

**BEFORE THE PENNSYLVANIA
HOUSE CONSUMER AFFAIRS COMMITTEE**

Testimony of

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Regarding

**Overview Of The
Regulated Utility Industry**

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**Chairman Godshall, Chairman Daley
And Members of the House Consumer Affairs Committee**

My name is Tanya McCloskey. I am serving as the Acting Consumer Advocate of Pennsylvania since the retirement of Sonny Popowsky at the end of October of 2012. I have worked at the Office of Consumer Advocate since 1987 with a primary focus on energy issues. Thank you for inviting me to give comments before this Committee regarding the regulated utility industry.

Let me first introduce the new Members of the Committee to the Pennsylvania Office of Consumer Advocate (OCA). The OCA was established by the General Assembly in 1976 to fill a gap that had long existed in the representation of consumers – particularly residential consumers – before the Pennsylvania Public Utility Commission (PUC) and other state and federal agencies and courts that regulate the activities of Pennsylvania’s public utilities. Traditionally, utilities have always been well-represented at the PUC by lawyers and expert witnesses who could advocate for utility stockholders in matters such as rate increase requests for utility services. Our Office was created so that the consumers who have to pay those utility bills would also be represented by professional attorneys and experts. The job of representing consumers cannot be performed by the PUC itself because the members of the Commission serve in a judicial role and must balance the interests of the utility stockholders and consumers in achieving a result that is just and reasonable for all parties. The OCA also has the right to appeal PUC decisions that we believe are adverse to the interests of consumers, and we have taken such appeals all the way to the Pennsylvania Supreme Court and, in one landmark decision, to the United States Supreme Court. Offices like mine have been established across the country, and

the National Association of State Utility Consumer Advocates now includes members from more than 40 states and the District of Columbia.

In addition to our litigation activities, the OCA helps to educate consumers on matters involving their utility services, and we also serve as a resource to members of the General Assembly by responding to constituent concerns and by providing our views on how proposed legislation would affect the interests of Pennsylvania consumers. In particular we have worked closely with the Chairmen and the Members and Staff of this Committee, and we look forward to continuing that work as you deal with the complex and difficult utility issues that are certain to come before you.

Turning to the specific subject of today's hearing, the regulated utility industry in Pennsylvania, our Office participates actively in cases that come before the Pennsylvania Public Utility Commission involving electric utilities, natural gas utilities, telecommunications companies, water and wastewater companies. For two of these industries – electric and natural gas – Pennsylvania has engaged in a transition from a fully regulated monopoly service industry to a partially regulated/partially competitive industry over the past 15 to 20 years. Through the legislative initiatives of the General Assembly, Pennsylvania has carried out a successful on-going transition process and is now well-positioned for the future. Pennsylvania consumers arguably enjoy the best of both worlds when considering their utility energy service in that they have the protection of a basic service provided by their utility in accordance with the requirements established by the General Assembly and the choice of an alternative provider that may offer them lower prices or additional services to meet their needs.

Our telecommunications service in Pennsylvania has undergone significant changes in its regulatory framework since the initial passage of Chapter 30 of the Public Utility

Code in 1993 and its reenactment in 2004. The competition in the telecommunications industry facilitated by Chapter 30 has benefitted many Pennsylvania consumers, particularly those who can now buy bundled packages of services. Even with the advances in telecommunications service in recent decades, though, there are still some parts of Pennsylvania where consumers rely on the basic telephone service provided by their local telephone company. The General Assembly has maintained a carefully drawn category of “protected” services, including basic residential service, that continues to be subject to a higher level of Commission scrutiny and regulatory protection. This combination of competition and limited regulation contained in Chapter 30 has worked well and should continue.

