Annual Report

of the

Pennsylvania Office of Consumer Advocate

Fiscal Year 2010-2011

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INTRODUCTION

The Office of Consumer Advocate (OCA) has served Pennsylvania utility consumers since its establishment by the General Assembly in 1976. 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 represents Pennsylvania utility consumers in matters before the Pennsylvania Public Utility Commission (PUC) and other 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. OCA also participates in 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. Through our consumer education outreach, website, and toll-free call center, the OCA also seeks to ensure that consumers are informed regarding changes in their utility service. In recent years, the OCA has continued to work on proceedings resulting from major state and federal 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.

The OCA serves as the voice of Pennsylvania utility consumers in both Harrisburg and Washington, D.C. as the utility industries continue to evolve from a fully regulated to a partially regulated, partially competitive structure. The OCA has evolved as well in order to ensure that Pennsylvania consumers receive the benefits – and avoid the potential harms – that these industry changes bring about.

In the electric industry, where rate caps that were put in place to protect Pennsylvania consumers during the transition from regulated to competitive generation markets have now come to an end, OCA has sought to ensure that customers continue to be protected through the development of stable, reasonably priced "default" service. Pursuant to Act 129 of 2008, the OCA has sought to ensure that Pennsylvania electric utilities provide reliable generation service to their customers at the lowest cost over time. The OCA also has been active in Act 129 proceedings to ensure that the energy efficiency, demand response, and advanced metering programs developed by Pennsylvania electric utilities provide the greatest benefit to consumers at the lowest reasonable cost. At the same time, through our website and consumer outreach, OCA has been a leader in educating residential consumers on how to shop for competitive electric generation services if they choose to do so. Since much of the decision-making that affects Pennsylvania electric consumers now occurs at the federal and regional
level, the OCA has expanded its participation in key electric proceedings before the FERC and in the activities of the PJM Interconnection. In recognition of the OCA's leadership role on these issues, Consumer Advocate Sonny Popowsky was recently appointed by the Secretary of Energy to serve as the first state consumer advocate on the United States Department of Energy’s Electricity Advisory Committee.

In the natural gas industry, 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 natural gas consumers continue to have access to the least cost "supplier of last resort" service from their regulated natural gas distribution company while also educating residential consumers about how to choose alternative natural gas suppliers. In the last year, the natural gas industry in Pennsylvania has been greatly affected by the dramatic developments in the Marcellus Shale, and the OCA has been involved in a number of proceedings to ensure that Pennsylvania consumers benefit from these developments. The OCA also participates in proceedings at the FERC that involve the major interstate pipelines that serve Pennsylvania’s retail natural gas distribution companies.

In telecommunications, the OCA has participated in cases involving telephone competition, mergers, and basic service pricing in Pennsylvania. The OCA continues to focus 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 maintain reasonable limits on basic telephone rates, particularly in rural areas, and to expand the Lifeline telephone discount programs to low-income consumers who might otherwise not be able to afford service. 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 proceedings before the Federal Communications Commission.

In the water and wastewater industries, the OCA continues to represent consumers in base rate increase cases, acquisitions, and other application proceedings involving both large and small utilities. As water and wastewater infrastructure expand in order to meet the needs of Pennsylvania consumers for safe and adequate service, the OCA has expanded its own efforts to ensure that rates are maintained at reasonable and affordable levels. 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, and has also worked to extend public water service at a reasonable cost to unserved areas. 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 Consumer Advocate has been called on to present formal testimony in the Pennsylvania General Assembly, the United States Congress, the Pennsylvania Public Utility Commission, and the Federal Energy Regulatory Commission regarding critical utility issues that affect Pennsylvania consumers.

The OCA also 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 fiscal year, the OCA participated in nearly one hundred consumer outreach events across Pennsylvania, many of which were sponsored by members of the General Assembly. In addition, the OCA keeps 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. Among the most popular items on the OCA website are the OCA’s monthly shopping guides that provide “apples-to-apples” price comparisons for residential electric and natural gas customers who are looking for alternatives to their utility default service suppliers.

The OCA looks forward to continuing to meet its growing 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 2010-2011.
ELECTRIC

Pennsylvania

Duquesne Light

Duquesne Light Company Base Rate Case, Docket No. R-2010-2179522. On July 23, 2010, Duquesne filed a request to increase its rates by $87.3 million per year, or 6.69%. The OCA filed a formal complaint opposing the Company’s rate increase request on August 20, 2010. The OCA testimony recommended that Duquesne be allowed an increase of $2.8 million based on a lower rate of return and accounting adjustments. The OCA also recommended no increase in the customer charge of $7.00, opposing the Company’s proposed increase to $8.50. The OCA attended two public input hearings in Pittsburgh and Beaver Falls. The parties engaged in settlement discussions and a full settlement was achieved. Under the settlement, the Company was allowed to increase its rates by $45.7 million rather than the $87.3 million that it requested. The Company also agreed to maintain the residential customer charge at $7.00 rather than increasing the charge to $8.50. The Company also agreed to certain modifications to its low income assistance programs and cost recovery, including an agreement to implement a CAP Plus program. Other issues presented by the OCA were also addressed satisfactorily by the settlement. The ALJ and the Commission approved the Settlement.

Application of DQE Holdings for Approval of A Transfer of Control, Docket No. A-2010-2213369. DQE Holdings, the parent company of Duquesne Light Company, is owned by the MacQuarrie Infrastructure Management fund, a consortium of investors. One of the MacQuarrie investors, DUET, sought to sell its interest to Epsom Investment Pte Ltd, which is a subsidiary of the Government of Singapore Investment Corporation Pte Ltd, a company that is wholly owned by the Government of Singapore. Through this transaction, Epsom would hold a 28.95% equity interest in DQE. The OCA filed a Protest to ensure that this transaction was thoroughly investigated by the Commission and that all necessary protections for ratepayers were in place. In testimony the OCA’s expert recommended that certain measures be put in place to ensure that customers are properly protected and continue to receive the benefits resulting from the ownership change of Duquesne. The measures included certain ratemaking protections, ring fencing measures, reporting requirements, reliability requirements, universal service commitments, and community commitments. The parties engaged in settlement discussions and a full settlement was reached. The settlement included ratemaking protections regarding the cost of the transaction, some additional ring fencing measures to address this change in control and some additional reporting requirements. The settlement also reaffirmed the reliability requirements, universal service commitments
and community commitments promised by the Applicants. At the end of the Fiscal Year, the settlement was pending before the ALJ.

**FirstEnergy Companies:**

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

FirstEnergy Request to Amend Energy Efficiency and Demand Response Plans, Docket Nos. M-2009-2092222, M-2009-2112952, M-2009-2112956. The FirstEnergy Companies (Met-Ed, Penelec and Penn Power) filed a Petition with the Commission seeking to amend their approved energy efficiency and conservation/demand response Plans (EE&C Plans). These Plans were filed pursuant to Act 129 of 2008 to meet the requirement that each electric distribution company (EDC) reduce energy usage and peak demand within their service territory by specified percentages and by certain dates. As the Companies implemented their plans, they determined that certain modifications were needed to adjust underperforming programs and to further fund well-performing programs that had expended all allotted funding. The Companies also determined that these adjustments were necessary to achieve the statutory requirements for energy and demand reductions. The Companies also proposed certain changes to the Plan that would allow them to make modifications to the plans, such as modifying incentive payments and rebates, without a lengthy review and approval process by the PUC. The OCA filed an Answer to the Petition, generally supporting the modifications, but calling for a more detailed review as the plan moved forward. The Commission assigned the matter to an ALJ for expedited hearing. Hearings have now concluded and the parties are in the process of preparing briefs. At the end of the Fiscal Year, these cases were pending before the ALJ.

Pennsylvania Power Company Default Service Plan III, Docket No. P-2010-2157862. As discussed in last year’s Annual Report, on February 8, 2010, Penn Power filed its Default Service Plan for the period of June 1, 2011 through May 31, 2013. For residential customers, Penn Power proposed to secure supply through a series of full requirements contracts that are 95% fixed price and 5% spot market priced. The Company proposed to use a declining clock auction to secure the power, and coordinate its procurements with its sister Companies, Met-Ed and Penelec, as Penn Power will be integrated into the PJM RTO for this next default service period. The OCA filed an Answer challenging Penn Power’s plan and supporting a managed portfolio approach.

The OCA filed the Testimony of its expert witness supporting the use of a managed portfolio approach for at least 50% of the Penn Power residential load. The OCA’s witness provided testimony regarding the additional cost associated with the full requirements approach proposed by Penn Power and showed that a managed portfolio
approach could provide benefits in a number of areas. Following the filing of testimony, the parties reached a settlement. The Company agreed that it would utilize a managed portfolio approach for 25% of its residential customer load. In addition, the Company agreed to various enhancements to its competitive market procedures to better facilitate customer choice and to better inform its customers of available offers. The Commission approved the Settlement subject to a slight clarification regarding the recovery of certain transmission costs.

**Metropolitan Edison Company Audit of NUG Accounting Procedures, Docket No. D-2009-2093381.** As discussed in last year’s Annual Report, on June 30, 2009, the Commission’s Bureau of Audits issued its Report on Met-Ed and Penelec’s accounting for its stranded costs related to non-utility generation (NUG) costs. In that Report, the Bureau of Audits identified a line item adjustment implemented by Met Ed that resulted in an increase to the NUG stranded cost that must be paid by ratepayers of $14.7 million. The Commission then requested comments on this adjustment. The OCA filed Comments on October 19, 2009 objecting to the line item adjustment made by Met-Ed. The OCA argued that the line item adjustment, which increased the NUG stranded cost balance, was not in accordance with the methodology specified in the 1998 Restructuring Settlement or prior Commission Orders. On June 30, 2010, the Bureau of Audits filed its Report for the 2009-2010 year. The Bureau of Audits again noted that Met Ed had increased its stranded cost by the $14.7 million in the prior year, an issue that remains unresolved. The OCA made a filing with the Commission noting its continuing objection. At the end of the Fiscal Year, this issue was pending before the PUC.

**FirstEnergy/Allegheny Energy Merger, Docket No. A-2010-2176520.** As discussed in last year’s Annual Report, on May 14, 2010, West Penn Power Company doing business as Allegheny Power (West Penn), Trans-Allegheny Interstate Line Company (TrAILCo) (collectively, Allegheny) and FirstEnergy Corporation (FirstEnergy) (Joint Applicants) filed an Application seeking to obtain the approval of the Commission for a change of control of West Penn and TrAILCo. As proposed, FirstEnergy would acquire all of the outstanding stock of Allegheny. FirstEnergy shareholders would own approximately 73% and Allegheny’s former shareholders would own approximately 27% of the combined company. Allegheny would become a direct subsidiary of FirstEnergy. The Joint Applicants also requested Commission approval of certain revisions to affiliated interest arrangements that are designed to facilitate the sharing of services between the Allegheny and FirstEnergy systems. The OCA filed a Protest in this matter to investigate several aspects of the transaction to determine if it provided substantial affirmative benefits for Pennsylvania ratepayers and otherwise complied with all applicable Pennsylvania statutes. In its expert testimony, the OCA witnesses found that the merger application, as filed, did not meet the statutory standards in Pennsylvania that the merger provided substantial affirmative benefits. The OCA witnesses recommended that various conditions be included in any order approving the merger to ensure substantial affirmative benefits. Among the conditions recommended by OCA
witnesses were the provision of rate reductions for each company for a period of three years, the inclusion of a quality of service index to ensure improved reliability and customer service performance, the adoption of best practices to improve universal service programs, a commitment to charitable giving to ensure continued commitment to the community, and the use of certain ring fencing measures to guard against any adverse risk to the regulated operations from unregulated operations. The OCA also identified concerns with excess market power of the merged entity and recommended further analysis and the development of an appropriate mitigation plan.

Following the filing of testimony, the parties engaged in settlement negotiations to attempt to resolve the issues presented by the parties. After extensive discussions, a settlement agreement was reached among many of the parties. Among the settlement provisions advanced by the OCA were a commitment by FirstEnergy to job retention in Western Pennsylvania and Westmoreland County; the provision of rate freezes for customers for existing Pennsylvania operating subsidiaries; the provision of rate reductions for residential customers in West Penn’s service territory; commitments to improved customer service and reliability; financial protections from unregulated operations through the adoption of ring fencing measures; improvements and increased funding of West Penn’s universal service programs; and monitoring of the impact of the merger on the wholesale and retail competitive markets. In addition to these conditions, the Settlement also provided for additional funding for renewable programs and energy efficiency programs in the Commonwealth and it provided for enhancements to retail competition procedures. The Settlement was presented to the ALJ for consideration. Several issues raised in the proceeding by electric generation suppliers were unresolved and remained for briefing. The OCA provided Main and Reply Briefs on a proposal by one electric generation supplier to remove the FirstEnergy Companies as the default service supplier for customers and then auction off all of the customers to unregulated suppliers. The OCA argued that this proposal is illegal under the Public Utility Code and must be rejected. Upon review of the Settlement and the Briefs on the contested issues, the ALJs approved the Settlement and rejected the positions of the electric generation suppliers seeking additional conditions on the approval of the merger. The Commission approved the Settlement with some minor modifications to include additional ring fencing measures. The parties accepted these minor modifications. As to the contested issue, the Commission declined to adopt the proposals of the electric generation suppliers in this proceeding, but indicated that it will open a generic investigation on these issues.

Metropolitan Edison Company and Pennsylvania Electric Company Transmission Service Charge, Docket Nos. M-2008-2036197, M-2008-2036188. As discussed in last year’s Annual Report, in April, 2008, Met-Ed and Penelec filed their Transmission Service Charge (TSC) 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 OCA filed a Main Brief addressing the issue of the potential double recovery of certain costs included as marginal losses in the TSC of each company. The Administrative Law Judge, however, allowed the Company full recovery of the charges. The Commission issued an Order adopting the position of the OCA and the Industrial customers on the issue of the double recovery of marginal losses. The Companies appealed the Commission’s Order to Commonwealth Court. The OCA intervened. Following briefing and oral argument, the Court upheld the Commission’s decision.

**PECO Energy**

**PECO Electric Distribution Rate Case, Docket No. R-2010-2161575.** As discussed in last year’s Annual Report, on March 31, 2010, PECO Electric Company filed its first base rate case in over 20 years. Through its tariff filing, PECO sought to increase its electric distribution rates by $316 million per year, an increase of 7% on an overall basis. For a typical residential customer, PECO proposed to increase the bill by about 10.1% per month. As part of its filing, PECO sought an overall rate of return of 8.95% which included a cost of common equity of 11.75%. PECO also proposed to unbundle its retail transmission service costs, its meter costs, and energy-related working capital costs from its distribution rates and include these costs in various surcharges. The OCA filed a complaint against the proposed rate increase.

The OCA filed the testimony of its expert witnesses addressing many aspects of the Company’s claim. The OCA recommended an increase to electric distribution rates of $138,796,000 based on an overall rate of return of 7.45% and a cost of common equity of 9.25%. The OCA also proposed the use of a revised capital structure and a lower return on equity for use in PECO’s Smart Meter Surcharge. The OCA also found that PECO’s proposed allocation of the revenue increase among the classes was based on a flawed cost of service study and thus allocated too much of the increase to the residential customer class. The OCA recommended that the residential customer class pay a slightly smaller portion of the rate increase than that proposed by the Company. Other issues addressed by the OCA’s witnesses included the reasonableness of the various surcharges proposed by PECO and the design of the Company’s low-income customer assistance program. Following the filing of testimony, the parties engaged in extensive settlement negotiations. The parties were able to reach a comprehensive settlement of the entire case. Under the settlement, PECO would be permitted to
increase its transmission and distribution rates by $225 million as compared to the $316 million requested by PECO. The parties were also able to agree upon an allocation of the revenue increase among the customer classes. Under the allocation, PECO’s customers served under PECO’s Rate R, the main residential rate, would see an approximate 5.7% overall bill increase. In addition to the agreement on the revenue increase and revenue allocation, PECO agreed to limit the amount of the residential customer charge increase. An agreement was also reached to use a lower return on equity of 10% for the Smart Meter Charge thus lowering the costs that will passed on to ratepayers. PECO also agreed to modifications to its low income programs that will help to mitigate the costs of the programs borne by other, non-participating customers. The settlement was approved by the Administrative Law Judge and the Commission.

Petition of PECO for Approval of a Dynamic Pricing Plan, Docket No. M-2009-2123944. In accordance with Act 129 of 2008, PECO filed a Plan to establish a pilot program to test various time-based rate designs referred to as dynamic pricing plans. For residential customers, PECO proposed to test a Critical Peak Pricing Program and a Time of Use Program. PECO also proposed a pilot program for low income customers that would provide these customers with in-home displays and energy efficiency education to determine if customers were able to respond to the information provided by the display and reduce their energy use during certain hours. The OCA filed the testimony of its expert witnesses recommending certain modifications to the Plan and certain consumer protections. Following testimony, the parties engaged in settlement discussions and were able to resolve most issues in the case. The settlement provided for certain modifications to the Plan in accordance with the OCA’s testimony and it provided necessary consumer protections for the pilot participants as recommended by the OCA witness. One issue regarding cost recovery for the costs of the Plan was briefed to the ALJ. The ALJ and the Commission did not adopt the OCA’s position that the costs of the program be recovered from all customers, both shopping and non-shopping. The Commission limited rate recovery of the costs to only the default service (non-shopping) customers.

Petition of PECO to Amend the Reconciliation Provisions of its Default Service Plan, Docket No. M-2008-2062739. PECO filed a Petition requesting permission to change the reconciliation mechanism for its residential default service supply program. Under the current method, PECO reconciles its costs and revenues on a quarterly basis and recovers any difference over the next three months. This procedure has resulted in significant swings in its quarterly adjustments. PECO sought authority to spread out the recovery period to twelve months to mitigate the impact of the swings in its revenue/cost differential. The OCA filed an Answer supporting the Company’s proposal. Subsequently, the Company withdrew the filing.

Investigation Into PECO Energy Company’s Nuclear Decommissioning Adjustment Clause, Docket No. I-2009-2101331. As discussed in last year’s Annual Report, upon review of PECO’s tariff, the Commission questioned whether PECO’s tariff provision
establishing its Nuclear Decommissioning Adjustment Clause should continue after the end of the generation rate cap. This adjustment clause was put in place as part of PECO’s 1998 Restructuring Settlement to recover the nuclear decommissioning costs that the Company would not be able to recover in a competitive market. The clause was designed to extend through the remaining lives of the nuclear plants due to various tax benefits that would be provided to customers from this treatment. The nuclear plants were transferred to PECO’s unregulated generation affiliate as part of the Restructuring Settlement. The Commission opened an investigation to determine if this treatment of nuclear decommissioning should continue. The OCA, as a signatory to the Restructuring Settlement, intervened in the proceeding and participated fully. Discussions among the parties led to a stipulation of facts and proposed resolution of the issues presented by the Investigation. The stipulation was submitted to the ALJ. The ALJ approved the Stipulation and accepted the proposed resolution of the proceeding, but ruled that one of its provisions was outside of the scope of the current proceeding. The OCA and other parties filed limited exceptions to the determination that one provision was outside of the scope of the proceeding. The Commission approved the Stipulation and granted the exceptions of the OCA and the other parties.

**Pike County Light & Power**

Petition of Pike County Light and Power For Approval of Its 2011 Default Service Plan, Docket No. P-2010-2194652. Pike filed its Plan for its default service period to commence on June 1, 2011. Pike proposed to continue to make spot market purchases from the New York ISO markets to serve its default service customers given its relatively small default service load due to the retail aggregation program that was in effect in its service territory. The OCA’s expert witness recommended that to provide additional rate stability as the retail aggregation program comes to an end, Pike should procure some blocks of energy and utilize other forms of transactions other than spot market purchases. Following the filing of the testimony, the parties engaged in settlement negotiations. A settlement was reached that allowed for Pike to continue its current default service plan for one year while the impact of the end of the retail aggregation program is assessed. During this time, Pike will conduct an analysis of other forms of transactions, such as block purchases, to bring greater stability to its default service rates. The settlement was approved by the ALJ and the Commission.

Petition of Pike County Light & Power Company For Approval Of Its Default Service Plan, Docket No. P-2008-2044561. As discussed in last year’s Annual Report, Pike filed a Petition seeking approval of its third default service plan that began on June 1, 2009. Pike set forth several procurement options based on the number of customers it would be required to serve. One issue was the status of the Direct Energy Aggregation program, the program under which the majority of Pike customers are served. The program was scheduled to end on May 31, 2009. The OCA filed an Answer. Following the enactment of Act 129 of 2008 which modified an EDC’s procurement obligation to
require a prudent mix of resources that will provide the least cost to customers over time, the procedural schedule was suspended so that the parties could discuss how Pike should implement the requirements of new Act. The parties engaged in settlement negotiations and a settlement was reached. Under the settlement, Direct Energy would continue to serve the bulk of Pike’s customers for the next default service period with a rate established pursuant to an agreed upon formula. The settlement was approved by the Commission and the generation rate for the Direct Energy service was set at 9.8¢/kwh. The Settlement also called for the parties to file briefs on how customers should be treated at the end of the aggregation program. The OCA filed its Brief arguing that at the end of the aggregation program, customers should be returned to the default service provider unless they affirmatively chose to remain with Direct Energy. The ALJ issued her Recommended Decision agreeing with the OCA’s analysis. The ALJ found that customers must make an affirmative choice to remain with the Direct Energy aggregation program. The PUC entered an Order in which it reversed the ALJ’s Recommended Decision. Due to the unique circumstances surrounding the case, however, the Commission placed restrictions on Direct Energy’s continued service to the aggregation customers, despite the fact that Direct Energy’s pricing is not regulated by the Commission. Under the Order, Direct Energy must obtain customers’ affirmative agreement to any change to the nature of its service. The Order further requires Direct Energy to report to the Commission any aggregation contract changes, and to provide advance copies of any customer education materials that are to be provided to aggregation customers to the Commission, the OCA, and the Office of Small Business Advocate. The OSBA filed a Petition for Reconsideration of the Commission’s Order. The Commission, however, accepted Direct Energy’s position that it could retain the Aggregation Program customers at the end of the term without the need to obtain any written or affirmative consent.

**PPL Electric**

PPL Transmission Service Charge Proceedings, Docket Nos. M-2010-2213754, M-2011-2239714. PPL collects the transmission charges that it incurs from its default service customers through a reconcilable adjustment clause. When PPL filed its reconciliation statement following the first full year of retail choice, issues arose as to the appropriate method to reconcile past period over and under collections in light of wide spread switching to alternative suppliers in some customer classes. Customers who have switched no longer pay the transmission service charge or the reconciliation. In addition, the load associated with customers who have switched is no longer included in the allocation factors used to assign the costs to the customer classes. Under PPL’s method, it is possible that there is a misalignment between costs and customers causing the costs resulting in inter-class subsidies. The Commission requested comments on these issues. The OCA filed comments in each docket. In general, the OCA supported a change to PPL’s methodology on a going forward basis to address the changes in cost assignment that result from customer shopping. As to the
reconciliation for the past year, however, the OCA took the position that PPL’s methodology had to be followed since this methodology was included in PPL’s tariff and had been agreed to in a settlement. At the end of the Fiscal Year, the Comments were pending before the Commission.

**PPL Electric Distribution Base Rate Case**, Docket No. R-2010-2161694. As discussed in last year’s Annual Report, on March 31, 2010, PPL Electric filed for an increase in its distribution rates of $115 million. The proposed increase represented an overall increase in revenue of 2.4%. PPL proposed to assign the entire $115 million rate increase to the residential customer class. For a residential customer served under Rate RS, the average overall increase would be 5.77%, or about $7.39 per month for a customer using 1,000 kwh per month. For a residential thermal storage customer under Rate RTS, the overall increase would be 6.1%. PPL also proposed to significantly increase the customer charge for residential customers. PPL requested an overall return on its original cost rate base of 9.11% which included a return on common equity of 11.75%. The OCA filed a complaint.

The OCA filed the testimony of its expert witnesses addressing many aspects of the Company’s claim. Of particular note, the OCA recommended an increase to electric distribution rates of $22,582,000 based on an overall rate of return of 7.81% and a cost of common equity of 9.25%. The OCA also proposed the use of a revised capital structure. The OCA also found that PPL’s proposed allocation of the revenue increase entirely to the residential class was based on a flawed cost of service study. After presenting an alternative cost of service study, the OCA recommended that only a portion of the rate increase be paid for by the residential customer class. Other issues addressed by the OCA’s witnesses included the reasonableness of the Company’s proposed customer charge for residential customers and the design of the Company’s low income customer assistance program. Following the filing of testimony, the parties engaged in settlement negotiations and were able to resolve most of the issues in the case. Under the settlement, PPL would be permitted to increase its distribution rates by $77.5 million as compared to the $114.7 million requested by PPL. In addition to the agreement on the revenue increase, PPL agreed to limit the amount of the residential customer charge increase and it agreed to the OCA’s proposal regarding mitigating the impact of any rate increase on the residential thermal storage (RTS) heating customers. An agreement was also reached to use a lower return on equity of 10% for the Smart Meter Charge thus lowering the costs that will be passed on to ratepayers. PPL also agreed to modifications to its low income programs that will help to mitigate the costs of the programs borne by other, non-participating customers. The issue of the revenue allocation among the customer classes was reserved for litigation. The ALJ issued her Recommended Decision approving the Settlement and adopting PPL’s proposed allocation of the rate increase. Under PPL’s proposal, the residential class would pay 100% of any increase awarded. The Commission adopted the ALJ’s Recommended Decision.
PPL Petition for Declaratory Order or Waiver of Section 56.97(a), Docket No. P-2010-2168786. As discussed in last year’s Annual Report, PPL filed a petition on April 7, 2010 requesting a Commission order to remove uncertainty or waive a regulation. PPL proposed to allow customers who have received a termination notice to contact the utility and make payment arrangements through PPL’s website or automated telephone service. Commission regulations require PPL to make utility employees available for this specific consumer contact and specify what information the utility employee must provide to assist the consumer who is at risk of termination. The OCA filed an answer raising significant issues with PPL’s proposal. The OCA subsequently met with PPL to review and discuss improvements to PPL’s website changes. In August 2010, the PUC approved PPL’s petition and allowed PPL to change its website and automated telephone system, to assist customers facing termination, on a two-year pilot basis. The PUC entered its final order on September 24, 2010. The Commission directed PPL to consult with the Bureau of Consumers Services to develop the website and automated telephone service content. PPL is also subject to reporting requirements.

