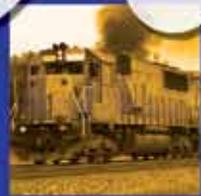




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Pennsylvania Public Utility Commission  
*Annual Report*



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

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# *Commissioners' Letter*

The Honorable Edward G. Rendell  
Governor of Pennsylvania

The Honorable Joseph B. Scarnati III  
Lieutenant Governor

Members of the General Assembly

It is our pleasure to submit the 2007-08 Annual Report for the Pennsylvania Public Utility Commission, outlining the achievements, challenges and changes of the fiscal year. We continue with our mission to balance the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.

As Pennsylvania nears the end of the decade-long transition period for electric restructuring, we continue to work with the administration and legislature to mitigate the impact of the anticipated increase in electricity prices. With rate caps expiring for the majority of electric customers in the coming years, we also are working to enhance consumer awareness on rising energy prices; exploring ways to encourage reduced energy usage; and educating consumers about the availability of low-income programs.

As part of our ongoing efforts to work with consumers to create an understanding of the energy environment in Pennsylvania and to empower them to take responsibility for their energy usage, the Commission reached out to consumers through our "Prepare Now" campaign and with our consumer educators. The Commission also continued its examination of measures to increase competition in Pennsylvania's retail natural gas services market.

The work to overhaul the PUC's existing case management system moved forward significantly this fiscal year. We have enhanced our electronic workflow capability. Soon we shall provide more efficient access to our files and operations by consumers, utilities and practitioners through implementation of electronic filing and other e-commerce initiatives. The Information Management Access Project – InfoMAP – will ensure a "21st Century PUC."

In Fiscal Year 2007-08, we continued to implement three comprehensive laws that made sweeping changes to the way energy and water utilities terminate customers; the way electric utilities and their consumers embrace the use of alternative energy sources for generations; and the way telephone companies are regulated and deploy high-speed Internet services across Pennsylvania.

The Federal Energy Regulatory Commission and the Federal Communications Commission are playing increasingly important roles in the delivery of energy and telephone service in Pennsylvania, and the Commission is actively involved in these issues.

Regarding water utilities, the Commission continued its efforts to enhance emergency communications and related actions for water utilities during service interruptions. The Commission also promoted regionalization efforts, which in recent years have allowed ratepayers of smaller, troubled systems to enjoy improved service from a larger, more viable owner.

Our Bureau of Transportation and Safety's Motor Carrier Division participated in several public outreach initiatives by speaking to groups about paratransit services across the state while enhancing oversight of the motorcarrier industry. The Rail Safety Division completed focused safety efforts across the Commonwealth, including safety inspections and investigations of railroad facilities, equipment and records.

With the passage of Act 129 in Fiscal Year 2008-09, we stand ready to face the challenges in the coming year and look forward to continuing our efforts to ensure safe, reliable and reasonably priced utility service for the people of Pennsylvania.

*James H. Cawley*

James H. Cawley  
Chairman



*Tyrone J. Christy*

Tyrone J. Christy  
Vice Chairman



*Robert F. Powelson*

Robert F. Powelson  
Commissioner



*Kim Pizzigrilli*

Kim Pizzigrilli  
Commissioner



*Wayne E. Gardner*

Wayne E. Gardner  
Commissioner



# Introduction

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

With the restructuring of Pennsylvania's electric, natural gas and telecommunications industries, the Commission's role also is to oversee that transition and to educate customers so they may make informed utility choices.

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

## Organization

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

*Left: 2007-08 Public Utility Commissioners. Front row, left to right: Chairman James H. Cawley and Vice Chairman Tyrone J. Christy. Back row: Commissioner Robert F. Powelson, Commissioner Kim Pizzingrilli and Commissioner Wayne E. Gardner.*

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



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

The PUC regulates about 8,000 public utilities furnishing the following in-state services for compensation: 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 public highway-railroad crossings. Municipal utility service is exempt from PUC regulation, with the exception of services furnished beyond a municipality's corporate boundaries. Rural electric cooperatives, cable television and cellular telephones also are exempt from PUC regulations.

The Commission is funded by assessments of the regulated public utilities. The PUC may assess utilities up to three-tenths of 1 percent of gross



## 6 PA PUBLIC UTILITY COMMISSION

intrastate revenue to cover the cost of regulation. Assessments are paid into the state Treasury's General Fund for use solely by the Commission.

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

### *Broad Powers*

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

The PUC also works diligently to ensure an effective transition to competitive markets in the electric, natural gas and telecommunications industries. The move toward competitive electricity markets and the passage of the 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."

Although the natural gas and electric supply 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.

The state is nearing the end of the transition period for the restructuring of electric utilities.

As part of an overall strategy for preparing consumers for increases in electricity supply costs, the Commission has established regulations and policy statements that set the rules for default service for electric generation. The PUC also is working to mitigate and prepare Pennsylvania electricity customers for price increases through consumer-education efforts regarding energy efficiency, conservation, choice, demand side response and low-income programs.



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

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



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



In Fiscal Year 2007-08, the PUC began operating with a new case and document management system – InfoMAP (Information Management and Access Project). Staff continues to gain familiarity with the new system as the PUC transitions toward an electronic environment that is more automated and less reliant on paper copies.

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

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

InfoMAP replaces the PUC's case management system that was developed in-house in 1978. InfoMAP will allow the PUC to operate with a new system that automates workflows and relies less on paper.

## *Electronic Filing with the PUC*

On May 22, 2008, the PUC approved final regulations establishing the rules for parties using the e-filing system. The final regulations are scheduled for consideration by the Independent Regulatory Review Commission in the first quarter of Fiscal Year 2008-09.

The regulations include the following provisions:

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

The PUC plans to implement e-filing in phases through pilot projects in Fiscal Year 2008-09 with full e-filing capability expected by early 2009.



## *Public Utility Confidential Security Information Disclosure Act*

On May 1, 2008, the PUC approved the final rulemaking for the Public Utility Confidential Security Information Disclosure (CSI) Act, or Act 156, which is designed to safeguard confidential security information of all public utilities. The final regulations are scheduled for consideration by the Independent Regulatory Review Commission in the first quarter of Fiscal Year 2008-09.

The rulemaking implemented a comprehensive set of regulations that apply to all public utilities in the Commonwealth relating to the filing requirements and challenge procedures outlined in the CSI Act. The CSI Act, which was signed into law on Nov. 29, 2006, directs each state agency to promulgate these regulations to ensure the safeguarding of confidential security information that may compromise security against sabotage or criminal or terrorist acts.

The regulations require the utility to label each page of the record containing confidential security information with the words "Confidential Security Information" and to file the affected pages in a separate envelope.



The Commission also adopted a series of internal procedures for Commission employees to follow that address how confidential security information supplied by utilities is to be handled when filed with the Commission. The PUC's Secretary's Bureau files these documents in a secure, locked cabinet or file area, with access limited to authorized Commission employees who have received training and who have properly executed an access agreement.

Confidential security information includes vulnerability assessments, emergency response plans, maps of drinking water supplies, and security plans.

## *Homeland Security & Emergency Preparedness*

When it comes to emergency preparedness and security, the Commission has a direct support relationship with the Pennsylvania Emergency Management Agency (PEMA) and other Commonwealth agencies and commissions.

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



The Commission also has liaisons from its bureaus of Fixed Utility Services and Transportation and Safety who act as round-the-clock contacts for PEMA for utility-related emergencies on an ongoing basis. The PUC also has a seat on the Commonwealth Emergency Management Council.

The ERT responded to mobilizations at the SEOC in December 2007 due to extreme icing and high winds and in August 2007 due to extreme thunderstorms that caused wind damage and flooding. In addition, throughout the stormy winter and summer months the Emergency Preparedness Coordinator participates in conference calls and emergency meetings with PEMA, the National Weather Service and other Commonwealth agencies and commissions to discuss the preparedness of the utilities and the ERT for the potential effects of an anticipated storm.

The Commission also works with the utility industry, state agencies and other stakeholders through several task forces and working groups, including the Drought Task Force and 9-1-1 Task Force. The Commission has developed relationships with the nine regional counter-terrorism task forces, and acts as a liaison between the utilities and county emergency management agencies when necessary.

The Commission ERT has undergone Homeland Security sponsored training and is certified in the National Incident Management System (NIMS) and the National Response Plan. Throughout the year, the ERT participates with PEMA on developing and executing several training exercises, including winter weather drills and nuclear power facility emergency exercises. The Commission also has developed a program to have all applicable Commission staff trained in NIMS. The program roll-out has begun, and the Commission as a whole will be NIMS compliant in Fiscal Year 2008-09.



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

## *Rates*

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

Competition is permitted in the supply of electricity and natural gas. Charges for the supply of electricity and natural gas by licensed competitors are not regulated and are based on market prices. The PUC exercises no jurisdiction over those market prices. Many electric utilities are operating under negotiated generation rate caps for supply services. The prices for the delivery through the distribution system of electric and natural gas continue to be regulated by the PUC.

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

## *Filing for a Rate Increase*

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

## *How Are Rates Set?*

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

## *How Long Does It Take?*

By operation of law, the rate request for a electric, natural gas, steam heat, water and wastewater company is suspended for up to seven months if the PUC does not act before the proposed effective date. The PUC uses that time to investigate and determine what if any portion of the requested increase is justified. During the investigation, hearings are held before an Administrative Law Judge (ALJ), at which the evidence in support of the rate increase is examined and expert witnesses testify. In addition, consumers are offered an opportunity to voice their opinions and give testimony. Briefs may be submitted by the formal parties. A recommendation to the PUC is made by the ALJ. Finally, the matter is brought before the Commissioners for a vote and final decision.



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

## *Hearings and Recommendations*

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

At the formal hearing, the company, the PUC's Office of Trial Staff (OTS) and other parties such as the state's Office of Consumer Advocate and the state's Office of Small Business Advocate present their cases and are subject to cross-examination. OTS reviews the company's records and requests, and presents its view regarding what is in the public interest.

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

After weighing the evidence and hearing the arguments, the ALJ writes a recommended decision addressing each issue in the case within the limits set by law. The recommended decision may approve, disapprove or modify the original request. Parties may file exceptions to the judge's decision. Subsequently, reply exceptions may be filed. Sometimes, rate cases are resolved after all of the parties reach a settlement on the issues. The entire matter is then sent to the Commissioners for a vote at a public meeting.

ALJ Charles E. Rainey Jr. presides over hearings where evidence is presented in cases before the Public Utility Commission.

## *Final Order*

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

## *Ratepayer Role*

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

Consumers have a right to participate in the ratemaking process and can do so by filing an informal complaint, which can include attending a public input hearing. They also can file a formal complaint. Forms and additional information about filing a complaint are available at [www.puc.state.pa.us](http://www.puc.state.pa.us).



# Commission's Budget

## EXECUTIVE GOVERNMENT OPERATIONS

<u>Government Operating Funds</u>	<u>Operating Funds</u>	<u>Operating Funds</u>
	Actual	Approved
Rebudget	Expenditures	Rebudget
	2007-08	2008-09
<b>State Funds:</b>		
Personnel	\$37,996,311	\$42,446,000
Operating	7,196,620	9,596,000
Fixed Assets	2,452	120,000
<b>Total State Funds</b>	<b>\$45,195,383</b>	<b>\$52,162,000</b>
<b>Federal Funds:</b>		
Personnel	\$616,855	\$1,973,000
Operating	123,258	591,000
<b>Total Federal Funds</b>	<b>\$740,113</b>	<b>\$2,564,000</b>
<b>Total Commission Budget:</b>	<b>\$45,935,496</b>	<b>\$54,726,000</b>



## OTHER REVENUE SOURCES

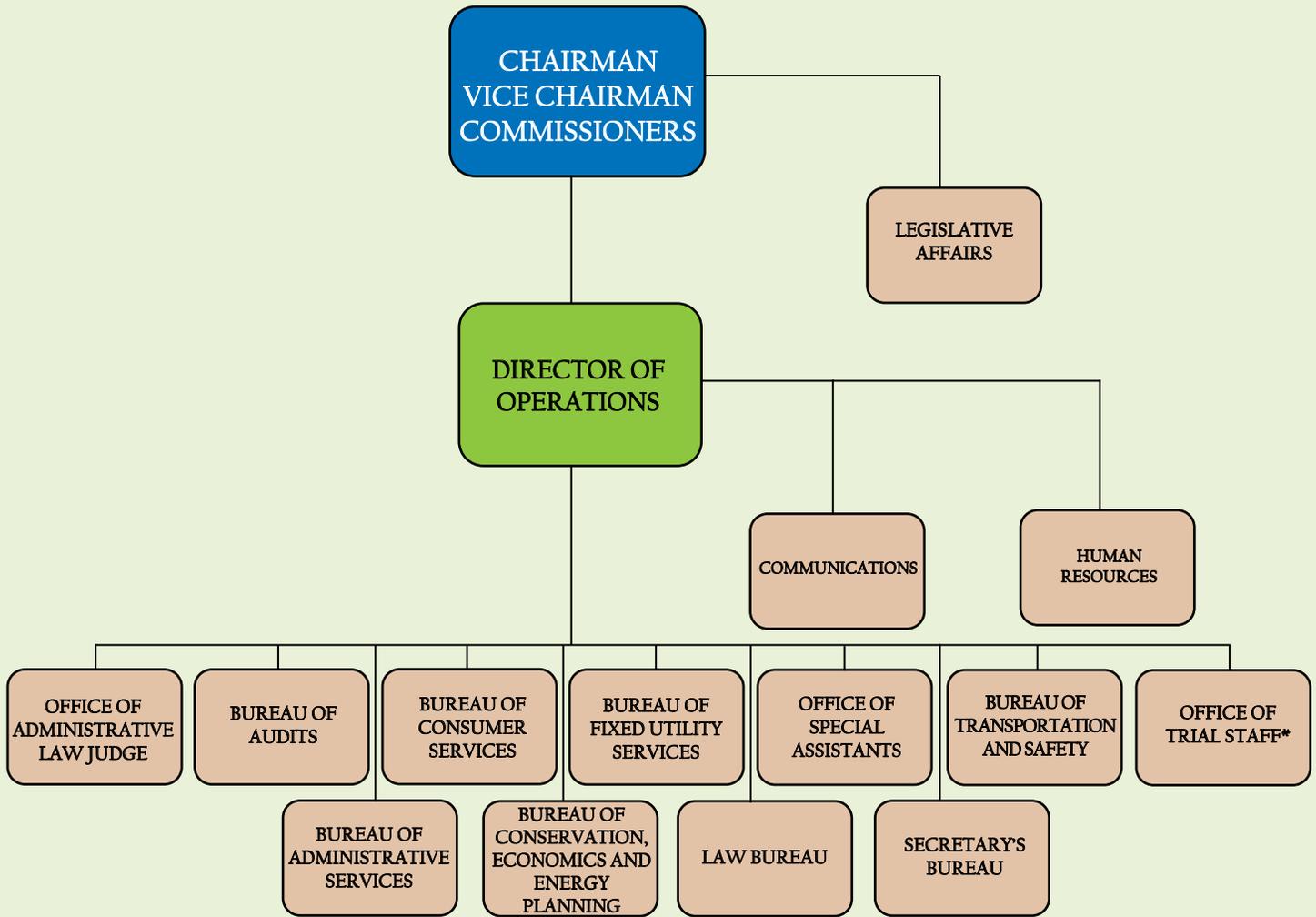
	2006-07 Receipts	2007-08 Receipts
Filing and Copy Fees	\$266,558	\$207,434
Electric Generation Application Fees	5,950	7,350
Fines	118,471	156,925
Federal - Gas Pipeline Safety	384,000	401,045
Federal - Motor Carrier (MCSAP)	924,314	740,113
<b>Total</b>	<b>\$1,699,293</b>	<b>\$1,512,867</b>

## 2007-08 APPLICATION FEES, FINES AND FILING &amp; COPY FEES

	Electric Generation Application Fees	Fines	Filing & Copy Fees	Total
1st Quarter	\$2,800	\$77,712	\$60,617	\$141,129
2nd Quarter	350	26,008	34,587	60,945
3rd Quarter	-	10,713	42,719	53,431
4th Quarter	4,200	42,492	69,512	116,203
<b>Total</b>	<b>\$7,350</b>	<b>\$156,925</b>	<b>\$207,434</b>	<b>\$371,709</b>



# Organizational Chart



\* The Director of Operations has responsibility for the Office of Trial Staff only with regard to administrative matters.



# 2007-08 Bureau Directors

## *Office of the Director of Operations*

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



**Karen Moury**

Director of Operations

**Tom Charles**

Manager of Communications



**Kevin Hoffman**

Director of Human Resources

## *Bureau of Administrative Services*

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



**Robert C. Gramola**

Director of  
Administrative Services



## *Office of Administrative Law Judge*

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



**Veronica A. Smith**  
Chief Administrative Law  
Judge

## *Bureau of Audits*

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



**M. Carl Lesney**  
Director of Audits

## *Bureau of Conservation, Economics and Energy Planning*

As the research arm of the PUC, the Bureau of Conservation, Economics and Energy Planning studies energy matters and advises the Commission of results to assist in making policy decisions. The Bureau monitors developments in energy markets such as pricing trends, demand forecasts and the availability of supply to meet demand. The Bureau also makes certain that electric distribution utilities are meeting the required standards for reliability to ensure the continued safety, adequacy and reliability of transmission and distribution of electricity in the Commonwealth. In addition, the Bureau is responsible for implementing the Commonwealth's Alternative Energy Portfolio Standards Act that requires electric distribution companies and electric generation suppliers to use an increasing percentage of energy from alternative energy sources. The Bureau also provides oversight of energy efficiency, conservation, demand response and metering programs to assist customers in reducing their energy usage and managing their energy bills.



