Annual Report

of the

Pennsylvania
Office of Consumer Advocate

Fiscal Year 2007-2008

Sonny Popowsky
Consumer Advocate

555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
(717) 783-5048 Office
(717) 783-7152 Fax
800-684-6560 (PA Consumers Only)
E-mail Address: consumer@paoca.org
Internet: www.oca.state.pa.us

Issued: November, 2008

104229
# TABLE OF CONTENTS

**INTRODUCTION** .......................................................................................................................... 1

**ELECTRIC** ..................................................................................................................................... 4

**Pennsylvania** ................................................................................................................................. 4

*Duquesne Light Company* ................................................................................................................. 4

*FirstEnergy Companies* ..................................................................................................................... 4

*Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company* ................................................................................................................. 4

*PECO Energy Company* .................................................................................................................... 9

*Pike County Light & Power Company* ............................................................................................... 10

*PPL Electric* ....................................................................................................................................... 12

*West Penn Power Company* ............................................................................................................... 13

*Citizens’ Electric and Wellsboro Electric* ............................................................................................. 15

*UGI Electric Company* ...................................................................................................................... 17

*Other Energy Activities* ..................................................................................................................... 17

*Harrisburg Steam Works* ..................................................................................................................... 17

*Policy Cases* ....................................................................................................................................... 17

**Federal** ........................................................................................................................................... 20

*FERC Electric Cases* ........................................................................................................................... 20

*PJM* ...................................................................................................................................................... 25

**NATURAL GAS** ............................................................................................................................... 27

**Pennsylvania** .................................................................................................................................. 27

*Columbia Gas Company* ..................................................................................................................... 27
Equitable Gas Company ............................................................... 27
National Fuel Gas Distribution ...................................................... 28
PECO Gas Company ..................................................................... 29
Philadelphia Gas Works ............................................................... 29
PPL Gas Company ....................................................................... 30
UGI Gas Company and UGI Penn Natural Gas Company ............... 31
Pike County Light and Power Company – Gas Division ............... 31
Purchased Gas Cost Proceedings .................................................. 31
Miscellaneous Gas Cases and Issues ............................................. 33
Federal .......................................................................................... 34
FERC Gas Cases ........................................................................... 34
TELECOMMUNICATIONS ................................................................. 35
Pennsylvania .................................................................................. 35
Merger Proceedings ....................................................................... 35
Access Charge Proceedings .......................................................... 37
Chapter 30 (Act 183) Related Proceedings ..................................... 39
Additional Telecom Cases ............................................................. 42
Rulemakings .................................................................................. 44
State Legislative Activity ............................................................... 47
Federal .......................................................................................... 47
FCC Proceedings ........................................................................... 47
WATER AND WASTEWATER ............................................................. 52
Base Rate Proceedings ................................................................. 52
Applications, Petitions, and Investigations ...................................... 66
CONSUMER COMPLAINT PROCEEDINGS ................................................................. 72

Introduction ........................................................................................................... 72

Telephone – Service Quality, Improper Billing, and Extended Area Service Cases ................................................................. 72

Water and Wastewater Cases – Service Quality and Main Extension Cases ................................................................................. 73

Electric .................................................................................................................. 77

Gas .......................................................................................................................... 78

CONSUMER AND LEGISLATIVE OUTREACH ......................................................... 79

Testimony, Presentations, and Speaking Engagements .......................... 79

OCA CALL CENTER ............................................................................................. 87

SERVICE TO PENNSYLVANIA AND THE NATION ........................................... 91

Participation in NASUCA and in Other Consumer Interest Organizations .................................................................................. 91

OCA STAFF ........................................................................................................... 93
INTRODUCTION

The Office of Consumer Advocate (OCA) has served Pennsylvania utility consumers since its establishment by the General Assembly in 1976. The OCA represents Pennsylvania utility consumers in matters before the Pennsylvania Public Utility Commission (PUC) and other state and federal agencies and courts. The OCA also represents the interests of Pennsylvania consumers in non-governmental organizations, such as the PJM Interconnection. The OCA also seeks to protect and educate consumers during the transition from a fully regulated to a more competitive utility industry.

The OCA is a statutorily independent office, administratively included within the Office of Attorney General. On June 29, 1990, the Senate of Pennsylvania confirmed the appointment of Sonny Popowsky as Consumer Advocate, and he has continued to serve in the position since that time.

The OCA's current employee complement consists of 35 persons, including the Consumer Advocate, 15 attorneys, and 19 other professional, administrative and clerical personnel.

Utility rates and service remain issues of paramount concern to Pennsylvania consumers and their elected representatives in Harrisburg. The potential for increased electric rates are a matter of particular concern as Pennsylvania nears the end of long term rate caps that were implemented after the restructuring of our electric utilities. Consumers are also concerned about high and volatile rates for natural gas, which is the source of heating for the majority of Pennsylvania homes. In telecommunications, some areas of Pennsylvania still lack high speed Internet service, while other consumers have difficulty in affording even the most basic telephone service without assistance. Water rates have increased persistently across Pennsylvania in response to the greater costs incurred by water utilities in providing safe and adequate service for all household purposes. Faced with these concerns, Pennsylvania utility consumers require professional and competent advocacy that they could not afford to support on an individual basis.

The OCA provides vigorous professional representation for Pennsylvania utility consumers before both state and federal regulatory agencies and courts. The OCA participates before the PUC in all major rate cases, many small rate cases, and many non-rate proceedings that have a significant impact on consumers. The OCA also participates in numerous matters before the Federal Energy Regulatory Commission (FERC) and the Federal Communications Commission (FCC) that have a substantial impact on Pennsylvania consumers. The OCA also participates actively on policy-making committees of non-government organizations such as the PJM Interconnection, whose decisions have a critical impact on electric prices and service in Pennsylvania. The OCA also seeks to ensure that consumers are protected and informed about changes in their utility service that can be either beneficial or harmful. In recent years, the OCA has continued to work on proceedings resulting from several legislative changes impacting utility consumers, such as rulemakings and implementation orders regarding electric and natural gas restructuring, and regulatory requirements for basic and advanced telecommunications services.
In the electric industry, OCA has sought to ensure that customers will continue to be protected even after rate caps expire through the development of stable, reasonably priced "provider of last resort" service. The OCA also has continued to support efforts to protect Pennsylvania consumers through its education activities and through various rulemaking and policy proceedings addressing, among other issues, customer assistance programs, energy efficiency activities and demand side response programs. Since much of the decision-making that affects Pennsylvania electric consumers now occurs at the federal and regional level, the OCA continued its expanded participation in key electric proceedings before the FERC and in the committees of the PJM Interconnection. The OCA also is committed to ensuring reliable electric service for Pennsylvania consumers.

In natural gas, the OCA has participated in a number of base rate cases as well as merger cases involving natural gas utilities. The OCA also continues to represent consumers across Pennsylvania in the annual PUC review of every natural gas distribution company’s purchased gas costs. As in the electric industry, the OCA seeks to ensure that consumers continue to have access to a reasonably priced "supplier of last resort" service from their regulated natural gas distribution company. The OCA also participates in proceedings at the FERC that involve the major interstate pipelines that serve Pennsylvania’s retail gas distribution companies.

In telecommunications, the OCA has participated in cases involving telephone competition and basic service quality in Pennsylvania. The OCA has focused on the goal of ensuring that Pennsylvania maintains and enhances the provision of reliable and affordable universal telephone service throughout the Commonwealth. This has included efforts to expand Lifeline telephone discount programs to low-income consumers who might otherwise not be able to afford service as well as efforts to implement the Bona Fide Retail Request program, which seeks to extend deployment of high speed Internet services to rural areas. The OCA also participated in a number of service quality cases to ensure customers are receiving reliable service. At the federal level, the OCA works with the National Association of State Utility Consumer Advocates to provide the consumers’ perspective in numerous proceedings before the Federal Communications Commission.

In the water and wastewater industries, the OCA continues to represent consumers in base rate increase and acquisition proceedings involving both large and small utilities. In addition, the OCA has participated in a number of service quality cases to ensure that consumers are receiving safe and adequate water and wastewater service, including asking the PUC to order the sale of a troubled water and wastewater utility to ensure that customers of that utility receive adequate service. The OCA also has supported the development of programs that assist low-income consumers in paying their water bills.

In addition to its litigation activities, OCA participates on behalf of utility consumers in state and federal legislative and policy debates. The OCA has been called on to present formal testimony in the Pennsylvania General Assembly on numerous occasions regarding critical utility issues that affect Pennsylvania consumers.
The OCA responds to individual utility consumer complaints and inquiries. The OCA maintains a toll-free calling number (800-684-6560) which is staffed from 8 a.m. to 5 p.m. Monday through Friday.

The OCA also devotes substantial resources to educating consumers about changes in the utility industry. The Consumer Advocate, Consumer Liaison, and other members of OCA staff have helped plan and participate in consumer presentations, roundtables, and forums across the Commonwealth to help educate consumers about changes in the utility industry and to advise them about cases that affect them. During the last year, the OCA participated in 64 consumer outreach events across Pennsylvania, many of which were sponsored by members of the General Assembly. In addition, the OCA tries to keep consumers and members of the General Assembly informed through regular letters and bulletins about upcoming cases and public hearings. The OCA also provides consumer information and education through its website at www.oca.state.pa.us.

The OCA looks forward to meeting these continuing challenges on behalf of Pennsylvania utility consumers. The OCA believes that it has served Pennsylvania consumers well both with respect to its traditional regulatory responsibilities, as well as in its role in assisting consumers to obtain the benefits and avoid the pitfalls of the changing utility service markets. The OCA recognizes the importance of its role in advocating for the interests of Pennsylvania consumers and keeping consumers informed with respect to their utility services. Through this Annual Report, the OCA will summarize its activities in fulfilling its role in Fiscal Year 2007-2008.
**ELECTRIC**

**Pennsylvania**

*Duquesne Light Company*

Petition of Reliant Energy, Inc. For A Declaratory Order Regarding the Pennsylvania Public Utility Commission's Jurisdiction Over Duquesne Light Company's Withdrawal From PJM Interconnection, LLC, Docket No. P-00072338. On October 9, 2007, Reliant Energy filed a Petition with the Commission in response to an announcement by Duquesne Light Company that it intended to withdraw its transmission facilities from the PJM Regional Transmission Organization (RTO) and join the MidWest Independent System Operator (MidWest ISO). In its announcement, Duquesne stated that recent changes in the PJM markets, particularly the introduction of the Reliability Pricing Model (RPM) and the capacity prices associated with the RPM auctions, are resulting in energy prices over the short and long term that are not in the best interests of Duquesne or its ratepayers. In that Duquesne is interconnected to both the MidWest ISO and the PJM RTO, it elected to join the MidWest ISO and their markets. Reliant asked the Commission to assume jurisdiction over this decision and require Duquesne to receive Commission approval of the decision. Reliant also requested that the Commission consider a number of retail competition issues that will need to be resolved. The OCA filed an intervention in this proceeding. At the initial prehearing conference, the ALJ determined that the legal issue regarding the Commission's jurisdiction over Duquesne's decision to withdraw from PJM would be briefed first. Following briefing, the ALJ determined that the Commission did not have jurisdiction over Duquesne's decision and recommended that the case be held in abeyance until the Federal Energy Regulatory Commission determined whether to approve Duquesne's request to withdraw. Upon review of the ALJ's R.D., the Commission found that this declaratory order proceeding was not an appropriate proceeding to rule upon the Commission's jurisdiction. The declaratory order request was denied by the Commission and the docket was closed on June 25, 2008.

*FirstEnergy Companies*

*Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company*

Metropolitan Edison Company and Pennsylvania Electric Company Transmission Service Charge, Docket No. M-2008-2036197, M-2008-2036188. In April, 2008, Met-Ed and Penelec filed their Transmission Service Charge rates for the upcoming year. The rates reflected both a reconciliation of costs incurred compared to revenues received and a projection of future costs. For both Met-Ed and Penelec, the costs incurred over the past year exceeded the revenues received to a substantial degree. The difference was primarily related to the incurrence of congestion charges on the PJM system and marginal loss charges from PJM. For Met-Ed, the
underrecovery from the past year was $144.48 million. Recovery of the undercollected amount, and the continuing increased congestion costs and marginal loss costs in a one-year period would result in an overall rate increase of 20% for residential customers. Met-Ed proposed a rate mitigation plan to limit the overall rate increase to 6% for residential customers. For Penelec, the undercollection was $3.5 million. Recovery of this amount over a one-year period would result in an overall rate increase of 2%. The OCA filed a complaint against these rate increases. The Commission has set the matter for investigation. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.


As discussed in last year’s Annual Report, on April 10, 2006, the FirstEnergy operating subsidiaries of Metropolitan Edison Company and Pennsylvania Electric Company filed a transition case to change their distribution, transmission and generation rates. The transition case included a request for an exception to the generation rate cap and provided several alternatives for adjusting customer rates between January 1, 2007 and January 1, 2011 when the generation rate cap is set to expire. For Met-Ed, the Companies proposed that total rates be increased by approximately $215 to $320 million annually (depending on the alternatives presented), or 19% to 28% overall. For Met-Ed, the total rate increase reflected a proposed $34 million reduction in distribution rates, but a significant increase in the generation and transmission rates. For Penelec, the Companies proposed that customer total rates change by approximately $125 to $170 million annually, or approximately 12% to 16% overall. This change reflected a $19 million increase in distribution rates and increases in both transmission and generation rates. The OCA filed a complaint and an Answer to the Petition. In its Answer, the OCA opposed the FirstEnergy Companies’ request to increase its generation rates arguing that the increase would constitute a rate cap exception, which was specifically found to be illegal by the Commonwealth Court in a previous case involving these companies. In addition to the Rate Transition Plan issues, the Commission consolidated the on-going proceeding regarding the appropriate treatment of merger savings resulting from the merger of GPU Energy and FirstEnergy with this proceeding.

The final result of the Commission’s Order was an increase in overall rates for Met-Ed of $58.7 million (a 5.1% increase) and an increase in overall rates for Penelec of $50.2 million (a 4.6% increase). The OCA’s adjustments adopted by the Commission produced $41.7 million in annual distribution savings for Met-Ed ratepayers from Met-Ed’s original proposal and $31.5 million in annual distribution savings for Penelec ratepayers from Penelec’s original proposal. The adoption of the OCA’s argument, that the generation rate cap must remain in place, saved Met-Ed and Penelec ratepayers nearly $2.25 billion in generation rate increases through 2010. The OCA worked with the Companies and the other parties to implement the Commission Order through the Compliance Filing.

The Met-Ed Industrial Users Group (MEIUG) and the Penelec Industrial Customer Alliance (PICA) filed an appeal of the Commission’s Order with Commonwealth Court raising two issues. First, MEIUG/PICA challenged the Commission’s determination that congestion costs should be recovered through the transmission surcharge, alleging that this violates the generation rate cap by including these generation-related costs as transmission costs. Second, MEIUG/PICA challenged the Commission’s allowance of deferred transmission costs arguing that this was
prohibited retroactive ratemaking. Following this appeal, the OCA and the Companies filed cross-appeals. In addition to the two issues raised by MEIUG/PICA, the OCA also challenged the Commission’s allocation of universal service costs to only residential customers. The Companies challenged the Commission’s denial of generation rate relief and its consolidated tax savings calculation. As of the end of the Fiscal Year, the OCA was preparing for oral argument in the matter.

Petition of Met-Ed For Approval Of Fourth Amendatory Agreement With Northampton Generation Station, Docket No. P-00072259. As discussed in last year’s Annual Report, Met-Ed sought approval of an amendment to its contract with a non-utility generation project, the Northampton Project. Met-Ed was required to enter into this contract under the Public Utilities Regulatory Policy Act (PURPA). During Restructuring, it was determined that over the life of the contract, Met-Ed would incur stranded cost associated with the contract. The contract was designed to pay the project prices higher than market prices in the early years and then prices lower than market price in the later years, after 2010. Under the Fourth Amendment to the contract, the Company agreed, among other things, to receive a $25 million upfront payment in exchange for ending the contract by 2010 when the contract price will fall below market price. The Company proposed to apply this $25 million payment to offset its stranded cost balance and reduce the stranded cost obligation of ratepayers. The OCA filed an Answer to the Company’s Petition, indicating its general support for this approach but noted that it is continuing its investigation into whether the upfront payment is sufficient and whether the other terms are in the best interests of ratepayers. The matter proceeded to litigation. Upon review of the transaction, the OCA expert witness testified that the assumptions utilized by the Company to negotiate and evaluate the transaction were not reasonable. When reasonable assumptions were utilized, the amendment did not appear to provide any net benefits to ratepayers. The OCA filed its Main Brief and Reply Brief in support of its position that the Company had not demonstrated a sufficient level of ratepayer benefit to support approval of the proposed amendment at this time.

The ALJ issued a Decision recommending that the contract amendment be approved. The ALJ also recommended that the entire amount of the restructuring payment (less transaction costs) be applied to reduce NUG-related stranded cost. The OCA filed Exceptions and Reply Exceptions. At its Public Meeting of January 24, 2008, the Commission rejected the recommendation of the ALJ. Adopting the analysis, testimony and reasoning of the OCA, the Commission found that the Agreement was not reasonable and rejected the amendment.

Petition of Pennsylvania Power Company for Approval Of Provider of Last Resort Plan, Docket No. P-00072305. As discussed in last year’s Annual Report, on May 2, 2007, Penn Power filed a Petition seeking approval of an interim plan for providing default generation service for the period June 1, 2008 through May 31, 2011. Penn Power also sought approval to collect its under-recovery of generation costs from its first Interim POLR Supply Plan. Under Penn Power’s plan, it would solicit bids through several Requests for Proposal issued on a staggered basis for wholesale supply from alternative suppliers. Penn Power would then charge its customers the resulting cost of this supply. Penn Power proposed recovery through a reconcilable surcharge that would change quarterly. Penn Power also proposed major changes to its residential rate design to simplify the design and move all customers to a flat cents/kwh charge. The OCA filed an Answer and filed expert testimony recommending that Penn Power
move to a portfolio approach for procuring its supply rather than purchasing load following contracts. The OCA also addressed Penn Power’s proposal to revise its rate design to eliminate the declining block structure. The rate design changes alone would increase some customers’ bills by more than 35%, without any further supply cost increase.

The parties entered into settlement negotiations and a comprehensive settlement was achieved. In regard to the residential customer POLR supply plan, the Company agreed to limit any increases resulting from rate design changes to 35% to help mitigate the impact of such changes on electric heating customers. The Company also agreed to further study the use of a portfolio approach for procurement of supply for residential customers and to work with the OCA and other interested parties prior to its next filing to present the results of the study. The Company also agreed to work with the OCA and other parties to attempt to develop a consensus regarding its residential procurement methodology prior to its next filing. On October 30, 2007, the ALJ issued a decision recommending approval of the Settlement.

Upon consideration of the Settlement, the Commission requested further comment on the use of a managed portfolio approach that did not rely upon load following contracts as Penn Power had proposed. The Commission also asked the parties to consider limiting the rate increases resulting from rate design changes to 20% rather than 35%. The OCA filed additional comments regarding the use of a managed portfolio approach utilizing block purchases. The parties also agreed to further limit the rate increases from rate design changes to the 20% requested by the Commission. Upon consideration of the further comments, the Commission initially rejected the use of load following contracts for residential customers and remanded the matter to the ALJ for the development of a portfolio approach for residential customers. The OCA worked with the Company to develop a portfolio approach that could be implemented in the time frame provided. The OCA then filed testimony and briefs in support of the portfolio developed for the Company. On March 13, 2008, the Commission ruled on the matter. The Commission rejected the portfolio approach developed by the OCA and the Company. The Commission then adopted the original Settlement. The Company proceeded with its full requirements solicitation to obtain supply for the residential customer class.

Petition of Metropolitan Edison Company and Pennsylvania Electric Company For Declaratory Order Regarding The Ownership of Alternative Energy Credits Associated With Qualifying Facilities, Docket No. P-00052149. On February 22, 2005, Met-Ed and Penelec filed a Petition for Declaratory Order to resolve a controversy that had developed over the ownership of alternative energy credits created by Act 213 of 2004, the Alternative Energy Portfolio Standards Act, from generation of Qualifying Facilities (QFs) under contract with the Companies. Under a 1978 federal law known as PURPA, Met-Ed and Penelec were required to enter into long-term contracts with generating facilities that had certain environmental attributes. Ratepayers were required to pay the full cost of these contracts. When the electric industry restructured, it was found that the prices contained in these contracts were far in excess of market prices. This resulted in a significant amount of stranded cost, which ratepayers are required to pay. Under the Alternative Energy Portfolio Standards Act, electric distribution companies were required to purchase a certain amount of energy from alternative generating sources. Much of the QF generation that ratepayers were paying for through stranded cost qualifies as an alternative energy source. The QFs took the position that the alternative energy credits associated with the generation was owned by the QF and the QF can sell the credits to whomever it wants. Met-Ed
and Penelec took the position that the credits belong to the purchaser of the generation, Met-Ed and Penelec, and must be used to benefit their ratepayers. Importantly, Met-Ed and Penelec were required to enter long term contracts with the QFs at special pricing because of the very environmental attributes that the QFs now seek to sell independent of the contract with the Companies.

The OCA filed an Answer and Briefs supporting the position of Met-Ed and Penelec on this issue. The OCA argued that these benefits belonged to the utility and should be flowed through to the utility’s ratepayers. On July 13, 2006, the ALJ issued her Recommended Decision in this matter. In her Recommended Decision, the ALJ adopted the position of the OCA, Met-Ed and Penelec that the ownership of the alternative energy credits generated within the long-term power purchase agreements entered into pursuant to PURPA prior to the passage of the Alternative Energy Portfolio Standards Act belong to the electric distribution companies. The QFs filed Exceptions in opposition to this conclusion and the OCA filed Reply Exceptions supporting the ALJ’s decision. The Commission adopted the ALJ’s Recommended Decision finding that the AECs belonged to the purchaser of the energy, Met-Ed and Penelec, for the remaining term of the contract. The NUGs appealed the Commission’s decision to the Commonwealth Court.

After several delays due to the possibility of the passage of legislation on this topic, the parties filed briefs with the Commonwealth Court. The OCA filed its brief in support of the Commission’s Order which found that the AECs associated with NUGs that had entered into contracts under PURPA belonged to the utility until the expiration of the current contract. At the end of the Fiscal Year, this case was pending before the Commonwealth Court.

Petition of Metropolitan Edison Co. and Pennsylvania Electric Co. for Approval to Revise the Accounting Methodology Used for NUG-related Costs, Docket P-00062235. As discussed in last year’s Annual Report, on June 30, 2006, the Commission’s Bureau of Audits issued its Audit Report regarding Met-Ed and Penelec’s calculation of, and accounting for, stranded cost related to its non-utility generation (NUG) contracts. The calculation of stranded cost and the accounting for this stranded cost recovery was set forth in the Companies’ 1998 Restructuring Settlement. During the audit, the Bureau of Audits determined that the Company had unilaterally changed its method of calculating stranded cost, increasing the stranded cost owed by ratepayers. For Met-Ed, the stranded cost balance increased by over $19 million and for Penelec, the stranded cost balance increased by over $6 million. The OCA filed Comments opposing this unilateral change to the 1998 Restructuring Settlement. The Commission then issued an Order directing the Companies to restore the prior calculation methodology and balances. The Commission directed the Companies to file a Petition if it wished to change the NUG stranded cost calculation method. The Companies then filed a Petition with the Commission. The OCA answered the Petition and opposed the proposed change in the method of calculating NUG stranded cost.

The OCA filed its Direct Testimony on January 11, 2007. In its testimony, the OCA witnesses testified that the Companies’ request was inconsistent with Pennsylvania statutes defining stranded cost was inconsistent with the Restructuring Settlement and unfair to ratepayers. Hearings were held and the OCA filed its Brief in opposition to the change in the accounting methodology. The ALJ issued her Recommended Decision agreeing with the OCA that there
was no basis to change the accounting methodology. On November 8, 2007, the Commission issued an Order adopting the Recommended Decision.

Penn Power Universal Service Tariff Filing, R-00072437. As discussed in last year’s Annual Report, Penn Power filed a tariff seeking to implement a universal service surcharge designed to recover all costs of its universal service programs. The OCA filed a complaint against this tariff filing, alleging that it had not been shown to be just and reasonable. The parties engaged in discovery and settlement negotiations to attempt to develop the details of a reasonable and appropriate cost recovery mechanism. The parties narrowed the issues and reached a full settlement of the outstanding issues. The Settlement was approved by the Commission.

PECO Energy Company

PECO Universal Service Plan, Docket No. M-00061945. Every three years, electric and natural gas utilities are required to provide to the Commission a plan for meeting their universal service obligations under the Electricity Generation Customer Choice and Competition Act and the Natural Gas Choice and Competition Act. PECO made its filing as required and in the filing, reflected a number of changes to the plan that were agreed to as part of several merger settlements (to which the OCA was a signatory) and recommendations of the Universal Service Advisory Committee (of which the OCA is a member). Upon review of the plan, the Commission identified several issues for further consideration and assigned the matter to an Administrative Law Judge. The OCA intervened in the proceeding and filed its Direct Testimony recommending several improvements to the universal service programs. The parties engaged in settlement discussions throughout the course of the proceeding resulting in a settlement in principle. Under the Settlement, the benefits provided by the CAP program for the lowest income families, those with incomes below 50% of the federal poverty level, would be increased to improve the affordability of the customer’s bill. In addition, the Settlement provided for some limited additional cost recovery to fund a portion of these improvements in the program. Other Settlement terms provided for better screening to identify the use of non-permanent space heating, a dangerous source of heating used by some low income customers. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Petition of PECO To Establish A Residential Real Time Pricing Pilot Program, Docket No. P-2008-2032333. PECO filed a proposal with the Commission to establish a real time pricing program for residential customers. Under the program, residential customers that volunteer to participate would be charged the real time PJM spot market prices for the energy they use. The customer would be billed the hourly real time price for usage each and every hour of the day. The OCA filed an Answer raising several concerns about the design of the pilot and concerns as to whether other time of use pricing proposals should be pursued. In its testimony, the OCA identified several program design issues with the program that would make it difficult for residential customers to participate in the program and achieve savings in the program. The OCA also pointed out that there are wide arrays of time sensitive pricing programs that may garner wider support and participation from customers, and provide customers with a better opportunity to reduce or shift energy usage. The OCA recommended program design changes and consideration of additional programs. The parties pursued settlement discussions throughout the proceeding and were able to achieve a settlement. Under the Settlement,
various program design changes would be implemented to ensure the proper screening of customers for participation in the pilot program, the use of prices for billing purposes that match the prices provided to the customer when making usage decisions, and appropriate consumer education. The Settlement also provided for the Company to conduct studies that will enable it to consider other time sensitive pricing programs for residential customers. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Petition of PECO Energy for Approval of Plan To Acquire Tier 1 Alternative Energy Credits, Docket No. P-00072260. As discussed in last year’s Annual Report, PECO Energy Company filed a Petition seeking approval of a plan to begin to comply with the requirements of the Alternative Energy Portfolio Standards Act (AEPSA). Under the AEPSA, PECO will be required to comply with the standards beginning in 2011, but PECO is permitted to acquire credits now and bank those credits for later use. PECO sought approval to begin to issue Requests for Proposals to acquire Tier 1 alternative energy credits now and bank those credits for later use. PECO also sought authority to establish an automatic surcharge recovery mechanism for implementation in 2011. The OCA filed an Answer generally supportive of PECO’s plan. The OCA raised concerns with the proposed recovery mechanism being approved as part of the filing. The Administrative Law Judge issued her Recommended Decision approving the Company’s filing and cost recovery proposal. The Commission approved the filing and PECO engaged in an RFP process. When the results of the RFP process were submitted to the Commission, the Commission rejected the results on several grounds. Requests for reconsideration of the Commission action were filed. Upon reconsideration, the Commission approved the results of the RFP process.

Pike County Light & Power Company

Petition of Pike County Light & Power Company For Approval Of Its Default Service Plan, P-2008-2044561. Pike filed a Petition seeking approval of its third default service plan to begin on June 1, 2009. Pike set forth several procurement options based on the number of customers it will be required to serve. One issue in this case concerns the status of the Direct Energy Aggregation program, the program under which the majority of Pike customers are served. The program is scheduled to end on May 31, 2009. The OCA filed an Answer and will participate fully in this proceeding. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Complaint of the Pike County Commissioners, C-20065942, et al.; Initiation of a Fact Finding Investigation, P-00052168; and Petition of Direct Energy For Retail Aggregation Program, P-00062205. As discussed in last year’s Annual Report, in January 2006, the OCA was contacted by the County Commissioners of Pike County asking for assistance in searching for solutions to the extraordinary rate increases. The OCA was asked to attend a public meeting in Pike County that also included representatives of the Company. The OCA attended this meeting and made a presentation that reviewed various options for Pike customers.