PPL Electric Company Smart Meter Deployment Plan, Docket No. M-2009-2123945. As discussed in last year’s Annual Report, on August 14, 2009, PPL filed its Smart Meter Deployment Plan in accordance with the requirements of Act 129 of 2008. Act 129 required each EDC with at least 100,000 customers to file a Plan for the deployment of smart meters throughout its service territory. The Act requires the deployment of smart meters—meters capable of bidirectional communication that also record electricity usage on at least an hourly basis and that provides customers with direct access to and use of price and consumption information. Since all of PPL’s metered customers currently have advanced meters installed at their service locations, the Company proposed to study, test and pilot applications that enhance and expand upon the capabilities of its current advanced meter infrastructure. Further, PPL proposed to recover its Smart Meter Plan costs through its Act 129 Compliance Rider that was filed with PPL Electric's Energy Efficiency and Conservation Plan on July 1, 2009, as modified to recover smart meter technology costs. The OCA filed testimony that, in general, supported the approach being pursued by PPL and made some recommendations regarding the proposed pilot programs. The OCA also made some recommendations regarding the cost recovery mechanism proposed by PPL. The ALJ rejected the OCA’s position that certain pilot programs should not proceed at this time but accepted the OCA’s position as to other pilot programs and as to the cost recovery mechanism. The Commission entered an Order, in April 2010, adopting the ALJ’s recommendations in most respects. The Commission also on its own motion determined to change the allocation of certain costs associated with the pilot programs from the method used by the Company and accepted by all parties. The OCA filed a Petition for Reconsideration regarding the allocation of the pilot program costs. The Commission denied the OCA’s request for reconsideration.

Application of PPL for Approval of the Siting of the Susquehanna to Roseland Transmission Line, Docket No. A-2009-2082652. As discussed in last year’s Annual
Report, PPL filed an Application seeking approval for the siting of a 500 Kv Transmission line to run from the Susquehanna Nuclear Generating Station to the Roseland, New Jersey area. The proposed transmission line was included in the PJM Regional Transmission Expansion Plan to resolve reliability problems in the New Jersey area. PPL was designated by PJM as the transmission owner responsible for the construction of the Pennsylvania segment of the line. The OCA filed a Protest and evaluated the need for the line and the underlying analyses provided by PPL in support of the line.

Two public input hearings were convened, at which time approximately 600 persons attended. Fifty-five of those in attendance offered sworn testimony on the issues relevant to the Application. Among the witnesses were a representative of the National Park Service and several officers of the Saw Creek Estates Community Association (SCECA). As the transmission line is proposed to run directly through the Saw Creek Estates community, SCECA requested an on-site hearing; similarly, the National Park Service of the Department of the Interior requested a site view of the proposed right of way through its Delaware Water Gap National Recreation Area. On May 5 and 6, 2009, site views were held at the Delaware Water Gap National Recreation Area and Saw Creek Estates, respectively. These site visits were on-the-record proceedings. On May 5, 2009, several employees of the National Park Service testified as to how the proposed project could impact specific areas of the Park that were toured on the site visit. On May 6, 2009, numerous members of SCECA testified as to how the proposed project could impact the landscape in Saw Creek, and also the residents. In response to expressed public interest, additional public input hearings were held on May 21, 2009 and on July 2, 2009.

On June 30, 2009, the OCA served its Direct Testimony in this matter, which found that some level of electrical infrastructure upgrade would be needed by 2012-2013 in order to avoid potential reliability issues. This finding, however, was based on the Company’s filed load forecasts and projections of future demand for electricity. The OCA argued that based on more up-to-date and inclusive forecasts of demand, infrastructure upgrades may not be needed by 2012-2013 and perhaps may not require the scale of project that PPL is currently proposing. In addition, the OCA argued that in the event a 500kV upgrade is built, it should not be routed directly through Saw Creek Estates due to the very congested nature of that community and the close proximity of many homes to the proposed transmission right of way. Evidentiary hearings were held and Briefs submitted.

In the Recommended Decision, ALJ Colwell concluded that PPL had demonstrated that the PPL SR500 line was needed for reliability in 2012, based upon the data provided in the PJM Regional Transmission Expansion Plan. In addition, the ALJ concluded that PPL should not be permitted to commence construction of the SR500 line unless and until it has received all required permits, including those required by the US Department of the Interior and the National Park Service. The ALJ also concluded that PPL should
not be required to reroute the SR500 line outside of the Saw Creek Estates Community in Pike County.

The Final Order of the Public Utility Commission was issued on February 12, 2010. The Commission concluded that a need exists for the Susquehanna Roseland line to be in service by 2012. The Commission rejected the ALJ’s conclusions that construction of the line should not commence unless and until the Pennsylvania and New Jersey approvals have issued and the National Park Service (NPS) has granted the permit requested to cross the Delaware Water Gap National Recreation Area and the Delaware River.

On March 1, 2010, the Office of Consumer Advocate submitted a Petition for Reconsideration or Clarification requesting that the Commission reconsider the OCA’s proposed condition that construction should not commence until the NPS has granted the requisite permits. The OCA argued that, otherwise, ratepayers would be at risk for the expenses of a “line to nowhere” in the event that the NPS denies or substantially modifies the permit PPL has requested.

On April 22, 2010 the Commission voted 3-1 to deny the OCA’s Petition for Reconsideration or Clarification. The Commission determined that the OCA’s Petition met the Duick v. Pennsylvania Gas and Water standard in that the issue of NPS permitting appeared to have been overlooked in the Commission’s Order of February 12, 2010 and concluded that the OCA’s contention was not a “minor argument.”

The Commission determined, however, that to grant the OCA’s request to reinstate the recommendation of the ALJ to permit the commencement of construction only after the NPS permitting process is complete would substantially delay the construction of the SR500 line. The Commission further concluded that the issue of cost recovery of any portion of the line was FERC-jurisdictional and the OCA’s remedy was to seek legal recourse before the FERC, regardless of whether PPL procured the necessary permits.

On May 21, 2010, the OCA, the ECC and SCECA all filed Petitions for Review of both the February 12 and the April 22 Orders with the Commonwealth Court. The three appeals were consolidated. On August 17, 2010, SCECA withdrew its Petition for Review. After briefing and oral argument, the Court issued an Opinion and Order rejecting the appeals of both ECC and OCA.

**West Penn Power**

West Penn Power Time of Use Filing and Dynamic Pricing Filing, Docket Nos. P-2010-221611, P-2011-2218683. In accordance with Act 129, West Penn Power Company filed its proposed time of use rates to be offered to customers who have a smart meter. Subsequently, West Penn filed a Dynamic Pricing Plan as part of its Energy Efficiency
Plan and to meet the requirements of the smart metering provisions of Act 129. For the residential customer class, West Penn’s Dynamic Pricing Plan called for the implementation of a Critical Peak Rebate Program. Both rate plans are to be available to customers with smart meters. The Plans provide different pricing structures to reflect the price of electricity at the time of its use and provide incentives to customers to shift usage to lower priced periods. The OCA filed an Answer to West Penn’s Petitions and retained an expert witness to assist in the review of the Company’s proposal. The OCA filed expert testimony in both proceedings. As to the time-of-use plan, the OCA raised numerous concerns about the design of the plan, the need for additional consumer protections, and the cost recovery mechanism. As to the Critical Peak Rebate program, the OCA identified some limited concerns with the design and implementation of the program, as well as the cost recovery mechanism. Following the filing of testimony, the parties engaged in settlement negotiations. A settlement in principle was first reached on the residential program design, consumer protections and cost recovery, but litigation continued on other elements of the plans. Under the settlement on residential program design, it was agreed that the Critical Peak Rebate program would be implemented, subject to certain consumer protections advanced by the OCA, and that the time-of-use rates would be withdrawn. Subsequently, a settlement was reached regarding the plan for the commercial customer class. Under the settlement, a Critical Peak Pricing Plan will be implemented for commercial customers. The settlements were approved by the ALJ. The Commission approved the residential dynamic pricing plan but required an additional modification in the compliance phase for the commercial rate plan.

Petition of West Penn Power Company for Deferral of Storm Damage Expense, Docket No. P-2010-2216111. West Penn Power filed a Petition in late 2010 for deferral of storm damage expense incurred in early 2010. West Penn sought the deferral for accounting and reporting purposes and so that it could seek recovery of these expenses in a future rate case. West Penn averred that it was not seeking a determination of the recoverability of the expense in the future, just the right to defer the expense and seek recovery in the future. The OCA filed an Answer generally opposing the request as impermissible under the doctrine of prohibited single issue ratemaking. In the alternative, the OCA argued that if any deferral authority is being provided, the Commission should make clear that such authority provides no guarantee of any future recovery of the costs and should require the Company to immediately begin an amortization of the deferred expense. Upon consideration of the Petition and the OCA’s Answer, the Commission allowed the deferral but subject to the conditions set forth by the OCA. The Company filed a Petition for Reconsideration and the OCA filed an Answer opposing the reconsideration. The PUC granted reconsideration and accepted WPP’s proposal that it be allowed to request recovery in its next base rate case.

Allegheny Power Company Smart Meter Deployment Plan, Docket No. M-2009-2123951. As discussed in last year’s Annual Report, on August 14, 2009, Allegheny Power Company filed its Smart Meter Deployment Plan in accordance with the
requirements of Act 129 of 2008. Act 129 required each EDC with at least 100,000 customers to file a Plan for the deployment of smart meters throughout its service territory. The Act requires the deployment of smart meters—meters capable of bidirectional communication that also records electricity usage on at least an hourly basis and that provides customers with direct access to and use of price and consumption information. Allegheny Power requested in the Petition that the Commission approve the Company’s proposed Smart Meter Plan, including full and current cost recovery via the Smart Meter Technology (SMT) surcharge of “reasonable and prudent” costs regarding the Plan. The Company proposed, in order to meet the requirements of Act 129, that it is necessary to install smart meters and associated smart meter technology beginning in 2009. Allegheny Power’s Plan proposed a total cost for the SMIP Plan of $548 million, including $410 million for development and deployment of the meter technology. The Company anticipated that the SMT surcharge will cost residential customers an additional $5.86 per month in the first year, escalating to an additional $15.77 per month by 2013.

Upon review, the OCA’s expert witnesses found Allegheny Power’s Plan to be unreasonable. In particular, the OCA’s expert witnesses found Allegheny Power’s Plan to be excessively costly, to include elements that are not reasonably part of the smart meter deployment, and to include undue risk to ratepayers from its rapid roll out of smart meters. The OCA objected to approval of this Plan. The litigation phase was completed and the OCA filed its Briefs in support of its position. Allegheny Power then filed a Motion to Reopen the Record with the Commission and proposed to file a revised smart meter deployment plan and supporting evidence. The OCA filed an Answer supporting Allegheny’s efforts to develop a more reasonable Plan and to reopen the record for the consideration of the Plan. The Commission approved Allegheny Power’s request and remanded the matter to the ALJ for further consideration. After a review of the Company’s alternative proposal, the OCA filed Supplemental testimony of its witnesses. The OCA’s witnesses found that the Company’s alternative smart meter deployment plans were still unreasonable and recommended a different deployment strategy. The ALJ issued his Recommended Decision adopting one of the Company’s alternative plans. Subsequent to the ALJ’s decision being issued, Allegheny Energy, the parent of West Penn, and FirstEnergy announced a proposed merger. In light of the proposed merger, and the different plans for smart meter deployment between the two companies, West Penn asked for a stay of the Exceptions period so that it could engage in settlement discussions with the parties about a different approach.

The OCA and the Company were able to reach a settlement. Under the settlement, West Penn agreed to reconsider its smart meter deployment plan and file a revised plan. In the interim, West Penn would continue its infrastructure work and analysis to prepare for full smart meter deployment. West Penn would deploy between 25,000 and 90,000 meters by 2013 that can be supported within its existing infrastructure as it continued to plan for full deployment. The settlement provided for a smart meter surcharge of around $1.00 per month for the typical residential customer to recover
certain expenditures that have already been completed and to support the initial meter deployment. The settlement was presented to the Commission for disposition and the Commission remanded the settlement to the ALJ for further proceedings. Following the remand, the parties continued to engage in settlement discussions to address the remaining issues presented by other parties. Following extensive negotiations, additional provisions and modifications were made to limited aspects of the settlement that allowed all parties to join in, or not oppose, the settlement. The Amended Settlement was approved by the ALJ and the Commission.

**Petition of West Penn Power Company to Change Transmission Rates to a Single Kilowatt-hour Rate Structure and to Commence Reconcilable Transmission Charge, Docket No. P-2010-2158084.** As discussed in last year’s Annual Report, on February 9, 2010, West Penn filed a Petition seeking authority to remove its transmission charges from its base rates and recover those expenses through an automatic, reconcilable surcharge. In addition, West Penn sought authority to change the rate structure of its transmission charges and it sought deferral treatment for transmission expenses it incurred during the approval process. The OCA filed an Answer to West Penn’s Petition asking that the Petition be denied in its entirety or that hearings be set in the matter. The OCA argued that such a change in rates should not occur outside of a full base rate review since isolating one expense as proposed, without a full review of all other expenses and any reduction in return requirements, was improper. The OCA also argued that no deferral should be approved as transmission expenses are ordinary, recurring expenses that do not qualify for such treatment. The Commission set the matter for hearings. The Company subsequently filed a Petition for Interlocutory Review with the Commission asking the Commission to determine whether it could implement its surcharge outside of the context of a full base rate case. The OCA filed a Brief in Opposition to the Petition primarily arguing that the Commission had already determined that it wanted an evidentiary record on this issue as the Commission has set the matter for hearing. The Commission denied the Petition and the matter continued to hearings before the ALJ. The OCA filed its Direct Testimony. Following testimony, the parties engaged in settlement discussions. A full settlement was reached that would allow West Penn to prospectively implement its surcharge mechanism but would not allow West Penn any recovery of costs incurred prior to the implementation of the surcharge. The ALJ and the Commission approved the settlement.

**Allegheny Power Company Energy Efficiency and Conservation Plan, Docket No. M-2009-2093218.** As discussed in last year’s Annual Report, on July 1, 2009, Allegheny Power Company filed its Energy Efficiency and Conservation Plan in accordance with the requirements of Act 129 of 2008. Under Act 129, each electric distribution company with over 100,000 customers is required to reduce energy consumption by 1% of its forecasted usage as of May 31, 2011, and by 3% of its forecasted usage as of May 31, 2013. In addition, each EDC must reduce its peak demand in the 100 hours of highest demand by 4.5% no later than May 31, 2013. Allegheny Power requested in the Petition that the Commission approve the Company’s proposed EE&C Plan, including
cost recovery via the reconcilable surcharge for “reasonable and prudent” costs for the EE&C Plan. The Company’s Plan proposed to address the requirements of Act 129 through the implementation of twenty-two programs for residential, commercial, industrial, and governmental/non-profit customers. Allegheny Power proposed residential programs which included: (1) Residential Energy Star and High Efficiency Appliance Program; (2) Compact Fluorescent Lighting (CFL) Rewards Program; (3) Residential HVAC Efficiency Program; (4) Residential Home Performance Program; (5) Residential Low-Income Home Performance Check-up Audit and Appliance Replacement Program; (6) Residential Low-Income Joint Utility Usage Management Program; (7) Residential Low-Income Room Air Conditioner Replacement Measure; and (8) Programmable Thermostat Program. The Company also proposed several new residential rates including: (1) Residential Efficiency Rewards Rate; (2) Pay Ahead Service Rate; (3) Critical Peak Rebate Rate; (4) Time of Use with Critical Peak Pricing Rate; and (5) Hourly Pricing Option Rate. On August 7, 2009, the OCA filed Comments on the Plan and submitted the testimony of its expert witness. In its testimony and briefs in this matter, the OCA objected to the Company’s Plan finding that it relied too heavily on an aggressive and expensive smart meter deployment that was very costly. The OCA found that the proposed Plan could not be found to be within the 2% spending cap imposed by the Act or meet the cost-effectiveness test required by the Act due to its reliance on the smart meter deployment. Following hearings and briefing, the Commission entered an Order approving the Company’s plan in many respects but urging the Company to develop a backup plan in the event that its smart meter deployment was delayed for any reason. The OCA filed a Petition for Review of the Commission Order with the Commonwealth Court. The parties settled on an amended plan as part of the smart meter docket and OCA withdrew its appeal.


In Re: Application of Trans-Allegheny Interstate Line Co. (TrAILCo) For A Certificate of Public Convenience, Docket Nos. A-110172, A-110172F0002F0004, and 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 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 was directly related to reliability improvements needed in its Pennsylvania service territory. The OCA 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 public officials, customers, 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 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. On August 21, 2008, the Office of Administrative Law Judge issued a Recommended Decision urging denial of the TrAILCo Applications. In a lengthy decision, Administrative Law Judges Michael A. Nemec and Mark A. Hoyer recommended that all five applications submitted by TrAILCo be denied.

TrAILCo filed extensive Exceptions to the ALJs’ Recommended Decision, urging the Commission to approve immediately the portion of the power line that was to run from the 502 Junction in Pennsylvania through West Virginia to Loudoun Virginia. As to the portion of the line running from 502 Junction through Greene County and Washington County to the proposed Prexy Substation, the Company asked the Commission to stay that portion of the proceeding and establish a collaborative process to consider possible alternatives to those facilities.

After filing Exceptions, on September 25, 2008, TrAILCo filed with the Commission a letter and proposed Agreement among TrAILCo, West Penn Power Company and the Greene County Commissioners. The TrAILCo letter reiterated the request for expedited consideration of the 502 Junction Substation and the Pennsylvania 502 Junction Segment (together the “502 Junction Facilities”), without modification of the substation site and line route, as proposed by TrAILCo. With respect to the Prexy Facilities,
TrAILCo reiterated its earlier request that the Commission stay that portion of the Application proceeding until completion of a “collaborative” that would consider alternatives to the TrAILCo Washington County area proposals. The alternatives were to include demand side management, energy efficiency, enhancement and improvements to existing facilities and new transmission infrastructure.

The Agreement submitted with the letter obligated TrAILCo and West Penn to record “quitclaim” documents to relinquish all of the claimed rights of way associated with the proposed 500 kV Prexy Segment, as well as the Prexy 138 kV lines, in both Washington and Greene Counties, within fourteen days of the signing of the Agreement. Importantly, that portion of the Agreement was to be accomplished by October 9, 2008, regardless of whether the remaining terms of the Agreement were approved by the Commission. TrAILCo further agreed that, if the Agreement were approved, it would no longer seek authorization to exercise eminent domain authority with respect to the 500 kV Prexy Segment, but reserved the right to do so in connection with any new alternative. In the remainder of the Agreement, TrAILCo stated that the Company would not submit an application to FERC to invoke “backstop authority” under the Federal Power Act, with respect to the Prexy Facilities. The Agreement called for completion of a “collaborative” to address Washington County reliability issues within 180 days of filing the Agreement with the Commission. TrAILCo specifically agreed, however, that the alternatives to be considered would not include the construction of any 500 kV lines in Greene County, “unless agreed to by the Parties.

With respect to the 502 Junction Facilities to Virginia, the Agreement stated that the “Commission should approve all elements” of the TrAILCo Application including, among others, authorization to locate and construct the facilities, the request for a certificate of public convenience to be a public utility and authorization to exercise the power of eminent domain.

In response to this proposal, the OCA expressed support for TrAILCo and West Penn’s Agreement with Greene County to relinquish all of the rights-of-way that would have been required to construct the 500 kV thirty-six mile Prexy Segment as well as the agreement to consider all alternatives, including demand side management, energy efficiency, enhancements and improvements to existing transmission lines, substations and related equipment, as well as new transmission infrastructure, in advance of going forward with any new project.

The OCA, however, opposed the request for a stay of the Prexy Facilities portion of the Application. Instead, the OCA argued that the Commission should deny the Company’s Application for the Prexy Facilities. The OCA urged the Commission to adopt the position of the ALJs that the 500kV Prexy Facilities are not needed at this time.

On December 15, 2008, the Commission ruled on the proposed settlement and the ALJs’ decision. The Commission first approved the 1.2 mile 502 Junction segment.
The Commission then ordered a collaborative process to consider the alternatives to the 37 mile Prexy segment in Washington and Greene Counties. The OCA determined to participate in the collaborative process. Preliminary meetings of the Collaborative were held in December 2008. As a result of these first meetings, the Collaborative agreed to have the Keystone Center provide a facilitator for the group, and also agreed to use Whitfield Russell Associates (WRA) as the group’s independent technical consultant. After these formational meetings, substantive discussions started in earnest and several further in-person meetings were held in 2009. In addition to the main Collaborative group, a subset of Collaborative members was formed as a Technical Assistance Group (TAG), which included representatives from the OCA. The TAG participated in weekly conference calls with Keystone and WRA, which included in-depth review of technical data and open exchanges of information as to the nature of the potential reliability concerns in Washington County. Members of the Collaborative also participated in tours led by TrAILCo on April 16th and again on May 21st to see how potential solutions might be implemented on the ground. On June 4, 2009, Keystone and Whitfield Russell Associates gave a final presentation on the two preferred solutions to all Collaborative members. The Collaborative participants unanimously agreed to the solution known as S5. The S5 solution would entail very limited construction of new transmission infrastructure on existing rights-of-way, and the reconductoring of approximately 2.5 miles of existing transmission lines. The estimated cost of the S5 solution was $11 million, as compared to the approximately $211 million cost of the original project as proposed by TrAILCo. A Joint Petition for Settlement was filed with the Commission and the OCA filed its Statement in Support of the Settlement. Administrative Law Judge Hoyer issued a Recommended Decision concluding that the Applicant should be required to refile its Application setting forth the S5 solution. The Applicant filed an amended petition in November 2009. After the amended petition was filed, West Penn Power and Duquesne Light engaged in talks as to the creation of an interconnection agreement between the two utilities that would allow the preferred S5 Solution to be constructed. In June 2010, Duquesne and West Penn notified the other parties and ALJ Hoyer that an agreement had been reached and filed with the FERC. ALJ Hoyer issued his Recommended Decision on the pending settlement of this matter, recommending to the PUC that it approve the settlement. No party submitted exceptions to that recommendation. At its Public Meeting of November 19, 2010, the Commission approved the settlement. The Commission commended the parties and the collaborative process for resolving this issue in a manner that greatly reduced costs as well as the environmental and land use impacts of the project.

As to the “502 Portion” of the project that the Commission approved in December, 2008, an appeal was filed by the Energy Conservation Council (ECC) with the Commonwealth Court. In May, 2010, the Commonwealth Court issued its decision in this matter, which upheld the Commission’s Order as to the 502 section. The ECC subsequently filed a petition for Re-argument *En Banc*. That Petition was denied by the Court on June 30, 2010.
Citizens’ Electric, Wellsboro Electric

Citizens’ Electric Company Distribution Base Rate Case, Docket No. R-2010-2172655. As discussed in last year’s Annual Report, on June 2, 2010, Citizens’ Electric Company filed a distribution base rate case seeking to increase its annual revenue by $787,276, or 4.2% on an overall basis. As part of its request, Citizens’ requested an overall return of 9.41% with a return on equity of 11.75%. Citizens’ proposed a large increase in its residential customer charge, increasing the charge from $5.00 to $9.00. The OCA filed a formal complaint. In its Direct Testimony, the OCA recommended that Citizens’ be allowed to increase its base rates by $234,976. The OCA recommended a customer charge of $7.00 per month. Following the filing of testimony, the parties entered into settlement negotiations and were able to achieve a settlement. Under the settlement, the Company would be allowed to increase its base rates by $600,000 rather than the $787,276 requested by the Company. The residential monthly customer charge would be allowed to increase to $8.00. The Settlement was approved by the ALJ and the Commission.

Wellsboro Electric Company Distribution Base Rate Case, Docket No. R-2010-2172662. As discussed in last year’s Annual Report, on June 2, 2010, Wellsboro Electric Company filed a distribution base rate case seeking to increase its annual revenue by $870,100, or 6.6% on an overall basis. As part of its request, Wellsboro requested an overall return of 9.12% with a return on equity of 11.75%. Wellsboro proposed a large increase in its residential customer charge, increasing the charge from $8.80 to $12.00. The OCA filed a formal complaint. In its Direct Testimony, the OCA recommended that Wellsboro be awarded an increase in base rates of $343,816. The OCA recommended a customer charge of $9.50 per month. Following the filing of testimony, the parties entered into settlement negotiations and achieved a settlement. Under the settlement, the Company would be allowed to increase its base rates by $700,000 rather than the $870,100 requested by the Company. The residential monthly customer charge would be allowed to increase to $9.75. The Settlement was approved by the ALJ and the Commission.

UGI Electric

UGI Utilities-Electric Division, Energy Efficiency and Conservation Plan, Docket No. M-2010-2210316. UGI-Electric filed a proposal with the Commission to implement an energy efficiency and conservation plan. The OCA filed expert testimony of its witness addressing numerous aspects of UGI-Electric’s program design and budgets. The OCA made several recommendations for improvement to the energy efficiency and conservation plan. Hearings were held in May 2011. Main Briefs and Responsive Briefs have been submitted to the ALJ. At the end of the Fiscal Year, this case was pending before the ALJ.
Electric Generation Suppliers

Petition of Dominion Retail, Inc, Docket No. P-2010-2207953, Petition of Retail Energy Supply Association, Docket No. P-2010-2207062, Petition of FirstEnergy Solutions, Corp., Docket No. P-2010-2209253. In October 2010, four municipalities adopted ordinances which proposed to aggregate local residential and small business customers and assign them on an opt-out basis to an electric generation supplier (EGS) selected by the municipality – FirstEnergy Solutions. On October 29, 2010, Dominion Retail and RESA filed petitions which asked the Commission to declare the ordinances in conflict with the Public Utility Code and invalid. FirstEnergy Solutions subsequently filed a petition which requested that the Commission approve FirstEnergy Solutions’ plan to participate in these municipal opt-out aggregation programs. The OCA filed an answer on November 22, 2010, siding with Dominion Retail and RESA. Of particular concern to OCA were the municipalities’ plans to use an opt-out method to obtain consumer consent. The Commission entered an Order concluding that the opt-out municipal aggregation programs that FirstEnergy sought to implement were inconsistent with certain provisions of the Public Utility Code and could not be implemented absent authorizing legislation. The Commission directed EGSs to refrain from implementing such opt-out aggregation programs until such time as legislation is enacted addressing these types of programs.