Water and wastewater companies in Pennsylvania are different from the three industries I have just discussed. The majority of our water and wastewater systems are not subject to the jurisdiction of the Public Utility Commission but are operated by municipalities or municipal water authorities. I would also note that the number of water utilities regulated by the Public Utility Commission has declined in the last 20 years as many smaller utilities have been acquired by or merged into larger water utilities. The costs incurred by these companies to provide safe, clean water service has continued to increase as the utilities must meet state and federal environmental and health requirements. Water rates have increased at the fastest pace of all utility rates over the past several years. It is critical now and into the future that all utilities use our precious water resources wisely so that they are able to provide safe and adequate service at prices that are affordable to all consumers across Pennsylvania. It is also critical that our wastewater utilities operate in the most economical and environmentally sound manner.

As this Committee embarks on this legislative session, I look forward to working with the Members to preserve and strengthen the protections for consumers in the Public Utility

Code. Basic utility service that is safe, adequate and reliable should be available to all consumers in Pennsylvania at reasonable and affordable prices, and on reasonable terms and conditions.

In the remainder of this testimony, I provide some additional information for the Committee on the various regulated utility industries.

INDUSTRY OVERVIEW

Electric

In 1996, Pennsylvania became one of the first states in the Nation to open the generation portion of its electric utilities to competition. This landmark legislation reflected a policy that competition, rather than regulation, would provide lower prices and improve service for that portion of the electric industry -- electric generation -- that was not believed to be a natural monopoly and where competition could therefore take root.

I would hasten to add, however, that we did not “deregulate” our electric utilities. First of all, the distribution portion of the industry -- the wires that carry electricity to our homes and businesses -- remained a monopoly service under the traditional regulated model. And, equally important from my view, even with respect to electric generation, our regulated utilities continued to serve as the “default service provider” so that all Pennsylvania consumers can continue to receive essential electric service even if they cannot or choose not to shop in the competitive retail market.

At the time of restructuring in 1996, it was hoped that wholesale competition among generation owners would reduce the cost and price of generation, and that retail competition among suppliers would provide lower prices and a broader array of products to

consumers. Just in case competition did not develop as quickly as anticipated and prices did not go down, the 1996 Act contained generation rate caps that protected customers for a period of time. The generation rate caps, originally set to expire in 2005, were extended through settlements for most electric utility customers until the end of 2009 or 2010.

Prior to the end of the rate caps, in 2008, the General Assembly revisited the 1996 electric restructuring law and made some important changes and additions that I believe have helped ease the final transition to the post-rate cap era. In 2008, the General Assembly passed House Bill 2200, Act 129, which addressed several components of Pennsylvania's electric structure.

First of all, Act 129 dealt with the manner in which our electric utilities secure power and provide "default" service to their customers who do not switch to alternative competitive generation suppliers. This is extremely important, particularly for residential customers, because even with the expiration of the rate caps in Pennsylvania, many residential customers continue to receive generation from their utility, rather than from an alternative competitive provider. In Act 129, the General Assembly enacted new requirements to ensure that those customers who do not or cannot switch to an alternative supplier can be assured that they will receive reliable generation service at a reasonable price. Specifically, the Act requires each utility to provide default service "at the least cost to customers over time." Default service providers must enter into a "prudent mix of contracts" to provide least cost service "on a long-term, short-term and spot market basis." Under Act 129, utilities must adopt a portfolio in which they purchase a variety of long term, short term and spot market products that are designed to provide "adequate, reliable affordable, efficient and environmentally sustainable electric service at the least cost, taking into account any benefits of price stability over time."

It is important to remember that at the time that Act 129 was being debated in 2008, energy prices across the United States were extremely high and all of us were very concerned that when rate caps expired Pennsylvania consumers would be hit with massive electric rate increases. When the last of the rate caps ended in 2010, however, price increases were not as high as we had feared. This was due to a number of factors, primarily the overall economic downturn which reduced energy demand and thus energy prices. In addition, the cost of natural gas, which is used as a fuel for many new electric power plants dropped dramatically because of increased supplies of natural gas including gas from new developments such as the Marcellus Shale. Finally, in accordance with Act 129, each of our utilities was able to secure generation on a competitive basis from a variety of wholesale sources under plans that have been approved by the Public Utility Commission.

