales practices and facilitating informal dispute resolution between default service providers and EGSs.

DEFAULT SERVICE PLANS

The 1996 electric competition law requires electric companies, or a Commission-approved alternative supplier, to provide default electric generation service to customers who have not selected an alternative generation supplier. The default service prices for electric generation service are required to result in a procurement strategy designed to produce the least cost to customers over time.

The majority of default service plans (DSPs) governed how EDCs secure default service supply for non-shopping customers from June 1, 2013, to May 31, 2015. The seven largest EDCs included market enhancement programs in their plans, as directed by the Commission during the Electric RMI. The goal of those market enhancement programs is to provide Pennsylvania consumers with money-saving opportunities while they explore Pennsylvania's retail electric market, including the Standard Offer Program, which is a voluntary program for non-shopping residential and small business customers to give them greater access to the competitive electricity market and its benefits. During Fiscal Year 2014-15, the Commission reviewed and approved DSPs which became effective for service commencing in the summer of 2015.



ACT 129 PHASES II AND III

The PUC continues to implement and enforce [Act 129 of 2008](#), which expanded the Commission's oversight responsibilities and imposes new requirements on EDCs with more than 100,000 customers, with the overall goal of controlling energy consumption and demand.

Currently in Phase II, the Commission continues the momentum set in the first phase of Act 129. The Commission determined that additional incremental reductions in consumption are cost-effective. As such, the Commission set new required reductions in consumption for each of the EDCs that included the filing and approval of new energy efficiency and conservation (EE&C) plans. However, the Commission did not have sufficient information to definitively determine if any peak demand reduction program design would be cost-effective and therefore did not establish any such requirements as part of Phase II. The participating EDCs began implementing these plans on June 1, 2013, and will operate the plans through May 31, 2016.

Regarding Phase III demand response programs, the Commission issued a Tentative Order in November 2013 soliciting comments and on Feb. 20, 2014, issued a Final Order directing the Act 129 Statewide Evaluator (SWE) to perform a Demand Response Potential Study using proposed residential direct load control and commercial and industrial load curtailment models.

More recently, the Commission engaged SWE to perform various market potential studies to assess the cost-effective potential for demand response and additional energy consumption reductions. Based on the SWE's Demand Response Potential Study and the SWE's Energy Efficiency Potential Study, the Commission determined that requiring additional incremental reductions in consumption and peak demand would be cost-effective. On June 19, 2015, the Commission entered a Final Order outlining Phase III of the EE&C Program, to occur June 1, 2016, through May 31, 2021. The Commission prescribed consumption-reduction requirements, ranging from 2.5 percent to 5 percent, for each EDC. The Commission also required six of the seven EDCs to meet peak demand-reduction requirements. The Commission did not prescribe a demand-reduction requirement for Penelec, as the SWE found no cost-effective potential in the Penelec service territory.

Act 129 also included the deployment of smart meter technology and time-of-use rates, modifying default service procurement strategies and expanding the types of generating plants that qualify as Tier I alternative energy sources. The efforts related to Act 129 may ultimately reduce the cost of electricity and enhance safety and reliability of service. The Commission is on target in meeting all of the Act's requirements.

SMART METER DEPLOYMENT

To comply with Pennsylvania Act 129 of 2008, the seven large (100,000 or more customers) EDCs are required to deploy smart meters to all customers by 2023 at the latest. All of these EDCs have approved smart meter deployment plans that provide for almost all customers having smart meters by 2019. However, the majority of approved plans' deployment schedules call for an accelerated full deployment period, typically between the years 2015 and 2017.

The current deployment of smart meters based on the EDC Smart Meter Plans stands at approximately 1.7 million meters, or about 29 percent of all jurisdictional electric distribution customers. By year end 2015, approximately 1.86 million smart meters will be deployed throughout the state, which would equate to about 32 percent of distribution customers.

DISTRIBUTION RATE INCREASE REQUESTS

During Fiscal Year 2014-15, the Commission finalized the four FirstEnergy companies' rate increase requests. Information about the [ratemaking process](#) is available on the PUC website.

West Penn Power

Requested Rate Increase – \$115.5 million (8.4 percent)

Approved Rate Increase – \$59.9 million (4.4 percent)

Primary Reason – To replace aging equipment, improve operations and strengthen reliability.

Penelec

Requested Rate Increase – \$119.8 million (8.6 percent)

Approved Rate Increase – \$91.3 million (6.6 percent)

Primary Reason – To replace aging equipment, improve operations and strengthen reliability.

Penn Power

Requested Rate Increase – \$28.5 million (8.7 percent)

Approved Rate Increase – \$17.0 million (5.2 percent)

Primary Reason – To replace aging equipment, improve operations and strengthen reliability.

Met-Ed

Requested Rate Increase – \$151.9 million (11.5 percent)

Approved Rate Increase – \$90.0 million (6.8 percent)

Primary Reason – To replace aging equipment, improve operations and strengthen reliability.

In addition, during Fiscal Year 2014-15, PPL Electric Utilities Inc. filed a \$167.5 million rate increase request and PECO Electric Company filed for a rate increase of \$191.2 million.