Policy Cases

Statewide Investigation Into the Competitive Electricity Retail Market, Docket No. I-2011-2237952. On April 28, 2011, the Commission launched an investigation into the competitive retail electric market in Pennsylvania. Through this investigation, the Commission sought to assess the status of the retail market and to make necessary improvements and adjustments designed to improve the functioning of the markets. At the heart of the Commission inquiry is the provision of default service under Pennsylvania law and whether the provision of default service erects any barriers to retail competition. The Commission issued an Order seeking comments on a number of specific questions and established an en banc hearing procedure where the Commissioners would question various selected witnesses. The OCA filed extensive comments in the investigation. Through its comments, the OCA supported Pennsylvania’s requirement that default service be provided to all customers at least cost over time. The OCA found that no barriers to the retail market were erected by the current default service model, but the OCA identified certain procedures that could be further improved to facilitate retail competition. At the en banc hearing on June 8, 2011, the Consumer Advocate appeared and provided testimony. The Commission next intends to establish a series of workshops to consider various issues and recommendations. The OCA will participate in these workshops. At the end of the Fiscal Year, this investigation was pending before the PUC.
Eligible Customer List Order, Docket No. M-2010-2183412. On November 12, 2010, the Commission issued its Final Order setting forth guidelines for the provision of certain information on an electric distribution company’s customers to licensed electric generation suppliers. The purpose of the “eligible customer lists” is to provide information to licensed EGSs for the purposes of marketing generation service and making specific offers to customers. The eligible customer list is to include such information as name, mailing address, service address, telephone number, account number, usage data and other information related to the customer’s electric service. Under the Commission’s Final Order, customers were provided the opportunity through an “opt-out” process to restrict access only to their service address, telephone number and historic usage information. Victims of domestic violence or customers that are similarly endangered are permitted to restrict access to all of their customer information without challenge by the EDC. The OCA had opposed the Commission’s proposal, arguing that all customers should be able to restrict access to all customer information. The OCA filed an appeal of the Commission’s Order. Additionally, the Pennsylvania Coalition Against Domestic Violence (PCADV) filed an appeal and requested a stay of the Commission’s Order. The OCA filed an Answer in support of the stay request and participated in oral argument in support of the PCADV stay request. The stay was granted at oral argument. The Commission filed a Motion to Quash both appeals and the OCA filed an Answer opposing the Motion. Subsequently, the Commission filed an Application for Remand of the proceeding so that the Commission could address certain issues raised by its Order. The Court granted the Commission’s Application for Remand. The Commission has sought further comments from the stakeholders on the Eligible Customer List procedures. At the end of the Fiscal Year, this case was pending before the PUC.

CHARGE Working Group. As discussed in last year’s Annual Report, as PPL’s rate cap ended on January 1, 2010, the Commission initiated a working group that meets on a biweekly basis to address competitive market issues that arise as EGSs become more active in the retail market. The OCA is participating in the CHARGE Working Group. The CHARGE Group addresses numerous issues that have an impact on consumers and the protections that consumers can expect. In the last several months, the CHARGE Group has worked on the development of guidelines for EGSs engaged in door-to-door marketing. The OCA, along with AARP and Dominion Retail provided an initial proposal for these guidelines. Through a series of meetings and comments, the OCA worked with AARP and Dominion Retail to respond to the strawman proposals provided by Commission Staff. On July 15, 2010, the PUC issued a Tentative Order which included proposed Guidelines governing door-to-door marketing efforts by electric and natural gas marketers. The OCA filed joint comments with AARP and Dominion Retail which supported the requirement that the sales representative must exit the home before a consumer verifies with a third party their decision to switch suppliers; supported the window of time for marketing contacts as proposed by Staff; recommended clarification that marketers provide the distribution utility with notice of planned door-to-door marketing efforts so the utility prepare for consumer calls; and
requested clarification of the Commission’s monitoring plans. The OCA/AARP/Dominion Retail filed joint reply comments on August 31, 2010. The joint Reply Comments addressed the need for strong guidelines on the points above, such as the requirement that the marketer exit the premises before the consumer starts the verification process.

The Commission also issued a Tentative Order regarding guidelines for the issuance of renewal notices. The Tentative Order adopted the position advocated by the OCA in the CHARGE Working Group on some key points. The OCA filed Comments setting forth its position on September 13, 2010. The Commission issued its Order adopting the Final Guidelines. The Final Guidelines adopt for the most part, the proposed guidelines in the Tentative Order. The one modification made by the Commission was to the hours when door-to-door marketing will be permitted. In the summer, the guidelines allow door-to-door marketing up until 8:00 P.M. rather than 7:00 P.M. as in the proposed guidelines. The OCA will continue to monitor the operation and effectiveness of the guidelines. The OCA also continues to participate in the conference calls of this group to address procedures related to retail choice.

Rulemaking Amending Provisions of 52 Pa. Code, Chapter 56 to Comply with the Provisions of 66 Pa.C.S. Chapter 14, Docket No. L-00060182. On December 4, 2006, the Commission issued an Order initiating an Advanced Notice of Proposed Rulemaking to begin the process of reviewing its regulations to bring them into conformity with the requirements of Chapter 14 of the Public Utility Code. The Commission listed ten areas where it sought specific comments, and requested interested parties to identify other issues and to address the provisions of Chapter 56 in general.

On February 14, 2007, the OCA filed extensive comments addressing the ten areas that the Commission identified for comment. The OCA recommended that the Commission limit its modifications to those provisions that require amendment to conform to, or reflect, Chapter 14 and those provisions that may need to be updated to reflect newer technology, such as electronic bill payment and the wider availability of budget billing, that can further assist with bill payment and collection. Among the technological improvements that the OCA discussed were electronic billing, electronic and credit card bill payment, and budget billing. The OCA also urged the Commission to establish regulations regarding timely collection practices on the part of the utilities so that past due balances are not permitted to grow to unmanageable levels.

Following the receipt of Comments in the Advanced Notice of Proposed Rulemaking, the Commission issued this Notice of Rulemaking proposing significant changes to the Chapter 56 regulations that provide essential consumer protections for residential customers. The Commission’s proposed amendments addressed Chapter 14 and also reflected changes that are not related to the implementation of Chapter 14. Some of the amendments unrelated to Chapter 14 are intended to address technological
developments, such as electronic billing, that have not yet been addressed in Chapter 56.

The OCA filed detailed comments on the Commission’s proposed regulations on April 20, 2009. In its Comments, the OCA generally supported the Commission’s regulations. The OCA identified two key concerns regarding winter termination and the medical certification procedures contained in the regulations. The OCA recommended changes to improve consumer protections in these areas.

The Commission issued its Final Rulemaking Order. While the Commission adopted some of the recommendations of the OCA, the Commission adopted other modifications that diminish existing consumer protections and may be inconsistent with the intent of Chapter 14. After submitting the Final Rulemaking to IRRC for approval, the Commission requested that the proposed regulations be returned to the Commission to address some of the proposed modifications that were inconsistent with Chapter 14. IRRC returned the rulemaking to the Commission. The Commission has now incorporated further revisions to bring the regulations into conformity with Chapter 14. The rulemaking was approved by IRRC.

Proposed Revisions to Policy Statement On Customer Assistance Programs, Docket No. M-00072036. As discussed in last year’s Annual Report, 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. Prior to issuing a decision, the Commission sought further comments related to a proposed policy change by the Department of Public Welfare (DPW) related to the application of the LIHEAP benefit to a CAP customer’s bill. The OCA filed supplemental comments with the Commission addressing necessary program design changes that may be needed if DPW adopts its proposed policy change. The OCA also filed comments with DPW regarding this change in the LIHEAP State Plan. In its comments to DPW, the OCA urged DPW to reconsider this change in policy as it was not legally required and disrupted decades of program integration between LIHEAP and CAP. At the end of the Fiscal Year, this case was pending before the Commission.
Proposed Rulemaking: Universal Service and Energy Conservation Reporting Requirements and Customer Assistance Programs, Docket No. L-00070186. As discussed in last year’s Annual Report, 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 regarding the Commission’s proposals. At the end of the Fiscal Year, this case was pending before the Commission.

NAESB Privacy Task Force. NAESB is an organization that established voluntary standards for many of the business processes that are common in the energy industry. With the further deployment of smart meters to retail electric customers throughout the nation, NAESB undertook an initiative to develop model business practices for the protection of private customer information that will be collected from the smart meters. Given the deployment of smart meters occasioned by Act 129 in Pennsylvania, the OCA determined to participate in the Privacy Task Force to assist in the development of the model business practices and protocols related to customer information. At the end of the Fiscal Year, the Task Force continues to develop the standards, practices and protocols.

Federal

FERC Electric Cases

Notice of Inquiry Re: Promoting Transmission Investment Through Pricing Reform, RM11-26. In this Notice of Inquiry, the Federal Energy Regulatory Commission is seeking comments on the scope and implementation of its transmission incentives regulations and policies under Order No. 679. It has been nearly five years since the Commission promulgated rules to implement the directives of section 1241 of the Energy Policy Act of 2005 (EPAct 2005), which added a new section 219 to the Federal Power Act (FPA). In the past five years, the Commission has received over 75 applications for transmission incentives. These transmission incentives include higher returns on equity, accelerated depreciation, the use of formula rates, devices to alleviate the effects of regulatory lag as to the developer’s ability to receive a return of pre-construction costs, and a guarantee of cost recovery in the event the project is abandoned prior to completion, to name a few. The OCA has joined with a coalition of other state consumer advocate offices, state regulatory commissions, public power associations and other concerned stakeholders in order to draft a set of comprehensive
comments for the Commission’s review. At the end of the Fiscal Year, this case was pending before FERC.

Northeast Transmission Development, LLC, Docket No. EL11-33-000. On April 6, 2011, Northeast Transmission Development, LLC filed a petition for declaratory order. Petitioner sought certain incentive rate treatments for two proposed transmission line projects. At a projected total cost for both transmission projects of between $300 million and $490 million dollars, the rate treatment of these projects is a potential concern to all utility ratepayers that receive service from within the PJM footprint. In addition, the ultimate decision as to the proper ratemaking treatment for these proposed market efficiency projects within PJM entails broad public policy issues that are of concern to all PJM ratepayers. On May 6, 2011, the OCA, joined by the Maryland Office of People’s Counsel, the New Jersey Division of Rate Counsel, the West Virginia Consumer Advocate Division, the Delaware Division of the Public Advocate and the Virginia Division of Consumer Counsel (Collectively, the Joint Consumer Advocates) filed a Motion to Intervene and Comments in this matter. The Joint Consumer Advocates intervened in this proceeding in order to ensure that any incentives or other rate treatments that were authorized by the FERC would result in just and reasonable rates. On June 16, 2011, the FERC issued its order in this matter. FERC granted the creation of a regulatory asset for pre-commercial expenses; abandonment recovery; a 50 basis point adder for Regional Transmission Organizational membership; and the use of a 30-year depreciation schedule. No requests for rehearing of the FERC’s Order have been filed at the end of the Fiscal Year.

PJM Interconnection, L.L.C. and Public Service Electric and Gas Company, Docket Nos. ER11-3352-000, ER11-1985-001. On April 14, 2011, pursuant to Section 205 of the Federal Power Act, Public Service Electric and Gas Company submitted to the Federal Energy Regulatory Commission tariff sheets for inclusion within the Open Access Transmission Tariff (OATT) administered by PJM Interconnection, LLC. PSE&G sought incentive rate treatments for 5 separate transmission projects. These projects are: (1) The $381 million Burlington – Camden Project, replacing 35 circuit miles of existing 138 kV circuits with 230 kV and upgrading five substations to 230 kV; (2) The $308 million Mickleton – Gloucester – Camden Project, adding 20 circuit miles of 230 kV circuits; (3) The $336 million West Orange Project, replacing 55 circuit miles of existing 138 kV circuits with 230 kV and upgrading seven substations to 230 kV; (4) The $125 million Middlesex Switch Rack Project, constructing 17 circuit miles of new 230 kV circuits and a new substation; and (5) The $137 million Bayonne – Marion Project, constructing 5 miles of underground 230 kV circuit to supplement the existing two 138 kV underground cables and to reconfigure a substation. At a projected total cost for the five transmission projects of $1.28 billion dollars, the rate treatment of these Projects is a concern to all utility ratepayers that receive service within the PJM footprint. On May 5, 2011, the OCA joined with the New Jersey Division of Rate Counsel, the Maryland Office of People’s Counsel, the Office of the Ohio Consumers’ Counsel, the Office of the People’s Counsel for the District of Columbia, the West
Virginia Consumer Advocate Division and the Delaware Division of the Public Advocate (Collectively, the Joint Consumer Advocates) to file a Motion to Intervene and Protest in this matter. The Joint Consumer Advocates intervened in this proceeding in order to ensure that any incentives or other rate treatments that were authorized by the FERC would result in just and reasonable rates. On June 13, 2011, the FERC issued its Order in this matter. The FERC granted incentive treatments for three of the projects, as follows: (1) inclusion of 100 percent of Construction Work in Progress (CWIP) in rate base; (2) authorization to recover 100 percent of all prudently-incurred development and construction costs if any of the Projects are abandoned or cancelled, in whole or in part, for reasons beyond its control (abandonment); and (3) authority to assign these incentives to an affiliate, if construction and/or ownership of any of the Projects are assigned to such affiliate. The FERC denied the request for incentives for the other two projects.

PJM Demand Response Filing, Docket No. ER11-2288. On December 23, 2010, the OCA filed on behalf of the Joint Consumer Advocates (JCA) a Protest in PJM Interconnection, LLC. In this proceeding, PJM proposed the addition of two new Demand Response (DR) products to be available in its capacity markets. Significantly, PJM renamed its existing DR product, Limited DR, and proposed to set a limit on the amount of Limited DR that could be procured in its principal capacity auction. PJM also proposed to set minimum requirements for the two new DR products, both of which would be available for a longer duration and for more months of the year than the Limited DR product. Anticipating that the newer products would be priced higher than the existing Limited DR product, the JCA filed a protest arguing, among other things, that PJM’s proposed auction limitations (on Limited DR) and minimum requirements (on the two new DR products) did not need to be put in place for the next capacity auction, that there would be other opportunities to meet the need for less-limited capacity products. PJM filed an answer in part addressing the JCA arguments. On January 25, 2011, the JCA filed an Answer to the PJM Answer. On January 31, 2011, the FERC issued an order approving the new DR products and accepting the PJM DR Target Analysis methodology by which targets for the three DR products will be set for the next capacity auction.

PJM’s Minimum Offer Price Rule, Docket No. ER11-2875-000. PJM requires each load serving entity to have certain amounts of capacity available so as to ensure a reliable electric system. This capacity obligation is met primarily through an auction process called the Reliability Pricing Model (RPM) Auction. The RPM operates under certain rules to assure that the results of the auction are competitive. One of these rules is termed the Minimum Offer Price Rule (MOPR). The MOPR is intended to address the concern that some market participants might have an incentive to depress market prices by offering supply at less than competitive levels. As several RPM auctions have been conducted, concerns have been raised in many states as to the cost of capacity under RPM and whether RPM was resulting in the construction of new, needed capacity. To address reliability and cost within its state, New Jersey enacted legislation enabling the
construction of new capacity within its state and calling for this capacity to be bid into PJM’s RPM auctions in accordance with the existing rules, including the MOPR rule. In response to this legislation, and an initiative in Maryland, several suppliers and PJM filed at FERC arguing that the actions of the states would lower capacity prices. The suppliers and PJM argued that changes were necessary to the MOPR rule to prevent such a lowering of capacity prices. The OCA joined with a group of intervenors to support the actions of the states to secure reliable supply at reasonable prices. Upon consideration of all of the pleadings, FERC approved the changes to the MOPR rule requested by PJM and the suppliers.

Request of Atlantic Wind Companies For Incentive Rates, Docket No. EL11-13. On January 31, 2011, the OCA joined with two other Consumer Advocate offices to file a Joint Consumer Advocates (JCA) protest in a case filed by a group of companies called the Atlantic Wind Companies (AWC). AWC proposed to construct undersea transmission lines intended to deliver the energy produced by wind generators located off the shore of New Jersey, Maryland, Delaware and Virginia, to the onshore electric grid. AWC sought an order from the FERC declaring that the companies would be eligible for various incentive rate treatments pursuant to certain sections of the Federal Power Act designed to encourage electric transmission development. The JCA protest argued that the AWC filing should be rejected as premature because development of the project remains speculative in that it depends on the construction of offshore wind generation, which itself is not certain. Nor has the project been submitted for review as part of the PJM Regional Transmission Expansion Plan process. The JCA protest further argued that if the FERC does not reject the petition outright, it should deny the various incentives sought by AWC as unsupported and unreasonable. At the end of the Fiscal Year, this case was pending before FERC.

Allegheny Energy/FirstEnergy Merger, Docket No. EC10-68. As discussed in last year’s Annual Report, West Penn Power Company doing business as Allegheny Power (West Penn), Trans-Allegheny Interstate Line Company (TrAILCo) (collectively, Allegheny) and FirstEnergy Corporation (FirstEnergy) (Joint Applicants) filed an Application with the FERC seeking to obtain approval for its proposed merger. The proposal was to merge Allegheny Energy, Inc., the parent of the Pennsylvania utility companies of West Penn and TrAILCo, with Element Merger Sub, Inc., a wholly-owned subsidiary of FirstEnergy. As proposed, FirstEnergy would acquire all of the outstanding stock of Allegheny. FirstEnergy shareholders would own approximately 73% and Allegheny’s former shareholders would own approximately 27% of the combined company. Allegheny would become a direct subsidiary of FirstEnergy. The Joint Applicants filed testimony with the Application addressing market power in the wholesale markets. In the testimony, while finding some market power screen violations, the Applicants argued that no mitigation was necessary. The OCA hired an expert witness to review the FERC filing and prepare an Affidavit presenting his analysis and conclusions regarding the market power study conducted by the Applicants. The OCA’s witness determined that the market screen violations included in the study were significant and could
provide the opportunity for the exercise of market power. The OCA’s witness also found that not all submarkets and not all products had been properly studied. The OCA filed a Protest in this matter, along with the Affidavit of its expert witness, raising its concerns about the proposed merger. Specifically, the OCA argued in its protest that FERC should require the Company to analyze additional submarkets and products and provide an adequate mitigation plan before FERC can find that the merger is in the public interest. FERC has now approved the merger without further conditions.

FERC NOPR on Demand Response Compensation, RM10-17-000. As discussed in last year’s Annual Report, FERC initiated a request for comments on the issue of the appropriate compensation for demand response participating in the RTO administered energy markets. The OCA prepared comments that were joined in by other consumer advocates. In the Comments, the OCA and other consumer advocates supported a compensation mechanism for demand response that would treat demand response resources the same as generating resources. This method is known as full LMP. FERC issued an Order agreeing with the comments that supported the full LMP method.

Potomac-Appalachian Transmission Highline Co. (PATH), Docket No. 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. In November of 2010, FERC granted the Request for Rehearing filed by the OCA and other state consumer advocates. FERC agreed with the consumer advocate position that further hearings were necessary to determine a reasonable base return on equity. FERC has assigned the matter first to a settlement judge and then to hearings if a settlement is not reached. Settlement discussions continue at the end of the Fiscal Year.

Compliance with FERC Order 719, Docket No. ER09-1063. As discussed in last year’s Annual Report, on October 17, 2008, the FERC issued Order 719 which, among other things, required that independent system operators and regional transmission organizations (RTO), including PJM, submit a compliance filing that modifies and improves the operation of wholesale electric markets in the substantive areas of demand response, RTO responsiveness, long term power contracting and market monitoring policies to the extent necessary to comply with the mandates and recommendations of the order. Also included in Order 719 was a directive to RTOs to modify their market rules, as necessary, to allow the market-clearing price, during periods of operating reserve shortage, to reach a level that rebalances supply and demand so as to maintain reliability while providing sufficient previsions for mitigating
market power. Pricing under such conditions is generally referred to as “scarcity pricing.” The OCA has been involved in three aspects of PJM’s Order 719 compliance. First, with respect to market monitoring policies, in June of 2009 the OCA filed a protest to PJM’s compliance filing asserting that the tariff revisions filed by PJM would weaken and circumscribe the role of the Market Monitor in the performance of many of its core functions. Specifically, the OCA disagreed with PJM’s interpretation of the Market Monitor’s role in what was termed “tariff administration.” In December of 2009, FERC issued an order rejecting the arguments of the OCA and others and accepting PJM’s market monitoring changes and PJM’s position of the role of the Market Monitor in tariff administration. The OCA, in conjunction with other Consumer Advocate offices within PJM, also participated in FERC’s technical conference addressing the issue of RTO responsiveness to its stakeholders. At that conference, the PJM Consumer Advocate offices advocated for additional funding to enable them to more fully participate in the PJM stakeholder process. In September 2010, the PJM Consumer Advocate Offices presented to the PJM Members Committee a formal proposal for a member-funded Consumer Advocate organization within PJM. That proposal garnered majority support of the Members Committee, but failed to achieve the two-thirds majority needed to move the matter forward within PJM. Notwithstanding that result, the PJM Consumer Advocate Offices appealed to the PJM Board to make a filing with FERC establishing the proposed Consumer Advocate organization. By way of a letter dated April 11, 2011, PJM’s President and CEO advised the PJM Consumer Advocate Offices that the PJM Board had determined not to submit the Consumer Advocate organization proposal to FERC. The Board’s reasoning was that it was willing to seek to override decisions of the Members Committee only on issues involving system reliability or the competitiveness of the PJM markets. Since it viewed the Consumer Advocates’ proposal as one related strictly to governance, it declined to supersede the Members Committee vote. The PJM Consumer Advocate Offices continue to pursue this matter through PJM. Finally, in June of 2010, PJM made its compliance filing on the issue of scarcity pricing. The OCA joined with 16 other parties to file a Protest against PJM’s scarcity pricing proposal. The thrust of the protest is that PJM’s proposal goes far beyond what is necessary to achieve compliance with Order 719. Of particular concern is the portion of the proposal that would allow electricity prices during periods of operating reserve shortages to rise to $2700 per MWh. The OCA and its fellow protesters supported a proposal of the Market Monitor that would allow prices under shortage conditions to go no higher than the current market price cap of $1000 per MWh. At the end of the Fiscal Year, this case was pending before FERC.

Remand of Transmission Cost Allocation in PJM, Docket No. EL05-121. As discussed in last year’s Annual Report, FERC had considered the allocation of the cost of transmission facilities in PJM. As part of its determination, FERC directed that the costs of transmission facilities at or above 500 KV be allocated to customers on a postage stamp basis, i.e., that all customer share equally in the costs of these facilities. The matter was appealed, and the Seventh Circuit reversed FERC’s ruling and remanded that matter for further consideration by FERC. On January 21, 2010, FERC issued an
Order establishing a paper hearing procedure for further consideration of the issue. FERC directed PJM to provide certain data, and then directed PJM and the parties to provide comments on the data and specific questions within 45 days of the filing. The OCA prepared and filed comments on the matters set by FERC. In its comments, the OCA presented a hybrid approach to cost allocation for transmission facilities at or above 500 Kv. The OCA recommended that a beneficiary pays approach be utilized for the first few years of asset life with a gradual transition to a postage stamp allocation basis. At the end of the Fiscal Year, this matter was pending before FERC.

**PJM**

As noted above, the OCA either individually or in a coalition with other state consumer advocates and parties representing the interests of electricity consumers, participated in a number of Federal Energy Regulatory Commission 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, Subcommittees and Task Forces fall under the authority of the Members Committee. The OCA is a 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.

- **Transmission Expansion Advisory Committee (TEAC)** – The TEAC reviews 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.
• 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 Board’s plans. There are periodic meetings with PJM management designed to inform the PIEOUG members about current issues.

• Regional Planning Process Working Group (RPPTF) – The RPPTF evaluates the need to expand the transmission planning criteria to include a broader range of assumptions. The RPPTF will also develop the process that PJM will use to designate an entity other than the incumbent transmission owner to build and own baseline transmission upgrades.

• Liaison Committee – This committee serves to foster better communications between the PJM Board of Managers and PJM Members. Meetings are held three to four times per year and are attended by the full PJM Board and by representatives of each of PJM’s five sectors. The OCA participates periodically as a representative of the End Use Customer Sector.
NATURAL GAS

Pennsylvania

Columbia Gas

Columbia Base Rate Case, Docket No. R-2010-2215623. On January 14, 2011, Columbia Gas filed for an increase of $37.8 million in its distribution rates. On a total bill basis, the Company’s requested increase was 7.67%. As part of its filing, the Company requested an 11.6% return on equity. The Company’s request was largely due to a distribution line replacement program. As part of this request, the Company proposed a levelized distribution charge where it would recover 100% of its distribution costs through a single monthly charge. For residential customers, the monthly charge would be $36.88. The Company’s case also included funding for new assistance programs for senior citizens and a request for a Distribution System Investment Charge (DSIC). The OCA filed its Direct Testimony and recommended a number of adjustments to the Company’s claims. The OCA’s recommendations were based on providing the Company an opportunity to earn a return on equity of 8.25% as compared to the Company’s requested 11.6% return on equity. The OCA also opposed the Company’s request for a distribution system improvement charge and its fixed monthly customer charge of $36.88. The OCA made other recommendations regarding the allocation of any rate increase or rate decrease that might result from this proceeding, the senior programs, and the design of the Company’s rates. During the course of the proceeding, settlement negotiations were conducted by the parties. The parties were able to achieve a settlement of many of the key issues in the case but were unable to resolve issues regarding the residential customer charge and the proper design of Columbia’s Customer Assistance Program (CAP) in light of a new directive by the Department of Public Welfare regarding Low Income Home Energy Assistance (LIHEAP) grants.

Under the settlement, Columbia will be permitted to increase its annual rates by $17 million rather than the $37.8 million that it requested. In addition, Columbia agreed to change its billing methodology to reflect the heat content (BTU content) of the natural gas that it receives in its system. Columbia will bill in Dekatherms (Dth) rather than in hundreds of cubic feet (CCF). This process resolved the consolidated case and better reflects the introduction of high BTU content Marcellus Shale gas into certain portions of the Columbia system. Also through the settlement, Columbia agreed to increase its spending on its Low Income Weatherization program and it agreed to certain tariff modifications to better enable alternative natural gas suppliers to participate in retail choice on its system. The parties filed briefs on the remaining contested issues. At the end of the Fiscal Year, this case was pending before the ALJ.
Request of Columbia Gas to Implement A BTU Adjustment, Docket No. R-2010-2201947. Columbia Gas asked to implement a BTU adjustment rider that would serve to adjust the usage billed to customers based on the BTU content of the natural gas in their service zone. Columbia stated that given the development of Marcellus Shale in certain regions of its service territory, the BTU content of the natural gas has increased in certain locations. A higher BTU content means that customer will use less gas to heat their homes, thus reducing Columbia’s revenues. Columbia proposed its BTU adjustment to restore these lost revenues. The OCA filed a complaint arguing that this adjustment should not be considered outside of a base rate case. The OCA filed testimony in support of its position that this matter should be addressed only in the context of a base rate case. The OCA also addressed certain technical problems with the proposal in the event that the Commission addressed the proposal. This matter was consolidated with Columbia’s base rate case where a proposed settlement of this issue was reached.