**Wayne Williams**  
Director of Conservation,  
Economics and Energy  
Planning



## *Bureau of Consumer Services*

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



**Mitch Miller**  
Director of Consumer  
Services

## *Bureau of Fixed Utility Services*

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



**Robert Wilson**  
Director of Fixed Utility  
Services

## *Law Bureau*

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



**Bohdan R. Pankiw**  
Chief Counsel



## *Office 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. The Office identifies legislation that may affect the Commission or public utilities and obtains staff analysis; provides bill analysis and relevant information to the legislature; and promotes the Commission's position on legislation and issues with the General Assembly. The Office also handles requests for information from the Governor, legislators and constituents.



**June Perry**  
Director of Legislative  
Affairs

## *Secretary's Bureau*

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



**James J. McNulty**  
Secretary

## *Office of Special Assistants*

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



**Cheryl Walker Davis**  
Director of Special Assistants



## *Bureau of Transportation and Safety*

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



**Mike Hoffman**  
Director of Transportation  
and Safety

## *Office of Trial Staff*

The Office of Trial Staff (OTS) represents the public interest in all matters having an impact on rates before the PUC. The Director is designated as the Commission's chief prosecutor, and the Office is made up of the administrative, legal and technical divisions. The Office of Trial Staff is responsible for reviewing Commission filings made by utilities involving rate-related matters. Additionally, the Director may petition the Commission or may be directed by the Commission to intervene to protect the public interest in proceedings having no impact on rates. Staff prepares and defends testimony in support of the public interest position in hearings before Commission administrative law judges, and engages in mediation sessions, alternative dispute resolution processes and settlement negotiations. Due to its prosecutory role, OTS works independently of the Commission.



**Johnnie Simms**  
Director of Trial Staff





## Consumers

*The Commission remains committed to monitoring and evaluating utility performance, as well as working aggressively to educate consumers about critical utility issues, including significant price increases for energy and their rights as utilities consumers.*

During Fiscal Year 2007-08, the Commission continued with the implementation of the changes to the utility termination rules while working to educate consumers about these changes and their rights. The Commission focused much of 2007-08 on preparing to educate electricity customers about rising energy prices and resources available to help them. The PUC initiated rulemakings dealing with consumers such as proceedings on Customer Assistance Programs and continues work on a rulemaking that will bring its Standards and Billing Practices for Residential Utility Service (Chapter 56) in compliance with the Responsible Utility Customer Protection Act (Chapter 14). The Commission also continued to expand its consumer-outreach activities, which included participating in the Commonwealth's annual Farm Show, educational workshops and community events.

### *Consumer Education on Electric Prices*

Part of the Commission's policies to mitigate and prepare Pennsylvania electricity customers for significant price increases includes working with the electric utilities to implement utility-sponsored consumer-education plans for their service territories. The plans were to educate consumers about price increases while providing information on energy conservation and

efficiency, demand side response, low-income programs, and electric competition.

Each of the state's electric distribution companies (EDC) under the PUC's jurisdiction filed a proposed consumer-education plan that is tailored to their service territory as required under a May 17, 2007, Commission Order that established policies to mitigate higher electricity prices. These plans were all filed by the deadline of Dec. 31, 2007.

The plans are subject to Commission approval. Final approvals for all of the plans are expected by the first quarter of Fiscal Year 2008-09.

The consumer-education plans were developed from a process that began in 2006 when the Commission engaged the stakeholders in a process to develop policies to mitigate higher electricity prices.

Many of the commenters noted that consumer education is a vital element of any plan to mitigate price increases. Based on the recommendations of the stakeholder





group, the Commission submitted a \$5 million request to the Governor for the first year of a statewide campaign as part of its Fiscal Year 2008-09 executive budget request. The funds were not included in the final budget.

For more information on consumer education and the EDC consumer-education plans, go to the PUC Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us).

### *Consumer Outreach Summary*

The PUC's consumer outreach specialists provided utility education and outreach to thousands of consumers by working with 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 and understand their rights as utility customers. In 2007, the outreach team hosted numerous workshop events, 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.

During those events, materials are provided to consumers about complex utility issues, including fact sheets outlining the Responsible Utility Customer Protection Act; customer assistance programs; energy efficiency and conservation tips; transmission line siting; and rising energy prices.

The outreach specialists are committed to assisting consumers in addressing their specific individual concerns and offering solutions to utility-related issues.

In 2007, the team focused on educating Pennsylvanians and non-profit, community-based organizations through its "Prepare Now," "Be Utility Wise" and "Know What's Below. Call Before You Dig" campaigns. Messages encouraged consumers to:

- Use electricity, natural gas and water wisely to potentially save money. Consumers were provided with informational materials and fact sheets providing conservation tips on how to become more responsible and aware of their utility usage.
- Know their rights as responsible utility consumers and be aware of important changes in the law related to utility shut-offs (Chapter 14).
- Consider budget billing options as a way to make heating bills more predictable and affordable throughout the year.
- Utilize the national 8-1-1 number to "Know What's Below. Call Before You Dig" to create safety awareness of underground utility lines.



Shari Williams with the PUC's Office of Communications works to educate community leaders, advocates and consumers on utility issues. In Fiscal Year 2007-08, the PUC's consumer outreach specialists provided utility education and outreach to thousands throughout Pennsylvania.



The outreach team also used educational materials related to the state’s Bona Fide Retail Request program to get high-speed Internet into homes (See Telephone); the restructuring of the electric industry and the state’s transition to higher generation rates (See Electric); and how the net metering and interconnection standards impact residents under the Alternative Energy Portfolio Standards Act (See Electric).

New partnerships and networking opportunities were developed by attending training sessions and informational meetings with other state agencies, community-based organizations and national conferences.

## PA Farm Show



In January 2008, the Commission participated in the 92nd Annual Farm Show as part of its ongoing consumer-education outreach. In taking an active role in one of the Commonwealth’s

PUC staff, from left, Dan Mallinson, Dave Thompson and Rod Bender, volunteered at the 2008 Farm Show providing information about energy, telephone, transportation, rail safety, water and wastewater issues.



oldest traditions, the PUC builds on the Farm Show’s mission to educate Pennsylvanians by informing its more than 400,000 visitors about the role of the PUC as a resource available when they have utility questions or concerns.

The PUC booth contained information about energy, telephone, transportation, water and wastewater issues. The Commission’s primary focus was to educate consumers to prepare now for higher energy costs and provide tips for weatherizing homes and conserving energy. Information also was available on:

- Programs to help low-income consumers pay utility bills.
- How consumers can take advantage of the Alternative Energy Portfolio Standards Act of 2004.
- Act 183 of 2004, which requires telecommunications companies to provide access to high-speed Internet by 2015.
- Telecommunications Relay Service (TRS), which enables Pennsylvanians to communicate by telephone with people who are deaf, hard of hearing or speech disabled (See Telephone).

## Customer Assistance Program Review

In August 2007, the Commission issued for comment a proposed rulemaking and policy statement revisions that address Customer Assistance Programs (CAPs), under which low-income customers receive financial assistance in paying utility bills. The action was part of the Commission’s comprehensive examination of universal service programs. The Commission has received comments from interested parties on both the proposed rulemaking and policy



statement. The comments are being reviewed as the rulemaking and policy statement move toward being finalized.

In considering CAP design, funding and cost recovery simultaneously, the Commission's goal is to balance the interests of the low-income customers who participate in CAPs with interests of all residential ratepayers. The state's electric and natural gas competition laws require that every electric utility and major natural gas utility establish a CAP. The funding levels and program design vary from company to company.

## *Chapter 14 Impact Report*

In Fiscal Year 2007-08, the Commission began collecting data for its second biennial report on the implementation of Chapter 14, which was added to the Public Utility Code under the Responsible Utility Consumer Protection Act of 2004.

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

The Commission is striving to implement Chapter 14 in a manner that achieves the policy goals to increase utility account collections and avoid passing along bad debt costs to paying consumers while ensuring that service remains available to all consumers on reasonable terms and conditions. The Commission

is dedicated to using a collaborative process that accounts for the needs of both utilities and consumers, and gives all parties an opportunity to participate.

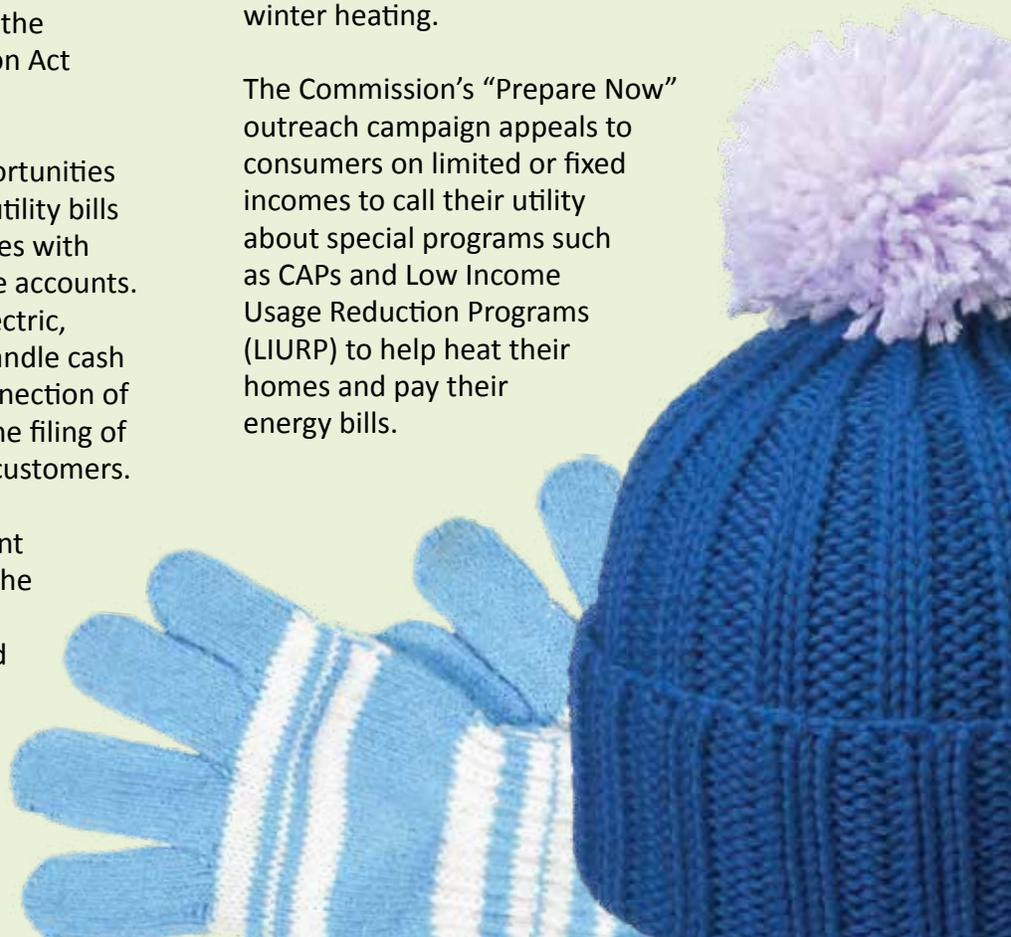
The Commission is required to submit a biennial report to the Governor and legislature updating the effects of implementing Chapter 14. The next report will be issued in Fiscal Year 2008-09 and will be available on the Commission's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.

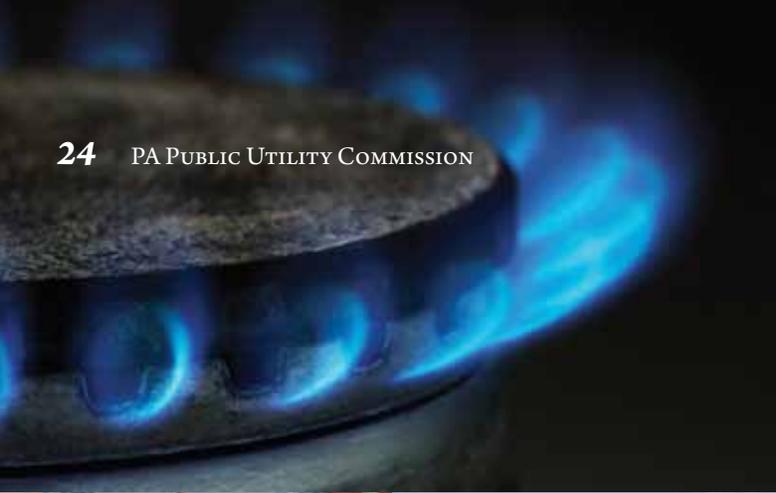
## *Prepare Now*



During Fiscal Year 2007-08, the PUC urged electric and natural gas utilities to take extra steps to help consumers to "Prepare Now" for the higher costs of winter heating.

The Commission's "Prepare Now" outreach campaign appeals to consumers on limited or fixed incomes to call their utility about special programs such as CAPs and Low Income Usage Reduction Programs (LIURP) to help heat their homes and pay their energy bills.





It was the fifth winter in which the Commission urged consumers to “Prepare Now.” The message is simple: “Prepare Now” for higher energy costs this winter. Learn about changes in the law related to utility shut-offs and know your rights. Save money by learning how to conserve energy. Heat your home safely. Explore budget billing options. Look into programs that help low-income customers restore and maintain service. Visit [www.puc.state.pa.us](http://www.puc.state.pa.us), and click on “Prepare Now” or call the PUC at 1-800-692-7380.

In a December 2007 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 service.

In addition, the letter reminded the utilities of their responsibilities under the state’s utility termination and reconnection law, also known as



Chapter 14. The “Prepare Now” campaign urges customers to know their rights and how regulated electric, water and major natural gas utilities must handle cash deposits; reconnection of service; termination of service; payment arrangements; and the filing of termination complaints by residential customers.

Also, as part of the winter 2007-08 campaign, the PUC debuted new public service announcements urging utility customers to make Martin Luther King Day, Jan. 21, 2008, a “Day of Utility Service,” as well as a “Day of Service.”

### *Settlements with Utility Companies*

In Fiscal Year 2007-08, the PUC approved settlements with utility companies following six informal investigations into violations of the Public Utility Code or consumer complaints. In many cases, the company agreed to improve its communications with consumers.

**PECO Energy Co.** paid \$206,800 in civil penalties and refund payments. Under the settlement, 1,829 PECO customers received credits on their bills. The settlement ended an informal investigation by the PUC’s independent prosecutory staff into allegations that PECO violated portions of Chapter 14 of the Public Utility Code. The investigation alleged that the company failed to provide 72-hour advance termination notices to some customers and then failed to reconnect those customers within 24 hours for accounts that had been terminated in error.

**Philadelphia Gas Works (PGW)** contributed \$10,000 to the company’s pilot conservation program. The company will also implement



steps to improve identification of customer disputes and increase training to those handling calls after a termination notice has been issued. The prosecutory staff initiated an informal investigation alleging that PGW improperly handled the termination of a non-heating resident who died 11 months later in a house fire.

**Pike County Light & Power (PCLP)** improved customer relations, infrastructure and vegetation management. The settlement was reached in response to more than 50 customer complaints over service reliability and customer service responses. Under the settlement, the company will establish a Community Advisory Council; improve community relations with area emergency personnel; establish a customer service site in Pennsylvania; undertake infrastructure projects; and accelerate its tree-trimming cycle.

**Pike County Light & Power** paid \$35,300 in the form of a contribution to the PCLP's Hardship Fund. The settlement ended an informal investigation relating to a billing error that affected 353 customers. The utility also added checks to its billing system to ensure that the error would not recur.

**Cavalier Telephone** paid a civil penalty of \$2,900 for failing to respond to informal complaints filed with the Commission's Bureau of Consumer Services in a timely manner. The utility also implemented changes to its operations to ensure that complaints would be responded to in a timely manner. In addition, the utility revised its suspension and termination notices to ensure compliance with Commission regulations.

**North Pittsburgh Telephone Company** issued incorrect bills for certain phone calls that totaled \$1,197.94 to 74 customers. The utility

also provided written notice to other customers that may have been affected by the error. Under the terms of the settlement the utility set aside an additional \$5,500 to be used for the payment of any additional credits to customers. Any monies left over from this amount were remitted to the Pennsylvania Public Utility Commission's consumer-education fund.

### *Cold Weather Survey Results*

Each year, prior to the winter heating season, the PUC requires electric and natural gas utilities to check residential properties where service has been shut off. The goal of the annual Cold Weather Survey is for the company to attempt to reach payment agreements with the occupants so service can be restored. The Commission requests that utilities make four attempts to contact the consumer or a responsible adult occupant at the property where service has been terminated. These contacts include a combination of telephone calls and letters to establish contact, with the fourth attempt being a personal visit to the property.

In December 2007, the survey found that 13,762 occupied households were without heat-related utility service. An additional 3,095 homes were using unsafe heating sources, bringing the total homes not using a central heating system to 16,857; this is down from 19,745 in 2006.

Residential electric households not using a central heating system totaled 3,892, while 12,965 natural gas households had no service. About 7,043 households – 42 percent of the total accounts without service – were in the Philadelphia area. The results also showed an additional 17,294 residences where services were terminated appeared to be vacant.



The companies resurveyed the households without utility service in February 2008. At that time, the total number of homes not using a central heating system decreased by 32 percent to 11,495.

## *Universal Service Collection Data*

The PUC issued its seventh annual summary of the universal service programs and collections performance of each of the state's major electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) in Fiscal Year 2007-08.

Universal service programs are designed to help ensure that all customers have access to utility service no matter what their income. Programs include the Low Income Usage Reduction Program (LIURP), Customer Assistance Programs (CAPs), Customer Assistance and Referral Evaluation Services (CARES) and Hardship Funds.

Generally, electric and natural gas customer households that are enrolled in universal service programs have average household incomes that are less than \$15,000 a year.

According to the report, the gross write-offs ratio for the electric industry was 1.86 percent in 2006, compared to 2.02 percent in 2005, while the natural gas industry average was 5.39 percent in 2006 and 5.21 percent in 2005.

EDCs used \$117,050,577 to enroll 217,651 customers in CAPs where on average those customers pay 81 percent of their total bill.

NGDCs used \$173,063,559 to enroll 182,034 customers in CAPs where on average those customers pay 86 percent of their total bill, according to the report.