PARTICIPATION IN FEDERAL PROCEEDINGS

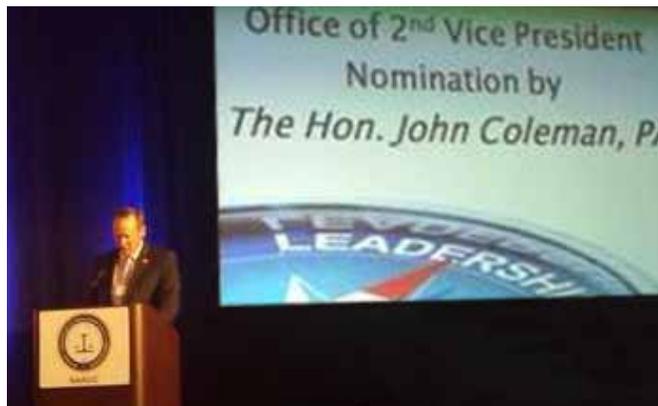
The Public Utility Code authorizes the Commission to appear before federal agencies such as the U.S. Department of Energy, the Federal Energy Regulatory Commission (FERC), the Environmental Protection Agency (EPA) and the federal courts. The Commission intervenes in wholesale market proceedings on behalf of Pennsylvania and in collaboration with other state commissions in proceedings before FERC that may have an impact on wholesale electric markets or the interstate transmission of electricity. FERC delegates operational and market decisions to the RTOs, meaning the PUC participates in many proceedings related to the design and operation of PJM. The PUC is a member of the Organization of PJM States Inc. (OPSI), which is a group of state commissions jointly interested in wholesale market issues.

Proceedings at the federal level that the PUC is monitoring or participating in include electric transmission congestion issues; plans to enhance electric market surveillance and analysis; actions on transmission planning and cost allocation; issues with cybersecurity; and proposals on frequency regulation compensation in organized wholesale markets. The PUC has been active before the EPA in its Clean Power Plan rulemaking process.

ALTERNATIVE ENERGY PORTFOLIO STANDARDS ACT OF 2004

The PUC developed the rules and regulations necessary for fostering Pennsylvania's alternative energy market and continues to address the issues that arise as EDCs, EGSs and alternative energy systems comply with the mandates of the Act. Signed into law on Nov. 30, 2004, the [Alternative Energy Portfolio Standards Act](#) (AEPS) requires EDCs and EGSs to ensure that 18 percent of electricity sold in Pennsylvania is derived from alternative resources by 2021.

For the 2014 reporting year (June 1, 2013 – May 31, 2014) all EDCs complied with the AEPS requirements by retiring the required number of Tier I, Tier II and Solar AECs needed to meet their obligations. Four EGSs did not retire the credits needed to meet their AEPS obligations and were issued letters of non-compliance. Two of these four EGSs complied by submitting alternative compliance payments (ACPs) to meet their obligations. The remaining two EGSs



Vice Chairman Coleman speaks at a National Association of Regulatory Utility Commissioners (NARUC) Annual Education Conference in November 2014.

had ceased operations during the reporting year and did not respond to the letters of non-compliance. Of these two remaining companies, one had an active bond; a claim was made against the bond and ACP money was recovered. The last of these four EGSs did not have a bond in place; no money was received or could be recovered to meet the ACP obligation.

AECs retired by EDCs and EGSs for the 2014 reporting period originated from alternative energy resources located both inside and outside of Pennsylvania. Pennsylvania EDCs and EGSs are permitted to obtain AECs from within the entire PJM Interconnection, LLC (regional transmission organization) area. For the 2014 reporting year, 85 percent of solar AECs, 30 percent of Tier I and 65 percent of Tier II AECs originated from generation facilities located in Pennsylvania.

During the fiscal year, and subsequent to the issuance of a Notice of Proposed Rulemaking in the prior fiscal year, the Commission issued for comment its [Advanced Notice of Final Rulemaking](#) for the AEPS that would clarify and revise certain regulations. These regulations would, among other things, increase certain reporting requirements and strengthen enforcement measures, revise interconnection and net metering rules and clarify Commission procedures and standards for certifications and verification of compliance with the Act. Staff is reviewing the comments filed and finalizing the Commission's position on these matters.

RELIABILITY

Under the Customer Choice Act, each EDC is obligated to ensure that its service does not deteriorate below the level of service reliability that existed prior to the Jan. 1, 1997, effective date of the Act. The monitoring efforts by the Commission include reviewing annual and quarterly reports filed by the EDCs. Large electric



companies have to stay within 10 percent of a PUC-established benchmark for a rolling three-year period and within 20 percent of the benchmark during a rolling 12-month period. Four smaller electric companies – UGI Electric Co., Citizens’ Electric Co., Pike County Light & Power and Wellsboro Electric Co. – also must stay within 10 percent of their benchmark for a rolling three-year period, but will be allowed to go up to 35 percent of the benchmark for the rolling 12-month period. Benchmarks are the Commission’s goals for each utility based on the number and duration of outages.

The Commission issued the latest annual reliability report – [Electric Service Reliability in Pennsylvania](#) – in July 2015. The report evaluates and trends reliability performance from January 2004 through December 2014. The report includes a review of the major causes of service outages for each EDC, as well as an overview of major service outage events in 2014.

ELECTRIC POWER OUTLOOK

Each public utility that distributes or furnishes electricity must annually submit to the Commission information concerning its future plans to meet customers’ demands. The Commission is required to annually submit the report to the General Assembly, the Governor, the Office of Consumer Advocate and each affected public utility.

[The report](#) concludes that sufficient generation, transmission and distribution capacity exists to reasonably meet the needs of Pennsylvania’s electricity consumers for the foreseeable future. Regional generation adequacy and reserve margins of the Mid-Atlantic will be satisfied through 2021, provided that planned generation and transmission projects will be forthcoming in a timely manner.