At its Public Meeting of January 27, 2006 the Commission opened an investigation into the situation in Pike (P-00052168). The Commission issued a series of questions as part of this investigation regarding the state of competition in Pike’s service territory and barriers to the
provision of service at reasonable rates in Pike’s service territory. The OCA filed detailed comments in response to the Commission’s questions. In particular, the OCA highlighted the barriers presented by Pike’s location in the New York markets, the limitations on Pike’s procurement practices resulting from agreements with Pike’s New York parent company, and Pike’s small size. The OCA urged the Commission to pursue short-term rate relief for Pike customers, but to also pursue long-term solutions that would bring Pike into PJM and/or under the control of more Pennsylvania-based utilities.

On March 10, 2006, Direct Energy, LLC., an electric generation supplier (EGS) licensed in Pennsylvania and New York, filed a Petition seeking to implement an “opt-out” retail aggregation program for the Pike service territory (P-00062205). Under the program, EGSs would bid to serve Pike customers at rates lower than the default service rate. The lowest bidder would be awarded the opportunity to serve all of Pike's residential and small commercial customers unless the customers opt-out of the aggregation group. The OCA filed an Answer on March 16, 2006 supporting this approach and recommending some additional consumer protections. The OCA supported this means of affording some measure of immediate rate relief, but urged the Commission to continue to pursue long-term solutions to avoid a repeat of this situation. The Commission held a hearing to take testimony from the parties, including OCA, Direct Energy, Consolidated Edison and others.

The Commission approved the proposal for an opt-out Retail Aggregation Program with some modifications. The bid to provide the service was held in early May, and Direct Energy won the right to serve the customers. The price bid by Direct Energy provided some rate relief to most residential and small business customers.

The Commission then issued its Staff Report. The Staff Report made eight recommendations, including recommendations regarding a possible sale of Pike County to a neighboring utility that is interconnected with PJM or that a direct interconnection with PJM be further evaluated. The OCA worked with the County Commissioners of Pike County, who had a pending complaint against the utility as a result of the rate increase, to pursue the recommendations in the Staff Report as part of the County’s Complaint proceeding. Through the OCA’s efforts with the Pike County Commissioners, the issues and recommendations contained in the Staff Report, as well as issues regarding service quality, proceeded to litigation through the complaint process. The County and Pike entered into settlement discussions following the submittal of Briefs. The County and Pike were able to enter into a settlement. Under the Settlement, Pike agreed to restore service centers and operations in Pike County, address reliability issues through a number of initiatives, improve overall service, and continue to evaluate the possibility of interconnections with the PJM region and other Pennsylvania utilities. The OCA filed comments supporting the Settlement. The OCA commented that the Settlement makes significant steps in repairing the strained relationship between Pike and its customers and restoring confidence in the Company. The Settlement was approved by the Administrative Law Judge and by the Commission.

Petition of Pike County Light & Power Company For Approval Of Its Default Service Plan, P-00072245. As discussed in last year’s Annual Report, on January 8, 2007, PCL&P filed a Petition seeking approval of its next default service plan to begin on January 1, 2008. The OCA filed an Answer recommending some modifications to this proposal, particularly as it concerns
the on-going Direct Energy aggregation program. The matter proceeded to expedited hearings. The OCA filed Direct Testimony of its witness recommending that the term of the plan be limited to one year due to the pending complaint case. The OCA also recommended a mechanism that would allow the default service program to move forward and allow for the integration of the Direct Energy aggregation program into the default service plan. Briefs were filed and the Administrative Law Judge issued a decision. In the Decision, the ALJ recommended that Pike purchase its supply on the spot market and charge its customers a monthly price reflecting those market price purchases. The ALJ also recommended that Direct Energy be allowed to continue its aggregation program. The Commission adopted the recommendation of the ALJ for Pike to procure supply on the spot market with monthly price changes for customers. The new default service program has now been put in place and the terms of the Direct Energy aggregation program pricing have been set.

**PPL Electric**

Petition of PPL Electric for a Rate Stabilization Plan, Docket No. P-2008-2021776. PPL is currently in the process of procuring supply to meet its default service obligation in 2010. The results of PPL’s initial procurements indicated that rates for residential customers could increase by about 35% in 2010. To mitigate the potential impact of this sizeable rate increase, PPL proposed a Rate Stabilization Plan. Under the plan, customers would pay higher rates beginning in July of 2008. These early increases would be set aside, with interest, and used to mitigate the customer’s rate increase beginning January 1, 2010. PPL proposed that all customers be assigned to the program unless the customer affirmatively “opted-out” of the program. The OCA filed an Answer to the Petition objecting to the use of an “opt-out” mechanism. The OCA argued that ratepayers are entitled to the protection of the generation rate cap and cannot have such protection removed through an “opt-out” process. The OCA argued that if an “opt-in” process was used where each customer could affirmatively choose to enter the program, than a properly designed program could be offered to customers. The parties engaged in settlement negotiations and were able to reach a resolution of this matter. Of importance to the OCA, the Company agreed to make the program a voluntary “opt-in” program so that only customers who affirmatively choose the program will be enrolled. In addition, the Company agreed to work with the OCA and other interested parties on the consumer education and information materials for the program. The ALJ approved the Settlement and the Commission scheduled a public input hearing in Bethlehem on the plan. The Commission voted to approve the plan to begin on October 1, 2008.

PPL Distribution Base Rate Case, Docket No. R-00072155. As discussed in last year’s Annual Report, on March 29, 2007, PPL Electric filed for an increase in distribution base rates to produce $83.6 million in additional annual operating revenue. PPL’s filing included a request for an 11.5% return on equity. Included in the rate increase filing were programs related to energy efficiency, demand-side management, universal service and sustainable development. PPL also proposed to recover deferred storm costs from a 2005 ice storm, and included a claim for recovery of storm insurance premiums. PPL also proposed to allocate the rate increase to the various customer classes in a manner that will move each class closer to the system average rate of return. The OCA presented testimony in this proceeding recommending an increase in
distribution base rates of $34.5 million with a return on equity of 9.63%. The OCA also proposed an alternative allocation of the rate increase to the customer classes. Under the Company’s proposal, the bulk of the rate increase was to be paid by the residential customers. The OCA’s analysis found that this was unwarranted and recommended that the rate increase be more fairly allocated to the classes. The OCA also challenged the Company’s proposal to recover its universal service costs through a Rider charged only to residential customers.

The parties entered into settlement negotiations and a comprehensive settlement was reached. Under the Settlement, PPL would be permitted to increase its distribution rates by $55 million annually. This represents an overall increase in rates of 1.75% as compared to the Company’s original request of a 2.79% overall increase. Included within this $55 million increase is increased funding for the Customer Assistance Program to allow for 22,000 customers to enter the program. If the Company exceeds 22,000 enrollees, the additional costs will be recovered through the surcharge mechanism, but the surcharge will be credited by $40 for each participant over 22,000 to reflect the cost savings and cost offsets from greater program participation. Also included in the $55 million is an additional $500,000 in funding for the Low Income Weatherization Program, resulting in a total expenditure on the program of $7,750,000.

The parties also agreed to the allocation of the rate increase to the various customer classes. Under the Settlement, the residential class would pay approximately 87% of the total increase, rather than the 94% proposed by the Company. The parties also agreed to a residential customer charge of $8.00 per month instead of the $10.00 per month customer charge proposed by the Company. The Settlement was approved by the ALJ and the Commission.

The parties also agreed to the allocation of the rate increase to the various customer classes. Under the Settlement, the residential class would pay approximately 87% of the total increase, rather than the 94% proposed by the Company. The parties also agreed to a residential customer charge of $8.00 per month instead of the $10.00 per month customer charge proposed by the Company. The Settlement was approved by the ALJ and the Commission.

Petition of PPL Electric to Offer Customers a Voluntary Alternative Energy Program And to Bank Alternative Energy Credits, Docket No. P-2008-2021398. PPL filed a Petition seeking approval to offer their default service customers the option to purchase Alternative Energy Credits (AECs) in accordance with the Alternative Energy Portfolio Standards Act during the remainder of the generation rate cap period. Under the plan, PPL would purchase AECs which represent alternative energy delivered to the PJM grid. Customers can elect to purchase these AECs from PPL and if they do, the AECs will be retired. AECs that are not purchased by customers will be banked by PPL for use in future compliance years. The OCA filed an Answer generally supportive of PPL’s plan. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

West Penn Power Company

In Re: Application of Trans-Allegheny Interstate Line Co. (TrAILCo) For A Certificate of Public Convenience, Docket Nos. A-110172, A-110172F0002-F0004, G-00071229. As discussed in last year’s Annual Report, in May 2005, PJM announced the “Project Mountaineer” which was intended to consist of one or more reinforcement projects to enhance the west-to-east transmission capability of the entire PJM transmission system. PJM initiated the Regional Transmission Expansion Planning Protocol (RTEP) to develop a comprehensive plan.

In February 2006, Allegheny Power proposed to PJM the construction of a 500 kV line now known as TrAIL (Trans-Allegheny Interstate Line) as a solution for long-term reliability issues in
the PJM region. In June 2006, PJM approved a five-year RTEP that included a modified version of TrAIL to be constructed by Allegheny Power; Allegheny sought FERC approval of financial incentives for the project, later authorized by FERC in an Order at Docket No. EL06-54-000.

The Company filed an Application with the PUC to approve the Pennsylvania portion of the TrAIL project on April 13, 2007. Allegheny asserted in its Application that a significant portion of the TrAIL facilities is directly related to reliability improvements needed in its Pennsylvania service territory. The OCA intervened in this docket and filed a Protest on May 29, 2007. The OCA retained two consulting firms to provide assistance in discovery and submission of testimony on the many issues raised by this filing. The OCA worked with the public parties, property owners, and other parties to this proceeding. Public input hearings were held in late August and September, 2007. Additionally, three days of site views were conducted by the ALJ along the proposed route of the line. The OCA attended all public input hearings and site views.

The OCA submitted its Direct Testimony on October 31, 2007. The OCA’s expert witnesses evaluated the reliability problems identified by the Company using the detailed PJM load flow studies and evaluated other aspects of the economic basis for the project. As to the portion of the line that runs from the 502 Junction to Prexy, located entirely in Pennsylvania to address Pennsylvania reliability requirements, the OCA expert witness concluded that a new 500 KV line on new rights-of-way was not needed to address these problems. Rather, additional 138 KV lines mostly on existing rights-of-way could address all reliability issues. In addition, the OCA experts found that targeted demand side response and energy efficiency programs could further bolster reliability in the vicinity of Washington and Greene Counties. As to the 1.2 mile segment of the line that runs from the 502 Junction to West Virginia, and then continues 230 miles through West Virginia and Virginia, the OCA experts found that sufficient consideration had not been given to the impact of future carbon dioxide regulations had not been incorporated into the analyses. As to this segment, the OCA witnesses recommended that the Company and PJM conduct further analyses. The OCA participated in the technical evidentiary hearing phase of this matter and submitted its Main and Reply Briefs. As of the end of the Fiscal Year, this case was still pending before the Commission.

Petition of West Penn Power Company dba Allegheny Power for Approval of its Retail Electric Default Service Program and Competitive Procurement Program for Service at the Conclusion of the Restructuring Transition Period, Docket No. P-00072342. On October 25, 2007, West Penn Power filed a Petition seeking approval of its default service program to be implemented at the end of its transition period, (January 1, 2011). West Penn proposed to conduct a series of competitive procurements, by customer class, between June 2008 and October 2010 to procure supply. As to the rates, West Penn proposed that the residential rates adjust quarterly and that the rates be fully reconcilable. West Penn also offered a voluntary rate mitigation plan that would allow customers to phase-in the rate increase for January 1, 2011. The OCA filed an Answer to the Company’s Petition and opposed several aspects of the Company’s proposal. The matter proceeded to hearings. The OCA presented testimony of two expert witnesses in support of the use of a portfolio approach for procuring default service supply for residential customers. Following technical evidentiary hearings, the OCA filed its Briefs. The ALJ issued his Recommended Decision rejecting the Company’s proposed plan and the OCA’s proposed plan. Instead, the ALJ recommended the adoption of a plan submitted by the Retail Electric
Suppliers Association (RESA). Under the plan recommended by the ALJ, the Company would procure supply mostly under full requirements contracts, mostly with terms of one year or less. The OCA filed Exceptions to the Recommended Decision. The Commission adopted, in substantial part, the Recommended Decision. Specifically, the Commission approved of the use of full requirements contracts to meet the supply need.

**Petition of Allegheny Power for Implementation of a Wind Energy Tariff, Docket No. P-00072349.** West Penn Power Company filed a Petition seeking approval of a wind energy tariff. Under the proposed tariff, customers would be able to purchase blocks of wind energy attributes with a 100 kWh block costing $2.50. The revenue from the purchase of these attributes would be provided in part to CEI, Inc., a wind energy developer to further deploy wind turbines in Pennsylvania and the nation and in part to West Penn’s Sustainable Energy Fund to support their programs. The OCA filed an Answer raising various questions regarding the filing. In particular, the OCA sought clarity as to the product being sold, the use of the revenue provided, and the consumer education that would be provided. The Commission sent the matter to the Office of Administrative Law Judge and issued a set of questions to be answered by the Company on the record. The OCA participated in discussions with the Company and CEI to clarify and improve certain aspects of the program. An agreement was reached among the active parties for certain modifications and clarifications. The ALJ conducted hearings to consider the modified program. The ALJ issued a Recommended Decision rejecting the tariff supplement on the grounds that providing wind energy attributes was not a utility service. The OCA filed Exceptions to the Recommended Decision arguing that the wind energy tariff did constitute a utility service, particularly in light of the Alternative Energy Portfolio Standards Act. The Commission issued its decision agreeing with the OCA’s Exceptions and approved the wind energy tariff, as modified by the parties’ agreement.

**Citizens’ Electric and Wellsboro Electric Request for Approval of a Default Service Plan, Docket Nos. P-00072306 and P-00072307.** As discussed in last year’s Annual Report, Citizens’ Electric and Wellsboro Electric made a joint filing for approval of a default service procurement plan that would allow each company to procure supply to meet its load obligations for its default service customers. The Companies proposed a portfolio approach and proposed to retain a portfolio manager to procure supply in accordance with the plan. The OCA retained an expert witness with experience in power supply procurement to assist in the review of the Companies’ plan. The matter was scheduled for expedited hearing at the Commission. The OCA worked with the Companies to develop a stratified procurement approach that is designed to mitigate rate volatility and to allow for procurement of supply at the lowest reasonable cost. The OCA filed testimony on this approach and participated in hearings on the approach. The Commission adopted the procurement plan developed by the OCA and the Company. The Company then filed a Petition to amend the plan to include a congestion management component. The OCA filed an Answer generally supportive, but seeking clarification of one aspect of the plan. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.
Petition of Wellsboro Electric Company for Waiver of Interim Filing Requirements And For Recovery of Non-Recurring Congestion Costs Over a Nine Month Period, Docket P-2008-2020257. In January of 2008, Wellsboro began to incur extraordinary congestion costs when it sought to move the energy it purchased to its customers. The costs were related to congestion on the transmission system that was partially related to the outage of a transformer owned by another utility. Wellsboro sought recovery of these costs but since the costs had the potential to significantly increase the rate paid by customers, Wellsboro requested to amortize the costs over a nine month recovery period rather than the shorter time frame required by the Commission’s regulations. The OCA recommended to the Commission that the recovery period be extended further to a 12-month period to mitigate the impact of this unusual occurrence. The Commission approved the extension of the recovery period to 12 months by Order entered February 29, 2008. The Commission also instituted an investigation into the causes of the increased congestion costs and any plans that could be developed to hedge against these increased costs. The OCA filed its Direct Testimony in the case. In its testimony, the OCA identified concerns with the impact of engineering and maintenance practices of the Pennsylvania Electric Company on the transmission system that resulted in the congestion costs. The OCA also evaluated several options for Wellsboro to hedge against increased congestion, particularly given its dependence on the transmission system. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Citizens’ Electric Company Base Rate Case, Docket No. R-00072348. As discussed in last year’s Annual Report, on April 30, 2007, Citizens’ Electric Company filed for a distribution base rate increase. Citizens’ requested an increase of $898,363 annually, or about a 7.4% overall increase. Citizens’ request included a claimed return on equity of 11.5%. As part of its proposal, Citizens’ proposed to increase the customer charge for all customer classes. The OCA filed a complaint and then filed testimony in August, 2007. The OCA recommended a rate increase of $464,000, based on a return on equity of 9.4% and the use of the parent company’s capital structure. The OCA also recommended that Citizens’ proposed customer charge be reduced. The parties engaged in settlement negotiations and were able to resolve these matters. Under the Settlement, Citizens’ would be permitted to increase their base rate revenue by $699,000 rather than the requested $898,363 or 5.7%. The Settlement also provided that Citizens’ would not be permitted to file for another base rate increase until after January 1, 2010, providing for a period of rate stability of more than two years. The parties also agreed to a customer charge of $5.00 rather than the $7.00 proposed by the Company. The Settlement was approved by the Commission.

Wellsboro Electric Company Base Rate Case, Docket No. R-00072350. As discussed in last year’s Annual Report, on April 30, 2007, Wellsboro Electric Company filed for a distribution base rate increase. Wellsboro requested an increase of $900,537 annually, or about a 9.4% overall increase. Wellsboro’s request includes a claimed return on equity of 11.5%. As part of its proposal, Wellsboro proposed to increase the customer charge for all customer classes. The OCA filed a complaint and then filed testimony in August, 2007. The OCA recommended a rate increase of $332,000 based on a return on equity of 9.4% and the use of the parent company’s capital structure. The parties engaged in settlement negotiations and were able to resolve these matters. Under the Settlement, the Company would be permitted to increase its base rate revenue by $690,000 instead of the Company’s requested increase of $905,537 or 7.6%. The Settlement also provided that Wellsboro may not file for another base rate increase until after
January 1, 2009. The stay out provision would provide a measure of rate stability as Wellsboro continues with a significant construction program to improve service. The Settlement also provided for a lower customer charge than that proposed by the Company. Under the Settlement, the customer charge would be set at $8.80. The Settlement was approved by the Commission.

**UGI Electric Company**

Petition of UGI-Electric For Approval of Its Post-2010 Default Service Plan, Docket No. P-2008-2022931. UGI Electric filed a Petition with the Commission seeking to establish its next default service plan. UGI has been serving its customers under a fixed price plan where UGI purchases a portfolio of products to meet that price. For its next plan, UGI proposed to continue the use of its portfolio approach, but proposed to establish a recovery mechanism that will adjust the rate quarterly and provide full reconciliation of all costs and revenues. The OCA filed an Answer supportive of the portfolio approach but indicating the need to further review certain aspects of the plan. The parties engaged in settlement negotiations and were able to reach a settlement of the matter. The ALJ recommended approval of the Settlement. The Commission entered an Order which approved the Settlement.

**Other Energy Activities**

**Harrisburg Steam Works**

Harrisburg Steam Works Base Rate Filing, Docket No. R-2008-2028395. On March 31, 2008, the Harrisburg Steam Works filed a distribution base rate case seeking to increase rates by $1.8 million. The Steam Works serves both residential and commercial customers in the downtown Harrisburg area. The OCA filed a complaint and retained witnesses to evaluate the Company's claim. The OCA filed Direct Testimony in the case challenging many of the Company's claims. In particular, the OCA recommended a lower return on equity than the Company requested and made several adjustments to the expense claims. In its Direct Testimony, the OCA found that the Company had justified only about half of its request. After reviewing the Company's Rebuttal testimony, the OCA refined its position. The OCA then recommended that the Company be awarded an increase of no more than $1,091,506. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

**Policy Cases**

Investigation of Conservation, Energy Efficiency Activities and Demand Side Response by Energy Utilities and Ratemaking Mechanisms To Promote Such Efforts, Docket No. M-00061984. As discussed in last year's Annual Report, on October 11, 2006, the Commission issued an Order establishing an investigation into demand side management and energy conservation programs. Through a collaborative working group, the Commission sought to
develop recommendations for specific programs and measures that can be implemented in a cost-effective manner for all customers. The Commission also sought specific recommendations regarding ratermaking changes that might be necessary to facilitate such programs, such as the introduction of revenue decoupling mechanisms. The OCA has actively participated in these matters. The OCA worked with its expert consultants, and other parties, to develop a list of energy conservation and demand side response programs for residential customers that have been successfully implemented throughout the Nation and that could be successfully implemented by Pennsylvania utilities. The collaborative working group considered many potential programs and recommendations of the stakeholders, but a consensus was not achieved. The Commission Staff prepared a Report for the Commission, which the OCA reviewed and commented on. At the end of the Fiscal Year, this matter was pending before the Public Utility Commission.

Proposed Revisions to Policy Statement On Customer Assistance Programs, Docket No. M-00072036. Following the Commission’s Final Investigatory Order regarding the design, availability of and funding of customer assistance programs under the Electric Choice Act and the Natural Gas Choice Act, the Commission issued proposed revisions to its Policy Statement to implement necessary revisions. Areas where the Commission sought to revise or clarify its regulations included CAP development, expansion and revision; scope and funding; and design elements. Of particular concern to the OCA were the Commission’s proposed design changes to allow for the benefit provided to low income customers to more closely track the actual energy prices paid by the customer, the modifications to the percentage of each customer’s income that is to be paid toward the utility bill, improvements in the arrearage forgiveness program, and the addition of a program to phase a customer out of the CAP when their income increases. The OCA filed comments on March 6, 2008. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Proposed Rulemaking: Universal Service and Energy Conservation Reporting Requirements and Customer Assistance Programs, Docket L-00070186. On February 9, 2008, the Commission’s proposed rulemaking to establish a unified process by which the level of funding for universal service and energy conservation plans for each energy utility in Pennsylvania could be determined was published in the Pennsylvania Bulletin. Through this rulemaking, the Commission proposed numerous changes to its regulations regarding the design and funding of its customer assistance programs. The OCA filed comments on April 22, 2008 regarding the Commission’s proposals.

Revisions of 52 Pa. Code Chapter 57 Pertaining to Adding Inspection, Maintenance, Repair, and Replacement Standards for Electric Distribution Companies, Docket No. L-00040167. As discussed in last year’s Annual Report, in 2004 the Commission issued an Advanced Notice of Proposed Rulemaking to establish inspection and maintenance standards for distribution facilities, including such things as vegetation management practices, pole inspections cycles, transmission and distribution line inspections, substation inspection and maintenance standards, and transformer inspection and maintenance standards.

On February 9, 2005, the OCA filed Comments. In its Comments, the OCA proposed a number of minimum inspection and maintenance standards for electric facilities and equipment that are critical to reliability. For example, the OCA recommended minimum inspection cycles for certain
facilities such as transmission and distribution lines, substations, and electric poles. The OCA also recommended time frames for remediating deficiencies that are found during any inspection of critical facilities. The OCA reviewed the comments of other parties and prepared its Reply Comments. In its Reply Comments filed on March 11, 2005, the OCA continued to support the adoption of standards as being necessary to comply with the Public Utility Code.

The Commission subsequently issued proposed regulations, adopting some of the OCA's recommendations, particularly regarding the intervals between inspections. The regulations, however, did not detail the forms of inspection or time frames for remedying identified deficiencies. On November 6, 2006, the OCA filed comments generally supporting the Commission's approach, but recommending further standards for inspection, maintenance and repair of critical facilities.

The Commission then determined to conduct a hearing on its proposed rules. The Commission issued a series of questions to the electric distribution companies seeking information, and issued additional questions to the OCA requesting additional information. The OCA participated in the hearings on January 22, 2007 through the presentation of oral testimony.

On May 22, 2008, the Commission issued its Final Rulemaking Order. In its Order, the Commission adopted the OCA's approach to establish minimum inspection and maintenance standards for certain key electrical facilities and to have each EDC file its detailed plans, identifying any deviation from the minimum standards with a full justification for such deviation. While adopting the OCA's approach, the Commission did not adopt the OCA's recommended minimum standards for inspection and maintenance of distribution facilities. The Commission primarily adopted time frames for inspection recommended by the electric distribution companies. The Commission did adopt some of the testing, maintenance and repair recommendations for distribution facilities of the OCA and the AFL-CIO. As to transmission facilities, the Commission adopted no standards, deferring to the rulemaking of the Federal Energy Regulatory Commission that is ongoing. The PUC's Final Rulemaking was approved by IRRC.

In Fiscal Year 2008, the Commission issued a request for further comments on a specific maintenance standard related to customer transformers. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Implementation of the Alternative Energy Portfolio Standards Act of 2004: Standards and Process for Alternative Energy System Qualification and Alternative Energy Credit Certification, Docket No. M-00051865. As discussed in last year's Annual Report, on January 31, 2006, the Commission issued an Order requesting comments on implementation issues related to the allocation of responsibilities between DEP and the Commission; the standards for qualifying regulatory energy systems, processes for approval, and health and safety standards. The OCA filed comments on two issues of statutory interpretation. First, the Commission determined that the language of the Act required that alternative energy resources be located in either the PJM or MISO regions since only PJM and MISO had been certified as Regional Transmission Organizations, a requirement under the AEPS Act. Second, the Commission found that an alternative energy resource could deliver its energy anywhere in the PJM or MISO region and did not have to deliver to the service territory of the purchaser. The OCA agreed with the
Commission that these interpretations seemed consistent with the statutory language. The OCA noted several problems that arise from this language, particularly the limitations placed on Pike County Light & Power Company, which is part of the New York ISO, in complying with the Act. The Commission issued final form regulations on the numerous implementation matters related to the AEPS Act. At the end of the Fiscal Year, many of the regulations were pending before IRRC.

Proposed Rulemaking: Implementation of the Alternative Energy Portfolio Standards Act of 2004, Docket No. L-00060180. As discussed in last year’s Annual Report, through publication in the Pennsylvania Bulletin, the Commission opened a rulemaking intending to establish by regulation the implementation decisions it had previously made regarding the Alternative Energy Portfolio Standards Act. The rulemaking reflected previous decisions and addressed several outstanding issues. One of the key issues addressed by the rulemaking was the treatment of alternative compliance payments and the force majeure provisions. The Commission had previously held that alternative compliance payments for failure to meet the requirements of the Act would not be recoverable from ratepayers. The OCA had opposed this complete prohibition and identified circumstances where the alternative compliance payment should be recovered when it was the least costly means to meet the requirements of the Act. In this rulemaking, the Commission sought to move toward the OCA’s position by connecting the alternative compliance payment provisions with the force majeure provisions. While the OCA agreed with the Commission’s intent, the OCA questioned whether the specific proposed mechanism was in keeping with the Act. The OCA filed comments on this issue. At the end of the Fiscal Year, the matter was still pending at the PUC.

Federal

FERC Electric Cases

FERC Investigation into Justness and Reasonableness of PJM Market Screen Test, EL08-47. FERC determined that the current PJM market power screening test, known as the Three Pivotal Supplier (TPS) test, may be unjust and unreasonable, and ordered the opening of an investigation. FERC initially deferred to an ongoing stakeholder process that was examining the TPS. That process did not produce any consensus results. Consequently, parties either supporting or opposing the TPS were directed to file briefs in favor of their position with FERC. The OCA joined with a coalition of load interests to file a brief and affidavit in support of the TPS. At the end of the Fiscal Year, the matter was pending before FERC.

End User Group Complaint Regarding the PJM Market Monitoring Unit, EL07-56 and OPSI Complaint Regarding the PJM Market Monitoring Unit, EL07-58. As discussed in last year’s Annual Report, based on statements made by the PJM Market Monitor at a FERC Technical Conference that the independence of the PJM MMU was being interfered with by PJM
management, a large group of end use customers, including the OCA, filed a complaint with FERC requesting that FERC open an investigation into this matter and ensure that the independence of the MMU was maintained. The complaint also requested that FERC ensure that the MMU is adequately staffed and has full access to all necessary data to monitor the markets. Without an independent Market Monitor, market participants cannot be assured that the markets are operating competitively and without the exercise of improper market power. In addition to the End User Group Complaint, the state commissioners that are part of the Organization of PJM States, Inc. (OPSI) also filed a complaint. OPSI also requested that FERC ensure that the status quo is maintained and that the MMU is not subject to any interference that compromises its independence. FERC issued a number of information requests to PJM and to the PJM MMU. Both responded. Based on the information contained in the responses, the End User Group, of which the OCA is a part, filed additional discussion regarding its complaint. OPSI also made additional filings.

On August 2, 2007, PJM made a unilateral offer of settlement in the cases. Under the offer, PJM would make the MMU an external function with the current market monitor being awarded the contract to head the function. The MMU contract could not be changed without FERC approval and the budget for the MMU would be determined through the stakeholder Finance Committee. The OCA and other Joint Complainants filed comments urging FERC to reject the PJM Offer of Settlement. The OCA and other Joint Complainants highlighted numerous issues with the Offer that made it unworkable. FERC rejected the Offer of Settlement and assigned the matter to a FERC conducted settlement process. The OCA actively participated in the settlement process.