EDC customers also received \$30.1 million in Low Income Home Energy Assistance Program (LIHEAP) benefits while NGDC customers received \$63.1 million in LIHEAP benefits, according to the report. The full report is available on the PUC Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.

## *Utility Consumer Activities Report and Evaluation*

Helping Pennsylvania consumers resolve utility problems remains a major concern for the Commission. Full-time investigators within the PUC's Bureau of Consumer Services (BCS) handle a variety of consumer contacts related to billing problems, service delivery and repairs. The 2007 Utility Consumer Activities Report and Evaluation (UCARE) shows that BCS investigated 20,596 consumer complaints in 2007, with 18,388 of those complaints coming from residential consumers and 2,208 from commercial consumers. This represents a decrease of 3 percent for total consumer complaints and a 5 percent decrease for residential consumer complaints from 2006.

BCS also handled 50,170 requests for payment arrangements from residential customers in 2007, a 3 percent increase from 2006. The majority of requests for payment arrangements – 44,300 requests – involved electric or natural gas companies. This represents a 2 percent increase from 2006. In addition, 1,690 residential



telephone consumers requested assistance in setting up payment arrangements in 2007, which is a 20 percent decrease from the number of payment arrangements requested in 2006.

Terminations of electric and natural gas service increased from 2006 to 2007. Statewide, electric and natural gas terminations went from 224,199 in 2006 to 244,943 in 2007 – a 9 percent increase. Likewise, reconnections of electric and natural gas service increased during the same period going from 147,805 in 2006 to 173,607 in 2007 – a 17 percent increase.

At this time, water utilities are not required to report termination and reconnection data to the Commission, so BCS does not report this data in the UCARE report.

However, Aqua Pennsylvania and Pennsylvania American Water Co. (PAWC) have voluntarily provided termination data to the Commission. Terminations for these companies increased from 26,424 in 2006 to 27,731 in 2007 – a 5 percent increase. Likewise, reconnections for Aqua and PAWC increased during the same period from 19,732 in 2006 to 20,967 in 2007 – a 6 percent increase. Since Chapter 14 applies to electric, gas and water companies, termination and reconnection data from these water companies is important information for the Commission.

BCS also received 79,341 inquiries in 2007, a 13 percent increase from the previous year. Inquiries include information requests, requests for payment arrangements that BCS cannot accommodate and opinions from consumers. For the most part, these contacts did not require investigation by BCS. These inquiries came to the attention of BCS through the Commission's toll-free hotlines, other telephone numbers, the U.S. Postal Service and e-mail communication.



Commissioner Robert F. Powelson, center, meets with his staff before the Commission's Public Meeting. The Commission docketed more than 122,000 documents a year. Many of the cases are brought before the Commission for a vote during Public Meeting.

The PUC surveys consumers who have contacted BCS with a utility-related problem or payment arrangement request in order to monitor its own customer service. The 2007 survey results show that more than 89 percent of consumers said they would contact the PUC again if they were unable to resolve their problem by talking with the utility. Meanwhile, 81 percent of consumers rated the service they received from the PUC as "good" or "excellent."

This and other data appear in the Commission's 2007 UCARE report, which is available on the Commission's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.

## *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 2007, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.

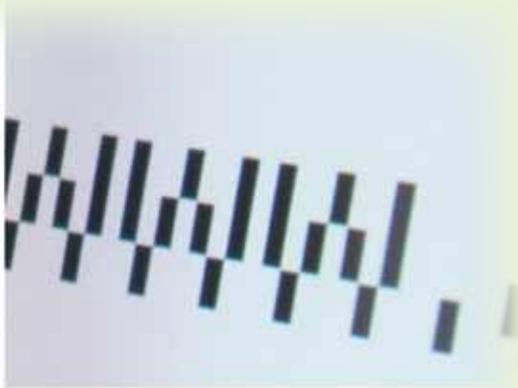
Based on customer surveys, an average of 86 percent of electric and 78 percent of natural gas customers said they were satisfied with the ease of reaching their company. A greater percentage of customers said they were satisfied with the way company representatives handled their calls – 90 percent of electric customers and 85 percent of natural gas customers. A majority of the customers were satisfied with both the courtesy and level of knowledge demonstrated by customer service representatives.

The report also includes data provided by the utilities on the performance of the company's customer service operations. Three electric companies reported that their call abandonment rate went up from the previous year, indicating a decline in performance in this area. One improved and two remained the same as the previous year. Abandoned calls are the number of customers who hang up while on hold to speak to a representative.

The average call abandonment rate of 6 percent for the natural gas companies is still more than twice that of the electric companies. Equitable Gas Co.'s call abandonment rate decreased from 14 percent to 9 percent. Although that is still the highest call abandonment rate of the gas companies for the third year in a row, it is only one percentage point higher than the 8 percent reported by four of the other gas companies.

Half of the major electric companies reported an improvement in the percentage of calls answered





within 30 seconds, and half reported a decline. Duquesne Light Co. offered the poorest access to its call center in 2007, with the percentage of calls answered within 30 seconds going from 81 percent in 2006 to 77 percent in 2007. The average percentage of calls answered within 30 seconds for the electric companies in 2007 is 81 percent, up from 80 percent in 2006 and 76 percent in 2005.

Equitable and National Fuel Gas Distribution Co. (NFG) reported significant improvement in the percentage of calls answered within 30 seconds. NFG answered 87 percent of its calls within 30 seconds in 2007, the highest percent of all the gas companies and markedly better than the 70 percent reported for 2006. Equitable also demonstrated a positive trend answering 82 percent of calls within 30 seconds in 2007, better than its 65 percent in 2006 and 37 percent in 2005. The average percentage of calls answered within 30 seconds for natural gas companies increased from 68 percent in 2006 to 73 percent in 2007.

The full report for 2007 is available on the PUC's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.

### *Chapter 56/Chapter 14 Rulemaking*

The Commission is continuing the process of bringing its Standards and Billing Practices for Residential Utility Service (Chapter 56) into compliance with the Responsible Utility Customer Protection Act (Chapter 14).

As part of an Advance Notice of Proposed Rulemaking, the Commission received comments



from more than 20 interested parties on the Chapter 56 provisions that have been impacted by Chapter 14 and how the Commission should make the two compatible.

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

The comments covered a variety of issues including the termination process; winter termination rules; application and credit procedures; service restoration requirements; and collection reporting requirements.

The Commission will take the next step toward creating the new regulation in the future that will include an additional comment period for interested parties.

### *Consumer Advisory Council*

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



PUC Consumer Advisory Council:  
Front row, left to right: Joe Capozzolo, Robert Christianson and Lee Tolbert. Back row, left to right: Harry Geller, John Detman, Howard Shakespeare and Joe Toner III.

Protection and Professional Licensure Committee; and the Democratic and Republican Chairpersons of the House Consumer Affairs Committee.

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

The Council acts as a source of information and advice for the Commissioners. Interactions between the Council and the Commissioners



occur through periodic meetings, and in writing via minutes of meetings and formal motions. Council meetings are generally held at 10 a.m. on the fourth Tuesday of the month in the PUC Executive Chambers in Harrisburg. The meetings are open to the public.

As a CAC initiative, the PUC joined forces with the West Philadelphia Coalition of Neighborhoods and Businesses to host an energy summit for consumers in the City of Philadelphia. Commission consumer educators, the coalition, various Philadelphia-area utilities and consumer educators held the informational Neighborhood Energy Summit to reach out to consumers about their utility issues during a panel discussion and exhibit showcase.

Representatives from the following agencies participated in the event: PECO Energy; Philadelphia Gas Works; the Energy Coordinating Agency; the Mayor's Office of Community Services; the Utility Emergency Services Fund; Verizon; the Philadelphia Corporation for Aging; the American Association of Retired Persons; and the Water Revenue Bureau.

The event focused on information about electric, natural gas, telephone, transportation, water and wastewater issues. The Commission's goal was to encourage consumers to prepare now for higher energy costs while providing advice on home weatherization programs and energy conservation techniques. Information was also available on programs designed to help low-income consumers maintain their utility service.

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

#### The Council:

- Received briefings on issues that the Commission has dealt with, including Chapter 14, Chapter 30, Chapter 56, Cold Weather Survey, CAP Policy, the legislative special session on energy, transmission lines, universal service, InfoMAP and the Alternative Energy Portfolio Standards Act;
- Submitted comments to the Commission expressing its opinion on eight electric distribution company consumer-education plans related to electric price increase mitigation. The eight plans included those by: Allegheny Power Co., Citizens' Electric Co., Duquesne Light Co., FirstEnergy Co., PECO, Pike County Light & Power Co., PPL Electric Utilities, UGI Utilities Inc. - Electric Division, and Wellsboro Electric Co.;
- Received updates on Low Income Home Energy Assistance Program (LIHEAP) funds;
- Discussed universal service plans and energy conservation programs, as well as water, electric and gas service terminations;
- Appointed members to attend stakeholder meetings to make recommendations on how to educate consumers about the potential electric price increases;
- Received reports and periodic updates concerning the Demand Side Response Working Group;
- Received reports on electric reliability and the Distribution System Improvement Charge; and
- Recommended that a summary of Commission decisions relating to consumer-related matters be provided and that the Commission clarify its policy relating to consumer participation at public input and formal hearings.



Pennsylvania Relay Service Advisory Board:  
 Front row, left to right: Holly Frymoyer, Leslie A. Kelly, Diana Bender, Pat Brockley and Steve Samara.  
 Back row, left to right: Mitchell Levy, Todd Behanna, Lawrence Brick, Mina Knezevich, Chuck Hafferman, Eric Jeschke and Robert J. Davis.

### *Pennsylvania Relay Service Advisory Board*

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

The board meets four times a year to advise the TRS provider on service issues;

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

The 12-member board is appointed by the Commission and serves two-year terms. The Commission requires that the board consists of one representative from the Pennsylvania Telephone Association, the Office for the Deaf and Hard of Hearing (ODHH), and the traditional TRS provider (AT&T of Pennsylvania); two representatives from the Commission; and seven representatives from the deaf, hard-of-hearing and speech-disabled communities. During 2008, board members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Pennsylvania Society for Advancement of the Deaf; the Hearing Loss Association of Pennsylvania; National Federation of the Blind; the Pennsylvania State Grange; the Center for Independent Living of South Central Pennsylvania; and the Independent Living Program at the Western Pennsylvania School for the Deaf.

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



In 2007, the PUC, the board and the CTRS provider worked closely to provide quality CTRS and outreach regarding the program. The CTRS contract was signed in August 2007 with Hamilton Telephone Co. The CTRS provider is required to report on issues related to service and outreach.

Throughout the year, the board also monitored call volumes as well as complaints and recommendations related to TRS service by reviewing reports provided by the TRS service provider in Pennsylvania. The board also discussed complaints from some users of a voice over Internet service provider in Pennsylvania that was charging customers to use TRS and explored options for resolving this problem. The board president filed a complaint with the Disability Rights Office at the Federal Communications Commission. In addition, throughout the year, the board provided the PUC with input regarding the PUC's Web site and the PA Relay Web site. The board also provided comments and suggestions for the new brochure developed by Hamilton that explains CTRS to consumers.

Although the official consumer-education campaign to educate Pennsylvanians about the Telecommunications Relay Service has concluded, the PUC's Office of Communications continues to work to educate consumers. Three full-time educators inform the hearing public about relay technology and enhance the opportunities of people with hearing loss and speech disabilities to communicate with the hearing public in their daily lives. The educators regularly provide TRS information and materials as they travel throughout Commonwealth visiting numerous county fairs, festivals and other venues with large audiences.

### *"Know What's Below. Call Before You Dig." Dial 8-1-1*

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

The PUC and PA 1 Call joined again this fiscal year to increase awareness about 8-1-1. In Pennsylvania, homeowners and contractors are required by law to call 8-1-1 at least three business days before using power equipment to make certain underground utility lines are marked.

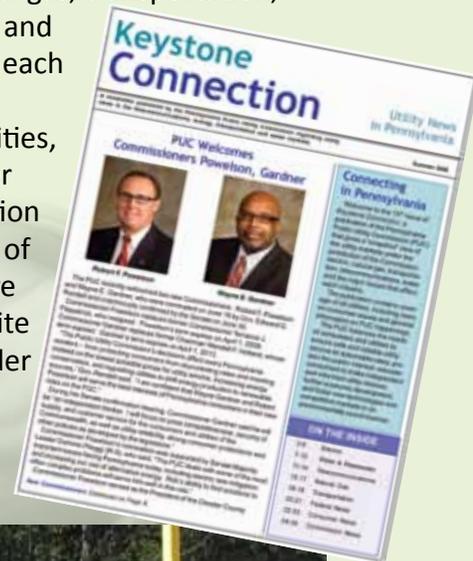
The PUC provided the regulatory support needed to allow Pennsylvania to join the nation with 8-1-1 abbreviated dialing. In 2006, the PUC ordered all local telecommunications exchange carriers and other carriers with switching capabilities – including payphone providers – to fully implement 8-1-1 as the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



In May 2007, the PUC launched statewide radio ads as part of an effort to increase awareness of the new abbreviated dialing. An informational brochure on the “Know What’s Below. Call 8-1-1 Before You Dig” campaign is also available on the PUC Web site under the Consumer Education link. The PUC received grant money from the U.S. Department of Transportation’s Pipeline and Hazardous Material Safety Administration to conduct the campaign.

## Keystone Connection

The Commission continued its publication of the “Keystone Connection,” a newsletter that is released quarterly to about 700 subscribers, including news media and industry stakeholders. “Keystone Connection” provides a snapshot view of the utility markets under the jurisdiction of the Commission: electric, natural gas, transportation, telecommunications, water and the major issues that affect each industry. The publication contains coverage of all utilities, including news on consumer issues and general information on PUC happenings. Copies of the Keystone Connection are available on the PUC Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.



Commissioner Kim Pizzigrilli participated in PA Safety Day where residents were reminded to “Know What’s Below. Call Before You Dig.” Calling 8-1-1 could help prevent utility service interruptions during the winter months by avoiding line hits that may occur during a digging project.



## Electric

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

As the end of the transition period for electric utility restructuring draws near, the Commission and the legislature have been increasingly focused on the effect of wholesale energy prices on retail electric rates, default service procurement practices, energy conservation, alternative energy and consumer education. The Commission's default service regulations and policy statement provide both guidance to the industry and suggested tools to mitigate the impact on consumers of transitioning from capped rates for generation to rates based on wholesale market prices.

Because a properly functioning and competitive wholesale market for electricity is essential for reasonable retail rates, the Commission has participated vigorously in proceedings before the Federal Energy Regulatory Commission to represent the interests of Pennsylvania consumers in terms of market structure, reasonable prices and network reliability. The Commission also filed suit, along with other parties, to challenge the National Interest Transmission Corridors designated by the U.S. Department of Energy as overbroad and inconsistent with the intent of Congress. Again, the Commission's goal is to protect Pennsylvania consumers.

While rate caps have expired in some portions of Pennsylvania, most consumers will continue to receive electric service under capped generation rates, which expire at the end of 2009 and 2010. The Commission intends to continue its efforts to educate consumers, mitigate large rate changes and take the actions necessary to transition successfully to a competitive market for retail generation. Currently, Pennsylvania has 11 electric distribution companies and 44 licensed electric generation suppliers.

### *Electric Restructuring*

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

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



The report also:

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

In transmitting the response, the PUC noted that individual Commissioners may choose to supplement it with their own views as to additional measures that should be taken. The PUC further offered to provide any other information that the legislature may need. The report can be found on the PUC's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.

### *Legislative Special Session on Energy*

In September 2007, the General Assembly began its special session on energy policy pursuant to a proclamation issued by Gov. Rendell calling for the legislature "to consider any and all legislation regarding funding for and the making of investments in clean and renewable energy, energy conservation and economic development efforts related thereto, and the establishment of requirements regarding the renewable energy content of liquid fuels."



The Commission has been working with the legislature to provide data and other information requested as the special session moves forward. The Commissioners also have provided testimony before both the House and Senate on topics related to the special session, including time-of-use pricing; the use of advanced metering and the rate design changes that would encourage it; electric deregulation; rate caps; a system benefits charge; consumer education; and funding for low-income consumer programs.

A number of measures are currently before the legislature in this special session that will provide further direction to the Commission on energy issues.

### *Default Service Regulations, Policy Statement*

The Commission's default service regulations became effective Sept. 15, 2007, with their publication in the Pennsylvania Bulletin. The default service regulations provide critical rules and guidance to the industry in regard to the pricing, terms and conditions of service to consumers who decline to choose a competitive supplier, or who are unable to continue service with a competitive supplier. In developing the final rulemaking, the Commission attempted to craft rules that represent a balanced approach to acquiring reasonably priced generation supply in a manner that balances the interest of all stakeholders, while meeting the requirements of the 1996 Electricity Generation Customer Choice and Competition Act (Customer Choice Act).

The Commission also recognized that some elements of the default service rules should be addressed in a policy statement rather than a rulemaking, because changes in markets and

technology may result in an approach that is too narrowly tailored or too unresponsive to serve the state's interests.

Under the policy statement, each of the state's electric distribution companies (EDCs) must file a proposed consumer-education plan that is tailored to their service territory (See Consumers).

The policy statement also provided procurement guidelines for default service providers to ensure competitive procurement practices; diversify generation supply risks; seek a variety of suppliers and contract terms; and comply with alternative energy requirements. It recommended that default service providers give customers the option to defer paying some portion of a rate increase for a period of time if the retail rate increases by more than 25 percent.

The policy statement also established a Retail Markets Working Group to develop policy recommendations, which are aimed at removing barriers to retail market development.



Commissioner Wayne E. Gardner, left, reviews cases prior to a regularly scheduled Public Meeting. The Commission's role has evolved over the years so that the Commission is not only a regulator but also a market monitor, protector, advocate, educator and promoter of new technology.



The working group is to address specific topics, including information and data access, rate-ready billing, purchase of receivables, customer referral program, uniform statewide supplier tariffs and retail choice ombudsman. Interested parties were asked to submit position papers. Fourteen parties submitted information that is being reviewed by the Commission.