Columbia Distribution Base Rate Proceeding, Docket No. R-2009-2149262. As discussed in last year’s Annual Report, on January 28, 2010, Columbia Gas Company filed for an increase in distribution rates of $32.3 million, or a 6.97% overall increase in revenue. Columbia’s proposed request would result in an overall increase in the monthly bill of an average residential customer of 6.9%, raising the monthly bill from $84.95 to $90.82. Columbia sought a return on equity of 11.7% as part of its filing. The Company also proposed to: (1) apply a $37.5 million tax refund toward capital investments; (2) commence a $4 million energy efficiency program for residential customers; (3) recover nearly all of the base rate increase through the customer charge, i.e. no increase to volumetric distribution rates, which would result in a 46.78% increase to residential customer charges; and (4) create a rider that will be added to the customer charge, which will fund a performance-based reward to the Company for meeting projected gas-use reduction goals. The OCA filed a formal complaint.

Through testimony, the OCA recommended an increase of $1.2 million based on an overall return of 7.17% with a cost of common equity of 9.0%. The OCA also challenged the Company’s proposed allocation of the rate increase to the various customer classes and the increase to the residential customer charge. Additionally, the OCA proposed changes to the design of the Company’s customer assistance program to address a proposed policy change of the Department of Public Welfare regarding the application of the LIHEAP benefit to the customer’s bill. After filing of testimony, the parties engaged in settlement negotiations and a settlement was reached.

Under the settlement, Columbia would be allowed to increase its distribution rates by $12 million, or about 2.6%. As part of this increase, the settlement provided for the use of a new tax benefit relating to repair and replacement expenses to help mitigate rates for customers. Columbia agreed to a more modest customer charge than it had proposed. The Company also agreed to withdraw its distribution system improvement charge proposal and its incentive reward surcharge for its energy efficiency program.
Regarding its Customer Assistance Program, the Company agreed to implement the program design changes recommended by the OCA and agreed to certain offsets to avoid the double collection of universal service costs. The Commission approved the Settlement.

Complaint of Interstate Gas Supply, Shipley Energy Company, Dominion Retail and Stand Corporation against Columbia Gas Company, Docket No. C-2009-2137066. As discussed in last year’s Annual Report, three natural gas suppliers (NGSs) filed a complaint against Columbia’s Price Protection Service and its negotiated rate tariff provisions. As to the Price Protection Service, Columbia had been authorized as part of a settlement to offer a fixed annual rate for natural gas service. Columbia did not make such an offer for several years, but did make an offer this year. The NGSs argued that Columbia was no longer authorized to offer such a rate. As to the negotiated rate provisions of the tariff, the NGSs argued that Columbia is improperly negotiating rates with its customers in derogation of competition. The OCA intervened in the complaint case. This matter was resolved in the 2010 Columbia base rate case discussed above.

Petition of Columbia Gas To Change Its Accounting For Gas In Storage Inventory, Docket No. P-2010-2209925. Columbia Gas sought to change its accounting methodology related to Gas in Inventory. Columbia used a method called LIFO (Last In First Out). Columbia sought to implement a method called WACOG (Weighted Average Cost of Gas). The OCA filed an Answer and engaged in informal discovery with the Company. The parties also engaged in settlement discussions in an attempt to resolve this matter. A settlement was achieved. The ALJ and the Commission approved the settlement.

Petition of Columbia Gas for a Purchase of Receivables Program, Docket No. P-2009-2099333. As discussed in last year’s Annual Report, in response to a Commission Order, Columbia Gas filed a Petition with the Commission proposing a purchase of receivables (POR) program. Under the POR, Columbia would bill and collect the charges to customers from unregulated natural gas suppliers (NGS). Columbia would remit to the NGS the full amount of the charges (with a small discount) even if it had not collected the charges from customers. Columbia requested authority to terminate customers that did not pay these unregulated charges, even if the charges were higher than Columbia’s supplier of last resort service. The OCA filed an Answer arguing that if termination was to be permitted, certain consumer protections needed to be put in place. Specifically, the OCA argued that Columbia should not be permitted to terminate regulated natural gas service for charges that were higher than the supplier of last resort charges. The NGS parties filed a Motion for Summary Judgment and sought to have the issue of termination of natural gas service for unregulated charges decided on the pleadings as a matter of law. The OCA opposed the Motion arguing that the NGS parties were not entitled to a judgment as a matter of law. The ALJ agreed with the OCA and denied the Motion. After the filing of direct testimony, the parties were able to reach a settlement. Under the settlement, Columbia would be allowed to terminate
service for non-payment of supplier charges, but other consumer protections, including that the unregulated supplier can only bill for basic natural gas service through the POR, were included in the settlement. The settlement was approved by the ALJ and the Commission approved the settlement on September 7, 2010.

**Equitable Gas**

**Equitable Universal Service and Energy Conservation Plan Filing, Docket No. M-2009-2111130.** Equitable filed its Universal Service and Energy Conservation Plan for review by the Commission. Following a change in policy by the Department of Public Welfare regarding the integration of the LIHEAP grant with the utility universal service programs, Equitable filed an amendment to the program to implement a CAP Plus program to achieve the integration. The OCA recommended the use of a CAP Plus program in several proceedings before the Commission. The Commission issued a Tentative Order approving this approach but calling for comment by the interested parties. The OCA filed Comments in support of Equitable’s proposal in January 2011. At the end of the Fiscal Year, the matter was pending before the Commission.

**Petition of Equitable Gas To Utilize Tennessee Gas Pipeline Refund for Energy Efficiency Programs, Docket No. R-2010-2171910.** As discussed in last year’s Annual Report, Equitable filed a Petition seeking to use the residential portion of a refund owed to Equitable by the Tennessee Gas Pipeline to establish an energy efficiency program for its non-low income residential customers. Under its proposal, Equitable would use the refund to initiate the programs and would then recover the costs of the programs through a reconcilable rider once the refund was exhausted. The OCA filed an Answer expressing several concerns regarding this proposal, particularly the proposed surcharge recovery once the refund was exhausted. The parties entered settlement discussions to see if the OCA’s concerns could be addressed through settlement. A settlement was achieved that allowed for a program to move forward for residential customers. Under the agreed upon program, more of the program dollars will be used to support direct efficiency measures than under the Company’s original plan. In addition, certain protections are provided to customers in the event that the Company does not expend all of the funding allocated to the program. The Commission approved the settlement.

**National Fuel Gas Distribution**

**National Fuel Gas Universal Service and Energy Conservation Plan Filing, Docket No. M-2010-2192210.** NFGD filed its Universal Service and Energy Conservation Plan for review by the Commission. The Commission issued a Tentative Order seeking comments on the Plan, particularly regarding whether the Plan properly integrated the change in policy by the Department of Public Welfare regarding the integration of the
LIHEAP grant with the universal service program. The OCA reviewed NFGD’s Plan and found that the Plan integrated the LIHEAP grant in a manner similar to that recommended by the OCA. The OCA filed comments supporting NFGD’s plan. The Commission approved NFGD’s Plan.

**PECO Gas**

**PECO Distribution Base Rate Proceeding**, Docket No. R-2010-2161592. As discussed in last year’s Annual Report, on March 31, 2010, PECO Energy Company filed for an increase in natural gas distribution rates of $43.8 million, or a 5.28% overall increase in revenue. PECO’s proposed request would result in an overall increase in the monthly bill of an average residential customer of 7.6%, raising the monthly bill from $105.53 to $113.49. PECO sought a return on equity of 11.75% as part of its filing. The OCA filed a formal complaint.

The OCA filed testimony and found that rather than a distribution base rate increase, the Company’s distribution rates should be reduced. The OCA’s recommendation was based on an overall return of 7.45%, with a cost of common equity of 9.25%. The OCA also challenged the Company’s increase to the residential customer charge and its proposal to establish a smart meter surcharge for its natural gas division. The OCA also proposed changes to the design of PECO’s customer assistance program to address the application of the LIHEAP benefit to the CAP customer’s bill. The OCA also prepared and served rebuttal and surrebuttal testimony.

The Company, OCA and other parties engaged in extensive settlement negotiations. As a result, the parties entered into a Joint Petition for Settlement which was signed and served on the PUC and presiding ALJs on August 31, 2010. The Settlement proposed that PECO Gas be allowed to increase annual distribution rates by $19.6 million, an approximate 2.9% increase over total gas operating revenues, effective January 1, 2010. Under the Settlement, residential customers would pay a lower monthly customer charge than proposed and lower distribution rates than proposed. Going forward, the Settlement would benefit ratepayers by providing an agreement and mechanism to account for the economic benefit of a change in tax accounting method, should PECO Gas choose to make that accounting change between rate cases. The Settlement provided that PECO Gas will provide notice of its decision to implement or not implement the tax accounting change. PECO agreed as part of the Settlement to drop its proposed surcharge for recovery of any and all natural gas smart meter costs and a proposed modification of PECO’s universal service surcharge mechanism. The presiding ALJs issued a recommended decision in support of the settlement and the Commission approved the settlement.

**Petition of PECO Energy Company for Approval of a Purchase of Receivables (POR) Program**, Docket No. P-2009-2143588. As discussed in last year’s Annual Report,
PECO filed its Petition on November 20, 2009 and requested expedited treatment so that it may coordinate information system changes to implement both the Gas POR and revised Electric POR (P-2009-2143607). The OCA filed an Answer, intervention and public statement on December 7, 2009 and objected to PECO’s proposed POR which would allow PECO to terminate gas supply service for non-payment by customers of Natural Gas Suppliers (NGSs) of unregulated charges. The OCA also opposed PECO’s proposal that no costs related to implementation or operation of the POR be imposed on the NGSs which will benefit from the POR. The OCA filed direct and rebuttal testimony which described additional consumer protections which PECO must include, if PECO is allowed to implement a POR program. The OCA expert testimony also opposed PECO’s proposal to recover the costs of the program from retail customers, when the POR program is intended to benefit NGSs.

The parties engaged in settlement negotiations to try to resolve these matters. A settlement was reached that largely adopted PECO’s proposed program but improved the consumer protection provisions of the program. One issue was reserved for briefing regarding the treatment of NGS charges incurred before the implementation of the program. The OCA filed a brief on this issue arguing that charges incurred before the implementation of the POR should not form the basis of termination. On August 11, 2010, the ALJ issued her Recommended Decision in support of the Settlement. The ALJ ruled in the Company’s favor on the issue litigated by the OCA, based largely on the Commission’s ruling in favor of PECO Electric on the similar issue. The OCA chose not to except to this portion of the ALJ’s recommended decision. The PUC entered its order on November 8, 2010, approving the settlement and adopting the ALJ's recommended decision.

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**Peoples Natural Gas**

Peoples Natural Gas Company Distribution Base Rate Case, Docket No. R-2010-2201702. Peoples Natural Gas Company filed to increase its distribution rates for the first time in many years. Peoples requested an increase of $70.2 million, which represents an increase of 21.4% of its total revenues. For the average residential customer, total bills would increase by about 25%. As part of the residential increase, the Company proposed to increase the monthly customer charge from $11.00 to $16.00. Peoples requested a return on common equity of 11.5% as part of its case, and proposed a series of adjustable Riders for the recovery of certain costs. The filing also included a Purchase of Receivables Program to assist alternative natural gas suppliers. The OCA retained expert witnesses and presented its Direct Testimony addressing various aspects of the Company’s request. The OCA recommended an increase of $33.1 million, which reflected a return on equity of 8.5%. The OCA's recommendation was amended upward in the surrebuttal phase of the proceeding. The OCA also proposed a lower increase to the residential customer class than People's proposed and recommended that the residential monthly customer charge remain at $11.00. The
parties engaged in settlement negotiations and achieved a full settlement. The settlement called for a $53 million rate increase rather than the $70.2 million requested by the Company. The settlement mitigated the amount of the rate increase assigned to the residential class and held the residential customers charge at $13.75 per month. The settlement also called for the addition of consumer protections in the purchase of receivables program. The Company also agreed to certain modifications to its universal service programs and recovery mechanisms for the benefit of customers. The proposed settlement was pending before the ALJ at the end of the Fiscal Year.

Application for the Lease of the Rager Mountain Storage Facility, Docket No. A-2010-2203699. Peoples Natural Gas Company filed an Application with the Commission seeking approval of a lease with its affiliate for the Rager Mountain Storage Facility. Peoples proposed to expend about $13 million to improve the Rager Mountain Storage Facility so that it has increased storage capacity and can store larger volumes of working gas. Peoples proposed to include the costs of these improvements, and any incremental operating costs, in its regulated distribution rates. Peoples would then lease the extra capacity to its affiliate at the cost that is included in distribution rates and credit the lease revenues to its distribution rates. In addition, Peoples proposed to sell some base gas that is currently in storage and share any profits with its ratepayers. The OCA filed a Protest to the application to ensure that ratepayers were fully protected. The parties engaged in informal discovery and settlement discussions. A partial settlement was reached. The settlement provided that the Company will remove the storage facilities from its regulated rates and reduce its distribution base rates accordingly. This will protect customers from any risk associated with the unregulated operations. In addition, the Company agreed to share the profits from the sale of base gas in storage with ratepayers and to a revaluation of its gas storage in inventory to reflect the lower volume of gas being stored for the benefit of regulated ratepayers. Other protections for ratepayers were achieved through the settlement. The PUC approved the settlement.

Peoples TWP

Joint Application for the Transfer of T.W. Phillips To SteelRiver Infrastructure Fund North America, Docket No. A-2010-2210326. T.W. Phillips filed an application for the transfer of the company to the SteelRiver Infrastructure Fund. SteelRiver is the owner of Peoples Natural Gas Company. The OCA filed direct testimony setting forth conditions that should be imposed on this transaction if it is to be approved. Among the conditions recommended by the OCA’s witnesses were financial protections to ensure that additional costs were not imposed on ratepayers, accounting controls to ensure no cross subsidies between affiliates, reliability and customer service metrics to ensure continued safe and reliable service, community commitments to continue the presence of T.W. Phillips in the communities it serves, and plant investment commitments to bring
the benefit of greater access to capital to the repair and maintenance of the aging infrastructure. The parties reached a settlement that addressed the conditions recommended by the OCA. The settlement was approved by the ALJ and the Commission.

**T.W. Phillips Distribution Base Rate Case**, Docket No. R-2010-2167797. As discussed in last year’s Annual Report, T.W. Phillips filed a distribution base rate case seeking an increase in its distribution revenues of $12,659,423, or 12.7% on an overall basis. The Company requested a return on common equity of 11.75%. The Company also proposed funding for an energy conservation program and increases in its pension funding. The Company proposed a new reconcilable universal service program rider, a merchant function charge and a reconciliation of its pension expense. The Company also proposed to move its electric expense associated with its compressors used for gas storage to its reconcilable purchased gas cost adjustment mechanism. The OCA filed a formal complaint. The OCA filed its Direct Testimony in the case recommending a distribution revenue increase of $7.5 million based on a return on equity of 9.6%. The OCA also proposed a different allocation of the revenue increase among the customer classes than the Company and that the Company’s proposed increase in the residential customer charge be rejected. The OCA recommended modifications to the Company’s universal service program design.

The parties were able to reach a settlement in this matter. Under the settlement, the Company would be permitted to increase base rates by $8.5 million rather than the $12.7 million proposed by the Company. The residential customer charge was set at $12.75 per month rather than $17.50 as originally requested. The Company would not be permitted to file for another increase for two years. The Company also agreed to withdraw its proposal to move its electric expense into a reconcilable clause. The Company agreed to the OCA’s proposals on the universal service programs, adopted some of the OCA’s recommended consumer protections on the purchase of receivables program, and adopted the OCA proposal to preserve certain tax benefits under a new IRS deduction if it chooses that tax methodology in the future. The settlement was approved by the ALJ and the Commission.

**Petition of T. W. Phillips for a Purchase of Receivables Program**, Docket No. P-2009-2099192. As discussed in last year’s Annual Report, in response to a Commission Order, T.W. Phillips filed a Petition with the Commission proposing a purchase of receivables (POR) program. Under the POR, T.W. Phillips would bill and collect the charges to customers from unregulated natural gas suppliers (NGS). T.W. Phillips would remit to the NGS the full amount of the charges (with a small discount) even if it had not collected the charges from customers. T.W. Phillips requested authority to terminate customers that did not pay these unregulated charges, even if the charges were higher than Columbia’s supplier of last resort service. T.W. Phillips also asked that its Petition be held in abeyance as there was little to no activity by NGSs on its system. The OCA filed an Answer supporting T.W. Phillips’ request to hold its Petition
in abeyance. If the Commission considered the program, however, the OCA argued that if termination was to be permitted, certain consumer protections needed to be put in place. The matter was resolved as part of the base rate proceeding detailed above.

**Philadelphia Gas Works**

Philadelphia Gas Works Distribution Base Rate Case, Docket No. R-2009-2139884 and Petition of PGW for Approval of Energy Efficiency and Demand Side Management Plan, Docket No. P-2009-2097639. As discussed in last year’s Annual Report, on December 18, 2009, Philadelphia Gas Works filed a distribution base rate case seeking an increase in annual revenue of $42.5 million. PGW’s request was primarily to provide funding for PGW’s Other Post-Employment Benefits (OPEB) liability. PGW proposed to adjust its rates each year as the outstanding liability is reduced. PGW filed a plan with the Commission to implement various energy efficiency and demand response programs to help reduce the consumption of natural gas by its customers. PGW sought to reduce the amount of natural gas that it must purchase so as to better manage its cash flow throughout the year. The EE/DSM Plan included programs for all customer classes, but focused primarily on residential natural gas consumption. PGW also proposed a surcharge recovery mechanism to recover the costs of the programs.

PGW’s Demand Side Management (DSM) Plan filing was consolidated with the base rate case. Under the DSM filing, PGW proposed to spend approximately $54 million over five years (approximately $11 million annually) on seven DSM programs. PGW also sought to recover the lost revenues associated with its DSM programs through a reconcilable surcharge clause. The OCA filed a complaint against PGW’s rate filing and answered PGW’s DSM Petition. After extensive discovery, the OCA witnesses determined that PGW’s claim was overstated. The OCA recommended that PGW’s OPEB liability be amortized over a longer period than PGW proposed. In addition, when the reduced level of OPEB funding was examined along with PGW’s other obligations, the OCA’s witnesses determined that PGW did not need to increase its distribution rates to meet its obligation. As to the DSM programs, the OCA recommended more modest funding, the elimination of the lost revenue claim, and a slower roll out of some of the programs. The OCA also proposed that PGW’s proposal to allocate the entire rate increase to the residential class be rejected.

The parties engaged in settlement negotiations and were able to reach a comprehensive settlement. Under the settlement, PGW would be permitted to increase its distribution revenues by $16 million and PGW agreed that it would not file another base rate case for 24 months after PUC approval of the settlement. PGW also agreed that it would fund its OPEB obligation in accordance with the settlement and would deposit the amounts into an irrevocable trust. PGW committed to make its principal debt repayments on a monthly basis as specified in the settlement. As to the demand side management programs, the settlement called for the implementation of a five year
program but with more limited spending than that requested by PGW. PGW would implement an automatic adjustment clause, subject to the spending limitations, so that it only recovers the amount that it spends on the programs. PGW also agreed to implement an offset adjustment to its universal service cost recovery mechanism to avoid the double collection of bad debt expense. The settlement was approved by the ALJ and the Commission.

Petition of PGW to Modify its Universal Service Plan, Docket No. P-2010-2178610. As discussed in last year’s Annual Report, in 2009, PGW was required by the Department of Public Welfare (DPW) to change the way it applies the LIHEAP benefits within its Customer Assistance Program. As a result of this change, if no corresponding changes are made to the program, the cost of the program for other customers would increase and the CAP customer, who already receives an affordable bill, would be provided an additional benefit. In 2010, PGW proposed to modify its program to address this change in DPW policy. The OCA filed an Answer in support of the proposed modifications. The OCA filed its direct testimony generally supporting the Company’s approach. Subsequently, DPW filed a letter with the Commission stating its position that the program modifications proposed by PGW did not meet DPW’s requirements. The proceeding was continued so that the DPW position could be further analyzed. PGW withdrew the plan and will refile a plan once it receives clarification of the DPW position.

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 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). 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.

**UGI Companies:**

**UGI Gas, UGI Penn Natural Gas, UGI Central Penn Gas**

*UGI Central Penn Gas Base Rate Case, Docket No. R-2010-2214415.* UGI CPG filed for an increase of $16.46 million in its gas distribution revenues or 15.4%. For
residential customers, the Company proposed an increase of 17.1%, an average bill increase of $14.69 per month. As part of its proposal, the Company requested a return on equity of 11.6%. The Company also proposed to implement new energy efficiency programs and a new natural gas vehicle program. The Company proposed to increase its residential monthly customer charge from $13.25 to $20.00.

The OCA filed Direct Testimony making many adjustments to the Company’s claim. The OCA recommended a revenue decrease of $2,456,000 rather than the $16.46 million increase requested by the Company. The OCA recommended that the Company be allowed an opportunity to earn a return on equity of 8.25%. In addition, the OCA recommended an allocation of any revenue increase or decrease that differed from the Company’s proposal and recommended that the residential monthly customer charge increase be rejected. As to the energy efficiency programs, the OCA recommended that the Company’s budget for these programs be scaled back for the initial roll-out of the program and that certain modifications be made to the programs. The OCA also recommended that the Natural Gas Vehicle Rider not be approved at this time as there are many policy issues yet to be decided regarding such an initiative. As to the Company’s universal service programs, the OCA recommended the adoption of the CAP Plus program and made numerous recommendations regarding other aspects of the program and the cost recovery mechanism.

The parties engaged in settlement discussions and were able to achieve a settlement of the issues in the case. Under the settlement, the Company will increase its rates by $8.9 million rather than the $16.46 million it claimed. As part of the rate increase, the Company will implement an energy efficiency program and will consult with the OCA and its experts on the final design of this program. The program is to spend $900,000 annually on natural gas efficiency measures. In addition, the settlement called for the Company to spend its allotted budget for its low income weatherization program and to work with local Community Based Organizations in these efforts. The settlement also contemplated that issues regarding the design of the CAP program would be addressed in the separate universal service plan filing of the Company. As part of the settlement, the Company withdrew its Natural Gas Vehicle rider. At the end of the Fiscal Year, this case was pending before the ALJ.

UGI Universal Service Programs, Docket No. M-2010-2186052. The UGI Companies filed their three-year universal service plan proposing to consolidate all of the companies’ programs under one consolidated plan. The Companies then proposed numerous changes to the plans. The OCA filed Comments on this proposal. Of particular concern to the OCA was the Companies’ response to the directive of DPW to use the LIHEAP grant to reduce a customer’s already affordable “asked to pay” amount. The OCA argued that the Companies had not provided an adequate response to integrating this new policy into its universal service programs. The OCA recommended that the Companies adopt a “CAP Plus” approach to address this directive. The OCA also made recommendations regarding the Companies’ Low Income Usage Reduction
Program and other aspects of the universal service program. At the end of the Fiscal Year, this case was pending before the PUC.

Application of UGI Penn Natural Gas for Approval of the Transfer By Sale of a Nine Mile Natural Gas Pipeline, Docket No. A-2010-2213893. UGI PNG is proposing a sale of a gas pipeline to an affiliate. The OCA filed a Notice of Intervention in the proceeding and analyzed this request to determine its impact on ratepayers. The OCA filed Direct Testimony identifying certain protections that were needed to ensure that ratepayers were not harmed by this transaction. Following the filing of Direct Testimony, the parties engaged in settlement negotiations. The parties were able to reach agreement on most of the issues. The settlement reflects the consumer protections sought by the OCA. The settlement, and the one remaining litigated issue, were presented to the ALJ. The ALJ approved the settlement and resolved the litigated issue. At the end of the Fiscal Year, this matter was pending before the Commission.

Petition of UGI Utilities-Gas for Approval of a Voluntary Purchase of Receivables Program, Docket No. P-2009-2145498. As discussed in last year’s Annual Report, UGI filed for approval of a voluntary purchase of receivables program. Under this program, UGI would purchase the accounts receivable of natural gas suppliers that use its consolidated billing system. UGI would then be responsible for all collections and uncollectibles related to these purchased receivables. UGI requested permission to terminate customers for failure to pay these unregulated charges that it purchases. The OCA filed an Answer setting forth its position. In general, the OCA stated that it did not oppose purchase of receivables programs, but sought adequate consumer protections for customers in the program. The OCA argued that UGI’s proposal did not contain adequate consumer protections. The OCA filed direct testimony opposing UGI’s proposal in significant part. The parties engaged in settlement negotiations and were able to reach a settlement on the design of the program. The program design included the consumer protections sought by the OCA. The settlement was approved by the Commission.

Petition of UGI-Central Penn Gas to Voluntarily Reduce Base Rates Following FERC Approval of the Transfer of Existing Natural Gas Storage Facilities in Interstate Commerce, Docket No. P-2009-2145774. As discussed in last year’s Annual Report, UGI Central Penn filed a request with the Federal Energy Regulatory Commission to transfer certain of its storage facilities to an affiliate and return ratemaking authority for these storage facilities to FERC. Currently, the costs of the storage facilities are in CPG’s rate base and the storage rates are set by the Pennsylvania PUC. If the transfer is approved, the costs of the storage facilities must be removed from rate base and distribution rates lowered. The Company’s Petition sought to lower the rates. The OCA filed an Answer to the Petition generally supportive of the Company’s request but indicating the need for further confirmation of the specific dollar amounts.
The parties filed a Stipulation in June 2010. The OCA supported the Stipulation which provided protections for customers against increases to purchased gas costs and a credit mechanism. The Commission voted at public meeting September 2, 2010 to approve the Stipulation subject to specific modifications, including a decrease to CPG’s distribution rates. The OCA and all other parties determined to accept the modification contained in the Commission’s Order.

Valley Energy Company

Valley Energy Company Distribution Base Rate Case, Docket No. R-2010-2174470. As discussed in last year’s Annual Report, on April 20, 2010, Valley Energy Company filed a distribution base rate case seeking to increase its annual revenue by $420,544, or 3.8% on an overall basis. As part of its request, Valley Energy requested an overall return of 9.22% with a return on equity of 11.5%. Valley Energy proposed a large increase in its residential customer charge, from $8.84 to $12.50. The OCA filed a formal complaint.

The OCA filed the direct testimony of its witness in this case recommending that Valley Energy’s requested increase be rejected. The OCA’s witness found that Valley Energy could reduce its rates by about $26,000 based on a return on equity of 9.0% and a capital structure more representative of a regulated natural gas company. The OCA also recommended that the proposed customer charge increase be rejected.

The parties were able to reach a settlement in this matter. Under the settlement, the Company would be permitted to increase its base rates by $235,000 as compared to its original request of $420,544. The residential monthly customer charge would be $10.50 as compared to the Company’s proposed increase to $12.50. The ALJ and the Commission approved the settlement.