In December of 2007, a Settlement was achieved that was supported by, or not opposed by, almost all active participants. Under the Settlement, the Market Monitoring Unit will become an external entity that is a separate corporation from PJM. PJM and the new corporate entity will enter into a six year agreement for market monitoring services. Included within the agreement is assurance that the MMU entity will have full access to PJM data, facilities, and personnel so that it can perform its functions. Cost recovery for the costs of the new entity was also provided for under the Settlement. The Settlement also established the functions and reports for the MMU entity. FERC approved the Settlement in March of 2008. On August 1, 2008, the transition to the independent market monitoring unit was completed. The new company, Monitoring Analytics, is now operating as an independent business providing all market monitoring functions.

Duquesne Transmission Base Rate Case, EL06-109, EL06-1549. On September 29, 2006, Duquesne Light Company filed for an increase in its transmission base rates and the establishment of a formula rate for its transmission costs. Included within this claim was a request for incentive rate treatment of certain new transmission facilities. The OCA filed a Motion to Intervene and Protest in the matter. The OCA engaged in settlement discussions with the Company and other parties through the FERC settlement judge process and a settlement was reached. Under the Settlement, the Company made a number of accounting adjustments recommended by the OCA that would reduce the transmission revenue requirement. The parties also agreed to a cap on the equity portion of the capital structure and on a base return on equity of 10.9% for the transmission investment. The Settlement
agreement was submitted to the ALJ for review and decision. A definitive Order was entered on May 9, 2008.

Request of Duquesne Light Company to Withdraw from PJM, ER08-194. Duquesne Light Company filed a request with FERC for authority to withdraw from PJM. Duquesne was seeking withdrawal from PJM due to the extraordinarily high capacity costs that have resulted from the implementation of PJM’s Reliability Pricing Model (RPM) auctions. Duquesne sought a ruling from PJM on its obligations to PJM as part of the withdrawal process, including its obligations to pay these capacity costs once it withdrew from PJM. The OCA intervened and filed comments supportive of Duquesne’s concerns with PJM’s RPM auctions and its plan to withdraw and join MISO once its obligations to PJM were satisfied. FERC issued an Order on January 17, 2008 approving the withdrawal on the condition that Duquesne pays its RPM obligations for the auctions that were completed. In essence, this means that even if Duquesne withdraws from PJM, it will need to make the RPM capacity payments through 2010. FERC established settlement negotiations to address several withdrawal issues. The OCA is participating in the settlement process. At the end of the Fiscal Year, this matter was pending before FERC.

Duquesne Light Company MISO Tariff Filing, ER08-1309. As part of the transition from participation in the PJM RTO to MISO, Duquesne filed tariffs to implement formula rates under the MISO Open Access Transmission Tariffs. Duquesne had previously received authority for formula rates as part of PJM. In that case, Duquesne, the OCA and the PA PUC had entered into a settlement regarding various aspects of the formula. Of particular note, the parties agreed that for purposes of setting the formula rates, the base return on equity would be set at 10.9%. Any incentives awarded by FERC are then added to this base ROE. In Duquesne’s case, FERC had already awarded a 50 basis point adder for Duquesne’s participation in PJM and it had awarded an additional 100 basis point adder to be applied to certain new facilities that Duquesne was constructing at the request of PJM. In its filing to become part of the MISO tariff, Duquesne sought a base return on equity of 12.38%. Duquesne waived its currently awarded incentives, but any future incentives would be added to this new base. In addition, this higher base return on equity would be applied to Duquesne’s entire rate base, not just to limited projects. The OCA filed a Protest against this filing. The matter remains pending at FERC at the end of the Fiscal Year.

Duquesne And PJM Interconnection, ER08-1345. Duquesne, PJM and MISO submitted a “Capacity Portability Agreement” to continue Duquesne’s transition from PJM to MISO. The Agreement provided for the criteria and mechanism by which Duquesne and other load serving entities in its service territory can satisfy their capacity obligations in MISO through the use of capacity they were required to purchase in PJM’s Reliability Pricing Model auctions. The OCA filed for intervention due to the impact on reliability and costs that could result. At the end of the Fiscal Year, this matter was pending before FERC.

Duquesne And PJM Interconnection, ER08-1339. Also as part of the transition from PJM to MISO, Duquesne entered into Agreements with each load serving entity in its zone regarding the method of payment for the capacity already procured to serve the Duquesne load zones under the Reliability Pricing Model. The OCA filed for intervention in this proceeding due to the potential cost impacts on retail customers from these agreements. At the end of the Fiscal Year, this matter was pending before FERC.
Trans-Allegheny Transmission Line, ER07-562, EL07-24. As part of its proposal to construct a transmission line, a part of which is in Pennsylvania, the Trans-Allegheny TrAIL Company also sought approval from FERC to establish a formula rate for the costs of the line. The request included a number of incentive rate proposals. The OCA filed a Motion to intervene in the matter and participated in the settlement process on the rate issues. The settlement process was terminated but then re-established. As part of the second settlement process, a settlement in principle was reached that limited the upward bound of the return on equity for the Company to 12.7% (including all incentive adders). The OCA estimated that the Settlement, if approved, would result in $14 million in savings for Pennsylvania customers from 2007 through 2016. The Settlement was presented to the ALJ for review. An Order approving the Settlement was entered in July 2008.

Potomac-Appalachian Transmission Highline Co. (PATH), ER08-386. The PATH project is a high voltage transmission line project that is seeking formula rates and incentive rate treatment at FERC. The OCA joined with a group of state consumer advocates in the PJM region to intervene in the proceeding. The consumer advocate group specifically objected to PATH’s request for a return on equity of 14.3% when the 200 basis points of incentive adders are taken into account. FERC ruled on the matter without setting it for hearings. In its Order, FERC approved the 14.3% return on equity for the Company. On March 31, 2008, the OCA joined with a group of state consumer advocates in filing a Request for Rehearing of this FERC Order. At the end of the Fiscal Year, this matter was pending before FERC.

PPL Electric and PSEG Transmission Project, EL08-23. PPL Electric and PSEG are proposing to construct a 500 KV transmission line that was identified in PJM’s Regional Transmission Plan. The transmission line will run from the Susquehanna Nuclear Generating Station into northern New Jersey. In preparation for this construction, PPL and PSEG filed a request at FERC for approval of incentive rate treatment. Among the incentives sought are Construction Work in Progress, guaranteed recovery of all costs if the project is cancelled, a 200 basis point adder to their rate of return, and the right to transfer this incentive treatment to another affiliated entity if one is created to own the project. The OCA joined with a group of other state consumer advocates to object to the award of incentive rate treatment. FERC rejected the Protests and awarded PPL Electric and PSEG several incentive rate treatments, including a 125 basis point adder to the return on equity. The Joint Consumer Advocate group, and others, filed requests for rehearing with FERC. At the end of the Fiscal Year, the requests for rehearing remain pending at FERC.

Complaint of Mirant Energy, EL08-8. Mirant Energy filed a request at FERC for an increase in the mitigated prices in the RPM auctions. Mirant asked FERC to direct PJM to include opportunity costs in any calculation. The effect of this would be to further increase the prices resulting from the RPM auctions. The OCA intervened in the matter and participated in the settlement negotiations. A settlement in principle was achieved and an Order approving the Settlement was entered.

Reliability Pricing Model, ER05-1410, ER05-148. The OCA continues to work on issues related to the Reliability Pricing Model (RPM) and the implementation of the auctions under that model. The OCA joined with a diverse group of load interests to oppose PJM’s compliance filing. PJM had made the compliance filing in response to a FERC Order that directed PJM to modify its
tariff to eliminate certain discretion that had been provided to the Market Monitoring Unit. The load interest coalition argued that PJM’s filing exceeded the scope of the FERC Order and went too far in limiting the Market Monitoring Unit’s discretion. At the end of the Fiscal Year, the matter remains pending at FERC.

PJM Filing To Increase The Value of the Cost of New Entry (CONE), ER08-516. PJM made a filing at FERC seeking to change one of the key elements of the Reliability Pricing Model, the value for the cost of new entry (CONE). PJM had sought stakeholder approval of the increase in the value of CONE, but the Members’ Committee rejected the proposal. The PJM Board then directed PJM to make the filing. The OCA joined with a broad coalition of end use customers to protest the increase in CONE. Under PJM’s proposal, it was expected that prices to consumers will further increase with no demonstrable benefit. In April 2008 FERC rejected PJM’s filing and directed PJM to work through its stakeholder process and tariff requirements if it sought to increase the value of CONE.

Complaint of PJM Against the Tower Companies Regarding Manipulation of the FTR Market, EL08-44. PJM filed a complaint against the Tower Companies alleging that the companies engaged in market manipulation in the Financial Transmission Rights (FTR) market. The OCA intervened in this proceeding because the alleged market manipulation may have impacted the transmission rates of Wellsboro Electric Company and Metropolitan Edison Company. It is possible that other Pennsylvania EDCs experienced higher transmission costs as a result of the alleged market manipulation as well. If FERC finds the allegations to be well-founded and orders a refund, the ratepayers of Wellsboro and Met-Ed may be entitled to such refunds. The case remains pending at FERC at the end of the Fiscal Year.

Maryland Public Service Commission v. PJM, EL08-34. The Maryland Public Service Commission filed a complaint against PJM alleging that PJM’s rules that exempt certain generators that entered service after 1996 from mitigation (offer capping) by the market monitor was unjust and unreasonable. The OCA filed an intervention and comments on behalf of a number of consumer advocate offices that supported the Md. PSC complaint. FERC sustained the Md. PSC complaint and directed PJM to establish rules that ensure that the all generating units can be subject to mitigation by the market monitor when the applicable market power screens are failed.

Maryland Public Service Commission, et al. v. PJM Interconnection, L.L.C., EL08-67. The OCA joined with a coalition of state public utility commissions, including the Pennsylvania Commission, other consumer advocate offices, industrial customers, public power agencies, rural electric cooperatives, the United States Department of Defense and a Pennsylvania electric utility to file a complaint alleging that PJM’s Reliability Pricing Model as implemented through several transitional auctions has produced unjust and unreasonable capacity prices. The coalition, termed the RPM Buyers, represent consumers in the PJM operating area that will pay the cost for capacity that resulted from these auctions. The RPM Buyers alleged that the RPM transitional auctions were flawed for at least three reasons: 1) the auctions lacked competition for new resources, including demand response and new transmission; 2) the administrative apparatus has proven inadequate to restrain the exercise of market power by withholding capacity to increase prices; and 3) the locational component created additional opportunities for sellers to raise prices but served no legitimate function during the transition.
As a result of these deficiencies, the RPM Buyers Group alleged that customers will be paying higher capacity charges that far outweigh any possible benefit. The transitional auctions result in $26.2 billion in capacity payments to generators (most existing generators) with no discernible benefit for customers. For Pennsylvania, the RPM auctions result in $5 billion of additional capacity payments. The matter is pending at FERC at the end of the Fiscal Year.

**PJM**

As noted above, the OCA either individually or in a coalition with other state consumer advocates, participated in a number of Federal Energy Regulatory Commission (FERC) proceedings arising out of filings made by PJM or by PJM members regarding wholesale market issues. In addition to the proceedings described above, the OCA participates in the following PJM Committees, Working Groups and User Groups:

- **Members Committee (MC)** – This is the governing authority of the PJM stakeholder process. PJM’s members have substantial authority over the FERC-approved PJM Operating Agreement. All Committees and Working Groups fall under the authority of the Members Committee. The OCA is a full, voting member of PJM but under a special section of the Operating Agreement that exempts the OCA and other state advocate offices from the financial liability shared by all other members.

- **Markets and Reliability Committee (MRC)** – This committee is responsible for developing and forwarding to the Members Committee all proposals falling under either the Tariff or the Operating Agreement. The work is done through the Market Implementation Committee, Planning Committee and Operating Committee. The MRC also resolves significant disagreements that cannot be handled through the subsidiary committees. Finally, the MRC is responsible for final approval of detailed, operational Business Rules that specifically implement provisions of the Tariff and Operating Agreement.

- **Market Implementation Committee (MIC)** – The MIC is responsible for developing policies and solutions related to PJM’s markets. Development is frequently done by working groups that the MIC creates. Preparation of final recommendations for the MRC is done by the MIC.

- **Capacity Market Evolution Committee (CMEC)** – The CMEC is responsible for developing, reviewing and ultimately proposing to the MRC and MC improvements to PJM’s capacity market construct known as the Reliability Pricing Model.

- **Transmission Expansion Advisory Committee (TEAC)** – The TEAC meets monthly to review the current state of transmission expansion for reliability and economics. The TEAC is responsible for providing comments to the Board regarding the impacts and advisability of transmission projects.

- **Market Monitoring Advisory Committee (MMAC)** – The MMAC meets with the Independent Market Monitor to discuss the Annual Market Monitoring Plan as well as general
enforcement policies. The Committee proposes changes in approaches to conducting market monitoring.

- Demand Response Steering Committee (DRSC) – the DRSC is responsible for setting policy direction for other committees and working groups aimed at promoting effective demand response market participation through the development of appropriate market rules. The DRSC reports to the MRC.

- Demand Side Response Working Group (DSRWG) – The DSRWG is responsible to the MIC for development and modification to both the markets for demand resources and the methods used to determine how demand resources are compensated.

- Public Interest / Environmental Organizations Users Group (PIEOUG) – The PIEOUG consists of state consumer advocates and environmental organizations. The PIEOUG exists to convey the specific concerns of its members to the PJM Board and to PJM’s senior management. The PIEOUG meets annually with the PJM Board to present concerns and discuss the Boards plans. There are periodic meetings with PJM management designed to inform the PIEOUG members about current issues.

- Three Pivotal Supplier Task Force (TPSTF) – The TPSTF is responsible for reviewing the market power screens used in the PJM markets and recently had its scope expanded to include examining possible changes to PJM’s scarcity pricing rules.
NATURAL GAS

Pennsylvania

Columbia Gas Company

Columbia Gas Base Rate Case, Docket No. R-2008-2011621. On January 28, 2008, Columbia Gas Company filed a distribution base rate case. This is Columbia’s first base rate case since 1995. Columbia requested an overall increase of $59.9 million, or about 10.3%. For the average residential customer using 7.2 Mcf of gas from Columbia per month, the increase would be about 10.68%, or an increase from $102.95 to $113.94 per month. Columbia requested a return on equity of 11.375%. Columbia also requested a Distribution System Improvement Charge (if one becomes legal) to recover some of the costs of its extensive infrastructure improvement program. Columbia also proposed a number of new energy conservation programs for customers with incomes between 151% and 200% of the Federal Poverty Level. The OCA retained expert witnesses to review the Company’s claim. In their testimony, the OCA witnesses recommended that the Company be awarded a rate increase of $16.7 million, providing the Company an opportunity to earn a 9% return on equity. The OCA also recommended that a lower percentage of the rate increase burden be allocated to residential customers. As of the end of the Fiscal Year, the case was still pending before the PUC.

Petition of Columbia Gas Regarding Customer Service Line Replacement, Docket No. P-00072337. Columbia Gas filed a Petition with the Commission seeking any necessary waivers to implement its infrastructure replacement program. As part of the Petition, Columbia explained that certain customer service lines in western Pennsylvania are owned by the customer, not the Company, but will need to be replaced when Columbia replaces the distribution main in the customer’s neighborhood. Customer service lines in eastern Pennsylvania are owned by the Company. Columbia was seeking permission to replace these customer-owned service lines using local plumbers and workers at the Company’s expense as part of the project. The Company also sought accounting treatment to address the recovery of the costs it incurs for such replacements. The OCA filed an Answer generally supporting the Company’s plan. Having the Company replace the customer owned service lines will be more efficient and cost-effective. The OCA also offered its assistance to the Company in communicating with customers and addressing any customer concerns regarding the program. The Commission approved the Company’s proposal.

Equitable Gas Company

sought to create a holding company structure with the regulated public utility, Equitable Gas Company, becoming a separate legal entity. On February 16, 2007, the OCA intervened in this matter. As part of its investigation of this matter, the OCA engaged in formal and informal discovery in order to gather further information as to the proposed reorganization. At the same time, the OCA participated in numerous settlement meetings with Equitable and the other parties that eventually produced a settlement of all of the OCA’s issues in this matter.

Some of the key Settlement terms included: all of the costs incurred by the Company as to the reorganization would be borne by Equitable’s shareholders; for a five-year period Equitable would not claim any increase in its cost of capital as a result of the reorganization; and, Equitable’s long-term debt ratio would not exceed 60%. On June 13, 2008, the Commission approved the Settlement in this matter without modifying any of the OCA’s negotiated terms.

**National Fuel Gas Distribution**

Petition of National Fuel Gas Distribution Company For A Universal Service Cost Recovery Mechanism, Docket Nos. R-00072420 and M-00072019. On May 31, 2007, NFGD filed a tariff supplement proposing modifications to its universal service program and its universal service cost recovery mechanism. The intent of the filing was to bring NFGD’s program and cost recovery into compliance with the Commission’s recent CAP Policy Statement. The OCA filed a complaint against the tariff filing. The OCA worked with the Company and an agreement was reached addressing the OCA’s concerns. Under the Settlement, the Company will provide a credit to the universal service cost recovery mechanism for each new participant in the program to reflect the savings and offsets related to participation in the program. The Settlement was approved by the Administrative Law Judge and the Commission.

Complaint of NFG and Petition for an Order to Show Cause Why New Mountain Vantage and Others Acting in Concert With It Should Not Be Required to Apply For A Certificate Of Public Convenience, Docket No. P-00072343. Upon information that New Mountain Vantage was seeking to increase its ownership percentage of NFG’s stock and engage in a proxy fight to have certain individuals elected to NFG’s Board of Directors, NFG determined to file a Complaint and a Petition to Show Cause. NFG argued that if New Mountain was successful, it would result in a change in control of the ownership of NFG and that under the Public Utility Code, such new controlling owner would have to acquire a certificate of public convenience. The OCA intervened in the proceeding given the unique legal issue presented. The Commission determined to have hearings into the matter. During the last week in January, however, New Mountain Vantage and NFG entered into a settlement whereby New Mountain would not increase its percentage of shares in NFG and the Board of Directors would be expanded to include a director recommended by New Mountain Vantage. NFG reached an agreement with New Mountain Vantage and filed to withdraw its complaint and petition.
PECO Gas Company

PECO Gas Distribution Base Rate Case, R-2008-2028394. For the first time since 1987, PECO Gas Company filed to increase its distribution base rates on March 31, 2008. PECO is seeking a $98 million increase. The increase includes a request for an 11.5% return on equity. The Company also proposes to significantly increase the residential customer charge. The OCA filed a complaint and hired a team of expert witnesses to review the Company’s filing. At the end of the Fiscal Year, the case was pending before the Public Utility Commission.

Philadelphia Gas Works

Philadelphia Gas Works, R-00061931. On December 22, 2006, the Philadelphia Gas Works filed a request for an increase in its base rates revenues of $100 million. PGW is the largest NGDC in Pennsylvania with 486,000 customers. Of the 486,000 customers, 461,000 are residential customers, with a significant number of those customers having incomes at or below 150% of the federal poverty level. Of the $100 million increase, the Company was seeking $80 million for increased operating expenses and $20 million for its debt reduction. The Company also proposed to change its Gas Cost Recovery mechanism related to revenues from off-system sales and capacity release. Under the current mechanism, all revenues, about $10 million annually, are returned to customers as an offset to purchased gas costs. PGW sought to retain these revenues and direct the revenues to capital improvement projects. The OCA filed a complaint and retained a team of expert witnesses for the case.

The OCA filed testimony recommending that PGW be awarded a rate increase of no more than $22.5 million. The OCA also recommended that the Company’s proposal to retain some of the off-system sales revenue be rejected. Additionally, the OCA supported PGW’s proposed spread of any rate increase among the customer classes, and made various recommendations regarding universal service cost recovery. The Administrative Law Judges issued their Recommended Decision providing for a $25 million increase in rates. The ALJs adopted many of the OCA’s positions on expense claims and the revenue requirement. The ALJs determined to adopt a proposed spread of the rate increase proposed by another party that results in the entire $25 million rate increase being borne by the residential customer class. The OCA filed Exceptions on the issue of the spread of the rate increase and then filed Reply Exceptions in support of certain portions of the ALJ’s decision. At its Public Meeting of September 13, 2007, the Commission found that PGW was entitled to a rate increase of $25 million. The Commission adopted many of the OCA’s positions on the Company’s claims. The Commission adopted the ALJ’s recommended spread of the rate increase which results in residential customers paying approximately $24.3 million of the $25 million rate increase. The Company filed an appeal in Commonwealth Court challenging numerous aspects of the Commission’s Order. The OCA intervened in this appeal and filed a Brief in support of the Commission’s Order. At the end of the Fiscal Year, this case was pending before Commonwealth Court.

Petition of PGW for a Declaratory Order, Docket No. P-00072335. PGW sought a declaratory order from the Commission regarding the implementation of Chapter 14 of the Public Utility Code. Of particular importance, PGW sought to expand the methods available to it under
Section 1407(e) to assign previous account arrearages to an applicant for service. PGW asked the Commission to find that the use of any government-issued document that contains an address and/or requires updating of that address, or the use of PGW’s business records could be used to establish that an applicant for service can be assigned a past account arrearage. PGW alleged that it needed these additional verification methods (in addition to the Section 1407(e) methods of the use of mortgage, deed or lease information and commercially available consumer credit reporting services) to combat the name game. The OCA filed an Answer raising concerns about expanding the methods beyond those set forth in the statute. The OCA also raised concern about the reliability of some of the methods proposed by PGW for the purpose of determining the actual residence of an applicant during an historic period. At the end of the Fiscal Year, the matter remained pending before the Commission.

PGW Settlement with Law Bureau Re: Violations of Chapter 56, Docket No. M-00072017. The Commission’s Law Bureau conducted an investigation into the death in a fire of an elderly Philadelphia resident whose natural gas service had been terminated a year earlier and not restored. During its investigation, the Law Bureau determined that the fire was not a result of the loss of gas service, but that PGW had violated several Chapter 56 regulations in effectuating the termination and in failing to restore service. The Law Bureau and PGW reached a settlement of the matter that called for additional training for customer service representatives and additional spending on PGW’s weatherization program. Upon consideration of the Settlement, the Commission assigned the matter to an ALJ for the development of a record so that the matter could be fully considered. The OCA intervened in the matter and has been assisting in the development of the factual record. The Company and Law Bureau have clarified certain Settlement provisions and placed additional facts on the record in response to the OCA’s concerns. At the end of the Fiscal Year, the case was pending before the PUC.

**PPL Gas Company**

Application of UGI, Inc. for Acquisition of PPL Gas, Docket Nos. A-2008-2034045, A-2008-2034047. UGI, Inc. filed an Application seeking to acquire PPL Gas. Through the acquisition, UGI will own three operating natural gas distribution companies in Pennsylvania—UGI-Gas, UGI-Penn, and PPL Gas. The OCA filed a Protest identifying various issues that should be considered by the Commission, including whether the acquisition will result in substantial, affirmative benefits for Pennsylvania ratepayers. The OCA hired expert witnesses to evaluate the acquisition. At the end of the Fiscal Year, the matter was pending before the Commission.

PPL Gas Universal Service Tariff Filing, R-00072571. PPL Gas Utilities Corporation made a tariff filing seeking to implement a reconcilable universal service surcharge recovery mechanism. The Company also filed a proposed design for a pilot weatherization program. The OCA filed a Notice of Intervention on September 18, 2007. The Company withdrew the filing in January 2008.
UGI Gas Company

UGI Penn Natural Gas Company


Pike County Light And Power Company—Gas Division

Pike County Light And Power Company Base Rate Case, Docket No. R-2008-2046520. On July 18, 2008, Pike County Light & Power Company filed a request with the Public Utility Commission to increase the level of rates that it charges for natural gas distribution service to its customers. The Company proposed a natural gas distribution rate increase of approximately $425,000 in its annual operating revenues for its natural gas division. This would represent a 21.4% overall increase. The total bill for a residential customer using 100 ccf per month would increase from $143.23 to $176.31 per month or by 23.1%. The OCA filed a Complaint in this case. At the end of the Fiscal Year, the case was pending before the PUC.

Purchased Gas Cost Proceedings

The OCA continued its assessment of gas utilities’ gas purchasing practices during the year pursuant to Section 1307(f) of the Public Utility Code. Each of the major gas utilities had their annual purchased gas cost (PGC) filings reviewed for the year 2007 and 2008. The OCA was a participant in each of these cases to ensure that, notwithstanding the recent gas wholesale price increases, each company has done the best possible job in securing the lowest cost gas resources available to serve their customers in a reliable manner.

The OCA continues to remain concerned about hardships imposed upon consumers due to fluctuating gas cost rates caused by instability in the wholesale natural gas markets. As a result of continued price volatility in the wholesale gas markets, the OCA’s focus in this year’s purchased gas cost cases continued to be whether Natural Gas Distribution Companies (NGDCs) were taking the necessary steps to manage the risk associated with price volatility.

The OCA reviewed the gas purchasing practices of all the Pennsylvania NGDCs to ensure that they have an adequate risk management plan in place with a goal of reducing price volatility while still purchasing gas for customers at the lowest possible prices. The OCA made various
recommendations to the NGDCs about the amount of their gas supplies that should be hedged and the timing of those purchases. In particular, the OCA stressed the importance of hedging the purchases of natural gas supplies for injection into storage. With increased volatility in gas prices during the injection season, it is essential that NGDCs apply risk management strategies to injection season purchases in order to reduce price volatility. By adopting the OCA’s recommendations, the NGDCs will be able to significantly reduce the dramatic fluctuation in purchased gas cost rates that consumers have experienced in the past.

Additionally, the OCA continued to address a wide range of issues in these cases. In particular, the OCA provided careful evaluation of utility contractual commitments with interstate pipelines, while also evaluating lost-and-unaccounted for gas levels of NGDCS. Both of these issues can contribute to significant purchased gas costs. Regarding interstate pipeline contracts, the OCA analyzed the gas supply planning practices of gas utilities and NGDC decisions to renew capacity entitlement or acquire new capacity, especially in light of the Natural Gas Choice and Competition Act and the changing regulatory environment in the industry.

The OCA also continued to assess the use of the capacity release and off-system sales markets by gas utilities to maximize offsets of costs to PGC customers. The OCA also continued to analyze possible subsidization between retail sales customers and transportation customers.

With respect to lost-and–unaccounted for gas levels, the OCA conducted analyses of these levels to ensure that retail sales customers’ rates are not increasing as a result of unreasonably high lost-and–unaccounted for gas levels. In essence, high levels of lost-and–unaccounted for gas result in customers paying for gas supplies which are lost rather than consumed. Therefore, the OCA’s analyses focused on the reasonableness of these levels to ensure that NGDCs are doing what they can to avoid inefficiencies in their gas delivery systems.

Other issues addressed by the OCA included gas companies’ proposals for performance-based gas purchasing programs. These include programs under which gas utilities’ gas purchases are compared to published gas indices, and the utility is rewarded or penalized for its performance; capacity release incentive programs, under which a gas company’s performance in the capacity release market is compared to historic levels of performance; incentives for making sales off-system; and gas company proposals to purchase a portion of their gas supply based upon long-term contracts and hedging programs.

As discussed above, the OCA also reviewed gas companies’ contracts and evaluated numerous standard purchasing issues such as the level of interstate pipeline capacity held by gas companies, the allocation of gas costs between customer groups, the recovery of capacity costs from customers utilizing transportation service, and gas commodity price projections, among other issues.
The OCA participated in the following purchased gas cost cases during Fiscal Year 2007-08:

<table>
<thead>
<tr>
<th>Gas Utility</th>
<th>2007 PGC Docket</th>
<th>2008 PGC Docket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Columbia Gas of PA</td>
<td>R-00072175</td>
<td>R-2008-2028039</td>
</tr>
<tr>
<td>Dominion Peoples</td>
<td>R-00072109</td>
<td>R-2008-2022206</td>
</tr>
<tr>
<td>Equitable Gas</td>
<td>R-00072111</td>
<td>R-2008-2021160</td>
</tr>
<tr>
<td>National Fuel Gas</td>
<td>R-00072043</td>
<td>R-2008-2012502</td>
</tr>
<tr>
<td>PECO Gas</td>
<td>R-00072331</td>
<td>R-2008-2099468</td>
</tr>
<tr>
<td>PPL Gas</td>
<td>R-00072333</td>
<td>R-2008-2039634</td>
</tr>
<tr>
<td>PG Energy</td>
<td>R-00072334</td>
<td>R-2008-2039284</td>
</tr>
<tr>
<td>Philadelphia Gas Works</td>
<td>R-00072110</td>
<td>R-2008-2021348</td>
</tr>
<tr>
<td>T.W. Phillips Gas &amp; Oil Co.</td>
<td>R-00061961</td>
<td>R-2008-2013026</td>
</tr>
<tr>
<td>UGI Gas</td>
<td>R-00072335</td>
<td>R-2008-2039417</td>
</tr>
</tbody>
</table>

**Miscellaneous Gas Cases and Issues**

Natural Gas Stakeholders Working Group Regarding Natural Gas Choice and Competition Act, Docket No. I-00040103. As discussed in last year’s Annual Report, on October 6, 2005, the Commission issued its “Report to the General Assembly” regarding competition in Pennsylvania’s retail natural gas supply services market. In that report, the Commission concluded that there was not “effective competition” in the retail natural gas supply market on a statewide basis at this time. As required by the Natural Gas Choice and Competition Act, the Commission must convene the Natural Gas Stakeholders to explore avenues, including legislative changes, to support retail competition. On January 20, 2006, the Commission issued a Secretarial Letter requesting interested stakeholders to attend a Commission sponsored collaborative. Thereafter, the Commission issued a notice that the collaborative would be held on March 30, 2006. The Commission’s notice also split the collaborative up into various subgroups to work on different issues. The first meetings of the subgroups took place on March 30, 2006. The OCA participated in all subgroup meetings and has commented on the proposed Draft Reports. At the end of the Fiscal Year, Commission Staff was considering the comments on the Draft Reports.
Federal

**FERC Gas Cases**

Transco, RP06-569. On August 31, 2006, Transco filed for an increase in its pipeline rates that will affect the rates paid by Pennsylvania retail consumers. Transco sought a general increase in FERC jurisdictional revenues of $281 million. Transco's filing proposed to change annual depreciation accrual rates for certain categories of assets, reclassify certain assets from transmission plant to gathering plant, remove revenue sharing provisions from certain rate schedules, modify the cost allocation and rate design methodology for costs related to certain projects, and eliminate monthly billing determinants. The OCA filed a Motion to Intervene. Settlement negotiations resulted in the filing of an uncontested Settlement Agreement on November 28, 2007. A single issue was reserved for litigation. The OCA did not participate in the litigation of the reserved issue because it only applied to the rate schedules of two intervenors outside of Pennsylvania.
TELECOMMUNICATIONS

Pennsylvania

Merger Proceedings

Joint Application of Verizon and MCI for Merger Approval. As discussed in last year’s Annual Report, on March 7, 2005, Verizon and MCI applied to the PUC for approval of a proposed merger between these companies. The OCA filed a protest on April 25, 2005 noting the loss of competition and merger financial benefits that the companies will enjoy as a result of this merger. In addition, the OCA raised quality of service issues relating to post-merger network performance, and the companies’ ability to enhance or improve their quality of service.

