

Keystone Competition

Competition News
in Pennsylvania

A newsletter published by the Pennsylvania Public Utility Commission
regarding competition in the telecommunications and energy markets.

Winter 2005

New Chapter 30 Legislation Takes Effect

House Bill 30 was signed into law on Nov. 30, 2004 as Act 183, and took effect on Dec. 1. Act 183 enacts an amended version of the original Chapter 30 which authorized the Commission to permit a reduced, alternative form of regulation for incumbent local exchange carriers (ILECs) who promised broadband (BB) deployment by 2015. All Pennsylvania ILECs have network modernization plans (NMPs) in place that will provide universal BB availability at a minimum bandwidth of 1.54 Mbps (megabits per second) - in at least one direction, reasonably deployed among urban, suburban and rural areas by 2015 or before.

The new legislation seeks to encourage earlier completion of these existing NMPs by providing the ILECs with more economic incentives and lesser Public Utility Commission (PUC) regulation. The key provisions are as follows:

- Continuity of existing PUC-approved alternative regulation (in the form of price cap regulation) and NMPs to provide BB to all customers by 2015;
- Options to encourage rural and nonrural ILECs to complete their NMPs earlier than 2015 by offering reduction or elimination of the productivity offset;
- Establishment of a Bona Fide Request (BFR) program by which customers may request deployment of advanced services (200 Kbps - kilobits per second);
- Establishment of a Broadband Outreach and Aggregation Fund (BB Fund), an Education Technology Fund (E-Fund), and discount BB services to schools;
- New limits on Commission-mandated general filing requirements;
- Streamlined procedures for declaration of competitive services;
- PUC authority to establish and maintain quality of service standards;
- Establishment of automatic notification of Lifeline eligibility and elimination of restrictions on vertical services; and
- No sunset provision in Act 183.

Chapter 30 Legislation Continued on Page 7.

PUC Proposes Default Service Regulations

On Dec. 16, the Commission issued proposed default service regulations for public review and comment. These regulations will govern an electric distribution company's obligation to serve retail customers not receiving generation service from an alternative generation supplier. This duty is commonly referred to as the provider of last resort obligation (POLR). The PUC was required to promulgate these regulations under the provisions of the Electricity Generation Choice and Competition Act by the conclusion of the restructuring transition period. The Act provides that generation supply for default service is to be acquired at prevailing market prices, and that an electric distribution company may fully recover its reasonable costs for providing this service.

Default Service Regulations Continued on Page 3.

Competition in Pennsylvania

Welcome to the sixth issue of Keystone Competition, a quarterly publication of the Pennsylvania Public Utility Commission (PUC) that gives a "snapshot" view of the energy and telecommunications competitive markets and the major issues that affect each industry.

In addition to showing aggregated basic market data, this publication summarizes key Commission decisions affecting competition and discusses legislative activities at the federal and state levels. Additionally, it highlights notable developments at federal agencies, as well as state and federal courts.

The PUC ensures safe, reliable and reasonably priced electric, natural gas, water, telephone and transportation service for Pennsylvania consumers, by regulating public utilities and by serving as responsible stewards of competition. Industry monitoring is a crucial part of this mission.

ON THE INSIDE

2-5	Electric
6-9	Telecommunications
10-11	Natural Gas
12-14	Federal News
15	Utility News

PPL's Distribution Rate Case

On Dec. 2, 2004, the Commission voted four to zero on a motion to allow PPL to raise its rates for the first time since 1995. PPL had been operating under a transmission and distribution rate cap since 1997, which barred the utility from raising its rates until Dec. 31, 2004.

On March 29, 2004, PPL filed a supplement to their tariff seeking the PUC's approval to increase its retail distribution base rate revenues by \$164.4 million. Additionally, PPL sought to pass on approximately \$57.2 million in PJM related transmission charges.

The Commission granted a distribution rate hike of \$137.1 million, as well as the requested \$57.2 million in transmission charges, a combined increase of 7.18 percent. The PUC set the company's return on equity at 10.7 percent. Included in the increase is a 23 percent increase in funding for PPL's low-income assistance programs. For example, the PUC approved PPL's plan to increase enrollment in its customer assistance program, OnTrack, from 15,000 to 17,000 customers.

Beginning Jan. 1, 2005, residential heating customers using 1,470 kWh (Kilowatt-hour) of electricity saw their bills rise approximately \$9.03, from \$118.21 to \$127.24. Residential non-heating customers saw their bills increase by about \$5.11, from \$63.41 to \$68.52. The Jan. 1 price increase affects only distribution and transmission rates. Generation rates for PPL's customers who do not shop for an alternate supplier are set through 2009.

Three parties involved in the rate case have filed petitions for reconsideration which will be considered by the Commission. However, the filing of the petitions did not delay the Jan. 1 implementation of the rate increase. The Commission's Office of Trial Staff took issue with the PUC's treatment of PPL's pension expenses, and the PPL Industrial Customer Alliance contends that the PUC's decision requires industrial customers to subsidize the rates of retail customers. Finally, Penn Future objects to the PUC's determination regarding PPL's Sustainable Energy Fund.

Also, the Office of Small Business Advocate has filed an appeal in Commonwealth Court.

Duquesne's POLR III Takes Effect

On Jan. 1, 2005, the provisions of Duquesne Light Company's Provider of Last Resort (POLR) III plan went into effect. Under the terms of the plan, approved by the Commission on Aug. 23, 2004, Duquesne will provide electric generation service to all of its retail customers not receiving service from an alternative supplier. It is expected that generation service will be provided to these customers after the expiration of the POLR III plan in a manner consistent with recently proposed default service regulations.

Under the terms of this plan, Duquesne will offer a fixed rate option to its residential and small business customers through Dec. 31, 2007. Generation rates for these customers increased by 11.5 percent on Jan. 1, under the terms of this plan, though overall rates will remain below pre-restructuring levels.

New generation rates for large commercial and industrial customers also went into effect on Jan. 1, 2005. Large customers had the option of receiving generation service at either an hourly rate or a fixed rate option. The hourly rate is based on the price of energy and ancillary services in the PJM Interconnection's control area. The rules and prices for this hourly rate option will remain in effect until the implementation of service plans filed pursuant to default service regulations.

Supply was acquired for those customers receiving fixed rate service at market prices pursuant to a competitive auction held on Oct. 18, 2004. These rates were approved in a secretarial letter issued on Oct. 22, 2004. Rates set pursuant to that auction will expire on May 31, 2006. The Commission has directed Duquesne to hold another competitive auction at a later date in order to acquire supply for fixed price service provided from June 1, 2006 through May 31, 2007. The Commission will continue to closely monitor market conditions and may order further changes to the scope of fixed price service for the period beyond May 31, 2006.

Commissioner Thomas Resigns



Vice Chairman Robert K. Bloom (from left), Chairman Wendell F. Holland and Commissioner Kim Pizzigrilli present Commissioner Glen R. Thomas (second from right) with a gift at his last Public Meeting on Feb. 3. His last day at the PUC was Feb. 18.

Default Service Regulations

Continued from Page 1.

The proposed regulations are to take effect at the conclusion of either an electric distribution company's stranded cost recovery period or upon the expiration of its currently effective POLR service plan. Electric distribution companies must continue to serve as the default service provider unless the PUC authorizes a replacement. Default service providers will be required to file default service implementation plans with the Commission demonstrating how they will comply with the Act and these regulations. The regulations require that these implementation plans include a competitive procurement process for the default service provider's entire customer load. The plans must also identify the means of complying with the Alternative Energy Portfolio Standards Act of 2004, and demonstrate that current or similar universal service programs will continue.