At the same time as these default service rates have gone into effect under Act 129, a substantial number of competitive retail marketers have stepped up to offer an array of generation products that have generally offered savings to customers as compared to the utility default rates. As part of our service to Pennsylvania consumers, my Office has long published a “shopping guide” both on our Website (www.oca.state.pa.us) and in hard copies which can be obtained at no charge by calling our toll free number at 800-684-6560. Our shopping guide provides apples-to-apples price comparisons of residential prices offered by the utility itself and each of the active marketers in the utility’s service territories.

Across Pennsylvania, residential interest in retail choice continues to grow. Recent statistics show that about 1.6 million residential customers, or about 34% of the residential customers in the Commonwealth, are being served by an alternative provider. Our shopping guide includes competitive retail choices for customers of each of the major electric

utilities. For PECO, for example, our Shopping Guide is 12 pages long, listing 76 different offers by 34 different suppliers. For PPL, our Shopping Guide lists 70 different offers by 28 different suppliers. The offers provide a variety of choices for consumers including different prices, different terms such as fixed or variable, and different resources, such as renewable resources. The Commission's PAPowerSwitch website also includes numerous offers available for consumers of every major electric utility in Pennsylvania.

Pennsylvania's approach to restructuring has served consumers well. Consumers now have the full benefit of the competitive wholesale generation markets through utility default service. And, many customers have also decided to take advantage of retail choice by choosing to be served by alternative providers who offer products or services that customers find preferable to their utility default service. This stands in marked contrast to the regulated environment prior to the 1996 Act when all customers received service from their vertically integrated monopoly utility. By any measure, Pennsylvania's transition to a restructured electric industry has gone well and has progressed without the tremendous rate shock and political upheaval that has plagued other states. Stranded costs have been paid in full; electric utilities have emerged from the transition financially strong; consumers were protected by the rate caps during the stranded cost recovery period; and default service plans are now in place that are providing competitively based generation prices across Pennsylvania. In addition, retail choices are now available throughout Pennsylvania and are being used by consumers to meet their needs.

Another important change enacted by the General Assembly in Act 129 was a requirement for the first time that our electric utilities must help their customers save energy and save money by offering energy efficiency and demand response programs to their customers. The second phase of these programs is now the subject of a series of proceedings before the

PUC. By mandating that our utilities take an active role in developing energy efficiency and demand response programs, Act 129 helps individual consumers to lower their monthly bills, while helping all customers by reducing the overall system cost of electricity. These benefits occur because it is generally far cheaper to take steps to reduce energy usage than it is to purchase the same amount of energy in the wholesale generation market (particularly at times of high peak usage). From an individual customer's perspective, customers can lower their overall monthly bill if they can significantly reduce the amount of kilowatt hours that they actually use. Customers as a whole benefit from these actions as well because energy usage reductions at the retail level will reduce demand in the unregulated wholesale markets and therefore reduce the prices that all retail customers must ultimately pay. Again, this is most effective when usage reductions occur at periods of peak demand when wholesale costs are the highest.

Act 129 also required each of our utilities to install advanced metering technology for all their customers over a period not to exceed 15 years. Our utilities continue with the implementation of these plans and the deployment of the advanced metering technology. Proceedings to review the full deployment plans of most of the major utilities are now underway.

The Pennsylvania electric industry has come a long way from the vertically integrated monopoly utility structure that existed before 1996. In my view, Pennsylvania's statutory model has served Pennsylvania consumers well in the development of a restructured electricity industry. The General Assembly should retain the essential protections contained in the 1996 Act and Act 129 of 2008, which ensure that consumers have access to reasonably priced, competitively procured, electric generation service through their default service provider and the ability to switch to an alternative provider if they so choose.