Other Gas Cases

Several parties entered into a partial stipulation wherein the Company agreed to certain conditions to its certificate of public convenience. The OCA did not join this stipulation. The OCA filed a main brief on September 27, 2010. The OCA asked the Commission to decide whether the service proposed is public utility service, rather than accept the stipulation. The ALJ issued a Recommended Decision concluding that the service being provided by Laser was not a public utility service and that Laser was not a public utility. As a result, the ALJ concluded that the Commission could not issue a certificate of public convenience and did not have jurisdiction to consider the partial stipulation. Exceptions and Reply Exceptions were filed by several parties. Upon consideration of the matter, the Commission concluded that Laser was providing a public utility service but determined that the matter should be returned to the ALJ for further consideration of whether the Company should be granted a Certificate of Public Convenience. Petitions for Reconsideration were filed by PIOGA and Mark West. At the end of the Fiscal Year, this case was pending before the PUC.

Application of Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201. On September 17, 2010, Peregrine filed an application for a certificate of public convenience. Similar to Laser Marcellus, Peregrine requested authority to operate a gathering and natural gas transportation system as a public utility, offering service to the public. The OCA filed a notice of intervention and public statement on November 1, 2010. At the end of the Fiscal year, this case was pending before the PUC.

Application of Pentex Pipeline Company for Approval to Amend its Existing Certificate, Docket No. A-2011-2230314. On March 8, 2011, Pentex Pipeline Company filed an Application to obtain Pennsylvania Public Utility Commission approval to amend its current Certificate of Public Convenience to allow Pentex to provide gathering or conveying services, in addition to transportation services, to Cargill Meat Solutions Corporation and local producers of natural gas in the Townships of Wyalusing, Herrick, Terry, Tuscarora, Stevens and Wilmot in Bradford County, Pennsylvania.

Under its proposal, Pentex would construct a natural gas gathering system in the specified townships in order to tie-in with the Pentex pipeline and ultimately, with Tennessee Gas Pipeline (an interstate pipeline) if the locally gathered gas volumes exceed Cargill's needs. The Pentex gathering system would be constructed to: (a) transport gas from wells owned by Cargill or under a contract with Cargill; and (b) transport gas from wells that have been and will be drilled by unaffiliated natural gas producers with which Pentex will enter into gathering and transportation agreements, subject to the mutual agreement of Cargill regarding the use of the pipeline for non-Cargill supplies. The OCA intervened in this proceeding on April 8, 2011. At the end of the Fiscal Year, this case was pending before an ALJ.

distribution system assets to Utility Pipeline Limited (UPL) and immediately thereafter to transfer these assets to Knox Energy Cooperative Association, Inc. In association with the proposed transfer of assets, Sergeant sought approval for the abandonment of all natural gas service customers within its current service territory with the proposed continued provision of natural gas service to be rendered by Knox. On May 27, 2011, the OCA filed a Protest and Public Statement in this matter. The OCA is participating in this proceeding in order to protect the interests of Sergeant’s customers. At the end of the Fiscal Year, this matter was pending at the Commission.

Natural Gas Distribution Companies and the Promotion of Competitive Retail Markets, Docket No. L-2008-2069114. As discussed in last year’s Annual Report, on March 27, 2009, the Commission issued a Proposed Rulemaking Order to adopt regulations governing the relationship between Natural Gas Distribution Companies (NGDCs) and Natural Gas Suppliers (NGSs). The proposed rulemaking was in response to the Commission’s Final Action Plan resulting from a stakeholder group convened to identify barriers to competition. The Commission identified certain steps that it would consider taking to promote the development of competition in the retail market for natural gas supply. The proposed regulations in this rulemaking addressed five areas: 1) the reformulation of the price to compare; 2) purchase of receivables programs; 3) mandatory capacity assignment; 4) recovery of NGDC costs of competition-related activities, and 5) recovery of regulatory assessment costs.

The OCA filed comments to the proposed regulations opposing the regulations in substantial measure. The OCA argued that the regulations would make supplier of last resort service volatile and confusing, degrade essential consumer protections and increase costs to consumers. The OCA urged the Commission to withdraw this rulemaking or substantially modify the proposed regulations.

The Commission issued an Order on August 10, 2010 revising its proposed regulations. Many of the revisions proposed by the Commission adopted the position of the OCA. For example, the Commission removed the regulations allowing for the recovery of regulatory assessment costs and competition-related costs from ratepayers through automatic adjustment clauses. The Commission also simplified the reformulation of the price to compare in response to the OCA’s comments and included additional protections in its POR program designs.

While the proposed regulations were an improvement, several concerns remained regarding the price to compare and the POR program designs. The OCA filed Comments setting forth its position on the remaining issues. The Commission ruled on the proposed regulations at its Public Meeting in January 2011. The Commission’s Order, while adopting some of the OCA’s suggestions, sought to implement several regulations that the OCA contended would increase the cost of service for default service customers. The OCA filed Comments with IRRC on this final rulemaking raising the issue of including non-bypassable costs in the price to compare. After submitting
the rulemaking to IRRC, the Commission requested that it be disapproved and returned to the Commission for modification. The Commission resubmitted the rulemaking to IRRC. At the end of the Fiscal Year this matter was pending before IRRC.

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. All of the major gas utilities had their annual purchased gas cost (PGC) filings reviewed for the years 2010 and 2011. The OCA was a participant in each of these cases to ensure that 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 reviewed the gas purchasing practices of all the Pennsylvania Natural Gas Distribution Companies (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. It is essential that NGDCs apply risk management strategies to purchases in order to reduce price volatility. By adopting appropriate gas purchasing practices, the NGDCs are able to 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. Renewals of interstate capacity are extremely important since the availability of Marcellus Shale supplies can substantially reduce the quantities of gas supply associated with interstate pipeline capacity.

The OCA also continued to assess the use of the capacity release and off-system sales markets by gas utilities to maximize benefits 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 that 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.

The OCA also explored the issue of asset management with certain companies. As customers are served by--and pay for--natural gas assets which may or may not be owned or operated by the local natural gas company, it is important that these assets are utilized in the most efficient manner. As a result, the OCA examined whether companies should explore asset management options in an effort to reduce future gas costs to be collected from ratepayers. For companies with current asset management agreements, the OCA examined these agreements to ensure that the terms are fair and beneficial to ratepayers.

Other issues addressed by the OCA included gas companies’ proposals for performance-based gas purchasing programs. These include programs such as 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 2010-11:

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2011 Cases

Columbia Gas, Docket No. R-2011-2228696. On March 1, 2011, Columbia Gas submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against Columbia’s PGC pre-filing on March 30, 2011. The OCA filed its Direct Testimony on May 10, 2011. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach an agreement in principle with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The settlement was submitted to the presiding Administrative Law Judge who issued a Recommended Decision recommending that the settlement be adopted. The PUC issued an Order approving the Recommended Decision.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement satisfactorily resolved the OCA’s concern regarding the times when specific storage costs are recorded for the ratemaking purpose of calculating interest on Columbia’s over- and under-collections of its purchased gas costs. Further, the Settlement also satisfactorily resolved the OCA’s concern regarding coordination between the rate base component for gas stored underground in Columbia’s base rate case and the way Columbia calculated the cost of gas injected into storage for PGC purposes.

Equitable Gas Co., Docket No. R-2011-2223563. On February 28, 2011, Equitable Gas submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against Equitable’s PGC pre-filing on April 6, 2011. The OCA filed its Direct Testimony on May 11, 2011. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach an agreement in principle with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The settlement was submitted to the presiding Administrative Law Judge on May 25, 2011 and, on June 9, 2011, the Administrative Law Judge issued a Recommended Decision recommending that the settlement be adopted. The PUC issued an Order approving the Recommended Decision.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement provided that the retainage allowance for residential transportation service would be reduced from 8% to 6%, effective October 1, 2011. This Settlement term provided a reasonable resolution of this issue as raised in the OCA’s testimony. The Settlement also provided for pipeline capacity reductions which would result in associated savings for Equitable’s ratepayers. These provisions are in the public interest.
National Fuel Gas Distribution Co., Docket No. R-2011-2218386. On January 3, 2011, National Fuel Gas Distribution submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against NFG’s PGC pre-filing on January 27, 2011. After submitting written discovery to the Company and reviewing the responses in preparation for filing its Direct Testimony, the OCA determined that there were no issues upon which to contest NFG’s 2011 PGC filing. In addition, the OCA determined that there were no recurring issues stemming from prior PGC cases. Accordingly, on the date set for the filing of Direct Testimony, the OCA submitted a letter stating that it would not be filing Direct Testimony. Thereafter, the parties engaged in negotiations and, as a result, a settlement in principle was reached with the Company and the other active parties to the proceeding that resolved all issues raised. The proposed settlement was submitted to the presiding Administrative Law Judge on May 5, 2011 and, on May 23, 2011, the Administrative Law Judge issued a Recommended Decision recommending that the settlement be adopted. The PUC issued an Order approving the Recommended Decision.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement established design day requirements of the contracted for level of pipeline and storage capacity. Determination of a reasonable design day requirement ensures that NFG does not obtain unnecessary capacity which the Company’s customers would then have to pay for through PGC rates. Further, pursuant to the Settlement and the Company’s definitive filing, the current MMT balancing charge rate of $0.23/Mcf was maintained. The MMT balancing charge represents the cost basis for the recovery of purchased gas pipeline costs from customers receiving MMT service. Maintaining the existing effective rate for Rate Schedule MMT at $0.23/Mcf is a reasonable resolution to this proceeding. Finally, the Company agreed to provide a report with supporting documentation in its filing next year about the Company’s evaluations and decisions to purchase or to decline to purchase seasonal term and monthly spot gas production from Marcellus Shale wells delivered into NFG’s firm pipeline capacity and on its distribution system. This report will help the parties and the Commission to understand the potential purchase opportunities available to NFG’s system and how this impacts NFG’s least cost fuel procurement obligation under Sections 1307(f) and 1318(a).

PECO Energy Company, Docket No. R-2011-2239263. On May 27, 2011, PECO Energy submitted its annual purchased gas cost filing pursuant to Section 1307(f) of the Public Utility Code. The OCA filed a formal complaint against PECO’s PGC filing on June 8, 2011. After submitting written discovery to the Company and reviewing the responses in preparation for filing its Direct Testimony, the OCA determined that there were no issues upon which to contest PECO’s 2011 PGC filing. In addition, the OCA determined that there were no recurring issues stemming from prior PGC cases. Accordingly, on the date set for the filing of Direct Testimony, the OCA submitted a letter stating that it would not be filing Direct Testimony. Thereafter, the parties engaged in settlement negotiations. As a result of the settlement negotiations, the OCA
was able to reach an agreement in principle with the Company and all other active parties to the proceeding. The Settlement was submitted to the presiding ALJ who issued a Recommended Decision recommending that the Settlement be adopted.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement provided for the continuation of the Company’s hedging program (designed to ensure a degree of stability in rates for PECO’s customers) and the requirement that PECO develop a plan to reduce Lost and Unaccounted-For Gas (LUFG) by reducing or eliminating sources of LUFG. As part of its plan, PECO will identify the principal potential sources of LUFG and develop an action plan for addressing potential sources. PECO will also describe how it will track and measure its progress in reducing the identified source of LUFG. With regard to retainage rates, the Settlement provided an agreed-upon retainage rate calculation for the next two years. Also, for the twelve-month periods ending November 30, 2013 and November 30, 2014, the retainage volume adjustment will be calculated based on weighted three-year averages of LUFG less Company-use gas for the periods ending June 30, 2012 and June 30, 2013, respectively. These provisions are in the public interest. At the end of the Fiscal Year, this case was pending before the Commission.

Peoples Natural Gas Company, Docket No. R-2011-2228694. On March 2, 2011, Peoples Natural Gas submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against Peoples’ PGC pre-filing on April 4, 2011. The OCA filed its Direct Testimony on May 9, 2011 and its Rebuttal Testimony on May 24, 2011. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach an agreement in principle with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The settlement was submitted to the presiding ALJ who issued a Recommended Decision recommending that the settlement be adopted. The PUC issued an Order approving the Recommend Decision.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement provided that the Company will work to achieve the material commitments that it has set for itself in the 2011 Unaccounted-For-Gas Plan and Report. In addition, the Settlement established Lost and Unaccounted-For Gas target ranges for Peoples and established that the Company must justify any shortfall as being in the public interest. Reducing the levels of Lost and Unaccounted-For Gas will lower ratepayer costs. The Settlement also stated that Peoples will use a then-current system-wide retainage rate to perform the net benefits test for those customers requesting to renew their retainage discount between October 1, 2011 and September 30, 2012. Further, Peoples will apply a minimum retainage charge based on calculations provided in the Settlement. The Company will also seek to review and confirm the engineering analysis used by the customer to justify its retainage discount.
Ensuring that retainage discounts are appropriate and warranted will ensure that these discounts do not harm PGC ratepayers.

**Philadelphia Gas Works**, Docket No. R-2011-2224739. On February 28, 2011, Philadelphia Gas Works submitted its purchased gas cost filing pursuant to Section 1307(f) of the Public Utility Code. The OCA filed a formal complaint against PGW’s PGC filing on March 9, 2011. After submitting written discovery to the Company and reviewing the responses in preparation for filing its Direct Testimony, the OCA determined that there were no issues upon which to contest PGW’s 2011 PGC filing. In addition, the OCA determined that there were no recurring issues stemming from prior PGC cases. Accordingly, on the date set for the filing of Direct Testimony, the OCA submitted a letter stating that it would not be filing Direct Testimony. Likewise, other parties to the proceeding found no issues and determined that the filing of Direct Testimony was unwarranted. Thereafter, the parties engaged in negotiations and, as a result, a settlement was submitted to the presiding Administrative Law Judge on May 9, 2011 and the Administrative Law Judge issued a Recommended Decision recommending that the settlement be adopted. The PUC issued an Order approving the Recommend Decision.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement provided for the continuation of the Company’s hedging program which is designed to ensure a degree of stability in rates for PGW’s customers. Further, it contained a requirement that PGW develop an action plan to address the recommendations of the Summit Energy Report that was performed in accordance with the Settlement of PGW’s 2010-2011 PGC proceeding for the purpose of evaluating the appropriate level of capacity resources needed to help ensure least cost procurement, consistent with PGW’s obligation to provide safe, adequate and reliable service to its customers. Finally, the Settlement provided for PGW’s continued retention of a gas pricing analysis and buying advisory service at a reasonable cost (capped at $125,000) in order to provide the Company with highly relevant market information to assist the Company when making gas purchases.

**T.W. Phillips Gas & Oil Co.,** Docket No. R-2010-2211668. On January 14, 2011, T.W. Phillips Gas and Oil submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against TWP’s filing on January 27, 2011. After submitting written discovery to the Company and reviewing the responses in preparation for filing its Direct Testimony, the OCA determined that there were no issues upon which to contest TWP’s 2011 PGC filing. In addition, the OCA determined that there were no recurring issues stemming from prior PGC cases. Accordingly, on the date set for the filing of Direct Testimony, the OCA submitted a letter stating that it would not be filing Direct Testimony. Likewise, other parties to the proceeding found no issues and determined that the filing of Direct Testimony was unwarranted. As a result, on April 1, 2011 a Joint Petition for Settlement was submitted by all parties to the presiding Administrative Law Judge and, on April 27,
2011, the Administrative Law Judge issued a Recommended Decision recommending that the settlement be adopted. On June 9, 2011, the PUC issued an Order which approved the Settlement.

The Settlement provided for several provisions which the OCA deems to be in the public interest. Specifically, the Settlement referred to the “purchased gas cost rates resulting from the Settlement”, the various customer class retention percentages applicable for the 2011 PGC Application Period, and the Extra Demand factors applicable to the 2011 PGC Application Period. The OCA reviewed these rates, percentages and factors and did not object to or contest them. Further, the Company’s commitment to continue its ongoing efforts to control Lost and Unaccounted-for Gas and to continue to implement its Commission-approved (in the 2010 PGC case) Marcellus Shale Policy are in the public interest.

UGI Utilities, Inc. – Gas Division, Docket No. R-2011-2238953; UGI Central Penn Gas, Inc., Docket No. R-2011-2238949; and UGI Penn Natural Gas, Inc., Docket No. R-2011-2238943. On April 29, 2011, pursuant to Sections 53.64 and 53.65 of the Commission’s Rules and Regulations, UGI Utilities, Inc. – Gas Division, UGI Central Penn Gas, and UGI Penn Natural Gas, submitted their pre-filing information in support of the companies’ annual reconciliation of purchased gas cost (PGC) rates. The pre-filed information did not indicate the anticipated effect of the annual PGC reconciliations on existing rates. On May 11, 2011, the OCA filed its Formal Complaints against the companies’ filings. At the end of the Fiscal Year, these cases were pending before the PUC.

2010 Cases

Columbia Gas, Docket No. R-2010-2161920. As discussed in last year’s Annual Report, on March 1, 2010, Columbia Gas submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against Peoples’ PGC pre-filing on March 24, 2010. The OCA filed its testimony. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach a partial settlement with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The partial settlement was submitted to the presiding Administrative Law Judge on June 24, 2010. The presiding Administrative Law Judge issued a Recommended Decision on July 23, 2010. In this Decision, the ALJ approved of the Settlement and ruled on a contested issue (the OCA did not address the contested issue in its filed Testimony). On September 2, 2010, the Commission entered an Order addressing the Settlement provisions and the contested issues.
Among other things, the Settlement provided that Columbia will provide information and documentation in its filing next year supporting its evaluation and decision to purchase or decline to purchase gas production from Marcellus Shale wells offered for direct delivery into the Company’s local distribution systems. This information will help the parties and the Commission to understand the potential purchase opportunities available to Columbia’s system and how this impacts Columbia’s least cost fuel procurement obligation under Sections 1307(f) and 1318(a). Further, the Settlement provided that Columbia will adopt the recommendation of the OCA regarding the Company’s calculation of the storage interest credit regarding its gas storage inventories.

Equitable Gas Co., Docket No. R-2010-2155613. As discussed in last year’s Annual Report, on February 25, 2010, Equitable Gas submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against Equitable’s PGC pre-filing on March 30, 2010. The OCA filed its Direct Testimony. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach an agreement with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The settlement was submitted to the presiding Administrative Law Judge who issued a Recommended Decision recommending approval of the Settlement. On September 2, 2010, the Commission entered an Order which approved of the Settlement.

Among other things, the Settlement provided for many provisions which the OCA deems to be in the public interest. Specifically, with respect to Equitable’s interstate pipeline capacity needs, the Settlement provided that the Company should thoroughly revisit its capacity needs prior to the next 1307(f) proceeding and hold a meeting with the Parties to advise them of the level of entitlements to be retained from Equitrans and/or DTI pipelines prior to contracting for such levels. The Company will also file a design day study with its 2011 1307(f) filing and, should Equitable negotiate entitlement reductions with Equitrans pipeline or terminate any storage agreement with DTI pipeline, the cost reductions will be reflected in the Company’s April 1, 2011 quarterly PGC filing. Further, Equitable’s actual capacity costs will be fully reconcilable and recoverable in its 2011 1307(f) proceeding provided the Company’s capacity contracts are found to be reasonable by the Commission. The OCA concluded that collaborating with the Company and the other parties, at the appropriate time, in order to ascertain what level of capacity and storage contracts are needed to best serve the interests of PGC customers will result in a substantial public benefit. Also, the Settlement provided that, with respect to certain costs claimed by the Company as to a transportation migration rider discount, the Company will forego the discount. This will ensure that Equitable’s residential ratepayers will not shoulder the costs of the proposed discount for transportation customers. Finally, the Settlement provided that, beginning October 1, 2010, Equitable will provide a mechanism for matching off-system sales and purchases on a daily basis.
National Fuel Gas Distribution Co., Docket No. R-2010-2150861. As discussed in last year’s Annual Report, on January 4, 2010, National Fuel Gas Distribution submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against NFG’s PGC pre-filing on January 22, 2010. The OCA filed its Direct Testimony. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach a partial settlement with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The partial settlement was submitted to the presiding Administrative Law Judge on May 12, 2010 and a Recommended Decision was issued on June 7, 2010. In this Decision, the ALJ approved the Settlement and ruled on a contested issue (the OCA did not address the contested issue in its filed Testimony). The Commission approved the Settlement and ruled on the contested issue in an Order entered on July 29, 2010.

As a result of the Settlement, design day requirements were established, including a total system design peak day requirement for the period ending July 2011 and a contracted level of pipeline and storage capacity. Determination of a reasonable design day requirement ensures that NFGD does not obtain unnecessary capacity which the Company’s customers would then have to pay for through purchased gas cost rates. Further, pursuant to the Settlement, the current MMT balancing charge rate of $0.23/Mcf was maintained and will, therefore, reduce NFGD’s projected purchased gas costs by $0.0169/Mcf. Finally, the Settlement provided that the Company will provide a report about the availability of Marcellus Shale supply and the purchase opportunities available directly from Marcellus Shale producers delivered into NFGD’s firm pipeline capacity and on its system. This information will help the parties and the Commission to understand the potential purchase opportunities available to NFGD’s system and how this impacts NFGD’s least cost fuel procurement obligation under Sections 1307(f) and 1318(a).

PECO Energy Company, Docket No. R-2010-2174034. As discussed in last year’s Annual Report, on May 28, 2010, PECO Energy submitted its annual purchased gas cost filing pursuant to Section 1307(f) of the Public Utility Code. The OCA filed a formal complaint against PECO’s PGC filing on June 8, 2010. The OCA filed its Direct Testimony. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach a settlement in principle with the Company and all other active parties to each of the proceedings that resolved all of the OCA’s contested issues. The Settlement was submitted to the presiding Administrative Law Judge and, on September 1, 2010, a Recommended Decision was issued which recommended approval of the Settlement. On October 14, 2010, the Commission entered an Order which approved of the Settlement provisions.

The Settlement provided for many provisions which the OCA deems to be in the public interest. Specifically, the Settlement allowed for the further development of the Company’s hedging modifications approved in its 2009 PGC proceeding. As to PECO’s
hedging plan, the Company will continue to be required to lock in the price of natural gas at multiple times throughout the year, reducing the Company’s exposure to extreme price spikes at specific points in time. The Settlement also required the Company to further study what would be appropriate hedging parameters on a going forward basis. The Company will present the results of these analyses as part of its next annual Section 1307(f) tariff filing. The continued study and development of the Company’s hedging program is a major benefit to ratepayers. The Settlement also provided that the Company will conduct a review of the measures it currently uses to forecast its design day requirements. The development of a reasonable design day forecast is critical to establishing the appropriate capacity portfolio required to meet customer demands. The Settlement further addressed ways that the Company can gain maximum value for customers through the use of asset management agreements. In particular, the Settlement required the Company to develop bids on a percentage-sharing basis as well as on the fixed-fee basis currently utilized. In the event the Company does not enter into any asset management agreements based on a percentage-sharing mechanism, the Company will attempt to obtain a third-party assessment of its unused capacity’s value under an asset management or asset optimization arrangement. Such a study will provide valuable input for both the Company’s contracting for capacity management by third parties and for its margin sharing mechanism. Finally, the Settlement required PECO to enhance its website to include a list of natural gas suppliers providing residential service.

Peoples Natural Gas Company, Docket No. R-2010-2155608. As discussed in last year’s Annual Report, on March 2, 2010, Peoples Natural Gas submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against Peoples’ PGC pre-filing on March 12, 2010. The OCA filed its testimony. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach an agreement with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The settlement was submitted to the presiding Administrative Law Judge on June 23, 2010. The presiding Administrative Law Judge issued a Recommended Decision on July 15, 2010. In this Decision, the ALJ approved the Settlement and ruled on remaining issues. On September 16, 2010, the Commission entered an Order addressing the Settlement provisions and the remaining issues.

Among other things, the Settlement provided for many provisions which the OCA deems to be in the public interest. Specifically, the Settlement provided that Peoples will examine its gas supply and capacity portfolio to determine the best course of action to achieve a reduction in unnecessary pipeline capacity. The review required for the reduction would be completed by October 1, 2010 and the savings experienced from the reduction in capacity will be implemented as soon as practicable following the review. With respect to retainage costs, the Settlement provided that Peoples will collect adequate data to make a complete analysis of its gathering system costs as part
of its next base rate filing. The Settlement provided that Parties to the Peoples rate proceeding will use that data to make recommendations on how these costs may be allocated to Peoples or to Peoples’ customers in Peoples’ anticipated base rate filing. As to retainage waivers, the Settlement provided that Peoples would establish a minimum retainage contribution for any customer with a transportation margin greater than $0.38 per Mcf and whose contracts expire during the effective term of this 1307(f) proceeding -- 1 October 2010 through 30 September 2011.

Philadelphia Gas Works, Docket No. R-2010-2157062. As discussed in last year’s Annual Report, on February 1, 2010, Philadelphia Gas Works submitted its annual purchased gas cost pre-filing pursuant to Sections 53.64 and 53.65 of the Pennsylvania Code. The OCA filed a formal complaint against PGW’s PGC pre-filing on March 15, 2010. The OCA filed its Direct Testimony. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach an agreement with the Company and all other active parties to the proceeding that resolved all of the OCA’s contested issues. The settlement was submitted to the presiding Administrative Law Judge on May 28, 2010. The presiding Administrative Law Judge issued a Recommended Decision on June 23, 2010. In this Decision, the ALJ approved of the Settlement and, on July 29, 2010, the Commission issued an Order approving the Settlement.

As a result of the Settlement, there will be a continuation and extension of the Company’s hedging program, designed to increase the stability of rates for PGW’s customers. The Company’s continued adherence to the gas purchasing program will bring benefits to PGW’s ratepayers through an increased level of rate stability. Moreover, the benefits of reduced volatility of gas costs are significant, particularly for residential customers with limited flexibility in their monthly budgets. The Settlement also provided for a requirement that PGW enter into an asset management agreement for storage facilities in an effort to reduce future gas costs to be collected from ratepayers. The Company’s agreement addressed concerns raised by the OCA concerning PGW’s use of storage resources. The asset management agreement should benefit ratepayers through reductions in the total cost of gas supply in the upcoming year. The Settlement further provided for a requirement that PGW retain the services of a third party to review its capacity resources in order to evaluate the appropriate level of capacity resources needed to help ensure least cost procurement, consistent with PGW’s obligation to provide safe, adequate and reliable service to its customers. An overall evaluation of PGW’s capacity resources is critical to ensure that its procurement meets its least cost obligation. Further, a third party evaluation with accompanying testimony will greatly assist the parties in their evaluation of the Company’s capacity costs in next year’s GCR proceeding. Finally, under the Settlement, PGW will continue its retention of a gas pricing analysis and buying advisory service at a reasonable cost (capped at $125,000) in order to provide the Company with highly relevant market information to assist the Company when making gas purchases. The proposed use of cost effective market services have the potential to help reduce gas costs.
UGI Utilities, Inc. – Gas Division, Docket No. R-2010-2172933; UGI Central Penn Gas, Inc., Docket No. R-2010-2172922; and UGI Penn Natural Gas, Inc., Docket No. R-2010-2172928. As discussed in last year’s Annual Report, on April 30, 2010, pursuant to Sections 53.64 and 53.65 of the Commission’s Rules and Regulations, UGI Utilities, Inc. – Gas Division, UGI Central Penn Gas and UGI Penn Natural Gas submitted their pre-filing information in support of the companies’ annual reconciliation of purchased gas cost rates. On May 12, 2010, the OCA filed its Formal Complaints against the companies’ filings. The OCA filed its Direct Testimonies as well as Rebuttal Testimony in the UGI proceeding. Thereafter, the parties engaged in discovery and settlement negotiations. As a result of the settlement negotiations, the OCA was able to reach settlements in principle with the Company and all other active parties to each of the proceedings that resolved all of the OCA’s contested issues.

