

Pennsylvania Public Utility Commission
FY 2012-13 Annual Report

OUR MISSION

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



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***The Honorable Tom Corbett
Governor of Pennsylvania***

***The Honorable Jim Cawley
Lieutenant Governor of Pennsylvania***

Members of the General Assembly

We are pleased to submit the FY 2012-13 Annual Report for the Pennsylvania Public Utility Commission (PUC). As required by Section 321 of the Public Utility Code, 66 Pa.C.S § 321, the Annual Report highlights the accomplishments and challenges the PUC faced over the course of the year in fulfillment of our mission as regulators and protectors of the public interest. This year's report also highlights how the PUC is adapting to the changing utility marketplace. In the 21st century, the PUC is more than a utility regulator.

The PUC continues to successfully implement three new pieces of legislation. Act 127 gave the PUC increased safety authority over the state's natural gas and hazardous materials pipelines. Under Act 11, the PUC has the authority to grant utilities certain financial and accounting tools to help accelerate the replacement of critical infrastructure. Finally, pursuant to Act 13, the PUC is responsible for collecting and distributing the state's unconventional gas well impact fee. All three pieces of legislation have tight implementation deadlines, which to date, the PUC has either met or exceeded.

This year the PUC concluded its extensive investigation into competitive retail electric markets, with the goal of ensuring that a properly functioning and workable competitive retail electricity market exists in the Commonwealth. The PUC action, as a result of this investigation and its proposed legislative changes, seeks to protect and enhance the retail electric market's long-term viability. The PUC also maintained its widespread efforts to educate Pennsylvanians on how to shop for an electric and natural gas supplier as well as empower

consumers to take responsibility for their energy usage. Pursuant to Act 129, we carry on our work with the state's seven largest electric distribution companies to encourage the adoption of energy efficiency and conservation measures.

Recognizing the importance of cybersecurity, the PUC followed its requirement that companies certify that their physical and cybersecurity, emergency response, and business continuity plans are current. This year emergency response plans were audited for nine of the smaller water utilities, as well as six of the larger utilities during the course of routine management audits and management efficiency investigations. As the lead agency in spearheading discussions about cybersecurity, the PUC brought together several state agencies to open up lines of communication. The PUC works to be a conduit of information between utility industries and state and federal government agencies - breaking down silos to ensure that important information concerning escalating cyber threats and improved best practices can be shared.

In the telecommunications sector, the PUC has made progress implementing the state's aggressive broadband deployment initiative, which requires every Pennsylvanian to have access to broadband services, in even the most rural areas by 2015. The Commission also addressed access charges for rural telephone companies.

The PUC continues to stress the importance of safety in the area of transportation. PUC staff had a focused effort enforcing safety regulations for household goods movers this year. The PUC also continues to promote railroad safety in the Commonwealth by conducting safety inspections and investigating railroad facilities, equipment, and records.

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



Robert F. Powelson



John F. Coleman



James H. Cawley



Pam Witmer



Gladys M. Brown



INTRODUCTION

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

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

ORGANIZATION

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

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

The Commission has its headquarters in Harrisburg with regional offices in Philadelphia, Pittsburgh and Scranton. In Fiscal Year 2012-13, the Commission continued to strive to create a more open and user-friendly PUC. Information about the PUC, including copies of documents filed with and produced by the Commission, audio and video of certain Commission proceedings, forms, applications and summaries of public meetings, is available at www.puc.pa.gov. The Commission also launched a social media presence through Facebook (PAPowerSwitch) and Twitter (@PA_PUC) pages to create transparency and to engage more consumers.

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

Because of the flexibility provided under Act 129 of 2008, the Commission began a comprehensive review of its organizational structure. The first review in decades, and the resulting realignment of bureaus, allowed the Commission to address significant changes in the utility industry and meet PUC responsibilities efficiently and effectively, in a manner where transparency and employee engagement remain top priorities.

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



BROAD POWERS

The PUC exercises broad powers in meeting its regulatory obligations. In today's rapidly changing business environment, utilities must consider all of their options. Utility mergers, rate change requests, acquisitions and affiliated interest agreements continue to be filed before the Commission at a steady pace. With limited exceptions, utilities are required to obtain Commission approval for these transactions, as well as to operate, extend or abandon service. The PUC's responsibility is to ensure these actions are in the public interest. During the first two quarters of 2013, the PUC received 13,220 filings and served 4,292 documents.

The PUC also works diligently to ensure an effective transition to competitive markets in the electric and natural gas industries. The move toward competitive electricity markets through the passage of the 1996 Electricity Generation Customer Choice and Competition Act was based primarily on the legislative finding that competitive market forces are more effective than economic regulation in controlling the cost of generating electricity.

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

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

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

COMMISSION'S BUDGET

EXECUTIVE GOVERNMENT OPERATIONS

GENERAL GOVERNMENT FUND

GENERAL FUND

GENERAL FUND

	Estimated 2012-13 Expenditures	Approved 2013-14 Budget
State Funds:		
Personnel	\$46,977,000	\$49,669,000
Operating	12,898,000	12,898,000
Fixed Assets	123,000	123,000
Other	400,000	400,000
Total State Funds	\$60,398,000	\$63,090,000
Federal Funds:		
Personnel	\$3,438,000	\$3,536,000
Operating	1,419,000	1,371,000
Total Federal Funds	\$4,857,000	\$4,907,000
Other Funds		\$1,000,000
Total Commission Budget:	\$65,255,000	\$68,997,000

OTHER REVENUE SOURCES

2011-12 RECEIPTS

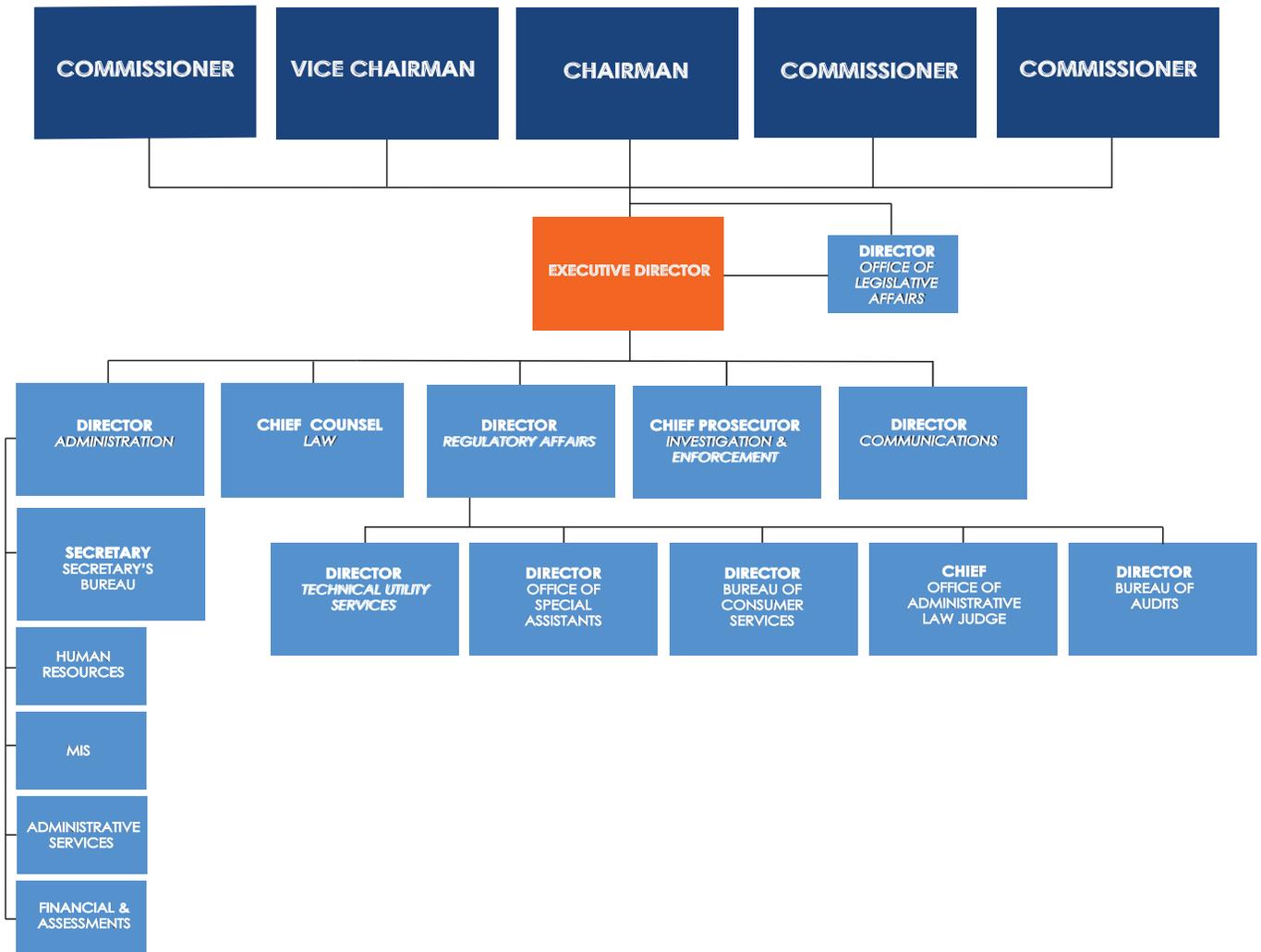
2012-13 RECEIPTS

Unconventional Gas Well Fund - Act 13	\$250,000	\$1,000,000
Filing & Copy Fees	205,645	167,716
Electric Generation Application Fees	38,500	22,750
Fines	262,241	1,009,162
Federal - Gas Pipeline Safety	709,722	847,918
Federal - Motor Carrier (MCSAP)	1,275,396	1,299,205
Federal - ARRA Electric Reg. Asst.	272,231	176,050
Federal - ARRA Smart Grid	45,348	
Total	\$2,809,083	\$3,522,801

2012-13 APPLICATION FEES, FILING & COPY FEES & FINES

	Electric Generation Application Fees	Fines	Filing & Copy Fees	Total
1st Quarter	\$4,200	\$47,093	\$38,010	\$89,303
2nd Quarter	13,650	55,245	48,712	\$117,607
3rd Quarter	3,500	596,502	43,485	\$643,487
4th Quarter	1,400	310,323	37,510	\$349,233
Total	\$22,750	\$1,009,163	\$167,717	\$1,199,630

ORGANIZATIONAL CHART



2012-13 BUREAU DIRECTORS



JAN FREEMAN
EXECUTIVE DIRECTOR

THE EXECUTIVE DIRECTOR is responsible for the oversight of the day-to-day management of the Commission's functions and staff. This position is responsible for the overall planning, direction, organization and operation of the Commission. In addition, the Executive Director is tasked with developing and implementing a two-year strategic plan.

VACANT

THE DIRECTOR OF REGULATORY AFFAIRS oversees the PUC's bureaus with regulatory functions, including the Bureau of Audits, the Bureau of Consumer Services, the Office of Special Assistants, the Bureau of Technical Utility Services and the Office of Administrative Law Judge.



ROBERT C. GRAMOLA
DIRECTOR OF
ADMINISTRATIVE SERVICES

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



TOM CHARLES
DIRECTOR OF
COMMUNICATIONS

THE OFFICE OF COMMUNICATIONS is charged with handling Commission media relations, external communications, internal communications and consumer education, in addition to acting as the lead staff for the Consumer Advisory Council.



JUNE PERRY
DIRECTOR OF
LEGISLATIVE AFFAIRS

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



CHARLES E. RAINEY JR.
CHIEF ADMINISTRATIVE
LAW JUDGE

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



DENNIS HOSLER
DIRECTOR OF AUDITS

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



ALEXIS BECHTEL
DIRECTOR OF CONSUMER
SERVICES

THE BUREAU OF CONSUMER SERVICES responds to and investigates informal complaints from residential and small commercial customers. The Bureau also serves as an intermediary 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.



JOHNNIE SIMMS
DIRECTOR OF INVESTIGATION
& ENFORCEMENT

THE BUREAU OF INVESTIGATION AND ENFORCEMENT serves as the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge, and enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. The bureau handles rail safety enforcement proceedings. The Bureau also prepares reports for the Commission and provides technical support for other bureaus.



BOHDAN R. PANKIW
CHIEF COUNSEL

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

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.



ROSEMARY CHIAVETTA
SECRETARY

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



CHERYL WALKER DAVIS
DIRECTOR OF SPECIAL
ASSISTANTS

THE BUREAU OF TECHNICAL UTILITY SERVICES serves as the principal technical advisory bureau to the Commission regarding fixed and transportation utility regulatory matters, as well as an adviser to the PUC on technical issues for electric, natural gas, water and wastewater, and telecommunications utilities.