Natural Gas

Natural gas consumers were on quite the roller coaster ride in the first decade of this century. In December 2001, wholesale natural gas prices were around \$2.30 per million BTU. Just a few years ago in 2008, though, wholesale natural gas prices on the spot market had risen to an almost unheard of summer level of \$13.31 per million BTU only to drop to \$4.23 in the middle of a cold winter on February 23, 2009. Today, wholesale natural gas prices on the spot market averaged around \$4.04 in 2011 and were even lower during 2012, averaging around \$2.79. Much of this decline is due to the development of Marcellus Shale in Pennsylvania and across the region. While some increase in this price has been projected by the U.S. Energy Information Administration for 2013 and 2014, the availability of these resources should continue to have a beneficial impact on the price of natural gas even as we emerge from the current economic downturn and the demand for all types of energy increases.

The price of natural gas is extraordinarily important because more Pennsylvania residential consumers heat their homes with natural gas than with all other home heating fuels combined. Moreover, home heating is typically the largest utility or energy expense in most households. This is especially important for low-income consumers who pay a substantial percentage of their monthly income just to receive this essential life-sustaining service.

The key issue, from my perspective, is to ensure that Pennsylvania consumers receive the benefit of any price reductions and longer-term price stability that result from these changes in the wholesale natural gas markets. In this regard, Pennsylvania natural gas consumers have been extremely well-served by the regulatory framework under which our retail natural gas distribution utilities must obtain natural gas for their customers in the wholesale market. Under legislation that was drafted in this Committee and became law in 1984, our

natural gas utilities are obligated to pursue a “least cost procurement” strategy to purchase natural gas to meet the needs of their customers. Each year, these procurement programs are subject to review before the Pennsylvania Public Utility Commission, and the utilities are required to demonstrate that they are buying the lowest cost gas available to serve their customers in a reliable manner. My Office and other parties actively participate in these cases to ensure that Pennsylvania’s least cost procurement requirements are being met. The utilities are permitted to recover the cost of prudent wholesale gas purchases – no more, no less – through a reconcilable adjustment clause with no profit markup.

Overall, our regulated natural gas utilities have done a very good job of providing their customers with the least cost gas supplies under the requirements of this law. My Office’s disagreements with the utilities over specific contracts and purchasing practices generally have been resolved through amicable settlements in the vast majority of these cases. Importantly, the natural gas contracts secured by the utilities represent a portfolio of resources that include a variety of contract lengths and products. The rates actually charged to retail gas customers are permitted to change on a quarterly basis, but they are based on a rolling average of historic and projected costs over the course of the year. As a result, while the rates charged to retail customers are certainly affected each quarter by the changes in wholesale prices over time, these customers do not see the type of radical price swings that would occur if each wholesale price change were reflected immediately in rates.

It should be noted that some residential natural gas customers, particularly in Western Pennsylvania, are currently purchasing their gas from unregulated natural gas suppliers, rather than from their regulated natural gas distribution companies. As some of the members of this Committee may recall, the General Assembly acted in 1999 to spur greater retail competition

in the commodity gas service market used by Pennsylvania's small natural gas consumers. The 1999 Natural Gas Choice and Competition Act ("Act") came on the heels of, and was in large part based on, the legislation passed by the General Assembly in 1996 to restructure our electric industry. A major thrust of the restructuring statutes was to "unbundle" the rates so that retail customers would have greater access to competitively priced commodity service. Retail customers retained the option of continuing to purchase natural gas commodity service from their incumbent natural gas distribution company. To the extent that unregulated suppliers are able to offer natural gas commodity service on more attractive terms, the customers are free to select one of those suppliers, and the incumbent utility is required to deliver that unregulated supply service to the customer through its regulated natural gas pipes. Customers are not required to switch, however, and the great majority of residential customers continue to receive their natural gas commodity service from their incumbent distribution utilities.