The Commission intends these regulations to reflect the General Assembly's key declarations of policy found in the Act. Primarily, competitive forces are more effective than economic regulation in controlling the cost of electricity, will promote economic development and mitigate disparities in rates across Pennsylvania. The PUC has chosen to require competitive procurement of all default service supply as the means of implementing this policy. Additionally, the Commission also intends these regulations to ensure the safe, reliable provision of default service to retail customers. These proposed regulations reflect this policy finding by requiring an electric distribution company to continue to serve as the default service provider absent a fit replacement, by ensuring that universal service programs are continued, and by requiring the continued compliance with all other regulations pertaining to reliability and consumer protection.

Feedback

We welcome any feedback on Pennsylvania Public Utility Commission's quarterly newsletter, *Keystone Competition*.

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

Electric Distribution Reliability

On Sept. 18, 2004, the amendments to the reliability regulations governing the electric distribution companies (EDCs) became effective. With better monitoring and reporting requirements now in place, the Commission has initiated an Advanced Notice of Proposed Rulemaking to consider whether to establish inspection, maintenance, repair and replacement standards.

The Commission's order seeking comments was adopted on Nov. 18, 2004, at Docket Number L-00040167 and was published in the *Pennsylvania Bulletin* on Dec. 11, 2004. The deadline for comments was Feb. 9, and the reply comment deadline is March 11. Comments are requested on whether it is appropriate for the PUC to adopt specific inspection and maintenance standards. If standards are adopted, the PUC has sought input on what the standards should be and how they should be enforced.

Update on the FirstEnergy Reliability Investigation

At the public meeting of Jan. 16, 2004, the Commission voted to direct the PUC's Law Bureau to participate in a formal investigation examining the level of service reliability provided by Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company, all operating companies of FirstEnergy (Docket No. I-00040102).

On Sept. 30, 2004, after evidentiary hearings concluded, the PUC's Law Bureau, FirstEnergy, the Office of Consumer Advocate, the Pennsylvania Rural Electric Association, Allegheny Electric Cooperative Inc. and the Office of Small Business Advocate submitted a joint petition for settlement to the PUC's administrative law judge. The Commission approved and adopted the settlement at the public meeting of Nov. 4.

The settlement provides for specific commitments on the part of FirstEnergy to improve service reliability, including improvements in inspection and maintenance practices and a \$255 million minimum level of spending for transmission and distribution maintenance over the next three years. The settlement requires FirstEnergy to conduct education efforts for customers and emergency responders and provides for improvements in customer complaint handling. FirstEnergy is also undertaking a line/substation workforce study and has committed to establishing at least one college program in Pennsylvania to train future workers. The settlement includes a process for the Commission and other parties to closely monitor FirstEnergy's progress through a series of reporting requirements and quarterly meetings, as well as an expedited procedure to address any future performance problems.

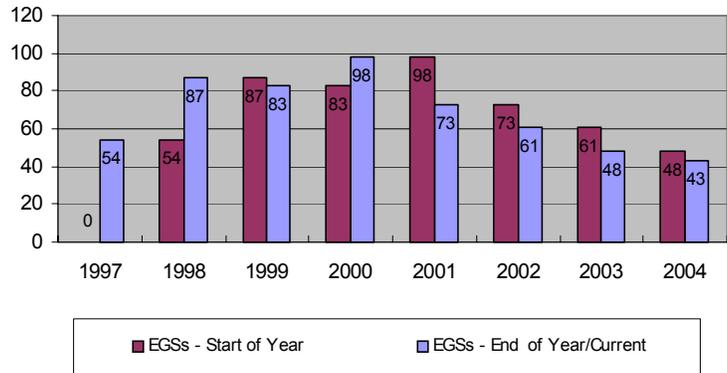
Electric Supplier Licensing

Quarterly activity from to November 1 to December 31, 2004.

43 Active Licenses

- 1 licenses canceled
- 2 licenses approved
- 2 applications pending

Number of Licensed EGSs



Customer Shopping and Load Levels for Electric Competition Programs

The charts reflect information from the total number of shopping residential/commercial/industrial (R/C/I) customers and load in Pennsylvania, Ohio, Texas, New York, New Jersey and Massachusetts. The Pennsylvania data is from January 2005, and includes 1,899 PECO residential customers on market share threshold.

In implementing a provision of the PECO restructuring settlement agreement, the PUC approved an assignment of several hundred thousand residential PECO customers to alternative suppliers in 2003. These customers received discounted electric generation service from several electric generation suppliers for a period of one year ending in December 2004. Dominion Retail returned approximately 180,000 of these residential customers to PECO in December 2004 at the conclusion of the assignment period. However, these customers have been given a "Savings Watch" option with Dominion. If Dominion can offer electric service at a price lower than PECO's for a 12-month period, starting at any time through December 2006, these customers will automatically return to Dominion's service.

Total Number of Shopping R/C/I Customers vs. Total R/C/I Customers Ranked Highest to Lowest by Percent of Total

Table 1	1	2	3
State	Total Participation	Total R/C/I	Percent of Total
Ohio	1,015,348	4,633,665	21.91%
Texas	1,131,120	6,077,785	18.61%
New York	390,186	6,444,276	6.05%
Pennsylvania	246,395	5,443,372	4.53%
Massachusetts	86,167	2,542,519	3.39%
New Jersey	10,190	3,683,581	0.28%

Total Number of Shopping R/C/I Load vs. Total R/C/I Load Ranked Highest to Lowest by Percent of Total

Table 2	1	2	3
State	Participant Load	Total R/C/I Load	Total Percent of R/C/I
Texas	8,685,356 MWh	20,053,866 MWh	43.31%
New York	2,701,755 MWh	8,069,531 MWh	33.48%
Massachusetts	960,383 MWh	3,550,476 MWh	27.05%
Ohio	2,289,485 MWh	11,929,409 MWh	19.19%
New Jersey	3,165.2 MW	20,546 MW	15.41%
Pennsylvania	2,669 MW	26,211 MW	10.18%

Customer Data Information

Some data was not available from UGI. The totals may differ due to rounding of the numbers. The Office of Consumer Advocate (OCA) is the source of the data.

The total number of customers and the total load figures for each EDC in PA are not provided by the OCA. As a result, total R/C/I data in column two was derived by dividing the "Total R/C/I" number of customers serviced by alternative supplier by the total R/C/I percentage of customers served.

The state data was culled from the each PUC website or from PUC staff. The Ohio data is from September 2004; Massachusetts is from November 2004; New Jersey is from December 2004; New York data is from November 2004; and Texas is from September 2004.

DSR Policy Statement Being Reviewed by Working Group

In November PUC staff circulated a draft proposed policy statement to the Demand Side Response (DSR) Working Group, which was the subject of discussion at a meeting held on Dec. 1, 2004. In drafting the policy statement, staff considered the extensive information that was gathered throughout the year on the current status of technology deployment, cost estimates to achieve full deployment, cost recovery mechanisms, potential benefits and consumer surveys. After discussion with the group and the submission of comments by participants, staff distributed a revised draft on Jan. 12. It was the focus of a meeting held on Feb. 11.

The DSR Working Group is comprised of stakeholders representing a variety of interests, including residential, small business and large industrial consumers, electric utilities, technology providers and wholesale suppliers. The primary mission of the group is to explore ways for promoting the deployment of demand side response tools that will allow consumers in a competitive market to control their electricity costs by managing consumption during peak periods.

Under the policy statement, electric distribution companies (EDCs) would be expected to have two Demand Side Response pilot programs approved by the Commission and implemented by June 1, 2006. Further, programs would be available to all customers by the end of 2010. Programs would be proposed by the EDCs and would be evaluated by the Commission on the basis of various factors, including a cost-benefit analysis. Participation by customers would be voluntary, and statewide customer education is being contemplated.