Under the mitigation policies, the Commission also continued its policy of active participation in federal and regional proceedings that impact electricity prices and initiated a rulemaking process to modify its Customer Assistance Programs (CAPs) policy statement and regulations to address funding levels and cost recovery (See Consumers).

## *Rate Caps*

Under the Customer Choice Act, consumers pay unbundled prices for generation, transmission and distribution services, which were capped during the state's restructuring proceedings. To ease the transition to this competitive market for generation, the Act provided for distribution, transmission and generation rates to be capped to a period of time at the levels which existed as of the effective date of the Act.

All of the distribution and transmission rate caps have expired. Transmission costs are regulated by the Federal Energy Regulatory Commission and the PUC. Generation rate caps for the majority of Pennsylvania consumers were extended to 2009 and 2010 as a result of settlements in litigated proceedings.

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

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



## *Default Service Action*

The Customer Choice Act requires electric companies, or a Commission-approved alternative supplier, to provide default electric generation service to customers who have not selected an alternative generation supplier. This is commonly called default service.

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

The following actions were taken on default service plans in Fiscal Year 2007-08:

### Citizens’ Electric Co. and Wellsboro Electric Co.

The Commission approved a default service implementation plan that calls for the companies to hire a procurement administrator to determine when wholesale electric market conditions are best suited for purchasing energy for default service customers. The plan established certain guidelines, but the procurement specialist is able to buy at his or her discretion within certain pre-defined limits. The company also had to develop benchmarks to measure the effectiveness of the purchases relative to other default service purchase strategies during the procurement period. The plan covers default service provided from Jan. 1, 2008, to May 31, 2010.

The changes to the Fixed Generation Supply Service Rate (GSSR) reflect updated estimates to forecast costs and sales, which then are reflected in the rates.

The Fixed GSSR is based upon the total amount of annual estimated purchased power costs,





plus the total annual estimated administrative charges associated with the purchasing of generation supply to serve the default service customers, divided by the projected total kWh sales for the application period.

#### **Pennsylvania Power Co. (Penn Power)**

On May 22, 2008, the Commission determined that the default service prices for Penn Power customers were transparent and non-discriminatory, and reflected market-based prices. This is the company's second default service plan since its rate cap expired Dec. 31, 2006. The plan covers default service provided from June 1, 2008, to May 31, 2010.

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

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

#### **Pike County Light & Power (PCLP)**

On July 25, 2007, the Commission conducted a binding poll on the issues related to the petition for approval of a default service implementation plan by PCLP. Default service prices expired Dec. 31, 2007. Under the approved plan, the PCLP implemented a 17-month default service implementation plan, which began on Jan. 1, 2008, and will end May 31, 2009, during which PCLP will procure all energy from the New York Independent System Operator on the spot

The five PUC Commissioners preside over public meetings in Harrisburg where they made final decisions on a variety of issues in Fiscal Year 2007-08, including \$56.38 million in electric distribution rate increases.

market. The plan covers default service provided from Jan. 1, 2008, to May 31, 2009.

### *Distribution Rate Increase Requests*

During the fiscal year, the Commission took the following actions related to about \$56.38 million in rate increase requests:

#### **Wellsboro Electric**

*Customers Served:* 5,931 in the Borough of Wellsboro and Charleston, Delmar and Middleburg townships.

*Requested Rate Increase:* \$900,537 (9.4 percent)

*Approved Rate Increase:* \$690,000 (7.6 percent)

*Primary Reasons:* To increase the rate of return in order to support efforts to improve its distribution system.

#### **Citizens' Electric**

*Customers Served:* 6,900 in Lewisburg Borough, and Buffalo, East Buffalo, Kelly and West Chillisquaque townships.

*Requested Rate Increase:* \$898,363 (7.4 percent)

*Approved Rate Increase:* \$699,000 (5.7 percent)

*Primary Reasons:* To fund increases in material labor and other costs.

#### **PPL**

*Customers Served:* 1.2 million in Berks, Bucks, Carbon, Chester, Clinton, Columbia, Cumberland,





Dauphin, Juniata, Lackawanna, Lancaster, Lebanon, Lehigh and Luzerne counties.

*Requested Rate Increase:*

\$83.6 million (2.67 percent)

*Approved Rate Increase:*

\$55 million (1.75 percent)

*Primary Reasons:* To increase rates to attract capital on reasonable terms and to fully fund various innovative programs, including a meter data management system; new energy efficiency and energy conservation programs; and additional consumer education.

At the end of Fiscal Year 2007-08, no distribution rate increase requests were pending before the Commission.

### *PPC Rate Stabilization Plan*

On Nov. 30, 2007, PPL filed a petition requesting that the Commission approve a Rate Stabilization Plan (RSP), which is designed to allow customers to prepay in anticipation of the estimated rate increases in excess of 25 percent for default service. In its filing, PPL projected a 34.5 percent increase for the average residential customer when its generation rate caps expire Dec. 31, 2009.

As part of the plan, PPL customers can choose to make additional payments and receive corresponding credits on their electric bills through Dec. 31, 2011, plus interest. A recommended decision was issued by the PUC's Office of Administrative Law Judge (OALJ), recommending approval of a settlement.

The settlement was reached between the company and parties in the case, including the PUC's Office of Trial Staff, the state's Office of Consumer Advocate, the state's Office of Small Business Advocate and the Retail Energy Supply Association.

On March 17, 2008, the Commission reopened the record and remanded the matter to the OALJ for the purpose of holding a public input hearing on the RSP. The public hearing was held in April, and the transcript was added to the record in the case. A final decision is expected by the Commission in the first quarter of Fiscal Year 2008-09.

### *PPC Settlement in 2004 Distribution Rate Increase*

On July 25, 2007, the PUC approved a settlement allowing PPL to raise distribution rates for residential customers and to decrease rates for commercial and industrial customers. The new rates went into effect Aug. 1, 2007.

In December 2004, the PUC approved a \$137.1 million increase in distribution rates that became effective on Jan. 1, 2005. An appeal to Commonwealth Court was filed by the state's Office of Small Business Advocate (OSBA), the state's Office of Consumer Advocate (OCA), the Commission on Economic Opportunity (CEO) and the PP&L Industrial Customer Alliance (PPLICA).

The Commonwealth Court issued its decision on Aug. 4, 2006, reversing in part, vacating in part and affirming in part the Commission's December 2004 decision. One of the areas the Commonwealth Court reversed was the Commission's decision to permit recovery of Hurricane Isabel costs. The other was that rates should be based on cost of service for each rate class. The Court sent the case back to the PUC for resolution.

On Feb. 8, 2007, the Commission remanded the proceeding to the PUC's Office of Administrative Law Judge. On June 15, 2007, the parties to the case submitted a Joint Petition for Settlement.



In the settlement, the monthly bill for a typical homeowner increased about 3.8 percent, from \$96.52 to \$100.20 for a home that uses 1,000 kWh of electricity. Industrial and commercial customers saw a decrease of about 2 percent to 5 percent in their monthly bills, depending on each customer's power usage.

This settlement for the 2004 request is separate from PPL's distribution rate increase request discussed earlier.

### *Demand Side Response*

Demand side response (DSR) programs give consumers incentives to reduce or shift consumption of electricity at times of peak demand. DSR may, therefore, allow customers to realize lower electric bills and may foster system reliability.

The PUC initiated an investigation in late 2006 to examine energy efficiency, conservation and demand side response. The Commission specifically sought recommendations as to reasonable cost-effective programs that can be implemented to help retail electric customers conserve energy or use it more efficiently. Besides programs, areas of inquiry included advanced metering infrastructure, consumer education and ratemaking mechanisms, such as revenue decoupling. To facilitate the investigation, the PUC reconvened the Demand Side Response Working Group.

The group released the Report on Conservation, Energy Efficiency, Demand Side Response, and Advance Metering Infrastructure on June 6, 2007. The report is available on the PUC Web site under Electricity/Issues/Demand Side Response.

The Commission has delayed action on this report pending further direction that may be provided to the PUC by the legislature during the energy special session.

### *Participation in Federal Proceedings*

The Public Utility Code authorizes the PUC's Law Bureau to represent the Commission before federal agencies, such as the U.S. Department of Energy (DOE), the Federal Energy Regulatory Commission (FERC) and federal courts.

Among other things, FERC is responsible for creating, maintaining and enforcing the essential conditions for a fully competitive, non-discriminatory wholesale electricity market. It is also responsible for creating proper conditions and incentives to ensure the timely construction of necessary generation and transmission facilities to serve the anticipated consumer demand and to place downward pressure on prices.

A competitive wholesale electric market is integral to the existence of a properly functioning retail electric market in Pennsylvania that provides reasonable prices for consumers. Because of that, the PUC participates in many proceedings related to the design and operation of the two regional transmission organizations (RTOs) in which Pennsylvania is located.

These RTOs are the PJM Interconnection Inc. and the Midwest Independent Transmission System Operator Inc. (MISO). The PUC is a member of two organizations consisting of state commissions – the Organization of PJM States Inc. (OPSI) and the Organization of MISO States Inc. (OMS) that represent the interests of member states before the FERC.



Most of Pennsylvania's counties are within PJM's service territory. The Commission also participates in various FERC proceedings filed by and against utilities.

### **Reliability Pricing Model (RPM)**

On May 30, 2008, the Commission joined the Maryland Public Service Commission and several other state regulatory commissions in filing a formal complaint against PJM's Reliability Pricing Model (RPM), alleging that this pricing model fails to produce just and reasonable wholesale prices for electricity, as required under federal law.

The complainants urged FERC to recognize that the transitional period auctions have produced excessive capacity prices; have failed to prevent generation suppliers from exercising market power; and have not produced benefits commensurate with their costs.

### **Other FERC proceedings include:**

- PJM Cost of New Entry (CONE)
- Complaint Against PJM re Market Monitoring Unit
- PJM Complaint against PowerEdge
- Duquesne Light Co. Withdrawal from PJM
- Advanced Notice of Proposed Rulemaking on Organized Markets
- Duquesne Incentive Transmission Rate Request
- Allegheny Incentive Transmission Rate Request
- AEP Incentive Transmission Rate Request (PATH)
- PJM and MISO Fixed Transmission Rights
- MISO Resource Adequacy
- Neptune Transmission Line

### **National Interest Electric Transmission Corridor**

Calling the plan overly broad and unreasonable, on Nov. 5, 2007, the PUC filed for rehearing with DOE over its National Interest Electric

Transmission Corridor (NIETC) for the Mid-Atlantic Region while also filing suit against the designation in U.S. District Court for the Middle District of Pennsylvania. A decision from U.S. District Court is expected in first quarter of Fiscal Year 2008-09.

DOE denied the petition for rehearing on March 11, 2008. The PUC followed that with an appeal of the DOE NIETC designation in the Second Circuit U.S. Court of Appeals on March 18, 2008.

In its filing in the U.S. District Court, the Commission maintained that the NIETC is beyond the scope intended by Congress in the Energy Policy Act of 2005. Section 1221 of the Energy Policy Act of 2005 directed DOE to conduct studies of electric transmission congestion every three years, and authorized the federal agency to designate NIETCs based on those studies.

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





## *Alternative Energy Portfolio Standards Act of 2004*

Signed into law on Nov. 30, 2004, the Alternative Energy Portfolio Standards Act (AEPS) requires electric distribution companies (EDCs) and electric generation suppliers (EGSs) to include a specific percentage of electricity from alternative resources in the generation they sell to Pennsylvania customers.

The AEPS Act was amended in July 2007 with Act 35. This amendment expanded the requirement for energy derived from solar photovoltaic sources. It also increased the maximum size of alternative energy generators that can interconnect and net meter with a distribution system. In addition, the amendment changed the amount of compensation net-metered customer generators receive for excess generation and when they receive the compensation.

As a result, the Commission initiated a rulemaking process to revise its net-metering and

interconnection regulations, which became effective Dec. 16, 2006, to reflect the new requirements. On May 22, 2008, the Commission adopted changes to the existing net-metering regulations. Changes to the existing interconnection and proposed AEPS implementation regulations will follow.

Also in May 2008, the PUC, in conjunction with the state Department of Environmental Protection, issued its first annual report on the implementation and effect of the AEPS Act.

The report noted that the two EDCs and five EGSs that had compliance obligations in 2007 met their requirements. The report also contained information on AEPS credits created; AEPS generators certified; the AEPS marketplace; and costs for renewable generation. The Commission currently is evaluating EDC and EGS compliance for the second reporting period, which includes four additional service territories. The report is available on the PUC Web site under Alternative Energy.





The Commission continues to address novel issues that arise as more EDCs, EGSs and alternative energy systems attempt to follow the mandates of the Act. Notably, the Commission reviewed multiple EDC efforts to purchase and bank alternative energy credits (AECs). In addition, the Commission and the AEPS program administrator continue their efforts to facilitate compliance by expanding the availability of information about AEC brokers and aggregators, as well as certified alternative energy generators.

As this new regulatory requirement evolves and matures, the Commission will continue to address multiple issues in a way that will facilitate implementation of this important component of the Commonwealth's overall energy policy. In its most recent performance audit of the PUC, the Legislative Budget & Finance Committee (LB&FC) has said the Commission "made good progress" in implementing the requirements of the Act.

## *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. In its most recent performance audit, the LB&FC found that most of Pennsylvania's EDCs are meeting or exceeding their reliability performance standards. The LB&FC report indicated the state's FirstEnergy companies need additional PUC monitoring.

The monitoring efforts by the Commission's Bureau of Conservation, Energy and Economic Planning are focused on reviewing annual and quarterly reports filed by the electric distribution companies. Large electric companies have to stay within 10 percent of a PUC-established benchmark for a rolling three-year period and within 20 percent of the benchmark during a

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

The Commission issued the annual reliability report – Electric Service Reliability in Pennsylvania – in July 2008. The report trends reliability performance from 1994 to the first quarter of 2008, and includes the causes of outages, by percentage, and information on all major events. It can be viewed at the Commission's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Publications and Reports.

## *Electric Power Outlook*

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

This year's report concludes that sufficient generation, transmission and distribution capacity exists to reasonably meet the needs of Pennsylvania consumers for the near future. Regional generation adequacy and reserve margins of the Mid-Atlantic Region have been maintained.

However, generation adequacy becomes a concern beginning in 2013. With that, the Commission will continue its current policy of encouraging generation adequacy within the region.



## *Inspection and Maintenance Standards*

On May 22, 2008, the Commission finalized its regulation for inspection, maintenance, repair and replacement standards for EDCs. The regulation requires an EDC to have a plan for: periodic inspection and maintenance of poles, overhead conductors and cables, wires, transformers, switching devices, protective devices, regulators, capacitors, substations and other facilities critical to maintaining an acceptable level of reliability. The regulation also sets forth minimum inspection and maintenance intervals for vegetation management, poles, overhead lines and substations.

In the first quarter of Fiscal Year 2008-09, the Commission will issue an Advance Notice of Proposed Rulemaking for the purpose of determining whether EDCs should be subject to specific inspection, maintenance and/or replacement standards regarding neutral connections. The notice will solicit comments from EDCs and other parties of interest.

## *Mergers and Acquisitions*

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

The PUC did not consider any mergers or acquisitions of electric companies this year.

## *Transmission Line Proceedings*

The state's Public Utility Code requires its public utilities to furnish and maintain adequate, efficient, safe and reasonably priced utility service and facilities. It also allows utilities to make the changes necessary to ensure the quality and safety of that service. The PUC is the agency charged with ensuring that the public utilities are living up to those obligations. That includes oversight of the siting and construction of electric transmission lines.

As discussed earlier in this chapter, the PUC has been active in preserving state jurisdiction over transmission line siting, taking an active role in the DOE's NIETC designation.

Transmission line siting cases present two distinct issues: whether the need for the line exists; and whether the proposed route is the best of all alternatives considered. When an application of this nature is received, the Commission is required to hold hearings to consider the necessity, safety and environmental impact of



the proposed line. The Commission also considers a variety of other issues, including need for the proposed line, risk of danger to the health and safety of the public, compliance with applicable statutes, and regulations providing for the protection of natural resources and minimal adverse environmental impact.

Some large transmission line proceedings are being considered throughout the state, including:

#### [Trans-Allegheny Interstate Line Co. \(TrAILCo\)](#)

On April 13, 2007, TrAILCo filed an application seeking Commission approval to locate, construct and operate a proposed transmission-line project in portions of Washington and Greene counties. More than 300 protests and interventions were filed on behalf of various parties. The PUC's Office of Trial Staff and the state's Office of Consumer Advocate intervened and actively participated as did a group representing environmental organizations.

In order to provide adequate opportunities for community input, the Administrative Law Judges (ALJs) assigned to the case held 12 public input hearings in various locations of Washington and Greene counties in fall 2007. Evidentiary hearings were conducted in spring 2008, in which the legal, policy and evidentiary issues were addressed. A recommended decision from the ALJs is expected in the first quarter of Fiscal Year 2008-09. Following the filing of exceptions and reply exceptions, the Commission will issue a final decision on the application later in Fiscal Year 2008-09.

#### [PPL Susquehanna-Roseland Transmission Line](#)

PPL has proposed the construction of a 500kV electric transmission line together with Public Service Electric and Gas (PSE&G) of New Jersey. A tentative proposal extends the line from

Berwick, Columbia County, to Roseland, NJ. PPL will be responsible for constructing the Pennsylvania portion of the line while PSE&G will be responsible for constructing the New Jersey portion of the line.

While PPL has not filed a final proposal with the PUC for the Susquehanna-Roseland project, as part of the company's preliminary siting activities, PPL filed an application on Feb. 14, 2008, for siting and reconstruction approval of the proposed "Coopersburg Project" in portions of Lehigh and Bucks counties.

Public input hearings on the Coopersburg Project were held in July 2008 with evidentiary hearings scheduled for the second quarter of Fiscal Year 2008-09. A recommended decision from the presiding ALJ and a final decision are expected later in Fiscal Year 2008-09.