INSPECTION AND MAINTENANCE STANDARDS

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

The most recent biennial plans for the periodic inspection, maintenance, repair and replacement of facilities, which are designed to meet performance benchmarks and standards, were filed with the Commission on Oct. 1, 2014, by Duquesne Light, PECO, PPL, Citizens, Pike County and Wellsboro, and become effective on Jan. 1, 2016. Inspection and maintenance plans were filed by FirstEnergy (Met-Ed, Penelec, West Penn Power and PennPower) and UGI on Oct. 1, 2013, and became effective Jan. 1, 2015. Duquesne Light, PECO, PPL, Citizens, Pike County and Wellsboro are currently operating under their approved biennial plans that were effective Jan. 1, 2014.

ELECTRIC SAFETY DIVISION

In Fiscal Year 2014-15, the Bureau of Investigation and Enforcement's Electric Safety Division continued its efforts, which include investigating electric-related events involving outages, injury or death, as well as conducting regular reviews of EDCs' safety plans. The Commission established the division in August 2013, allowing the Commission to expand its capabilities and focus on general safety compliance, cybersecurity and best practices in the industry.



ELECTRIC COMPANY AUDITS

In addition to periodic management and operations audits (MAs) or management efficiency investigations (MEIs), the PUC annually conducts a variety of other EDC audits. During Fiscal Year 2014-15, the PUC completed 36 audits, involving default service, purchased power, non-utility generation, transmission service costs, generation supply service, smart meters, energy efficiency and conservation, consumer-education programs and universal service programs. Also, 128 filings requesting changes to established adjustment clause rates were reviewed and processed, implementing revised surcharge rates. Additionally, 135 1307(e) reconciliation statements were reviewed and processed.

[PECO Energy Company](#) – On Oct. 23, 2014, the Commission released a report on the Focused Management and Operations Audit of PECO Energy Company that contained 28 recommendations to improve company efficiency. In its implementation plan, the company indicated acceptance of all 28 recommendations. Implementation of the audit recommendations could result in annual savings ranging from \$2.9 million to \$5.67 million and one-time savings ranging from \$2.2 million to \$3.1 million.

[FirstEnergy Corporation – PA Companies](#) – On Feb. 12, 2015, the Commission released a report on the Focused Management and Operations Audit of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (collectively referred to as FE-PA Companies) that contained 28 recommendations to improve company efficiency. In its implementation plan, the FE-PA Companies indicated acceptance of 25 recommendations, partial acceptance of one recommendation and rejection of two recommendations. Implementation of the audit recommendations could result in annual savings of approximately \$3.7 million and one-time savings of approximately \$19.2 million.



NATURAL GAS

Increased natural gas supply in the state played a part in reducing and stabilizing natural gas prices in Fiscal Year 2014-15. That increased supply was accompanied by an increased need to transport natural gas from the wellhead to compressor stations to the wholesale market. This development is in addition to the existing 47,000 miles of natural gas distribution pipelines that bring natural gas to consumers' homes and businesses. All of this has increased the spotlight on natural gas and pipeline safety. At the end of Fiscal Year 2014-15, Pennsylvania had 26 regulated natural gas distribution companies (NGDCs), seven propane distribution operators, 131 jurisdictional gathering and transmission pipelines (Act 127) and 198 licensed natural gas suppliers (NGSs).

WHOLESALE NATURAL GAS PRICES

According to [FERC's 2014 State of the Market Report](#), extremely cold temperatures during the first quarter of 2014 stressed the country's natural gas infrastructure and power markets, with U.S. natural gas prices reaching record levels that triggered electricity price spikes. While the winter of 2014 illustrates how extreme weather can have a profound impact on natural gas and electricity markets, FERC's *Report* notes that prices for both natural gas and electricity were relatively low for the remainder of the year and natural gas production continued to break records.

The FERC's *Report* continues that price spikes during the Polar Vortex events drove spot price increases in early 2014, with prices on average 14 to 43 percent higher at key hubs throughout the country. The spot natural gas price at Henry Hub averaged \$4.32/MMBtu in 2014, 16 percent higher than in 2013. Although prices began to moderate in the spring, concerns about low storage inventories kept prices up until early summer. Prices fell in the fall as storage recovered, and by late December, the Henry Hub price was below \$3.

On a positive note for Pennsylvania, the *Report* highlighted growing Marcellus Shale supplies as the reason why the Northeast experienced some of the lowest year-on-year price increases for natural gas. Furthermore, natural gas production grew 5 percent in 2014, averaging 68.4 Bcfd, breaking the record set in 2013. The *Report* cites two shale formations, the Marcellus in Pennsylvania and the Eagle Ford in Texas, as accounting for 34 percent of the production increase, averaging 14 and 4 Bcf/d respectively, and the Northeast became a net exporter of natural gas for the first time last summer.

According to the *Report*, the natural gas pipeline system and wholesale power markets performed remarkably well this past winter, in the face of extremely cold temperatures that prevailed across much of the country. In fact, record low temperatures set in 72 cities on Feb. 20, 2015, generated a new winter peak record for PJM of approximately 144,000 MW, beating its previous record of about 142,000 MW, set in January 2014. But despite those challenging winter conditions, prices in the electricity markets remained moderate, helped by stable natural gas prices and lower forced outage rates – in contrast to last winter, when outage rates were high, price spikes were common, and PJM and NYISO both sought and received authority to waive their \$1,000 MWh offer caps to ensure that generators would be able to recover their fuel costs.

Compared to last winter, the *Report* indicates that winter natural gas prices were lower and less volatile, even though natural gas demand was 2-percent higher than the previous winter – driven by a 13 percent jump in gas used for power generation. Despite the higher demand, there were fewer and smaller spikes in natural gas prices, attributed to factors such as increased production, new pipeline capacity moving supplies from producing to market areas, fewer and less widespread pipeline disruptions, and better gas-electric coordination.