Based on the most recent statistics collected by my Office, as of January 2013, approximately 301,318, or about 11.32% of Pennsylvania residential natural gas customers, mostly in Western Pennsylvania, are purchasing their natural gas from competitive, unregulated suppliers. About 90% of Pennsylvania residential customers still buy their gas from their regulated natural gas distribution companies. While this level of switching is different than that seen in the electric industry, this is not surprising. With the current low prices for natural gas being provided by our utilities, and the largely seasonal nature of the service for residential customers, it should come as no surprise that customers may have little incentive to switch to an alternative supplier. Also, the unregulated marketers have been operating in the same volatile wholesale natural gas markets in which the utilities buy their gas. It is not clear that unregulated marketers can still offer enough savings to retail residential customers to convince those

customers to switch from their local gas distribution utility, who is simply charging retail customers the wholesale gas price with no markup.

The goal of the natural gas restructuring law was to make customers better off. Customers can continue to receive reliable natural gas service at the least cost from their natural gas utility or select a commodity service from alternative providers if that service better meets their needs. Our Office also offers a Shopping Guide for natural gas service providers available both on our Website (www.oca.state.pa.us) and in hard copies which can be obtained at no charge by calling our toll free number at 800-684-6560. Our shopping guide provides apples-to-apples price comparisons of residential prices offered by the utility itself and each of the active marketers in the utility's service territories. The Commission has also recently implemented its on-line PA PowerSwitch tool for natural gas.

In my view, the General Assembly should retain the essential protection contained in the Public Utility Code, which ensures that consumers have access to reasonably priced, competitively procured, natural gas service whether or not they choose to switch to an alternative provider. We should also continue our efforts to inform and educate customers about natural gas retail choice.

Another critical issue for Pennsylvania consumers is the ability to receive natural gas service in currently unserved areas. As this will be the subject of a further hearing, I will only briefly mention this issue here. With the expansion of natural gas exploration and pipelines throughout the Marcellus Shale area, and with the dramatic reduction in the price of natural gas, it is certainly timely to consider how best to extend natural gas service to the many unserved areas of Pennsylvania. There is a reason why many rural areas of Pennsylvania do not have natural gas service. That is because even if the price of natural gas is cheap, the price of adding

facilities to serve sparsely populated areas can be very costly. It would be beneficial to find ways to address these issues in a manner that enables more Pennsylvanians to benefit from natural gas service. I look forward to a more full discussion of this important issue in the weeks to come.

Finally, the issue of the safety of our natural gas infrastructure has painfully come to the forefront in the last few years. Legislation that has expanded the jurisdiction of the Public Utility Commission in conducting inspections of natural gas pipelines is critically important to all Pennsylvanians. In addition, many of our natural gas distribution companies have now filed Long Term Infrastructure Improvement Plans under Act 11 where they will accelerate the removal and repair of aging and dangerous pipelines. Our Office continues to work with the natural gas distribution companies and the Commission to ensure that the provisions of Act 11 are implemented in a cost-effective and efficient manner.

Telecommunications

My primary concern for consumers regarding telecommunications service in Pennsylvania remains the assurance of universal service at reasonable and affordable rates for every Pennsylvanian who wishes to have such service. The General Assembly has recognized this goal in its legislative efforts. The first clause of the first sentence of Chapter 30 that was added to the Pennsylvania Public Utility Code in 1993 states that: “The General Assembly finds and declares that it is the policy of this Commonwealth to: (1) Maintain universal telecommunications service at affordable rates...” When Chapter 30 was re-enacted in Act 183 of 2004, this exact same language appeared in the second Declaration of Policy. Universal service has also been the bedrock principle of our national telecommunications policy since the

passage of the Federal Communications Act of 1934, and this policy was extended and strengthened in the federal Telecommunications Act of 1996.