## *Renewable and Sustainable Energy*

The PUC monitors periodic board meetings held by the five sustainable energy funds. The PUC also chairs the Pennsylvania Sustainable Energy Board, which provides suggested operational and best practices for the regional funds.

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



In 2007, the funds provided slightly more than \$6.5 million in loans and about \$710,000 in grants for investments in renewable and clean energy, and energy efficiency projects. Commission staff continues its liaison role with the regional sustainable energy funds.

### *Electric Company Audits*

The Commission's Bureau of Audits periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the jurisdictional electric distribution companies.

In addition to the periodic MAs and MEIs, the Bureau of Audits annually conducts a variety of other EDC audits. During the fiscal year, eight competitive transition cost and/or purchased power audits were completed. Also, 54 filings requesting changes to established adjustment clause rates were reviewed.

Among the MAs and MEIs completed within the 2007-08 fiscal year were:

#### **C&T Enterprises Inc. (Citizens' Electric Co., Wellsboro Electric Co. and Valley Energy Co.)**

The MA of the three regulated utilities owned by C&T Enterprises found that the companies have the opportunity to achieve a combined annual and one-time benefits or savings of up to \$233,000 and \$241,000 respectively. The savings could be achieved primarily by implementing cost-effective vehicle acquisition and leasing practices between the utilities and C&T, and reducing excess inventory.

The non-quantifiable recommendations included to: develop corporate governance charters, policies, procedures and a committee structure for the C&T Companies' boards of directors;

revise Citizens' budget billing process to conform to Commission regulations and requirements; submit for Commission review and approval contracts for services that C&T Enterprises has with each of the regulated utilities and lease agreements between affiliates; ensure that emergency preparedness plans are complete, up-to-date and that revisions include dates and authorizations; comply with the PUC's diversity guidelines; and strive to improve workforce and procurement diversity.

#### **PECO Energy Co.**

The MA found that PECO has the opportunity to achieve net annual benefits or savings of \$4.4 million to \$6.6 million by implementing recommendations. The recommendations included reevaluating overtime charges and related practices; increasing vegetation management efforts; taking corrective actions to reduce gas line hits; developing a program to periodically evaluate the use of corporate services versus outsourcing alternatives; assessing the cost-effectiveness of staff augmentation of internal auditing; and conducting a cost analysis of phasing in an enterprise geographic information system for improved mapping and infrastructure location improvements.

The non-quantifiable recommendations included to: develop a more comprehensive and detailed analysis of projected attrition and hiring needs, and proactively address potential attrition of experienced field operations employees; perform a detailed analysis of the relationship of customer average interruption duration index performance to the number of events per day and develop targets as appropriate; organize the internal audit function to report administratively to an independent organization, the CEO, or directly to the board of directors; implement formal quality-assurance activities for major projects; implement



measures to improve the effectiveness of the gas-energy theft of service program; reduce the backlog in energy-theft caseload; and conduct appropriate reviews of the programs impacting PECO diversity and focus efforts in order to meet the company's diversity goals.

**West Penn Power Co. (Allegheny Energy Co.)**

The MA found that West Penn has the opportunity to achieve annual and one-time benefits or savings of up to \$8.4 million and \$400,000, respectively, by implementing recommendations. The recommendations included limiting West Penn's dividend payments to its parent Allegheny Energy; reducing overtime by sufficiently staffing the lineman positions; conducting a study to determine best utilization practices for contractors and company linemen for projects; and charging its affiliate pole attachment fees consistent with the rates charged to non-affiliates.

The non-quantifiable recommendations included to: develop an improvement plan to ensure that the Commission's rolling three-year standards for system reliability performance indexes are met; effectively track and enforce the underground damage prevention program; develop appropriate line marking procedures for the construction, operations and maintenance manual; investigate causes of incorrectly located lines; bill the appropriate party for all non-company caused hits; accurately account for recoveries on final accounts; and intensify efforts toward attaining full representation of women and minorities within its workforce.

Checklist





## Natural Gas

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

With some of the tensions in the natural gas markets easing, prices were less volatile this fiscal year than in years past. But despite decreased price variability, the price of natural gas did steadily increase during the fiscal year. The Commission issued a stakeholder report that examined various measures that could be implemented to increase competition in Pennsylvania's retail natural gas services market. The PUC also saw a decrease in the number of natural gas base rate cases and mergers within the industry. The PUC's Gas Safety Division continues to monitor the safety of the fuel that heats 51 percent of the homes in the state. A settlement for \$150,000 was reached with a natural gas company that was under informal investigation for violating portions of the Public Utility Code.

Currently, Pennsylvania has 31 regulated natural gas distribution companies and 83 licensed natural gas suppliers.

### Wholesale Natural Gas Prices

U.S. and Pennsylvania natural gas markets exhibited lesser price movement in 2007 than was the case in recent years. The more limited

variability in price reflects the absence of unsettling events like those in recent years that caused supply disruptions and high prices, such as the hurricanes in 2005. According to the U.S. Energy Information Agency, growth in domestic natural gas production, record high liquefied natural gas imports, and storage volumes that exceeded the five-year (2002 to 2006) average throughout the year brought reduced price volatility to the natural gas market in 2007. In fact, volatility as measured by relative price fluctuations decreased to its lowest level since 2002.

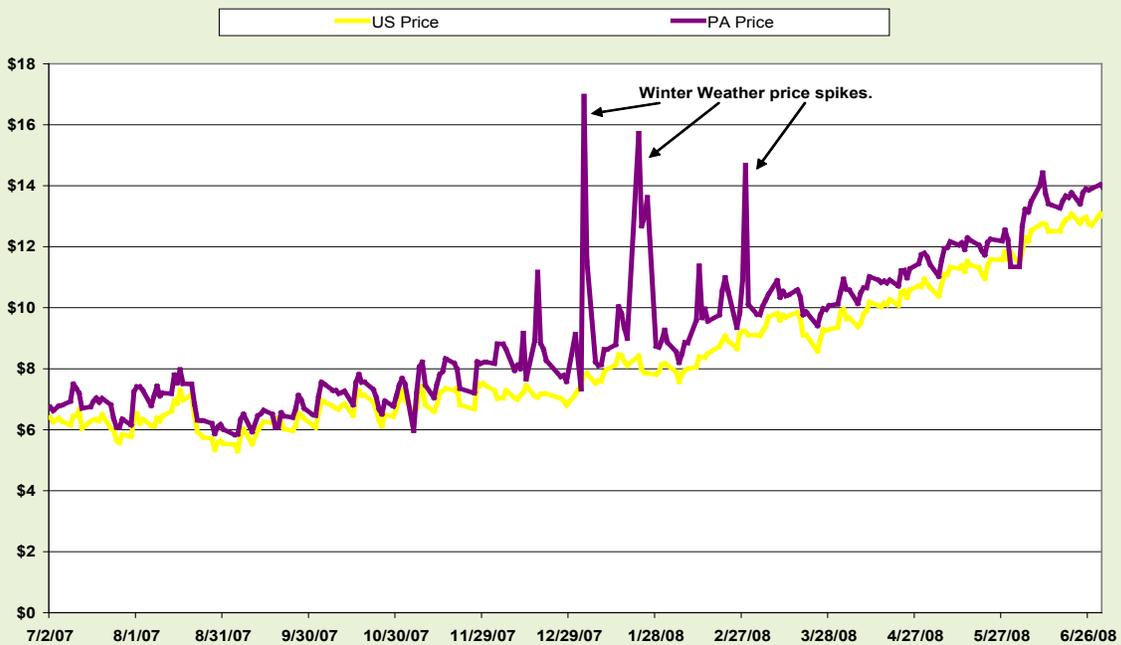
Even though price variability was limited, the price of natural gas did steadily increase during the Fiscal Year 2007-08. The reasons for the increasing price trend include: supply concerns, increasing demand, psychology, weather and decreases in the value of the U.S. dollar. The U.S. and Pennsylvania natural gas spot prices for June 2007 through July 2008 are shown in the graph on the adjacent page.

Despite significant onshore production growth, the natural gas market continues to be pressured by high oil prices. In addition, summer cooling demand in the United States was strong in June, which increased the amount of natural gas used in the electric power sector.



On an annual basis, the Henry Hub spot price is expected to average about \$11.86 per thousand cubic feet (Mcf) in 2008 and \$11.62 per Mcf in 2009.

US and PA Spot Market Price for Natural Gas for FY 07/08 (\$/MM BTUs)



## SEARCH

In May 2008, the Commission staff distributed its draft report for the Stakeholders Exploring Avenues for Removing Competition Hurdles (SEARCH). SEARCH is a working group comprised of stakeholders representing residential, commercial and industrial customers, natural gas distribution companies, suppliers and pipelines.

The working group examined various measures that could be implemented to increase competition in Pennsylvania's retail natural gas services market. The draft report follows a standard format for each measure examined: the measure is identified; the positions of the parties are summarized; requisites for implementation are discussed; the potential effect on competition is evaluated; and the advantages and the disadvantages are analyzed.

Topics addressed by the report include:

- Price to compare;
- Consumer education;
- Purchase of receivables;
- Creditworthiness/security;
- Marketer referral programs;
- Sustained PUC leadership in competitive markets by creation of an Office of Competitive Market Oversight; and
- Future evaluation of effective competition.



Under the Natural Gas Choice and Competition Act, the Commission was required to convene the stakeholders for this purpose after concluding in its October 2005 report to the General Assembly that effective competition for retail natural gas supply did not exist in the state.

The Commission expects to take action on staff recommendations arising from the stakeholder process in Fiscal Year 2008-09. The draft SEARCH report, as well as other reports on the topic, is available on the PUC's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us) under Natural Gas/Issues.

## Base Rate Increase Requests

During the fiscal year, the Commission took the following actions related to about \$25.3 million in rate increase requests:

### Valley Energy Inc.

*Customers Served:* 5,562 in Bradford County.  
*Requested Rate Increase:* \$638,025 (7 percent)  
*Approved Rate Increase:* \$297,000 (3.2 percent)  
*Primary Reasons:* To increase the rate of return in order to support the continuation of its efforts to improve its natural gas system.

### Andreassi Gas Co.

*Customers Served:* 374 in Karns City Borough, and Fairview and Donegal townships, Butler County, and Sugar Creek and Bradys Bend townships, Armstrong County.  
*Requested Rate Increase:* \$50,002 (11 percent)  
*Approved Rate Increase:* \$50,002 (11 percent)  
*Primary Reasons:* To keep up with historical inflation rates; enable the company to fund repairs, as well as maintain current production of gas; and provide funds to continue to implement pipeline gas safety requirements.

### Philadelphia Gas Works (PGW)

*Customers Served:* 496,000 in Philadelphia.  
*Requested Rate Increase:* \$100 million (11 percent)  
*Approved Rate Increase:* \$25 million (3.3 percent)  
*Primary Reasons:* To recover non-gas operating expenses and interest expense; increase earnings to meet debt service obligations; and ensure PGW has adequate liquidity when needed without having to resort to continual borrowing.

At the end of Fiscal Year 2007-08, rate increase requests still pending before the Commission included: Columbia Gas of Pennsylvania Inc. (\$58.9 million), PECO Energy Co. (\$98.3 million) and Sergeant Gas Co. (\$24,989).

## Mergers and Acquisitions

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

The following proceeding was before the Commission in the natural gas industry:

### UGI Utilities Inc./PPL Gas Utilities Corp.

On April 2, 2008, UGI Utilities Inc. and PPL Gas Utilities Corp. jointly filed an application for UGI to acquire PPL Gas for about \$268 million. A decision is expected in the first quarter of Fiscal Year 2008-09.



UGI's gas division and its subsidiary UGI Penn Natural Gas are regulated natural gas distribution companies that serve about 478,000 customers in 28 Pennsylvania counties.

PPL Gas serves about 76,000 customers in 35 counties throughout Pennsylvania and a small area of Maryland. PPL Gas operates about 3,800 miles of pipeline and owns underground gas storage capacity in three separate reservoirs in North-Central Pennsylvania.

### *Gas Safety Division*

The PUC's Gas Safety Division is responsible for enforcing the Commission's pipeline safety regulations as they apply to natural gas and other public utilities transporting certain commodities by pipeline within Pennsylvania. Generally, the division ensures that pipeline utilities comply with the federal pipeline safety regulations that have been adopted by the PUC as its safety standards. The division monitors compliance with these regulations by conducting frequent inspections of pipeline facilities and examining safety records of regulated gas utilities. The division's eight inspectors also investigate incidents that include fires, explosions and major outages.

#### **NATURAL GAS PIPELINE REPORTABLE INCIDENTS**

In 2007, six reportable natural gas incidents occurred that resulted in one injury. No fatalities occurred as the result of a reportable incident. During the previous three years, natural gas utilities reported 35 incidents, including 19 in 2004, eight in 2005 and eight in 2006.

The federal government is playing an increasingly important role in the delivery of energy, water and telephone service in Pennsylvania. The Commissioners, including Vice Chairman Tyrone J. Christy, are actively involved in these issues.





A reportable incident may involve an explosion, a release of gas, and, unfortunately, sometimes personal injury or loss of life. The PUC's regulations require a utility to submit a report of an accident involving facilities or operations that meet one or more of the following circumstances: 1) a release of gas involving death or injury; 2) a release of gas and \$50,000 in property damages, including lost gas; and 3) a release of gas that results in an event considered significant by the operator. A public utility also must immediately notify the federal government through the National Response Center of all reportable incidents.

The cause of pipeline incidents has varied during the past several years, but the Gas Safety Division has identified the most frequent causes as excavation damage, natural causes such as flooding, automobile accidents, pipeline leaks caused by corrosion and human error. In 2007, the incidents were caused by operator error, corrosion and excavation damage.

During the past five years, the most frequent causes of reportable incidents were facility damage, operator error and corrosion. The division has utilized information gathered from its incident investigations to ensure its inspection efforts focus particular attention on the areas that have previously resulted in reportable incidents.

#### **NATURAL GAS SAFETY INVESTIGATION SETTLEMENTS**

In Fiscal Year 2007-08, the PUC approved a settlement with National Fuel Gas Distribution Corp. (NFG) that totaled \$150,000.

The settlement agreement, reached between the PUC's independent prosecutory staff and the utility, followed informal investigations into

alleged violations of the Public Utility Code and U.S. Pipeline Safety Act.

The settlement ended an informal investigation into a 2004 natural gas explosion that resulted in two fatalities in Sandy Township, Clearfield County. The explosion was caused by a leak in the system. The company was required to direct \$100,000 to the company's Neighbor for Neighbor Heat Fund and spend \$50,000 to fund safety-related activities for its system.



#### **ADDITIONAL GAS SAFETY ACTIVITIES INCLUDE:**

- 622 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line and compressor station inspections);
- Six investigations of reportable incidents;
- 21 non-compliance letters issued;
- 70 gas safety violations issued;
- 51 violations handled by non-compliance letters; and
- 19 violations handled by the Law Bureau.



## *Gas Company Audits*

The Commission's Bureau of Audits performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas companies. Among those audits completed during the 2007-08 fiscal year were:

### [National Fuel Gas Co.](#)

The MEI was limited to a review and evaluation of the company's efforts to implement seven recommendations from a February 2005 focused management and operations report. During the MEI, the auditors found that NFG had effectively implemented past recommendations by: updating its operations and maintenance manual to include sections related to pressure-regulating stations and resuming its filing of annual diversity reports with the Commission.

The MEI also resulted in eight additional recommendations for improvement that included: periodic documentation of justifications for high and low spans of control, and adjusting reporting relationships as appropriate; implementing actions to further improve its damage prevention program; improving the accuracy of its calculation of unaccounted for

gas reported to the Commission; implementing a defined strategic programming process within the corporate strategic plan that includes long-term strategic goals, action plans and tactics; continuing efforts to increase the representation of women and minorities within its workforce; and merging data recovery and system restoration guidelines into the Business Continuity Plan.

### [PECO Energy Co.](#)

(See Electric.)

### [Valley Energy Co.](#)

(See Electric – C&T Enterprises Inc.)

In addition to the periodic MAs and MEIs, the Bureau of Audits conducts audits of natural gas utilities in areas such as annual gas cost rates, purchased gas cost rates, consumer-education funds and universal service funds. Bureau staff completed 26 of these audits during the year with recommended adjustments of more than \$1.83 million. Also, the Bureau reviewed 12 gas cost rate filings.

Additionally the Bureau conducted three special audits, including:

### [Equitable Gas Co.](#)

To verify that the remaining \$3,246,898 of the Equitrans L.P. refund approved by the Commission for low-income energy assistance was used appropriately.

### [Utility Pipeline Ltd. and Knox Energy Cooperative Association Inc.](#)

To monitor the compliance of the companies with conditions related to the PUC-approved sale of Gasco Distribution Systems Inc. – Claysville Division to Utility Pipeline Ltd. and immediately thereafter to Knox Energy Cooperative Association Inc.



Because it involved the unique circumstance of the transfer of a portion of a regulated public utility natural gas distribution system to a non-profit, member-owned cooperative corporation, the PUC approved the transaction subject to several conditions which included freezing base rates for a period of three years; investing a minimum of \$35,000 per year for the next five years in new construction and pipeline replacement; and adopting written winter termination procedures applicable to the Claysville members that are equivalent to those in Chapters 14 and 56, and that will remain effective for three years.

#### Clarion River Gas (CRG)

To determine whether CRG could adequately support its reported lost and unaccounted for gas in its proposed 2007 gas cost rate filing. The Bureau conducted a special review of the lost and unaccounted for gas for the period ending Aug. 31, 2007. The Bureau will continue to monitor the company's progress in its efforts to lower lost and unaccounted for gas during future reviews and audits.

### *Steam Heat*

Two 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.

#### TRIGEN Philadelphia

On Nov. 27, 2007, the Commission approved the change of control for TRIGEN Philadelphia to Veolia Energy North America. The company serves more than 300 commercial, government, institutional and hospitality customers in the central business district of Philadelphia.