Having received additional feedback from the DSR Working Group participants, staff is preparing a recommendation for the Commission. It is expected that formal comments will be received from interested parties prior to the Commission's adoption of a final policy statement.

Interconnection Standards for Generation under Two Megawatts

On Nov. 18, 2004, the Public Utility Commission (PUC) adopted an Advance Notice of Proposed Rulemaking (ANOPR) concerning interconnection standards for small generation. The Commission is considering a rulemaking to standardize the way in which generation under two megawatts (MW) connects to the electric distribution grid.

The PUC's goals include:

1. Eliminate unnecessary barriers to entry in the distribution generation market;
2. Promote distributed generation;
3. Enhance grid reliability;
4. Increase transparency in the interconnection process;
5. Create uniformity and ease the difficulty of different procedures; and
6. Lower the overall cost of locating and placing distributed generation across the state.

The Commission studied the interconnection procedures of New York, New Jersey, Texas, and the National Association of Regulatory Utility Commissioners, and is interested in soliciting opinions regarding which models have worked well and which could use improvement. The PUC is particularly interested in hearing whether there are issues specific to Pennsylvania that require special attention.

Utility News

Punxsutawney Phil, PUC Urge Consumers to Prepare for Winter

The Public Utility Commission (PUC) welcomed a special visitor in November: groundhog Punxsutawney Phil. Phil helped the Commission urge Pennsylvanians to prepare for the winter by weatherizing their homes, conserving energy, and learning about private and public programs to help them cope with colder weather and pay their utility bills.

"Why bring Punxsutawney Phil to the Commission? If Phil sees his shadow, it means six more weeks of winter. Which means that we all need to prepare for six more weeks of winter," said PUC Chairman Wendell F. Holland. "While we may not know what to expect from this winter's weather, we do know the steps consumers can take to prepare now for colder weather. That is the reason why we are here today."

This educational program is in keeping with the PUC's focus on rates, reliability and choice, so it can protect the public interest and increase economic development.

The awareness program was a partnership among the Commission, Punxsutawney Phil, \$1 Energy Fund and Columbia Gas of Pennsylvania.



Commissioner Glen R. Thomas (left), President Bill Cooper, Punxsutawney Phil, Chairman Wendell F. Holland, Vice Chairman Robert K. Bloom and Commissioner Kim Pizzigrilli urged Pennsylvanians to prepare for winter.

Rural LEC NMPs

In 1998, the Pennsylvania Telephone Association's Small Company Group, consisting of 19 incumbent local exchange companies, filed with the Commission a petition for approval of an alternative and streamlined form of regulation. As required by Chapter 30, these companies also filed their network modernization plans (NMPs) as part of their petition. In 2001, the PUC approved these companies' petition and their NMPs, which must be updated every two years. Therefore, on July 30, 2003, these companies filed with the PUC the updates to their NMPs.

Act 183 of 2004 altered some areas of the NMP filings. An alternative form of regulation plan and NMPs approved by the Commission as of Dec. 31, 2003, remains valid and effective. Act 183 also provides that a LEC operating under a NMP shall continue to file the biennial updates with the PUC. Accordingly, the Commission's staff continues to review the companies' update filings. The PUC is also analyzing Act 183 to determine whether there is any change or addition/reduction regarding the information required in preparing for the next update filings of the companies.

Consistent with section §3014(b) of Act 183 that gives local exchange companies the options to amend their NMP, the Pennsylvania Telephone Association's Small Company Group has sent notice to the Commission announcing their selection of §3014(b)(1) option.



Access Charge Investigation

On Dec. 16, 2004, the Commission initiated an investigation into whether there should be further intrastate access charge reductions and intraLATA (local access and transport area) toll rate reductions in the areas served by rural incumbent local exchange carriers. The investigation will assist the Commission in determining what regulatory changes are necessary given recent changes to the Public Utility Code under Act 183.

The scope of the investigation includes consideration of all rate issues and rate changes that would result in the event that disbursements from the Pennsylvania Universal Service Fund (USF) are reduced.

"It is now an appropriate time to consider further access charge reform," the Commission stated. "The USF rate issues (access charge rates, toll rates, local service rates) should be addressed in a full, formal investigation before any formal changes to the regulations are proposed and moved through the regulatory process."

The affordability of basic local service is maintained in part by contributions to and disbursements from the USF. The Commission called for proposals that are clear enough to allow consumers to compare the cost and/or quality of available competing services.

The investigation is assigned to the Office of Administrative Law Judge (ALJ). Assuming the USF expires as it is currently scheduled on Dec. 31, 2006, an ALJ should make a recommendation on what action the PUC should take to advance the Commonwealth's telecommunications policy.

The matter is pending at Docket Number I-00040105. The order initiating the proceeding was published in the *Pennsylvania Bulletin*, 35 Pa. B. 88. Upon conclusion of the proceeding, changes to 52 Pa. Code §§ 63.161-63.171 will be considered.

Update on UNEs

On Dec. 15, 2004, the Federal Communications Commission (FCC) adopted final unbundling rules concerning incumbent local exchange carriers' (ILECs) obligations to make elements of their network available. The FCC's action was in response to litigation involving the appeal of the *Triennial Review Order* (TRO) wherein the United States Circuit Court of Appeals overturned portions of the TRO. The final order was issued on Feb. 4, 2005. The FCC's final rules direct that ILECs have no federal obligation to provide competitive local exchange carriers (CLECs) with unbundled access to mass market local circuit switching and established a 12-month transition plan.

The PUC continues to defend the wholesale UNE rates approved in its July 16, 2004, compliance order. These wholesale UNE rates reflect substantial decreases and increases from the rates currently in effect. Verizon challenged these rates in the United States District Court for the Eastern District objecting to the PUC's decisions regarding depreciation, the nonrecurring cost model, switch rates, port rate structure and raised a constitutional takings claim. MCI and AT&T have also joined in the litigation. A briefing schedule has been set with final pleadings due in March 2005.

Chapter 30 Legislation

Continued from Page 1.

The legislation includes definitions providing for broadband speeds and availability, jurisdictional entities and rural and nonrural ILECs. There is no definition of or provisions to regulate Voice over Internet Protocol (VoIP).

Act 183 provides that all existing alternative regulation plans and NMPs are continued. At the same time, section 3013 permits ILECs to file amended NMPs in order to obtain the economic incentives delineated in the new law – reduction or elimination of the productivity offset. In addition, section 3013 permits that all services previously found competitive remain so unless reclassified by the Commission under section 3016 of the Act.

At section 3014, the legislation offers several options by which an ILEC may amend its NMP commitment. An ILEC can modify its NMP through the following three options:

- **Option 1** – rural ILEC may commit to 100 percent BB availability by 2008;
- **Option 2** – rural ILEC may commit to 80 percent BB availability by 2010 and 100 percent by 2013 (or 2015), plus BFR or a Business Attraction or Retention Program; or
- **Option 3** – nonrural ILEC (Verizon and Verizon North) may commit to 100 percent by 2013 (or 2015), plus BFR or a Business Attraction or Retention Program.

Act 183 also permits the PUC to monitor and enforce compliance of the ILECs' NMP obligations by requiring ILECs to provide semiannual reports to the PUC indicating the number of requests received for advanced services and the ILEC's action taken on the request. The legislation also permits the Commission to monitor and enforce compliance of the ILECs' obligations concerning BB availability under the Business Attraction or Retention Program. Further, the Commission can require information to support the accuracy of the information contained in an ILEC's biennial report detailing its provision of BB availability.