OCA presented expert testimony at the scheduled evidentiary hearings which advocated in favor of a five year rate freeze, the Verizon requirement to provide stand alone DSL to all of its customers, acceleration of universal broadband deployment, service quality monitoring, and potential divestiture of duplicative assets.

In the Initial Decision, issued on November 16, 2005, the ALJ approved the Joint Application without imposing any conditions on the merger. Among other things, the ALJ determined that the Joint Applicants met their burden of proving that the merger satisfied all applicable legal standards. In particular, the ALJ determined that the benefits cited by the Joint Applicants, although general in nature, were benefits that may occur as a result of the proposed merger.

On January 11, 2006, the PUC issued its Order approving the merger without conditions beyond those ordered by the FCC. The PUC determined that consumers would benefit from the merger as a result of an emerging multimedia platform. It determined that market concentration in the enterprise market was not significant and that various types of competition would emerge in different ways. It also used the FCC’s conditions to determine that no further conditions would be required.

The OCA filed a Petition for Review of the PUC decision at Commonwealth Court. On February 20, 2007, the Commonwealth Court issued an opinion which substantially adopted the position of the OCA. The Court determined that the PUC had not properly followed the “substantial affirmative benefits” test in reviewing whether the proposed merger would benefit the public in Pennsylvania. The Court reversed the Commission’s Order, by a vote of 6-1 and remanded the matter back to the PUC to either reject the merger or impose conditions that would ensure that the appropriate standard was met.

On March 22, 2007, the PUC filed a Petition for Allowance of Appeal with the Pennsylvania Supreme Court, effectively staying the decision of Commonwealth Court. Verizon also filed a Petition for Allowance of Appeal on March 22, 2007. The OCA filed Briefs in Opposition to each of the Petitions on April 9, 2007, explaining that the Commonwealth Court properly compared the PUC Order to the well established City of York standard and that further appellate review was not warranted.
The Pennsylvania Supreme Court granted the PUC’s and Verizon’s Petitions for Allowance of Appeal on July 24, 2007 and heard oral argument on October 16, 2007 in Philadelphia. The OCA participated in the oral argument in response to the affirmative cases presented by lawyers for the Commission and for Verizon.

On December 27, 2007, the Supreme Court issued its Opinion and Order holding that the Commission’s conclusion that the merger will affirmatively promote the service, accommodation, convenience or safety of the Pennsylvania public in some substantial way should have been sustained. The Supreme Court therefore reversed the decision of the Commonwealth Court and reinstated the Commission’s Order. In part, the Supreme Court found that the City of York standard did not require the Commission to secure legally binding commitments to assure public benefit as a result of the merger. The Supreme Court further determined the City of York standard could be met in long-term ways and there was no need for short-term concessions to approve the merger.

Joint Application of North Pittsburgh Telephone Company and Penn Telecom, Docket Nos. A-312550F0002, A-310074F0004. North Pittsburgh and Penn Telecom applied on July 17, 2007 for PUC approval of the acquisition of the Companies by Consolidated Communications. North Pittsburgh is an incumbent local exchange carrier providing service to over 60,000 customers in the northern suburbs of Pittsburgh. Penn Telecom is a competitive carrier serving primarily business customers in the Commonwealth. Consolidated Communications provides local service in a small portion of Texas and Illinois, as well as other telecom services. Pursuant to North Pittsburgh’s Chapter 30 Plan, the Company was already committed to broadband deployment by the end of 2008. OCA filed a Protest on August 3, 2007, based on concern that the proposed acquisition would not offer substantial benefits to Pennsylvania consumers.

On October 9, 2007, the OCA, North Pittsburgh, Penn Telecom, the Office of Small Business Advocate, the Office of Trial Staff and the Communications Workers of America entered into a settlement agreement regarding this matter. The Settlement would provide rate and service benefits to North Pittsburgh’s residential customers. The rate benefits included North Pittsburgh’s commitment to not increase its monthly charge for residential basic local exchange service for the years 2008 and 2009, as they would otherwise be allowed to do pursuant to their effective Chapter 30 plan. Furthermore, the Settlement provided that the Company cannot “bank” these increases and that their existing “bank” must be zeroed out. The Settlement also provided that “stand-alone” DSL service would be made available for a period of two years after Commission approval of the merger. This will allow customers more choice, where they do not have to buy North Pittsburgh telephone service to obtain DSL from North Pittsburgh. Pursuant to the Settlement, North Pittsburgh will provide additional high-speed internet access at speeds faster than their current commitment and even provide certain video services as well. As part of the Settlement, North Pittsburgh will produce and distribute at its expense a Lifeline brochure explaining the low-income discount and how to apply for it. The Settlement affirmed that North Pittsburgh would allow Lifeline customers to purchase bundled packages of services. The Settlement also provided for service quality reporting and employment level guarantees so that North Pittsburgh’s quality of service can be maintained. As such, the Settlement provided significant consumer benefits.
On November 20, 2007, Administrative Law Judge Corbett recommended that the Commission adopt the Settlement as in the public interest. The Commission issued a Secretarial Letter on December 5, 2007 indicating that the decision of the Administrative Law Judge is final without further Commission action. The Companies have since given the PUC notice that merger has closed, with the filing of Articles of Merger with the Pennsylvania Department of State on December 31, 2007.

Joint Application of Yukon-Waltz Telephone Company and Yukon-Waltz Communications for Issuance of a Certificate of Public Convenience Approving the Transfer of Control to Laurel Highland Total Communications, Inc. Pursuant to Section 1102 of the Public Utility Code, Docket Nos. A-2008-2014207 and A-2008-2014281. On January 7, 2008, Yukon-Waltz Telephone Company and Yukon-Waltz Communications, Inc. filed a Joint Application proposing the sale of all outstanding capital stock of Yukon to Laurel Highland Total Communications. Both Yukon and Laurel Highland are rural incumbent local exchange carriers operating in southwestern Pennsylvania. In the Joint Application, the Companies asserted, among other things, that the negotiations regarding the transaction were at arm’s length and that the companies’ customers would not be adversely affected by the proposed change of control.

On February 4, 2008, the OSBA filed a Notice of Intervention and Protest in response to the Joint Application. In their Protest, the OSBA averred that the Joint Application did not provide sufficient support for the claimed benefits to customers and that approval of the Joint Application would not be consistent with applicable law. On February 13, 2008, the OCA intervened in the matter in order to participate in and consider the important issues raised in the Protest filed by the OSBA and in the Joint Application of Yukon and Laurel Highland. After a few months of negotiating, OSBA determined to withdraw its Protest filed in response to the Joint Application. As such, the Commission approved the Joint Application by Order entered May 22, 2008.

Access Charge Proceedings

Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Access Carriers, and the Pennsylvania Universal Service Fund, Docket No. I-00040105. As discussed in last year’s Annual Report, the Pennsylvania Universal Service Fund (Pa USF) collects funds from all jurisdictional telecommunications carriers and pays out support to Pennsylvania rural incumbent local exchange carriers to offset the cost of providing local exchange and access service. For several years, the PUC had deferred investigation and possible reform of the Pa USF due to pending proposals for federal reform of intercarrier compensation and federal universal service support.

On April 24, 2008, the Commission determined to continue to stay part of the investigation. However, the Commission determined to move ahead and investigate whether the $18.00 rate cap on residential monthly service rates, and the corresponding rate cap on business rates, should be changed, whether funding for the Pa USF should be increased, and whether a “needs based” test for rural telephone company support from the Fund should be established. The Commission further articulated additional issues to be addressed in this limited reopening. The Commission stayed investigation of the appropriate level of rural telephone companies’ access charges, except to determine that such charges should not increase, during the stay, absent
extraordinary circumstances. The existing $18 rate cap is an important protection for residential customers of all incumbent telephone companies. At the end of the Fiscal Year, the case was pending before the PUC.

AT&T Communications of Pennsylvania, LLC v. Verizon North Inc. and Verizon Pennsylvania Inc., Docket No. C-20027195. The case has its roots in a formal complaint filed by AT&T against the rates charged by Verizon to complete long distance calls originated by AT&T, known as access charges. Through the AT&T complaint docket, AT&T, Verizon, OCA and other parties negotiated a framework for some decreases in access charges since 2002. Thus, phase one of the case resulted in a settlement that reduced access charges. The PUC’s June 28, 2004 Order approved that Settlement but the PUC also required that the litigation should continue to determine some unresolved issues concerning access charges.

In 2005, the OCA and other parties presented testimony and briefed questions posed by the PUC regarding whether and how intrastate access charges might be reduced. On December 7, 2005, the ALJ issued a Recommended Decision. The RD recommended that the PUC require Verizon to reduce its access rates to intrastate levels within 1-2 years. The RD also required all of the first $1.50 of rate increases to come from the Residential customers. Further, the RD proposed to exempt all competitive rates that generate access charges from any obligation to pay for the reduced access rates.

On January 8, 2007, the PUC ordered that the proceeding be stayed for the period of 1 year or until FCC action on intercarrier compensation issues presented as the Missoula Plan. The Commission continued the stay, over the protests of Qwest, pending action by the FCC on intercarrier compensation reform. The PUC chose to move forward on the interrelated investigation of the Pa USF, as noted above.

Verizon Pennsylvania Inc. v. Penn Telecom Inc., Docket No C-20066987. As discussed in last year’s Annual Report, Verizon filed a formal complaint, which alleged that Penn Telecom was charging access rates higher than allowed under Section 3017(c) of the Public Utility Code. OCA intervened in the Verizon complaint case on November 19, 2006 based on the public interest in assuring that access charges are set at just and reasonable levels. Changes in access rates may lead to increases in local service rates. The companies filed Direct Testimony on April 16, 2007, which the OCA subsequently reviewed. On December 14, 2007, the ALJ issued an Initial Decision which sustained Verizon’s Complaint and directed Penn Telecom to reduce its intrastate switched access charges and provide a refund of any past overcharges. The ALJ determined that Penn Telecom did not justify its higher rates. Penn Telecom filed Exceptions to the ALJ’s decision and the matter was pending before the PUC at the end of the Fiscal Year.

Verizon Pennsylvania Inc. v. CTSI, Inc., Docket No. C-20077332. As discussed in last year’s Annual Report, Verizon filed a formal complaint on January 29, 2007, which alleged that CTSI, Inc. was charging access rates higher than allowed under Section 3017(c). Verizon alleged that CTSI had not provided cost justification for the rates it is charging. The OCA intervened to both assure that access rates are just and reasonable and to protect local service rates.
On February 29, 2008, ALJ Colwell issued her Initial Decision and directed CTSI to lower its intrastate switched access rates to a level equal to Verizon’s intrastate switched access rates on a prospective basis. The ALJ, however, denied Verizon’s request for refunds back to the passage of Section 3017(c) associated with access charges at rates in excess of Verizon’s access rates. On March 20, 2008, both CTSI and Verizon filed Exceptions to the Initial Decision and the matter was pending before the PUC at the end of the Fiscal Year.

Chapter 30 (Act 183) Related Proceedings

OCA, Pennsylvania Utility Law Project, and AARP Pennsylvania v. Verizon Pennsylvania Inc. and Verizon North Inc., Docket Nos. C-20077916, C-20077917. As discussed in last year’s Annual Report, the OCA filed a formal complaint jointly with PULP and the Pennsylvania chapter of AARP on July 10, 2007 against restrictions imposed by Verizon PA and Verizon North on how low income consumers eligible for the federal Lifeline 135 discount may purchase local service. Currently, Verizon PA and Verizon North do not allow consumers who receive the Lifeline 135 discount to purchase local service as part of a package with other services. The Joint Formal Complaint of OCA, PULP and AARP asked the PUC to find that Verizon’s restrictions are contrary to provisions of Chapter 30 and unreasonably discriminate against low income consumers by reducing their choice of local and other services under the most economical terms.

On November 20, 2007, OCA filed a Motion for Summary Judgment with exhibits on behalf of the Joint Complainants. The Motion described Verizon’s obligations under Section 3019(f) and federal regulations incorporated by Act 183 to extend the Lifeline discount to all eligible low income consumers regardless of whether they purchase their telecom services a la carte or at a bundled price. The Joint Complainants’ Motion described Verizon’s restrictions as unreasonable discrimination as to both service and rates in violation of Sections 1304, 1502, and 3019(f)(2) of the Public Utility Code. The OCA filed a Joint Answer and Brief in Support in opposition to Verizon’s Motion for Summary Judgment on December 20, 2007.

By Initial Decision issued May 21, 2008, ALJ Rainey ruled that the Complaint and Motion for Summary Judgment filed by OCA, AARP and PULP should be granted and that Verizon’s motion for judgment should be denied. ALJ Rainey relied on the arguments of the OCA, AARP and PULP that Section 3019(f) and subsequent PUC rulings related to the availability of Lifeline require Verizon to provide Lifeline eligible consumers with the opportunity to purchase local calling service bundled with other services. ALJ Rainey directed Verizon to revise its tariffs and open certain bundled offerings to Lifeline consumers. Consistent with the OCA’s position in the prior Consent Order matter, ALJ Rainey determined that Verizon’s obligation to offer the combination of services best suited to the consumer’s needs would protect and benefit Lifeline eligible consumers.

Verizon filed Exceptions to the Initial Decision. The OCA, PULP and AARP filed Reply Exceptions on June 20, 2008, responding to each Verizon exception. The case was pending before the Commission at the end of the Fiscal Year.
Bona Fide Retail Request Program (BFRR)  As discussed in last year’s Annual Report, Verizon Pennsylvania, Verizon North, Embarq d/b/a United Telephone Company of Pennsylvania, and Windstream (formerly known as ALLTEL) are required under the terms of their revised Chapter 30 Plans and Act 183 to offer consumers who are not yet able to receive broadband service from their telephone company the opportunity to aggregate their request with others in their community. The BFRR is intended to help consumers get service deployed faster than the telephone utility might otherwise be planning to deploy. The program is under the combined jurisdiction of the Department of Community and Economic Development and PUC. In February 2007, the OCA stepped up its efforts to assist consumers navigating this process. The OCA engaged in meetings in early March 2007 with PUC and DCED staff and representatives from the telcos to learn more about their program requirements and to pursue assistance for consumers who have identified an interest. The OCA will continue to aid consumers in making the most of this program to speed deployment of broadband service.

The OCA has recently received a variety of contacts from consumers regarding the BFRR program. These contacts have ranged from general questions pertaining to the program to requests for significant assistance to help satisfy the BFRR threshold.

The OCA continues to receive multiple inquiries regarding the BFRR program from consumers throughout the state. The OCA provides assistance to these consumers in a variety of forms. The OCA also continues to emphasize consumer education about the BFRR program so that more consumers are aware of this opportunity.

Verizon Pennsylvania and Verizon North Price 2008 Change Opportunity Filings. On November 1, 2007, Verizon PA made its 2008 Annual Price Change Opportunity (PCO) filing (Docket No. P-00930715). Based on the Company’s price stability mechanism, as revised under Act 183, Verizon’s PCO is $14,617,000. However, Verizon proposed that there would be no rate increases associated with this filing until June 2009 as a result of Verizon’s accounting of recurring and one-time adjustments from the 2006 and 2007 filings.

The OSBA filed a Formal Complaint dated November 13, 2007 averring that information filed by Verizon PA in support of the 2008 PCO filing may be insufficient to justify the future rate increases, and that Verizon PA’s proposed rates, rules, and conditions of services may be unjust, unreasonable, unduly discriminatory, and otherwise contrary to law. (Docket No. C-20078513) OSBA further contended that Verizon’s filing may violate Section 1301 and 3015(g) of the Public Utility Code. The OSBA complaint argued that adjustments in Verizon PA’s filing are not sufficiently documented and must be thoroughly investigated.

Likewise, on November 1, 2007, Verizon North made its 2008 Annual Price Change Opportunity (PCO) filing (Docket No. P-00001854). Based on the Company’s price stability mechanism, as revised under Act 183, Verizon North’s PCO is $2,793,000. However, Verizon North also proposed that there would be no rate increases associated with this filing until February 2009 as a result of Verizon North’s accounting of recurring and one-time adjustments from the 2006 and 2007 filings.

The OSBA filed a Formal Complaint on November 13, 2007 in opposition to the Verizon North PCO filing and proposed rates, rules, and conditions of services, largely echoing the complaint
against Verizon PA’s filing. (Docket No. C-20078514). The OCA intervened in both OSBA complaint proceedings. The on-the-record proceeding was stayed to allow the parties to engage in settlement negotiations.

On May 22, 2008, in a related case, the Commission approved a Petition filed by Verizon seeking to amend the Commission’s Orders regarding Verizon’s 2006 PCO filings, which were subject to an appeal filed by Verizon, and Verizon’s Amended Chapter 30 plans. The Commission’s approval of that Petition will resolve many of the outstanding issues contested in the 2008 PCO proceeding. At the end of the Fiscal Year, the parties were engaged in negotiations to settle the OSBA complaints against the Verizon 2007 and 2008 PCO filings.

2006 Price Stability Mechanism filings of affiliates Denver & Ephrata Telephone, Buffalo Valley Telephone, and Conestoga, Docket Nos. P-00981428, et al., R-00061375, et al. As discussed in last year’s Annual Report, on April 28, 2006, the D&E Companies filed their annual calculation of the allowed revenue increase for each company under their respective Chapter 30 Plan price cap formulas. Those PSI/SPI filings indicated that the Companies may increase non-competitive rates to collect additional annual revenues. The Companies chose to increase access charges and miscellaneous rates to generate some of the allowed additional revenues. Rather than increase basic local service charges, the Companies chose to bank the remaining allowed increases. The OCA reviewed each of the Companies’ price cap formula calculations and proposed rate changes. The OCA did not oppose the Companies’ proposals. By Order entered June 23, 2006, the PUC allowed the D&E Companies to raise intrastate access charges consistent with the proposals included in their 2006 annual PSI/SPI filings.

The PUC subsequently gave notice and engaged in reconsideration of the June 2, 2006 Order, allowing the parties to present testimony and brief their positions. The presiding ALJ recommended no rescission or amendment of the June 23, 2006 Order. The ALJ found that the record evidence presented in the reconsideration proceeding did not support a decrease in the access rates.

Nonetheless, the PUC reversed its June 2006 Order and ordered the Companies to reverse the access charge increases while allowing the Companies freedom to revise rates for other non-competitive services to replace the revenue increases. Vice-Chairman Cawley issued a dissenting statement, accepting among other thing the OCA position that the record did not show that access charges provided a subsidy of local rates, so as to merit decreases in access charges.

The Commission’s reversal of the June 2006 Order and permission for the D&E companies to charge their residential customers more than $18 rate cap for basic local gave rise to various petitions for reconsideration and appeals. The OCA argued that the Companies are legally permitted to increase their access rates and that the Commission should not have granted a waiver of the $18 rate cap.

On April 9, 2008, the Commission found that the waiver of the $18 rate cap was appropriate, based on the unique circumstances of the case. As discussed above, the Commission also determined on April 9, 2008 to reopen their investigation into rural telephone companies’ access charges for the limited purpose of determining whether there is a need to increase rate caps
and/or funding of the Pennsylvania Universal Service Fund in order to accommodate the guaranteed revenue increases allowed to the companies under Chapter 30.

On May 9, 2008, the D&E Companies appealed the Commission’s July 11, 2007, December 7, 2007 and April 9, 2008 Orders collectively in Commonwealth Court. In the Petition for Review, the D&E Companies asserted violations of Chapter 30 of the Public Utility Code and the Companies’ approved Chapter 30 plans.

The OCA filed a Cross Petition for Review in response to the D&E Companies’ Petition for Review. The OCA raised the same arguments in the Cross Petition regarding the $18 rate cap. At the end of the Fiscal Year, the appeals were pending before the Commonwealth Court.

Consolidated Communications’ 2008 Price Stability Index (PSI) filing, Docket No. 00981437F1000. In December 2007, Consolidated Communications acquired North Pittsburgh Telephone Company (NPTC). On April 30, 2008, Consolidated made the annual PSI filing pursuant to NPTC’s Chapter 30 Plan and the conditions agreed to with the OCA and others in settlement of the acquisition application. Pursuant to the acquisition Settlement, Consolidated Communications reduced to zero the allowed annual increase for PSI years 2004 and 2005 which NPTC had previously banked. Based on the PUC’s Order in NPTC’s 2007 PSI filing, this reduced the banked amounts by $535,259 and $1,026,468 respectively. In the 2008 PSI filing, Consolidated calculated an allowed annual increase in revenues, but pursuant to the Settlement, Consolidated agreed to not increase basic local rates.

The OCA did not oppose the filing. The Office of Small Business Advocate filed a formal complaint against the 2008 PSI filing. The Company revised its PSI filing on June 10, 2008. The OSBA subsequently withdrew its Complaint on June 24, 2008. The Commission approved the filing.

2008 Price Stability Index (PSI) filings by Bentleyville Telephone, Buffalo Valley Telephone, Conestoga Telephone, Denver & Ephrata Telephone and Telegraph, Hickory Telephone, Lackawaxen Telephone, Marianna & Scenery Hill Telephone, and North-Eastern Pennsylvania Telephone. In late April and early May 2008, the OCA received PSI filings from each of these small telephone companies. The OCA, with the assistance of an outside expert consultant, reviewed each filing for compliance with each company’s Chapter 30 Plan. All of these Companies calculated an allowed increase in revenues. Each telephone company, with the exception of Hickory, chose to bank the allowed increase rather than increase rates at this time. Hickory proposed to increase residential rates from $16.45 to $17.27 per line per month and bank the remainder of the allowed increase. The Company would also roll into rates its current negative State Tax Adjustment Surcharge. The Commission approved the various filings, including Hickory’s rate increase, at the June 24, 2008 Public Meeting.

Additional Telecom Cases

Complaint against Verizon Pennsylvania and Verizon North. In its Complaint, Comcast argued that “Verizon is engaging in a systematic and illegal retention marketing process whereby customers who have agreed to switch to Comcast Digital Voice but for whom the telephone number ‘port’ (i.e., transfer) has not been executed are subject to an unlawful campaign of letters, emails and telephone calls from Verizon with the goal of inducing the customer to remain with Verizon’s telephone service.” Comcast sought an order from the Commission directing Verizon to, among other things, “cease and desist from using Comcast’s request for customer service record[s] and request to port the customer’s telephone number to initiate retention marketing activities in an attempt to convince the switching customer to reverse the decision to switch to Comcast Digital Voice service.”

On February 28, 2008, the OCA intervened into the proceeding in order to participate in and consider the important issues raised in the Formal Complaint filed by Comcast and to ensure that all applicable laws and regulations are being followed that protect customers. On March 11, 2008, Verizon filed an Answer and Preliminary Objections in response to Comcast’s Complaint. Verizon argued that its actions were legal and, in fact, promoted consumer benefits through competition. Verizon further argued that Comcast’s Complaint should be dismissed because it fails to state a claim upon which relief can be granted. On March 21, 2008, Comcast filed an Answer to Verizon’s Preliminary Objections. Comcast’s Complaint and Verizon’s Preliminary Objections are still pending before the Commission.

On April 11, 2008, the Chief of the Federal Communication Commission’s Enforcement Bureau released a Recommended Decision in a similar proceeding pending at the federal level. The Decision recommended denying the complaint filed by Comcast and other cable companies against Verizon regarding the same retention practices.

On June 20, 2008, the FCC rejected the Recommendation of the Enforcement Bureau and sustained Comcast’s complaint. The FCC determined that Verizon’s actions violated section 222(b) of the federal Telecommunications Act of 1996 by using, for customer retention purposes, proprietary information of other carriers that it receives in the local number porting process. The FCC directed Verizon to immediately cease and desist from such unlawful conduct. In response, Verizon filed an appeal to the District of Columbia Court of Appeals. As a result of the federal activity, the matter before the Pennsylvania PUC has been stayed.

In the Matter of the Application of Comcast Phone of Pennsylvania, LLC to Plan to Partially Abandon Service, Docket No. A-2008-2032577. On March 21, 2008, Comcast Phone of Pennsylvania, LLC filed an Application to Partially Abandon Service. Comcast had previously made the OCA, as well as the Commission, aware of its plans to abandon certain of its customers in the Pittsburgh area who are being served via Comcast’s legacy Comcast Digital Phone service through the facilities acquired as part of its acquisition of AT&T Broadband in 2003. Comcast seeks to cease its provision of service to its Comcast Digital Phone customers but instead focus on its provision of its Comcast Digital Voice service that it provides over its more modern Voice over Internet Protocol service.

The OCA has been actively involved in ensuring a smooth transition for Comcast’s abandonment of service in the Pittsburgh area. The OCA has been kept apprised of Comcast’s activities, has reviewed and provided feedback on Comcast’s communications with its
customers, and has made its call center aware of the transition. The OCA was most concerned with the loss of regulatory protections a customer will experience if they transfer from Comcast’s Digital Phone service to its Comcast Digital Voice service. Comcast’s abandonment process concluded on June 10, 2008.

**Rulemakings**

Rulemaking re: Provision of Bundled Service Package Plans at a Single Monthly Rate by Local Exchange Carriers, Docket No. L-00060179. As discussed in last year’s Annual Report, the PUC opened a rulemaking by Order entered July 3, 2006, which proposed to add a new Section 64.24. Based on past practices and as authorized by Act 183, local exchange carriers often offer basic local service as part of a single price bundled services. The PUC proposed the regulatory change to assure that the customers who fail to pay the full bundled price do not summarily lose basic local service without proper notice and other protections as provided in Chapter 64. The Proposed Rulemaking was published and opened for public comments. The OCA has reviewed the comments filed by Verizon and others, as well as the comments of the Independent Regulatory Review Commission. The Commission opened the Proposed Rulemaking for additional public comment by notice published June 7, 2008.

Proposed Modifications to the Applications Form for Approval of Authority to Offer, Render, Furnish or Supply Telecommunications Services to the Public In the Commonwealth of Pennsylvania, Docket No. M-00960799. As discussed in last year’s Annual Report, the PUC proposed changes to the application forms and information required of prospective competitive local exchange carriers and solicited public comment. The National Emergency Number Association of PA (NENA) filed comments which recommended that the PUC require prospective telcos to provide information which help Public Service Answering Points (PSAPs) function more effectively and improve public safety. OCA filed Reply Comments in support of the recommendations mapped out by NENA in April 2007. The OCA identified the legal support for the PUC’s exercise of jurisdiction to assure that CLECs remit funds to PSAPs collected from subscribers through 911 surcharges and that CLECs provide PSAPs with access line count and other information necessary to protection of the public safety. At the end of the Fiscal Year, the case was pending before the PUC.

Rulemaking to Amend Chapter 63 Regulations to Streamline Procedures for Commission Review of Transfer of Control and Affiliated Filings for Telecommunications Carriers, Docket No. L-00070188. On September 27, 2007, the PUC ruled on a petition filed in 2006 by Level 3 Communications, which asked the PUC to simplify the review process for proposed changes in control among or between competitive local exchange companies. Verizon had filed comments asking that the PUC grant broader relief and streamline the transfer of control process for all LECs. The PUC’s rulemaking Order set forth proposed changes to Chapter 63 regulations based in part on the FCC’s adoption of a streamlined review process for some transactions between smaller carriers.