#### NRG Thermal

On Aug. 28, 2007, the PUC approved an application by NRG Thermal to abandon specific customers in eight low-pressure areas in Harrisburg. NRG Thermal has operations in Pittsburgh and Harrisburg. The Pittsburgh operations consist of mainly commercial customers on the city's north side. The Harrisburg operation serves residential and commercial customers, as well as Commonwealth facilities inside the city.

### *Rate Increases*

During the fiscal year, a base rate increase of \$1.9 million was pending before the Commission for NRG Thermal Harrisburg Division. Also this fiscal year, the PUC's Bureau of Audits reviewed 24 steam cost rate filings submitted by jurisdictional steam heat companies.





## Telecommunications

*In promoting a competitive telecommunications market, the PUC works to ensure reasonable local rates and service quality, ensures the deployment and availability of broadband services, and makes programs available so that no consumer is left without access to local telephone service.*

During this fiscal year, the Commission continues to monitor the aggressive broadband deployment initiatives required by Act 183 of 2004 (Chapter 30), which will provide access to broadband service to all Pennsylvanians by 2015. Federal telecommunications regulation by the Federal Communications Commission (FCC) is playing an increasingly important role in the delivery of telephone service in Pennsylvania, and the Commission is actively involved in these issues.

### *Regulated Telephone Companies*

The three largest incumbent local exchange carriers (ILEC) are Verizon Pennsylvania Inc., Verizon North Inc. and Embarq PA. Currently, the number of telecommunications carriers certified by the Commission is as follows:

#### **Telecommunications Carriers Total: 719**

Interexchange Carriers, Toll Resellers - 339  
 Competitive Local Exchange Carriers - 170  
 Incumbent Local Exchange Carriers - 38  
 Competitive Access Providers - 89  
 Interexchange Carriers, Toll Facilities-Based - 75

### *Mergers and Acquisitions*

In reviewing mergers and acquisitions, the Commission works to make certain that customers are protected, and that the company has the requisite managerial, financial and technical capability to provide services. The PUC gives each application a thorough and comprehensive review. In Pennsylvania, the applicable legal standard mandates that an affirmative benefit shall result from a utility merger or acquisition. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment.

#### **North Pittsburgh Systems Inc.**

On Dec. 5, 2007, the Commission approved for Consolidated Communications Holdings Inc. to buy North Pittsburgh Telephone Co. and Penn Telecom Inc. Each shareholder could either receive \$25 per share in cash or 1.1061947 shares of Consolidated common stock. Total value of the transaction was estimated to be approximately \$325 million.

North Pittsburgh Telephone Co. is an incumbent local exchange carrier that offers local, toll, broadband, and switched and special access



services, as well as access to vertical services such as custom calling features, operator service, and directory assistance service, within its franchised service territory in portions of Allegheny, Armstrong, Butler and Westmoreland counties. Penn Telecom is a competitive local exchange carrier (CLEC) that offers voice and broadband services in the metropolitan Pittsburgh area. After completion of the merger, North Pittsburgh Telephone Co. changed its name to Consolidated Communications of Pennsylvania Co., and Penn Telecom is doing business as Consolidated Communications Penn Telecom.

Consolidated Communications Holdings Inc. is an established rural local exchange company providing communications services to residential and business customers in Illinois and Texas. Consolidated Communications states that, after the merger, the combined companies would become the 12th largest independent local telephone company in the nation.

Under the settlement, the company will not be permitted to increase rates for two years. The company also will offer standalone high-speed Internet service for two years. Also, it will provide broadband availability to at least 20 percent of its total access lines within three years, which represents a network modernization commitment above current Chapter 30 obligations. The company also committed not to seek to recover the cost of the merger from ratepayers while committing to continuing current employment levels.

### *5-1-1 Three-Digit Dialing*

The Federal Communications Commission (FCC) has designated 5-1-1 as the universal dialing code for government entities for providing transportation and travel-related information.

The Pennsylvania Department of Transportation (PennDOT) has been consulting with the Commission on the technical and legal aspects of implementing a statewide traveler information service utilizing the 5-1-1 number.

PennDOT has issued a request for proposals to design, build, implement, operate, host and maintain a service known as “511 Pennsylvania.” This service will allow travelers to easily access accurate, up-to-the-minute information on traffic; roadway conditions; regional weather; transit operations; tourism information; and more via the Internet and telephone. The service “511 Pennsylvania” is scheduled to be operational in Fiscal Year 2008-09.

### *Telephone Number Safety Valve Relief Process*

As a way to address the rapid growth and use of phone numbers, the FCC has issued several Orders implementing various methods to prevent the depletion of these resources. As part of its initiative, the FCC reaffirmed that carriers must meet a months-to-exhaust requirement before receiving additional phone numbers. This was meant to ensure that telephone numbers are used efficiently and that carriers are prevented from maintaining excessive inventories of numbers.

The FCC also granted state commissions the authority to provide relief to telecommunications carriers for additional numbering resources in a given rate center if the carrier cannot meet the demand for resources through its current inventory (known as the “safety valve process”). Since 2002, the Commission has been processing safety valve relief petitions submitted by carriers requesting additional numbering resources.



In March 2008, the Commission decided to examine its procedures for processing these petitions. In doing so, the Commission requested comments from interested parties on the current safety valve process. In addition, a working group meeting on the issue was held in May 2008.

### *EAS Regulations and Working Group*

The Commission's Extended Area Service (EAS) regulations govern how the Commission requires the local telephone company to extend the local calling area – the area in which a telephone consumer can make a call without paying toll charges. The Commission is reviewing these regulations to determine whether they need to be updated to reflect changes in technology and the Pennsylvania telecommunications market, since they were first adopted prior to competition.

The Commission is seeking input from industry and consumer groups and competitors on a rulemaking to revise the regulations. It also has created an EAS Working Group to make recommendations on what, if any, future EAS

regulations or policy are appropriate. The EAS Working Group held its first meeting in June 2008. The Commission intends to complete its consideration within 120 days from that meeting. The working group will address, among other issues, the differences in market developments in rural Pennsylvania compared to urban areas.

### *Chapter 30 Implementation*

The Commission continues to implement key provisions of Act 183 of 2004, which encourages earlier completion of existing network modernization plans (NMPs) by incumbent local exchange carriers (ILECs) with more economic incentives and less Commission regulation. The Commission oversees the NMPs that will provide for ubiquitous deployment of broadband high-speed access connections to the Internet and other services. It also reduces filing



More than 700 telecommunications carriers operate in Pennsylvania, and the PUC works to ensure reasonable local rates and quality service while accelerating the deployment of broadband service.

and reporting requirements for incumbent local exchange carriers; establishes a Bona Fide Retail Request program; and creates the Broadband Outreach and Aggregation Fund and Education Technology Fund.

The Chapter 30 law provided three options for the alternative regulation and network broadband deployment for the ILECs under the Commission's jurisdiction. Twenty-nine ILECs proceeded with the implementation of broadband deployment in their respective networks that is to be completed by the statutory deadline of Dec. 31, 2008. These companies chose the opportunity to implement annual revenue rate increases under a price cap mechanism which contained an inflation offset that was statutorily set at a zero value.

Embarq PA and Windstream elected to complete their broadband deployment by 2013. Embarq PA and Windstream chose a zero percent inflation offset value in their respective price cap mechanisms, and also undertook the BFRR (Bona Fide Retail Request) program. Verizon PA and Verizon North, the only non-rural ILECs, elected to complete their broadband deployment by 2015. They chose a 0.5 percent inflation offset value in their respective price cap mechanisms, and also undertook the relevant BFRR program and Business and Attraction Retention Program (BARP) obligations.

### *Chapter 30 Investigative Audit*

The Commission performed an investigative audit of Verizon PA's Chapter 30 NMP commitments for the purpose of verifying reported progress by Verizon PA. The Commission also directed that

the balance of Verizon PA's unencumbered escrow fund monies be used to pay for its NMP audit, and determined that it was appropriate to wait until Verizon PA's next biennial report, due in 2007, to conduct the initial NMP audit. Accordingly, the Liberty Consulting Group was contracted to conduct a review and evaluation of Verizon PA's NMP implementation progress as reported in its June 30, 2007, biennial NMP update, representing its progress as of Dec. 31, 2006. Liberty began its work in late June 2007 and as of June 30, 2008, was completing final revisions of its report. Liberty's report and Verizon PA's response are expected to be submitted to the Commission for public release in the first quarter of Fiscal Year 2008-09.

### *PUC-Approved Price Cap Filings*

To date, 23 incumbent local exchange carriers (ILECs) adopted price caps using the gross domestic product price index outlined in the Act as the inflation factor under the alternative regulation portion of their Chapter 30 Plan. As a result, the carriers file their annual price stability mechanism index either accompanied by tariffed rate increases and/or banked revenue increases. Through past settlements reached with the state's Office of Consumer Advocate, most of the ILECs are required to implement banked revenue increases in actual rates within four years or forego the revenue. Pursuant to Chapter 30, companies with price cap mechanisms collectively were permitted to increase local service rates in total by \$76.333 million with total banked revenues of \$26.493 million. These increases are from 2005 to 2008.

## *Price Change Opportunity for Verizon and Verizon North*

The Commission approved a settlement of the Verizon Companies 2006 Price Change Opportunities (PCOs) that provided certain funding of the Broadband Outreach and Aggregation Fund (BOAF) and Education Technology Fund (E-Fund) for Fiscal Year 2008-09 and eliminated a pending Commonwealth Court appeal. Also, in October 2007, the Commission approved a settlement of the Verizon Companies 2007 PCOs addressing complaints filed by the Office of Consumer Advocate, the Office of Small Business Advocate and the Office of Trial Staff. On Nov. 1, 2007, Verizon Pennsylvania Inc. and Verizon North separately filed with the PUC their 2008 PCO filings pursuant to their respective Chapter 30 plans. Verizon PA proposed an annual revenue increase of \$14.617 million and Verizon



Chairman James H. Cawley talks with his counsel Mary Beth Osborne. The Commission balances the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.

North proposed an annual revenue increase of \$2.793 million. Because of various adjustments from their 2006 and 2007 filings, no immediate rate increase will be associated with either filing until October 2008.

## *Broadband Deployment*

Pennsylvania is home to one of the country's most aggressive broadband deployment initiatives as required by Act 183. By 2015, the Act requires that every Pennsylvanian will have access to broadband services, even in the more rural areas.

Act 183 also contains several programs designed to accelerate broadband deployment:

### **BONA FIDE RETAIL REQUEST PROGRAM**

The BFRR established by Act 183 of 2004 provides a means for customers to obtain advanced or broadband services sooner than they may otherwise receive them through their local telephone company's deployment schedule.

Through the BFRR, customers may demonstrate that sufficient demand for advanced or broadband services exists in their area by submitting applications to their local telephone company. When a minimum of 50 retail access lines or 25 percent of the retail access lines within a carrier serving area (whichever is less) commit to purchase advanced or broadband services for a minimum of one year, the local telephone company must make those services available in that area within 12 months. Community serving areas are geographic areas where a central office or remote terminal provides advanced or broadband services to all lines within that specific area. Typically, a carrier serving area will be all the homes and businesses within approximately two miles of one of these terminals or central offices.



Verizon PA, Verizon North, Embarq PA and Windstream are required to offer BFRR programs under the provisions of Act 183.

Each of those companies is required to maintain a toll-free telephone number and Web site containing information about their BFRR program. Consumers also can find more information about the BFRR program through Pennsylvania's Department of Community and Economic Development (DCED) Web site at [www.newpa.com/broadband](http://www.newpa.com/broadband).

The participating companies must provide semi-annual reports to the Commission consisting of the number of requests for advanced or broadband services received during the reporting period by carrier serving area and the actions taken on those requests. The Commission is required to monitor and enforce the compliance of the participating companies with their obligations to offer and administer a BFRR program.

Chapter 30 sets limits, under which, in any given 12-month period, a company is not required to work on more than 40 active BFRR requests and is not required to work on more than 20 such requests that "require property acquisition, including rights-of-way, or new construction." The two Verizon companies and Embarq PA have filed a limited number of certifications stating that they have met both the 40 overall and 20 major build statutory thresholds.

### **BUSINESS ATTRACTION AND RETENTION PROGRAM**

In addition to a BFRR, Verizon PA, Verizon North, Embarq PA and Windstream are required to implement a BARP, which permits DCED to aggregate customer demand and facilitate the deployment of advanced or broadband services



to qualifying businesses that DCED seeks to attract or retain in the Commonwealth. Under this program, DCED may submit requests to the applicable company on behalf of qualifying businesses in areas that DCED deems priority areas for economic development. The Commission is required to monitor and enforce the compliance of participating companies with their obligations under the BARP.

### **EDUCATION TECHNOLOGY PROGRAM**

The Act required the Department of Education to create the Education Technology Program to provide grants to school entities from the Education Technology Fund (E-Fund) to purchase or lease telecommunications services and equipment related to broadband. Applicant schools must be able to match their E-Fund grants.

### *Broadband Outreach and Aggregation Program*

To further broadband deployment, this DCED-established program exists to make expenditures and provide grants from the Broadband Outreach and Aggregation Program (BOAF) for business and



residential consumers, political subdivisions, economic development entities, schools and health-care facilities.

The Commission receives an annual report from DCED to verify the accuracy of the contributions from the four ILECs.

### *Promoting Broadband Access and Education*

The Act requires the Commission to annually assess the four ILECs opting to complete their broadband buildout in 2013 or 2015 at 20 percent of the first year's annual revenue effect gained from the elimination or reduction in the inflation offset. The acquired funds are divided between the E-Fund and the BOAF. The E-Fund receives 50 percent of the acquired funds until June 30, 2011, when the E-Fund is terminated. Thereafter, the assessment is reduced to 10 percent until the utility achieves full broadband deployment or the termination of the BOAF on July 1, 2016. At no time may the BOAF exceed \$5 million. In June 2008, the Commission approved a BOAF fund size of \$1.009 million for Fiscal Year 2008-09.

The E-Fund also receives an assessment from the non-rural ILECs (Verizon PA and Verizon North). For the fiscal years 2005-06 and 2006-07, the assessment was \$7 million. For the fiscal years 2007-08 through 2010-11, the assessment is the difference between \$7 million and any unencumbered amount remaining in the E-Fund. In addition, Verizon PA expressed a commitment in 2004 to Gov. Rendell that, if the assessment amounts for E-Fund were less than \$10 million, Verizon would provide an additional contribution of up to \$3 million annually to make up the difference during the life of the fund. Verizon PA's additional contribution for the 2008-09 fiscal year

is \$1.75 million, while Verizon North's is approximately \$237,000.

### *PA Universal Service Fund*

The PA Universal Service Fund (USF) supports the affordability of basic local telephone service that is provided by rural ILECs in Pennsylvania.

The administrator of the PaUSF is Solix Inc. The company is under contract with the Commission to administer the fund through Dec. 31, 2010, with a possible one-year extension.

Auditor Withum, Smith & Brown submitted an auditor's report dated June 4, 2008, on the fund's activities during 2007. This report is on the PUC's Web site at [www.puc.state.pa.us](http://www.puc.state.pa.us).



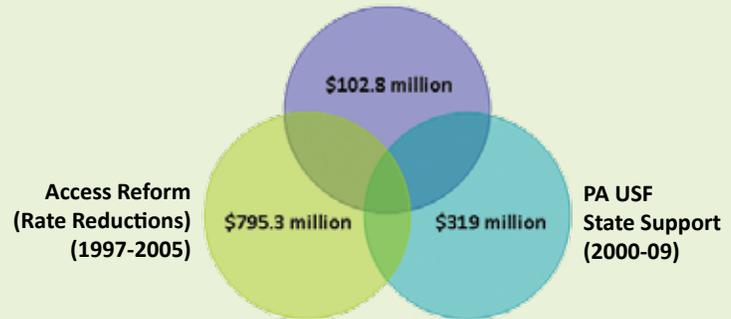
PUC employees touring a Verizon training facility, including Vicki Bonner, left, and Joan Smith, watch as a Verizon employee demonstrates fiber optic splicing.



The Commission approved a state USF contribution rate for 2008 calculated to produce approximately \$33.823 million to be distributed among recipient carriers. The amount is collected via assessments against telephone company intrastate retail revenues from the prior year. All PUC-jurisdictional telecommunications companies are assessed and file with Solix annual intrastate retail revenue reports used for purposes of calculating the assessment rate for the upcoming year. All incumbent LECs in Pennsylvania except Verizon PA, Verizon North (formerly GTE North) and D&E Telephone Company are annual net recipients from the Fund.

### *Broadband Deployment and USF Efforts*

Broadband Deployment Increases Since Act 183 (2005-08)



Pennsylvania has taken efforts to reform intercarrier compensation rates, support universal telephone service and promote broadband deployment throughout the state.

### *Eligible Telecommunications Carrier Petitions*

The Federal Universal Service Fund was established by the FCC in 1983 to help keep local telephone service affordable in a competitive telecommunications market by assessing access lines nationwide and providing subsidies to carriers in high-cost areas. The federal fund is separate from the PA Universal Service Fund.

Carriers that provide telecommunications service must be deemed “eligible” by their respective state commissions in order to receive payments out of the Federal Universal Service



Fund to defray the cost of delivering discounted services to consumers. This type of carrier is known as an eligible telecommunications carrier.

The Commission currently exercises its designation authority with respect to incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs), but has refrained from designating wireless carriers as eligible telecommunications carriers, deferring to the federal designation on that issue.

The Commission adheres to the federal standards for eligible telecommunications carrier (ETC) designation, but has actively opposed various Federal Communications Commission proceedings regarding the size of the federal high-cost fund.

### *Access Charge Proceedings*

The PUC has stayed several proceedings involving carrier access charges this fiscal year. Access charges are imposed by a local exchange carrier (LEC) on interexchange carriers or other local exchange carriers to ensure it is adequately compensated for long-distance calls on its facilities. This fiscal year, the PUC temporarily suspended its investigation involving Pennsylvania's rural LECs intrastate access charges and intraLATA toll rates, and the Pennsylvania Universal Service Fund (USF) for up to a year or the issuance of a FCC ruling on a case involving Unified Carrier Compensation. To date, the FCC has not made a decision on this proceeding.