PAUL DISKIN
DIRECTOR OF TECHNICAL
UTILITY SERVICES



CONSUMERS

During Fiscal Year 2012-13, the Commission focused on educating electricity customers about energy prices and the resources available to assist them in making their utility services more affordable. The Commission continued to educate consumers using PAPowerSwitch.com, a user-friendly tool created by the Commission, to help consumers shop for their electric supplier. This message was communicated at numerous community and consumer education events. The Commission also continued to expand its consumer outreach activities by hosting regional events and visiting local communities, and launched Twitter and Facebook pages to engage more consumers on utility issues.

PAPOWERSWITCH.COM

With PAPowerSwitch.com, the PUC is working to make sure consumers have the tools at their fingertips to make an informed decision about choosing an electric supplier. Just like consumers shop for other services, they can shop for the generation supply portion of their bill, making a decision based upon their specific needs and preferences. Generation supply costs comprise the majority of the average electric bill. When shopping for electricity, transmission costs are included in the “price to compare” that allows consumers to compare their utility’s bill to that of a competitive supplier. In Fiscal Year 2012-13, the total number of Pennsylvanians shopping for electric supply reached two million customers and continues to grow.



PUC Commissioners marked 2 million customers using a competitive electric supplier during an event in Mechanicsburg in February 2013.

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

CONSUMER EDUCATION ON ELECTRIC PRICES

Through December 2012, the PUC continued to work with electric utilities to implement utility-sponsored consumer-education plans for their service territories. Each of the state’s electric distribution companies (EDCs) under PUC jurisdiction implemented a consumer-education plan tailored to their service territory as required by a Commission Order that established policies to mitigate higher electricity prices. The Commission, along with the Office of Consumer Advocate and the Office of Small Business Advocate, reviewed the consumer-education materials filed by utilities, which contained provisions to educate consumers about price increases while providing information on electric competition, demand side response, low-income programs, and energy conservation and efficiency.

The plans also proposed appropriate budget levels and cost-recovery mechanisms. The original intention of requiring these plans was to prepare Pennsylvanians for the removal of the electric rate caps and to enable customers to make informed decisions regarding their own levels of electric use.



NEW WEBSITE AND SOCIAL MEDIA LAUNCH

In October 2012, the Commission launched its new website, www.puc.pa.gov, featuring new tools, including a video for consumers and PAGasSwitch.com, a website dedicated to shopping for natural gas and modeled after the Commission's online electric shopping tool, PAPowerswitch.com. The new website is more customer-friendly, geared to the Commission's target audiences, while making the Commission more transparent.

By launching a presence on social media sites Twitter and Facebook in February 2013, the Commission is better able to inform Pennsylvania customers on utility issues. The Commission's Twitter page (@PA_PUC) is dedicated to all things utility, including issues related to industries regulated by the PUC. The Commission's "PAPowerSwitch" Facebook page provides easy access to information about electric shopping. The Facebook page includes electric shopping event details, photos, videos and links to PAPowerSwitch.com in addition to information on how to shop for a competitive electric generation supplier.

CONSUMER OUTREACH SUMMARY

The PUC's consumer outreach specialists have 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 about and understand their rights as utility customers. In Fiscal Year 2012-13, the outreach team hosted numerous workshops, free seminars and roundtable discussions throughout the state. Outreach specialists also support and participate in community fairs, legislative forums, senior expos, public input hearings and other educational events.

PREPARE NOW

During Fiscal Year 2012-13, the PUC continued to work with electric and natural gas companies to help consumers "[Prepare Now](#)" for the higher costs of winter heating.

In an October 2012 letter, the Commission asked electric and natural gas utilities under its jurisdiction to join the PUC in reaching out and educating consumers. The letter also stressed the importance of the Low Income Home Energy Assistance Program (LIHEAP) and the impact the program has on helping low-income consumers restore and maintain their utility service. In February 2013, the PUC reminded consumers at risk of termination to contact their utility for resources to help maintain electric or natural gas utility service for the winter months.

The winter of 2012 was the 10th winter that 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.pa.gov, and click on "Prepare Now" or call the PUC at 1-800-692-7380.

LIFELINE AWARENESS WEEK



Commissioner Pamela Witmer takes part in an annual initiative to promote the Lifeline telephone discount program at an event sponsored by the PUC in Harrisburg in September 2012.

In conjunction with a national initiative to promote the awareness of Lifeline and Link-Up discount programs, the PUC joined community organizations, social service agencies, and industry representatives to help residents "stay connected" through various media events and community exposure. Through a [public service announcement](#) shared with media outlets, as well as consumer events, the Commission emphasized the importance of these assistance programs, which offer discounts to help residents gain access to basic local telephone

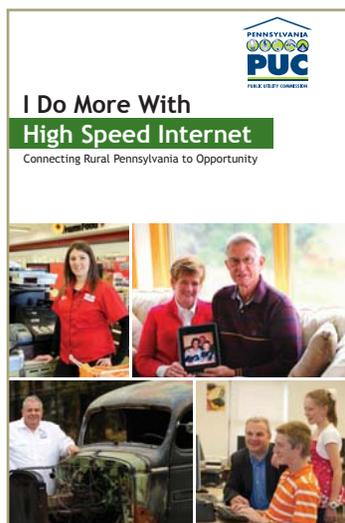


service. In February 2012, the FCC issued an Order and Notice of Proposed Rulemaking to reduce waste, fraud, and abuse in the Lifeline program. The new order eliminated the Link-Up program and promotes expanding access to broadband services.

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

I DO MORE WITH HIGH SPEED INTERNET CAMPAIGN

In November 2012, the Commission [announced](#) the winners of its campaign to highlight the societal, medical and educational benefits of high speed Internet through the stories of residents and business owners in rural parts of the state who regularly use high speed Internet. The campaign is called "[I Do More with High Speed Internet](#)" and promotes adoption of high speed Internet service in rural areas of the Commonwealth, focusing on the counties of Butler, Carbon, Fayette, Mercer, Schuylkill and Westmoreland where Internet providers report below average high speed Internet subscription.



SETTLEMENTS WITH UTILITY COMPANIES

In Fiscal Year 2012-13, the PUC approved settlements with utility companies following informal investigations into alleged violations of the Public Utility Code or consumer complaints. In many cases,

the companies agreed to improve communications with consumers.

- **PPL Electric Utilities Corp.** paid a \$30,000 civil penalty and contributed \$15,000 to its Operation HELP hardship fund. The settlement stemmed from a formal investigation into a residential termination.
- **Philadelphia Gas Works** paid a \$400,000 civil penalty and contributed \$100,000 to the existing smoke alarm program operated by the Fire Prevention Division of the Philadelphia Fire Department following an investigation into a 2011 explosion that killed a PGW employee.
- **UGI Utilities Inc.** was directed to pay a \$500,000 civil penalty and to accelerate its replacement schedule for cast iron pipelines stemming from an investigation of a 2011 explosion that killed five people in Allentown.

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 terminated due to non-payment. The goal of the annual [Cold Weather Survey](#) is for the company to attempt to reach payment agreements with the occupants so service can be restored.

The Commission 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.

The companies resurveyed the households without utility service in [February 2013](#).

UNIVERSAL SERVICE PROGRAMS AND COLLECTIONS PERFORMANCE

The PUC issued the 2011 [annual summary](#) of the universal service programs and collections performance of Pennsylvania's major electric distribution companies (EDCs) and natural gas distribution companies (NGDCs) in Fiscal Year 2012-13. 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.

UTILITY CONSUMER ACTIVITIES REPORT AND EVALUATION

Helping Pennsylvania consumers resolve utility problems remains a major concern for the Commission. Full-time investigators handle a variety of consumer contacts related to billing problems, service delivery and repairs. The [2011 Utility Consumer Activities Report and Evaluation](#) shows that BCS investigated 13,130 consumer complaints in 2011, with 9,718 of those complaints coming from electric, natural gas, water and sewer customers and 3,412 from telephone consumers.

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 2011, the majority of electric and natural gas customers contacted said they were satisfied with the way company customer service representatives handled their calls.

CONSUMER ADVISORY COUNCIL

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

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



Members of the Consumer Advisory Council: Seated, from left: Chad Quinn, Tim Hennessey and Harry Geller. Standing, from left: William Sterner, Michael Bannon, Tina Serafini, Joe Toner, Javier Toro and Ralph Douglass.

PA RELAY SERVICE ADVISORY BOARD

During 2012-13, the [Pennsylvania Relay Service Advisory Board](#) met four times to advise the Telecommunications Relay Service (TRS) providers on service issues, to discuss policy issues related to traditional TRS and Captioned Telephone Relay Service (CTRS), and to interact with Commission-appointed members. At each meeting, the traditional TRS provider and CTRS administrator gave the board a status report of their activities, which focused on issues including call volumes, new service offerings, complaint handling equipment enhancements and outreach plans. The board consists of members from the deaf, hard-of-hearing and speech-disabled communities included representatives from the following organizations: the Center for Independent Living of South Central Pennsylvania; Office for the Deaf & Hard of Hearing; and individuals from the deaf or hard of hearing community.



Pennsylvania Relay Service Advisory Board: Seated, from left: Sheila Brown, Lauren Cramer and Steven Samara. Standing, from left: Christa Cervantes, Mina Knezevich, Sudan Khan, Leslie Kelly, Todd Behanna, Sharon Behun, Steve Schultz, Eric Jeschke and Chuck Hafferman.

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



MULTI-UTILITY ISSUES

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

DISTRIBUTION SYSTEM IMPROVEMENT CHARGES

On Feb. 14, 2012, Governor Corbett signed Act 11 of 2012, which allows jurisdictional water and wastewater, natural gas and electric utilities to petition the Commission for approval to implement a distribution system improvement charge (DSIC) to fund infrastructure upgrades. Under the law, the DSIC must be designed to provide for “the timely recovery of the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to ensure and maintain adequate, efficient, safe, reliable and reasonable services.”

On May 10, 2012, the Commission issued for comment a Tentative Implementation Order that addresses the Act 11 initiatives. Comments were received on establishing procedures for implementation of a voluntary DSIC for utilities; filing long-term infrastructure improvement plans; revising the method used to fix the value of and return on the property for ratemaking purposes; establishing procedures for the use of a fully-projected test year in base rate proceedings; allowing combined water and wastewater utilities to combine for ratemaking purposes different types of utility service; and establishing customer protections and notifications. A Final Implementation Order was finalized in August 2012. The Commission has approved a DSIC for one electric company and five natural gas companies.

ALTERNATIVE FUEL VEHICLES

In order to examine the increased use of alternative fuel vehicles (AFVs), specifically natural gas, the Commission joined the Energy Association of Pennsylvania in hosting a workshop in Harrisburg on April 18, 2013, which included the state’s seven largest natural gas utilities. The workshop focused on the natural gas distribution company and Commission’s role in fostering the economic development and the expansion of the necessary infrastructure for natural gas vehicles. The use of AFVs creates numerous issues and questions, some of which may impact the PUC’s core functions.

The workshop was another step in an ongoing discussion of AFV issues under PUC jurisdiction, creating a foundation for possible future action by the Commission.





PUC Chairman Robert F. Powelson, joined by Philadelphia Mayor Michael Nutter and Governor Tom Corbett, discusses the October 2012 utility responses to Hurricane Sandy. During the fiscal year, the Commission continued to take steps to help utilities improve storm response.

UTILITY RESPONSES TO HURRICANE SANDY

Following the aftermath of Hurricane Sandy in October 2012, the Commission testified before the Senate Consumer Protection and Professional Licensure Committee that the efforts of utilities to restore service following the storm were well-coordinated, and that work continues to improve storm responses. During 2012, the Commission took several steps to ensure that storm response efforts continue to improve. Steps taken as a result of lessons learned from previous storms allowed utilities to have a more well-coordinated response to Hurricane Sandy.

On Sept. 22, 2011, the PUC finalized amendments to regulations regarding service outage and reportable accidents. The goal of the rulemaking— which was approved by the Independent Regulatory Review Commission and went into effect on Jan. 7, 2012 – is to have even more effective responses to unscheduled outages for electric, natural gas, water, wastewater and telephone utilities and to establish a uniform approach for reporting standards among industries in the event of a service outage. The amendments to the regulations addressed accidents involving injury for the electric, natural gas, water and wastewater industries; service outages; the ability to capture more reportable events, such as physical or cyber security attacks; deadlines for reporting accidents; the expansion of provisions regarding reporting of service outages to include the number of customers interrupted during the event, the number of outage cases and trouble cases for each county affected,

and the number of outages exceeding six hours; and reports to track the number of utility workers, contract and mutual aid workers assigned to repair work.