To further the goals of broadband deployment, the legislation establishes the Broadband Outreach and Aggregation Program within the Department of Community and Economic Development (DCED) to make expenditures and grants from the BB Fund to aggregate customer demand for BB facilities and services. The PUC must verify the accuracy of the ILEC contributions to the BB Fund. The legislation also establishes the Education Technology Fund (E-Fund) administered by the Department of Education.

Section 3015(C)(2) provides the PUC with the authority to assess an ILEC's contribution to the two funds. Contributions and assessments cease when an ILEC achieves 100 percent BB availability or until the BB Fund expires on July 1, 2016.

Regarding the financial incentives contained in the legislation, section 3015 requires that a reduction of an ILEC's current productivity offset (PO) occurs upon the filing of an

amended NMP and not after the PUC's review process of an ILEC's amendment. The reductions are as follows:

- Option 3 nonrural ILECs (Verizon and Verizon North) - if commitment to 100 percent BB availability by 2013, PO is reduced to **zero**; if commitment to 100 percent BB availability by 2015, PO is reduced to 0.5 percent.
- Option 1 and 2 rural ILECs - if commitment to 100 percent BB availability by 2008 or 2013, PO is reduced to **zero**; if commitment to 100 percent BB availability by 2015, PO is reduced to 0.5 percent.

In addition, subsection (B) provides that the several small rural ILECs without a price stability mechanism are permitted tariff changes, on 45 days notice, to increase rates, excluding basic residential and business rates, up to 3 percent of the carrier's intrastate revenues annually.

The legislation also provides for the PUC to enforce a refund mechanism of the modified offset. The Commission also can impose fines in addition to a refund of the modified productivity offset revenues.

Section 3015(E) addresses reporting requirements of an ILEC that files an amended NMP and specifies nine reports. The language in section 3015(F)(1) of the Act prohibits additional reports or audits unless the PUC has a hearing and makes findings that the report is necessary to ensure reasonable rates and complies with the alternative form of regulation plans submitted by the ILECs. The PUC also has to make findings that the benefits of the report exceed the costs of its preparation.

The legislation permits ILECs to seek competitive designation for protected, noncompetitive services and other business activities by petitioning the PUC. It permits an ILEC to declare non-protected services as competitive upon filing its declaration with the PUC. The Act requires that an ILEC set competitive services prices at its discretion, but not below cost. In the reclassification of a service, the PUC is obligated to determine a just and reasonable rate for the reclassified service (section 1301).

In regard to access charges, the legislation limits the PUC's authority to order access charge reductions except on a revenue neutral basis. The provision limits the PUC's ability to order access charge reductions unless balanced by increases to local exchange rates.

The Act declares all interexchange carrier (IXC) services competitive with no PUC authority to set IXC rates, but permits IXCs to file tariffs voluntarily. The PUC also retains authority to regulate privacy and service quality issues.

Finally, section 3019 lists specific authority that is retained by the Commission, mainly as to service quality and consumer protection. The legislation retains the PUC's powers to audit affiliated transactions, revamp current service quality standards, establish requirements to ensure consumer protection, and to place reasonable conditions on mergers. Section 3019(F) requires an ILEC and the Department of Public Welfare to provide notice of Lifeline service, with elimination of restrictions on vertical services, but the law does not require automatic enrollment.

Pennsylvania Relay Campaign Continues to Raise Awareness



The Pennsylvania Relay campaign continues to spread the word that the hearing public can communicate by phone with people who are deaf, hard of hearing or speech disabled.

A statewide survey conducted this fall revealed that:

- Awareness of media coverage on PA Relay jumped to 22 percent from 4 percent in 2003; and
- Awareness of the 7-1-1 PA Relay number increased to 12 percent, up from 9 percent.

The campaign features: advertising; a Web site, www.PArelay.net; a toll-free phone number, 1-800-682-8706; and spokesperson Christy Smith, a finalist from CBS's *Survivor*.

Celebrating Black History Month



The Public Utility Commission, Department of State and Department of Community and Economic Development celebrated Black History Month by honoring the Harrisburg Giants, a integrated baseball team in a segregated league. Several former players returned to be honored at the event on Feb. 8. Pictured above is 1927 team batboy Marshall Waters (right) autographing PUC employee Mark Goodwin's poster of the Harrisburg Giants.

Relay Services Available in Pennsylvania

Newsline Allows Access to Print Media for the Visually Impaired

With the recent amendment of Pennsylvania's Dual Party Relay Service and Telecommunications Device Distribution Program Act, Pennsylvanians with vision and/or physical limitations that impede reading a newspaper are now assured of access to *Newsline*. *Newsline* is an on-demand, electronic reading service that makes print media accessible to persons who are legally blind or otherwise eligible to receive services from the National Library Service for the Blind and Physically Handicapped.

Access is provided over 8XX-lines, which allows callers to listen to news from more than 150 national and regional publications, including six Pennsylvania newspapers. *Newsline* is assured of ongoing funding in Pennsylvania, through the Pennsylvania Telephone Relay Service surcharge on wireline access lines. The state's Office of Vocational Rehabilitation (OVR), in cooperation with other agencies serving people with disabilities, oversees the Newsline program. The PUC oversees the funds and prepares annual reports (with input from OVR) to the Legislature.

Captioned Telephone Voice-Carry-Over Relay Service

The CapTel™ service is a form of voice-carry-over (VCO) telecommunications relay service that uses a voice recognition mechanism by the captioning service and a captioning telephone to display written text of the conversation almost simultaneously with the user's spoken words. The CapTel™ telephone can also be used as a traditional amplified telephone.

Approximately 200 Pennsylvanians have participated in a CapTel™ trial .

Captioned telephone voice-carry-over relay service (CTVRS) is a feature of the telecommunications relay service. This feature, like any other TRS technology, is funded by traditional TRS fund arrangements.

Traditional TRS in Pennsylvania is on the decline. Some of the historical relay traffic is picked up by internet e-mail, video relay, internet relay and wireless paging to name a few. CapTel™ or CTVRS is another form of TRS and may pick up some of the traditional relay traffic but it is more likely that a new clientele will be born into this technology since it is specific to individuals who are hard of hearing and can speak.

PUC Issues Verizon Wireless/ ALLTEL PA Arbitration Order

The PUC, by order entered on Jan. 18, 2005, at Docket Number A-310489F7004, addressed exceptions to an administrative law judge's recommended decision in the Verizon Wireless/ALLTEL arbitration proceeding in which Verizon Wireless sought arbitration by the Commission for resolution of disputed issues in developing an interconnection agreement to replace an agreement that was adopted by the parties prior to the Telecommunications Act of 1996 (TA96) for the transport and termination of wireless traffic.

In the arbitration proceeding, ALLTEL contested Verizon Wireless' position that ALLTEL should be responsible for paying "transit" charges for the indirect routing of wireless traffic through a third-party transit provider's (*i.e.*, Verizon Pennsylvania Inc.) facilities under the IntraLATA Toll Originating Responsibility Plan (ITORP) process. Verizon Wireless argued that, irrespective of the use of a third-party to transit the traffic, traffic which originates on a carrier's network must be delivered for termination at that local exchange carrier's (LEC) cost and expense. Another important aspect of the proceeding is a TELRIC (total element long-run incremental cost) study prepared by ALLTEL for the development of reciprocal compensation rates consistent with the FCC rules and TA96. This is the first time that a LEC, other than Verizon PA, presented such a cost study for Commission approval.

The PUC concluded, *inter alia*, that the charges that may be required of a third-party LEC do not expressly fall within the FCC definitions of reciprocal compensation. Nor do those charges fall within other defined categories of cost. Nevertheless, the Commission concluded that the weight of authority prohibits an originating carrier from charging a terminating carrier for traffic which originates on its network. Based on the foregoing, the PUC concluded that ALLTEL, as the LEC originating the traffic, is responsible for paying third-party transit costs. The PUC also concluded that the rates produced by ALLTEL's cost study are TELRIC-compliant for the reciprocal compensation of local traffic. As such, the Commission directed that the rates produced by the cost study be deemed interim rates pending the outcome of a generic investigation that will be instituted to establish permanent rates for these services.