However, the PUC reopened a portion of this case as a limited investigation on certain matters in light of the fact that increases to rural carriers' residential one-party (R-1) service rates, resulting from annual Chapter 30 price cap filings, have started to exceed the established R-1 benchmark of the USF. The residential benchmark rate for

rural ILECs is currently at \$18 a month and excludes federal subscriber line charges, telecommunications relay service and 911 fees, and taxes.

### *PUC Involvement at the FCC*

Federal telecommunications regulation by the FCC is playing an increasingly important role in the delivery of telephone service in Pennsylvania and the Commission is actively involved in these issues. The Commission is currently involved in filing comments with the FCC regarding three important issues that will directly impact Pennsylvania consumers: Intercarrier Compensation, universal service and Forbearance.

"Intercarrier Compensation" is the term used for the payments that telephone companies and their competitors pay each other to use each other's networks. AT&T had proposed a major reform of intercarrier compensation in the Missoula Plan, which would have imposed significant costs on Pennsylvania companies and consumers, particularly in Verizon's territory. The Commission has actively opposed that plan on the federal level. To date, the FCC has not yet acted on it.

The Commission also is actively involved in a proceeding in which the FCC must come up with legal justification for intercarrier compensation by November of the next fiscal year or the federal court will overturn previous FCC intercarrier compensation rates. The Commission also participates with other states' collective consideration of these issues by the National Association of Regulatory Utility Commissioners (NARUC).



“Universal service” is the term used for federal support for reasonable rates in high-cost areas, typically rural areas. Pennsylvania has one of the nation’s largest rural populations. Some rural companies get more federal universal service than they pay, although Verizon receives less federal universal service funds than it pays. Pennsylvania is a net contributor state to the federal universal service fund at a level of \$125 to \$135 million annually. One proposed reform by the FCC will pay incumbent companies for lost revenues from “access rate” reductions, which are the rates that carriers make to each other to provide long-distance calling.

“Forbearance” is the term used for the authority the FCC has to “waive” or “set aside” state or federal laws and regulations that govern how competitors can interconnect to the telephone companies’ networks. Verizon had sought forbearance from the requirements in the Philadelphia and Pittsburgh markets. The Commission actively opposed this request. The FCC denied the request and Verizon is appealing. The Commission is a party in the appeal in support of the FCC decision. The Commission is also opposed to a request by Embarq PA, a rural Pennsylvania carrier, which would forbear the FCC from making the company file financial, customer and other reporting requirements it must file with the FCC. To date, the FCC has not yet acted on this request.

### *Voice over Internet Protocol and 911 Legislation*

The General Assembly recently adopted Senate Bill 1000, which offered direction regarding jurisdiction of Internet Protocol (IP) enabled services, including Voice over Internet Protocol (VoIP). Also, to date, legislation is pending in Congress that would advance deployment of an IP-enabled 911 service by allowing all service

providers to interconnect with the nation’s telephone system to provide 911 service.

### *PA Telecommunications Relay Service, the Telecommunications Devices for the Deaf Program and Newsline*

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

The TRS, TDDP and Print Media Access System Program (Newsline) continue to be funded from the TRS monthly surcharge on wireline access lines. The goal is to provide functionally equivalent access to telecommunications and print media. AT&T has provided traditional TRS in the state since 1990. Technological advances since then have established Captioned Telephone Relay Service (CTRS) as an alternative to traditional TRS for individuals with some degree of hearing in the speaking segment of the deaf and hard-of-hearing community.

The TDDP, instituted in 1996, provides free telecommunications devices for members of the community who meet eligibility requirements relating to disability, income level, age and residence. Newsline, instituted in 2005, is an on-demand, newspaper reading service for the blind and others who cannot physically read a newspaper, accessible via toll-free telephone lines. The Commission has completed the 18th



annual recalculation of the TRS surcharge as it applies to residence and business wireline access lines for the Fiscal Year 2008-09 (see also Consumers).

### *Verizon's Performance Issues*

The PA Carrier Working Group (CWG) – comprised of Commission staff, Verizon PA, competitive local exchange carriers (CLECs), the Office of Consumer Advocate, the Office of Small Business Advocate, and other interested parties – focuses on the quality of the wholesale service (e.g., interconnection) that Verizon renders to the CLECs. The PA CWG also works with similar CWG groups throughout the Verizon footprint to resolve issues in a manner consistent with Verizon and the CLECs' multi-state operations. Work is ongoing in the PA CWG on PA-specific operations and problems, as well as incorporating footprint changes into the way service is measured in PA.

The service is evaluated using metrics that measure Verizon's wholesale service against Verizon's retail service or against benchmarks if there is no comparable retail service, as detailed in the PA Carrier-to-Carrier (C2C) Guidelines. Self-executing remedies, as detailed in the PA Performance Assurance Plan (PAP), are generated if it appears that the wholesale service was deficient. While the PA Guidelines and PA PAP are typically updated quarterly, the current designation of PMO III reflects the third major revision since inception in 1999.

### *CLEC Entry into Pennsylvania Markets*

The Commission has continued its regulatory oversight of competitive entry into various telecommunications services markets in the Commonwealth. In June 2008, the Commission

authorized Intrado Communications Inc. (Intrado) to operate as a competitive local exchange carrier (CLEC). Intrado will engage in the processing of emergency communications to government and quasi-government public safety answering points (PSAPs). The Commission also has continued to authorize CLECs to enter rural Pennsylvania markets for the wholesale provision of interconnection services between the conventional public based services to their respective end-users over fixed facilities. Such authorizations have included Level 3 Communications, LLC and Comcast Business Communications LLC.

### *OP-12*

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

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



## Water/Wastewater

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

The Commission regulates the rates and service of about 193 water and wastewater companies, including a number of municipal water and wastewater systems. In Fiscal Year 2007-08, the Commission acted on 12 water and wastewater rate increase requests, approximately the same amount of requests from the previous fiscal year. The Commission also processed 33 applications for Certificates of Public Convenience, including requests for additional territory, abandonments, formation of new companies, mergers and acquisitions.

The Commission continued its efforts to enhance emergency communications and related actions for water utilities during service interruptions. The Commission also issued investigative reports related to the high number of water main breaks in the Pittsburgh area. As part of a standing policy on water and wastewater system acquisition incentives, the Commission promoted water system viability, supporting the Commission's regionalization efforts, which in recent years has allowed ratepayers of smaller, troubled systems to experience improved service after being acquired by a larger more viable water system.

### *PAWC Outages in the Pittsburgh Area*

During Fiscal Year 2007-08, the Commission released a report related to outages that affected 1,000 Pennsylvania American Water Company (PAWC) customers in the Pittsburgh area, including two schools, in December 2006. Similar outages arose in November 2006 when 2,000 PAWC customers in portions of Lackawanna County lost their water service.

As a result of those events, the Commission initiated an investigation in December 2006, to examine the utility's compliance with the Public Utility Code and the Commission's regulations regarding safe and reliable water service in the Commonwealth. The Commission did so because of its fundamental duty to ensure that public utilities provide safe, adequate and continuous service to their customers without unreasonable interruptions or delay, in accordance with regulations and orders.

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



the public received adequate notice and were kept informed in a timely manner; emergency response officials received notice and were kept informed in a timely manner; and adequate supplies of drinking water were provided and/or available at convenient locations.

The Commission's Law Bureau, along with the bureaus of Fixed Utility Services and Audits prepared a report relating to the Pittsburgh outages that contained 15 directives for PAWC to implement. After releasing the report for public comment, the Commission's Final Order on the Pittsburgh outages was entered on July 26, 2007. A second report relating to the extended outages in Lackawanna County and other portions of PAWC's service territory will be acted on in Fiscal Year 2008-09.

## *Water Consumer Education*

Promoting the importance of sustainable water infrastructure, the PUC commemorated National Drinking Water Week in May by breaking ground for one of many improvement projects statewide to enhance service and provide reliability for water customers.

The PUC hosted the groundbreaking event at the site of a United Water Co. main replacement project, funded by a Distribution System Improvement Charge (DSIC). The DSIC is designed to provide ratepayers with improved water quality; greater rate stability; increased water pressure; fewer main breaks; fewer service interruptions; and lower levels of unaccounted for water. The DSIC allows water companies to use a surcharge to fund more upgrades of aging infrastructure than would otherwise be feasible at a reasonable rate for customers.

Promoting the importance of "sustainable water infrastructure," the PUC commemorated National Drinking Water Week by breaking ground for one of many improvement projects statewide to enhance service and provide reliability for water customers.





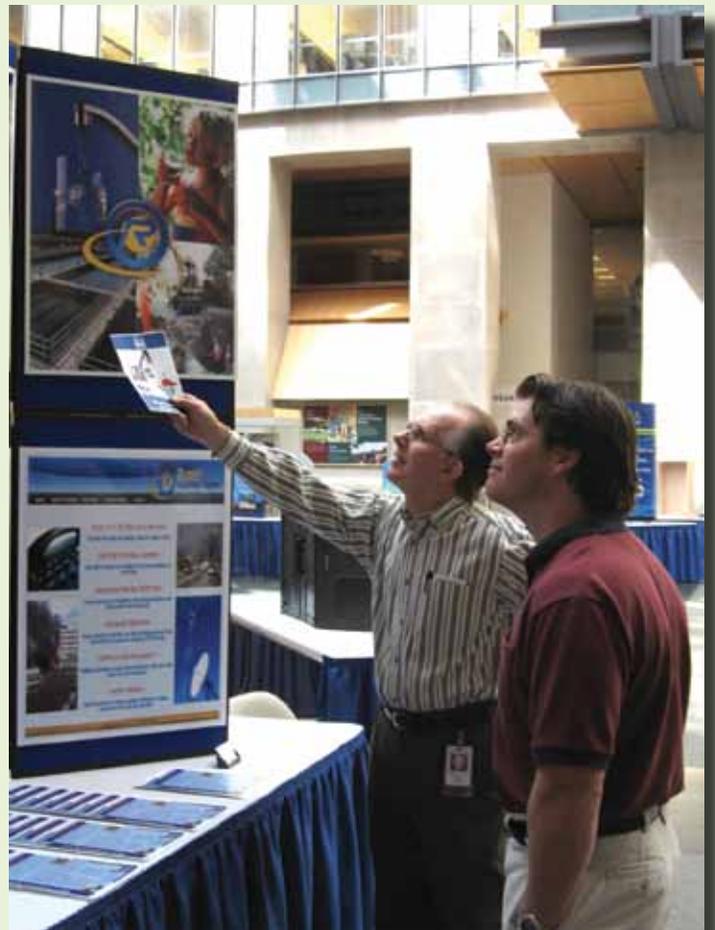
A representative from PA American Water Co. demonstrates their water filtration system during Water Week.

Implemented in 1997, DSIC is an automatic adjustment charge that enables companies to recover certain infrastructure improvement costs between base rate cases through a quarterly surcharge on customers' bills. The cost is small when compared to the noticeable benefits, with approximate average monthly costs to ratepayers ranging from a few cents a month to \$2.75. Today, because of DSIC, projected timeframes for upgrades of entire distribution systems range from 117 years to 160 years which more closely match that of actual service lives.

Water companies use the DSIC to provide accelerated infrastructure remediation. On July 11, 2007, the Commission approved a PAWC request to increase its DSIC from 5 percent of billed revenues to 7.5 percent. In its approval, the PUC called the DSIC a valuable regulatory tool. When the cap is reached, the maximum increase for an average PAWC residential customer would be about \$1, increasing the surcharge from \$1.75 to \$2.75 a month.

The Commission also used the event to reach out to the community to highlight the state's aging critical infrastructure and the repairs needed to keep it sustainable and reliable for all members of the community.

To further illustrate the importance of water and ways to conserve this resource, the public was welcome to tour exhibits from water companies, state agencies and organizations in the Atrium of the Commonwealth Keystone Building in Harrisburg.



Scott Sebastian, front, and Rick Bowie check out the PUC's National Drinking Water Week exhibits. Everyone – school groups, scouts, state employees and the general public – were welcome to tour the exhibits while learning about reliable water service and how it's regulated.



## Rate Increase Requests

During the fiscal year, the Commission took the following actions related to about \$37.4 million in rate increase requests:

### Birch Acres Water Works Inc.

*Customers Served:* 25 in Smithfield Township, Monroe County.

*Requested Rate Increase:* \$6,230 (37 percent)

*Approved Rate Increase:* \$6,230 (37 percent)

*Primary Reasons:* To recover its ongoing expense costs and to receive a return on its investment.

### Borough of Ambler – Water Dept. Division

*Customers Served:* 3,817 in Upper Dublin, Whitmarsh, Whitpain and Lower Gwynedd townships, Montgomery County.

*Requested Rate Increase:* \$454,798 (36 percent)

*Approved Rate Increase:* \$339,146 (33 percent)

*Primary Reasons:* To restore the rate of return and net operating income to a more reasonable level and to receive a return on its investment.

### City of Bethlehem (water)

*Customers Served:* 12,896 outside the city limits in portions of Lehigh and Northampton counties.

*Requested Rate Increase:* \$827,455 (11.8 percent)

*Approved Rate Increase:* \$240,000 (3.6 percent)

*Primary Reasons:* To restore the rate of return and provide sufficient revenue to furnish safe, adequate and reliable service.

### Keystone Utilities Group Inc. (wastewater)

*Customers Served:* 26 in Greenwood Township, Crawford County.

*Requested Rate Increase:* \$48,816 (42.4 percent)

*Approved Rate Increase:* \$29,181 (25.3 percent)

*Primary Reasons:* To restore rates to meet operating expenses and debt obligations, and to fund plant and system upgrades.

### Little Washington Wastewater Co. – Rivercrest Division

*Customers Served:* 212 in Tunkhannock Township, Wyoming County.

*Requested Rate Increase:* \$63,573 (94.3 percent)

*Approved Rate Increase:* \$54,500 (80.9 percent)

*Primary Reasons:* To better meet the needs of customers and jurisdictional requirements, and to recover investment costs.

### Little Washington Wastewater Co. – Twin Hills Division

*Customers Served:* 341 in West Pikeland Township, Chester County.

*Requested Rate Increase:* \$67,749 (37.9 percent)

*Approved Rate Increase:* \$51,500 (29 percent)

*Primary Reasons:* To better meet the needs of customers and jurisdictional requirements, and to recover investment costs.

### Pennsylvania American Water Co. (water)

*Customers Served:* 630,185 in 373 communities across the Commonwealth.

*Requested Rate Increase:* \$59,236,366 (14.7 percent)

*Approved Rate Increase:* \$36 million (9 percent)

*Primary Reasons:* To realize a reasonable rate of return, to invest in new plants, and to provide the revenue to preserve public health and safety.

### Sand Springs Water Co. Inc.

*Customers Served:* 252 in Butler Township, Luzerne County.

*Requested Rate Increase:* \$30,086 (32.5 percent)

*Approved Rate Increase:* \$30,086 (32.5 percent)

*Primary Reasons:* To recover operating expenses and increases due to inflation.



**Total Environmental Solutions Inc. – Beech Mountain Lakes Sewer Division**

*Customers Served:* 878 in Foster, Butler and Dennison townships, Luzerne County.  
*Requested Rate Increase:* \$56,580 (13 percent)  
*Approved Rate Increase:* \$56,580 (13 percent)  
*Primary Reasons:* To recover the increased charge for treatment services.

**United Water Bethel Inc.**

*Customers Served:* 2,207 in Bethel and Concord townships.  
*Requested Rate Increase:* \$79,445 (6.3 percent)  
*Approved Rate Increase:* \$60,000 (4.8 percent)  
*Primary Reasons:* To provide recovery of increased operations and infrastructure improvement costs.

**Village Water Co. Inc.**

*Customers Served:* 215 in Fairview Township, Lycoming County.  
*Requested Rate Increase:* \$42,575 (61 percent)  
*Approved Rate Increase:* \$30,000 (43 percent)  
*Primary Reasons:* To cover operating expenses and enable payments on long- and short-term debt.

**Wonderview Sanitary Facilities**

*Customers Served:* 149 in Catawissa and Main townships, Columbia County.  
*Requested Rate Increase:* \$18,557 (29.1 percent)  
*Approved Rate Increase:* \$11,550 (18.1 percent)  
*Primary Reasons:* To recover ongoing expense costs and to receive a return on investment.

**Audubon Water Co.**

*Customers Served:* 3,015 in Montgomery County.  
*Requested Rate Increase:* \$477,975 (28.7 percent)  
*Approved Rate Increase:* \$350,000 (21 percent)  
*Primary Reasons:* To recover operating expenses related to preventative maintenance.

At the end of Fiscal Year 2007-08, 13 rate increase requests still pending before the Commission included: Aqua Pennsylvania (\$41.7 million); Blue Knob Water Co. (\$114,374); Can Do Inc. - Sewer (\$362,010); Clarendon Water Co. (\$21,759); Manwalamink Sewer Co. (\$124,600); Manwalamink Water Co. (\$78,100); Pennsylvania American Water Co. – City of Coatesville Division – Wastewater (\$2.7 million); Superior Water Co. (\$599,771); The York Water Co. (\$7,086,005); Total Environmental Solutions Inc. – Treasure Lake Wastewater Division (\$286,615); Total Environmental Solutions Inc. – Treasure Lake Water Division (\$272,121); Warwick Drainage Co. Inc. (\$21,858); and Warwick Water Works Inc. (\$22,227).

*Hearing Requests Granted in PAWC Chloramine Case*

In September 2007, several complaints were filed against Pennsylvania American Water Company (PAWC) by customers in response to the company’s announcement that it intended to convert the West Shore Regional Water Treatment Plant and the Silver Spring Water Treatment Plant from chlorinated water to chloraminated water.





The Pennsylvania Department of Environmental Protection (DEP) had issued permits to PAWC that approved the plan.