Why has universal service been such a fundamental telecommunications policy for many decades? One reason is because the more people who are connected to the telephone network, the more **everyone** benefits from the network. Universal telephone service benefits every telephone user, rich or poor, urban or rural. Universal service is not just important so that the parents and grandparents in Elk County can call their family and businesses in Pittsburgh; it is important so that people and businesses in Pittsburgh can connect with residents in Elk County. Universal service is not just important so that low-income parents can call their child's doctor, but so that the doctor can call back the parents to let them know their child's medical test results. Universal service provides a reasonable level of access to affordable telecommunications services for all Pennsylvanians, including those who live in our most rural and sparsely populated communities, where the cost of providing service to each individual is highest. Universal telephone service is one of the forces that helps bind our Commonwealth together.

It is not a coincidence that the federal universal service program designed to assist low-income customers to obtain affordable telephone service is called "Lifeline." In today's society, telephone service is a lifeline for many consumers, and – perhaps unique among utility services – it is a two-way lifeline. That is, as I noted above, universal service not only provides a connection for low-income Pennsylvanians to the wider world, but that connection also provides a mutual benefit to all Pennsylvanians. Nowhere is this more important than the provision of emergency services in the form of access to 9-1-1 emergency services. Again, the

more people who are connected to the telephone network, the more beneficial it is to every Pennsylvanian.

There has been much discussion about competition in the telecommunications industry and the benefits that such competition has provided to Pennsylvania consumers. I agree that competition has greatly benefitted many Pennsylvania consumers, particularly consumers who can now buy packages of voice, video, and data services from different providers at economical bundled rates. But, in some parts of Pennsylvania, there is little or no competition for stand-alone basic telephone service on which many Pennsylvanians continue to rely. That is why, when our Pennsylvania telecommunications framework was re-enacted in 2004, the General Assembly maintained a carefully drawn category of “protected” services, including basic residential service, that continue to be subject to a higher level of Commission scrutiny and regulatory protection.

Another major goal of both the original Chapter 30 in 1993 and its reenactment in 2004 was the accelerated deployment of high speed broadband services throughout Pennsylvania. While broadband is not a part of basic universal service, the General Assembly clearly found that the **availability** of broadband service was a matter of vital importance to every urban, suburban and rural community in the Commonwealth. Act 183 of 2004 provided local exchange companies with the option of accelerating the universal deployment of broadband service from 2015 to 2008, in exchange for the ability to increase non-competitive service revenues each year at the rate of inflation with no productivity offset. Interestingly, each of the nearly three dozen small rural local exchange companies in Pennsylvania took this accelerated option. This means that, by the end of 2008, all of our smallest and most rural telephone companies were committed to providing their customers the ability to purchase some form of

high-speed Internet service. This typically has been digital subscriber line (DSL) service at a speed of at least 1.544 megabits per second. The only companies that did not accept the 2008 deployment option were Verizon PA (formerly Bell Atlantic), Verizon North (formerly GTE North), Embarq (formerly Sprint) and Windstream (formerly ALLTEL Pennsylvania). The two Verizon Companies continued with their prior Chapter 30 commitment to complete deployment by 2015, while Embarq and Windstream selected the 2013 deployment option.

Telecommunications service remains only modestly regulated by the Public Utility Commission. The areas of regulation, particularly the maintenance of basic service, the assurance of quality of service and the completion of the broadband deployment commitments, are critically important to Pennsylvania consumers. The combination of competition and limited regulation has worked and should continue.

Water and Wastewater

It is important to note a significant difference between Pennsylvania's water and wastewater industries and the other industries that I have been talking about here today. Unlike other types of Pennsylvania utilities, the majority of water and wastewater systems in Pennsylvania are operated by municipalities or municipal water authorities and are not regulated by the Public Utility Commission. It is my understanding that there are more than 2,000 water systems and over 1,000 wastewater systems operating in Pennsylvania, but the PUC regulates just about 100 of the water systems and about 60 wastewater systems. It should be noted that the PUC does regulate some municipally-owned systems, but **only** to the extent that those systems operate outside of their municipal boundaries. That is, the PUC does not regulate the price or service of municipal utilities for customers within those municipalities, but does regulate those

utilities when they serve customers outside those boundaries. In contrast, the service provided by municipal **authorities** is not regulated by the PUC regardless of where in Pennsylvania that authority provides service.