On August 17, 2010, a Joint Settlement was filed with the presiding Administrative Law Judge and, on September 29, 2010, the Settlement was approved by the Administrative Law Judge. On November 23, 2010, the Commission issued an Order approving of the Settlement in the UGI proceeding. The UGI Settlement provided a satisfactory resolution to the OCA’s issues. As a result of the Settlement, the PGC(1) rate for UGI was decreased by five cents per Mcf from the Company’s proposed rate. Further, with respect to capacity assignment, the Settlement provided that commencing on December 1, 2010, CHOICE suppliers must elect to receive capacity in specific quantities. These required quantities will increase on November 1, 2011 and again on November 1, 2012. The Settlement terms addressed the OCA’s concerns regarding mandatory capacity assignment because they assure that UGI will be able to mandatorily assign increasing quantities of capacity to CHOICE suppliers, thereby eliminating the inappropriate shifting of costs to PGC customers.

The Settlement also addressed UGI’s swing supply contracts and provided that, effective December 1, 2010, UGI shall discontinue its practice of purchasing swing gas supplies under contracts with first-of-month pricing provisions. This will eliminate the recovery of such costs from customers.

Federal

FERC Gas Cases

Re: Texas Eastern Transmission, LP, Docket Nos. CP11-67-000, PF10-21-000. On January 25, 2011, Texas Eastern Transmission filed an application under Sections 7(b) and 7(c) of the Natural Gas Act with respect to its proposed TEAM 2012 Project. Texas Eastern sought authority to: (1) construct, own, operate, and maintain certain pipeline and compression facilities; (2) abandon certain compression facilities in order to
increase capacity on the Texas Eastern system by approximately 190,000 Dth per day from supply points in Ohio and the Appalachian area to proposed interconnections in central and eastern Pennsylvania; and (3) charge incremental recourse rates for firm service on the TEAM 2012 Project facilities and existing rates for interruptible service. Texas Eastern serves a number of Pennsylvania natural gas distribution companies that are regulated by the Pennsylvania Public Utility Commission and may also serve competitive natural gas suppliers serving end use customers in Pennsylvania. These PA NGDCs, along with NGSs, serve retail consumers in Pennsylvania, the majority of whom are residential and small commercial consumers. These smaller consumers rely on NGDCs and NGSs for the delivery of the natural gas they need to heat their homes and businesses in the winter and to otherwise meet their natural gas service needs. Texas Eastern’s request as to its rates for service, if granted, would have a direct impact on retail consumers in the Commonwealth of Pennsylvania. On February 28, 2011, the OCA filed a Motion to Intervene in this proceeding in order to protect the interests of Pennsylvania ratepayers. At the end of the Fiscal Year, this matter was pending at the FERC.

Columbia Gulf Transmission Company, Docket No. RP11-1435. On October 28, 2010, Columbia Gulf Transmission Company filed a rate case pursuant to Section 4 of the Natural Gas Act at the Federal Energy Regulatory Commission. The proposed tariff changes included an increase of $58,045,620 in annual jurisdictional revenues. Columbia Gulf’s interstate natural gas pipeline serves a number of Pennsylvania natural gas distribution companies that are regulated by the Pennsylvania Public Utility Commission and may also serve competitive natural gas suppliers serving end use customers in Pennsylvania. The magnitude of the requested revenue increase could significantly impact the total cost of gas service for these Pennsylvania customers. Accordingly, on December 13, 2010, the OCA filed a Notice of Intervention in this matter at the FERC in order to protect the interests of these Pennsylvania consumers. At the end of the Fiscal Year, the OCA was participating in settlement negotiations before a FERC settlement judge.

Tennessee Gas Pipeline Company, Docket No. RP11-1566. On November 30, 2010, Tennessee Gas Pipeline Company filed a rate case pursuant to Section 4 of the Natural Gas Act at the Federal Energy Regulatory Commission. The proposed tariff changes included an increase in annual jurisdictional revenue of approximately $350,000,000 compared to the rates currently in effect. Tennessee Gas’ interstate natural gas pipeline serves a number of Pennsylvania natural gas distribution companies that are regulated by the Pennsylvania Public Utility Commission and may also serve competitive natural gas suppliers serving end use customers in Pennsylvania. The magnitude of the requested revenue increase could significantly impact the total cost of gas service for these Pennsylvania customers. Accordingly, on December 13, 2010, the OCA filed a Notice of Intervention and Protest in this matter at the FERC in order to protect the interests of these Pennsylvania consumers. At the end of the Fiscal Year, the OCA was participating in settlement negotiations.
NY Public Service Commission, Pennsylvania Public Utility Commission and Pennsylvania Office of Consumer Advocate v. National Fuel Gas Supply Corp., Docket No. RP06-298-000. On April 7, 2006, the New York Public Service Commission, the Pennsylvania Public Utility Commission and the OCA filed a joint complaint against National Fuel Gas Supply Company pursuant to Sections 5(a) and 13 of the Natural Gas Act alleging that NFGSC’s rates were unjust and unreasonable. In particular, the complaint alleged that NFGSC had been earning excessive profits from the sale of over-recovered retained gas from shippers. The complaint requested that FERC lower the retainage factors on NFGSC’s system and determine a going-forward cost of service based upon a return on equity of 10.17%. The parties engaged in settlement negotiations in an effort to resolve these matters and a final Settlement was reached. This Settlement was approved by the FERC on February 9, 2007. One of the provisions of the Settlement requires NFGSC to file a rate proceeding with rates to be effective on December 1, 2011. The NYPS, Pa. PUC and the Pa. OCA are presently in negotiations to determine if a further Settlement can be reached which would negate the need for NFGS to file such a rate proceeding. At the end of the Fiscal Year, this case was pending before FERC.

Request of UGI Central Penn Gas Company for Transfer of Storage Facilities to An Affiliate, Docket Nos. CP10-23-000, CP10-24-000. As discussed in last year’s Annual Report, UGI CPG’s storage facilities are currently reflected in CPG’s retail distribution rates and under the ratemaking authority of the Pennsylvania PUC under a doctrine known as the Hinshaw Exemption. This exemption allows FERC to delegate its authority to set rates to the state commission under certain circumstances. CPG has now requested that this exemption be revoked and that FERC permit the transfer of the storage facilities to an affiliate that will be subject to FERC jurisdiction and market-based rate authority under FERC regulation. The OCA filed a Motion to Intervene and Protest. The OCA raised issues regarding the necessary protections for Pennsylvania retail customers from these requests. FERC approved the request.

Tennessee Gas Pipeline Company, Docket Nos. RP91-203 and RP92-132. As discussed in last year’s Annual Report, Tennessee filed with the FERC a comprehensive settlement agreement to resolve outstanding issues relating to Tennessee’s recovery through rates charged to its customers of the costs of remediating PCBs and other hazardous substance list (HSL) contamination at specified locations on its pipeline system. The Settlement established a PCB/HSL cost recovery mechanism that is to apply throughout the duration of Tennessee’s federal and state mandated programs to assess and remediate the PCB/HSL contamination. The Settlement permitted Tennessee to recover $17 million per year of certain defined “eligible costs” related to the PCB/HSL Project and initially established a PCB adjustment surcharge (PCB surcharge) as the mechanism for recovery of Tennessee’s eligible costs for the period from July 1, 1995, through June 30, 2000. The Commission approved the Settlement by Orders dated November 29, 1995, and February 20, 1996.
The Settlement provided that the PCB surcharge shall be extended beyond the PCB Adjustment Period (ending June 30, 2000) in twenty-four month increments “as necessary to collect additional costs to eliminate the account balance” or to “reflect additional Eligible Costs.” Between May 31, 2000 and May 31, 2006, Tennessee filed for four twenty-four month extensions of the initial PCB Adjustment Period and all were granted by the FERC. Tennessee filed for a fifth extension on May 31, 2008 to extend that period for another twenty-four months.

In the May 31, 2008 filing, Tennessee stated that through 2007, Tennessee had spent approximately $229 million in Eligible Costs on the PCB/HSL Project and had a pre-collection credit balance of approximately $148 million in the Recoverable Cost / Revenue Account (RCRA). Tennessee also stated that it expected to expend an estimated $10 million to complete the Project and provide for ongoing monitoring requirements. Therefore, Tennessee recognized that the RCRA balance most likely exceeds what is needed for such completion.

After a further settlement process at the FERC, Tennessee, on April 13, 2009, filed an Amendment to the comprehensive settlement agreement entered May 15, 1995. The purpose of the Amendment was to resolve the issues surrounding Tennessee’s over-collected RCRA balance. Under the terms of the Amendment:

1. Tennessee will make Interim Refunds to shippers of $156.6 million, plus interest. The Interim Refund Amount is based on Tennessee’s representation of the balance in the RCRA as of December 31, 2008 plus estimated carrying charges at an annual interest rate of 10 percent through June 30, 2009, net of $10 million to be retained to apply to the shippers’ share of additional Eligible Costs.

2. Tennessee will make quarterly installment payments over a three-year period amortized at an annual interest rate of 8 percent. The first quarterly installment is to be paid on July 1, 2009. The first six quarterly installments will be in the amount of $9.6 million each. The remaining six installments will be in the amount of $20.06 million.

3. The Interim Refund Amount will be allocated to shippers pro rata based on surcharge collections during the PCB Adjustment Period. A shipper that contributed to the surcharge collections will be entitled to its pro rata share regardless of whether the shipper remains a customer on the Tennessee system.

4. At any time during the term of the original settlement, Tennessee is authorized to refund all or a portion of the Interim Refund Amount and/or the remaining balance of the RCRA to all shippers without penalty. Tennessee will then be entitled to re-determine the Interim Refund Amount.

5. If at any time during the Interim Refund Period, Tennessee incurs or is required to recognize in its financial statements Eligible Costs and the customers’ share of
the Eligible Costs exceeds the Retained Amount in the RCRA, the additional customers’ share of the Eligible Costs will first be netted against the remaining Interim Refund Amount balance. The Interim Refund Amount will not be reduced to reflect Additional Eligible Costs as a result of early distribution of the Interim Refund. Instead, if the Interim Refund Amount is insufficient to offset the Additional Eligible Costs, Tennessee shall reinstate the PCB adjustment, consistent with the original settlement, as necessary to provide for recovery of the Additional Eligible Costs.

6. All carrying charges will be calculated by using the greater of: (1) an annual interest rate of 10% for the period ending on June 30, 2009 and 8% thereafter, or (2) the then-applicable FERC-prescribed interest rate for pipeline refunds.

7. The term of the original settlement will be automatically extended if, at the end of such term, Tennessee is incurring Eligible Costs, or an extension of the term is necessary to complete cost recovery or refunds, including the payment of Interim Refunds, or an extension is necessary to effectuate the results of any pending litigation.

8. The Amendment will become effective on the date that the Commission order approving the Amendment, without modification, becomes final.

On May 5, 2009, the FERC Settlement Judge certified the Amendment to the Commission recommending approval. Support for the Amendment was unanimous among the parties. The OCA joined with numerous other parties in the case to request FERC to take expedited action on the Amendment. FERC approved the Amendment and refunds are being returned to the customers.
TELECOMMUNICATIONS

Pennsylvania

Merger Proceedings

Joint Application For Approval Under Chapter 11 of the Pennsylvania Public Utility Code of The Change of Control of Qwest Communications Company, LLC and For All Other Approvals Required under the Public Utility Code, Docket No. A-2010-2176733. As discussed in last year’s Annual Report, on May 14, 2010, Qwest Communications and CenturyLink (collectively Joint Applicants) sought approvals by the Commission for the proposed transfer of control of Qwest to CenturyLink.

CenturyLink is a Louisiana corporation that provides service as an incumbent local exchange carrier to approximately 7 million local access lines in 33 states, including Pennsylvania. In addition to its service as an incumbent local exchange carrier (ILEC), CenturyLink provides internet and entertainment services across its network and maintains approximately 2.2 million broadband subscribers nationwide. CenturyLink was recently granted a certificate of public convenience as a result of the Commission’s approval of the merger of CenturyTel, Inc. and The United Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania and Embarq Communications, Inc. At the time of the merger, Embarq served approximately 326,000 total access lines in Pennsylvania as an ILEC in 92 exchanges in all or part of 25 counties in Pennsylvania. In addition, Embarq’s interexchange affiliate provides toll service to approximately 160,000 customers in Pennsylvania.

Qwest is authorized by the Commission to provide long distance and competitive local exchange services in Pennsylvania. Qwest also provides facilities-based and resold interexchange and competitive local exchange operations nationwide. Qwest Communications International, Inc. (QCII) is a holding company of QCC. QCII is a Delaware Corporation and through its subsidiaries is an ILEC in 14 western and midwestern states, serving 10.3 million access lines nationwide. Through its subsidiaries, QCII offers local, long distance, high speed data and wireless and video service. Through its national fiber-optic network, QCII offers a suite of network, data and voice services for small businesses, large businesses, government agencies and wholesale customers.

On June 14, 2010, the OCA filed a Protest to ensure that the proposed transaction provided substantial affirmative benefits to Pennsylvania consumers as required by law. The OCA sought to ensure that CenturyLink, the acquiring company, would be able to
meet the needs of its Pennsylvania customers if the transaction was consummated, and would provide substantial affirmative benefits in support of the proposed transaction.

On July 23, 2010, the OCA filed the Direct Testimony of Dr. Trevor Roycroft. Dr. Roycroft testified that the proposed merger does not, as filed, satisfy the standard required for the merger of two utility companies in Pennsylvania. Dr. Roycroft demonstrated that the Qwest acquisition exposes CenturyLink to new and substantial risks. Dr. Roycroft also detailed other economic and policy considerations related to the proposed merger, such as issues related to integrating Qwest and service quality related issues. As a result, Dr. Roycroft testified that the merger should either be rejected or approved with conditions.

In his Direct Testimony, Dr. Roycroft proposed financial conditions that would protect Pennsylvania consumers in the event that Pennsylvania assets were used to secure borrowing under taken in other states. Dr. Roycroft also proposed that a portion of the synergy savings attributed to Pennsylvania should be shared with Pennsylvania consumers. This would amount to approximately $35 million total of the estimated $625 million in annual synergy savings that are expected to occur as a result of the merger. Such sharing would occur in the form of the merged company forgoing their inflation-based revenue increases from 2011 to 2016 that are allowed pursuant to their Chapter 30 plan. Dr. Roycroft also proposed that part of the synergy savings be used to accelerate the deployment of broadband services in Pennsylvania beyond what the company is required to do under Chapter 30. Dr. Roycroft also proposed additional reporting requirements as conditions on the merger.

Throughout the course of litigation the parties engaged in Settlement discussions. On September 3, 2010, the OCA, OSBA, CenturyLink and Qwest submitted to the ALJ a Joint Petition for Settlement. As part of the Settlement, the companies agreed to provide affirmative benefits to Pennsylvania consumers in the form of rate concessions, network modernization advancements and reporting requirements. The reporting requirements pertained to service quality, competition, financial protections and integration issues.

On September 28, 2010, ALJ Jones issued a Recommended Decision recommending that the Settlement be approved as filed. The ALJ determined that the Joint Settlement was in the public interest and that it be adopted without amendment. ALJ Jones indicated that she was particularly pleased with the agreement to forego any allowed increases to non-competitive rates in 2011 and 2012, as well as foregoing any banking of those allowed increases. ALJ Jones also specifically recognized that the accelerated deployment of broadband provided for in the Settlement would provide a tangible benefit to a significant segment of Pennsylvania ratepayers served by the company. By Order entered October 14, 2010, the Commission adopted ALJ Jones' Recommended Decision.
Joint Application of the United Telephone Company of Pennsylvania d/b/a Embarq Pennsylvania and Embarq Communications, Inc., Docket No. A-2008-2076038. As discussed in last year’s Annual Report, on November 21, 2008, the United Telephone Company of Pennsylvania LLC d/b/a Embarq Pennsylvania and Embarq Communications, Inc. filed a Joint Application seeking such approvals, under Chapter 11 of the Public Utility Code, in connection with the proposed transfer of control of the Joint Applicants to CenturyTel, Inc.

Embarq PA is a certificated Incumbent Local Exchange Carrier (ILEC) in Pennsylvania, authorized to provide local exchange services in 92 exchanges in all or parts of 25 counties in Pennsylvania. Embarq PA serves approximately 326,000 access lines in Pennsylvania. ECI provides interexchange toll service to approximately 160,000 Pennsylvania customers. CenturyTel is a Louisiana corporation that provides service as an ILEC in 25 states. In addition to its service as an ILEC, CenturyTel provides internet and entertainment services across its network and maintains approximately 600,000 broadband connections with customers on its network.

On December 23, 2008, the OCA filed a Protest to ensure that the proposed transaction provided substantial affirmative benefits to Pennsylvania consumers as required by law – specifically, Sections 1102 and 1103 of the Public Utility Code, Section 69.901 of the Commission’s regulations and other applicable precedent. Given the number of Pennsylvania utility consumers served by the Joint Applicants, the OCA sought to ensure that CenturyTel, the acquiring company, was able to meet the needs of the Joint Applicants’ customers, and to provide substantial affirmative benefits in support of the proposed transaction.

The OCA submitted the Direct Testimony of Dr. Trevor Roycroft on February 5, 2009. In that testimony, Dr. Roycroft articulated several concerns about the merger and recommended that either the Commission deny the merger or place conditions on the merger to ensure that the applicable statutory and appellate precedent governing the proceeding is satisfied. More specifically, Dr. Roycroft testified that it would be a substantial affirmative public benefit if the synergy savings associated with the merger were shared through an extension of the cap on noncompetitive services. Dr. Roycroft also recommended that the combined Company accelerate its network modernization and provision of high-speed internet access in advance of its current statutory obligations as a benefit of the merger. Dr. Roycroft also recommended other conditions be placed on the merger such as those addressing service quality and low-income benefits as a benefit of the merger. Other parties to the proceeding also filed testimony on February 5, 2009 generally recommending that the merger be denied or conditioned as well.

Hearings were held and briefs filed. On April 6, 2009, the ALJ issued an Initial Decision in this matter. The ALJ determined that the Application as filed should be approved in
its entirety, without the imposition of any conditions. The ALJ determined that the applicants had satisfied all applicable legal standards that applied.

On May 28, 2009, the Commission granted the parties’ Exceptions in part and denied them in part by approving the Joint Application subject to certain conditions. In particular, the Commission conditioned its approval of the Joint Application on the merged entities agreeing to submit quarterly reports on the integration of the companies’ billing systems and business and repair office operations, with speed of answer included in the report; submit a quarterly report identifying the number of company personnel associated with the maintenance of Pennsylvania network facilities; and continue the service quality reporting obligations established in Embarq’s 2005 Spinoff settlement. The Commission Order was subsequently appealed by the Office of Small Business Advocate.

The OSBA appeal was remanded to the PUC after the FCC issued its order on the merger. On November 25, 2009, the Commission entered a Tentative Opinion and Order officially instituting the remand proceeding. The Commission discussed the various conditions imposed by the FCC as part of their approval of the merger.

On December 15, 2009, CenturyLink, the newly formed company, the Broadband Cable Association of Pennsylvania (BCAP) and an independent internet service provider (ISP) called CTI Networks, each filed Comments in response to the Commission’s Order entered November 25, 2009. BCAP advocated that the Commission should adopt many of the wholesale and carrier to carrier conditions that the FCC adopted. CTI Networks advocated that the Commission should adopt the provisions pertaining to standalone DSL, as well as many of the carrier to carrier conditions. CenturyLink argued that the Commission had no authority to impose conditions after already having granted a certificate of public convenience approving the transaction. CenturyLink also argued that the transaction already satisfies all applicable legal standards governing the approval.

On March 1, 2010, the Commission entered its Opinion and Order wherein it specifically incorporated several of the conditions adopted by the FCC as part of its own Order approving the merger. After that order, the OSBA filed another Petition for Review on March 29, 2010 appealing the Commission’s Order to the Commonwealth Court of Pennsylvania. In its appeal, the OSBA generally averred that the Commission’s finding that strengthening a competitor was a substantial affirmative public benefit was erroneous. The OSBA also averred that the Commission’s Order allows noncompetitive services to subsidize the provision of competitive service in contradiction to Chapter 30 of the Public Utility Code.

On March 1, 2011, Commonwealth Court issued its Opinion and Order affirming the Commission’s decision approving the merger of Embarq and CenturyTel in its entirety. The Commonwealth Court rejected OSBA’s argument that the Commission should have
considered the strengthening of an incumbent carrier as a detriment of the merger when performing the affirmative benefit analysis. The Court disagreed with the OSBA that the Commission was required to weigh the competitive effects of the merger as a negative factor against the affirmative public benefit the Commission determined would result from the merger. Instead, the Commonwealth Court found that the Commission followed existing precedent and determined that the merger would have a positive impact on competition. As such, the Commonwealth Court concluded that substantial evidence supports the Commission's determination that the merger will affirmatively promote the service, accommodation, safety and convenience of the public in some substantial way.

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 PUC has had an investigation open to address whether and by how much intrastate access rates charged by Verizon and by non-Verizon rural telephone companies should be reduced. Access rates are the rates charged by local telephone companies to long distance companies and other carriers to initiate or complete calls to or from their customers. One question to be addressed was whether access rates cover more than the costs of service and so provide a subsidy of basic local exchange rates. State law provides that the PUC may not require a local exchange company to reduce intrastate access charges except on a “revenue neutral” basis. So reductions in intrastate access rates by local exchange telephone companies might result in increases in rates for other services, including rates for basic residential local exchange service. The Pennsylvania Universal Service Fund (Pa USF) provides certain rural local exchange companies with funds to offset intrastate access rate reductions and reduce the cost of basic service paid by residential customers.

Portions of the investigation had been stayed, with certain parties obligated to provide annual Joint Status Reports concerning intercarrier compensation reform under consideration by the Federal Communications Commission (FCC) and the potential impact on Pennsylvania intrastate access rates and revenues.

On October 16, 2007, the OCA, the Rural Telephone Company Coalition, the United Telephone Company of Pennsylvania (d/b/a Embarq) and the Commission’s Office of Trial Staff filed a Joint Status Report as well as Joint Motion for Further Stay. The OCA and others pointed out the harm to Pennsylvania consumers and carriers and waste of administrative resources which could result if Pennsylvania reformed access charges in advance of federal action. Some parties opposed the request for a stay.
On April 24, 2008, the Commission entered an Order granting in part and denying in part the Joint Motion for Further Stay. The Commission reopened the investigation for the express and limited purposes of addressing whether the $18.00 cap on residential monthly service rates, and the corresponding rate cap on business rates, should be raised; 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 articulated additional issues to be addressed in this limited reopening. The Commission otherwise stayed the investigation as it pertained to access charges by rural telephone companies, except to determine that such charges should not increase during the stay, absent extraordinary circumstances.

AT&T Communications of Pennsylvania and Sprint Communications Company both filed Petitions for Reconsideration and Clarification of the PUC’s April 24, 2008 Order. The RTCC, Embarq and other parties filed answers in opposition to the AT&T and Sprint petitions. On May 22, 2008, the Commission granted the Petitions for Reconsideration pending further review and consideration on the merits.

The OCA filed a Notice of Intervention and Public Statement on June 6, 2008, specific to the review of the $18 rate cap phase of the investigation. The OCA then joined with the rural ILECs and sought a stay of the entire proceeding in light of activity regarding these same issues at the FCC. The FCC was required to act on issues related to access rates on November 5, 2008 as a result of a directive from the District of Columbia Circuit Court of Appeals. The OCA and some other parties requested modification of the procedural schedule to permit time for the Commission to address the substance of these petitions.

By Order entered September 26, 2008, the Commission denied the Joint Motion for Further Stay filed by the OCA and other parties but did grant the ALJ an additional two months to issue a decision in this proceeding. On October 9, 2008, the Commission ruled on the Petitions for Reconsideration filed by AT&T and Sprint. In response to Sprint’s Petition, the Commission clarified that the re-opened investigation would not include consideration of wireless carriers in conjunction with PaUSF funding obligations. In response to AT&T’s Petition, the Commission clarified that evidence may be introduced into the investigation on whether the Pa USF should either increase or decrease.

Hearings were held in February 2009. On May 11, 2009, the OCA submitted its Main Brief articulating its positions in this proceeding. The OCA continued to advocate that the $18 benchmark should be maintained at this time for reasonable rural basic residential local exchange rates. The OCA further continued its position that since the concepts of comparability and affordability change over time, the Commission should establish a mechanism that adjusts the benchmark rate over time as well. The OCA argued that this benchmark should be no greater than 120% of the Verizon average weighted basic local exchange rate and no greater than 0.75% (three-quarters of one
percent) of the Pennsylvania median rural household income. In addition, the OCA presented its position on the other issues raised by the Commission in its Order instituting this investigation, including the role of the Pennsylvania Universal Service Fund in maintaining this basic local service rate cap for rural customers.

In a July 23, 2009 Recommended Decision, ALJ Colwell determined that the rate cap is no longer necessary and recommended that the Commission refocus the Pennsylvania USF to provide support only to low income residential consumers and rural ILECs that prove their service area is high cost. The OCA filed Exceptions on August 28, 2009. The OCA noted that the rate cap is necessary for the Commission to meet its universal service obligations. Additionally, the ALJ recommended that existing support provided by the Pa USF be ended, pending resolution of the future rulemaking. The OCA opposed the ALJ’s recommendation which would not assure all residential basic local service consumers of affordable and reasonable rates.