The OCA filed Comments on April 9, 2008 opposing the Proposed Rulemaking. The OCA disagreed that the PUC’s existing review process results in regulatory delay and provided
analysis in support. The OCA faulted the structure of the proposed regulations, which would create a regulatory presumption that any application may be “deemed in the public interest and approved” simply by the lapse of time. The OCA emphasized that the Public Utility Code required the PUC to make findings and approve, approve with conditions, or deny the application. The OCA is concerned that to meet the deadlines for approval of applications, the proposed regulations would reduce or eliminate due process protections, including meaningful notice and an opportunity to be heard and contest an application. The OCA recommended that the PUC withdraw the Proposed Rulemaking.

The OCA filed Reply Comments which opposed revisions and requests for clarification presented by Verizon, Level 3 and others. The comments of the telephone utilities sought to increase the likelihood that applications, even those involving a merger of incumbent local exchange carriers, would be “deemed” approved without PUC review of the merits.

In comments issued June 9, 2008, IRRC raised questions about the consistency of the Proposed Rulemaking with Section 1103 of the Public Utility Code. IRRC also noted that the OCA comments had presented information which shows that the Commission is processing applications without delay and so the need for a “streamlined” process is in doubt. IRRC also noted that the complex framework proposed lacked important details such as notice to the public. At the end of the Fiscal Year, the matter was pending before the PUC.

Rulemaking Re: Proposed Revision to Commission Regulations Governing Extended Area Service (EAS) at 52 Pa.Code §§ 63.71-63.77. In November 2005, the PUC initiated a rulemaking to revise regulations that allow consumers to file complaints and request that their local calling area be expanded to better meet community needs. The PUC created a Task Force to develop recommendations for changes. The OCA participated on the Task Force. The OCA filed Comments in June 2006 in support of continuation of the EAS regulations and critiquing the proposed amendments. By Order entered June 2, 2008, the PUC decided to end the rulemaking and preserve the existing regulations. While the PUC noted that changes in the telecommunications industry and choices for consumers have reduced the number of EAS complaint cases, the PUC reminded local exchange carriers of their obligations to comply with the existing regulations. The OCA supported the PUC’s decision to end the rulemaking.

Proposed Rulemaking for Revision of Chapter 63 of Title 52 Pa. Code Pertaining to Regulation of Interexchange Telecommunications Carriers and Service, Docket No. L-00050170. The PUC opened a rulemaking by Order entered March 29, 2005 to revise regulations governing intrastate interexchange carriers (IXCs) consistent with Act 183. The PUC proposed in the rulemaking to replace two subchapters in Chapter 63 with one chapter. OCA filed comments on January 17, 2006 and reply comments on February 1, 2006. OCA recommended changes to the draft regulations to clarify that while Act 183 took away the PUC’s authority to fix the rates charged by intrastate IXCks, the Act still preserved the PUC’s authority to regulate the provision of service. The OCA also supported the PUC’s proposed requirement that carriers provide adequate public notice of rates.

IRRC issued comments on the final rulemaking which agreed with OCA that further clarification was needed. However, the IRRC comments appeared to invite the PUC to clarify that the PUC will not regulate IXC services even though Act 183 preserved the PUC’s jurisdiction.
The PUC issued a Final Rulemaking Order on August 13, 2007. In the Order, the PUC acknowledged the comments of OCA and agreed that the proposed regulations should be amended to state the PUC’s retained jurisdiction over the provisioning of IXC services, consistent with Act 183. The PUC rejected Verizon’s opposition to notice and disclosure requirements, agreeing with OCA that such requirements are in the public interest.

The final regulations, as revised by the PUC’s August 2007 Order, would benefit consumers by preserving their ability to bring complaints before the PUC regarding the ordering, privacy, and quality of intrastate long distance services provided by IXCs. The regulations establish notice and disclosure requirements which should allow consumers to better shop for IXC services. IRRC voted on December 6, 2007 in favor to the final, proposed regulations. The PUC published the final form regulations in the January 26, 2008 Pennsylvania Bulletin and the regulations are now in effect.

Petition of the Office of Consumer Advocate for a Rulemaking to Amend 52 Pa. Code Chapter 63 (relating to telephone service), Docket No. P-00021985. As discussed in prior Annual Reports, OCA filed this petition to update Pennsylvania’s telephone service quality regulations with the PUC on October 2, 2002. The OCA contended that certain service quality standards are not strong enough and others simply incorporate outdated standards. By Order entered February 13, 2006, the PUC acknowledged the merit of a review of the existing regulations. In light of the passage of time since the OCA filed its initial petition and supporting comments, however, the PUC requested updates and supplemental comments from the OCA and other interested parties.

OCA filed extensive comments with the PUC on April 18, 2006 and reply comments on June 2, 2006. The OCA comments addressed the need for new service quality standards based on the variety of technologies used to provide telephone service and the need to preserve or strengthen existing service quality standards.

In October 2007 the Pennsylvania Telephone Association and Verizon contacted the OCA to discuss terms on which the OCA would withdraw its Petition in exchange for reporting information from Verizon. After several months of discussions, the OCA and Verizon agreed that the OCA would withdraw its Petition in exchange for Verizon providing reports on a quarterly basis spanning from the second quarter of 2008 to the first quarter of 2011. In addition, the OCA and Verizon have agreed to meet to discuss the quarterly reports within two weeks of the end of each reporting quarter.

Upon reaching agreement with Verizon on these points the OCA filed a Petition for Leave to Withdraw with the Commission outlining the terms of the OCA-Verizon agreement and explaining why the withdrawal was in the public interest at this time. The commission granted that Petition on May 28, 2008. The OCA has begun meeting with Verizon each quarter to discuss the reports and other matters related to Verizon’s telephone quality of service in Pennsylvania.
State Legislative Activity

**Voice Over Internet Protocol.** On March 10, 2008, the Consumer Advocate provided testimony before the House Consumer Affairs Committee on SB 1000. In that testimony, the Consumer Advocate expressed concerns over the broad definition of services that could be included in the bill. He voiced his concern that the bill could eventually lead to the deregulation of even the most basic protected regulated telephone services in Pennsylvania. The Consumer Advocate noted that similar language was included in the early versions of HB 30 (which became Act 183 in 2004) but that language was ultimately removed. The Consumer Advocate testified that the lines between internet telephony and traditional landline service are not clear-cut and recommended an amendment that made it clear that the regulatory prohibitions in SB 1000 do not apply to basic protected residential and small business telephone services that are currently protected by the Public Utility Code.

S.B. 1000 was approved by Governor Rendell on July 4, 2008 as Act No. 52 of 2008, the Voice Over Internet Protocol Freedom Act. The final legislative language includes a provision which retains the authority of the PUC over matters including collection of 911 support fees, regulation of intrastate access charges and the provision and rates for tariffed, protected services.

Federal

**FCC Proceedings**

**Universal Service Joint Board.** CC Docket No. 96-45. As discussed in last year’s Annual Report, the FCC created a proceeding to consider whether it should revise the eligibility for Lifeline enrollment. The OCA supported NASUCA’s efforts to broaden the parameters for Lifeline eligibility. In 2004, the FCC issued an Order and Notice of Further Rulemaking. The FCC adopted recommendations of the Joint Board and revised the eligibility criterion for Lifeline. In particular, the FCC allowed Lifeline recipients to qualify for assistance based upon having an income at 135% of the federal poverty level under the federal default program. The FCC further noticed for comment the question of raising this level to 150% of that income guideline. The FCC also requested comment on whether standards for outreach and advertising the availability of Lifeline should be adopted. OCA filed comments on behalf of NASUCA that advocated an increase in the income eligibility threshold to 150% of poverty in reply to the FCC’s further rulemaking.

On March 12, 2007, the Wireline Competition Bureau of the FCC issued a request that parties refresh the record regarding the merits of increasing the income-based eligibility criteria from 135% of federal poverty to 150%. OCA co-authored NASUCA Comments that supported adoption of the higher income eligibility criterion as still important to advance universal service goals and addressed the need for advertising and outreach standards. NASUCA filed the
Comments on August 24, 2007. A telephone industry trade group, the United States Telecom
Association (USTA), filed comments in opposition. Embarq also opposed adoption of the higher
income criterion. OCA wrote NASUCA Reply Comments which countered the arguments of
USTA and Embarq. NASUCA filed the Reply Comments on September 10, 2007.

On May 2, 2008, the FCC issued a News Release reporting on reforms adopted to the federal
universal service program and inviting parties to refresh the record in related, still unresolved
rulemakings, including the Lifeline eligibility docket. The OCA continues to work with NASUCA
to continue to press for adoption by the FCC of the higher income eligibility standard. NASUCA
filed an extensive ex parte with the FCC on July 7, 2008 in support of modification of the Lifeline
eligibility criterion and other important universal service program revisions.

Sprint Spectrum Petition for Declaratory Ruling Concerning Kansas Corporation Commission
Lifeline Rules, WC Docket Nos. 03-109, 07-138. On June 8, 2007, Sprint, a wireless carrier in
Kansas, asked the FCC to issue a declaratory order that a carrier seeking designation as
eligible for reimbursement from the federal universal service fund need only offer the Lifeline
discount on one type of local calling plan. Sprint opposes a Kansas Corporation Commission
ruling that required the wireless carrier to offer customers eligible for Lifeline a choice of
wireless local calling plans. The FCC set the matter for comments.

OCA authored NASUCA Comments in opposition to the Sprint Petition. NASUCA explained
that the wireless carrier’s view that state commissions can only require Eligible
Telecommunications Carriers to offer one local calling plan option with the Lifeline discount was
erroneous as a matter of federal law and policy. Although Sprint’s petition was directed at a
particular Kansas Commission Order, Sprint and supporting wireless carrier Alltel asked the
FCC to define federal policy which could apply to all states and so reduce the local calling plan
options for Lifeline customers everywhere. OCA wrote NASUCA Reply Comments which
counter the legal and policy arguments of Alltel and noted the support of other public utility
commissions and public interest groups for denial of Sprint’s request for FCC relief. The matter
is still pending before the FCC.

Petitions of Virgin Mobile and TracFone for Forbearance and Designation as Wireless Eligible
Telecommunications Carriers, CC Dockets No. 96-45, et al. Virgin Mobile and TracFone offer
wireless calling service on a prepaid basis. They resell wireless service purchased on a
wholesale basis from other wireless carriers. Both carriers filed petitions with the FCC
requesting approval so they may offer prepaid wireless service to low income consumers
reduced by the Lifeline discount. If approved, Virgin Mobile and/or TracFone would be eligible
to be reimbursed from the federal Universal Service Fund for the amount of the Lifeline
discount. OCA reviewed and edited Comments filed by NASUCA on January 14, 2008 and
Reply Comments on January 29, 2008 related to Virgin Mobile’s request to offer wireless
Lifeline service in Pennsylvania. NASUCA supported the Virgin Mobile request, subject to
clarification and conditions.

The OCA and the Keystone Chapter of National Emergency Numbering Association (NENA)
filed Joint Comments on February 8, 2008 regarding TracFone’s petition to offer wireless
Lifeline service in Pennsylvania. The Joint Comments expressed concern that TracFone’s
existing customers may not be contributing to the Pennsylvania Wireless E-911 fund.
On April 11, 2008, the FCC entered an Order which conditionally granted the petitions of TracFone for designation as an ETC in Pennsylvania and other states on the condition that TracFone 1) verify that it is in compliance with state laws regarding collection and remittance of any E911 surcharges, and 2) make contact with individual PSAPs in each area where TracFone will offer prepaid wireless service with the Lifeline discount to confirm the handsets properly transit 911 calls. The FCC Order provides the public benefits sought by the OCA and Keystone NENA: more choice for Lifeline service and emergency 911 service, which is both widely available and equitably supported by prepaid wireless customers as well as wireline consumers.

The Virgin Mobile petition is still pending before the FCC. OCA continues to monitor TracFone’s efforts to satisfy the conditions imposed by the FCC regarding 911 availability and support.

In the Matter of Petition of the Verizon Telephone Companies for Forbearance Pursuant to 47 U.S.C. §160 in the Philadelphia, Pittsburgh, Boston, Providence, New York City and Virginia Beach Metropolitan Statistical Areas, WC Docket No. 06-172. As discussed in last year’s Annual Report, on September 6, 2006, the Verizon Telephone Companies filed six separate Petitions with the FCC seeking forbearance from a number of FCC regulations and other current obligations. Verizon’s six Petitions separately pertained to the Philadelphia, Pittsburgh, Boston, Providence, New York City and Virginia Beach Metropolitan Statistical Service Areas. Verizon requested, among other things, that the FCC forbear from applying loop and transport unbundling regulation pursuant to Section 251(c) of the federal Telecommunications Act of 1996. Verizon also sought forbearance from the dominant carrier tariffing requirements set forth in Part 61 of the FCC’s rules; from price cap regulation set forth in Part 61 of the FCC’s rules; from the Computer III requirements, including network neutrality related requirements; and from dominant carrier requirements arising under section 214 of the Act. The OCA organized a group of state consumer advocate offices and NASUCA who will be affected by these Petitions to file Joint Comments to the FCC. Those Comments were filed on March 5, 2007. The OCA assisted NASUCA and other state consumer advocate offices in reviewing other parties’ Comments and preparing Reply Comments on behalf of the group. Reply Comments were filed on April 18, 2007.

On November 6, 2007, the OCA led a delegation of consumer advocates from the affected states in ex parte meetings with staff members of the FCC’s Wireline Competition Bureau and related Divisions in this “permit but disclose” proceeding. The OCA provided a Powerpoint presentation detailing the advocates’ issues and addressed questions or concerns raised by the staff members. Similarly, on November 9, 2007, the OCA led a second delegation of consumer advocates from the affected states in three ex parte meeting with Legal Advisors from the staff of Chairman Martin, Commissioner Adelstein and Commissioner McDowell. The OCA provided the same presentation and again addressed questions or concerns raised by the Legal Advisors.

On December 5, 2007, the FCC released its Memorandum Opinion and Order denying, in their entirety, Verizon’s six Petitions. The FCC determined that the record evidence provided did not demonstrate that the forbearance requirements in the federal Telecommunications Act were satisfied with respect to any of the forbearance requests in any of the 6 MSAs.
Verizon filed a petition for review in the U.S. Court of Appeals for the District of Columbia Circuit on January 14, 2008. On February 11, 2008, the OCA intervened in the appeal before the DC Circuit Court. The OCA will join with other NASUCA offices, as well as the Pennsylvania Public Utility Commission, who also intervened to file a joint responsive brief. The OCA will continue to advocate that Verizon’s Petitions were correctly denied since Verizon failed to provide sufficient relevant evidence to support them. At the end of the Fiscal Year, the case was pending before the DC Circuit Court of Appeals.

In the Matter of High Cost Universal Service Support; Federal-State Joint Board on Universal Service, WC Docket No. 05-337, CC Docket No. 96-45. On November 20, 2007, the Federal-State Joint Board issued a Recommended Decision that proposed changes and broadening of support for telecommunications infrastructure development in those portions of the nation that are “high cost” due to low density, geographic, or other reasons. The R.D. proposes that federal universal service funds be made available to support build-out of broadband facilities in unserved or underserved parts of the Nation. The R.D. would also change or cap the amount of high cost support currently received by incumbent LECs serving in high cost areas, including Pennsylvania carriers.

NASUCA filed Comments on April 17, 2008 in response to the variety of issues presented. The NASUCA comments agreed with many of the Joint Board recommendations and proposed reforms. The OCA assisted in NASUCA’s preparation of reply comments which were filed on June 2, 2008.

In the Matter of Petition of Verizon for Forbearance Under 47 U.S.C. § 160(c) From Enforcement of Certain of the Commission’s Recordkeeping and Reporting Requirements, Docket No. WC- 07-273; In the Matter of Petition of Embarq Local Operating Companies for Forbearance Under U.S.C. § 160(c) From Enforcement of Certain of ARMIS Reporting Requirements, Docket No. WC 07-204; and Petition of Frontier and Citizens ILECs for Forbearance Under U.S.C. § 160(c) from Enforcement of Certain of the Commission’s ARMIS Reporting Requirements, Docket No. WC 07-204. On October 19, 2007, the Embarq Local Operating Companies filed a Petition requesting forbearance from certain Automated Reporting Management Information System (ARMIS) requirements, including Service Quality Reporting and Operating Data Reporting. On October 19, 2007, Frontier and Citizens Communications Incumbent Local Exchange Telephone Carriers filed a Petition seeking the same relief. On November 26, 2007, Verizon filed a Petition requesting forbearance from enforcement of certain recordkeeping and reporting requirements as well. The Embarq and Frontier/Citizens Petitions were consolidated by the FCC. The FCC sought Comments from the public in response to the consolidated Petitions as well as the Verizon Petition.

NASUCA and the New Jersey Division of Rate Counsel filed Joint Comments on February 1, 2008 arguing that the Companies’ Petitions should be rejected because they failed to provide sufficient evidence that demonstrates that the three-part forbearance test created by Congress in the federal Telecommunications Act of 1996 is satisfied. Instead, the provisions from which the Companies seek forbearance provide vital data that ensures that customers receive adequate and reliable basic local telephone service. NASUCA and the New Jersey Division of Rate Counsel also filed Reply Comments to the FCC on March 17, 2008 in response to
Comments previously filed by other parties. These Petitions are now pending before the FCC for disposition.

Petition of Palmerton Telephone Co. and North-Eastern Telephone Co. for Waiver, CC Docket No. 08-71. Palmerton and NEP filed a petition with the FCC requesting waiver of a regulatory deadline for the filing of data necessary to support receipt of federal universal service fund support for the provision of line switching service. Without grant of the waiver, the two Pa. rural LECs would be at risk of not receiving several hundred thousand dollars of USF support. OCA filed comments in support of grant of the waiver, as reasonable based on the facts and in the best interests of the customers served by the two carriers. At the end of the Fiscal Year, the case was pending before the FCC.
**WATER AND WASTEWATER**

*Base Rate Proceedings*

Pennsylvania-American Water Co., Docket No. R-00072229. As discussed in last year’s Annual Report, PAWC filed for a general base rate increase in April 2007. The Company asked for an increase to current base revenues of $59.2 million or 15.36%. The bill of a residential customer using 4500 gallons of water per month would increase from $39.01 to $45.00 per month.

On August 3, 2007, the OCA filed its Direct Testimony recommending that the Company be permitted to increase its revenues by no more than $17.8 million. During the month of August 2007, OCA attended twelve public input hearings spanning from the Company’s northeastern Pennsylvania territories to the Greater Philadelphia and Pittsburgh service areas. In September 2007, the OCA submitted revised testimony, which recommended a revenue increase of no more than $21.6 million.

The active parties submitted a Joint Petition for Settlement on October 5, 2007. The following were the salient terms of the proposed Settlement:

- An annual revenue increase of $36.0 million, or 8.9%, which would raise PAWC’s total revenues more than $23 million less than the requested increase of $59.2 million. The Settlement tied the revenue increase to a number of important conditions.
- A customer charge of $12.00 for 5/8-inch meters for all rate zones except 14, 35, and 36. This charge would allow lower-usage customers to avoid a greater percentage increase in rates than they would have experienced with PAWC’s proposed customer charge of $12.50.
- The OCA had raised concerns about the Company’s proposed increase of residential rates in Rate Zones 30, 32, 34, and 36 to the level of Rate Zone 1 rates too quickly. The proposed Settlement rates were much closer to the system-average rate increase and moved these rate zones more gradually to PAWC’s main division rates.
- Under the proposed Settlement, the bill impact on a residential customer in Rate Zone 1 using 4,500 gallons of water per month would be an increase from $39.01 to $42.64 (9.3%) rather than $45.00 (15.36%) as originally proposed by the Company.
- A stayout for filing of the next case, of seventeen months from the effective date of new rates in this case. Assuming a timeframe similar to the most recent case, the proposed stay-out provision would prevent another rate increase before November 2009. Thus, for at least two years, PAWC’s ratepayers will be assured of some level of rate stability.
- Resolution of a number of service issues raised during the public input hearings by customers and representatives of local government. PAWC made twenty-six commitments to improve service within one year. The Company agreed to credit money towards future
water bills, replace an over-sized meter, and restore property damaged by PAWC to its original condition. PAWC will investigate the feasibility of and customer interest in budget billing, which it does not currently offer. The Company also agreed to replace break-prone mains of specific concern to customers in Bethel Park and West Mifflin, to install a new main to serve six homes previously served by two shared private service lines in Nanticoke, and to re-establish a location in Nazareth where customers can pay their bills in person. In Spring Township, a sinkhole-prone area, the Company would continue twice-monthly acoustic emission leak monitoring. Additionally, PAWC committed to working with local governments and officials Lehman Township, Borough of Jessup, Cain Township, and Lower Allen Township and property owners associations in the Pocono area to improve the quality of service, exchange of information and coordination of projects in these areas.

- Commitments concerning fire hydrants. In some areas of the system, municipalities own and maintain hydrants in addition to paying PAWC for public fire protection service. The Company will offer to assume ownership and maintenance of these hydrants, regardless of their condition, so that municipalities can avoid the separate cost of maintaining the hydrants. A number of customers and firefighters testified about inoperable fire hydrants and the concern that inoperable hydrants are not marked or otherwise made known to the fire departments. As part of the Settlement, PAWC agreed to advise fire departments of inoperable hydrants, “bag” such hydrants so that there is a visible indication they do not work, and remove or replace them promptly.

- Benefits for low-income customers such as an increase in the customer charge discount for low-income customers from 50% to 65%. Additionally, the Company would increase its annual contribution to its hardship grant program by $50,000, from $100,000 to $150,000. This increase would remain a “below-the-line” expense and will not be recovered in rates. These provisions would help reduce the impact of the rate increase on the low-income population served by PAWC.

Two pro se complainants submitted objections to the Joint Petition. The ALJ scheduled a hearing for October 29, 2007, for the purpose of taking testimony related to the objections. On October 31, 2007, the ALJ issued a recommended decision approving the Settlement as filed. On November 29, 2007, the PUC entered an Order approving the Settlement.

Aqua Pennsylvania, Docket No. R-00072711. On November 21, 2007, Aqua PA sought the opportunity to earn an additional $41.7 million (13.6%) per year in revenues. The proposed increase in revenues would result in an increase to Main Division residential customers of $5.72 per month.

The OCA filed its Formal Complaint against the rate increase on November 30, 2007. Other non-company parties included the Office of Trial Staff, the Office of Small Business Advocate, the Aqua Large Users Group, the Philadelphia Association of Plumbing, Heating and Cooling Contractors, the Hedgerow Homeowners Association and the Masthope Property Council. The OCA and non-company parties filed Direct Testimony and surrebuttal testimony; the Company filed rebuttal testimony. The OCA testimony recommended an increase of no more than $12.7 million of the requested $41.7 million increase in base revenues. The OCA argued that in the
current economy with substantially lower costs of capital, the Commission should not award costs of equity as high as 10.6%, as it has for water utilities in recent years.

On July 8, 2008, the Commission entered its Final Order in the matter. The PUC allowed an overall revenue increase of $34 million in lieu of the $41.7 million, that Aqua initially requested. Significantly, the PUC rejected the Company’s request for a Purchased Water clause that would have allowed it to flow any increases in purchased water expense directly to customers between rate cases. In addition, the PUC cautioned Aqua that greater attention must be paid to the quality of service problems inherited by customers of its smaller systems and will be looking for evidence of improvements in future cases. The PUC issued a similar caveat with respect to the high unaccounted for water levels in acquired systems throughout its service territory. Finally, the Commission accepted the OCA’s recommendation to require a proportionate scaleback of all charges, rather than the Company’s proposed scaleback of only the volumetric charges.

York Water Co., Docket No. R-2008-2023067. On May 16, 2008, York Water Company requested approval of a $7 million (21%) increase in base revenues. If the Commission granted the request in full, the monthly bill for a residential gravity customer using 5,267 gallons per month on a 5/8-inch meter would increase from $27.75 to $33.19. The monthly bill for a gravity customer would increase from $33.96 to $40.62. Both gravity and repump customers would experience bill increases of 19.6%. York serves an estimated population of 156,000 in York County.

On May 29, 2008, the OCA filed a Formal Complaint. The OCA subsequently served testimony recommending that the Company should be allowed no more than $4 million of the $7 million requested. Subsequently, the parties commenced settlement discussions. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Pennsylvania-American Water Co. – City of Coatesville Division (PAWC-CCD), Docket No. R-2008-2032689. On April 28, 2008, PAWC-CCD sought Commission approval of $2.7 million in additional annual wastewater revenues. CCD serves approximately 5,900 residential and commercial customers in portions of Chester County, Pennsylvania and this is the first requested rate increase since PAWC’s acquisition of the municipal system. Under the Company proposal, a residential customer with average usage would experience a bill increase from $15.00 to $34.36 per month, an increase of 129.1%. PAWC-CCD also requested approval of an increased capacity charge, from $495 to $3250 per EDU (estimated dwelling unit) for new residential construction.

The OCA filed its Formal Complaint on May 29, 2008. The OCA served its testimony, recommending no more than $900,000 in additional revenues in lieu of the $2.7 million requested. Among other rate structure and design recommendations, the OCA witness recommended that the Commission reject the Company’s proposed increased capacity charge as contrary to several fundamental ratemaking principles. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Clarendon Water Company, Docket No. R-00072491. On July 13, 2007, Clarendon filed a request to increase its rates to produce additional annual revenues of $38,842, or 45%. Clarendon serves 329 customers in Clarendon Borough and Mead Township, Warren County.
A typical customer using 15,000 gallons per quarter would see an increase from $68.24 to $82.67, or 45% per quarter. The OCA filed a formal complaint on October 4, 2007. A public input hearing was held on February 13, 2008. A number of customers testified regarding the quality of the water provided by Clarendon. The OCA, the Company and OTS filed a Settlement petition on May 27, 2008. The proposed Settlement provided for an annual revenue increase of no more than $21,684, phased in over two steps. The Company would collect one-half or $10,842 in additional revenues once it obtained all of the necessary permits from the Department of Environmental Protection (DEP) for set up and operation of an arsenic removal system. The Company would begin collecting the remaining one-half or $10,842 of additional revenues once it completed and certified completion of certain tasks, which are outlined in the Joint Petition. The Company could not file another rate case before twelve months after the full agreed-to increase becomes effective unless the Company is acquired. The Joint Petition also contained a number of provisions related to the service provided by Clarendon. The Company agreed to install blow-off valves and flush the system at least twice per year, which in conjunction with the installation and operation of an arsenic removal system, the OCA believes will assist the Company in providing adequate water service and quality to its customers pursuant to Section 1501. The Company also agreed to provide to OCA, OTS and FUS copies of all water testing reports that it provides to DEP. Further, the Company agreed to make a good faith effort to adopt and implement any and all recommendations of the Commission in conjunction with the report to be issued in the non-prosecutory investigation into Clarendon’s water quality ordered by the PUC at Docket No. C-20067108, subject to the Company’s right to timely appeal and request stays of Commission Orders. The Settlement was subsequently approved by the ALJ and by the Commission.

Total Environmental Solutions, Inc., Treasure Lake Water Division and Sewer Division, Docket Nos., R-00072493 and R-00072495. On October 31, 2007, Total Environmental Solutions Inc. – Treasure Lake Water Division sought PUC approval to increase its rates to produce additional annual water revenues of $272,121 or 45.7%. For the average customer, this would amount to a $12.83 increase in the water bill, from $21.26 per month to $34.09 per month. The Company serves approximately 2,000 usage customers and 3,400 availability customers in Sandy Township, Clearfield County. On that same day, TESI also sought PUC approval to increase its rates to produce additional annual wastewater revenues of $286,615 or 29.49%. For the average customer using 5,000 gallons per month this would amount to an increase from $33.51 per month to $45.97 or $12.46 per month. The Company serves approximately 1,982 wastewater customers and 3,454 availability customers in Sandy Township, Clearfield County.

The OCA filed Direct Testimony recommending increases of no more than $80,807 for water and no more than $99,907 for wastewater. A telephonic public input hearing was held on March 20 at which time a number of customers testified. The ALJ issued the Recommended Decision on May 29, 2008 and OCA prevailed on all its adjustments and prevented the Companies from obtaining requested adjustments to its rate of return request. The Recommended Decision provides for a rate reduction of approximately $3,000 for the TESI Water Division, and an approximate $75,000 increase to TESI Wastewater Division, a 73% reduction in its original request. In the Commission Order, the OCA largely prevailed with the Commission approving a very small revenue increase for TESI Water and generally approving the ALJ’s result on TESI’s wastewater claim. This result would increase rates for the TESI’s water customers by $8,128 (1.4%). The average annual water bill for residential customers would increase from
approximately $233.64 to $236.82. TESI's rate for wastewater service will increase by $73,318 (7.5%). The average annual wastewater bill for residential customers would increase from $482.88 to $519.29.