EFILING & ELIMINATION OF PAPER COPIES

During the fiscal year, eFiling continued to gain popularity as more and more parties used electronic filing over traditional paper filings. eFiling also allows users to pay PUC filing fees via the website using a credit card. The list of “qualified documents” designated by the Commission for eFiling also has been expanded. The Commission actively encourages those who do business with the Commission to eFile, offering a how-to online tutorial and in-person training. In 2013, eFilings rose to 40 percent of all filings. The PUC has developed a Quick User Guide to educate interested parties more about our eFiling system in order to increase its use. A link to the eFiling system is available from the PUC website, which includes instructions on how to set up an account, access the users’ guide and preview the system.



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

INNOVATION EFFORTS WITHIN THE PUC

During Fiscal Year 2012-13, the Commission participated as part of the Governor’s Innovation Office Task Force and established an “i-team” within the PUC to address innovation. As part of that initiative, the Commission’s Team EFFICIENT has helped move the Commission away from archaic paper-processing functions and more toward a “Paperless PUC.”

Also as part of its innovation efforts and recognizing the need for employees to provide feedback on their job responsibilities and the overall organization of the workplace, the Commission asked employees to take part in a 20-question anonymous survey. Several of the suggestions raised have been acted on while others require more review and thought.

The PUC also streamlined and updated the way it delivers training to its employees and is reconsidering what training is provided and to which level of employee. The Commission addressed succession planning through its Emerging Leaders program and also provided an opportunity for education through its Commission-wide Business Literacy Series.



Vice Chairman John F. Coleman Jr. joins fellow members of the PUC’s i-team during the Governor’s Innovation Expo where the PUC received a runner-up award for its booth display.



ELECTRIC

The extensive PUC investigation into competitive retail electric markets concluded this fiscal year with actions and recommendations to ensure a properly functioning and competitive retail electric market exists in Pennsylvania to provide reasonable rates. At the close of the fiscal year, Pennsylvania had 11 electric distribution companies (EDCs) and 329 licensed electric generation suppliers (EGSs). The Commission also continues to focus on energy efficiency and conservation as well as alternative energy.

RETAIL MARKETS INVESTIGATION

In Fiscal Year 2012-13, the Commission completed its investigation into the state's retail electric markets. A [webpage](#) was dedicated to the subject and contains all documents related to the process. The investigation engaged stakeholders and staff and resulted in recommendations for improvements in the functioning of the retail market.

The PUC action as a result of the investigation and its proposed legislative changes seek to protect and enhance the retail electric market's long-term viability. Under the action, the utility is retained as the default service provider and all consumer protections are maintained. The consumer protections include security of customer information; reporting requirements for quality of service benchmarks and standards, as well as universal service and energy conservation; standards for changing a customer's electric generation supplier (EGS); marketing and sales practices standards for the retail residential energy market; and standards for billing practices for residential utility service.

The changes are intended to provide a regulatory framework that encourages EGSs to invest in Pennsylvania's retail electric market. Throughout the investigation, the Commission's goal was to move the Commonwealth toward a more robust competitive market, in which consumers have the choice of different competitive pricing options and a variety of innovative product offerings.

COMPETITIVE MARKETS OVERSIGHT

The Commission continues with its oversight of the development and functioning of the competitive retail electric market. The Office of Competitive Markets Oversight, a group of legal, technical and policy staff members from various Commission bureaus and offices, informally addresses obstacles faced by EGSs and EDCs participating in the retail market. The group led the Commission's retail markets investigation while also responding to questions from electric generation suppliers, monitoring issues potentially hindering the development of a competitive retail market including a [rulemaking](#) on EGS marketing and sales practices as well as establishing guidelines for changing EGSs, and facilitating informal dispute resolution between default service providers and EGSs. In Fiscal Year 2013-14, the Commission will finalize [changes](#) to pricing labels used when selling electric generation service to residential customers.

DEFAULT SERVICE PLANS

The majority of default service plans govern how the EDCs secure default service supply for non-shopping customers from June 1, 2013, to May 31, 2015. The seven largest EDCs included market enhancement programs in their plans as directed by the Commission during the Retail Market Investigation. The goal of

those market enhancement programs is to provide Pennsylvania consumers with money-saving opportunities while they explore Pennsylvania's retail electric market.

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

ACT 129 PHASE TWO

The PUC continues to implement and enforce [Act 129 of 2008](#), which expanded the Commission's oversight responsibilities and imposes new requirements on EDCs with more than 100,000 customers, with the overall goal of controlling energy consumption and demand. Under Act 129, the state's seven largest EDCs were to demonstrate electricity consumption reductions of 1 percent by May 31, 2011, and 3 percent by May 31, 2013. The Act also required a 4.5 percent reduction in peak demand by May 31, 2013. All but one EDC met the consumption reduction requirements in May 2011. Information to determine if the consumption and peak demand reduction requirements were met for 2013 will be available in Fiscal Year 2013-14.

Act 129 "phase 2", which continues the momentum of existing EDC Act 129 plans, began in Fiscal Year 2012-13. Act 129 requires the Commission to adopt additional incremental reductions in consumption by Nov. 30, 2013, and every five years, if program benefits exceed costs. The PUC determined the energy efficiency and conservation (EE&C) plans were cost-effective. The Commission set new required incremental reductions in consumption that included the

filing and approval of new EE&C plans. The participating EDCs began implementing these plans on June 1, 2013.

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

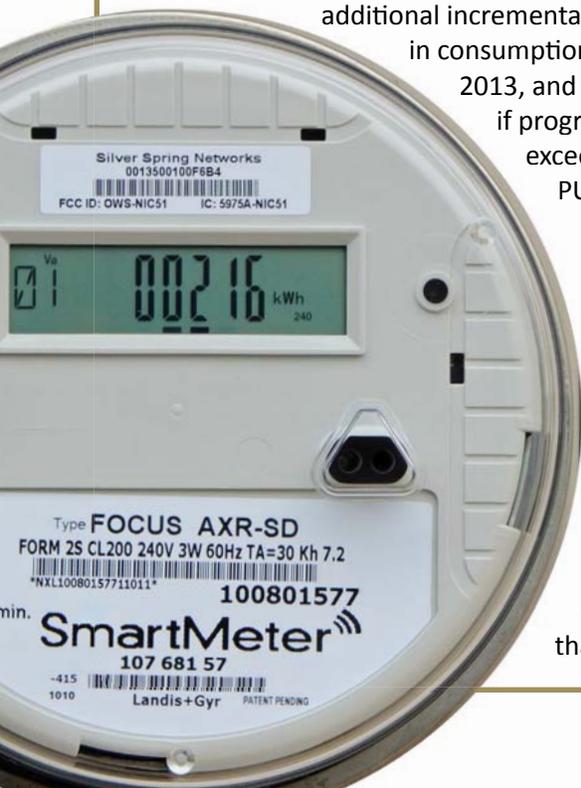
OUTAGE RESPONSE



During the fiscal year, the PUC completed its evaluation of the weather-related outages from 2011. During that process, the Commission made changes to try and minimize future storm impacts. The Commission issued three reports that look closely at the inability of customers to contact the EDC to report outages; a lack of specific or consistent restoration information; and the relationship between the outages and the utilities' poorest performing circuits.

In October 2012, many of the changes implemented as a result of the 2011 outages were put to the test when Hurricane Sandy brought tropical storm winds and heavy rain to the eastern third of Pennsylvania as well as high winds throughout the center of the state. About 1.79 million Pennsylvania electric customers experienced an outage at some point as a result of Sandy.

According to a May 2013 report on the Hurricane Sandy response, many of the experiences from the severe storm-related outages of 2011 were incorporated into this response, which brought positive results. The report also highlights additional recommendations to improve future storm responses; compiles and analyzes EDC data; examines complaints about the inability of customers to contact the EDC to report outages; and reviews a lack of specific restoration information.



DISTRIBUTION RATE INCREASE REQUESTS

During Fiscal Year 2012-13, the Commission finalized one electric distribution utility base case. Information about the [ratemaking process](#) is available on the PUC website.

PPL Electric Utilities Corp

Customers – 1.4 million in 29 counties

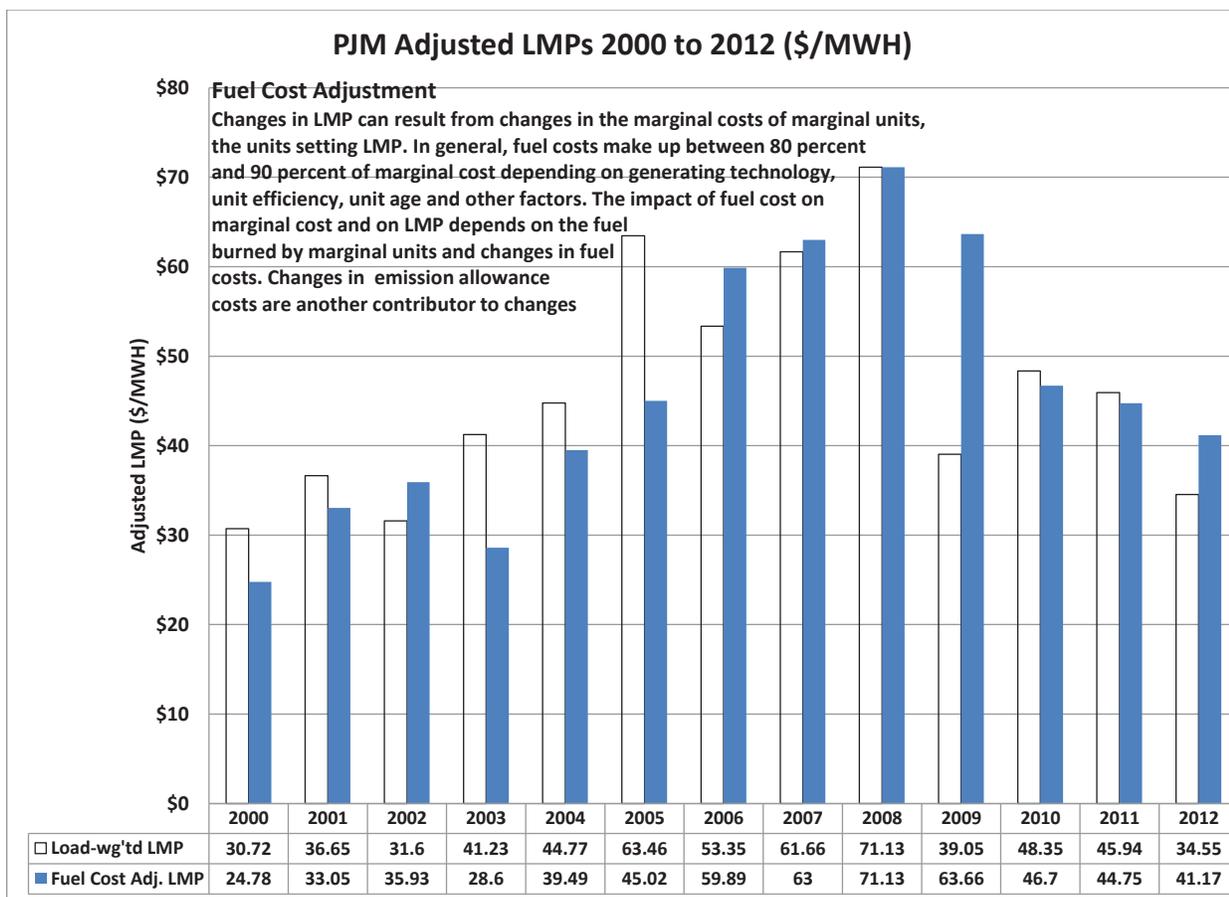
Requested Rate Increase – \$104.6 million (16.5 percent)

Approved Rate Increase – \$71 million (11.2 percent)

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

At the end of Fiscal Year 2012-13, no other electric distribution rate increase requests were pending before the Commission.

WHOLESALE ELECTRIC MARKETS



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

PJM faced many hazards in Fiscal Year 2012-13 including the system demands of an extended heat wave that was followed closely by large-scale outages caused by Hurricane Sandy. The influx of Marcellus Shale natural gas had an increasingly important economic role.