In July 2009 the PUC lifted the stay of the remaining portion of this investigation and assigned the case to ALJ Melillo. The PUC consolidated the investigation with the complaints filed by AT&T pertaining to the same issues. Given the extensive history of the proceeding and bifurcation of issues in 2008, the parties could not agree on the scope of issues to be developed before ALJ Melillo. At the request of the ALJ, the OCA and other parties filed Memoranda of Law on September 2, 2009. The OCA memorandum traced the issues identified by the PUC in July and related and subsidiary issues which also required resolution, and had not been assigned to ALJ Colwell for disposition. On September 15, 2009, ALJ Melillo issued an Order regarding the scope of the proceeding in response to the Memoranda of Law filed by the OCA and other parties. In her Order, ALJ Melillo essentially agreed with the OCA’s position that the scope of this portion of the investigation included the issues raised in the Commission’s December 20, 2004 Order instituting this investigation, the issues raised in the complaints filed by AT&T and certain ancillary issues raised by the PTA. In response, on September 25, 2009, Sprint and other parties filed a Petition for Interlocutory Review with the Commission asking the Commission to overturn ALJ Melillo’s Order regarding the scope of the proceeding. The OCA filed an Answer to the Petition for Interlocutory Review again articulating its position that the scope of this proceeding is broader than what Sprint contended.

Subsequently, the Commission entered an Order adopting the majority of the Recommended Decisions of ALJ’s Colwell and Melillo in this bifurcated matter. The Commission determined to reduce the RLECs’ intrastate access rates to their interstate levels and to open a rulemaking proceeding regarding the Pennsylvania Universal Service Fund. The Commission determined to maintain a $2.50 carrier charge for the RLECs and also modified the implementation period for the rate changes.

The PTA and AT&T filed Petitions for Reconsideration with the Commission. PTA advocated in its Petition that the Commission should stay the implementation of its July
18, 2011 Order to consider the impact of a proposal recently submitted by a conglomerate of incumbent carriers to the FCC called the “ABC Plan.” The ABC Plan addressed many of the same issues the Commission addressed in its Order. AT&T argued in its Petition the Commission should reconsider its decision to maintain a $2.50 carrier charge. AT&T also sought reconsideration regarding the time line for implementing the rate changes directed by the Commission.

The OCA filed an Answer in response to both Petitions. The OCA supported the PTA’s request to have the Commission consider the possible impact of the ABC Plan on its Order. The OCA opposed, however, AT&T’s request to reconsider its decision to maintain a $2.50 carrier charge. The Commission granted both petitions to maintain jurisdiction pending further review of the merits. At the end of the Fiscal Year, both Petitions remain pending before the Commission.

AT&T Communications of Pennsylvania, LLC, et al. v. Armstrong Telephone Company – Pennsylvania, et al., Docket No. C-2009-2098380. As discussed in last year’s Annual Report, on March 19, 2009, AT&T Communications of Pennsylvania, Inc., TCG New Jersey, Inc. and TCG Pittsburgh, Inc. filed Formal Complaints against each of the thirty-two Pennsylvania rural local exchange carriers. These Formal Complaints were consolidated. In its Formal Complaints, AT&T averred that the RLECs’ intrastate access rates were excessive. AT&T claimed that such rates are anti-competitive and violated Sections 1301 and 3011 of the Public Utility Code. AT&T requested that the RLECs’ intrastate access rates be reduced to interstate switched access levels, both in rate levels and in rate structure.

On April 24, 2009, the OCA formally intervened into the consolidated complaints. The OCA was concerned that any revenue-neutral reduction in intrastate access rates must be considered in light of the $18.00 limit on monthly residential basic local exchange service. All RLECs’ monthly residential basic local exchange service rates had been capped at $18.00 with any amounts above $18.00 coming from the Pennsylvania Universal Service Fund (Pa USF). As a result, it was necessary to consider these issues in light of the pending Commission investigation at Docket No. I-00040105, discussed above.

The PUC consolidated the multiple AT&T complaints with the second portion of the Rural Access Charge investigation by Order entered August 5, 2009. (See discussion above).

On November 30, 2009, pursuant to the revised procedural schedule for this case, AT&T, Qwest Communications, Sprint Communications and Comcast Phone of Pennsylvania, LLC, each filed Direct or Supplemental Direct Testimony in support of the AT&T complaint. These parties each pay the RLECs’ intrastate access rates and presented testimony regarding why they believe such rates should be reduced. Some
of the parties also presented testimony regarding the additional issues that were consolidated with the AT&T complaint by ALJ Melillo.

On December 10, 2009, the Commission released an Opinion and Order in response to the Petition for Review and Answer to Material Question filed by AT&T and others regarding the scope of the proceeding. (See discussion above). In that Order, the Commission affirmed ALJ Melillo’s September 15, 2009 Order defining the scope of the proceeding, with some modifications. In particular, the Commission determined that the issues raised in the December 2004 Order initiating this investigation are within the scope of this proceeding, to the extent they have not already been adjudicated by ALJ Colwell. These issues are in addition to the issues raised by the Commission in its August 5, 2009 Order consolidating the AT&T complaints with this portion of the investigation, as well as additional issues raised by the PTA and Sprint that ALJ Melillo determined were related to this matter. The Commission also determined that the base of contributors to the Pennsylvania Universal Service Fund is not included within the scope of this proceeding.

On January 20, 2010, the OCA filed the Direct Testimony of Dr. Robert Loube. In that testimony, the OCA proposed a comprehensive solution for access charge reform and revisions to the Pa USF. The OCA proposed that the Commission set the RLEC intrastate access rates equal to their respective interstate access rates, including eliminating the carrier common line charge, and raise RLEC residential basic local service rates that are below 120% of the Verizon weighted average residential basic local service rate to that average rate to ensure that the reduction in intrastate access charges is revenue neutral to each RLEC. In addition, any remaining revenue required to reach neutrality should be recovered from the Pa USF. To the extent that the Pa USF must be enlarged to achieve revenue neutrality, the OCA proposal required that the base of contributors to the fund should be expanded to include any service provider that uses the public switched telephone network at any point in providing their service. Dr. Loube’s testimony also stated that both the AT&T proposal and the Verizon proposal presented in this proceeding should be rejected. Dr. Loube’s testimony concluded with extensive discussion responding to the Directed Questions raised by the Commission in their December 10, 2009 Order in this matter. This included an extensive discussion, among other things, regarding whether or not local rates are subsidized by access rates.

Testimony was also filed on January 20, 2010 by the PTA companies, CenturyLink, and the Commission’s Office of Trial Staff. All of these parties also generally advocated positions that were consistent with the OCA’s position as set forth in Dr. Loube’s testimony.

Pursuant to the schedule established for this case, the OCA filed its Main Brief on May 13, 2010. In the Main Brief, the OCA advocated a four-part compromise position that would allow the RLEC intrastate access rates to be reduced to their interstate levels, as
AT&T sought, but that also ensured that revenue required to offset such reductions would first come from increases to basic local service rates capped at 120% of the Verizon weighted average, subject to an affordability constraint related to the Pennsylvania median statewide average income, with any remainder required to offset the reduction coming from the Pennsylvania Universal Service Fund. The OCA further advocated that the base of contributors to the Pennsylvania Universal Service Fund should be expanded to include any service provider that uses the public switched telephone network at any point in transmitting the call. The OCA further advocated that all four parts of the OCA compromise proposal should be adopted to meet the Commission’s goals of promoting competition while ensuring universal service. The OCA further argued that arguments advocating for a reduction in intrastate access rates without capping increases to basic local exchange rates would jeopardize state and federal universal service policies.

On August 3, 2010, the Commission released the Recommended Decision of ALJ Melillo. The ALJ recommended that the RLECs’ intrastate access rates be reduced to their interstate levels over a two to four year period. Under the ALJ’s plan, revenue required to offset each step of the reduction in intrastate access rates would be recovered by the RLECs through a corresponding increase to other noncompetitive rates, specifically basic local exchange rates. The basic local exchange rates would initially increase to $18.00 and then continue to increase until basic local rates reach the affordability constraint of $23.00. The intrastate access rates would be correspondingly reduced in 1/3 increments, as necessary, over a two to four year period, until they reach the interstate level.

The ALJ’s Recommended Decision adopted many of the provisions advocated by the OCA. Significantly, the ALJ recommended that the Commission identify an affordable rate, which is currently $23.00. The ALJ also recommended that the intrastate rates be reduced to their interstate levels. The ALJ also recommended that any corresponding increases to basic local rates be phased in over a period of time. Each of these issues, with some variations, were proposed by the OCA.

On September 2, 2010, the OCA filed Exceptions on a number of issues where the ALJ’s recommended plan diverged from the OCA’s proposal in this proceeding. In particular, the OCA filed an Exception because the ALJ did not recommend that the RLECs basic local rates remain comparable to urban rates, as required by federal law, in addition to being affordable. The OCA also filed an Exception seeking clarification that the $23.00 affordable rate was a cap not to be exceeded, and that any revenue required beyond $23.00 to offset reductions in the RLECs intrastate access rates should come from the PA USF. The OCA also sought clarification that the $23.00 affordable rate would change over time as relevant factors (such as inflation and rural median household income) change over time. The OCA filed a third Exception contending that the ALJ’s determinations regarding the use of the PA USF to offset reductions in intrastate access charges is premature at this time. Finally, the OCA filed an Exception
advocating that the cap on basic local exchange service should not be eliminated, but
that it was acceptable to modify the cap to be an affordability constraint.

On September 17, 2010, the OCA filed Reply Exceptions in response to the Exceptions
filed by AT&T, Verizon and Sprint on September 2, 2010. The OCA responded to the
argument that the $23.00 affordable rate determination made by ALJ Melillo was too
low. The OCA reiterated that, to be affordable, the total bill for basic local exchange
service should be no more than 0.75% of Pennsylvania rural median household income
and that the 0.75% figure should be tied solely to basic telephone service and not to
total household expenditures on all telecommunications services as other parties
argued.

The OCA further replied that the “glide path” for reducing the RLEC intrastate access
rates proposed by the ALJ was reasonable in the absence of additional support from the
PA USF. The OCA also demonstrated that the ALJ correctly rejected Verizon’s
proposal to reduce the RLECs’ intrastate access rates to the level of Verizon’s intrastate
access rates and refuted the argument that there should be no constraint on basic local
exchange rates. Lastly, the OCA opposed any suggestions that companies’
contributions to the PA USF should be recoverable from consumers as a line item
surcharge on the basic local telephone bill.

On June 30, 2011, the Commission acted on the ALJ’s Recommended Decision, as well
as the companion Recommended Decision of Administrative Law Judge Susan Colwell
that was issued at this bifurcated docket on July 23, 2009. ALJ Colwell’s portion of the
proceeding addressed whether the current $18 benchmark rate cap should be
increased for those RLECs that draw from the Pennsylvania Universal Service Fund.

The Commission directed the RLECs to reduce the intrastate traffic sensitive access
rates to their interstate levels but maintain a Carrier Charge not to exceed $2.50. The
Commission further determined to raise the $18 price cap on basic local exchange
residential rates to a $23 affordability benchmark rate. The Commission further
determined not to increase the size of the Pennsylvania Universal Service Fund but
required a rulemaking be initiated to evaluate reforms to the Fund and its associated
regulations.

**Chapter 30 (Act 183) Related Proceedings**

Petition of the Pennsylvania Telephone Association for An Order to Expand the Base of
Contributing Carriers to the Pennsylvania Universal Service Fund to Include Wireless
Carriers and VoIP Providers, Docket No. P-2010-2217748. On December 28, 2010, the
Pennsylvania Telephone Association filed a Petition asking the Commission to expand
the base of contributors to the Pennsylvania Universal Service Fund so that wireless
carriers and voice over internet protocol (VoIP) providers would be required to
contribute to the fund. In its Petition, the PTA noted that the Pa USF was created by the Commission in 1999 to act as a revenue neutral replacement mechanism for switched access charges reductions ordered in 2000 and 2003 that remain unfunded after local rate increases. The PTA further noted that, at the time of the creation of the Pa USF, wireless carriers usage was limited and VoIP service was not yet commercially viable. As a result, and in consideration of the current strain on the Pa USF, the PTA sought to have the Commission require wireless carriers and VoIP providers to contribute to the Pa USF by expanding the base of contributors to the fund to include those service providers.

On January 20, 2011, the OCA filed an Answer in Support of the PTA Petition. The OCA contended that the Commission has explicit statutory state and federal authority to ensure universal service. In addition, the OCA noted that the Commission has authority to require wireless carriers and VoIP providers to pay into the Pa USF, particularly in light of a recent ruling by the Federal Communications Commission that specifically allowed state commissions to require VoIP providers to contribute to state universal service funds. As a result, the OCA advocated that the Commission should grant the PTA Petition and direct that all service providers that use the public switched telephone network at any point in providing their service be required to contribute to the Pa USF to support universal access to that network.

Several parties also filed Answers to the PTA Petition, including the Broadband Cable Association of Pennsylvania, Verizon Pennsylvania, and affiliated companies, Comcast Phone of Pennsylvania, AT&T Communications of Pennsylvania, and affiliated companies, and a coalition of wireless carriers including T-Mobile, Verizon Wireless and Sprint/Nextel Corporation. Each of these parties opposed the PTA Petition, including filing Preliminary Objections, which were timely answered by the PTA.

The OCA will participate in this proceeding on behalf of Pennsylvania consumers to ensure that the Pa USF is adequately and appropriately funded. At the end of the Fiscal Year, the Commission had not yet taken action on the Petition.

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 was 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 the last few years, the OCA has stepped up its efforts to assist consumers navigating this process.
The OCA continues to receive 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. The OCA continues to monitor the Companies’ semi-annual BFRR reports as part of the oversight of the BFRR program.

In the Matter of the Petition of Windstream Pennsylvania LLC for BFRR Deployment Extensions Relating to Carrier Serving Areas in Albion, Coalport, Conneautville, Rimersburg, Rockland, Rural Valley, Shippenville and Sigel Exchanges, Docket No. P-2011-2248534. On June 23, 2011, Windstream Pennsylvania, LLC filed a Petition with the Commission seeking an extension of time to deploy broadband to eleven communities in various exchanges throughout their service territory. Windstream is required under the BFRR program to deploy high speed internet service within one year of receiving commitments from 50 consumers, or 25% of the access lines, whichever is less, within the same community. The BFRR program, however, allows companies to seek an additional six months to deploy high speed service to a particular company if such deployment requires acquisition of property or new construction.

Windstream argued in its Petition that, while property acquisition and new construction are required in each deployment, the delayed deployment arises primarily as a result of a delay in funding received for the projects from the federal American Recovery and Reinvestment Act of 2009. Windstream asserted in its Petition that it is confident it will receive the funding through ARRA but that ARRA rules prohibit the commencement of construction until funds are received.

Windstream offered, however, to provide one free month of internet service to all customers affected by the delay for each month beyond the twelve month deadline Windstream has to deploy the service. In addition, Windstream noted that the service that will be deployed as a result of using ARRA funding will be faster than the service speeds required under Chapter 30.

The OCA filed an Answer in support of the Petition. The OCA contended that the Commission should grant the petition for each affected community because deployment to each community will require acquisition of property or new construction. Both of these items are specifically articulated criteria that allow for the extension of time to deploy high speed internet access to a community under Section 3014(c) of Chapter 30. The OCA also advocated that the Commission should grant the Petition because Windstream provided that each affected customer would receive one month of free service for each month of delay, and because Windstream indicated it would deploy faster high speed service than required by Chapter 30. The Commission granted Windstream’s Petition essentially on the grounds supported by the OCA.
Pennsylvania Public Utility Commission v. Verizon Pennsylvania, Inc. and Verizon North, LLC, Docket Nos. R-2011-2244373 and R-2011-2244375. On May 31, 2011, Verizon Pennsylvania and Verizon North each filed with the Commission separate revisions to their informational tariffs for competitive services effectively withdrawing the informational tariffs for competitive services and placing such information in price lists and product guides on a Verizon website. The tariff revisions were to be effective on June 1, 2011. On June 24, 2011, the Commission entered an Order consolidating the filings and treating the filings as letter Petitions seeking the modification of the Companies' respective amended alternative regulation and network modernization plans filed pursuant to Chapter 30 of the Public Utility Code. The Commission further determined to accept Comments regarding these letter petitions.

The OCA filed Comments in this matter advocating that Verizon could not unilaterally make the changes it sought to make in its May 31, 2011 filings. The OCA advocated that the filings were akin to an informational tariff filing, and not a traditional tariff filing, and therefore Chapter 30 allowed the Commission to require Verizon to make such filings with the Commission, instead of just posting the filings on the Company website, as Verizon sought to do. Verizon and Full Service Network, a competitor of Verizon, also filed Comments. FSN advocated that making Verizon file its price lists with the Commission would assist in its ability to provide competitive service.

Verizon filed an appeal of the Commission’s Order regarding the above-referenced May 31, 2011 filings. Verizon advocated that the Commission incorrectly rejected Verizon’s filing and therefore erred as a matter of law. The OCA intervened into this appeal. The Commission filed a Motion to Quash Verizon’s Petition for Review stating that its Order was not a Final Order and therefore not subject to appellate review. At the end of the Fiscal Year, the Commission’s Motion to Quash remained pending before the Commonwealth Court.

**Additional Telecom Cases**

814, 717 and 570 area code issues. As discussed in last year’s Annual Report, the North American Numbering Plan Administrator (NANPA) had informed the Commission that the 814, 570 and 717 area codes were nearing exhaustion because the area codes were running out of assignable telephone numbers.

On June 9, 2009, NANPA filed a Petition with the Commission (Docket No. P-2009-2112925) pertaining specifically to the 814 area code in which it recommended that an area code “overlay” be implemented for this area code within the next three years. The PUC entered an Order on July 29, 2009 seeking comments on how to implement a new area code and how to identify when a new code would be needed to meet the needs of consumers in the 814 area.
On September 8, 2009, OCA filed comments which urged the PUC to carefully assess whether all steps to conserve existing numbers had been pursued. If, as NANPA expected, a new area code was needed in the near future, the OCA expressed support for adoption of a new area code on an overlay basis. As explained in the OCA Comments, a new area code overlay is preferable to a geographic split, which would impose costs and significant inconvenience in the new code area.

On July 1, 2009, NANPA filed a similar Petition to address the expected exhaust of available numbers in the 570 area code in northeastern Pennsylvania (Docket No. P-2009-2117193). The PUC entered an Order on July 29, 2009 seeking comments on how to implement a new area code and how to identify when a new code would be needed to meet the needs of consumers in the 570 area. On September 8, 2009, OCA filed comments which urged the PUC to carefully assess whether all steps to conserve existing numbers had been pursued. If, as NANPA expected, a new area code was needed in the near future, the OCA expressed support for adoption of a new area code on an overlay basis. As explained in the OCA Comments, a new area code overlay is preferable to a geographic split, which would impose costs and significant inconvenience in the new code area.

The OCA participated in several public input hearings conducted by the Commission throughout the 570 and 814 area codes for purposes of obtaining comments from members of the public regarding which form of area code relief should be implemented. Public input hearings were held in Wilkes-Barre, Jim Thorpe, Williamsport, Altoona, Johnstown, and State College.

On February 23, 2010, the OCA filed Comments in response to the Commission’s request for Comments in the proceeding involving the 717 area code. Those comments mirrored the comments filed by the OCA regarding the 570 and 814 area codes on September 8, 2009.

Significantly, however, the OCA discussed in its February 23, 2010 Comments an example of an apparent inefficient use of existing numbering resources that should be addressed before any new area code was to be implemented. The OCA had only recently discovered this situation where one telecommunications provider was given more than one million telephone numbers from the 570, 717 and 814 area codes combined in one month. Upon further investigation it was determined that such a large distribution of numbering resources was made because many of the rate centers in the 717, 570 and 814 area codes are not located within a top 100 metropolitan statistical area (MSA) in the country. As a result, under existing FCC rules, the PUC was prohibited from requiring this provider to obtain telephone numbers in blocks of 1,000, instead of in blocks of 10,000, as the Commission can require in less rural portions of the state.
As a result, the OCA also filed a pleading with the FCC in support of a Petition previously filed by the Commission wherein the Commission sought additional delegated numbering authority so that it could require service providers to take telephone numbers in blocks of 1,000 instead of blocks of 10,000 throughout all of Pennsylvania, not just certain areas. Such “thousands block pooling” effectively prolongs the life of current area codes. The OCA made its filing in support of the PUC’s Petition on February 23, 2010 and encouraged the prompt approval of the Petition.

The OCA also participated in public input hearings in Somerset, Scranton, Harrisburg, Lancaster, Chambersburg, York, Gettysburg, Lock Haven and Erie. The OCA continued to advocate that before any additional numbering resources are implemented, either in the form of an overlay or a geographic split, that the Commission determines that current numbering resources are being used efficiently and reclaim those that are not. Only after the Commission has determined that additional numbering resources are in fact needed, the OCA then advocated that an additional area code should be implemented in the form of an overlay because it is generally less costly and confusing to customers. The OCA also continued to advocate for additional Commission authority to implement number conservation measures as discussed in the OCA’s filing to the FCC filed on February 23, 2010.

On May 18, 2010, the Federal Communications Commission granted the Petition of the Commission seeking additional delegated authority to implement number conservation measures in Pennsylvania. Previously, the Commission was only authorized to mandate thousands-block pooling in rate centers located in top 100 metropolitan statistical areas in Pennsylvania. The additional authority allows the Commission to mandate thousands-block pooling in all rate centers in Pennsylvania. As noted above, the OCA had supported the Commission’s Petition to the FCC. The distribution of numbering resources in blocks of one thousand, instead of the traditional blocks of ten thousand, delays the unnecessary implementation of area codes.

In light of the additional numbering authority, the Commission issued a further Order on June 3, 2010 seeking to implement mandatory thousands-block pooling in all rate centers in the 570, 717 and 814 area codes. Significantly, the Commission also directed all service providers to consider thousands-block pooling in these three area codes when making their August, 2010 forecasts for numbering resources. The North American Numbering Plan Administrator held a conference call amongst all industry participants on June 29, 2010 regarding the Commission’s June 3, 2010 Order. The OCA participated in that conference call to ensure that all necessary steps are being taken to avoid the cost and inconvenience caused by the unnecessary implementation of new area codes. The OCA will continue to monitor the implementation of mandatory thousands-block pooling in Pennsylvania.

On October 26, 2010, the North American Numbering Council (NANC) released its Number Resource Utilization Forecast (NRUF) report. The Commission asked the
telephone companies to provide estimates of the impact of pooling when submitting their forecasts. As a result, the life of every Pennsylvania area code was extended by 6 to 12 months. It is anticipated that the lives of these area codes will be extended even further once the actual impact of pooling is reported.

On December 16, 2010, the Commission issued an Order determining to “split” the 814 area code and allowing the portion below the split to maintain the 814 area code and provide the portion above the split to receive a new area code. The Commission determined that such action was necessary to ensure adequate numbering resources for all telecommunications service providers in the 814 area code.

In response to the Commission’s December 2010 Order, the OCA filed a Petition for Reconsideration. The OCA advocated that reconsideration was appropriate because the Commission did not consider the most recent forecast data before determining to implement area code relief for the 814 area code. Such data would have specifically considered the impact of the implementation of mandatory thousands block pooling throughout the entire 814 area code, not just in limited areas where the Commission originally had authority to mandate the more efficient allocation of telephone numbers to carriers. The Commission’s authority to mandate thousands block pooling throughout the area code was received from the FCC in May 2010 and only implemented in the 814 area code in September 2010. As such, the data that the Commission relied upon in the December 2010 Order did not consider this additional number conservation authority.

In addition, numerous other parties and affected people also made filings with the Commission asking them to reconsider the December 2010 Order. This included a group of telecommunications providers including Verizon Pennsylvania; another group of telecommunications providers and Senator Mary Jo White; the Manufacturer and Business Association; and over 50 individual Petitions submitted by various residents and businesses, including an electronic petition signed by over 13,000 residents and businesses in the northwest portion of the state (www.save814.com). Nearly every Petition sought to have the Commission reconsider its December 2010 Order to allow for more public input on the matter, since only one public input hearing was held in the northern portion of the area code that the Commission directed should receive the new area code, and that public input hearing was delayed once due to inclement weather.

On January 7, 2011, the OCA filed an Answer to the Petition filed by Verizon and other telecommunications carriers. The OCA supported the Petition filed by the coalition of carriers led by Verizon which advocated that more evidence be taken by the Commission on the matter. The OCA specifically advocated that the Commission should reopen the record so that it could consider additional evidence, including a recent December 2010 exhaust projection that shows that the 814 area code may not exhaust for many years.
On January 13, 2011, the Commission entered an Order granted the Petitions for Reconsideration pending review of and consideration on the merits. At the same time, the Commission released the Joint Motion of Vice Chairman Tyrone Christy and Commissioner John Coleman wherein the Commissioners determined that it may be premature to resolve the numbering issue when data may suggest that sufficient numbering resources exist to prolong the life of the area code. The Joint Motion further directed that Technical Conferences be held to permit additional evidence to be submitted regarding the issues identified in the Petitions for Reconsideration. The Joint Motion also directed that further public input hearings be held throughout the 814 area code as appropriate.

On March 17, 2011, the Commission issued a Final Order in the matter involving the Petitions for Reconsideration regarding the 814 area code. In the Final Order, the Commission ordered the suspension of the timeline for the implementation of the area code relief plan for the 814 area code. The Commission further ordered that the proceeding continue to remain open for the limited purpose of scheduling technical conferences in order to permit additional evidence to be submitted concerning the issues raised in the Petitions for Reconsideration and to gather information regarding the economic impact of both the geographic split and overlay options. The Commission further determined that additional public input hearings should be held throughout the 814 area code to further develop the record to determine the least disruptive form of area code relief for the area code.

On May 24 and 26, 2011, the Commission held technical conferences and further public input hearings in State College and Erie respectively. During both technical conferences, the industry, led by Verizon, presented a panel of witnesses that discussed the technical issues related to adding a new area code via a geographic split and an overlay. All of the witnesses supported the overlay.

At the technical conference in State College, the OCA presented the testimony of Susan Baldwin. Ms. Baldwin is a telecommunications consultant with extensive experience regarding number conservation and area code relief. Ms. Baldwin’s testimony included a report she prepared analyzing the impact of thousands-block pooling on the need for area code relief in the 814 area code. Ms. Baldwin concluded that the Commission should not implement a new area code until it has an opportunity to allow its newly acquired number conservation authority to work. Ms. Baldwin further supported the implementation of an area code overlay, but only after it is determined that a new area code is in fact needed.

At the technical conference in Erie, the industry panel again presented their testimony regarding technical issues related to implementing a new area code in the form of a geographic split versus an overlay. In addition, elected officials and business representatives presented testimony regarding the impact the Commission’s original determination to implement area code relief in the form of a geographic split, with Erie
getting a new area code, would have on them. Finally, the public input hearing in Erie had a high turnout, due in large part to the public concern with the Commission’s original determination to change the area code in Erie, and despite severe inclement weather that affected the region shortly before the hearing. There was near unanimity among those who testified against the Commission’s original determination to change Erie’s area code.