**United Water Bethel, Docket No. R-00072744.** On November 9, 2007, United Water Bethel proposed an annual revenue increase of $79,445 or 6.31%. OCA filed a Complaint on December 20, 2007. The OSBA and ten customers filed formal complaints. The Company serves approximately 2,205 customers in Delaware County. The parties were able to reach an agreement to settle the case. The proposed Settlement provided for additional annual revenues of $60,000, or 4.78%. The impact on a customer is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Company Proposed</th>
<th>Settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential customer (using 5,000 gallons per month)</td>
<td>$60</td>
<td>$73.64</td>
<td>$62.87</td>
</tr>
<tr>
<td>Percentage Increase</td>
<td></td>
<td>6.2%</td>
<td>4.69%</td>
</tr>
</tbody>
</table>

Under the proposed Settlement, the Company cannot file another rate case before thirty-six months from the entry date of a PUC order in this case; however, if UWB receives a single, annual increase in its purchased water contract of 10% or more, it will have the option of filing for a rate increase under Section 1308 of the Public Utility Code. In addition, UWB agreed to calculate a consolidated federal tax adjustment in its next rate filing, although it retains the right to argue that the adjustment should not be made. UWB also agreed to eliminate its claim for state deferred income taxes in its next filing. A Recommended Decision was issued on May 1, 2008, in which the ALJ recommended approval of the Settlement. The PUC entered an Order approving the Settlement on June 25, 2008.

**Blue Knob Water Company, Docket No. R-2008-2020729.** On January 31, 2008, Blue Knob Water Company filed a request to increase its annual base rate revenues by $114,374, or 216.40%. Under the Company’s proposal, the proposed rates would increase from a $33.35 to $131.88 per quarter, or by 295.41%, for a typical residential customer using 2,066 gallons of water per quarter. The Company serves approximately 284 customers in portions of Greenfield Township, Blair County and Union and Kimmel Townships, Bedford County. The OCA filed a formal complaint on March 17, 2008. The parties were able to reach a settlement agreement. The proposed Settlement provided for additional annual revenues of $53,521, or 100%. The impact on a customer is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Company Proposed</th>
<th>Settlement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Residential customer</td>
<td>$35.34</td>
<td>$131.88</td>
<td>$71.48</td>
</tr>
<tr>
<td>Percentage Increase</td>
<td></td>
<td>273%</td>
<td>102.25%</td>
</tr>
</tbody>
</table>

Under the proposed Settlement, the Company cannot file another rate case before December 1, 2009. The ALJ issued a Recommended Decision recommending approval of the Settlement and the PUC entered an Order approving the Settlement.
Warwick Water and Warwick Drainage Companies, Docket Nos. R-2008-2020885 and R-2008-2020873. On January 31, 2008, Warwick Water Works, Inc. filed a request to increase its annual water operating revenues by $22,227 or 172%. The total water bill for a typical residential customer using 5,777 gallons per month would increase from a flat rate of $30 to a metered rate of $78.55 per month, or by 162%.

Also, on January 31, 2008, Warwick Drainage Company, Inc. filed a request to increase its annual wastewater operating revenues by $21,858 or 101%. The total wastewater bill for a typical residential customer using 5,777 gallons of water per month would increase from a flat rate of $50 to a metered rate of $95.88 per month, or by 92%. Warwick Water and Warwick Drainage provide service to approximately 25 customers in Warwick Township, Chester County.

The OCA filed formal complaints. On May 22, 2008, a public input hearing was held in Warwick Township at which time eight customers testified regarding the impact of the proposed rate increase, service quality issues and issues related to recent meter installations.

The Company, OTS and OCA were able to reach an agreement in principle which was submitted to the ALJ. The proposed Settlement provided for additional annual water revenues of $22,227 (172%) and additional annual wastewater revenues of $21,858 (101%). It also provided that the additional annual revenues will be phased in over two years, with 65% of the proposed increase in the first year and the remaining 35% in the second year. The impact on a residential customer is as follows:

<table>
<thead>
<tr>
<th>Water Fixture Rates-Monthly</th>
<th>Current</th>
<th>Company Proposed</th>
<th>Settlement Step 1</th>
<th>Settlement Step 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Residential customer (2 Fixtures)</td>
<td>$30</td>
<td>$78.55</td>
<td>$62</td>
<td>$80</td>
</tr>
<tr>
<td>Percentage Increase</td>
<td>162%</td>
<td>106%</td>
<td>29%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wastewater Fixture Rates-Monthly</th>
<th>Current</th>
<th>Company Proposed</th>
<th>Settlement Step 1</th>
<th>Settlement Step 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Residential customer (2 fixtures)</td>
<td>$50</td>
<td>$95.88</td>
<td>$82</td>
<td>$100</td>
</tr>
<tr>
<td>Percentage Increase</td>
<td>92%</td>
<td>64%</td>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>

Under the proposed Settlement, the Companies cannot file rate cases for one year following the effective date of the Step 2 increase. Warwick agreed to make a good faith effort to explore the sale of the utilities and report back to the parties no later than eighteen months after the entry date of a Commission order approving this Settlement. This provision is one way to explore options for short and long term capability of the system. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Superior Water Company, Docket No. R-2008-2039261. On May 9, 2008, Superior Water Company filed a request to increase its revenues by $599,771, or 35%. Superior provides water service to approximately 2,661 residential customers in portions of Douglass, Upper Pottsgrove, Lower Pottsgrove, Upper Frederick, Worcester and New Hanover Townships,
Montgomery County, North Coventry Township, Chester County and Washington Township, Berks County. The total bill for a typical residential customer using 5,655 gallons per month, would increase from $45.22 to $61.08 per month under the Company’s proposal. The OCA filed a formal complaint on June 19, 2008. Two public input hearings were held in Boyertown at which time fifteen customers testified. The OCA filed testimony on rate of return and accounting issues, in which we recommended an increase of no more than $353,962, or 20.63%. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

**Ambler Borough, Water Department Division**, Docket No. R-00062017. As discussed in last year's Annual Report, on January 31, 2007, Ambler sought Commission approval to increase its rates for water service. Ambler proposed an estimated annual increase in base rate revenues of $454,798 or 44% increase from PUC-jurisdictional customers. Under Ambler’s proposal, the proposed rates would increase from $50.32 to $72.75 per month, or by 44.6% for the average residential customer using 15,000 gallons per quarter. Ambler also proposed to establish a Distribution System Improvement Clause. Borough of Ambler - Water Department Division serves 3,837 PUC-jurisdictional customers in Upper Dublin, Whitemarsh, Whitpain and Lower Gwynedd Townships, Montgomery County. On April 11, 2007, the OCA filed a Formal Complaint against the proposed rate increase.

The parties were able to reach a Settlement which provided for additional annual revenues of $300,244, or 29.49%. The impact on a customer would be an increase from $50.32 to $64.95 (29.1%), rather than $72.75 (44.57%) as originally proposed by Ambler.

Under the proposed Settlement, Ambler would have an opportunity for two additional annual revenue increases if it completes specific capital projects (Phases 2 and 3). If Ambler completed Well No. 15, it would be entitled, upon certification to the parties, to additional annual revenues of $19,451 (1.5%). If Ambler completed the painting of the Houston Road Tank, it would be entitled, upon certification to the parties, to additional annual revenues of $19,451 (1.5%). In either case, Ambler would be required to file the tariff sheets attached to the Settlement, as Phases 2 and 3, and the increase would take place after 30 days notice to the jurisdictional customers. The Settlement does not mandate the completion of either project or the order in which they are completed.

Under the Settlement, Ambler cannot file another rate case before twenty-seven months from the entry date of a PUC order approving the Settlement. Ambler agreed that it will include a proposal, in its next base rate case filing, to eliminate the existing third block in its rate design.

On November 21, 2007, the ALJ issued a Recommended Decision which recommended approval of the Settlement. The PUC entered an Order on December 24, 2007, approving the Recommended Decision.

**Audubon Water Company**, Docket No. R-00072100. As discussed in last year’s Annual Report, on March 5, 2007, Audubon Water Company sought Commission approval to increase its annual base rate revenues by $477,975, or 29%. Under the Company’s proposal, the rates would increase from $36.29 to $46.63 per month, or by 27%, for a residential customer using 5,000 gallons of water per month. The Company serves approximately 3,000 residential and commercial, multi-family and public customers in portions of Lower Providence Township and
adjacent areas in Montgomery County. The OCA filed a Formal Complaint on April 11, 2007. The OCA filed testimony recommending that Audubon receive no more than $270,188, or 16.25%.

The parties were able to reach a rate of return stipulation and after additional discussions were able to reach a settlement that addressed revenue requirement and quality of service issues. The Settlement provided for a revenue increase of $350,000, with resulting Phase One Rates to be maintained until at least January 1, 2009, and an additional $25,000 in Phase Two Rates to be implemented no sooner than January 1, 2009, if at all. Phase Two Rates would be implemented only in the event that the Company completes certain transmission and distribution projects by December 31, 2008. Pursuant to this Settlement, a typical residential customer using 15,000 gallons per quarter would experience a 20.7% increase from $31.71 per month to $38.28, under Phase One Rates and $38.77 under Phase Two Rates. The tariff supplement originally filed, if approved, would have resulted in a rate increase of approximately 29%, from $31.71 to approximately $40.77 per month. The level of rate increase allowed under the Settlement should help improve the Company's system and at the same time address affordability issues.

In addition, the Company has agreed to timely implement changes to improve service quality based upon customer complaints of which the OCA is currently aware. Regarding the concerns raised by customers at the public input: (1) Audubon will monitor Total Dissolved Solids and hardness at two wells, testing twice a month for one year, and then testing quarterly for a second year; (2) the Company must make a good faith effort to respond to customer contacts or complaints within a 24 hour business day; (3) Audubon will maintain a more detailed and comprehensive customer complaint log that should enable the Company to assess its response time and resolutions to customer concerns; (4) the Company's management personnel and employees will receive training that includes the importance of customer service, returning customer telephone calls and timely responding to complaints; (5) Audubon will include its contact information on all customer notices and correspondence including rate notices; and (6) if the Company fails to complete certain transmission and distribution projects by December 31, 2008, it is prohibited from implementing Phase Two Rates. Further, to address additional issues of concern raised during the OCA's investigation: (1) Audubon will improve its emergency procedures regarding notice to customers and the Pennsylvania Department of Environmental Protection; and (2) Audubon will take greater initiative and implement proactive measures, to meet its obligation to ensure the safety and adequacy of water that Audubon distributes to its customers from the water supply that Audubon accepts from Environmental Resources Management (ERM), and to guard against a repeat of the November 2006 incident regarding excessive copper. The Settlement was submitted to the ALJ who issued a Recommended Decision on September 19, 2007 recommending approval of the Settlement. On October 12, 2007, the PUC adopted the ALJ's recommendation and approved the Settlement.

Little Washington Wastewater Co. – Twin Hills Division, Docket No. R-00072318. As discussed in last year’s Annual Report, on April 10, 2007, Little Washington Wastewater Company - Twin Hills Division sought additional annual revenues of $67,749 or 31.62%. OCA filed a Complaint on June 20, 2007. Seven customers filed formal complaints and one rate protest was filed. A telephonic public input hearing was held on September 4, 2007 at which three customers participated.
Various settlement conferences were conducted by the parties and as a result, a Settlement was filed with the ALJ. The proposed Settlement provided for additional annual revenues of $51,500 or 28.78%. The annual cost of wastewater service to a metered customer using 5,000 gallons per month would increase by $150.48 per year from $519.12 to $669.60 or by 28.98%, rather than $711.60 as originally proposed by the Company. The Twin Hills Division currently has a customer charge of $41.67 per month and a volumetric rate of $.53 per thousand gallons. Under the terms of the proposed Settlement, the customer charge would be $47.00 per month and the volumetric rate would be $1.76 per thousand gallons. The Company will not file for a base rate increase before October 1, 2009. This 24-month stay out period will provide for rate stability for Twin Hills customers, and also encourages efficient investment and operation on the part of the LWWC. In the interest of timely resolving this proceeding, the Company volunteered to investigate the odor complaints voiced by Twin Hills customers attending the September 4, 2007 public input hearing in this case. The Company agreed to follow-up with the complaining customers and work on outreach in this area to facilitate possible solutions to any odor emanating from the wastewater plant. On October 30, 2007, the ALJ recommended approval of the Settlement. On November 29, 2007, the PUC approved the Settlement.

Little Washington Wastewater Co. – Rivercrest Division, Docket No. R-00072319. As discussed in last year’s Annual Report, on April 10, 2007, Little Washington Wastewater Company – Rivercrest Division sought additional annual revenues of $63,573 or 94.3%. OCA filed a Complaint on June 20, 2007. During May 2007 five customers of the Company timely filed Formal Complaints and one customer timely filed a Rate Protest. On September 4, 2007, a telephonic Public Input hearing was held at which six Rivercrest Division customers participated. Various settlement conferences were conducted by the Parties, both in person and via telephone. As a result of these discussions, the Parties were able to agree on a Settlement. The proposed Settlement provided for additional annual revenues of $54,500 or 80.87%. The annual cost of wastewater service to a metered customer using 4,000 gallons per month would increase by $235.20 per year from $329.40 to $564.96 or by 71.32%, rather than the $611.52 as originally proposed by the Company. The Settlement proposed changes to the current rate design, including discontinuing the minimum usage allowance. In addition, the declining three block rate will be changed to a single volumetric rate that is lower than the current first block. Under the terms of the proposed Settlement, the Minimum Charge will be $27.00 per month, the volumetric rate will be $5.02 per thousand gallons. The Company will not file for a base rate increase before April 1, 2009. This eighteen-month stay out period will provide for rate stability for Rivercrest customers, and also encourages efficient investment and operation on the part of the LWWC. On October 30, 2007, the ALJ recommended approval of the Settlement. On November 29, 2007, the PUC approved the Settlement.
Glendale Yearound Sewer, Docket No. R-00072364. As discussed in last year’s Annual Report, on April 30, 2007, Glendale Yearound Sewer Company filed a tariff to become effective June 30, 2007. The Company sought an annual increase in its base rate revenues of $142,655, or 47.6%. Under the Company’s proposal, the proposed rates would increase as follows:

<table>
<thead>
<tr>
<th>User Type</th>
<th>Current Rate/quarter</th>
<th>Proposed Rate/quarter</th>
<th>$ increase</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homesite</td>
<td>$76.32</td>
<td>$112.62</td>
<td>$36.30</td>
<td>47.6%</td>
</tr>
<tr>
<td>Campsite with sewer line</td>
<td>$50.88</td>
<td>$75.06</td>
<td>$24.18</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

The Company serves approximately 1,400 customers in White and Chest Townships, Cambria County. The OCA filed a formal complaint on June 1, 2007. Glendale subsequently informed the parties that it was going to seek PUC permission to transfer its assets to a municipal authority. Glendale withdrew its rate filing and filed an application to transfer its assets and to abandon service.

Village Water Company, Docket No. R-00072351. As discussed in last year’s Annual Report, on April 27, 2007, Village Water sought Commission approval to increase its annual base rate revenues by $42,575 or 61%. Under Village Water’s proposal, the proposed rates would increase from $81.15 to $130.66 per quarter, or by 61% for the average residential customer using 12,000 gallons per quarter. Village Water Company serves approximately 196 customers in portions of Fairfield Township, Lycoming County. On May 24, 2007, the OCA filed a Formal Complaint against the proposed rate increase.

A public input hearing was held in September 2007, at which time more than 22 customers testified regarding the rate increase and water quality issues. After extensive discussions, the parties were able to reach an agreement on all issues. The Settlement was filed with the ALJ on November 21, 2007. It provided for additional annual revenues of $22,500, or 32.2% in the first step of the increase. In the second step, there would be an additional revenue increase of $7,500 or 10.7%, effective twelve months after the first increase. The bill impact for the typical residential customer (using 12,000 gallons per quarter) would be an increase from $81.15 to $107.32 (32.2%) rather than $130.66 (61%) under Village’s original proposal. In the second step, the average bill would increase from $107.32 to $116.04 or 10.7%. The Settlement also would prevent Village Water from filing another general rate increase request for 24 months after the final order in this case, and require Village Water to continuously monitor and record water pressure at hydrant locations in each of its three distribution system areas for consecutive 15 day periods and provide those results to OCA and OTS. In addition, it would require Village Water to provide additional storage to its system and file an implementation plan with OCA and OTS. Village Water also agrees to provide a report to OCA and OTS every six months for the next 24 months addressing unaccounted for water levels and identifying actions they are taking to address the water level problem. Finally, Village Water agreed to make a good faith effort to sell or interconnect their system within 3 years of approval of settlement and keep OCA, OTS and FUS updated on their progress. In a Recommended Decision, dated December 12, 2007,
the ALJ recommended approval of the proposed Settlement. The PUC entered an Order on January 10, 2008 approving the Settlement.

**Birch Acres Water Works**, Docket No. R-00072458. On June 20, 2007, Birch Acres Water Works, Inc. filed a request to increase its annual revenues by $6,230 or 50%. BAWW serves approximately 45 residential customers in Monroe County, Pennsylvania. A typical customer using 15,000 gallons per quarter would see an increase from $93.30 to $144.45, or 50% per month. The Commission suspended the tariff filing on August 30, 2007. The OCA filed its Formal Complaint and public statement in this matter on October 2, 2007. The Commission assigned this case to mediation and the OCA participated on behalf of the interest of Birch Acres customers. After investigation, including an on-site inspection by OCA expert witness Terry Fought, the OCA determined that Birch Acres needed substantial infrastructure improvements. Based on this and several other factors the OCA determined not to oppose the Company’s request. The overall increase in customer rates did not, however, amount to a 50% increase because of billing adjustments. The effect of the increase was to increase the average customer rate from 93.35 per quarter to $127.95 per quarter for 14,300 gallons of water. Rates now in effect are based on a $45 per month customer charge and a $5.80 volumetric rate. A final Order was entered on February 14, 2008.

**Wonderview Sanitary Facilities**, Docket No. R-00072471. As discussed in last year’s Annual Report, on June 22, 2007, Wonderview Sanitary Facilities sought PUC approval to recover an estimated annual increase in base rate revenues of $18,577, or 29.14%. Under the Company’s proposal, the proposed flat rates would increase from $35.65 to $46.04 per month, or by 29.14%. The Company serves approximately 149 customers in Catawissa and Main Townships, Columbia County, PA. The OCA filed a formal complaint on August 9, 2007. As a result of settlement negotiations among the parties, a Joint Petition for Settlement was filed. It provided for additional annual revenues of $11,550, or 18.12%. The impact on a customer is a proposed increase from $35.65 to $42.11, rather than $46.04 as proposed by the Company. Under the proposed Settlement, the Company cannot file another rate case before thirty months from the entry date of a PUC order approving the Settlement. Wonderview agreed that it will inspect, annually, the wastewater treatment plant units and, if accessible steel members show rust, the rust will be removed and repainted as necessary. This review is an important part of the maintenance of the plant. On December 11, 2007, the ALJ issued a recommended decision in which he recommended adoption of the proposed Settlement. On January 10, 2008, the PUC entered an Order approving the Settlement.

**City of Bethlehem**, Docket No. R-00072492. As discussed in last year’s Annual Report, on June 29, 2007, the City of Bethlehem – Bureau of Water filed a tariff to become effective August 28, 2007, seeking PUC approval to recover an estimated annual increase in base rate revenues of $827,455 (12.5%) from customers who reside outside the City limits. A typical customer using 15,000 gallons of water per quarter would see an increase from $72.06 to $81.06, or 12.5% per quarter. The City serves approximately 12,000 residential customers outside of the City, in the Townships of Salisbury, Upper Saucon, Lower Saucon, Bethlehem, Hanover, East Allen, Allen, the Borough of Fountain Hill in Lehigh County, and the Borough of Freemansburg in Northampton County. The OCA filed a formal complaint on August 9, 2007. During Fall, 2007 the parties conducted settlement negotiations that resulted in a settlement among the City, OCA and OTS. A sale for resale customer that filed a formal complaint did not join or oppose the
proposed settlement. The proposed Settlement provided for a revenue increase of $240,000, or approximately 3.6% increase in total annual revenues for PUC-jurisdictional customers. In addition, the City cannot file for another general rate increase before June 29, 2009. Lower Saucon Authority opposed the across the board increase, among other issues. A hearing was held on the contested issue. Briefs were filed by the parties in February 2008. The ALJ’s Recommended Decision was issued on April 7, 2008. She found that the Joint Petition for Settlement should be approved and rejected the Authority’s arguments against the proposed Settlement. On May 27, 2008, the PUC entered an Order denying the Authority’s exceptions. On June 9, 2008, Lower Saucon Authority filed exceptions to the compliance filing. The Exceptions were pending before the PUC as of the end of the Fiscal Year.

Emporium Water Company, Docket Nos. R-00061297 and R-00061454. As discussed in last year’s Annual Report, on March 29, 2006, Emporium Water filed two alternative supplements to reflect increased base rates. Supplement 20OR was based on an operating ratio methodology. Supplement No. 20RR was based on rate base/rate of return. At the same time, Emporium filed a petition requesting waiver of the PUC regulations to allow it to use an operating ratio to calculate its proposed revenues and rates. The OCA filed formal complaints in both dockets, as well as an answer to the Petition, opposing the waiver of the PUC’s regulation. By Order entered June 9, 2006, the Commission denied Emporium’s petition for waiver and rejected the rate filing based on an operating ratio. The Company’s alternative rate request for a 49.85% increase or $316,144 in additional annual operating revenues proceeded to litigation. On May 19, 2006, the PUC entered an Order suspending the rate base/rate of return filing.

The OCA filed Direct Testimony recommending reductions in rate base, O&M, and overall rate of return, including use of the Company’s actual capital structure to fully reflect the low cost PennVest debt and a lower return on equity, consistent with the PUC’s Order in the last Emporium rate case. As a result, the OCA recommended an increase of no more than $236,901. The parties agreed to stipulate the testimony into the record and briefs were filed on September 7, 2006. OCA’s final position was that Emporium should receive no more than $202,847 and if the PUC does not adopt the OCA’s recommendation regarding the Public Utility Realty Tax Assessment (PURTA) surcharge, the increase should be no more than $138,780.

On October 26, 2006, the OALJ issued the Recommended Decision of ALJ Fordham who recommended an increase of no more than $220,862. The ALJ adopted nearly all of the OCA’s accounting adjustments. In addition, she agreed with OCA that the Company’s actual capital structure must be used for ratemaking purposes.

The PUC issued its Opinion and Order on December 28, 2006, which allowed the water company an increase of $238,639, a 37.63% increase in base rate revenues. The Commission adopted the Company’s actual capital structure to reflect the utility’s use of low cost debt borrowed from PennVest based on the OCA’s position. The PUC based the cost of equity on the OCA’s recommended 9.4% which the PUC adjusted upwards to a final 10.6% cost of equity to account for risk. The PUC agreed with the OCA that the Company had excessive unaccounted-for-water and reduced the Company’s expense claim. The PUC also agreed with OCA that the water company should comply with PUC regulations and roll into base rates an amount for PURTA which the Company had been recovering through a surcharge, consistent with PUC regulations.
The Company filed a tariff supplement with the new increased base rates for service as of January 1, 2007. The Company then reduced the 19.23% surcharge for PURTA to zero as of April 1, 2007, the second step of the allowed change in rates and a benefit for consumers.

The Company filed a Petition for Reconsideration on January 12, 2007. The OCA filed an answer opposing the majority of Emporium’s request for relief. On April 22, 2007, the PUC ruled on the merits of the Company’s Petition for Reconsideration. The Commission declined to reconsider, by a 3-1 vote, the December ruling on what was an appropriate capital structure and overall rate of return for Emporium Water. The Commission did correct for an error related to taxes in the original December 28, 2006 Order which resulted in a higher overall increase of $254,471 or a total allowed revenue increase of $888,933. The OCA had not opposed this request for correction.

On May 25, 2007, Emporium filed an Appeal with Commonwealth Court. Emporium asked the Court to review the overall rate of return used to set rates, a level which the Company alleged is confiscatory and unreasonable. The Company also sought review of a restriction and reporting requirement imposed by the Commission on wage expense for summer employees.

The OCA filed a notice of intervention in the Emporium appeal on June 5, 2007. Emporium alleged that the PUC had confiscated Company property through an inadequate rate of return, abused its discretion and improperly imposed a condition on the Company’s use of part-time employees. The OCA filed its brief in support of the PUC’s Order. The Company’s position would require the Court to rewrite the accepted ratemaking equation and would be contrary to ratemaking principles and jurisprudence. Oral argument was held on April 8, 2008. On June 4, 2008, the Court affirmed the PUC’s decision. The Court found that the use of a hypothetical capital structure is solely within the discretion of the PUC. Regarding the second issue raised by Emporium on appeal, the Court found it to be within the PUC’s discretion and said that the Company received what it requested and given Emporium’s history on this type of issue, the reporting requirement was within the PUC’s discretion. Emporium filed a Petition for Allowance of Appeal with the Supreme Court of Pennsylvania which was pending at the end of the Fiscal Year.

City of Lancaster – Sewer, Docket No. R-00049862. As discussed in last year’s Annual Report, on November 15, 2004, the City of Lancaster – Sewer filed for a rate increase of $650,465, or 54.5%. The OCA filed a formal complaint on behalf of customers from outside the City, whose rates are regulated by the PUC. The OCA filed testimony addressing accounting issues and an issue related to the allocation of costs for the City’s storm water and wastewater lines. The OCA’s final position was that the Lancaster rate increase request should be denied based on all of the OCA accounting adjustments and using the overall rate of return awarded by the PUC in the Sewer Fund’s last rate increase request.

On June 28, 2005, the ALJ recommended that the City receive no more than $83,026 in additional base rate revenue. While the ALJ did not adopt every one of the OCA’s adjustments, the OCA supported the overall outcome contained in the R.D. and many of the specific determinations made therein including adoption of the OCA’s allocation adjustment.
On August 11, 2005, the Commission adopted an Opinion and Order in this matter. The Commission’s Order adopted each issue that the OCA contested in the proceeding. The City filed an appeal of the Commission’s final Order. The OCA intervened and supported the Commission’s Order before Commonwealth Court.

On August 30, 2006, Commonwealth Court affirmed in part and reversed in part the Order of the PUC. The Court found that the PUC did not err in accepting the OCA’s overall cost allocation methodology which was premised on the theory that the collection of both storm water and sewage in the City’s combined sewer system increases the cost of sewage treatment and that the costs of the stormwater should not be passed on to the PUC jurisdictional customers. The Court found no error in the PUC’s adoption of the OCA’s calculated I/I and the inferences drawn therefrom. However, the Court found that the record lacked substantial evidence to support the conclusion that the Maple Grove pumping station serves the City’s combined sewer system in addition to the PUC jurisdictional customers. Thus, the Court reversed the PUC’s finding regarding the Maple Grove pumping station and remanded to allow the cost allocation regarding the Maple Grove district and system to be revised.

The Court found that the Commission did not abuse its discretion in limiting the City to the debt expense set forth by the City in its test year data and noted that the City’s method would violate the matching principle as well as the purpose of deciding a rate case based upon test year data. The Court remanded the debt service coverage issue to the Commission to explain its decision regarding two issues raised by the City in its Exceptions. The Court found no errors in the PUC’s decision to reject the City’s revised depreciation study, and in the PUC’s disallowance of legal fees connected with the acquisition of the former municipal authority’s assets. The Court also found no error in the PUC’s rejection of the City’s claim for increased maintenance expense for the wastewater treatment plant.

On January 31, 2007, the PUC issued a tentative Opinion and Order in which it reviewed the evidence submitted regarding the Maple Grove allocation and the debt service coverage. The PUC modified the allocation for Maple Grove to reflect the Company’s allocation factor which results in additional annual revenues of approximately $30,268. The PUC also found that it had adequately addressed the evidence regarding the debt service coverage issue. The City filed comments arguing that the PUC’s Order did not revise a number of additional allocation factors and higher returns. If the City’s revisions were adopted, the result would be additional annual revenues of $384,355 to $446,824, depending on the overall return as proposed by the City.