Current trends in the electric power market have put many coal-fired generators in the United States at risk for retirement, according to the U.S. Energy Information Administration. Lower natural gas prices, higher coal prices, slower economic growth, and the implementation of environmental rules play a role in the retirements. Even so, from a pricing perspective, PJM had lower electric energy and capacity prices, driven by natural gas. According to Enerfax Daily, day-ahead electric spot prices averaged \$41.66 per megawatt hour (mwh). As represented by the Transco Zone 6 price, natural gas spot prices were down 37 percent to average just under \$3 per one million British thermal units that led to wholesale PJM price decreases of 22 percent.

PJM prices can be represented by the locational marginal price (LMP). From 2011 to 2012, the PJM fuel-price adjusted LMPs dropped from \$44.75 a mwh to \$41.17 a mwh. At the same time, capacity prices dropped from \$135.82 per megawatts a day (MW-day) to \$90.08 per MW-day in operating year 2012-13; a decrease of 33.7 percent.

PARTICIPATION IN FEDERAL PROCEEDINGS

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

Proceedings at the federal level that the PUC is monitoring or participating in include electric transmission congestion issues; plans to enhance electric market surveillance and analysis; actions on transmission planning and cost allocation; issues with cybersecurity; and proposals on frequency regulation compensation in organized wholesale markets.

ALTERNATIVE ENERGY PORTFOLIO STANDARDS ACT OF 2004

The PUC developed the rules and regulations necessary for fostering Pennsylvania's alternative energy market and continues to address the issues that arise as EDCs, EGSs and alternative energy systems comply with the mandates of the Act. Signed into law on Nov. 30, 2004, the [Alternative Energy Portfolio Standards Act](#) (AEPS) requires EDCs and EGSs to ensure that 18 percent of electricity sold in Pennsylvania is derived from alternative resources by 2020.

All EDCs and EGSs complied with their AEPS obligations by retiring the needed alternative energy credits (AECs) or making alternative compliance payments (ACP) for the 2011 reporting year. One EDC missed a requirement and made an ACP for one credit. Two EGSs did not retire 36 AECs and made ACPs for all of them. All EDCs and EGSs retired the required number of solar AECs.

RELIABILITY

Under the Customer Choice Act, each EDC is obligated to ensure that its service does not deteriorate below the level of service reliability that existed prior to the Jan. 1, 1997, effective date of the Act. The monitoring efforts by the Commission 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., Citizens' Electric Co., Pike County Light & Power and Wellsboro Electric Co. – also must stay within 10 percent of their benchmark for a rolling three-year period, but will be allowed to go up to 35 percent of the benchmark for the rolling 12-month period. Benchmarks are the Commission's goals for each utility based on the number and duration of outages.

The Commission issued the annual reliability report – [Electric Service Reliability in Pennsylvania](#) – in September 2012. The report trends reliability performance from March 2004 through March 2012, and includes the causes of outages, by percentage, and information on all major events.

ELECTRIC POWER OUTLOOK

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

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





INSPECTION AND MAINTENANCE STANDARDS

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

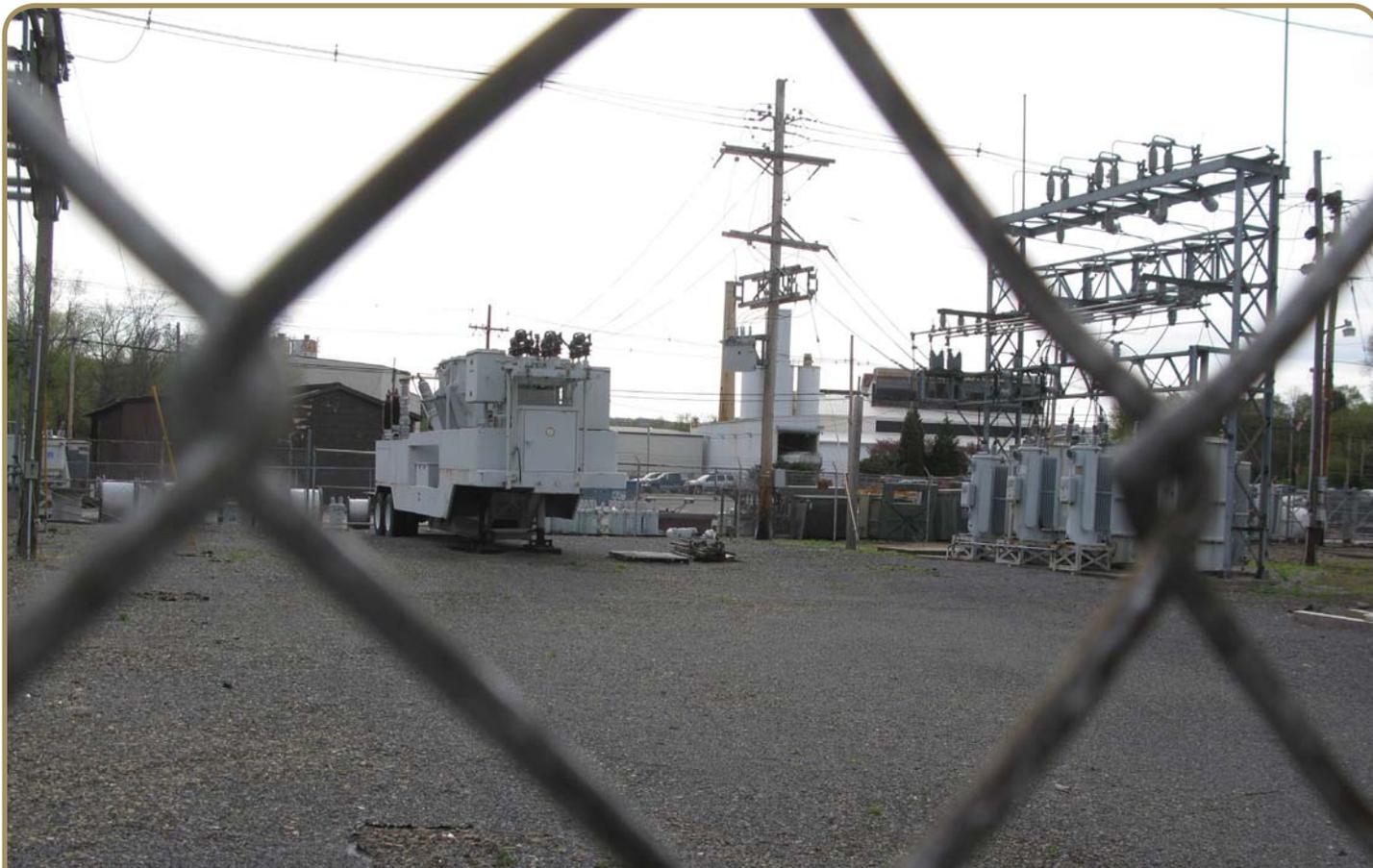
The most recent biennial plans for the periodic inspection, maintenance, repair and replacement of facilities, which are designed to meet performance benchmarks and standards, were filed with the Commission on Oct. 1, 2011, by FirstEnergy (Met-Ed, Penelec and PennPower), West Penn Power and UGI, and became effective on Jan. 1, 2013. Inspection and maintenance plans were filed by Duquesne Light, PECO, PPL, Citizens', Pike County and Wellsboro on Oct. 1, 2012, and will become effective Jan. 1, 2014.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses on making sure that customers are protected, the company is a viable public utility and it is in the public interest. 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. No jurisdictional mergers or acquisitions of electric companies occurred in Fiscal Year 2012-13.

ELECTRIC COMPANY AUDITS

In addition to periodic management and operations audits (MAs) or management efficiency investigations (MEIs), the PUC annually conducts a variety of other EDC audits. During the fiscal year, the PUC completed 34 audits, involving competitive/intangible transition charges, default service, purchased power, non-utility generation, transmission service costs, generation supply service, smart meter, energy efficiency & conservation, purchased power, consumer-education programs and universal service programs. Also, 127 filings requesting changes to established adjustment clause rates were reviewed and processed, implementing revised surcharge rates.



Duquesne Light Co. – AMA contained recommendations that could save the company about \$2.4 million annually. The MA analyzed and evaluated management performance in seven functional areas, making 10 recommendations to the company for improvements.

PPL – An MEI found that PPL is realizing annual savings of \$340,000 from implementation of prior recommendations from the July 2009 MA. The Company could also achieve annual savings of up to \$586,000 and one-time savings of \$3.2 million by implementing the recommendations in the MEI. According to the MEI, PPL has effectively implemented seven of the 21 prior recommendations and has taken some action on the remaining 14 recommendations.

Pike County Light & Power – An MEI found that Pike County had substantially implemented prior audit report recommendations to improve company efficiency and effectiveness. The MEI examined the company's progress in implementing the six original recommendations from the prior management audit report released in January 2010 and reviewed the Company's compliance with PUC emergency preparedness regulations. Pike County has effectively or substantially implemented five of the six prior recommendations reviewed and has taken some action on the remaining recommendation.

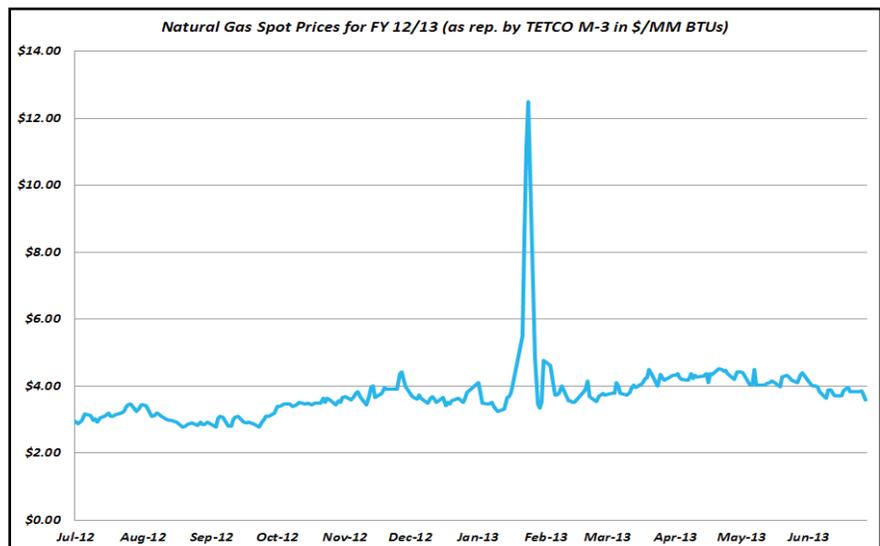


NATURAL GAS

Increased natural gas supply in the state played a part in reducing and stabilizing natural gas prices in Fiscal Year 2012-13. That increased supply was accompanied by an increased need to transport natural gas from the wellhead to compressor stations to the wholesale market. This development is in addition to the existing 46,000 miles of natural gas distribution pipelines that bring natural gas to consumers' homes and businesses. All of this has increased the spotlight on natural gas and pipeline safety. At the end of the fiscal year, Pennsylvania had 29 regulated natural gas distribution companies (NGDCs) and 130 licensed natural gas suppliers (NGSs).

WHOLESALE NATURAL GAS PRICES

For Fiscal Year 2012-13, natural gas price fluctuations were more normal by historical standards, with lower prices in the summer months and higher prices in the winter months. During the fiscal year, Pennsylvania natural gas spot prices averaged \$3.77 per million British Thermal Units (MM Btus). Overall, the United States experienced lower spot prices averaging \$3.44/MM Btus. Pipeline, and other infrastructure restrictions kept the local basis in place between the Henry Hub and the TETCO M-3 (Marcellus spot) price in place for Fiscal Year 2012-2013.



The Energy Information Association (EIA) expects that natural gas consumption, which averaged 69.7 billion cubic feet per day (Bcf/d) in 2012, will average 70 Bcf/d and 69.6 Bcf/d in 2013 and 2014, respectively. Colder winter temperatures forecasted for 2013 and 2014 (compared with the record-warm temperatures in 2012) are expected to increase the amount of natural gas used for residential and commercial heating. However, the projected year-over-year increases in natural gas prices contribute to declines in natural gas used for electric power generation from 25 Bcf/d in 2012 to 22.5 Bcf/d in 2013 and 22.1 Bcf/d in 2014, although these forecast levels are still high by historical standards.

The Marcellus and Utica Shale formations have the potential to produce considerable volumes of natural gas and natural gas liquids. However, these formations are not achieving their true potential due to a lack of pipeline and processing infrastructure. In fact, today, the Marcellus in its entirety produces more than 9 Bcf/d.

At present, for Fiscal Year 2012-13, pipeline infrastructure development needed to serve the major Pennsylvania part of the Marcellus is estimated to cost just under \$2.4 billion, and will result in the construction of approximately 275 miles of new pipeline capacity. Upon completion, the new pipelines will allow 3.7 Bcf/d of new Marcellus Shale Gas to be transported to the marketplace.