For Fiscal Year 2014-15, natural gas in Pennsylvania exhibited extreme price fluctuations during the winter heating season. During January, natural gas spot prices experienced volatility of as much as \$123/MMBtu at Transco Zone 6. These peaking prices can be compared to an annual average price of about \$4/MMBtu.

According to the Energy Information Administration (EIA), in the Northeast, prices are particularly sensitive to temperature variations, rising by more than other regions as temperatures cool and high demand exacerbates pipeline constraints. Conversely, during more temperate days in the spring and fall, when pipeline capacity is generally sufficient to meet lower demand, the proximity of northeastern hubs to increasing Marcellus Region production results in prices that are lower than those in other parts of the United States.

According to the EIA, Pennsylvania's annual gross natural gas production, primarily from the Marcellus Shale, exceeded 4 trillion cubic feet in 2014, doubling the state's 2012 production and making Pennsylvania the nation's second-largest natural gas producer.

ACT 13 OF 2012 (IMPACT FEE)

Act 13 of 2012, the Unconventional Gas Well Impact Fee Act, amended Title 58 (Oil and Gas) of the Pennsylvania Consolidated Statutes. The PUC is

responsible for collecting and distributing the state's Unconventional Gas Well Impact Fee under this Act.

The Impact Fee producer payments for 2014 totaled about \$223.5 million. Of that, about \$123.3 million was distributed directly to county and municipal governments that are directly affected by drilling. Also, \$18 million was distributed to state agencies impacted by drilling. The remaining \$82.2 million will be placed into the Marcellus Legacy Fund, which was established under the law to fund environmental, highway, water and sewer projects, rehabilitation of greenways and other projects throughout the state.

A breakdown of the payments to county and municipal governments, specifics on how much money was collected and comparisons to data from previous years is available on the Act 13/Impact Fee webpage. The [website](#) includes graphical data analyses including the top-paying producers, well count breakdowns and top receiving counties and local governments.

Impact Fee producer payments are due to the PUC on April 1 of each year. Distributions of the money collected by the PUC are due to county and municipal governments by July 1 of each year. County and municipal government information on how the 2014 Impact Fee monies were spent was due to the PUC by April 15, 2015. Forms and other information needed by producers and local government also are available on the website.

PIPELINE SAFETY

The PUC has long been charged with the safety oversight of public utilities' distribution and transportation pipelines in the state. Acting as an agent for the federal Department of Transportation's Office of Pipeline and Hazardous Materials Safety Administration (PHMSA), the PUC enforces the federal pipeline safety regulations.

The PUC monitors compliance with federal and state regulations by conducting inspections of pipeline facilities and records of regulated gas utilities. More than 45 different types of inspections are included in the PUC's monitoring of natural gas companies and their pipeline safety. The Commission also investigates natural gas incidents including fires, explosions and major outages.

Act 127 of 2011 (the Pipeline Safety Act) expanded the PUC's jurisdiction to include enforcement of the federal pipeline safety laws as they relate to non-public utility gas and hazardous liquids pipeline equipment and facilities within the state. Non-public utility gas and hazardous liquids pipeline operators include several different categories of pipelines, such as cooperatively owned natural gas distribution systems; non-utility natural gas transportation and gathering lines; and propane distribution pipeline systems.

For Fiscal Year 2014-15, the Commission's authorized budget to implement Act 127 was \$848,540. Under the law, the cost of the program is allocated by mile among the companies. For the fiscal year, 87



Commissioner Powelson addresses PCN-TV following a Senate budget hearing in 2015. Powelson served as PUC Chairman from Feb. 24, 2011, through May 7, 2015.

companies registered with the Commission – of those, 51 companies have a total of 1,078 miles eligible for assessment.

NATURAL GAS PIPELINE REPORTABLE INCIDENTS

During the past calendar year, the Commission investigated five reportable incidents which resulted in two fatalities and three injuries. During the previous years, reportable natural gas utilities incidents include three in 2013, one in 2012, five in 2011 and one in 2010. The PUC has identified the most frequent causes of reportable incidents as excavation damage; natural causes, such as flooding; automobile accidents; pipeline leaks caused by corrosion; and human error. The PUC uses information gathered from its incident investigations to ensure its inspection efforts are focused on the areas that have previously resulted in reportable incidents.

NATURAL GAS SAFETY INVESTIGATIONS

In Fiscal Year 2014-15, the PUC's Gas Safety Division filed seven formal complaints and one informal settlement relating to investigations involving alleged violations of the Pipeline Safety Code. Of note, the Commission approved an informal settlement between the PUC's Bureau of Investigation & Enforcement (I&E) staff and UGI Inc. regarding issues associated with a series of leaks and operations of the PNG Distribution System. The fine amount ordered by the Commission was \$1 million.

ADDITIONAL GAS SAFETY ACTIVITIES INCLUDED:

- 1,213 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line, and compressor station inspections);
- 6 investigations of reportable incidents;
- 55 non-compliance letters issued;
- 113 gas safety violations issued;
- 103 violations handled by non-compliance letters; and
- 10 violations pursued by prosecutory staff.

INCREASED AVAILABILITY OF NATURAL GAS TO CONSUMERS

The availability of natural gas service to Pennsylvania homes and businesses often translates into saving money because of the switch from high-cost heating sources, such as fuel oil and propane, to lower-cost natural gas. Further, areas with natural gas service provide an economic development tool to keep current business, and to attract new businesses.



The decision on whether to extend a natural gas line to new customers is governed by the natural gas utility's tariff. The tariff includes an economic analysis that requires utilities to weigh both the cost and expected revenue from the extension to determine whether the extension is economic and whether a customer contribution to the project is necessary. This method typically results in the extension of gas lines to more densely populated urban areas, or in very close proximity to areas where lines already exist.