PAWC filed preliminary objections asking that each complaint be dismissed by the Commission for lack of subject matter jurisdiction. An initial decision granting PAWC's preliminary objections and dismissing the complaints for lack of jurisdiction was issued Oct. 5, 2007. Exceptions were filed by 23 complainants, and the state's Office of Consumer Advocate, followed by reply exceptions by PAWC.

On March 13, 2008, the Commission voted to grant the request of the PAWC customers to hold hearings on the health and safety impacts of PAWC's decision to treat its water in Cumberland and York counties using chloramines. Hearings will be held during the second quarter of Fiscal Year 2008-09.

## *Mergers & Acquisitions*

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

The following proceedings were recently before the Commission in the water industry:

### [PA American Water Co. \(PAWC\)](#)

On July 25, 2007, the Commission approved a settlement agreement that established new corporate control through a public offering of the

stock of American Water Works Company Inc., PAWC's parent company.

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

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

### [United Water Co.](#)

On July 17, 2008, the Commission approved a settlement in a proceeding where United Water Pennsylvania Inc. sought to merge Suez – the ultimate parent company of United Water – with Gaz de France.

The terms of the settlement agreement include: a stay-out provision relating to base-rate increase filings, service quality commitments, pension and post-retirement benefit protection for employees, cost of capital, capital structure and other financial condition protections, and the maintenance of the company's current level of community support and low-income assistance programs.

The settlement also insures that ratepayers will not be adversely affected by the merger.



United Water provides water service to approximately 60,000 people in nine counties in Pennsylvania. The newly created GDF Suez will be Europe's largest purchaser of natural gas and fifth largest electricity producer.

Suez Environment will become Europe's second biggest water company. The French Government holds approximately 35.6 percent of the shares of GDF Suez.



## *Policy Statement on Acquisition Incentives*

The PUC continues to implement a long-standing policy on water and wastewater system acquisition incentives which enhances the Commission's goals to promote water system viability and regionalization.

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

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

## *Management Audits and Efficiency Investigations*

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



(MEIs) of the larger jurisdictional water companies. Among the MAs and MEIs completed within the 2007-08 fiscal year were:

#### [Newtown Artesian Water Co.](#)

The MEI was a review and evaluation of the company's efforts to implement 13 of the recommendations from the Bureau's August 2004 focused management and operations report. It was found that the company was realizing average annual savings of \$86,000 and had realized a one-time savings of \$67,000 by effectively achieving the past management audit recommendations to reduce the number of its vehicles and contain the costs of its board of directors.

The MEI also resulted in 10 additional recommendations for improvement, including efforts to: improve its emergency preparedness planning; implement the vulnerability assessment recommendations; establish a formal competitive bid/quote policy for purchases of goods and services; and continue implementation of diversity initiatives.

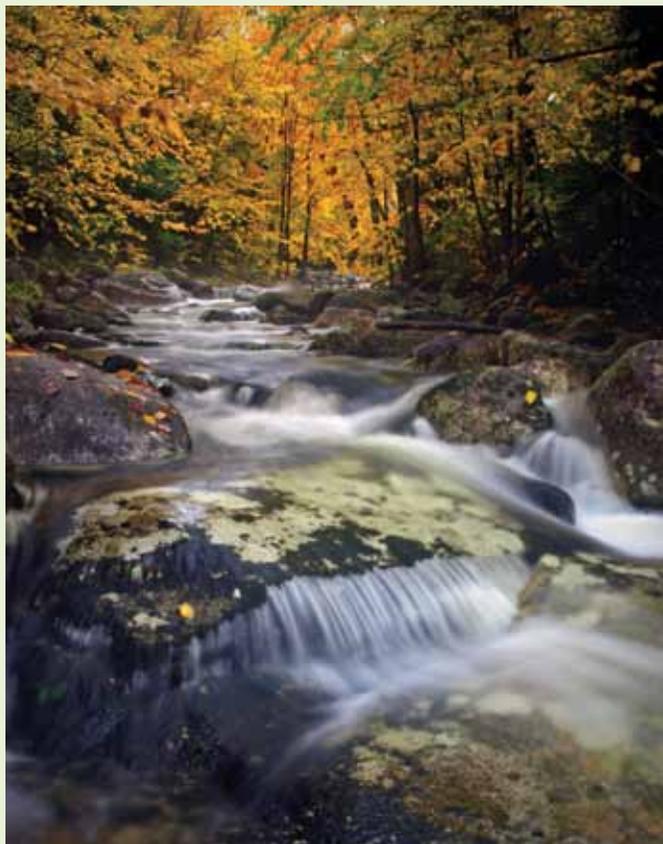
#### [United Water-Pennsylvania](#)

The MEI was a review and evaluation of the company's efforts to implement 12 recommendations from the Bureau's April 2004 focused management and operations report. Auditors concluded the company had effectively implemented past recommendations by: completing a vulnerability assessment and updating its emergency response plans; implementing an automated customer complaint tracking system and actively monitoring the productivity and quality of service provided by its customer service representatives; conducting a study to measure the cost-effectiveness of the services provided by its service organization affiliate; and achieving female and minority

employment at, or above, labor market availability.

The MEI also resulted in 10 additional recommendations for improvement that, if fully implemented, could result in additional annual and one-time savings of approximately \$46,000 to \$230,000 and \$189,000 to \$213,000, respectively, by: reducing its statewide lost water to no more than 20 percent and reducing its materials and supply inventory. Additional non-quantifiable recommendations included suggestions to accelerate its main replacement program to achieve main replacement rates of 100 to 120 years; ensure that its emergency preparedness plans and procedures are complete, up-to-date, and site specific; update the inter-company allocation data annually; file annual diversity reports to the Commission; and implement procedures to keep its vendor list updated with minority-, women- and persons-with-disabilities-owned business vendors, and tracking the purchases from these vendors.





## *Statewide Water Resources*

The PUC participates on the Statewide Water Resources Committee charged with carrying out Act 220 of 2002. This law requires the development of a statewide plan to manage the Commonwealth's water resources more effectively. Act 220 calls for the 25-year-old state Water Plan to be updated within five years, with regular updates every five years thereafter. The updated plan is to address the quantity of water available in the Commonwealth, the amount used, and the amount needed.

## *Auditing Emergency Response Planning*

The Commission requires that companies certify that their physical and cybersecurity, emergency response and business continuity plans are current. During Fiscal Year 2005-06, the PUC found deficiencies in several of the plans that the companies previously had certified such that they need be corrected to bring the plans in accordance with Commission requirements.

In some cases, the plans were outdated, and phone numbers for Commission contacts were obsolete. To correct the deficiencies, in 2007, the PUC 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. To date, four of the larger water utilities' emergency response plans have been audited during the course of routine management audits and management efficiency investigations.

## *Water System Viability*

Pennsylvania has more than 2,200 community drinking water systems, many of which are small water systems serving less than 3,300 consumers. The PUC regulates the rates and service of 193 of those water companies. Many were built decades ago, and a number now face operational, technical and financial challenges that could affect customer service.

Many small water systems have varying degrees of operational constraints that impact their viability. Operational constraints inherent to small systems typically include: compliance problems; limited technical and managerial expertise; lack of capital for improvements, with a limited ability to borrow at reasonable



rates; deferred maintenance; deteriorated and undersized infrastructure; and minimal sources of supply or storage.

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

## *Regionalization*

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

The benefits of regionalization include increased economies of scale and service efficiencies, improved operations, management and technology. Approaches to regionalization can include mergers, acquisitions, physical interconnections, satellite management agreements and cooperative purchasing/operational pools. Regionalization is not limited to large jurisdictional companies buying or taking over smaller companies. In some cases, nearby non-jurisdictional water companies such as municipalities or authorities also have participated in regionalization efforts.





## *Transportation & Safety*

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

During Fiscal Year 2007-08, the Bureau of Transportation and Safety's Motor Carrier Division participated in several public outreach initiatives by speaking to groups about paratransit services across the state. The division, as part of its enhanced oversight of the motorcoach industry, performed 681 post-accident motorcoach inspections and dozens of compliance reviews. During the year, the division conducted about 12,913 enforcement activities.

The Rail Safety Division completed focused safety efforts across the Commonwealth, including safety inspections and investigations of railroad facilities, equipment and records. The division – a participant in the national Operation Lifesaver

rail education program – also conducted more than 24,315 inspections of locomotives, rail cars, tracks and rail operations, as well as 5,740 miles of track.

### *Motor Carrier Services and Enforcement Division*

#### **PARATRANSIT OUTREACH PROGRAM**

The Motor Carrier Services and Enforcement Division conducted several public outreach presentations to educate persons providing paratransit services, which includes the transportation of passengers whose personal convictions prevent them from owning or operating an automobile. The outreach efforts were initiated following the receipt of several complaints from certificated paratransit carriers alleging that many uncertificated drivers were providing for-hire transportation in their service areas.

Presentations were held in the Pittsburgh, Altoona and Harrisburg District areas. As a result of the Paratransit Outreach Program, the Bureau of Transportation and Safety saw an increase in new paratransit carrier applications during 2007-08.





## BUS INSPECTION PROJECTS

The Bureau of Transportation and Safety is responsible for conducting safety inspections on vehicles used for passenger transportation service. The Motor Carrier Services and Enforcement Division completed several regular bus inspection projects during the 2007-08 fiscal year.

During inspection efforts at the Camelback Ski Resort in January and February 2008, enforcement officers inspected 48 buses and discovered a total of 43 safety violations, resulting in one bus being put out-of-service; one driver being put out of service; three vehicle safety traffic citations; and one citation for a driver violation. During a similar inspection in the Philadelphia area in March 2008, enforcement officers inspected 43 buses, placing two of them out of service.

## BUS INSPECTION STRIKEFORCE

Since the early 1990s, the Commission's Motor Carrier Services and Enforcement Division has been carrying out a structured bus safety program, including vehicle inspections, safety fitness reviews for new carriers, and audits of carriers with a compliance history of safety problems.

In November 2007, as part of its participation in the Federal Motor Carrier Safety Assistance Program (MCSAP), the division joined agents from the Federal Motor Carrier Safety Administration (FMCSA) and various Pennsylvania police agencies to complete the first Bus Inspection Strikeforce. The Strikeforce inspected 197 buses, resulting in 128 violations that included 13 buses and one driver being placed out of service.

## UNIFIED CARRIER REGISTRATION (UCR)

Due to industry complaints about the cost of the Single State Registration System (SSRS), on Aug. 10, 2005, Congress enacted the Unified Carrier Registration (UCR) Act, which became effective Jan. 1, 2007. The UCR Act was part of a broad authorization transportation bill and was meant to replace the existing system. Pennsylvania was not a participating state.

Provisions of the UCR Act require motor carriers (including for-hire, private and exempt motor carriers), leasing companies, freight forwarders and brokers that operate in interstate commerce to register with the SSRS program. The required businesses pay a fee based upon the type of business operated, and, for carriers, the number of vehicles operated. The UCR does not apply to businesses that have no federal authority and whose operations are wholly intrastate.

Included in the Act is an "unreasonable burden" provision that lists various state and state political subdivision actions that Congress deemed "unreasonable burdens" on interstate commerce. This language essentially preempts state and state political subdivisions from imposing a fee upon an interstate motor carrier for the registration of the carrier's interstate authority, insurance or renewal of the carrier's intrastate authority. These provisions do not apply to motor carriers transporting household goods in use within a state.

The Commission requested reimbursement from the UCR Board for \$4.95 million. This is the amount staff calculated to be lost in assessments of interstate carriers due to the implementation of the UCR Act. This figure was based on assessment fees the Commission collected from



interstate/UCR motor carriers in Calendar Year 2004, as required by the UCR Act.

### POST-ACCIDENT INSPECTIONS OF BUSES & COMPLIANCE REVIEWS

As part of its participation in the MCSAP, Pennsylvania has been asked to enhance its oversight of the motorcoach industry, following a number of significant crashes that resulted in injuries and fatalities across the state.

The FMCSA Analysis and Information (A&I) Web site indicates an increase in both injury and fatal crashes for calendar years 2006 and 2007. A&I systems data revealed 12 fatal crashes and 750 injury crashes in Pennsylvania during 2007. It was determined that six of the fatal crashes and 148 of the injury crashes involved Pennsylvania-domiciled regulated carriers. The remainder involved school bus operations, non-Pennsylvania-based regulated carriers and municipal transit authorities, over which the PUC has no jurisdiction.

As part of an agreement with the Pennsylvania State Police, the Commission's enforcement officers perform post-crash inspections of motorcoach vehicles involving fatalities and, in some instances, injuries. The enforcement officers use specially equipped trailers that contain ramps and other equipment to examine buses involved in crashes.

In 2007, enforcement officers conducted 417 motorcoach inspections at carrier terminal facilities, resulting in 27 vehicles being placed out of service. In addition, enforcement officers conducted 264 motorcoach inspections at 36 remote destination sites that resulted in 35 motorcoaches and 18 drivers being placed out of service.

In addition to inspection activity, trained enforcement officers conduct compliance reviews on Pennsylvania-domiciled motorcoach carriers. A compliance review is an extensive on-site audit of a motor carrier's operations, including equipment and records, to determine a motor carrier's safety fitness. In 2007, 26 compliance reviews were conducted, resulting in PUC prosecution against 20 certificated carriers.

### PERSONAL PROTECTION EQUIPMENT

As a preventative measure, oleoresin capsicum (OC) spray was purchased and provided to members of the Motor Carrier Division Enforcement Staff. Having OC spray provides an opportunity for enforcement officers to temporarily incapacitate an attacker which would allow them to retreat to safety and request assistance from police. Each district office has an enforcement officer or supervisor who has completed a certified training course in order to efficiently provide OC training to respective staff. The Bureau of Transportation and Safety has established rigid policies and procedures to



William Kilrain and Al Zinzenco are two of the PUC's Bureau of Transportation and Safety, Motor Carrier Division, enforcement officers charged with ensuring the safety of motor carriers in the state, including those who transport property, passengers and household goods.



provide guidance to the enforcement staff for both carrying and deploying OC spray.

### REGULATED MOTOR CARRIERS

- 5,570 property
- 595 taxis
- 430 limousines
- 422 paratransit
- 71 airport transfer
- 410 group and party
- 55 scheduled route
- 302 household goods movers

### ELECTRONIC FILING OF INSURANCE FORMS

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

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

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

### 2007-08 ENFORCEMENT ACTIVITIES

- 11,539 truck, bus, small passenger vehicle inspections
- 373 informal complaint investigations
- 1,001 safety fitness reviews





## *Rail Safety Division*

### **FOCUSED INSPECTIONS**

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

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

During the past year, the PUC has participated in focused inspections involving the disciplines of operating practices and track. Since most rail accidents and incidents are caused by human error, the operating practices focused inspection attempts to identify deficiencies and violations attributable to human factors, such as hours of service, dispatch operations and switching operations. Another leading cause of rail accidents is track defects. Track-focused inspections concentrate on those lines with a history of defects and derailments.

### **EVALUATION OF HIGHWAY RAIL GRADE CROSSINGS**

Upon notification of an incident at a highway-rail crossing, the Rail Safety Division follows specific procedures for evaluating the safety of the involved crossing. Generally, the division chief evaluates the facts of the incident to determine if further investigation is necessary.

If further investigation is needed, a division staff member will conduct a site visit in order to





evaluate the following: the crossing's geometrics; its compliance with both the requirements of the Public Utility Code and the Manual of Uniform Traffic Control Devices; and whether any malfunction of crossing warning devices has occurred. The division assesses all of the information and determines a recommended course of action.

### OPERATION LIFESAVER

Operation Lifesaver is a non-profit, national public education program dedicated to eliminating collisions, deaths and injuries at rail-highway crossings and on railroad rights-of-way. Operation LifeSaver strives to increase public awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

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

### 2007-08 INSPECTIONS

- 23,361 railroad car
- 452 locomotive
- 5,470 miles of railroad track
- 502 operating practice



**OPERATION  
LIFESAVER<sup>®</sup>**  

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**Pennsylvania**

# Telephone Directory

## CHAIRMAN

Cawley, James H. ----- (717) 783-1197

## VICE CHAIRMAN

Christy, Tyrone J. ----- 783-1763

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## COMMISSIONER

Pizzingrilli, Kim ----- 772-0692

## COMMISSIONER

Gardner, Wayne E. ----- 787-1031

## DIRECTOR OF OPERATIONS

Moury, Karen (Director) ----- 772-8883

## OFFICE OF COMMUNICATIONS

Charles, Tom (Manager of Communications) ----- 787-9504

Kocher, Jennifer (Press Secretary) ----- 787-5722

## OFFICE OF HUMAN RESOURCES

Hoffman, Kevin (Director of Human Resources) ----- 787-8714

## OFFICE OF ADMINISTRATIVE LAW JUDGE

Smith, Veronica A. (Director & Chief ALJ) ----- 787-1191

## BUREAU OF ADMINISTRATIVE SERVICES

Gramola, Robert C. (Director) ----- 783-5375

## BUREAU OF AUDITS

Lesney, M. Carl (Director) ----- 783-5000

## BUREAU OF CONSERVATION, ECONOMICS & ENERGY PLANNING

Williams, Wayne (Director) ----- 787-2139

## BUREAU OF CONSUMER SERVICES

Miller, Mitchell A. (Director) ----- 783-1661

## BUREAU OF FIXED UTILITY SERVICES

Wilson, Robert (Director) ----- 783-5242

## LAW BUREAU

Pankiw, Bohdan R. (Director & Chief Counsel) ----- 787-5000

## LEGISLATIVE AFFAIRS

Perry, June (Director) ----- 787-3256

## SECRETARY'S BUREAU

McNulty, James J. (Secretary) ----- 772-7777

## OFFICE OF SPECIAL ASSISTANTS

Davis, Cheryl Walker (Director) ----- 787-1827

## BUREAU OF TRANSPORTATION

Hoffman, Michael (Director) ----- 783-3846

## OFFICE OF TRIAL STAFF

Simms, Johnnie (Director) ----- 787-4886





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