ACT 13 OF 2012 (IMPACT FEE)

Act 13 of 2012, the Unconventional Gas Well Impact Fee Act, amended Title 58 (Oil and Gas) of the Pennsylvania Consolidated Statutes. The PUC is responsible for collecting and distributing the state's Unconventional Gas Well Impact Fee under Act 13 of 2012.

The Impact Fee producer payments for 2012 totaled about \$202.5 million. Of that, about \$102.7 million will be distributed directly to county and municipal governments that are directly affected by drilling. Also, \$28 million will be distributed to state agencies impacted by drilling. The remaining \$71.8 million will be placed into the Marcellus Legacy Fund, which was established under the law to fund environmental, highway, water and sewer projects, rehabilitation of greenways and other projects throughout the state.

A breakdown of the payments to county and municipal governments, specifics on how much money was collected and comparisons to 2011 data is available

on the [Act 13/Impact Fee webpage](#). The website includes graphical data analyses including the top paying producers, well count breakdowns and top receiving counties and local governments.

Producer Impact Fee payments are due to the PUC on April 1 of each year. Distributions of the money collected by the PUC are due to county and municipal governments by July 1 each year. County and municipal government information on how the 2012 Impact Fee monies were spent was due to the PUC by April 15, 2013. Forms and other information needed by producers and local government also are available on the website.

At the end of Fiscal Year 2012-13, Chapter 33 of the law, which governs local ordinances that impose conditions, requirements or limitations on oil or gas operations, was subject to proceedings in the state appellate courts. Because of that, the PUC delayed final implementation of duties for reviewing local municipal ordinances.

PIPELINE SAFETY

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

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

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

For Fiscal Year 2012-13, the Commission's authorized budget to implement Act 127 was \$439,000. Under the law, the cost of the program is allocated by mile among the companies. For the fiscal year, 92 companies registered with the Commission – of those 51 companies have a total of 886.7 miles eligible for assessment.

In another step to increase monitoring of natural gas pipelines, the Commission finalized [regulations](#) to create a uniform definition of unaccounted-for-gas (UFG) and level metrics for natural gas distribution system losses for the NGDCs. The rulemaking is designed to help eliminate any reporting inconsistencies of UFG that may currently exist. A uniform definition for UFG will provide the Commission with a consistent, fair, clear and concise method to assess UFG within gas cost proceedings and filings, annual reports and other investigations.



NATURAL GAS PIPELINE REPORTABLE INCIDENTS

During the fiscal year, the Commission investigated three reportable incidents. During the previous five fiscal years, natural gas utilities reported incidents, including two in fiscal years 2008 and 2009, three in fiscal years 2010 and 2011 and two in 2012. The PUC has identified the most frequent causes of reportable incidents as excavation damage; natural causes such as flooding; automobile accidents; pipeline leaks caused by corrosion; and human error. The PUC uses information gathered from its incident investigations to ensure its inspection efforts are focused on the areas that have previously resulted in reportable incidents.

NATURAL GAS SAFETY INVESTIGATIONS

In Fiscal Year 2012-13, the PUC filed the following formal complaints or considered settlements with natural gas companies following informal investigations into alleged violations of the Public Utility Code:

PECO – On May 24, 2012, the PUC approved a settlement with a \$75,000 civil penalty following an informal investigation by the PUC's Independent Bureau of Investigation and Enforcement (I&E). The investigation stemmed from a house explosion in Swedeland, Montgomery County.

PGW – On Dec. 15, 2011, I&E filed a formal complaint against PGW following an investigation into a Jan. 18, 2011, explosion in Philadelphia that killed one person. In its complaint, I&E alleged that PGW violated the

Public Utility Code or federal regulations 334 times in connection to the explosion. I&E and PGW reached a settlement that included a \$400,000 civil penalty and \$100,000 to be paid to the Philadelphia Fire Department smoke detector program. In agreement to the settlement, PGW admitted no wrongdoing. The Commission will consider the settlement in Fiscal Year 2013-14.

UGI – Allentown – On Jan. 24, 2013, the PUC finalized a settlement related to a formal complaint against UGI following an investigation into a Feb. 9, 2011, explosion in Allentown that killed five people. I&E alleged that UGI violated the Public Utility Code or federal regulations 179 times in connection to the explosion. The Commission raised the proposed \$380,000 civil settlement to \$500,000 and required the company to implement an enhanced leak detection program.

UGI – Millersville – On May 9, 2013, the PUC approved a settlement with UGI following an investigation into an Oct. 11, 2011, explosion in Millersville that caused about \$455,000 in damage to two properties. I&E alleged that UGI violated the Public Utility Code or federal regulations 26 times in connection to the explosion. The settlement included a \$200,000 civil settlement.

ADDITIONAL GAS SAFETY ACTIVITIES INCLUDED:

- 1,644 inspections (compliance, regulator and relief station, discontinued service, corrosion control, transmission line, and compressor station inspections);
- Three investigations of reportable incidents;
- 47 non-compliance letters issued;
- 171 gas safety violations issued;
- 115 violations handled by non-compliance letters; and
- 56 violations pursued by prosecutory staff.

INCREASED AVAILABILITY OF NATURAL GAS TO CONSUMERS



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

The decision on whether to extend a natural gas line to new customers is governed by the natural gas utility's tariff. The tariff includes an economic analysis that requires utilities to weigh both the cost and expected revenue from the extension to determine whether the extension is economic and whether a customer contribution to the project is necessary. This method results in the extension of gas lines to more densely-populated urban areas or in very close proximity to areas where lines already exist. Depending on the distance between where service is desired and the closest distribution and transmission line, these line extensions often require a large contribution from the customer who then ultimately decides not to pursue the project.

The PUC is engaged with the General Assembly and the Administration to determine a way to bridge the gap so that utilities are able to make investments in infrastructure to serve more customers in a way that does not burden existing customers. Despite these challenges, extending natural gas service to more Pennsylvanians is an important goal for the PUC.

On Sept. 27, 2012, the PUC approved Leatherstocking Gas Co., to begin offering natural gas distribution service to portions of Susquehanna County. It is the first new local distribution gas company to begin providing service in Pennsylvania in decades. Leatherstocking proposes to build out its Pennsylvania facilities over a five-year period, completing efforts in 2017. The company plans to obtain local or Marcellus Shale gas supply.



On June 18, former Commissioner Wayne Gardner (far left) and Commissioner Pamela Witmer (second from the right) attended a groundbreaking by Leatherstocking Gas Co. at Montrose Area High School, Susquehanna County.

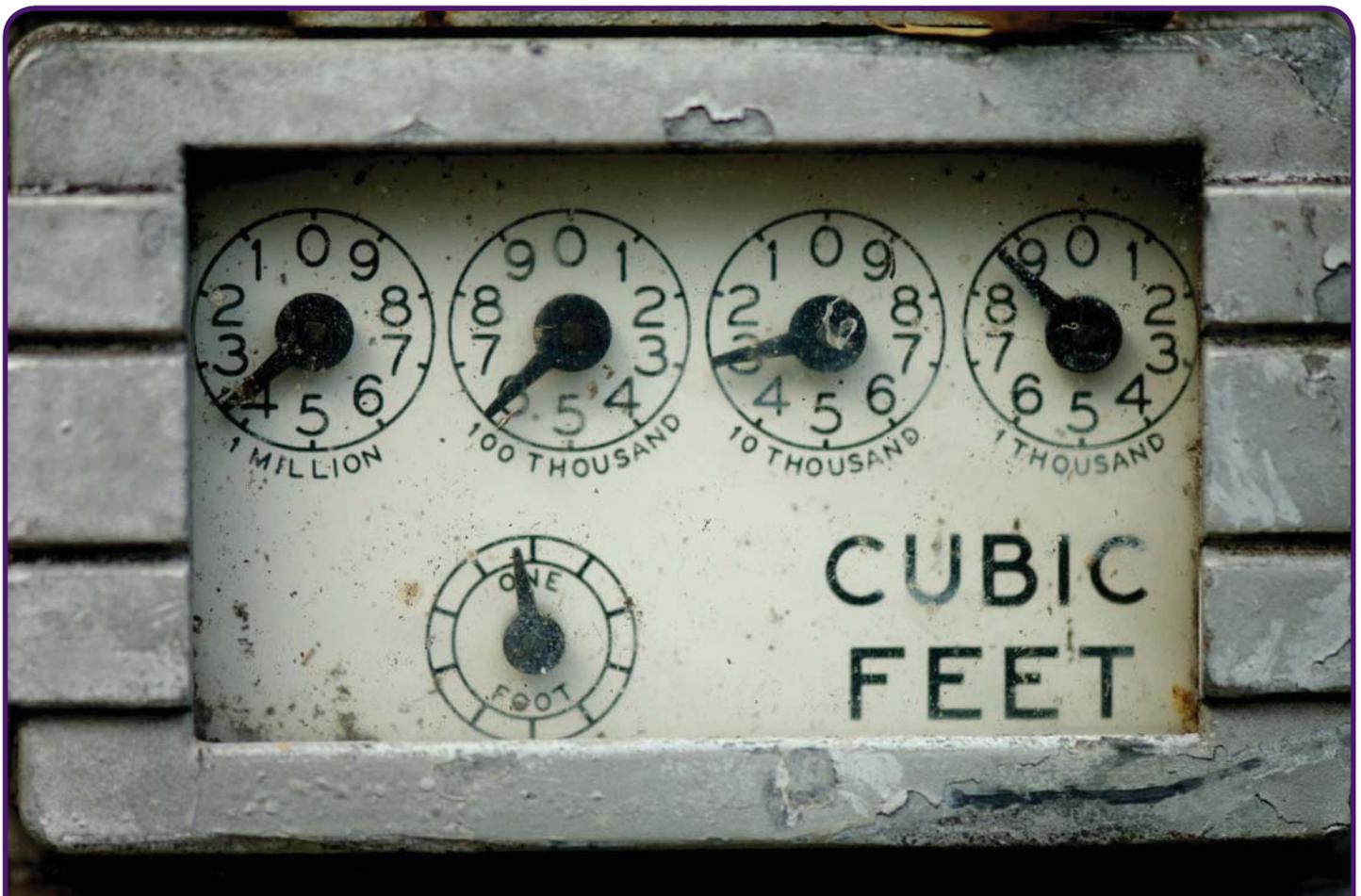
NATURAL GAS COMPETITION

The Commission continues to move forward with implementing an action plan that grew out of the efforts of 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. SEARCH was created as a result of an October 2005 Commission report that found that effective competition did not exist in Pennsylvania's natural gas retail market.

The SEARCH action plan was designed to increase effective competition in the retail market for natural gas supply and includes three rulemakings: a second that addressed market issues; one that addressed security requirements related to licensing natural gas suppliers (NGSs); and a third that addressed natural gas distribution company (NGDC) business practices.

The Commission proposed changes to regulations regarding [NGS licensing requirements](#) as part of an advanced notice of final rulemaking. The changes include eliminating the definitions of a "marketing service consultant"; incorporating new entities referred to as "aggregators," "brokers" and "non-selling marketers"; and continuing the exemption for nontraditional marketers and establishing the exemption for non-selling marketers under contract to only one NGS.

The Commission expects to finalize the rulemaking and initiate a five-year review of efforts to remove barriers to effective competition in Fiscal Year 2013-14.



DISTRIBUTION RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to about \$55.5 million in rate increase requests from jurisdictional gas distribution companies:

Columbia Gas

Customers – 415,000 in 26 counties

Requested Rate Increase – \$77.3 million (20.6 percent)

Approved Rate Increase – \$55.3 million (14.6 percent)

Primary Reason – To recognize additional plant and improvements that increased rate base and to enhance and ensure the reliability of service.

Herman Riemer Gas Co

Customers – 643 in 1 county

Requested Rate Increase – \$405,202 (77.5 percent)

Approved Rate Increase – \$205,000 (39.2 percent)

Primary Reason – To recognize additional plant and improvements that increased rate base.

At the end of Fiscal Year 2012-13, one natural gas rate increase request for approximately \$18.7 million from Peoples TWP was pending before the Commission. Information about the [ratemaking process](#) is available on the PUC website.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission focuses on making sure that customers are protected, the company is a viable public utility and it is in the public interest. 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. No mergers or acquisitions of natural gas companies were completed in Fiscal Year 2012-13. Pending before the Commission is the proposed acquisition of Equitable Gas Co. LLC by Peoples Natural Gas Co. LLC, which was filed in March 2013.