In 2008, the PUC entered its Final Opinion and Order in this proceeding affirming their January 31, 2007 Tentative Order. The PUC affirmed its prior decision that a further evidentiary hearing was not required to implement the directives of the Commonwealth Court. The PUC also affirmed its prior decision that the City will have the opportunity to present a different cost allocation methodology in its next rate proceeding. Finally, the PUC rejected the City’s attempt to reargue its position regarding debt service coverage as beyond the scope of the Tentative Order. The Commission made one ministerial correction to its Tentative Order and authorized the City to file tariff supplements designed to produce revenues not to exceed $1,315,937.
Applications, Petitions, and Investigations

Joint Application of Pennsylvania-American Water Co. and Three Lane Utilities, Docket Nos. A-212285F0146, A-210116F2000. As discussed in last year’s Annual Report, on June 21, 2007, Pennsylvania-American Water Co. and Three Lane Utilities, Inc. filed a Joint Application in which the utilities sought approval to transfer Three Lane to PAWC. The OCA filed a Protest and raised three concerns. First, Three Lane charges its customers a flat rate but has a revenue-neutral metered rate filing pending. In the Application, PAWC proposed to charge Three Lane’s flat rates initially, and then to charge the Three Lane metered rates that are approved by the PUC. Three Lanes’ customers would have substantially lower bills under PAWC’s flat and metered rates and should be charged PAWC’s rates instead of Three Lane’s rates. Second, PAWC tentatively booked a negative acquisition adjustment, which the OCA wanted to ensure there would be no express or tacit approval of the adjustment outside of a base rate case. Third, several schedules were omitted from the filing. Matamoras Municipal Authority filed a Petition to Intervene in the proceeding on July 27, 2007, which was opposed in Three Lane’s Answer filed on August 15, 2007 and PAWC’s Answer filed on August 21, 2007. On November 2, 2007, Three Lane and OCA filed a Stipulation, in which PAWC agreed to charge its own, lower rates; Three Lane agreed to withdraw its revenue-neutral metered rate filing; and PAWC acknowledged that issues pertaining to the treatment of any acquisition adjustment would be reserved for a future water base rate case. Also, Three Lane provided additional schedules to OCA. On November 29, 2007, the Commission issued an Order denying Matamoras’ Petition to Intervene, approving the Stipulation and approving the Joint Application to transfer Three Lane to PAWC. Following the Order, PAWC filed a letter of succession to a related Application by Three Lane for additional territory at Docket No. A-210116F0002 and the transaction subsequently closed.

Kathleen Sylvester et al. v. W.P. Water Co. and W.P. Sanitary Co., Docket Nos. C-20055453, C-20055473, C-200565849, and Application of Aqua, Pennsylvania, Docket No. A-210104F0074, and Application of W.P. Sanitary Co., Inc., Docket No. A-230550. Between October 2005 and January 2006, eleven customers filed formal complaints against these companies regarding the quality of their water and wastewater service. Specifically, customers experienced severely low water pressure, outages and cloudy water, poor customer service and billing, strong malodors near the sewage treatment plant and back-ups of sewage in their basement. The OCA filed interventions in several of the complaints in order to ensure that the Company provided adequate water quality, water pressure and sewage treatment, properly operates, maintains and repairs the systems, responds to and tracks customer complaints and provides bills that comply with Commission regulations. The OCA’s engineer conducted an inspection of the companies’ systems (pursuant to a subpoena granted by the presiding ALJ), met with customers and reviewed the PaDEP’s records on these companies. The OCA filed written testimony by its engineer and regulatory analyst and participated in two evidentiary hearings. Additional hearings were held in July 2006 to complete the presentation of testimony and examination of witnesses. The OCA subpoenaed the attendance of a DEP Water Quality Specialist Supervisor at the May 23, 2006 hearing and worked with the PaDEP to develop the record in this proceeding. The PUC’s Law Bureau was also an active party and presented the testimony of its engineering expert. Cases are simultaneously pending against the companies
for violation of laws and regulations administered by the PaDEP and PA Fish and Boat Commission.

The OCA and Law Bureau filed timely briefs in September and October 2006, which included more than 130 jointly proposed findings of fact. On December 28, 2006, the DEP issued another Notice of Violations to WP Sanitary for violations found through October 2006.

On February 14, 2007, the ALJ issued an Interim Order reopening the record until March 7, 2007, to take additional evidence from WP Water and WP Sanitary, as well as the Company owners, regarding business expenses, incorporating documents, lists of all business enterprises, documentation of certain operations activities, status of civil penalties and other matters.

On February 26, 2007, WP filed Petitions to Reopen the Record in the complaint docket as well as the pending Aqua PA application, Docket No. A-210104F0074, where WP was a protestant. The basis of the Petition to Reopen was an agreement of sale between WP Water and United Water. The OCA filed an answer opposing the Petition to Reopen the complaint proceeding.

On or about March 2007, WP filed a motion to extend the time to comply with the ALJ’s Interim Order and asking for a response date of April 4, 2007. The OCA filed an answer opposing the Motion absent a showing that the information requested by the ALJ would be forthcoming.

On April 4, 2007, ALJ Jandebeur issued an interim Order denying the motion to reopen the record in the complaint proceeding and denying United Water’s petition to intervene. In her Order she found that the potential sale did not provide any relief for the primary issue in the complaint proceeding, i.e., the alleged significant failure of WP to provide safe, adequate, reliable, and effective service over a long period of time.

On May 1, 2007, ALJ Cocheres issued an Initial Decision in which he found that Aqua had met its burden of proof, that its application to serve the Saddle Ridge development should be granted, that the protest of WP should be dismissed and that the petition to reopen the record should be denied. ALJ Cocheres found that Saddle Ridge is within the certificated service territory of WP. However, he found that WP service is inadequate and that it is in the public interest to grant Aqua’s application.

In a related proceeding, on February 26, 2007, W.P. Sanitary filed an application to abandon service, Docket No. A-230550F2000. In its application, it stated that it is not able to make the necessary capital improvements and that it has not identified any entity to take over the system. The OCA filed a protest on April 9, 2007. DEP and Washington Township also filed protests. The OCA's position was that the application should not be granted until there is a financially, technically, and managerially capable entity identified and willing to provide service to WP’s customers.

On June 6, 2007, the OCA filed a Petition for Emergency Relief, Docket No. P-00072312, requesting that the PUC enter an Order to address relief to customers experiencing frequent water outages and low water pressure. The PUC granted the OCA’s petition and ordered WP to
take steps to locate a new source of supply, install meters, and provide monthly status reports regarding the progress.

Also on June 6, 2007, the OCA filed a Petition for a Commission Order Instituting a Proceeding to Order the Acquisition of WP Water Company and WP Sanitary Company Pursuant to Section 529 of the Public Utility Code, Docket No. P-00072313. The Commission assigned the case to Law Bureau and to ALJ Jandebeur. The OCA filed a motion to consolidate WP Sanitary’s application to abandon service with the 529 proceeding. The parties agreed upon a procedural schedule and asked that the cases be simultaneously mediated. Consistent with the litigation schedule, the parties have submitted statements and testimonies addressing the requirements of Section 529. One mediation session was held on September 10, 2007. A number of the parties met with PennVest to discuss funding options on September 18, 2007. A public input hearing near the service territory was held on October 10, 2007. The parties were able to reach an agreement in principle on the transfer of WP Water and WP Sanitary to a capable public utility. There were a number of issues that needed to be resolved including the drafting of the asset purchase agreements, a settlement petition and financing issues. The parties continue to work on these issues.

An Initial Decision in the Sylvester complaint proceeding was issued on August 16, 2007. On September 5, 2007, the OCA filed limited exceptions and on September 17, 2007, the OCA filed Replies to WP’s exceptions. The parties await a final Commission Order.

Application of CMV to Transfer Its Assets and Abandon Its Provision of Sewage Service in North Codorus Township, York County, Docket No. A-230056F2002. On September 25, 2007, CMV Sewage Company filed an Application with the PUC for approval to transfer its collection system assets and abandon sewage collection service to customers of the Colonial Crossings subdivision. CMV also currently provides service to Chanceford Manor Village, a fully built-out subdivision located approximately 30 miles from Colonial Crossings that utilizes non-contiguous wastewater treatment plant. Both Colonial Crossings and Chanceford Manor Village pay the same, unified rates based on actual usage. If the Application is approved, CMV would continue to provide service to Chanceford Manor Village but would cease to provide service to and would transfer, for $1.00, the collection system of Colonial Crossings to North Codorus Township Sewer Authority (NCTSA). Additionally, the Colonial Crossings customers would experience an immediate average quarterly bill increase of $70 (approximately 54%) and be charged a one-time $1,800 connection fee by NCTSA. In its testimony, CMV noted that the reason it filed the Application was due to a provision contained in its DEP-issued NPDES (National Pollutant Discharge Elimination System) permit.

The OCA filed a Protest, presented the testimony of Marilyn J. Kraus and fully litigated the Application. Specifically, the OCA challenged the validity of the transfer of over $300,000 in assets for $1.00, the need for the transfer, and the assertion of public benefits alleged to arise out of the Application. On September 5, 2008, the ALJ entered an Initial Decision finding that each of the factors that the Commission uses to determine the necessity for a public utility to abandon service weigh against the granting of CMV’s Application. The ALJ further found that the language of the NPDES permit, standing alone, cannot be determinative of the public interest. Accordingly, the ALJ found that the abandonment and transfer was not in the public
interest and that the Application should be denied. The case is currently pending before the Commission.

Application of United Water Pennsylvania Inc. and United Water Bethel, Inc. for all approvals and waivers (if any) which may be required under the Public Utility Code for the merger between Gas de France and Suez, the ultimate corporate parent of United Water Pennsylvania Inc and United Water Bethel, Docket No. A-210013F0017. On November 1, 2006, United Water Pennsylvania Inc. and United Water Bethel Inc, filed the above amended Application and sought Commission approval for their corporate parent, SUEZ, to merge with Gaz De France. The OCA responded to the initial Application in the fall of 2006 by filing a protest and public statement. Until the filing of the November 1, 2007 amended Application, the case was stayed.

On June 9, 2008, the parties submitted a Joint Petition for Settlement to the ALJ, asserting therein that, with the conditions set forth within it, the Commission should find that the proposed transaction is in the public interest.

The following summarizes the public benefits of Commission approval of the Application, as modified by the terms and conditions of the Joint Petition for Settlement:

1. UWPA agreed to an extension of the 20-month stay-out period approved by Commission Order dated July 25, 2006, at Docket No. R-00051186 to March 2, 2009, with limited exceptions. This provides rate stability for UWPA’s customers for approximately sixteen months from Commission approval of this Settlement. UWPA has also agreed that it will not seek to expand the current 5 percent cap on its DSIC surcharge during the rate filing stay-out period (extended to March 2, 2009) agreed to in the Joint Petition. This benefit provides further protections against increases in utility surcharges and as such constitutes an affirmative benefit to consumers and the public.

2. UWPA and UWB agreed they will not propose or use any cost of capital risk adjustment associated with its corporate parents or any affiliate not regulated by the Commission.

3. UWPA and UWB agreed not to make any distribution from common equity that would cause the Company’s debt ratio to increase above 55 percent. This condition will work to keep the capital structure of UWPA and UWB in line with other water utilities in Pennsylvania and to thus provide for stable capital costs.

4. UWPA and UWB agreed that they will not seek recovery from their customers of the costs of the Proposed Transaction, nor will there be any impact from the Proposed Transaction on their books of account. Likewise, UWPA and UWB will not bear any costs incurred to comply with any law, regulation, standard, or practice of France or the European Union necessary to complete the Proposed Transaction.

5. UWPA agreed to establish a benchmark level of unaccounted-for-water within thirty (30) days following the Commission’s Order approving this Settlement and has agreed to submit an annual report concerning UWPA’s level of unaccounted-for-water.
6. UWPA and UWB agreed to protect all pension assets currently in place for UWPA and UWB employees and the continuation of the pension and post-retirement benefit programs for at least three years, unless the Commission approves changes to those programs.

7. UWPA and UWB agreed to continue to provide no less than their current level of support for and involvement in local and community projects, including continued funding for UWPA and UWB’s low-income program to assist low-income residential customers with their water bills.

The ALJ issued an Initial Decision recommending that the PUC approve the Joint Petition for Settlement without modification. At Public Meeting in July 2008, the Commission issued its Final Order accepting that recommendation and approving the Joint Petition for Settlement in all respects.

In Re Pennsylvania-American Water Co.’s Main Breaks in the Pittsburgh Area and Related Incidents Statewide, Docket No. I-00060112. As discussed in last year’s Annual Report, in early December 2006, approximately one thousand customers and two public schools experienced a service outage for several days after a major main break. In early December 2006, a similar event occurred in Lackawanna County in PAWC service territory. The OCA, in support of local government officials and state legislators, requested an investigation of the events and public hearings.

In response, the PUC Chairman moved on December 21, 2006, to initiate an investigation into whether the utility responded to the outages in an effective and timely manner and whether adequate supplies of drinking water were supplied in a sufficient number of convenient locations, among other related issues. The Motion passed unanimously and the PUC issued an Order on January 5, 2007, requiring the Law Bureau and the Bureau of Fixed Utility Services to undertake the investigations and to issue two reports, the first within ninety days having to do with the Pittsburgh outages, and the second having to do with the Lackawanna outages within 120 days.

The OCA submitted a Notice of Intervention on January 10, 2007. Two hearings, which representatives of the OCA attended, were held in the City of Pittsburgh on January 22, 2007. On June 21, 2007, the Tentative Investigation Order and Release of Staff Report was issued. The report answered the questions set forth by the Commission when it initiated the investigation and set forth a list of sixteen directives with PAWC must comply. After a period for comments, the Commission entered an Order adopting the directives laid out in the report. The Investigation remained open for Phase II regarding the Lackawanna main breaks. The Commission subsequently entered a Tentative Order in Phase II of its Investigation, dealing with the outages in Lackawanna County. The Phase II report found that while the Company properly responded to the various outages that resulted, PAWC should take corrective steps to mitigate future events, such as updating the customer notification system on a regular basis, providing a Company spokesperson on the site of major breaks to provide information and status reports, and compiling an accurate list of critical care customers.

transfer 140 water customers from Gouldsboro to Aqua and to increase the rates charged for service. On February 13, 2008, the OCA filed a protest because the proposed rate increase was as much as 230% and because Gouldsboro and Aqua did not provide notice to customers regarding the proposed rate increase. OCA and the utilities entered into negotiations to resolve the case, which were delayed for several months while Aqua and Gouldsboro addressed matters required by their Asset Purchase Agreement. As of the end of the Fiscal Year, this matter was pending before the PUC.

Joint Application of Aqua Pennsylvania and Pennsylvania Utility Co., Docket Nos. A-210098F2000, A-210104F0084 and Joint Application of Pennsylvania Utility Co. and Little Washington Wastewater Co., Docket Nos. A-230240F0035, A-230091F2000. On August 21, 2007, Aqua, Little Washington, and Pennsylvania Utility Co. filed Joint Applications to transfer 453 water and wastewater customers to Aqua and Little Washington and to increase the rates charged for service. On September 28, 2007 CapitalSource Finance, LLC filed a Protest, which was withdrawn on November 27, 2007. The OCA filed a Protest on October 1, 2007 because the filing did not contain information to show whether the proposed rate change constituted a rate increase for any customers nor whether customers received any direct notice regarding the proposed rate change. On April 25, 2008, the Applicants filed an amendment to the Joint Application, which eliminated the proposal to change the customers’ rates as part of the application proceeding. Instead, Aqua will maintain current rates until those rates are revised as part of a future rate filing. Accordingly, the OCA withdrew its Protest against the amended Application on April 29, 2008. On June 26, 2008, the Commission entered an Order approving the Application.
CONSUMER COMPLAINT PROCEEDINGS

Introduction

In addition to litigation in which the OCA responds to utility filings, the OCA also intervenes in numerous proceedings in support of individual consumers or groups of consumers or initiates its own formal complaint proceedings on behalf of groups of customers. Summaries of some of these cases follow.

Telephone - Service Quality, Improper Billing, and Extended Area Service Cases

Miller v. Verizon Pennsylvania, Inc., Docket No. C-20066923. As discussed in last year’s Annual Report, Mr. Miller experienced a service outage at his home in West Chester late in the day on April 13, 2006.

Mr. Miller filed a formal complaint on September 26, 2006, in which he contended that Verizon provided inadequate service in response to his outage. The OCA intervened in Mr. Miller’s complaint, which raises quality of service concerns important to all residential telephone customers. The OCA engaged in discovery of Verizon’s practices regarding restoration of service and handling of Mr. Miller’s request to have service restored.

On March 5, 2007, Mr. Miller filed a written Direct Testimony. Mr. Miller’s testimony addressed Verizon’s restoration of service efforts, Verizon’s staffing, and Verizon’s escalation process. The OCA attended the May 8, 2007 hearing in Philadelphia and assisted the Complainant with the presentation of his case. The OCA also conducted cross-examination of the Verizon witnesses, consistent with the OCA’s role as intervenor as statutory advocate. The presiding ALJ admitted all of Mr. Miller’s offered testimony and exhibits into the record.

On June 28, 2007, the OCA filed its Main Brief in support of Mr. Miller’s complaint. Mr. Miller and Verizon both also filed main briefs. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Lerch v. Verizon Pennsylvania, Inc., Docket No. C-20077297. Mr. Lerch experienced a telephone service outage and filed a formal complaint in which he contended that Verizon provided inadequate repair service and complained about the Verizon’s Bona Fide Retail Request program. The OCA intervened in Mr. Lerch’s complaint on the quality of service concerns that are important to all residential telephone customers. The OCA engaged in discovery of Verizon’s practices regarding restoration of service and handling of Mr. Lerch’s request to have service restored.

The OCA attended the January 8, 2007 hearing in Harrisburg and assisted the Complainant with the presentation of his case. The OCA also conducted cross-examination of the Verizon
witnesses, consistent with the OCA’s role as intervenor as statutory advocate. The OCA filed Main and Reply Briefs in this case.

The ALJ issued an Initial Decision recommending that the Formal Complaint of Mr. Lerch be dismissed. The OCA submitted Exceptions to this Initial Decision and the matter was pending before the Commission as of the end of the Fiscal Year.

**Water and Wastewater Cases - Service Quality and Main Extension Cases**

**Main Extension Complaints:** As discussed in last year’s Annual Report, the OCA has been involved in three longstanding complaint proceedings involving requests for public water service from PAWC.

*Cindy Parks v. Pennsylvania-American Water Co., Docket No. C-00015377.* The OCA intervened in this main extension case on June 14, 2001. Approximately thirteen hundred Hickory Pa, Washington County residents were in need of water service. The residents obtain water for household purposes from wells, cisterns or springs. Public Hearings were convened in Mount Pleasant Township on September 9, 2002 during which sixty-two witnesses testified. The hearings were attended by over three hundred people.

As discussed in last year’s Annual Report, the OCA was unsuccessful in obtaining service for these customers after lengthy litigation at the PUC, the Commonwealth Court and the Pennsylvania Supreme Court. However, as part of a subsequent Settlement with PAWC involving the transfer of ownership of the Company through an Initial Public Offering (IPO), the Company agreed to provide service to customers in Hickory and two other communities in Southwestern Pennsylvania.

PAWC agreed to provide service in the Hickory community within two years following state regulatory approval of the IPO. The Final Order of the Commission approving the Settlement in its entirety has been entered. PAWC must use best efforts to install the needed infrastructure by September 26, 2009.

*Morra v. PAWC, Docket No. C-00014733.* As in the *Parks* case discussed above, the OCA filed a Notice of Intervention in this Formal Complaint case in order to assist the Complainants in obtaining public water service from Pennsylvania-American to their neighborhood in Hanover Township, Washington County for residential and fire protection purposes. As in the *Parks* case, PAWC agreed to provide service to customers in this community as part of the Settlement of the IPO proceeding.

In April 2008, the Commission approved an expansion of PAWC’s service territory such that the main extensions can be constructed as specified to the Commission in the IPO Order. The project has been completed and the thirty families in need of service are now receiving it.

*Collier Township v. PAWC, Docket No. C-20016207.* As in the *Parks* case discussed above, the OCA intervened in the complaint filed by Collier Township against Pennsylvania-American
Water Co. on September 4, 2001, seeking service to approximately forty families within its municipal boundaries. While the majority of the Township currently receives service from PAWC, several areas have an inadequate natural supply and various types of contamination in that supply. Families are dependent on cisterns and hauled water, which is extremely expensive in comparison to utility service. The OCA intervened on October 31, 2001. Public Hearings were convened on August 27 and thirty witnesses testified in support of the public need for water utility service.

As in the Parks case, PAWC agreed to provide service to the unserved areas of Collier Township within one year following state regulatory approval of the IPO. The Final Order of the Commission approving the Settlement in its entirety has been entered. PAWC must use best efforts to install the needed infrastructure by September 26, 2008. In light of this commitment, the appeal filed on behalf of Collier Township has been withdrawn. The project has been completed and the families, businesses and farm in Collier Township that needed water service are now receiving it.

Crumlich et al. v. Emlenton Water Co., Docket No. C-20077924. The OCA intervened in this low water pressure case on August 8, 2007. Four consumers of Emlenton Water filed complaints about low water pressure and water outages. All the complainants are residents of Pearl Street in Emlenton. The OCA participated in mediation and developed a Settlement providing for system improvements that were to be completed by December 2007. The Company did not meet this deadline and the case then proceeded to litigation. The OCA participated in hearings on June 3, 2008. The ALJ issued an Initial Decision ordering the Company to make the facility improvements contemplated by the Settlement and provided for a penalty of $1000 per day should the Company not make those improvements within 45 days of a final Commission order. The Commission has not yet issued its final order in this matter.

Pickford, et al. v. Pennsylvania-American Water Co., Docket No. C-20078029. Susan Pickford is a PAWC customer who resides in Camp Hill, PA, an area served by the Company’s West Shore and Silver Springs Treatment plants. In June 2007, PAWC customers were notified that the Company planned to change its treatment process at the plants from a disinfection process using chlorine, to one using chloramines in early July, 2007. The stated reason for this change was to reduce the levels of chlorine disinfection by-products in anticipation of the requirements of an EPA regulation. A Complaint was filed by Ms. Pickford and twenty-two other formal complaints were filed on behalf of a total of fifty-six customers, complaining of inadequate notice, affordability, and issues of safety with the water supply. Ms. Pickford sought the assistance of the OCA.

The OCA facilitated a public panel on October 5, 2007, consisting of representatives of the Company, the Pa. Department of Environmental Protection, Department of Health and the US Environmental Protection Agency. About 100 persons attended this panel discussion that was moderated by the OCA. Panel members gave short presentations, and Ms. Pickford presented the consumer perspective. Following the presentations, customers were able to ask questions of the experts on the panel.

Also on October 5, 2007, an Initial Decision from the ALJ was issued, granting PAWC’s Preliminary Objections based upon lack of subject matter jurisdiction, and asserting that under
Section 318(b) of the Public Utility Code, 66 Pa.C.S. § 318(b), and a Commonwealth Court opinion, only DEP has jurisdiction over water quality. The ALJ also concluded that the PUC does not have jurisdiction to administer the Pennsylvania Safe Drinking Water Act (SDWA) or challenge DEP’s decisions under that Act. The OCA, Ms. Pickford, and another Complainant filed Exceptions to the Initial Decision. The OCA asserted that the ALJ erred in her interpretation of Section 318(b) that instead confirms PUC jurisdiction over water purity and quality. Moreover, the PUC has jurisdiction over the notice given to customers regarding the change, because the definition of “service” regulated by the PUC in the Public Utility Code is broad and includes the manner in which the utility communicates to its customers about the change. The OCA further argued that the complaints should not be dismissed without a hearing because the standard that dismissal be “clearly warranted and free from doubt” had not been met.

At a Public Meeting on March 13, 2008, the Commissioners issued statements and voted 4-0 to grant the Exceptions filed by OCA and Complainants, and to allow the Complaints to proceed to hearings on an expedited basis. On March 20, 2008, the Commission entered an Order relying in large part upon the OCA’s Exceptions. The Commissioners concluded that the PUC under Section 1501 of the Public Utility Code, and DEP under the federal and state SDWAs, share joint jurisdiction over the water quality provided by public utilities. The PUC agreed with the OCA that Section 318 does nothing to divest the PUC over legal issues regarding water purity and only addresses questions of fact. The PUC determined that purity of water supply is but one aspect for the PUC to consider in determining whether safe, adequate and reasonable service has been provided under the Public Utility Code. The PUC also expressed that the DEP would be welcome as an intervenor in the case and invited the agency to become a party. At the end of the Fiscal Year, this case was pending before the Public Utility Commission.

Mead v. Pennsylvania-American Water Co., Docket No. C-20078328. Gary and Sharon Mead, who own a rental property in Scranton PA, filed a complaint because two of their tenants vacated the premises after receiving a letter from PAWC threatening shut-off for failure to be in compliance with Tariff Rule 18.1. Tariff Rule 18.1 requires each meter serving a premise or multiple premises to be supplied through an independent service pipe from a separate control valve or valve box, unless specifically approved and authorized by the Company. The change required to comply with Tariff Rule 18.1 would have cost $5,000 to $10,000, and would have required excavation of the state road and the front yard of the property owned by the Meads. As tenants, the PAWC customers had no authority or right to do so.

The OCA intervened in this docket on behalf of PAWC customers who have received letters from PAWC threatening shut-off of their water service for failure to comply with Tariff Rule 18.1. Discussions are ongoing with PAWC; however, the Company has notified the group to whom the letters were sent in order to inform them that the Tariff Rule 18.1 enforcement has been temporarily suspended. The ALJ denied PAWC’s Motion to Dismiss for Lack of Standing that had been answered by the Meads’ counsel. The OCA served its first round of discovery on November 28, 2007, among other issues, to determine the scope of group of affected customers.

PAWC filed a Motion to Certify Material Question in December 2007, and later withdrew that motion before the answer period ended. On February 1, 2008, the OCA, PAWC, Office of Trial
Staff and the Small Business Advocate, who are also concerned over the issues raised by Tariff Rule 18.1 and PAWC’s new enforcement policy for both residential and small business customers, met to discuss methods to resolve the dispute.

The Company is investigating alternatives to Tariff Rule 18.1. The OCA also engaged in further informal discovery to determine the number of customers in the initial target group who were able to comply with the PAWC request to install new service lines. OCA assisted one of the customers who had taken out a loan in order to comply with the Tariff Rule. PAWC agreed to a settlement through which the customer was reimbursed all of her expenses.

Rahn, et al. v. Pennsylvania-American Water Company, Docket No. C-20054919. Thirty customers in Sinking Springs, PA (Berks County) filed a Formal Complaint against PAWC seeking an order from the Public Utility Commission requiring PAWC to do a geophysical study of their area following the development of a sinkhole in conjunction with a main break. The customers requested the OCA’s assistance with the case and the OCA submitted a Notice of Intervention and Public Statement in the matter.

Spring Township and Wilson School District also filed Formal Complaints alleging violations of the Public Utility Code. The ALJ consolidated the two with the Rahn Formal Complaint. The OCA and the Township served a total of four expert witness direct testimonies.

The ALJ issued an Initial Decision recommending dismissal of all three complaints, asserting that the Formal Complainants had failed to meet the burden of proving unsafe and inadequate service under the Public Utility Code, 66 Pa. C.S. §1501. On November 3, 2006, the three Formal Complainants filed and served Exceptions urging the PUC to reject the Initial Decision and to order that PAWC perform the geophysical study of the area in order to protect public safety. The parties maintained that the ALJ’s Initial Decision was unsupported by the substantial evidence of record in the proceeding that supported the conclusion that PAWC had failed to provide safe, adequate, efficient and reliable service in that it had failed to perform systematic leak detection in accord with long-established Company policy, that it had failed to promptly and effectively respond to tank alarms in the weeks prior to the main break, that it had failed to ensure the safety of the area following the break.

The Commission agreed with the ALJ that the record did not support the conclusion that PAWC had violated the Public Utility Code by providing unsafe and inadequate service and accepted the recommendation to dismiss the complaints. The Commission, however, issued an Order requiring PAWC to submit detailed reports of its activities relevant to main break prevention. Specifically, the Commission Order required a report to the Secretary’s Bureau within forty-five days inclusive of the following information:

- detailed information concerning main breaks affecting 250 customers or more for six hours or more from 2002 through 2006.
- an overview of field data collected and a trend analysis of those main breaks.
- a comparison of the frequency of main breaks in the affected area with other areas of PAWC’s service territory.
• a list of the DSIC-eligible investment in the area since 2002, and if there was none, to explain.

• hourly water levels at the tanks during the period January 1 through February 28, 2005.

• low-tank alarm information for the same period and whether public safety officials were notified of same.

• leak detection procedures and compliance for the years 2002-2006.

• a description of all steps taken by PAWC to minimize future main breaks in the Penn Water District.

Sutter, et al. v. Clean Treatment Sewerage Co., Docket Nos. C-20077794, C-20078197. On May 14, 2007, Kenneth Kamper filed a formal complaint against CTSC at Docket No. C-20077794, wherein he asserted that CTSC was unfairly charging him a sewer availability fee when service was not actually available due to a moratorium on sewer connections. Mr. Kamper requested that the Commission Order CTSC to stop charging him the availability charge and order CTSC to refund him the amounts he has paid for sewer availability since the moratorium began. The OCA filed a Notice of Intervention in the Kamper matter.

Between August 21, 2007, and November 15, 2007, fifty-five (55) customers filed formal complaints against CTSC. Most of these formal complaints sought identical remedies. By Order dated December 6, 2007, the fifty-five (55) formal complaints were consolidated with the formal complaint of Stephen Sutter at Docket No. C-20078197 for hearings before Judge Jandebeur. On January 30, 2008, the OCA filed a Notice of Intervention in these consolidated formal complaints at Docket No. C-20078197.

Hearings on the formal complaints consolidated at Docket No. C-20078197 were held on February 6, 7, 19, 20 and 21, 2008, at the Marcel Lake Estates Clubhouse in Dingmans Ferry, Pennsylvania. Twenty-nine (29) of the formal complainants testified at the hearings. The Company and the OCA also attended the hearings and presented both lay and expert witnesses. Briefs and Reply Briefs were filed by the Parties, and the matter remained pending as of the end of the Fiscal Year.