By order entered on Feb. 4, 2005, the PUC granted a petition for reconsideration, which was filed by ALLTEL on Jan. 31, 2005, pending review of the merits. By letter dated Feb. 7, ALLTEL, with Verizon Wireless' concurrence, indicated that the parties are pursuing settlement negotiations in an effort to amicably resolve the matters in this proceeding. The PUC will issue a final order in this proceeding after the parties provide notice of the results of their negotiations.

PUC Adopts an Order on Verizon Wireless' Bona Fide Request for Interconnection

By order entered on Jan. 18, 2005, the PUC completed its first phase in answering various legal questions concerning the status of 18 rural Pennsylvania incumbent telephone companies' (ILECs) rural exemption under the Telecommunications Act of 1996 (TA96) in light of a petition filed by Verizon Wireless to interconnect and establish a reciprocal compensation agreement for the termination of local traffic with the rural ILECs. See *Petition of Cellco Partnership d/b/a Verizon Wireless v. Bentleyville Telephone Company et al.*, at Docket Numbers P-00021995 to P-00022015.

This completed phase was a direct result of a remanded proceeding instituted by the PUC's Sept. 23, 2004, order, which, *inter alia*, directed the ALJ to address certain legal questions as to whether or not a bona fide request for interconnection was submitted by Verizon Wireless pursuant to TA and how eligible telecommunications carrier (ETC) designation impacts a wireless carrier's request to terminate the rural exemption.

Specifically, the Commission's order concluded, *inter alia*, that: 1) third-party transit costs are not definitively placed in the category of reciprocal compensation; 2) the originating carrier is prohibited from imposing charges on the terminating carrier for either originating telecommunications traffic or the facilities used for the delivery of the originating traffic; 3) the rural ILECs' exemptions from the section 251(c) interconnection obligations of TA96 are not substantially impacted at this time; 4) Verizon Wireless has the right under federal law to change the compensation scheme from access charges to TELRIC-based rates for the transport and termination of wireless traffic within a major trading area; 5) the rural ILECs are obligated under TA96 to submit to compulsory arbitration concerning the Verizon Wireless petitions; 6) neither the presence nor the absence of ETC designation may impact a wireless carrier's request to interconnect with a rural carrier or to seek termination of the rural exemption; 7) reciprocal compensation obligations section 251(b)(5) of TA96 and the related negotiation and arbitration process in section 252(b) of TA96 apply to indirect traffic exchanged between a wireless carrier and a rural ILEC through a third-party tandem provider; and 8) the rural ILECs are currently fulfilling their duty of interconnection under section 251(a) of TA96.

In light of the above determination, the PUC directed that the petitions of Verizon Wireless proceed to an evidentiary phase in which Verizon Wireless and the rural ILEC shall arbitrate an appropriate resolution to revise the current intercarrier compensation for the indirect traffic that is consistent with TA96 and FCC rules.

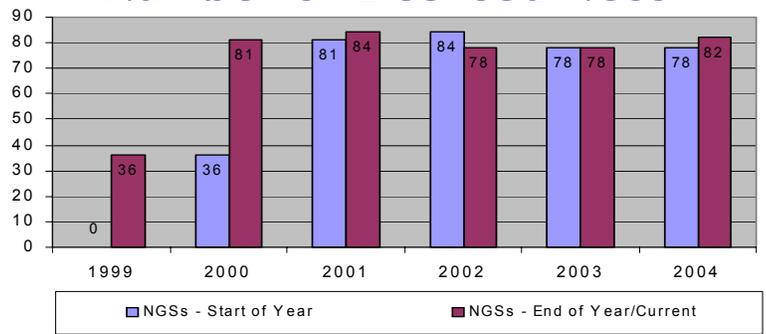
Natural Gas Supplier Licensing

Quarterly Activity from November 1 to December 31, 2004.

82 Active Licenses

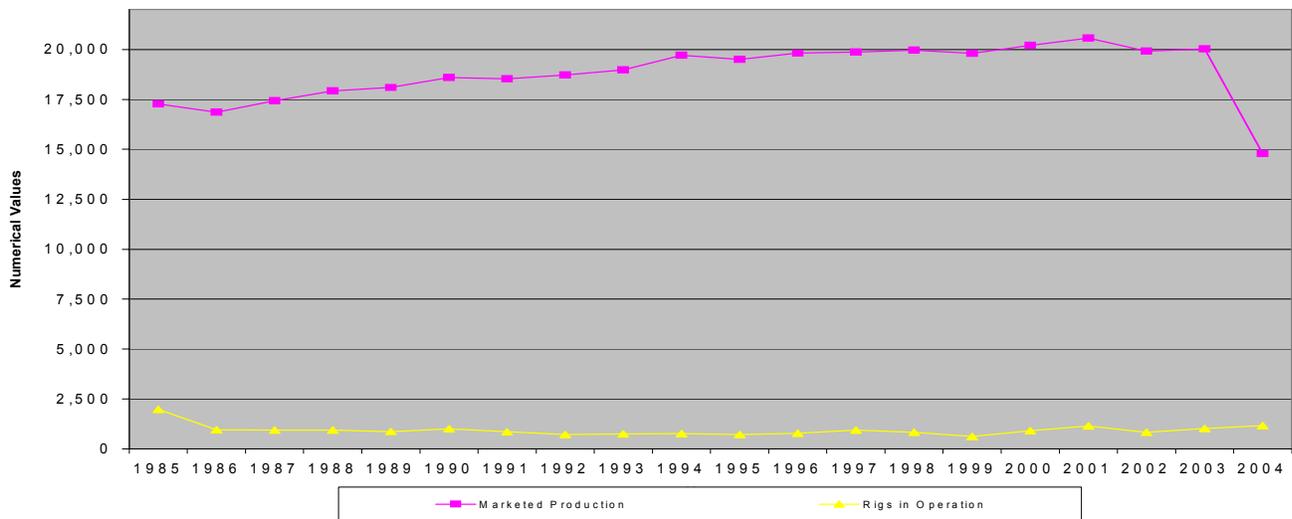
- 0 licenses canceled
- 3 licenses approved
- 6 applications pending

Number of Licensed NGSs



Trends in Natural Gas Marketed Production and Number of Rigs in Operation

Production listed as billion cubic feet. Totals for Years 1985 to 2004.



LNG Imports Help Meet Demand

At one time all the natural gas used in Pennsylvania was produced from wells located in the state. Now about 20 percent of our gas supply is from wells in western Pennsylvania. Most of the state's natural gas supply comes by pipeline from Texas, Louisiana and the Gulf of Mexico.

Recent developments in the gas industry are bringing natural gas to Pennsylvania and the United States from even farther away. Rising natural gas prices have made the importation of Liquefied Natural Gas (LNG) by ocean-going tankers an economical supply option.

LNG is produced by cooling natural gas to minus 260 degrees Fahrenheit at a liquefying plant, where 610 cubic feet of gas becomes one cubic foot of LNG. The LNG can then be shipped in specialized tankers to a marine import terminal where it is regasified and transported by pipeline. A typical liquefying plant costs about \$1 billion. The tankers cost about \$200 million apiece and the LNG terminal costs \$300 million. Analysts from

Sempra Energy Company have estimated that LNG can be delivered to the U.S. for \$3.25 to \$3.50 per thousand cubic feet (Mcf).