GAS COMPANY AUDITS

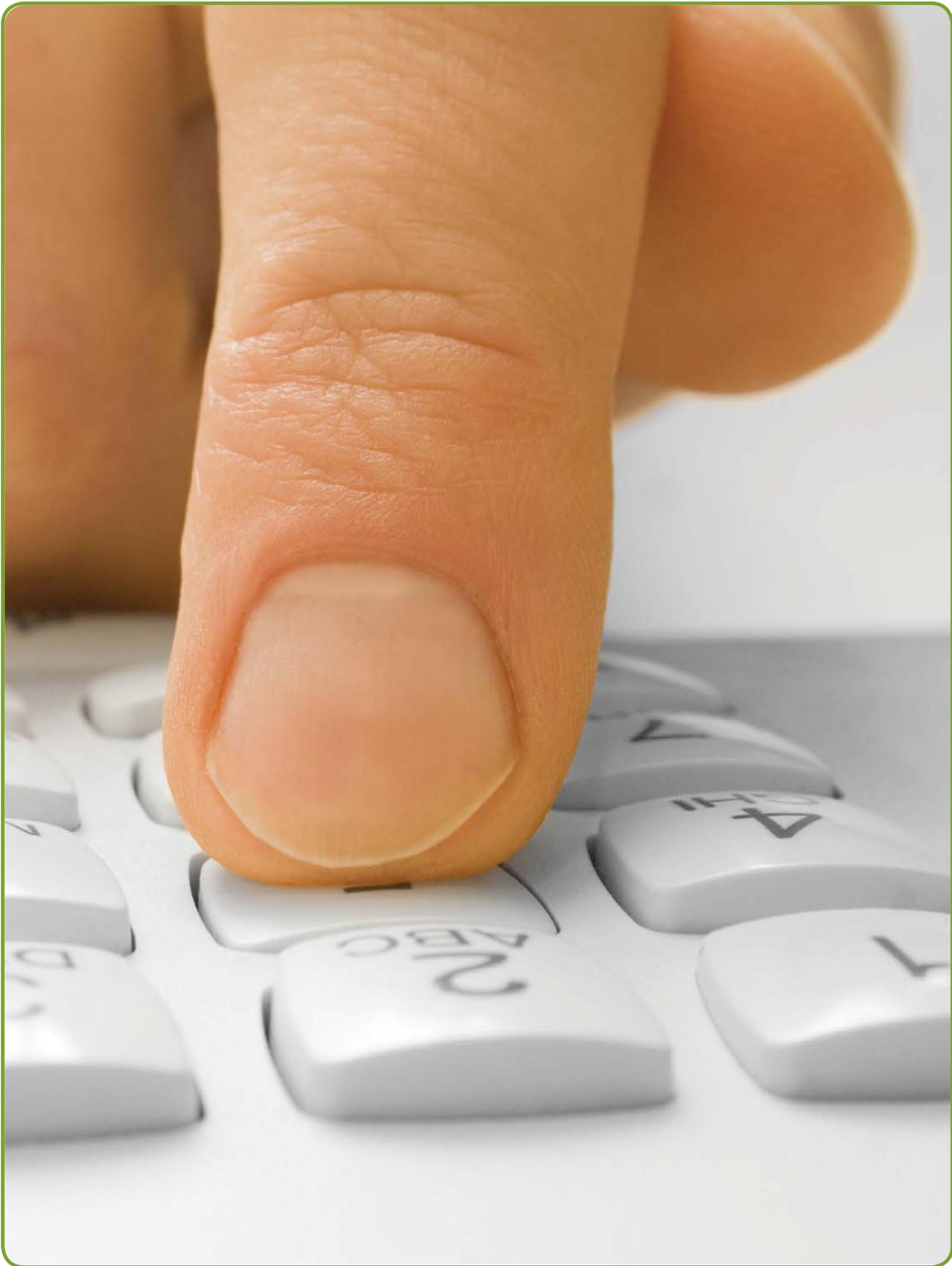
During the fiscal year, the Commission's Bureau of Audits completed seven purchased gas cost (PGC) audits, 18 gas cost rate (GCR) audits, two universal service audits and two consumer-education audits. The Bureau of Audits also reviewed 14 GCR, one consumer education, and one universal service fund charge (USFC) adjustment clause filings implementing revised GCR, consumer education and USFC rates. In addition, the Bureau performs periodic management and operations audits (MAs) and management efficiency investigations (MEIs) of natural gas distribution companies. Among those MAs and MEIs completed during the 2012-2013 fiscal year were:

Peoples TWP – An MEI showed the company is realizing annual savings of \$306,000 from implementation of prior recommendations from an MA. The MEI examined Peoples TWP's progress in implementing 17 of the 28 original recommendations from the April 2009 MA. According to the MEI, Peoples TWP has effectively implemented 13 of the 17 prior recommendations reviewed and has taken some action on the remaining four recommendations.

PGW – An MEI recommended changes that could result in up to \$21 million in annual savings for PGW. These savings are in addition to the \$25 million annual savings and \$2 million in one-time savings that PGW already realized by implementing 55 of the original 93 recommendations from a February 2009 MA.

STEAM HEAT

Three steam heat utilities currently operate in Pennsylvania. Generally, steam heat is produced in central generation plants by heating water to its boiling point, and then distributing the steam heat to users through a series of underground pipes. In Fiscal Year 2012-13, the PUC reviewed and processed 26 (monthly and annual) steam cost rate adjustment clause filings submitted by jurisdictional steam heat companies. In addition, two steam cost rate audits were completed.



TELECOMMUNICATIONS

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

REGULATED TELEPHONE COMPANIES

The three largest incumbent local exchange carriers (ILECs) are Verizon Pennsylvania Inc., Verizon North LLC and The United Telephone of Pennsylvania LLC d/b/a CenturyLink (CenturyLink).

CURRENT CERTIFICATIONS FOR TELECOM	
Competitive Local Exchange Carriers	174
Incumbent Local Exchange Carriers	37
Competitive Access Providers	95
Interexchange Carriers, Toll Facilities-Based	65
Interexchange Carriers, Toll Reseller	336
TOTAL	707

NUMBERING PLANS

Due to rigorous number conservation encouraged by the Commission, previously filed petitions for area code relief in the 717 and 814 area codes were not necessary at this time. However, the North American Numbering Plan Administrator (Nuestar), which is the neutral third-party Number Planning Area (NPA) or area code relief planner for Pennsylvania, has informed the PUC, based on current numbering exhaust forecasts that three of Pennsylvania's six area codes are scheduled to exhaust in approximately four to five years. The 717 and 215/267 area codes are expected to exhaust in four years, while the 814 area code is expected to exhaust in five years. An overlay, which is when a new area code is issued within an existing area code, is pending implementation in the 570 area code. 272 will be the new area code when the overlay is activated in October 2013.

INTERCARRIER COMPENSATION/UNIVERSAL SERVICE REFORM/ CONNECT AMERICA FUND

On Nov. 18, 2011, the Federal Communications Commission (FCC) issued the Intercarrier Compensation/Universal Service Reform Order creating a Connect America Fund (CAF) that affected a series of changes and reforms in the federal universal service fund mechanism and in various parameters of intrastate and interstate intercarrier compensation. The Order is a complex and comprehensive proposal to restructure the nationwide telecommunications marketplace. The Commission continues to evaluate and implement this complex decision to determine the impact to Pennsylvania markets, providers, consumers and our laws. More information on the steps the PUC is taking is available on the Commission's [website](#).



The FCC Order mandates the states to implement various provisions of the Order by certain timelines. The PUC has implemented the initial two-year phase down of intrastate access charges by all carriers. These reductions took place on July 1, 2012, and July 1, 2013.

The Commission recently [granted eligible telecommunications carrier \(ETC\) status](#) to several carriers who wanted to bid in the upcoming federal auction of \$300 million in support for wireless service in unserved areas under the FCC's Order. The Commission grants ETC status to wireline and wireless carriers if they are in compliance with federal and state laws as well as Commission regulations. The carrier that received a timely ETC designation to participate in the auction was ultimately successful in getting funding to serve a part of Pennsylvania that is currently without wireless service. The Commission continues to participate in FCC proceedings on matters arising from this action, even though the Commission is appealing the decision.

The Commission has appealed certain provisions of the FCC Order to federal court. The PUC opposed the FCC's claim in the Order that it has legal authority to preempt Pennsylvania regulation of intrastate rates, the process by which the FCC made its decision, and the undermining of existing Pennsylvania laws. The parties will finish briefing the case and oral argument before the U.S. Court of Appeals for the 10th Circuit, which is set for November 2013. A decision is expected sometime in 2014.

INTRASTATE RLEC ACCESS CHARGE INVESTIGATION

In April 2013, the Commission approved the Order prescribing the filing timelines and required documentation for the FCC-mandated intrastate access charge reductions. ILECs were to file tariff supplements and supporting spreadsheets by May 2013, while CLECS were to file tariff supplements and supporting spreadsheets by June 2013.

In 2012, the Commission completed its investigation into the Rural Telephone Companies' access charges. In March 2012, the PUC [reopened the record](#) in its investigation regarding intrastate access charges paid by long distance companies to incumbent rural local exchange carriers (RLECs) for the limited purpose of examining the cross-effects of the FCC Order discussed above on the PUC's July 2011 access charge ruling. The PUC addressed the petitions for reconsideration filed in this proceeding and issued a decision in August 2012. In the decision, the Commission ruled on eight provisions. More information is available on the PUC [website](#).

INTERCARRIER COMPENSATION DISPUTES IN PENNSYLVANIA

In addition to the major access charge investigations, and compliance with the FCC's November 2011 mandates, litigation continues before the Commission for various complaints filed by both ILECs and CLECs concerning the application and payment of intercarrier compensation. Some cases hinge on whether intercarrier compensation can be assessed on certain types of traffic such as internet, broadband, wireless, local calls, and wholesale service.

MANDATED ACCESS CHARGE REDUCTIONS, REVISIONS

In addition, the FCC order required all Pennsylvania ILECs and CLECs (collectively LECs) to begin a transition of intercarrier compensation to a bill-and-keep methodology. At the outset of this transition, all intrastate switched access rate elements for LECs classified as federal price cap carriers are capped at current levels in effect on Dec. 29, 2011, and all terminating switched access rate elements for LECs classified as federal rate of return carriers are capped at current levels in effect Dec. 29, 2011. Subsequent to this, LECs make filings effective on July 1 of each year to gradually transition certain interstate and intrastate switched access rates to meet the federal reductions. In addition, local exchange carriers (LECs) submitted tariff amendments addressing intercarrier compensation for voice over the Internet Protocol (VoIP) call traffic that is exchanged with other carriers. The PUC has examined and approved these amendments on a case-by-case basis.

REQUIREMENT TO OPERATE TELECOMMUNICATIONS AUTHORITY

In July 2012, the Commission issued a [Final Order](#) to implement a one-year timeframe requirement for telecommunication carriers to actively provide service on an annual basis to customers within the state. The Commission directed that the timeframe would begin with a Secretarial Letter issued September 2012.

VERIZON'S PERFORMANCE ISSUES

The PA Carrier Working Group (CWG) – comprised of Verizon PA, competitive local exchange carriers (CLECs), the Office of Consumer Advocate, the Office of Small Business Advocate, Commission staff, and other interested parties – focuses on the quality of the wholesale service that Verizon PA renders to the CLECs. The PA CWG also works with similar CWG groups throughout the Verizon multi-state footprint to resolve issues in a manner consistent with Verizon and CLEC multi-state operations.

Verizon PA's wholesale interconnection service is [evaluated using metrics](#) that measure its

performance against Verizon PA's retail service or against benchmarks if there is no comparable retail service, as detailed in the PA Carrier-to-Carrier (C2C) Guidelines. The parties expect to report on the audit results in Fiscal Year 2012-13.