Electric

Raymond Gaines, et al. v. Allegheny Power, Inc., Docket No. C-20066211. As discussed in last year’s Annual Report, on March 16, 2006, the complainant, Raymond Gaines, filed a Formal Complaint that was signed by dozens of other Allegheny Power customers in the New Freeport area. Mr. Gaines alleged that Allegheny Power provided inadequate and unreliable electric service. The OCA filed a Notice of Intervention and Public Statement on April 14, 2006.
The parties engaged in extensive settlement negotiations which resulted in a Settlement. The Settlement provided that the Company would improve reliability along the main distribution line serving New Freeport, Pennsylvania. The Settlement addressed the reliability concerns from several different aspects: rebuilding the line over the next few years; sectionalizing points of the line; maintaining the Company’s Pole Inspection Program; specifying a timeframe for the replacement of critical and non-critical poles; identifying and managing trees which pose an imminent threat; having employees on-call during nights and weekends to be more responsive to outages; and continuing the Reliability Improvement Program (RIP) to collect and to use data to improve reliability and response time. Two miles of the main distribution line had been rebuilt as of the date of the Settlement, and under the Settlement, the remaining four miles of the line were to be rebuilt in 2007 and 2008. The Company was also to take steps to rebuild the line in more accessible locations so that necessary repairs can be made more quickly. Allegheny had also already completed the addition of three sectionalizing points to the line in order to reduce patrolling time.

The Company is to maintain its Pole Inspection Program. Under this program, the 3,800 poles on the New Freeport line were inspected in 2007. The Company completed the replacement of critical poles by the end of 2007, and the replacement, reinforcement, repair, and maintenance of non-critical poles by the end of 2008. For the duration of its collective bargaining agreement, the Company agreed to have employees on call during nights and weekends. Employees now take their service trucks to their homes and are better able to respond to outages occurring outside of business hours.

These changes were designed to improve the reliability of the New Freeport distribution line and to work to make future repairs more prompt. The Settlement provides a necessary solution to reliability problems on the New Freeport distribution line and works to maintain the reliability of this line in the future. The Commission approved the Settlement without modification in July 2007.

**Natural Gas**

Shelly & Beverly Shough, d/b/a/ ABC Auto Parts, inc. v. Equitable Gas Company, Docket No. C-20067143, Application of Equitable Gas Company for approval of the abandonment of gas service to twenty-six (26) field gathering line customers in Richhill Township, Greene County, Pennsylvania, Docket No. A-121100F2003. In early 2007 the Equitable Gas Company notified the Shoughs that their gas service, provided by an Equitable gathering line would be abandoned as the result of Consol Energy’s coal mining activity. The Shoughs believed that Equitable’s offer to cover conversion expenses was inadequate and filed a Formal Complaint. The OCA intervened in this case on August 13, 2007 to assist the Shoughs in their Complaint and to help them obtain more satisfactory relief from Equitable. The OCA was successful, and the Shough Complaint was satisfied in late 2007. The OCA assisted in obtaining an approximate $10,000 increase in the conversion expenses offered to the Shoughs by Equitable.
CONSUMER AND LEGISLATIVE OUTREACH

Testimony, Presentations and Speaking Engagements

Consumer Advocate Sonny Popowsky and other members of the OCA Staff participated in the following public forums during the last Fiscal Year:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
<th>Location</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-11-07</td>
<td>PBI (Pennsylvania Bar Institute) Conference</td>
<td>Philadelphia, PA</td>
<td>Presentation on climate change law</td>
</tr>
<tr>
<td>7-16-07</td>
<td>NARUC Summer Meeting</td>
<td>New York, NY</td>
<td>Panelist on global climate change</td>
</tr>
<tr>
<td>7-17-07</td>
<td>NARUC Summer Meeting</td>
<td>New York, NY</td>
<td>Panelist on nuclear power</td>
</tr>
<tr>
<td>7-18-07</td>
<td>Representative Thomas Tangretti’s Senior Fair</td>
<td>Greensburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-2-07</td>
<td>Senator Jake Corman’s Senior Expo</td>
<td>Lewistown, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-8-07</td>
<td>County Commissioners Association of Pennsylvania Annual Conference</td>
<td>York, PA</td>
<td>The Office of Consumer Advocate and Electric Restructuring in Pennsylvania</td>
</tr>
<tr>
<td>8-9-07</td>
<td>OAG (BCP) Consumer Help Fair</td>
<td>Sewickley, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-10-07</td>
<td>Representative Martin Causer’s Senior Expo</td>
<td>Bradford, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-14-07</td>
<td>Representative Mario Scavello’s Senior Expo</td>
<td>Tannersville, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-15-07</td>
<td>Representative David Millard’s Senior Expo</td>
<td>Bloomsburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Description</td>
</tr>
<tr>
<td>------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>-------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>8-16-07</td>
<td>Representative Bob Bastian’s Senior Expo</td>
<td>Somerset, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-30-07</td>
<td>Senator Don White and Representative Jeff Pyle’s Senior Expo</td>
<td>Kittanning, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-30-07</td>
<td>Representative Julie Harhart’s Senior Expo</td>
<td>Northampton, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-30-07</td>
<td>Pennsylvania House of Representatives Insurance Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding House Bill 1121</td>
</tr>
<tr>
<td>9-5-07</td>
<td>Representative Todd Eachus’ Senior Expo</td>
<td>Hazleton, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-5-07</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Electricity Procurement, Rate Caps and Electric Price Mitigation Strategies</td>
</tr>
<tr>
<td>9-6-07</td>
<td>PJM</td>
<td>Washington, D.C.</td>
<td>Symposium on Long Term Contracts</td>
</tr>
<tr>
<td>9-10-07</td>
<td>Representatives John Bear and Thomas Creighton and Senator Michael Brubaker’s Senior Expo</td>
<td>Manheim, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-11-07</td>
<td>Representatives Steve Cappelli and Garth Everett’s Senior Expo</td>
<td>Muncy, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-12-07</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Utility Infrastructure in Pennsylvania</td>
</tr>
<tr>
<td>9-13-07</td>
<td>Meeting with the Capitol Area volunteer team of AARP</td>
<td>Harrisburg, PA</td>
<td>Discussion of top consumer issues and their impact on seniors (i.e: expiration of rate caps, Lifeline, LIHEAP)</td>
</tr>
<tr>
<td>9-14-07</td>
<td>Representative Steven Nickol’s Senior Expo</td>
<td>New Oxford, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------</td>
<td>----------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>9-14-07</td>
<td>Representative Rob Kauffman’s Senior Fair</td>
<td>Chambersburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-20-07</td>
<td>OPSI Annual Meeting</td>
<td>Arlington, VA</td>
<td>PJM Energy Markets</td>
</tr>
<tr>
<td>9-20-07</td>
<td>Representative George Kenney’s Senior Fair</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-20-07</td>
<td>Representative Frank Dermody’s Senior Fair</td>
<td>Cheswick, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-20-07</td>
<td>Representative John Perzel’s Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-20-07</td>
<td>Representative Dennis O’Brien’s Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-20-07</td>
<td>Senator Tommy Tomlinson’s Senior Expo</td>
<td>Bristol, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-21-07</td>
<td>Representative Jay Moyer’s Senior Citizens Expo</td>
<td>Norristown, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-24-07</td>
<td>Environmental Pollution Control Colloquium</td>
<td>Middletown, PA</td>
<td>“Representing the Interests of Pennsylvania Utility Consumers and Case Studies”</td>
</tr>
<tr>
<td>9-27-07</td>
<td>Representative John Perzel’s Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-28-07</td>
<td>Representative Arthur Hershey’s Senior Expo</td>
<td>Oxford, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-4-07</td>
<td>Senator Christine Tartaglione’s Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Activities</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------------------------------</td>
<td>------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>10-4-07</td>
<td>Representative Bill Kortz’s Senior Expo</td>
<td>West Mifflin, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-4-07</td>
<td>Senator Constance Williams’ Senior Expo</td>
<td>Plymouth Meeting, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-5-07</td>
<td>Senator Jane Clare Orie’s Senior Expo</td>
<td>Butler, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-9-07</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Pittsburgh, PA</td>
<td>Testimony regarding House Bill 824</td>
</tr>
<tr>
<td>10-10-07</td>
<td>Senator John Pippy’s Senior Expo</td>
<td>South Park, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-11-07</td>
<td>Representative Bernard O’Neill’s Senior Expo</td>
<td>Jamison, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-11-07</td>
<td>Energy, Utilities and Aging Consortium Roundtable Event</td>
<td>Johnsonburg, PA</td>
<td>Educational Roundtable on How to Save Money on Phone Bills</td>
</tr>
<tr>
<td>10-12-07</td>
<td>Energy, Utilities and Aging Consortium Roundtable Event</td>
<td>Johnstown, PA</td>
<td>Educational Roundtable on How to Save Money on Phone Bills</td>
</tr>
<tr>
<td>10-12-07</td>
<td>Representative Sue Helm’s Senior Expo</td>
<td>Lykens, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-18-07</td>
<td>Senator Don White and Representative Dave Reed’s Senior Expo</td>
<td>Indiana, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-18-07</td>
<td>Representative Gene DiGirolamo’s Senior Expo</td>
<td>Bensalem, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-19-07</td>
<td>Representative David Argall’s Senior Expo</td>
<td>New Ringgold, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Activities</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>10-25-07</td>
<td>Representative Fred McIlhattan’s Senior Expo</td>
<td>Clarion, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-25-07</td>
<td>Representative Mark Keller’s Senior Expo</td>
<td>Newport, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-25-07</td>
<td>Representative Dwight Evans’ “Quality of Life” Town Meeting</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-26-07</td>
<td>Representative Vulakovich’s Senior Expo</td>
<td>Glenshaw, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-26-07</td>
<td>Representative John Evans’ Senior Expo</td>
<td>Girard, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-26-07</td>
<td>Senator Charles McIlhinney, Jr. And Representative Katharine Watson’s Senior Expo</td>
<td>Perkasie, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-31-07</td>
<td>Wilkes Barre Shrine Club</td>
<td>Wilkes Barre, PA</td>
<td>General presentation about the OCA/Energy Issues</td>
</tr>
<tr>
<td>11-1-07</td>
<td>Representative Dwight Evans’ “Quality of Life” Town Meeting</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>11-8-07</td>
<td>Representative Dwight Evans’ “Quality of Life” Town Meeting</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>11-8-07</td>
<td>Pennsylvania Rural Electric Association (PREA) Annual Meeting</td>
<td>Harrisburg, PA</td>
<td>Keynote Speaker: Electricity Policy Issues</td>
</tr>
<tr>
<td>11-9-07</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Philadelphia, PA</td>
<td>Testimony on natural gas legislation</td>
</tr>
<tr>
<td>11-9-07</td>
<td>Representative Douglas Reichley’s Senior Fair</td>
<td>Macungie, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>11-14-07</td>
<td>NARUC Annual Meeting</td>
<td>Anaheim, CA</td>
<td>Global Warming</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Description</td>
</tr>
<tr>
<td>----------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>----------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>11-16-07</td>
<td>Senator Don White’s Senior Expo</td>
<td>Murrysville, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>11-20-07</td>
<td>Senate Consumer Protection and Professional Licensure Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Senate Bill 1134</td>
</tr>
<tr>
<td>12-7-07</td>
<td>Housing Alliance of Pennsylvania’s 2007, “Homes Within Reach” Conference</td>
<td>Harrisburg, PA</td>
<td>Utilities Forecast: Impacts on Low Income Consumers</td>
</tr>
<tr>
<td>12-12-07</td>
<td>PCN Live Call in Program</td>
<td>Camp Hill, PA</td>
<td>Future of electric rates in Pennsylvania</td>
</tr>
<tr>
<td>1-16-08</td>
<td>Public Meeting sponsored by Senator Robert Casey</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Senate Bill 1134</td>
</tr>
<tr>
<td>1-23-08</td>
<td>Industrial Energy Consumers of Pennsylvania</td>
<td>Harrisburg, PA</td>
<td>Electric rate caps and competition</td>
</tr>
<tr>
<td>1-31-08</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding House Bill 2200 and House Bill 2201</td>
</tr>
<tr>
<td>2-7-08</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding House Bill 1490</td>
</tr>
<tr>
<td>2-12-08</td>
<td>Pennsylvania House Environmental Resources and Energy Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Electric Rate Cap Expiration</td>
</tr>
<tr>
<td>2-13-08</td>
<td>DEP panel for water supply program managers</td>
<td>Harrisburg, PA</td>
<td>Presentation about the OCA and the interplay among the PUC, DEP and the OCA</td>
</tr>
<tr>
<td>2-28-08</td>
<td>Smart Talk (WITF public affairs show)</td>
<td>Harrisburg, PA</td>
<td>Removal of electricity rate caps</td>
</tr>
<tr>
<td>3-6-08</td>
<td>OAG (BCP) Consumer Fair</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>3-6-08</td>
<td>OAG (BCP) Consumer Fair</td>
<td>Harrisburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Details</td>
</tr>
<tr>
<td>---------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>---------------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>3-10-08</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Senate Bill 1000</td>
</tr>
<tr>
<td>3-11-08</td>
<td>Federal Communications Bar Association Continuing Law Education</td>
<td>Washington, D.C.</td>
<td>Presentation on Telecom Merger Conditions</td>
</tr>
<tr>
<td>3-20-08</td>
<td>SEDA- Council of Governments</td>
<td>Lewisberry, PA</td>
<td>Presentation on BFRR: The Consumer Perspective</td>
</tr>
<tr>
<td>3-27-08</td>
<td>Representative John Pallone’s Senior Fair</td>
<td>New Kensington, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>3-31-08</td>
<td>County Commissioners’ Association Conference of Pennsylvania</td>
<td>Harrisburg, PA</td>
<td>National Interest Electric Transmission Corridors</td>
</tr>
<tr>
<td>4-2-08</td>
<td>NARUC Energy Regulatory Partnership Program - Serbian Delegation</td>
<td>Harrisburg, PA</td>
<td>Pennsylvania Office of Consumer Advocate and Market Monitoring</td>
</tr>
<tr>
<td>4-3-08</td>
<td>United States House of Representatives</td>
<td>Washington, D.C.</td>
<td>Climate Briefing</td>
</tr>
<tr>
<td>4-4-08</td>
<td>Senator Vincent Fumo’s Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-9-08</td>
<td>Harrisburg YMCA</td>
<td>Harrisburg, PA</td>
<td>Presentation on electric rate caps</td>
</tr>
<tr>
<td>4-11-08</td>
<td>Representative Daryl Metcalfe’s Senior Expo</td>
<td>Cranberry Township, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-11-08</td>
<td>Representative Scott Petri’s Senior Expo</td>
<td>Ivyland, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-18-08</td>
<td>Representative Jewell Williams’ Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-22-08</td>
<td>Energy and Green Opportunities in a Global Market</td>
<td>New Cumberland, PA</td>
<td>Electric Utility Rate Caps-What Lifting Them Means to You</td>
</tr>
<tr>
<td>4-24-08</td>
<td>Senator Charles McIlhinney Jr.’s Senior Expo</td>
<td>Fairless Hills, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
<td>Location</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5-1-08</td>
<td>Representative John Siptroth's Senior Fair</td>
<td>Pike County, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-1-08</td>
<td>Senator Bob Regola’s Senior Expo</td>
<td>Greensburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-14-08</td>
<td>Western NARUC Rate School</td>
<td>San Diego, CA</td>
<td>Consumer Advocate’s perspective on rate of return</td>
</tr>
<tr>
<td>5-16-08</td>
<td>Senator Jane Orie’s Senior Expo</td>
<td>Pittsburgh, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-17-08</td>
<td>Representative RoseMarie Swanger’s Alternative Energy Expo</td>
<td>Lebanon, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-23-08</td>
<td>Representative Joseph Brennan and Representative Steve Samuelson’s Senior Fair</td>
<td>Allentown, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-28-08</td>
<td>Representative Richard Grucela’s Senior Citizen Fair</td>
<td>Mt. Bethel, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-30-08</td>
<td>Senator Dominic Pileggi’s Senior Expo</td>
<td>Aston, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>6-12-08</td>
<td>Senator Rob Wonderling and Representative Bob Mensch’s Healthy Community Expo</td>
<td>Red Hill, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>6-30-08</td>
<td>West Philadelphia Coalition of Neighborhoods and Businesses Neighborhood Energy Summit</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
</tbody>
</table>
OCA CALL CENTER

The OCA’s toll free number – 800-684-6560 – was established in April 2000, to aid consumers who have questions about or problems with their utility service. The OCA’s consumer service representatives staff the toll free number from 8 AM to 5 PM, Monday through Friday. Many benefits for consumers have already been realized, but there will be long-term benefits as well. The addition of the toll free number and consumer service representatives is another way to expand our outreach to all Pennsylvania utility consumers in the ongoing changes in utility regulation.

During Fiscal Year 2007-08, we had a total of 26,529 consumer contacts in the Call Center, including requests for shopping guides, phone calls, letters and e-mail.

Summarized here are some examples of our assistance to individual consumers:

- We assisted an elderly lady who contacted us because her gas service had been terminated due to a previous tenant’s non-payment of her gas bill. She had moved into an apartment where the past tenant owed $400 to the gas company. The tenant had failed to pay rent as well and the landlord had left the amount on that account. It turned out that the past tenant had also been accused of identity theft and the state police were involved. We contacted the gas company and they cleared the balance off the current tenant’s account and restored service to the new customer.

- We assisted a consumer who had just moved into her home and received an extremely high gas bill for her first month of service. She paid the bill, and also filed a complaint with the company but had not heard anything from them. We contacted the company and they agreed to an adjustment to the bill because a billing error had occurred.

- We assisted a husband and wife who lived in a retirement community, yet they were consistently getting billed by their gas company at commercial rates. They had contacted the company several times however, the rate had not changed. We contacted the company and they agreed to investigate, and found that the rate should be changed to residential.

- We assisted a woman whose gas and electric had been turned off. She is in a wheelchair and has many health issues that prohibit her from working. She cannot afford to pay for her utilities and the reconnection fees. One of our call center representatives called the utilities and several social service agencies trying to get help for her. We were able to get her help and have her services reconnected. She has been signed up for several low income programs and is now with the utility CAP programs.

- We helped a man who had moved into a new home and set up direct payment for his monthly electric payments. After two months, he received a notice from the utility, advising him that there was a problem with his payment. Because of the problem, the company wanted to get an immediate payment and add a security deposit onto his
We assisted a customer who was receiving estimated bills following the installation of a new electric meter. We contacted the company and it was determined that the meter was faulty. The company installed a new meter and the billing issues were resolved.

We assisted a man who had four small children and his electric service had just been shut off. We contacted the electric company to see if he qualified for its customer assistance program, which he did, and we educated him on the importance of paying something on his monthly bill, even if he cannot afford to pay it all. He managed to get some crisis money and the company agreed to turn his service back on.

We were contacted by an 89 year old woman who told us that her monthly water bills usually averaged $21.00, however she had just received a bill for $436.00. She called the company and they sent someone out to check for a leak, but they did not find any. We contacted the company and they agreed that there is a problem with her water bill. They applied a credit to her account for the extra amount, which gave her a credit of $415 and re-billed her for $20.86. They also sent out a Conservation Consultant to talk to her because she is low income, and they need to be sure she is not doing something to waste water. They have also placed her on their discount program for low-income customers.

We helped a gentleman who was questioning the budget billing he was receiving from his electric company. He did not want to be in a position where he owed the company a lot of money at settlement time, so he wanted to pay more money than the required budget billing amount. The company contacted him at our request and they worked out a payment amount that resolved his concerns.

We intervened on behalf of a customer who had her electric service terminated during several days of heavy rain. She claimed that she did not receive notice of the pending termination, therefore did not know that her sump pump would not be working to pump the water out of her basement, which was also her daughter's bedroom. She called the company immediately to make payment and request that service be restored immediately in order to save some of the items. Despite numerous calls and pleas to the company, her service was not restored for several days. The customer rented a gas powered pump yet still had several thousand dollars of damage to their property. She filed a claim with the company and they denied her claim. We contacted the company and they took another look at the claim, which resulted in a monetary settlement with the customer.

We assisted a consumer who called to report frequent service problems with his telephone. There were times when he could not get calls and times when he could not call out. He repeatedly called the company and they told him the problem was with his
phone, however his neighbors were also having the same problems. We contacted the company and they sent someone out to fix the service.

- We assisted a woman in getting new telephone service established. She owns a rental property and called the telephone company to establish service. They took the order, gave her a telephone number and told her the service would be on in one week. At the end of the following week, she had no service, so she called the company. She was told that the order had not been placed, so she set up another appointment to meet the company at the property. The company did not show up for the appointment. When she called the company they advised her that the company had been there the previous day. She then made another appointment, but they did not show up at that time either. She made one more appointment and then called our office to see if we could assist her in making sure they would show up. We contacted the company and someone connected her service.

- A customer contacted us because her telephone payment had not been credited to her account even though she sent them a check and had a copy of the cancelled check. They asked her to send a copy of the check, which she did, but then she had to send it again after they still refused to credit her account. We contacted the company on her behalf and they were finally able to find a record of the check and subsequently credit the account for the payment.

- We received a call from a man who was having service problems with his telephone company. When people try to call him and when he tried to call out, a message told the caller that the number was out of service. He also said that they were receiving a message saying his mailbox was full, even though he did not have voice mail service on his telephone. He also said that his service had been out completely for a day and a half the prior month. We contacted his telephone company and they discovered a problem in one of the switches which would have caused these problems. The service was fixed and the company gave the customer a credit on his bill for one month of service. The customer was satisfied with the resolution.

- We assisted a man who had been without telephone service for three days when he contacted our office. He was in the middle of a dispute between the phone company and the company who owned the wires, and they were each passing off the responsibility of making the repairs. This consumer had a medical condition and needed to have reliable telephone service. A message on his phone indicated that his number was out of service. We contacted his telephone company and asked for someone to resolve the problem as soon as possible. The company resolved the problem in two days and the man was given a credit for being without service for five days.

- We assisted a man who contacted our office because his telephone service had been out for three weeks. He attempted to resolve the problem with his telephone company however they kept saying the problem was in his house, even though his test at the NID indicated the problem was outside. We contacted the company on his behalf and they sent a technician out to his home. The problem was fixed and the company agreed to
compensate the man for his time without service when he was forced to use his cell phone.

- We assisted a woman who had been referred to our office by her state senator. She was being billed separately by a long distance carrier and a local company. She said she did not have toll service, yet the company kept billing her for service. We contacted the local company and our contact called this woman to go over all of her billing and services. The problem was resolved and the consumer was extremely grateful for our intervention.

- A man contacted us who had recently switched from one telephone company to another, however the first company continued to bill him even after several calls to have it stopped. We contacted the first telephone company on his behalf and had the issue resolved in a few hours.

- We assisted a consumer whose wires had crossed wires with another customer and she had not been able to use her telephone for a week. We contacted the telephone company and they sent someone out to fix a defective pair in her line. The company also credited her account for two months of service for the inconvenience.

- We assisted a consumer who signed up for a bundled package with her telephone company. From the time she received her service she only received erroneous bills and was not receiving all of the services promised to her when she signed up. When we contacted the company, it was revealed that for some reason, her services were being billed separately and not as a bundled package. They corrected the error and made sure all of her discounts were applied. They also gave her a courtesy adjustment for her troubles.

- We helped a man who was extremely frustrated after trying, for over 6 months, to resolve a telephone issue. He turned to us for assistance because his credit was now in jeopardy because his billing issue could not be resolved. We contacted the company on his behalf and a resolution was reached that was acceptable to both parties.

- We assisted a customer who was having a billing dispute with his phone company. He had two open accounts and his payments were being applied to the wrong account, making the other account delinquent. After trying to resolve this with the phone company, he contacted us. We contacted the company and resolved the problem.
SERVICE TO PENNSYLVANIA AND THE NATION

Participation in NASUCA and in Other Consumer Interest Organizations

On the national level, members of the OCA staff continued to serve in leadership positions with the National Association of State Utility Consumer Advocates (NASUCA). NASUCA has members from more than 40 states and the District of Columbia and provides valuable input on consumer utility issues.

- Sonny Popowsky is a Past President and Chairman of the Electric Committee of NASUCA. He also has served on the NASUCA Executive Committee.
- Senior Assistant Consumer Advocate Christine Maloni Hoover has served as the Chair of the Water Committee.
- Assistant Consumer Advocates Joel Cheskiis and Barrett Sheridan participate in the NASUCA Telecommunications Committee.
- Senior Regulatory Analyst Marilyn Kraus serves on the Tax and Accounting Committee.
- Senior Assistant Consumer Advocate Dianne Dusman serves on the Consumer Protection Committee. Ms. Dusman and Assistant Consumer Advocate Shaun Sparks initiated and serve as co-chairs of the Phone Fraud Subcommittee.

Additionally, OCA staff members serve in an advisory role on committees at the federal level.

- Mr. Popowsky represents electricity consumers on the Board of Directors of the North American Energy Standards Board. He also serves on the Keystone Energy Board and is a member of the Harvard Electric Policy Group at the Kennedy School of Government at Harvard University.
- Ms. Hoover is the NASUCA representative to the American Water Works Association Public Interest Advisory Forum and served as its Chair from June 2003 through June 2007.
- Ms. Hoover serves on the NRRI Water Research Advisory Committee.
- Ms. Hoover is the NASUCA representative on the Environmental Protection Agency’s Federal Advisory Committee on the Total Coliform Rule and Distribution Systems.
- Senior Assistant Consumer Advocate Tanya McCloskey and Assistant Consumer Advocate David Evrard represent the OCA on the following PJM committees or groups: Members Committee, Markets and Reliability Committee, Market Implementation Committee, Transmission Expansion Advisory Committee, Tariff Advisory Committee, Market Monitoring Advisory Committee, Demand Side Response Working Group, Regional Planning Working Group, Public Interest/Environmental Organizations Users Group.
- Assistant Consumer Advocate Christy Appleby participates in the Mid-Atlantic Demand Response Initiative.
- Assistant Consumer Advocate Barrett Sheridan is the NASUCA representative on the Lifeline Across America Task Force, a joint effort with the Federal Communications
Commission and National Association of Regulatory Utility Commissions.

In Pennsylvania, the OCA represents the interests of consumers on a number of different boards and projects.

- Mr. Popowsky served on the Sustainable Water Infrastructure Task Force, which assessed the Commonwealth’s water infrastructure needs and identified opportunities to reduce those needs and recommended financing strategies. Ms. Hoover served as his alternate.
- Senior Assistant Consumer Advocate Tanya McCloskey serves on the Board of the Pennsylvania Sustainable Energy Fund, serves as the OCA’s representative on the Pennsylvania Energy Development Authority Board of Directors and represents the OCA on the Department of Public Welfare LIHEAP Advisory Committee.
- Ms. Hoover represents consumer interests in issues related to water systems. She serves as a member of the PUC’s Small Water Company Task Force, which meets regularly to address existing and emerging problems of small water and sewer systems. Ms. Hoover also serves on the Technical Assistance Center (TAC) for small water systems. TAC’s role is to provide advice to the Department of Environmental Protection (DEP) on small water system issues and to help coordinate activities among various agencies and organizations affecting small water systems.

The OCA staff has also shared its expertise with other state agencies, consumers, and industry representatives at conferences and training programs.

- The OCA works with Energy Utilities and Aging Consortium which plans, promotes and sponsors educational events statewide. The OCA also works with the Department of Aging to arrange Safeguards for Seniors educational events and has joined with the Department of Insurance Consumer Liaison to offer several presentations on utility and insurance consumer issues.
- Mr. Sparks has worked closely with the Pennsylvania National Emergency Numbering Administration (NENA) on availability of 911 and emergency telephone related issues before the PUC.
OCA STAFF

Sonny Popowsky  
*Consumer Advocate*

Dianne E. Dusman  
Christine Maloni Hoover  
Tanya J. McCloskey  
**Senior Assistant Consumer Advocates**

Christy M. Appleby  
Aron J. Beatty  
Joel H. Cheskis  
David T. Evrard  
Erin L. Gannon  
Darryl A. Lawrence  
James A. Mullins  
Jennedy S. Johnson  
Barrett C. Sheridan  
Shaun A. Sparks  
Candis A. Tunilo  
Darlene R. Wong

**Assistant Consumer Advocates**

Daniel C. McKenrick  
Julia A. Phillips  
**Legal Interns**

Marilyn J. Kraus  
*Senior Regulatory Analyst*

Pamela R. Carroll  
Leslie B. Chatman  
Jayne M. Hontz  
Robert B. Robinson  
Kim M. Yetter  
**Administrative Staff**

Cheryl A. Cootes  
Jessica J. Horner  
Sandra L. Kinsey  
Denise F. Smith  
Victoria N. Stone  
**Clerical Staff**

Cammie A. Shoen  
**Legal Assistant**

Heather R. Yoder  
**Consumer Liaison**

Sheri L. Steigleman  
Kevin R. Yiengst  
**Consumer Service Representatives**