The United States first began importing LNG in 1971 at a marine terminal in Everett, Massachusetts. After the oil and gas shortages of the 1970s, terminals at Cove Point, Maryland and Elba Island, Georgia were constructed. In 1982 a fourth terminal at Lake Charles, Louisiana, was opened. By 1983 Cove Point, Elba Island and Lake Charles terminals were basically shut down as the price of domestic gas declined below \$2 per Mcf.

The three terminals have reopened and are planning expansions since gas prices have been above \$5. Cove Point can supply gas to Pennsylvania and other mid-Atlantic states, and began importing gas from Trinidad and Tobago in 2003. The planned expansion will add sendout capacity and storage capacity. The project also would include a new 81-mile pipeline in Pennsylvania between the towns of Perulack and Leidy.

LNG imports are now about 600 billion cubic feet (Bcf) per year. Pennsylvania uses about 600 Bcf of natural gas per year and the United States about 25 trillion cubic feet a year. About 75 percent of imported LNG comes from Trinidad and Tobago, with the rest coming from Nigeria, Qatar, Oman and Malaysia.

Energy Price Forecast for February 2005

The Energy Information Agency's February 2005 *Short Term Energy Forecast* shows that United States crude oil prices fell by \$10 per barrel in the last two months of 2004. This decline was attributed to restoration of production in the Gulf of Mexico, unseasonably warm weather in the United States, and rising oil inventories. West Texas Intermediate Oil (WTI) prices averaged \$53 per barrel in October 2004 and averaged \$43 in December 2004. January prices edged up to \$46. EIA projects WTI prices in the \$42 to \$43 per barrel range for 2005-06.

The average Henry Hub natural gas wholesale spot price was \$6.78 per thousand cubic feet (Mcf) in December and \$6.32 per Mcf in January. Mild early winter weather in the Northeast reduced heating demand, and lowered spot prices. Between Dec. 20, and Jan. 3, the price at the Henry Hub fell sharply from \$7.35 per Mcf to \$5.70 per Mcf. The heating season is now more than half over and gas storage levels are high, so EIA expects natural gas prices to ease over the next several months. Henry Hub prices are expected to average \$5.45-\$5.75 per mcf in 2005 and 2006. EIA estimates that costs for

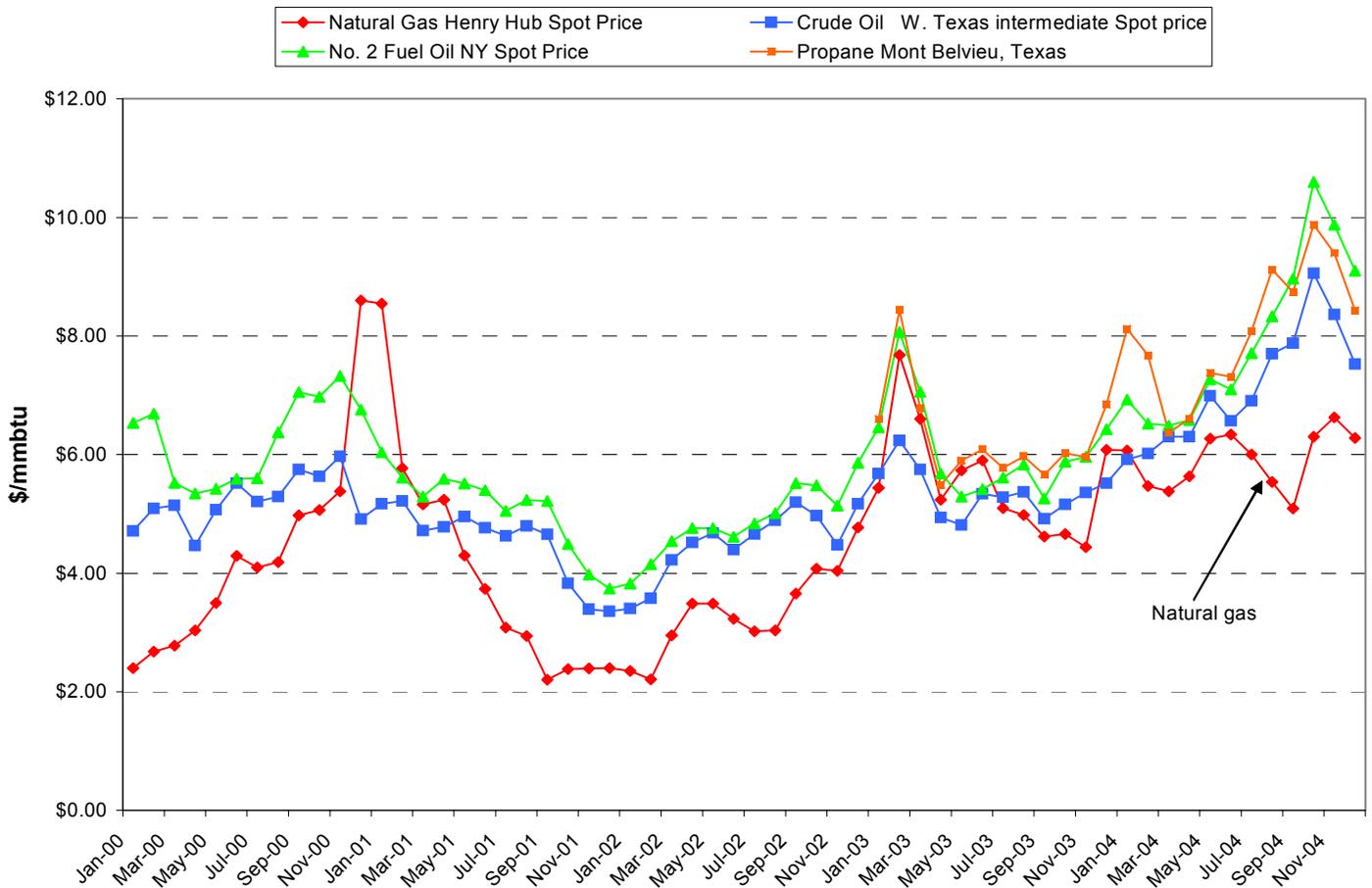
natural gas-heated households are 10 percent higher than last year.

EIA shows heating fuel oil costs for winter to be significantly higher. Last winter heating oil prices in the northeast averaged \$1.35 per gallon. Northeastern households using Fuel oil are expected to have heating costs 30 percent above last winter's levels, with residential fuel oil prices averaging \$1.82 per gallon for this winter. Expenditures for propane-heated households are expected to be 20 percent higher this winter than last winter.

On Feb. 7, 2005, the United States monthly average pump price for regular gasoline was \$1.91 per gallon, down slightly from the previous week but up about 13 cents per gallon from one month ago. Gasoline prices have been rising in response to rising crude oil prices, and some decline in surplus gasoline inventories in recent weeks. Pump prices for regular gasoline are expected to average about \$1.98 per gallon during the first half of 2005, up 20 cents from the first half of 2004.

Wholesale Fuel Prices by Heat Content

Data from EIA's *Weekly Gas Report* and *Weekly Petroleum Status Report*



FCC Highlights

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

States' E911 Deployment

On Dec. 10, 2004, the FCC requested comments about the progress made by states in implementing E911 solutions for multi-line telephone systems (MLTSs). In its E911 Report and Order and Second Further Notice of Proposed Rulemaking, the FCC expressed concern that the lack of effective implementation of MLTS E911 could be an unacceptable gap in the emergency call system but declined from enacting federal rules. Instead, the FCC indicated that state and local governments were in a better position to devise rules expeditiously to close the gap. In this same order, the FCC indicated that it would examine the states progress in one year. Thus, the FCC is seeking comments about state-adopted statutes and regulations as well as proposals for actions. Also, the FCC is requesting that the states discuss whether they have examined and used model legislation proposed by the National Emergency Number Association and the Association of Public-Safety Communications Officials in developing their current MLTS E911 regulations. In addition, the FCC is interested in information concerning carriers' and others' E911 solutions for MLTSs. *Status of State Actions to Achieve Effective Deployment of E911 Capabilities for Multi-Line Telephone Systems*, CC Docket Number 94-102.