INFORMATIONAL TARIFFS FOR COMPETITIVE SERVICES

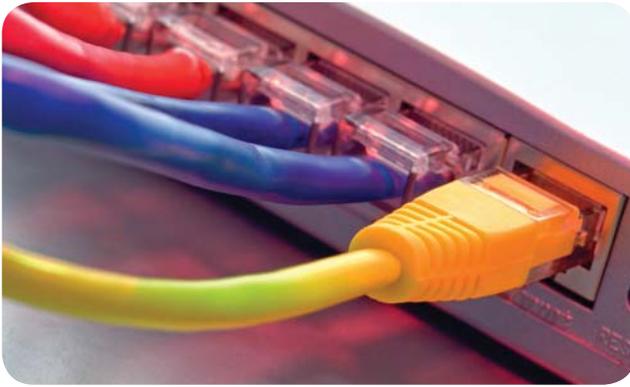
In July 2011, Verizon Pennsylvania Inc. and Verizon North LLC appealed a June 24, 2011 [PUC Order](#) suspending tariff revisions filed by Verizon that withdrew the company's informational tariffs and instead made all rates, terms, and conditions associated with its competitive products and services available in a "Price List and Product Guide" maintained on its website. The PUC said Verizon's revisions could violate the company's amended Chapter 30 alternative regulation and network modernization plan (NMP). The Commission directed that the revisions were suspended for six months and provided for a comment period with respect to the proposed revisions. On Aug. 8, 2012, the Commonwealth Court issued a decision affirming the Commission's Order, finding that the Commission's suspension of Verizon's proposed revisions was necessary to ensure compliance with the NMP amendment process, including giving all parties notice and an opportunity to be heard.

CHAPTER 30

[Chapter 30 of Title 66](#) authorizes the Commission to oversee the ILECs' NMPs for the deployment of broadband connections to the Internet and other services along with specific rate-making principles.

Twenty-nine ILECs completed their broadband commitments by Dec. 31, 2008. CenturyLink, Windstream PA, Verizon PA and Verizon North plan to complete their broadband deployments





by 2013-15 and undertook obligations outlined in Chapter 30 for the [Bona Fide Retail Request program](#) (BFRR), the [Business Attraction or Retention Program](#) (BARP) and the [Broadband Outreach and Aggregation Fund](#). The FCC's recent order modifies the Ch. 30 mandate with higher speeds, etc.

PUC-APPROVED PRICE CAP FILINGS

Many incumbent local exchange carriers (ILECs) adopted price caps using the gross domestic product price index minus an offset as outlined in Chapter 30. As a result, the annual price cap calculations are either accompanied by rate changes or the company takes the opportunity to bank the changes. Through past settlements reached with the state's Office of Consumer Advocate, most of the ILECs are required to implement banked revenue changes in actual rates within four years or forego the revenue increase. Verizon PA, Verizon North and CenturyLink are required to immediately implement any rate decrease of more than \$500,000. In Fiscal Year 2012-13, ILECs were authorized a total of \$11.102 million under their respective price cap filings. Of this, the companies banked \$5.09 million for future use while \$2.525 million was netted against mandated rate decreases or foregone due to settlement agreements. Inclusive of previously authorized banked amounts, price cap companies implemented a total of \$5.864 million into rate increases during the fiscal year.

PA UNIVERSAL SERVICE FUND

The [PA Universal Service Fund](#) (PaUSF), initially set at \$32 million annually, supports the affordability of basic local telephone service that is provided by rural ILECs in Pennsylvania. About 300 telecommunications service providers

contribute to the Fund and payments are disbursed monthly to 32 qualified recipients. At the current time, wireless carriers are not required to contribute to the Fund.

In December 2012, the Commission approved a state USF contribution rate for the 2013 calendar year calculated to produce a total fund size of approximately \$35.31 million. The amount is divided as follows: approximately \$33.613 million is distributed among recipient carriers; \$1.5 million is held in reserve for uncollectibles; \$94,800 is paid to the third-party administrator; and, \$23,400 is paid to an external auditor. Through a [rulemaking proceeding](#), the Commission is planning to evaluate potential reforms to the PaUSF and its regulations.

LIFELINE PROGRAM CHANGES

During the fiscal year, the FCC issued a Lifeline Reform Order and Notice of Proposed Rulemaking on procedures the FCC will implement to reduce waste, fraud, and abuse in the Lifeline program, particularly the pre-paid wireless service supported by the federal Lifeline program. The Commission is working with industry and other state agencies, particularly the Department of Public Welfare, on providing information so that carriers can verify a customer's eligibility under federal and state rules. The FCC is also implementing a \$25 million broadband pilot program for Lifeline customers to determine if a nationwide broadband lifeline program should be implemented by the Federal Universal Service Fund (FUSF). This could greatly increase FUSF costs, a fund into which Pennsylvania paid \$65 million more than it received last year.

MERGERS AND ACQUISITIONS

When reviewing mergers and acquisitions of utility companies, the Commission's regulations governing approval focus on making sure that customers are protected, the company is a viable public utility and the transaction is in the public interest. In Pennsylvania the legal standard asks whether an affirmative public benefit will result from the merger or acquisition. Public benefit is defined typically as protecting the public interest, encouraging economic development and safeguarding the environment. Fifty-two mergers or acquisitions of telephone companies occurred in Fiscal Year 2012-13.

PUC INVOLVEMENT AT THE FCC

Federal telecommunications regulation by the FCC is playing an increasingly important role in Pennsylvania telecommunications. The activity has increased

dramatically because of the Nov. 18, 2011 FCC Order that was previously discussed. The Commission has been active in several FCC proceedings focused on opposition to preemption of Pennsylvania law and ensuring that Pennsylvania interests are expressed to the FCC. Recent filings include: a proposal to treat larger carriers as non-dominant carriers; the regulation of 911 service in light of changing technology; how the states and the FCC can ensure continuous service in the wake of natural or man-made disasters; whether companies not regulated by the Commission should get telephone numbers instead of getting them from a carrier that the Commission does not regulate; and how the federal funds should be reformed to minimize large states' contributions.

Commission staff also serves as lead on the Telecommunications Staff Committee, which is part of the Mid-Atlantic Conference of the Regulatory Utility Commissions (MACRUC). As part of the PUC's participation, staff monitors FCC developments and draft joint MACRUC recommendations for adoption by the MACRUC states on matters of joint state concerns. The Commission also is actively involved with the National Association of Regulatory Utility Commissioners (NARUC) to ensure that Pennsylvania and MACRUC regional concerns are considered in making decisions about what services should be supported at what funding level. One PUC Commissioner currently serves as a member of the advisory Federal-State Joint Board on Universal Service that was created by the federal Telecommunications Act of 1996.

CONSUMER ACCESS TO 911 SERVICE DURING PROLONGED POWER OUTAGES

In April 2013, the Commission determined the allegations in the *Floyd v. Verizon Pennsylvania LLC* case involving a Verizon FiOS consumer who lost access to 911 service during an extended power outage did fall under the Commission's jurisdiction. The VOIP Freedom Act generally prohibits the Commission from regulating the rates, terms and conditions of IP-enabled retail voice service. However, the Act contains certain exceptions under which the Commission retains authority to regulate, including the provision and administration of 911 service and contributions to universal service. As a result of this case, it was further determined that upon signing up for FiOS Digital Voice service, customers



should be fully informed about the battery back-up unit, its extended emergency calling capabilities, and how the customer can make a 911 call during a prolonged power outage by using the "battery emergency usage" button.

The Commission has also been actively involved in FCC efforts to address 911 reliability in proceedings after the 2012 Derecho and Hurricane Sandy.

VERIZON CHAPTER 63 QUALITY OF SERVICE SETTLEMENT

On Oct. 12, 2012, the Commission approved a joint settlement filed between Commission staff and Verizon designed to improve the quality of service as well as a temporary exemption from certain regulations in question. The settlement addresses issues in an informal investigation initiated by Commission staff as well as a waiver so that 85 percent of calls seeking repair service or to the business office during normal working hours be answered within 20 seconds. Verizon agreed to several provisions as part of the [settlement](#).

VERIZON PA NETWORK MODERNIZATION AUDIT

Pursuant to the Commission's Secretarial Letter issued Feb. 6, 2009, to Verizon Pennsylvania LLC the Commission adopted the Resolution of [Audit Recommendations](#) resulting from the Network Modernization Plan Audit of Verizon Pennsylvania Inc. and directed Verizon and staff to discuss and agree upon provisioning benchmarks for the reporting periods ending in 2014 and 2015. As such, meetings between Commission staff and Verizon took place in September 2012 and November 2012. Provisioning benchmarks were agreed upon and subsequently approved by the Commission. More information on the [benchmarks](#) is available on the PUC website.



WATER / WASTEWATER

The Commission regulates the rates and service of about 150 water and wastewater companies, including a number of municipal water and wastewater systems, and continues its oversight of the water affected by Marcellus Shale drilling and its supply. In Fiscal Year 2012-13, the Commission acted on ten water and wastewater rate increase requests. The Commission also processed 17 requests for additional territory, abandonments and formation of new companies. The Commission continues to implement a water audit program, which is intended to enhance the companies' tracking of levels of unaccounted-for water.

WATER AUDIT PROGRAM

On Jan. 24, 2013, the Commission entered an [Advance Notice of Proposed Rulemaking \(ANOPR\) Order](#) regarding its water audit methodology. In that ANOPR Order, the Commission indicated that a remaining question going forward for the Commission and the water industry is whether the Commission should revise its existing regulations regarding unaccounted-for-water at 52 Pa. Code § 65.20, or, whether it is necessary for the Commission to adopt new regulations regarding the water audit methodology. The Commission also invited comments from the regulated community and other interested parties on the experienced benefits and costs of the water audit methodology.

On Jan. 27, 2012, a [Secretarial Letter](#) finalized the [Tentative Opinion and Order](#) directing five water companies to begin filing annual Water Audit summaries beginning with the year ended Dec. 31, 2011. The five companies are Aqua Pennsylvania, Inc.; The York Water Co.; The Superior Water Co.; United Water Pennsylvania, Inc. and Pennsylvania American Water Co. The water audit program is designed to enhance the companies' tracking of levels of unaccounted-for water, which is water that is lost between the treatment plant and sale to customers.

All other Class A water companies were to begin filing this report for the year ended Dec. 31, 2012. In addition, the Commission's Law Bureau was directed to initiate the rulemaking process to implement the Water Audit as a best management practice in water loss control in Pennsylvania.

WATER AND WASTEWATER PLANT INSPECTIONS

The Commission conducted 24 plant inspections in Fiscal Year 2012-13. Random inspections are conducted at various times, usually to inspect companies that have not had any recent inspections. If violations are found, the company is directed to correct the problem. If the problem is not corrected, Commission staff conducts an informal investigation. The 24 inspections conducted in Fiscal Year 2012-13 involved five random, 10 security audit, five compliance, one rate case, two investigative and one plant tour by the Commission's staff. The rate case inspection was conducted in connection to a rate case filing by a utility. Commission staff conducted the inspection to discuss the rate case filing and to look at the wastewater facilities. These security audit inspections were done to ensure the





utility's compliance with the requirement that a utility have physical security, cyber security, emergency response and business continuity plans, and to take whatever further action that may be warranted. Commission staff also conducted five compliance inspections. Compliance inspections are spot inspections conducted on compliant utilities to ensure that the recommendations in the Audits report were completed. The two investigative inspections were conducted in connection with incidents that occurred in the utilities requiring the Commission to initiate an investigation.

DISTRIBUTION RATE INCREASE REQUESTS

During the fiscal year, the Commission took the following actions related to approximately \$3.1 million in rate increase requests:

Audubon Water Co.

Customers Served: 3,064 in portions of Lower Providence Township, Montgomery County

Requested Rate Increase: \$540,686 (27 percent)

Approved Rate Increase: \$486,483 (24.2 percent)

Primary Reason: To recover increases in operational costs; to recover expenditures for the construction of new facilities and plan additions; and to maintain and improve water service reliability.

Blaine E. Rhodes Sewer Co.

Customers Served: 222 in a portion of Sugarcreek Borough, Venango County

Requested Rate Increase: \$13,247 (19.9 percent)

Approved Rate Increase: \$10,351 (15.5 percent)

Primary Reason: To recover increased operating expenses and to secure the necessary funds to satisfy long- and short-term incurred debt requirements.

Borough of Hanover Water Dept.

Customers Served: 9,941 in various areas outside the borough's limits, Adams and York counties

Requested Rate Increase: \$980,973 (29.7 percent)

Approved Rate Increase: \$782,000 (23.4 percent)

Primary Reason: To ensure adequate funds to continue to operate; properly maintain facilities; and to ensure the necessary funds to satisfy outstanding financial obligations.

Borough of Quakertown Water Dept.

Customers Served: 931 in various areas outside the borough limits, Bucks County

Requested Rate Increase: \$278,854 (87.9 percent)

Approved Rate Increase: \$152,328 (48 percent)

Primary Reason: To allow for the opportunity to realize a reasonable rate of return and to recover increased operating expenses.

City of Lancaster Sewer Dept.

Customers Served: 3,374 in various areas outside of the city limits, Lancaster County

Requested Rate Increase: \$551,609 (58.6 percent)

Approved Rate Increase: \$399,000 (42.4 percent)

Primary Reason: To secure the necessary funds to continue to operate, maintain and renew its facilities to properly meet its financial obligations.