I would also note that the number of water utilities regulated by the PUC has declined substantially over the last 20 years. That is because many smaller utilities have been acquired by or merged into larger utilities. I believe that this reduction in the number of water utilities has actually been a positive development. That is because many of the smaller under-capitalized utilities that traditionally operated in Pennsylvania are simply no longer able to provide safe and adequate water service at reasonable and affordable prices to their customers.

In the 1980's, water bills were a relatively minor concern and represented a minimal part of a household budget for most customers. Today, I believe we have a much better understanding of the true value of our vital water resources in Pennsylvania and the need for safe and adequate water supplies for the economic well-being of the Commonwealth and the health and quality of life of our residents. At the same time, we have seen substantial increases in the rates charged by the investor-owned water utilities that are regulated by the Pennsylvania Public Utility Commission, and, in some recent years, water rates have increased at the fastest pace of all utility rates.

I do not intend that observation to be a criticism of our regulated water utilities. The fact is that the costs incurred by these companies to provide safe, clean water service has gone up, and our utilities have made significant investments in filtration treatment plants, pipes, and other infrastructure to meet state and federal environmental and health requirements and to comply with our state PUC requirement that water service must be suitable for all household purposes.

Consistent with legislative authority contained in the Public Utility Code, the PUC has encouraged the acquisition of small troubled water companies by larger healthier companies. There have been a number of cases in recent years, where small troubled water utilities have been unable to provide safe and adequate service to their customers and have been acquired by these larger companies. Some of our larger companies have stepped up and come forward to acquire these smaller utilities in order to provide the type of service that I believe all Pennsylvania consumers are entitled to receive under the Pennsylvania Public Utility Code. Our larger water utilities have also shown a willingness to extend service to communities that had long sought desperately needed public water service but had been unable to obtain that service on reasonable terms pursuant to the company's prior line extension policies.

These improvements are supported, I believe, by the Pennsylvania PUC's policy of "single tariff pricing" – in which all the customers in the same rate class (e.g. all residential customers) of a large water utility pay the same rates – without regard to where in Pennsylvania they are geographically located. This policy better enables all customers to have an opportunity to pay reasonable rates, as the costs of service are spread evenly over a larger customer base and a larger geographic area. Several of our major water companies serve a diverse collection of water systems across the Commonwealth whose actual costs to provide service may vary widely. But by moving toward single tariff pricing, the costs of needed improvements in one part of the company's service territory can be shared among a much larger group of customers. This also avoids rate shock, for example, where the addition of a new water treatment facility would impose an enormous burden on a small group of customers served by that one facility, but the costs are more affordable when spread among all the company's customers.

Another recent development in Pennsylvania is the greater participation of investor-owned water utilities in the wastewater business. Traditionally, as I noted earlier, the great majority of Pennsylvania consumers who receive public wastewater service receive that service from their municipality or a municipal authority. To the extent that larger investor-owned utilities can take advantage of greater economies of scale and scope by acquiring smaller municipal systems that can no longer be managed in an economical manner, this development can be a benefit to customers. Even with utility acquisitions of troubled wastewater systems, though, substantial amounts of capital are required to be invested in order to bring those systems into compliance with state and federal environmental requirements. With the enactment of Act 11 of 2012, these investor-owned utilities are now able to spread that investment over a larger customer base to mitigate the impact of these expenditures. Our Office will review these proposals as they come forward to ensure that the changes brought about by Act 11 are implemented in a reasonable and fair manner for the customers of the acquiring utility and the acquired utility.

It remains critical to Pennsylvania that all utilities use our precious water resources wisely and that they are able to provide safe and adequate service at prices that are affordable to all consumers across Pennsylvania and that our wastewater utilities operate in the most economical and environmentally sound manner.

CONCLUSION

Thank you again for the opportunity to provide these comments. I would be happy to try to answer any questions you might have at this time.