Under most natural gas company tariffs, a customer who wishes to have natural gas service extended to his/her property must pay most of the cost of that line extension, which can run in the tens of thousands of dollars as an upfront payment. Depending on the distance between where service is desired and the closest distribution and transmission line, and potential customer costs related to these line extensions, some projects may not be pursued.

The PUC has engaged with the General Assembly and the Administration to determine a way to bridge the gap so that utilities are able to make investments in infrastructure to serve more customers in a way that

does not burden existing customers. As part of that effort, the Commission has approved three pilot projects which feature innovative ways to encourage the extension of natural gas into unserved or underserved areas.

A pilot program by Peoples Natural Gas Company LLC was approved by the PUC on Mar. 26, 2015, allowing implementation of a Service Extension Tariff (SET). The program allows eligible customers to pay the cost of extending natural gas service to their property through a fixed monthly fee of \$55, for a maximum of 25 years. Eligible residential customers will also have the option to pay for the cost of new service lines through an additional monthly fee of \$15.

On Oct. 23, 2014, the PUC also approved a proposal by Columbia Gas of Pennsylvania, Inc. for a New Area Service (NAS) program. This program allows eligible customers to pay the cost for new natural gas service to be extended to their property over a 20 period, using a fixed monthly on-bill surcharge.

In February 2014, the PUC approved a pilot program by UGI Utilities, Inc., called Growth Extension Tariff (GET Gas), which allows eligible customers to pay the cost of extending natural gas service to their properties over a 10 year period, as a monthly charge on their bills.

One other gas utility, PECO, has a pilot program proposal pending before the Commission.

PIPELINE PROJECTS

March 21, 2014, Sunoco Pipeline L.P. filed 31 petitions before the PUC asking for a finding that the building of pump station shelters along its proposed Mariner East Pipeline were reasonably necessary and in the public interest. The petitions were challenged by numerous parties and were referred to the PUC's Office of Administrative Law Judge for hearings. On April 22, 2015, the Commission issued a final order approving Sunoco's petition to withdraw 22 of those petitions, and a final order issued on May 28, 2015, withdrew the remaining nine Sunoco petitions, closing those cases. Several other major pipeline projects are proposed for construction in Pennsylvania, though siting for those projects is non-jurisdictional to the PUC, with FERC having jurisdiction.



NATURAL GAS COMPETITION & RETAIL MARKET INVESTIGATION

As part of an ongoing effort to bring Pennsylvania's natural gas retail market to the next level, in a joint motion by Commissioners Witmer and Cawley, the PUC directed staff to move forward with an investigation and to seek additional comments on related issues. A Dec. 18, 2014 Order directed the Office of Competitive Market Oversight (OCMO) to examine several specific issues involving retail gas competition.

OCMO was further directed to form working groups composed of Natural Gas Distribution Companies (NGDCs), Natural Gas Suppliers (NGSs) and other interested parties to investigate potential changes or standardization of the use of capacity and storage assets; issues regarding system balance, tolerances and penalties; amendments to creditworthiness requirements; and issues regarding nondiscrimination in access points on distribution systems. The PUC has also sought additional comments on specific topics including NGS supplier disclosure statements and supplier-related elements that would be appropriate for inclusion on a joint NGDC-NGS bill.

As a result of these efforts, the Commission has addressed numerous key points, including a Mar. 26, 2015 proposed rulemaking order regarding customer information disclosure requirements; an April 23, 2015 tentative order on joint natural gas distribution company – natural gas supplier bills; and a July 2015 final order regarding customer account number access for NGSs.

An October 2005 Commission report found that effective competition did not exist in Pennsylvania's natural gas retail market. As a result of that report, the Commission created Stakeholders Exploring Avenues for Removing Competition Hurdles (SEARCH), a working group comprised of stakeholders representing residential, commercial and industrial customers; NGDCs; suppliers; and pipelines. The SEARCH action plan was designed to increase effective competition in the retail market for natural gas supply. The plan includes two rulemakings – one that addressed market issues and one that addressed security requirements related to licensing NGSs.

On Aug. 15, 2013, the Commission finalized changes to regulations regarding NGS licensing requirements, including eliminating the definitions of a "marketing service consultant"; incorporating new entities referred to as "aggregators," "brokers" and "non-selling marketers"; and continuing the exemption for nontraditional marketers and establishing the exemption for non-selling marketers under contract to only one NGS.

The Commission then initiated the second phase of the plan, after the completion of its Retail Market Investigation (RMI) into Pennsylvania's electric industry, to address how to best resolve issues raised and how to implement changes to improve natural gas retail competition. This phase is led by the Commission's Office of Competitive Market Oversight (OCMO).

On Sept. 12, 2013, the Commission issued an Order initiating the Investigation of Pennsylvania's retail natural gas supply market. The Order was issued pursuant to the Natural Gas Choice and Competition Act, effective July 1, 1999, which requires us to convene stakeholders and explore avenues to encourage increased competition in the natural gas supply market.

DISTRIBUTION RATE INCREASE REQUESTS

During the past fiscal year, the Commission took the following actions related to approximately \$55 million in rate increase requests from jurisdictional gas distribution companies:

Columbia Gas of Pennsylvania Inc.

Customers – 417,000 in 26 counties

Requested Rate Increase – \$54.1 million (11.09 percent)

Approved Rate Increase – \$32.5 million (6.65 percent)

Primary Reason – To recover costs of infrastructure replacement and operating expenses.

Pike County Light & Power, Natural Gas Division

Customers – 1,190 in Pike County

Requested Rate Increase – \$151,000 (24.7 percent)

Approved Rate Increase – \$100,000 (16.4 percent)

Primary Reason – To recover increased operating expenses and finance infrastructure replacement.