Conewago Industrial Park Water and Sewer Co.

Customers Served: 24 in portions of West Donegal Township, Lancaster County

Requested Rate Increase: \$30,029 (46.2 percent)

Approved Rate Increase: \$30,029 (46.2 percent)

Primary Reason: To recover increased operating expenses.

North Heidelberg Sewer Co.

Customers Served: 254 in portions of North Heidelberg and Jefferson townships, Berks County

Requested Rate Increase: \$106,139 (77.6 percent)

Approved Rate Increase: \$75,000 (54.8 percent)

Primary Reason: To recover increased operating costs.

Plumer Water Co.

Customers Served: 57 in the village of Plumer and a portion of Cornplanter Township, Venango County

Requested Rate Increase: \$7,891 (30 percent)

Approved Rate Increase: \$7,891 (30 percent)

Primary Reason: To secure the revenues necessary to recover increased operating expenses and to enable the company to make payments on its long- and short-term debt.

Rock Spring Water Co.

Customers Served: 488 in Ferguson Township, Centre County

Requested Rate Increase: \$21,813 (18.9 percent)

Approved Rate Increase: \$16,800 (14.6 percent)

Primary Reason: To provide the necessary revenues to cover increased operating expenses.

United Water Bethel Inc.

Customers Served: 2,428 in portions of the Townships of Bethel and Concord townships, Delaware County

Requested Rate Increase: \$498,493 (37.1 percent)

Approved Rate Increase: \$437,500 (32.5 percent)

Primary Reason: To maintain the integrity of its existing capital, to attract additional necessary capital at reasonable costs, and to achieve a fair rate of return.

Venango Water Co.

Customers Served: 243 in a portion of Sugarcreek Township, Venango County

Requested Rate Increase: \$27,475 (22.6 percent)

Approved Rate Increase: \$23,461 (19.3 percent)

Primary Reason: To provide the necessary revenues to cover increased operating expenses and to enable the company to make payments on its long and short-term debt.

West Hickory Water Co.

Customers Served: 187 in a portion of Harmony Township, Forest County

Requested Rate Increase: \$17,640 (34.8 percent)

Approved Rate Increase: \$13,724 (27.1 percent)

Primary Reason: To provide the necessary revenues to cover increased operating expenses and to have the necessary funds to make payments on its long- and short-term debt.

At the end of Fiscal Year 2012-2013, five rate increase requests totaling approximately \$67 million are still pending before the Commission. The involved utilities are: Imperial Point Water Service Co. (\$61,321), Pennsylvania-American Water Co. (\$58.6 million), City of Dubois-Bureau of Water (\$490,734), The Columbia Water Co. (\$773,210), and The York Water Co. (\$7.1 million).



UNCONVENTIONAL WELL DRILLING

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

MERGERS & ACQUISITIONS/ REGIONALIZATION

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.

During Fiscal Year 2012-13, the Commission approved 13 mergers and acquisitions in the water and wastewater industry.

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.). Regionalization typically results in a cost-effective solution or alternative that works to ensure system reliability and water/wastewater standards for companies that are unable to stand alone.

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

POLICY STATEMENT ON ACQUISITION INCENTIVES

The PUC continues to implement a longstanding policy on water and wastewater system acquisition incentives to promote water system viability and regionalization. The policy statement provides additional guidance for companies acquiring small, chronically challenged or otherwise troubled water systems, while ensuring fair treatment of customers. It also provides direction

on when and how utilities interested in making an acquisition should prepare and submit original cost documentation that determines the appropriate value of the assets of an acquired system.

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

MANAGEMENT AUDITS AND EFFICIENCY INVESTIGATIONS

The Commission periodically performs management and operations audits (MAs) or management efficiency investigations (MEIs) of the larger jurisdictional water companies. Among the MAs and MEIs completed within the 2012-13 fiscal year was:

Aqua Pennsylvania, Inc. - On May 23, 2013, the Commission released a report on the [Focused Management and Operations Audit of Aqua Pennsylvania, Inc.](#) that contained 27 recommendations to improve company efficiency. In its implementation plan, the company indicated acceptance of 20 recommendations and partial acceptance of seven. Implementation of the audit recommendations could result in annual savings of approximately \$274,000 and one-time savings of \$609,000.

STATEWIDE WATER RESOURCES

The PUC participates in 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, issued in March 2009, addresses the quantity of water available in the Commonwealth, the amount used, and the amount needed. In 2010, several critical watershed areas were evaluated and identified with plans addressing the most serious in nature.

AUDITING EMERGENCY RESPONSE PLANNING

The Commission requires that companies certify that their physical, cybersecurity, emergency response

and business continuity plans are current. In previous years, the PUC found deficiencies in several of the certified plans that had to be corrected to comply with Commission requirements. In March 2006, the Commission initiated an audit program to ensure that all water utilities’ emergency response plans are current and in compliance with all applicable laws and regulations, including cyber and physical security along with business continuity. During Fiscal Year 2012-13, emergency response plans were audited for nine of the small water utilities, as well as six of the larger utilities during the course of routine management audits and management efficiency investigations.

WATER AND WASTEWATER SYSTEM VIABILITY

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



Many small water and wastewater systems have varying degrees of operational constraints that impact their viability. Operational constraints inherent to small systems typically include: compliance problems; limited technical and managerial expertise; lack of capital for improvements with a limited ability to borrow at reasonable rates; deferred maintenance; deteriorated and undersized infrastructure; and minimal sources of supply or storage.

A viable water/wastewater system is one that is self-sustaining, and has the financial, managerial and technical capabilities to reliably meet both PUC and DEP requirements on a long-term basis. The 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 consumers of small water/wastewater systems receive the same quality of service provided by larger, viable water/wastewater companies.



TRANSPORTATION

During Fiscal Year 2012-13, the Commission continued to focus on passenger carrier safety compliance and the safety education of new truck and bus carriers. In 2012, the Motor Carrier Enforcement staff began a covert enforcement program to identify and prosecute illegal household goods carriers. Thus far, this enforcement program has been successful. The Commission also processed applications to approve the construction, alteration and abolition of more than 100 rail-highway crossing cases. It completed informal investigations of complaints about unsatisfactory crossing surface conditions, as well as unsafe crossings. The PUC also conducted inspections of locomotives, rail cars, tracks and rail operations.

INCREASED ENFORCEMENT OF ILLEGAL HOUSEHOLD GOODS OPERATORS

Due to the widespread use of internet websites such as Craigslist and Angie's List, there has been a significant increase in the number of unlicensed and uninsured household movers offering their services to the public. Some of these illegal movers use drivers and helpers who fail to have a drivers' license or have been found guilty of a disqualifying criminal offense. Some quote low rates to win the bid to conduct the move but later insist on higher fees than the original quote, and some may hold a person's household items hostage unless additional money is paid for the move.

Many illegal movers use cell phones to carry out their business, which makes it difficult to identify and prosecute them. Working with local police, the PUC's Motor Carrier Enforcement staff utilizes methods to contact the illegal carriers. After agreement is made for the illegal mover to provide transportation service for a fictitious person from a specific location, PUC Enforcement Officers, along with local police officers, initiate a prosecution through the issuance of a citation or criminal complaint. The local police check the illegal operators for outstanding warrants, illegal firearms, and other non-PUC violations. This ongoing effort, which has been in place since the winter of 2012, has been very successful, resulting in 10 arrests across the state in the Philadelphia, Pittsburgh and Harrisburg areas.

ANNUAL ASSESSMENT REPORT REVIEW OF MOTOR CARRIERS

The Commission conducted five reviews of selected motor carrier Annual Assessment Reports during Fiscal Year 2012-13 and continues to conduct reviews of selected motor carrier Annual Assessment Reports.

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



MOTOR COACH SAFETY PROGRAM

The Commission has implemented an oversight plan to monitor the safety compliance of Pennsylvania's motor coach operators to ensure the public's protection. The major component in the PUC's oversight plan is inspections of motor coaches at various destination points throughout the Commonwealth, as well as at bus carrier home terminals.

The Commission is an active partner with the Federal Motor Carrier Safety Administration's (FMCSA) bus safety efforts through participation in the [Motor Carrier Safety Assistance Program](#) (MCSAP). As part of its participation in the MCSAP, the PUC, along with the Pennsylvania State Police, have conducted monthly motor coach strike force efforts at various bus destination points across the State. In 2012, PUC officers conducted 1,868 bus inspections at destinations and terminals throughout the Commonwealth.

UNIFIED CARRIER REGISTRATION (UCR)

The federal [Unified Carrier Registration System Plan and Agreement](#) (UCR Act) became effective Jan. 1, 2007. In accordance with the UCR Act, motor carriers that operate commercial motor vehicles in interstate commerce must pay a fee based upon the size of the carrier's fleet. For 2011, the fee structure included six brackets, ranging from \$76 to \$73,346. In addition, individuals and companies that provide freight forwarding, brokering or leasing services in interstate commerce must register their business and pay an annual fee of \$76. Motor carriers and the other businesses must register and pay the fee to the state in which they are headquartered.

The PUC has participated in the UCR program from 2008 through 2012. Thus far, the PUC has collected the following monies: \$4.3 million for 2008, \$4.4 million for 2009, and \$4.95 million in 2011, 2012

and 2013. Although the registration and fee payment deadlines have expired for the 2011 and 2012 and 2013 years, the PUC continues to pursue and collect delinquent fees.

REGULATED MOTOR CARRIERS

- 6,134 properties
- 297 taxis
- 393 limousines
- 519 paratransit
- 73 airport transfer
- 540 group and party
- 53 scheduled route
- 285 household goods movers

2012-13 ENFORCEMENT ACTIVITIES

- 9,035 truck, bus, small passenger vehicle inspections
- 303 informal complaint investigations
- 551 safety fitness reviews
- 1,504 federal safety audits

TRACK INSPECTION GOES HIGH TECH

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

Rail inspections performed by visual means can only detect external defects, excessive wear and subtle signs of large internal problems. Steel rails are vastly





superior to that of years ago in both strength and wear qualities, however defects still occur. With increased traffic at higher speed, and with heavier axle loads, internal rail inspections are more important than ever before. New technology is available to “x-ray” the rails, looking for internal defects that may fail under a train. Ultrasonic and electromagnetic technology instruments are installed on inspection vehicles. These vehicles traverse the track at speeds up to 15 mph, testing the rail for various kind and percentage of failures. The FRA has established regulations requiring the use of this rail flaw detection technology on certain high density and passenger lines. The PUC inspectors ensure that the railroads in Pennsylvania are in compliance with this regulation.

OPERATION LIFESAVER

During Fiscal Year 2012-13, rail safety personnel attended nearly a dozen events across the state to promote [Operation Lifesaver](#), a nonprofit, national public education program dedicated to eliminating collisions, deaths and injuries at rail-highway crossings and on railroad rights-of-way. Operation Lifesaver strives to increase public awareness about the danger for motor vehicle operators and pedestrians at rail-highway intersections.

The program seeks to improve driver and pedestrian behavior by encouraging compliance with traffic laws relating to crossing signs and signals. It also points out the dangers on railroad rights-of-way. Designated PUC employees are certified to provide Operation Lifesaver presentations to various groups, such as school children, businesses and civic organizations. In 1972 when Operation Lifesaver began, there were roughly 12,000 train/vehicle collisions nationwide and that has been reduced to approximately 1,950 such accidents in 2012, thanks in part to the efforts of the Operation Lifesaver program. In 2012 there were 28 trespasser

fatalities in Pennsylvania. The Rail Safety Section’s three trained presenters also provide information concerning railroad safety at outreach events. The Rail Safety Section has the expertise with regard to engineering at highway-rail crossings, and participation in the program complements the division’s goals for the prevention of accidents and the promotion of public safety.

2012-13 INSPECTIONS

- 16,060 railroad car
- 320 locomotive
- 1,825 miles of railroad track
- 1,750 Hazardous Materials Units
- 550 Operating Practices Inspections
- 1,397 motor carriers with seating capacities of 15 or less
- 5,770 roadside inspections of trucks

2012-13 AUDITS AND FITNESS REVIEWS

- 1,504 federal new entrant audits of interstate carriers
- 551 safety fitness reviews of new carriers

2012-13 ENGINEERING

- 200 formal proceedings processed
- 215 field meetings/inspections conducted
- 27 bridge projects approved at \$484 million
- 125 at-grade crossing projects approved at \$6 million
- 12 Public Utility Municipal Contracts approved



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