Network Unbundling Obligations

On Feb. 4, 2005, the FCC released final unbundling rules concerning incumbent local exchange carriers (ILECs) obligations to make elements of their network available to other carriers seeking to enter the local telecommunications market. The order becomes effective on March 11, 2005. The FCC's action is in response to the March 2004 U.S. Court of Appeals for the D.C. Circuit decision which overturned portions of the FCC's unbundled network elements (UNE) rules in its Triennial Review Order (TRO). The FCC summarizes the rules as follows:

Unbundling Framework

The FCC clarifies the impairment standard adopted in the Triennial Review Order in one respect and modifies its application in three respects. First, the FCC clarifies that it evaluates impairment with regard to the capabilities of a reasonably efficient competitor. Second, the FCC sets aside the TRO's "qualifying service" interpretation of section 251(d)(2), but prohibit the use of UNEs for the provision of telecommunications services in the mobile wireless and long-distance markets, which it previously found to be competitive. Third, in applying the impairment test, the FCC draws reasonable inferences regarding the prospects for competition in one geographic market based on the state of competition in other, similar

markets. Fourth, the FCC considers the appropriate role of tariffed incumbent LEC services in our unbundling framework, and determines that in the context of the local exchange markets, a general rule prohibiting access to UNEs whenever a requesting carrier is able to compete using an incumbent LEC's tariffed offering would be inappropriate.

Dedicated Interoffice Transport

Competing carriers are impaired without access to DS1 transport except on routes connecting a pair of wire centers, where both wire centers contain at least four fiber-based collocators or at least 38,000 business access lines. Competing carriers are impaired without access to DS3 or dark fiber transport except on routes connecting a pair of wire centers, each of which contains at least three fiber-based collocators or at least 24,000 business lines. Finally, competing carriers are not impaired without access to entrance facilities connecting an incumbent LEC's network with a competitive LEC's network in any instance.

The FCC adopts a 12-month plan for competing carriers to transition away from use of DS1- and DS3-capacity dedicated transport where they are not impaired, and an 18-month plan to govern transitions away from dark fiber transport. These transition plans apply only to the embedded customer base, and do not permit competitive LECs to add new dedicated transport UNEs in the absence of impairment. During the transition periods, competitive carriers will retain access to unbundled dedicated transport at a rate equal to the higher of: 1) 115 percent of the rate the requesting carrier paid for the transport element on June 15, 2004; or 2) 115 percent of the rate the state commission has established or establishes, if any, between June 16, 2004, and the effective date of this order.

High-Capacity Loops

Competitive LECs are impaired without access to DS3-capacity loops except in any building within the service area of a wire center containing 38,000 or more business lines and four or more fiber-based collocators. Competitive LECs are impaired without access to DS1-capacity loops except in any building within the service area of a wire center containing 60,000 or more business lines and four or more fiber-based collocators. Competitive LECs are not impaired without access to dark fiber loops in any instance.

The FCC adopts a 12-month plan for competing carriers to transition away from use of DS1- and DS3-capacity loops where they are not impaired, and an 18-month plan to govern transitions away from dark fiber loops. These transition plans apply only to the embedded customer base, and do not permit competitive LECs to add new high-capacity loop UNEs in the absence of impairment. During the transition periods, competitive carriers will retain access to unbundled facilities at a rate equal to the higher of: 1) 115 percent of the rate the requesting carrier

FCC Highlights Continued on Page 13.

FCC Highlights

Continued from Page 12.

paid for the transport element on June 15, 2004; or 2) 115 percent of the rate the state commission has established or establishes, if any, between June 16, 2004, and the effective date of this order.

Mass Market Local Circuit Switching

Incumbent LECs have no obligation to provide competitive LECs with unbundled access to mass market local circuit switching. The FCC adopts a 12-month plan for competing carriers to transition away from use of unbundled mass market local circuit switching. This transition plan applies only to the embedded customer base, and does not permit competitive LECs to add new switching UNEs. During the transition period, competitive carriers will retain access to the UNE platform (i.e., the combination of an unbundled loop, unbundled local circuit switching, and shared transport) at a rate equal to the higher of: 1) the rate at which the requesting carrier leased that combination of elements on June 15, 2004, plus one dollar; or 2) the rate the state public utility commission establishes, if any, between June 16, 2004, and the effective date of this order, for this combination of elements, plus one dollar.

Network Unbundling Obligations of Incumbent Local Phone Carriers, WC Docket No. 04-313 and CC Docket Number 01-338.

Also, in a related matter, on Oct. 27, 2004, the FCC released its order forbearing from enforcing rules that would impose obligations to share, or unbundle, certain parts of the ILECs' new fiber networks with competitors on regulated terms and conditions. The FCC's action is consistent with its previous action to relieve broadband elements from unbundling in its TRO and subsequent reconsideration orders. The broadband elements are fiber-to-the-home loops, fiber-to-the-curb loops, the packetized functionality of hybrid loops, and packet switching. In its petition, Verizon requested that the FCC forbear from applying the independent section 271 unbundling obligations enumerated in the TRO proceeding to the broadband elements the FCC removed from unbundling under section 251. *Petition for Forbearance of the Verizon Telephone Cos., et al., from Enforcing Section 271 Requirements*, WC Docket Numbers 01-338, 03-235, 03-260 and 04-48.

Rural Health Care

On Dec. 15, 2004, the FCC adopted an order expanding the availability of funding for telemedicine in order to increase the use of the program. The FCC expanded the definition of a rural area and increased discounts to mobile rural health care providers for the purchase of mobile satellite telecommunications services. Also, the FCC streamlined the application process by setting an annual June 30 application deadline. The FCC also launched a further rulemaking to examine whether a flat

25 percent discount for Internet services is sufficient and whether network infrastructure should be funded under the rural health care mechanism. Comments are due 60 days and reply comments are due 90 days after publication in the *Federal Register*. *Second Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking in the Matter of Rural Health Care Support Mechanism*, WC Docket Number 02-60.

Voice Over Internet Protocol (VoIP)

On Nov. 9, 2004, the FCC released its decision concerning the Vonage Holdings Preemption proceeding. The FCC preempts Minnesota's state law that tied state certification to compliance with 911 mandates for VoIP providers in Minnesota. The FCC invokes the "mixed use" doctrine to support preemption of state regulation over intrastate VoIP because of the practical "impossibility" of distinguishing intrastate and interstate digital packets and a conflict between the FCC's deregulatory policy and any contrarian state policy. Second, the FCC invokes 47 U.S.C. §203, governing interference with the Internet, and section 706 of TA-96, permitting forbearance from regulation if doing so will promote the deployment of advanced services, to support preemption. Finally, the FCC cites interstate commerce rulings holding that preemption is permissible when the negative burden on interstate commerce is greater than any possible benefit accruing to a state.

The FCC pre-empts Minnesota's state law governing certification without expressly classifying the service as telecommunications or information service under federal law. The FCC expects to make that decision in the pending IP-Enabled Service Notice of Proposed Rulemaking, where an order is expected in the near future.

Finally, the FCC concludes that Minnesota's interest in 911 public safety is insufficient to warrant imposition of entry and other requirements. The state policy of linking 911 compliance with entry is an impermissible entry regulation even though the FCC recognizes that public safety, as well as other important social policy issues, must continue to be addressed and resolved.