Herman Oil & Gas Company

Customers – 425 in Butler County

Requested Rate Increase – \$779,346

Approved Rate Increase – \$420,000 *Increase to be implemented gradually over a three year period

Primary Reason – To recover increased operating expenses and earn a reasonable return on plant investment.

In addition, during Fiscal year 2014-15, Columbia Gas Company filed a request for a rate increase of \$46.2 million. Information about the ratemaking process is available on the [PUC website](#).

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses on making sure customers are protected; that the company is a viable public utility; and that it is in the public interest. In Pennsylvania, the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. The phrase “public benefit” is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

GAS COMPANY AUDITS

During the fiscal year, the Commission’s Bureau of Audits completed 11 purchased gas cost (PGC) audits, 12 gas cost rate (GCR) audits, 16 universal service audits and 2 consumer-education audits. The Bureau of Audits also reviewed 15 GCRs, 1 consumer education and 1 universal service fund charge (USFC) adjustment clause filings implementing a revised GCR, consumer education and USFC rate change filings. In addition, the Bureau performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas distribution companies. Among those MAs and MEIs completed during the 2014-15 fiscal year were:

PECO Energy Company – On Oct. 23, 2014, the Commission released the Focused Management Audit of PECO Energy Company that contained 28 recommendations which were estimated to generate \$2.9 to \$5.7 million in annual savings, along with \$2.2 to \$3.1 million in one-time savings. In response to the audit, PECO Energy accepted all 28 recommendations in its Implementation Plan and reported that all recommendations will be implemented by the first quarter of 2017.

National Fuel Gas Distribution Corporation – An MEI, released June 11, 2015, showed that the National Fuel Gas Distribution Company (NFGDC) has effectively or substantially implemented eight of 12 recommendations from a 2012 Focused Management and Operations Audit, and has taken some action on the four remaining recommendations. As part of the MEI, staff from the PUC’s Audit Bureau made a series of follow-up recommendations for further improvement.

STEAM HEAT

Three steam heat utilities currently operate in Pennsylvania. Generally, steam heat is produced in central generation plants by heating water to its boiling point, and then distributing the steam heat to users through a series of underground pipes. In Fiscal Year 2014-15, the PUC reviewed and processed 14 (monthly and annual) steam cost rate adjustment clause filings submitted by jurisdictional steam heat companies. In addition, one steam cost rate audit was completed.

PHILADELPHIA GAS WORKS INVESTIGATION & REPORT

On April 21, 2015, the PUC published a staff report that presented seven specific opportunities to accelerate the replacement schedule of Philadelphia Gas Works' (PGW) aging pipeline infrastructure. The report culminated a comprehensive review and analysis, initiated in January 2015, which was the result of a PUC-hosted *en banc* hearing on PGW's pipeline replacement program held on Nov. 14, 2014.

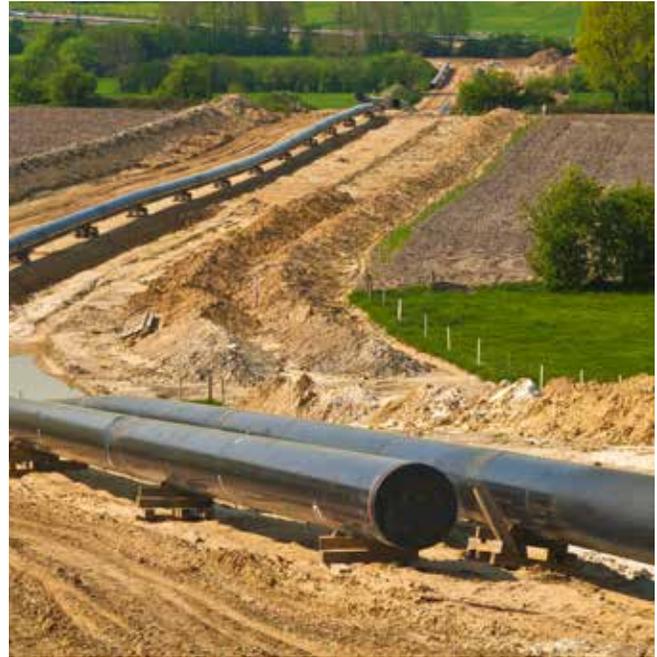
According to 2013 public records, about two-thirds of PGW's pipelines (1,994 miles) are considered "at risk" and are in need of replacement. PGW has the highest percentage of at-risk pipe of any Pennsylvania natural gas utility – by at least a factor of two. Based on PGW's 2014 replacement rate, and assuming that annual rate continued into the future, it would take 66 years to replace all at-risk pipelines in its distribution system, including both cast iron and steel.

The staff report identified seven opportunities that PGW should consider in order to accelerate the rate in which its at-risk pipe is being replaced. Each of the seven opportunities presented in the report could potentially trim the pipeline replacement time frame by anywhere from a few months to 30 years.

The PUC commend PGW for its cooperation throughout this process and for providing the necessary information to conduct the staff review. Further, the Commission strongly urged PGW to closely review and carefully consider pursuing these opportunities, as they continue to work with us to increase safety and protect the citizens living and working in Philadelphia.

PIPELINE TASK FORCE

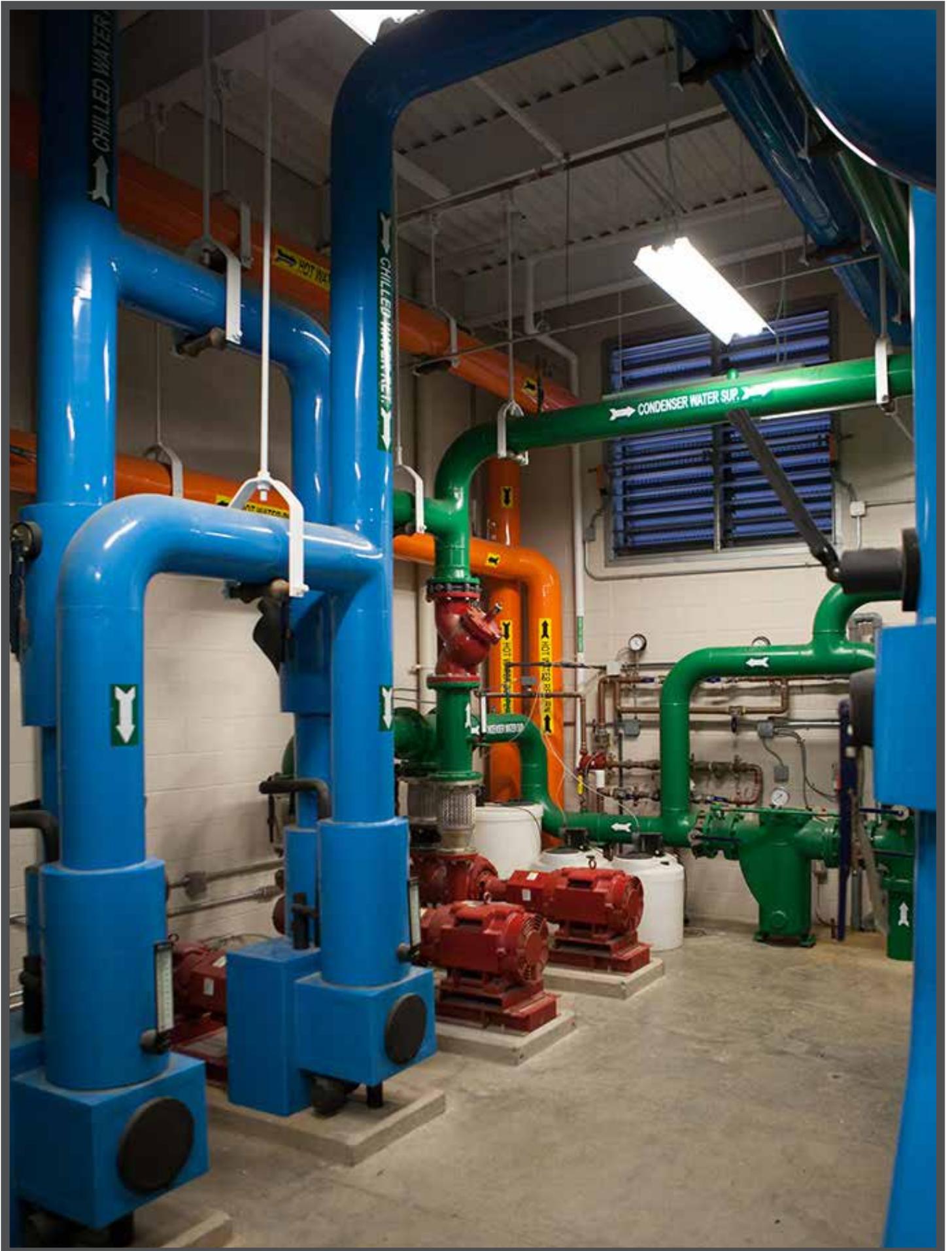
Chairman Brown is participating in Governor Wolf's Pipeline Infrastructure Task Force, whose stated goal is to help define best practices, policies and tools to help guide development of a world-class pipeline infrastructure system, as the state continues to grow as an energy hub. The Manager of the PUC's Gas Safety Division, Paul Metro – nationally known for his work and leadership in gas safety – is a PUC representative on the task force, which includes 48 appointed members along with more than 100 additional experts and stakeholders who serve on various work groups.



Issues to be addressed by the task force include: pipeline safety and integrity; siting and routing; environmental protection; conservation; agriculture; emergency preparedness; natural gas end use; government impact (local, county, state); public participation; workforce and economic development; and historical, cultural and tribal issues. The task force will provide a report of recommendations to Governor Wolf by February 2016.

NEW NATURAL GAS DISTRIBUTION COMPANY

While Pennsylvania currently has approximately 2.8 million natural gas customers, improving access in unserved and underserved regions of the state remains a concern for the PUC – but 2014 saw a positive note, with the arrival of a new start-up company in Susquehanna County. Leatherstocking Gas Company recently completed its first full year of operation in 2014 in the heart of the Marcellus Shale region, bringing natural gas service to residents and businesses that have not been able to access the cost savings of gas, until now. The state's newest natural gas utility is projecting to grow almost tenfold between now and 2020 – expanding from a total of 160 customers at year-end 2014 to approximately 1,300 customers. That growth will be fueled by the PUC recent action approving the issuance of \$5.6 million in securities, which will help fund the construction of more mains, service hook-ups and meters, allowing the company to reach new customers.



MULTI UTILITY ISSUES

The Commission deals with many issues that cross the boundaries of specific utilities. Many times these are issues where the PUC has applied best practices across utility areas to achieve the most safe and reliable service for customers.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGES

Following former Gov. Tom Corbett's signing of Act 11 of 2012, the Commission has approved a distribution system improvement charge (DSIC) for one electric company and seven natural gas companies. Act 11 of 2012 allows jurisdictional water and wastewater, natural gas and electric utilities to petition the Commission for approval to implement a DSIC to fund infrastructure upgrades. Under the law, the DSIC must be designed to provide for "the timely recovery of the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable services."