Presently, California, New York, Minnesota, Ohio and the National Association of State Consumer Advocates (NASUCA) have appealed the 8th Circuit Court's decision upholding the FCC's determination of state authority. *Vonage Holdings Corporation Petition for Declaratory Ruling Concerning an Order of the Minnesota Public Utilities Commission*, WC Docket Number 03-211.

Bell Atlantic/GTE Merger Condition

On Jan. 7, 2005, the FCC denied a request by Verizon Communications Inc. (formerly known as Bell Atlantic) to discontinue agreed-to audit conditions that were part of the FCC's 2000 *Bell Atlantic/GTE Merger Order*. The FCC found that approving the mergers in 1999 and 2000 served the public interest because Bell Atlantic and GTE

FCC Highlights Continued on Page 14.

FCC Highlights

Continued from Page 13.

agreed to undertake certain market-opening conditions for a limited period and to undergo independent audits to show compliance of the conditions. In this denial of Verizon's request, the FCC determines that Verizon has not demonstrated that premature release from the audit conditions would serve the public interest. *In the Matter of GTE Corp. and Bell Atlantic Corp.*, CC Docket 98-184, EB File Number EB-04-IH-0143.

Broadband Over Power Lines

On Oct. 14, 2004, the FCC adopted changes to Part 15 of its rules to encourage the development of Access Broadband over Power Line (Access BPL) systems while safeguarding existing licensed services against harmful interference. Access BPL is a new technology that provides access to high speed broadband services using the largely untapped communications capabilities of the nation's power grid. In its order, the FCC concluded that the interference concerns of licensed radio users can be adequately addressed and that Access BPL systems will be able to operate successfully on an unlicensed, non-interference basis under the Part 15 model. The rule changes in the order establish specific technical and administrative requirements for Access BPL equipment and operators to ensure that interference does not occur and, should it occur, to provide for a timely resolution of that harmful interference without disruption of service to Access BPL subscribers. The FCC's order also sets forth procedures to measure the radio frequency energy emitted by Access BPL equipment.

On Oct. 28, 2004, the FCC released its rules to implement the development of Access BPL systems. *Broadband Over Power Lines*, ET Docket Number 04-37.

Internet Taxes

On Dec. 6, 2004, President George W. Bush signed into law the Internet Tax Non-Discrimination Act. Senate Bill 150 extends until 2007 the moratorium on Internet access taxes and discriminatory e-commerce taxes.

Federal Litigation

On Dec. 3, 2004, the United States Supreme Court agreed to review the Ninth Circuit's "Brand X" holding that cable broadband services are comprised of a telecommunications service component. The Supreme Court said that it would decide what regulations should apply to high-speed broadband Internet service offered by cable television companies. The FCC determined in 2002 that broadband services offered by cable companies was an information service and therefore insulated from most regulations that apply to traditional telephone services. Oral arguments have been set for March 29, 2005 and a decision may be issued in late summer.

Commission Seeks to Improve Electronic Access to Information

Hoping to implement a system that allows for electronic filings and provides consumers and practitioners with better access to information filed with the Commission, the Commission has asked the General Assembly to approve \$3.85 million in our 2005-06 Budget to enable an overhaul of our computer and case management system. The project is estimated to cost \$6.6 million and would be constructed over a two-year period.

The Commission's current case management system includes a number of mainframe-based COBAL applications that were developed in-house in 1978. The existing system is dependent upon hard copies and manual processes. Updating and sharing information is particularly challenging.

While the costs of this proposed upgrade are significant, the Commission estimates that the annual savings, which would be realized by both utilities and the Commission, would far outweigh those costs over time. Savings would result because electronic filing and tracking would eliminate paper and postage costs, as well as increasing staff efficiency.

The Commission has already reviewed electronic filing systems that are being successfully utilized by other state and federal agencies, which would serve as excellent models. However, if funding is approved, the Commission looks forward to the receiving further input from stakeholders toward the development of an electronic document filing and information system that responds to the needs of Pennsylvanians interested in public utility matters.

Utility Choice Campaign Issues Final Survey

The Public Utility Commission announced in November that the Utility Choice website reached 25 million hits. The site educates consumers about how to shop for utility service. In December the website received a new address and it is now located at www.puc.state.pa.us/utilitychoice/.

According to the Utility Choice program's final survey this fall, nearly 81 percent of Pennsylvanians are aware they can shop for a local telephone provider; 55 percent of Pennsylvanians are aware they can choose a competitive natural gas supplier; and 73 percent of consumers are aware they can choose their electric supplier.

Consumer Protections

On Nov. 30, 2004, Governor Rendell signed into law SB 677, or the *Responsible Utility Customer Protection Act*. This Act went into effect Dec. 14, 2004, and supersedes numerous regulations under the Chapter 56 *Standards and Billing Practices for Residential Utility Service*. The Act is intended to protect responsible bill paying customers of public utilities by modifying the procedures relating to deposits, payment agreements, termination and restoration of service.

The new rules in the Act apply to electric distribution companies, water distribution companies, and gas distribution companies with annual operating income in excess of \$6 million. The Act is not applicable to electric and gas competitive suppliers.

The Chapter 56 regulations will be revised in a future rulemaking to conform to the requirements of the Act. In the near future, the Commission will issue interim guidelines to provide guidance to the utilities and applicable Commission staff pending amendment of the Chapter 56 regulations.

On Feb. 3, 2005, the Commission convened a Chapter 14 Implementation Roundtable, at which various stakeholders offered their views on how certain provisions of the law, such as those affecting payment agreements and terminations, should be applied or interpreted by the Commission. By Secretarial Letter issued on Feb. 10, 2005, the Commission announced the process that will be followed by the Bureau of Consumer Services to resolve informal complaints filed prior to the effective date of Chapter 14.

Update on Identity Theft

On Oct. 14, 2004, the Commission entered an order initiating an investigation into identity theft (Docket Number M-00041811). The purpose of the investigation is to gather information so that the PUC can determine the impact of identity theft on utilities, suppliers and their customers, and can formulate and adopt measures to better provide for identity verification and thereby reduce identity theft in the initiation, transfer and use of utility service.

The order was served on all major fixed utility companies and EGSs, NGSs and telecommunications providers. Information requested by the order included, *inter alia*, the number of disputes and complaints from customers alleging identity theft, the kinds of personal information collected from customers in the application process, and practices that the company utilized by the company to restrict access to a customer's personal information.

Approximately 135 responses were filed to this order. Commission staff is in the process of evaluating the information provided in response to its order. It is expected that a report on this investigation will be completed by this spring.

Telephone Company Reporting Requirements

Pursuant to House Resolution 786, the Legislative Budget and Finance Committee (LB&FC) studied the filing and reporting requirements imposed on local exchange carriers (LECs) operating in Pennsylvania. In November 2004, the LB&FC issued a report of its findings and recommended a reduction of some reporting requirements. On Nov. 18, 2004, the Commission reviewed the LB&FC's findings and directed staff to provide a recommendation at Docket Number M-00041847. Subsequently, Act 183, signed into law by Governor Edward G. Rendell on Nov. 30, 2004, also addressed telecommunication reporting requirements.

The new law identifies nine specific reports. The Act requires the Commission to make specific written findings supporting the need for any other reports unless it is determined that the report is necessary to ensure that the LEC is charging lawful rates and that the benefits of the report outweigh the financial and administrative burden placed on the LEC in the report's operation. The staff recommendation, due in March, must take into consideration the LB&FC findings, as well as Act 183.

In recent years, the Commission took action to eliminate telecommunications reports that had become obsolete and to streamline reporting requirements where appropriate to avoid duplication and inherent inefficiency. This provides the Commission the opportunity to further its efforts regarding streamlining, while exploring alternate sources for data needed to monitor service quality for consumers and the financial viability of service providers.