COMBINED HEAT AND POWER TECHNOLOGY

In Fiscal Year 2014-15, the Commission continued exploring the use of combined heat and power (CHP) by hosting a second [en banc hearing](#) to discuss current issues and discuss regulatory policies impacting greater adoption of CHP in the Commonwealth. CHP is an efficient approach to generating electric power and thermal energy from a single fuel source, providing cost-effective energy services to commercial businesses like hotels, universities and hospitals. In addition to benefits like improving manufacturing competitiveness and reducing greenhouse gas emissions, CHP benefits businesses by reducing energy costs and enhancing energy reliability for the user.

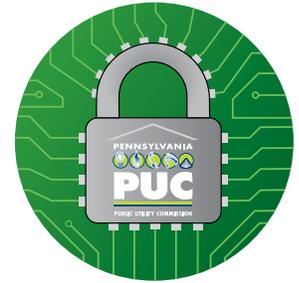
EFILING & ELIMINATION OF PAPER COPIES

During the fiscal year, eFiling continued to gain popularity as more and more parties used electronic filing over traditional paper filings. eFiling also allows users to pay PUC filing fees via the website using a credit card. The list of "qualified documents" designated by the Commission for eFiling is constantly being expanded to allow more document types to be e-Filed. The Commission actively encourages those who do business with the Commission to eFile, offering a how-to online tutorial and in-person training. In 2015, eFilings rose to more than 40 percent of all filings. The PUC has developed a Quick User Guide to educate interested parties more about our eFiling system in order to increase its use. A link to the eFiling system is available from the PUC website, which includes instructions on how to set up an account, access the users' guide and preview the system.

With eFiling and the PUC's internal case management system, InfoMAP, the Commission is finding that additional paper copies are now obsolete. As a result, the Commission has issued rulemakings and secretarial letters to eliminate additional copies currently required by our regulations. All of these actions are cost-saving measures, and allow the PUC to save 22 boxes of paper a month.

PROMOTING CYBERSECURITY

As a lead agency in spearheading discussions about cybersecurity, the PUC continues to bring together several state agencies to open up lines of communication. The PUC works to be a conduit of information between utility industries and state and federal government agencies – breaking down silos to ensure that important information concerning escalating cyber threats and improved best practices can be shared. In Fiscal Year 2014-15, the Commission announced its publication of a [Cybersecurity Best Practices for Small Medium Pennsylvania Utilities](#). In addition, the PUC has formed a multi-state collaborative with its neighboring states and an internal cybersecurity working group, as well as the Critical Infrastructure Interdependency Working Group (CIIWG). The PUC also continues information-sharing on this important subject with the Mid-Atlantic and National Regulatory Utility Commissioners organizations.



UTILITY IMPOSTER AWARENESS

**Some Impersonators
Are Easy to Spot.**



Others Are Not.



Beware of Criminals Pretending to Be Utility Workers.

Pretending to be a trusted utility worker is a trick some criminals use to gain access to your home. Other than rare emergencies, real utility workers seldom need to get inside. When they do, the utility company makes an appointment in advance. Of course, before letting any worker into your home, you should always ask for company-issued photo ID.

If you suspect someone may be a utility imposter, call 911.



The Commission joined the Keystone Alliance to Stop Utility Imposters, a coalition of local water, gas and electric utilities, along with the Pennsylvania District Attorneys Association and Pennsylvania Chiefs of Police Association to launch a public awareness campaign about criminals impersonating utility workers to gain access and rob homeowners. Across Pennsylvania, thieves have gained access to residents' homes by posing as utility workers. Once inside the home, the imposters typically divert the resident's attention

by sending him/her to another floor while they or an accomplice robs the home. The Keystone Alliance to Stop Utility Imposters was formed to educate consumers on how to protect themselves via a new public awareness campaign with print, broadcast and online media advertisements.

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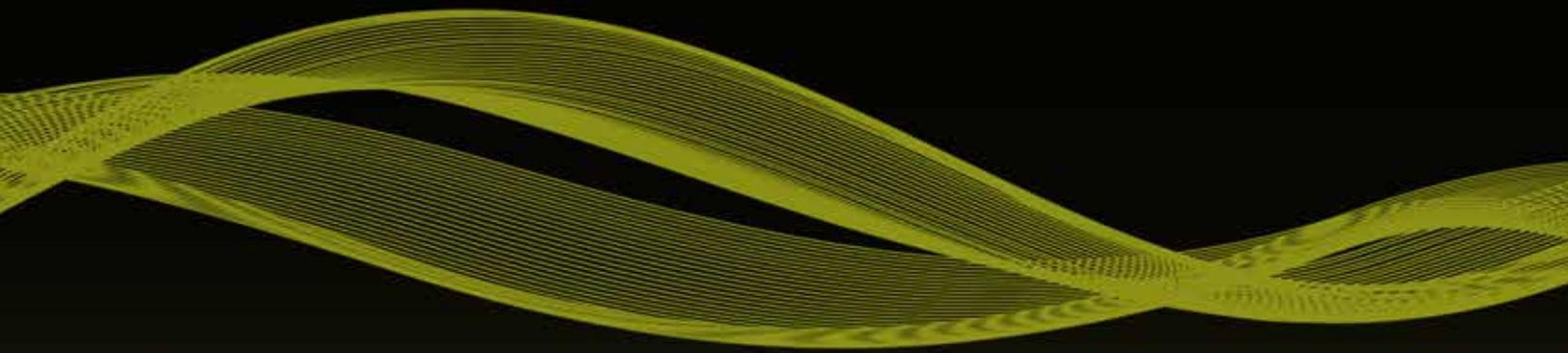
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