The Commission held 9 additional public input hearings. These hearings were held in Oil City, Bradford, DuBois, Punxsutawney, Somerset, Bedford, Altoona, Mt. Union and St. Mary’s. In the public input hearings held in the portion of the area code that will change its area code if the Commission’s December 2010 Order is not changed (Oil City, Bradford, DuBois, Punxsutawney and St. Mary’s), the public input generally supported the Commission reversing its December 2010 Order and implementing any new area code in the form of an overlay. In the public input hearings held in the portion of the area code that will not change its area code if the Commission’s December 2010 Order is not changed (Somerset, Altoona, Bedford, Mt. Union), the testimony generally supported the Commission maintaining its December 2010 Order and implementing a new area code in the form of a geographic split, with the southern portion of the area code maintaining the 814 area code.

The OCA attended each of these public input hearings and continued to advocate that, before any new area code was implemented, either in the form of an overlay or a split, that the Commission must first ensure that the existing numbering resources are being used efficiently, and reclaim those that are not. The OCA advocated that, only after the Commission determined that a new area code is in fact needed, a new area code should be implemented in the form of an overlay because it is generally less disruptive and costly to consumers. At the end of the Fiscal Year, this proceeding was pending before the PUC.


On October 18, 2010, the OCA filed Comments in response to Verizon’s letter. In its Comments, the OCA recognized the consumer benefits of residential White Pages as a resource for consumers and that some consumers may not be able to use the internet
or a CD-ROM to get such information. The OCA also recognized the importance of environmentally friendly utility practices. The OCA advocated that certain modifications should be made to Verizon’s proposals before being implemented.

In particular, the OCA advocated that the proposed changes should be delayed for one year so that sufficient customer notice of the changes can be provided to customers when receiving their next printed copy of the residential white pages. In the alternative, the OCA advocated that, if Verizon’s proposed changes were to be implemented this year, Verizon’s notification to customers should be clear, conspicuous and often. The OCA further advocated that new customers should receive a printed copy of the residential white pages and adequate notice at the time of enrollment that they will have to request future printed versions. The OCA also recommended that consumers not be required to make requests for printed copies of the directory every year. The OCA further advocated that the Company should explain how customers will receive emergency and government information that is included in the white pages directory if a printed copy is no longer provided. The OCA provided a discussion of numerous other state commission orders that conditioned approval of similar requests in their states on similar conditions.

On October 25, 2010, Verizon filed a reply to the OCA Comments. In its reply, Verizon provided further details regarding its proposed changes in an attempt to address many of the issues raised by the OCA. This further information addressed many of those issues.

On November 4, 2010, the Commission entered an Order approving Verizon’s proposed changes, subject to a number of conditions raised by the OCA. The Commission found that the methods detailed by Verizon in its October reply for informing customers regarding the planned change in distribution of residential white pages directories was consistent with the Company’s obligation relative to service and adequate customer notice. The Commission did order several conditions regarding the specific notification to customers to ensure that the Company was meeting its obligations.

Wireless and Wireline Carriers’ Petitions for Designation as Eligible Telecommunications Carriers to Offer Lifeline Service. As discussed in last year’s Annual Report, several carriers have petitioned the PUC since 2008 for regulatory approval so the carriers may be eligible to offer Lifeline service to eligible residential customers and obtain reimbursement for such discounts from the federal Universal Service Fund. The carriers represent different business models: wireline or wireless, prepaid or post-paid, or facilities-based or pure resellers.

In January and February 2010, three carriers filed petitions with the PUC – Virgin Mobile and Cricket Communications, both wireless carriers, and Nexus Communications, a wireline carrier. The Virgin Mobile and Cricket petitions were the first wireless carrier petitions filed with the PUC. Since all Pennsylvania telephone customers contribute to
support the federal Universal Service Fund, the OCA sought to ensure that the Lifeline discount covers as much telephone service or wireless minutes as possible.

In late August 2010, the Commission issued policy guidelines which adopted many of the FCC’s requirements for ETC applications and also incorporated Pennsylvania requirements based on Chapter 30 and Commission orders. OCA staff met with PUC staff to discuss the Commission’s guidelines and Lifeline and Link-Up matters.

After adopting the August 2010 guidelines, the Commission approved one wireless carrier’s, Virgin Mobile’s, petition for Lifeline ETC designation. Virgin Mobile’s Lifeline service provides eligible low-income Pennsylvania consumers a choice of three prepaid calling plans which include varying amounts of “free” wireless minutes, up to 250 minutes per month per Lifeline customer with no roll-over minutes. Virgin Mobile and other prospective wireless ETCs expect to provide free wireless Lifeline minutes in exchange for $10 per month, per customer in reimbursement from the federal Universal Service Fund. To qualify for this level of Lifeline support, the ETCs also contribute minutes valued at $3.50.

When the PUC granted Virgin Mobile’s Lifeline ETC petition, the PUC imposed specific conditions and gave notice that such conditions may apply to other similarly situated ETC petitioners. The PUC adopted several OCA recommendations concerning eligibility, usage, and advertising which should ensure that eligible consumers have more choice for Lifeline service while guarding against abuses. The PUC directed Virgin Mobile to inform Lifeline customers that they may contact the PUC’s Bureau of Consumer Services for assistance in resolving any complaint related to their Lifeline service. In February 2011, the PUC granted Virgin Mobile reconsideration and amendment on one point, based on a change in facts and related FCC Order.

The PUC has published notice of other petitions for ETC designation in the Pennsylvania Bulletin and opened the petitions for public comment. The OCA has carefully reviewed each petition, conducted some informal discovery, and filed timely comments. The OCA comments address any omissions in the petitions concerning federal and Pennsylvania requirements, what additional conditions and consumer protections should apply, and whether the Lifeline service offerings proposed are competitive and in the public interest.

The OCA supports designation of additional ETCs to offer eligible low income consumers more choice of affordable telephone service, whether wireline or wireless, with Lifeline or Lifeline and Link-Up support from the federal USF.

- The OCA filed comments in October 2010 regarding Cricket Communications request for designation as an ETC to offer wireless Lifeline service in portions of Pennsylvania. The OCA reviewed Cricket’s reply comments when filed on June 2, 2011. The OCA has monitored Cricket’s related request to the FCC for
forbearance from a federal requirement. The FCC granted Cricket forbearance. Once Cricket files a compliance plan with the FCC and obtains FCC approval, the PUC may rule on Cricket’s Pennsylvania petition.

- The OCA filed comments in October 2010 regarding Nexus Communications d/b/a Reachout Wireless’ request for designation as an ETC to offer wireless Lifeline service and also Link-Up support. Nexus Communications was the first wireless carrier to request Link-Up ETC designation in Pennsylvania. Nexus agreed to abide by conditions recommended by the OCA in our comments. Nexus also offered to increase the number of free wireless minutes from 68 minutes per month to a choice of plans offering up to 250 minutes with no roll-over of unused minutes.

- The OCA filed comments on April 21, 2011 regarding YourTel America, Inc.’s petition for designation to offer Lifeline in Pennsylvania. Through reply comments filed April 29, 2011, YourTel confirmed its commitment to increase the number of free wireless minutes from 68 minutes per month to a choice of plans similar to TracFone, a wireless carrier already offering prepaid wireless Lifeline service in Pennsylvania. YourTel also agreed to certain OCA conditions.

- The OCA filed comments on April 21, 2011 regarding the petition of Conexions, LLC d/b/a Conexion Wireless to offer Lifeline in Pennsylvania. The OCA noted that Conexions had received forbearance by the FCC from a federal requirement, but that the FCC had not yet approved Conexions’ compliance plan. Conexions filed supplemental information on May 13, 2011 which described Conexions’ improved Lifeline service offerings and Conexions’ new request for ETC designation to offer Link-Up service. Conexions agreed to certain OCA conditions. OCA filed supplemental comments by letter which noted the positive commitments by Conexions and recommended certain additional conditions and clarifications. The OCA recommended that Conexions provide more information about its Link-Up ETC designation request.

At the end of the Fiscal Year, these petitions were pending before the PUC.

TracFone Wireless, LLC Petition for Protective Order, Docket No. P-2010-2193310. On August 10, 2010, TracFone Wireless requested that the PUC issue a protective order, to provide TracFone’s annual Lifeline Tracking Report treatment as proprietary and confidential. TracFone also filed its annual Lifeline Tracking Report, in public and proprietary form, with the Commission. The OCA filed an Answer on Sept. 2, 2010 which opposed TracFone’s request for relief. As outlined in the OCA Answer, the Commission had historically required this tracking report information to be available to the public, so the PUC, OCA and other members of the public might address how to improve Lifeline service in Pennsylvania. The OCA also noted that TracFone’s claim to
the data as confidential business information was at odds with TracFone’s earlier request for regulatory approval to offer Lifeline service for the benefit of Pennsylvania low income consumers. On November 8, 2010, the PUC denied TracFone’s petition, adopting many of the OCA’s arguments.

**Rulemakings**

Elimination of Call Recording Prohibition in 52 Pa. Code § 63.137 and Establishment of Regulations to Govern Call Recording for Telephone Companies, Docket No. L-2009-2123673. On April 15, 2010, the Commission issued a Proposed Rulemaking Order seeking comments on a proposed regulation that would modify the regulatory prohibition against call recording by telephone companies and would establish regulatory conditions under which telephone companies may record customer communications. Historically, telephone companies were the only utilities that were prohibited from recording telephone calls involving its customers. In recent years, eight local exchange carriers petitioned the Commission for waiver of this prohibition. In granting those petitions, the Commission further determined to commence this rulemaking to address the issue for all local exchange carriers. The Commission’s Proposed Rulemaking Order was published in the Pennsylvania Bulletin on October 9, 2010 setting forth a forty-five day comment period.

Comments were filed by the Pennsylvania Telephone Association and Verizon. IRRC issued comments on December 23, 2010 which questioned why some differences might exist between telecom and other utilities’ call recording. IRRC also asked the PUC to address its jurisdiction to limit the use of recorded calls for evidentiary purposes and coordination with Wiretapping and Electronic Surveillance Control Act. At the end of the Fiscal Year, the OCA continued to monitor the rulemaking.

**Consumer Complaint Proceedings**

Conway v. Verizon Pennsylvania, Inc., Docket No. F-2010-2155066. As discussed in last year’s Annual Report, on February 17, 2010, the OCA filed a Notice of Intervention and Public Statement formally intervening into the complaint brought by Ms. Conway against Verizon, dated January 24, 2010. Ms. Conway averred in her complaint that Verizon had charged her $91 for a service visit to her home that they did not make. Ms. Conway requested that Verizon delete the $91 charge from her bill since the technician indicated he did not repair her telephone. The OCA engaged in informal discovery with the company and raised issues in a manner that will assist all similarly situated Pennsylvanians.

The Company and Ms. Conway reached an agreement to resolve her complaint. As a result, on October 7, 2010, Verizon filed a Certificate of Satisfaction. The OCA supported that resolution, but, continued to discuss the underlying issues regarding the
$91 charge that affect other similarly situated Pennsylvania consumers in an effort to resolve the matter on a broader basis.

On March 14, 2011, the OCA and Verizon submitted a Settlement Agreement to the Commission resolving this matter. The Settlement was submitted to the Commission for informational purposes only and no action by the Commission was required in response. The Settlement required Verizon to provide an agreed upon script, attached as part of the Settlement, to its customer service representatives who handle calls from consumers reporting service troubles and seeking repairs. The script provided uniform responses to various situations that a caller may call the company with. Such responses focused on whether or not the caller knows whether the problem is inside the home or outside the home. If the caller is unable to determine the location of the problem, the script then provided step by step directions for the customer service representative to give to the consumer to use the Network Interface Device (NID) to determine the location of the problem. The script also considered various issues that arise during the process that often result in consumer frustration and/or the filing of a Formal Complaint.

Verizon agreed in the Settlement to provide a refund of any repair fee to the customer if it is demonstrated that a Verizon employee did not follow the script in a telephone contact with a customer, and the customer was subsequently charged a repair fee. The OCA hopes that the script will eliminate the vast majority, if not all, of the complaints and frustration experienced by consumers as a result of Verizon charging customers a $91 repair fee.

Federal

Federal Communications Commission (FCC) Proceedings

In the Matter of Petition of Telcordia Technologies, Inc. to Reform or Strike Amendment No. 70, to Institute Competitive Bidding for Number Portability Administration and to End the NAPM LLC’s Interim Role in Number Portability Administration Contract, WC 10-60. On March 8, 2011, the Federal Communications Commission (FCC) released an Order and Request for Comments, among other things, seeking comments on a proposal by the Chair of the North American Numbering Council (NANC) and the North American Portability Management LLC (NAPM) regarding their roles in, and the process for, selecting the next local number portability administrator (LNPA). The OCA submitted Comments in response to the FCC’s Order on behalf of the National Association of State Utility Consumer Advocates (NASUCA). NASUCA has been a voting member on NANC since its creation and actively seeks to ensure that the FCC’s administration of
telephone numbers is in the public interest and promotes the competitive provision of telecommunications services while ensuring minimal consumer disruption and inconvenience in service.

NASUCA generally supported the NANC/NAPM proposal for LNPA selection because it created a process that is open and transparent to ensure that the administration of telephone numbers and local number portability is in the public interest and consistent with all applicable laws and regulations. Local number portability allows customers to retain their current telephone numbers if they decide to switch to a different telephone service providers. NASUCA advocated that the NANC/NAPM proposal should be adopted with certain modifications or clarifications that serve to further ensure that the appropriate procedures are established.

On May 16, 2011, the FCC’s Wireline Competition Bureau issued an Order regarding this matter. In its Order, the Bureau detailed the procedures that the NANC must follow in the LNPA selection process and outlined the Bureau’s role in overseeing the LNPA selection process. As part of its Order, the Bureau agreed with NASUCA that the process should clearly reflect that the Commission has final approval authority of the contract with the LNPA. The Commission also clarified what “Commission approval” is required under the LNPA selection process in response to a concern raised by NASUC.

In the Matter of Lifeline and Link-Up Reform and Modernization, WC Docket No. 11-42. On March 4, 2011, the FCC issued a new Notice of Proposed Rulemaking (NPRM) to address how to reform and modernize Lifeline and Link-Up. In the near term, the FCC sought comment on how to strengthen procedures to certify eligibility of consumers for Lifeline and Link-Up and verify continued eligibility, whether to implement a national database as a means to reduce duplication of service to a single household, how to extend Lifeline support to non-traditional households including those who depend on shelters, and whether to make programs more uniform state to state. In the long term, the FCC proposed to extend Lifeline to make broadband access more affordable for eligible households. The OCA had previously contributed to NASUCA comments in support of extending prepaid wireless Lifeline to families and individuals who depend on shelters or live in group housing, as well as comments regarding Link-Up reform. The FCC NPRM took note of some of the NASUCA suggestions.

NASUCA filed comments on April 21 and reply comments on May 10 and 25, 2011 on the issues presented by the NPRM. NASUCA opposed the FCC’s suggestion that a cap should be imposed on the amount of Lifeline and Link-Up support provided, to constrain the size of the federal Universal Service Fund. Instead, NASUCA supported certain steps to reduce the potential for fraud or abuse by ETCs eligible for Lifeline and Link-Up reimbursement and consumers.
OCA represented NASUCA at a June 2011 meeting at the FCC to discuss the possible development of a national database of Lifeline recipients, as a way to reduce the provision of duplicate support to Lifeline customers. OCA also participated in an ex parte discussion with FCC staff, PUC staff, and representatives from the Pennsylvania Department of Public Welfare regarding Pennsylvania’s Lifeline enrollment process and safeguards.

Petition of TracFone for Declaratory Order, WC Docket Nos. 03-109, 09-197. TracFone filed a petition which asked the FCC to issue a declaratory order regarding criteria for designation as an eligible telecommunications carrier (ETC) and customary charges eligible for Link-Up reimbursement from the federal universal service fund. OCA drafted reply comments which NASUCA filed with the FCC on January 10, 2011. The NASUCA comments agreed with TracFone and some other commenters that FCC action is needed to strengthen the Lifeline and Link-Up low income telephone assistance programs, but through a rulemaking or other investigation.

Report on Rural and National Broadband Strategy, GN Docket No. 09-29; A National Broadband Plan, GN Docket No. 09-51, Connect America Fund, WC Docket No. 10-90. As discussed in last year’s Annual Report, Congressional legislation in 2008 directed the FCC to develop a rural broadband strategy in consultation with the United State Department of Agriculture (USDA). The American Recovery and Reinvestment Act (ARRA) of 2009 also directed the FCC to develop a national broadband strategy. Additionally, the ARRA made available $7.2 billion for broadband deployment, outreach, mapping, etc. to unserved and underserved areas, with the funds disbursed by the USDA’s Rural Utilities Service (RUS) and Department of Commerce’s National Technology and Information Administration (NTIA). Starting in February 2009, OCA worked with NASUCA to develop recommendations for standards to apply in identifying whether an area is unserved or underserved, how to define broadband service where technology, costs and geographic considerations figure into what is possible to achieve.

On March 18, 2009, NASUCA filed letters with NTIA and RUS recommending priorities and a framework for the two agencies to follow while endeavoring to disburse the federal stimulus funding for broadband deployment and related efforts on the time line set forth by the ARRA. On March 25, 2009, NASUCA filed comments which recommended that the FCC add broadband service to the list of universal services which all eligible telecommunications carriers should offer, with support from the federal universal service fund. Identification of what broadband services are already available in rural areas is another key goal.

OCA also attended conferences in April 2009 at Penn State and Harrisburg concerning Pennsylvania’s infrastructure and opportunities for ARRA funding for broadband. On May 26, 2009, OCA counsel attended a Town Hall meeting organized by the Governor’s Office of Administration and Department of Community and Economic Development. The Town Hall meeting served as a forum for questions and answers to be addressed
regarding the availability of broadband currently in Pennsylvania, mechanisms such as the BFRR program for accelerating requests for broadband, and possible applications by the Commonwealth and other groups to request ARRA funding for broadband projects.

OCA also reviewed comments and filings made by NASUCA concerning development of the regulatory standards and methods for distribution of the ARRA funds for broadband and development by the FCC of a National Broadband Plan. OCA contributed to reply comments filed by NASUCA on July 21, 2009 regarding the National Broadband Plan endeavor.

In response to an FCC request for comments, on December 7, 2009 NASUCA submitted comments addressing universal service fund, intercarrier compensation reform, and development of a national broadband plan. The OCA contributed comments on how to structure a Lifeline for Broadband program as a new form of universal service support.

On March 17, 2010, the FCC issued its long-awaited National Broadband Plan. This plan includes many suggestions regarding issues important to Pennsylvania telephone consumers, including broadband deployment, universal service and access. It was anticipated that from the National Broadband Plan, the FCC would issue numerous Notices of Proposed Rulemaking to begin to implement some of the actions recommended in the Plan.

The National Broadband Plan proposed that the FCC implement a pilot program to provide eligible low income consumers with assistance to afford broadband, similar to the Lifeline assistance available for telephone service. On June 23, 2010, the FCC held a roundtable discussion with industry members, academics, and consumer representatives to discuss how such a pilot could be structured. Assistant Consumer Advocate Barrett Sheridan participated as a member of the roundtable panel.

The National Broadband Plan also proposed to transform the portion of the federal Universal Service Fund that currently provides support to rural local exchange carriers to provide affordable telephone service – the High Cost Fund – into a fund to support broadband deployment. One step involves development of a cost model to analyze broadband deployment costs. OCA joined NASUCA in filing comments with the FCC that challenged the merits of the proposed cost model. OCA also engaged, jointly with several other state consumer advocate offices, Dr. Trevor Roycroft to provide his expert analysis of the cost model in an affidavit filed with the NASUCA comments.

In 2011, the OCA continued to monitor and support NASUCA’s efforts to provide the FCC with the consumers’ perspective and concerns regarding proposed High Cost Fund reform, deployment of broadband service to unserved and underserved areas, as well as intercarrier compensation reform.
In February 2011, the FCC issued a Notice of Proposed Rulemaking setting forth a comprehensive set of proposed near-term and long-term reforms of the federal Universal Service Fund, intercarrier compensation and other issues towards the goal of promoting and supporting access to affordable broadband service. OCA supported the extensive comments filed by NASUCA which recommended that the FCC include reclassification of broadband as a telecommunications service and that the FCC also address reform of the contribution process, whereby consumers of interstate telephone services are charged to support the federal USF.

In the Matter of Global NAPs Petition for Declaratory Ruling and Alternative Petition for Preemption to the Pennsylvania, New Hampshire and Maryland State Commissions, WC Docket No. 10-60. As discussed in last year’s Annual Report, on March 5, 2010, Global NAPs, and its affiliates, a third party interconnecting carrier, filed with the FCC a Petition for Declaratory Ruling and Alternative Petition for Preemption to the Pennsylvania, New Hampshire and Maryland State Commissions. In its Petition, GNAPs requested that the FCC clarify four specific issues pertaining to Voice over Internet Protocol (VoIP) traffic and, preempt “actions or threats by the New Hampshire, Pennsylvania and Maryland Commissions.” The Pennsylvania PUC had previously determined, when resolving a Formal Complaint filed by Palmerton Telephone Company against GNAPs, that GNAPs provides telecommunications services and that the PUC has subject matter jurisdiction over the traffic at issue in that proceeding. GNAPs filed its Petition with the FCC to have the FCC preempt the PUC’s decisions.

Pursuant to the schedule established by the FCC for Comments, the OCA filed Comments to the FCC on April 2, 2010 in support of the PUC’s decision. The OCA supported the PUC’s ultimate conclusion that GNAPs’ non-payment of intra-state access charges to Palmerton cannot be condoned as a matter of law and a matter of sound regulatory policy. The OCA further advocated that GNAPs had not demonstrated in its Petition that preemption is appropriate in this instance or that GNAPs had demonstrated any other reason why its Petition should be granted. At the end of the Fiscal Year, this case was pending before the FCC.

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 participated in a group of state consumer advocate offices who would be affected by these Petitions to file Joint Comments to the FCC. Those Comments were filed in 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.

The OCA subsequently led a delegation of consumer advocates from the affected states in meetings with staff members of the FCC’s Wireline Competition Bureau and related Divisions in this proceeding. The OCA provided a presentation detailing the advocates’ issues and addressed questions or concerns raised by the staff members. The OCA led a second delegation of consumer advocates from the affected states in three meetings with Legal Advisors from the staff of the FCC Commissioners. The OCA provided the same presentation and again addressed questions or concerns raised by the Legal Advisors.

In December 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. The OCA intervened in the appeal before the DC Circuit Court. The OCA joined with other NASUCA offices, as well as the Pennsylvania Public Utility Commission, who also intervened, to file a joint responsive brief. The OCA continued to advocate that Verizon’s Petitions were correctly denied since Verizon failed to provide sufficient relevant evidence to support them. In June 2009, the DC Circuit Court remanded the matter to the FCC for further explanation of the FCC’s decision.

The FCC issued a public notice requesting further comments. The OCA joined with NASUCA to file Comments and Reply Comments on the remanded proceeding. Essentially, those Comments emphasized that the FCC was directed by the D.C. Circuit Court only to better explain its decision and was not to reverse its decision, as some parties advocated on remand. Verizon subsequently withdrew the filing.
WATER AND WASTEWATER

Base Rate Proceedings

Pennsylvania-American Water Company, Docket No. R-2011-2232243. PAWC submitted a base rate increase filing on April 29, 2011. PAWC requested an annual revenue increase of approximately $71 million, or 13.8%. The Office of Trial Staff entered an appearance in the case; the OCA and the Office of Small Business Advocate has filed a Formal Complaint against the increase; the PAWC Large Users Group filed a Formal Complaint and AK Steel's Petition to Intervene was granted. At the end of the Fiscal Year, this case was pending before the PUC.

United Water Pennsylvania, Docket No. R-2011-2232985. United Water Pennsylvania, Inc. provides water service to approximately 58,000 customers in portions of eight counties. On May 9, 2011, UWPA filed a request to increase its annual revenues by $2.82 million. The OCA filed a Complaint against the proposed tariff on May 24, 2011. At the end of the Fiscal Year, this case was pending before the ALJs.

York Water Company, Docket No. R-2010-2157140. As discussed in last year’s Annual Report, York Water Company submitted a request to increase its annual revenues on May 14, 2010. The Company requested an increase in annual revenues of $6,200,000, or 15.9%. York serves 165,000 customers in York County. The OCA filed a Formal Complaint against the increase. Direct testimonies in the areas of rate of return, accounting and rate structure and design were served and the parties engaged in settlement negotiation thereafter.

One Public Input Hearing was conducted on August 18, 2010, at the York Convention Center. Settlement negotiations were productive and the active parties presented a Joint Petition for Settlement to ALJ Salapa. In the Settlement, York agreed to an increase of no more than $3,400,000 or 8.9%. On November 4, 2010, the PUC approved the settlement without modification.

PAWC-Coatesville requested an annual increase in base rate revenues of $8,156,652 (158%). PAWC-Coatesville provides wastewater service to approximately 6,030 customers in Coatesville, Parkesburg, West Sadsbury, East Fallowfield, Caln, West Caln, West Brandywine, Valley, Sadsbury and Highland Townships in Chester County. PAWC-Clarion requested an estimated annual increase in base rate revenues of $968,817 (84%). PAWC-Clarion provides wastewater service to approximately 2,200 customers in Clarion Borough and portions of the Townships of Clarion and Monroe in Clarion County. PAWC-Claysville requested an annual increase in base rate revenues of $487,486 (158%). PAWC-Claysville provides wastewater service to 496 customers in Claysville and portions of Donegal Township, Washington County. PAWC-Northeast requested an annual increase in base rate revenues of $2,099,490 (240%). PAWC-Northeast provides wastewater service to 4,000 customers in portions of Lehman Township, Pike County and portions of Smithfield and Stroud Townships in Monroe County.

The following chart summarizes the requested increased rates for each wastewater service area:

<table>
<thead>
<tr>
<th></th>
<th>Current Rates</th>
<th>Proposed Rates</th>
<th>Dollar Increase</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Res</td>
<td>Com</td>
<td>Res</td>
<td>Com</td>
</tr>
<tr>
<td>Clarion</td>
<td>$21.52</td>
<td>$110.66</td>
<td>$40.37</td>
<td>$209.83</td>
</tr>
<tr>
<td>Claysville</td>
<td>$38.30</td>
<td>$74.95</td>
<td>$92.75</td>
<td>$241.60</td>
</tr>
<tr>
<td>Coatesville</td>
<td>$27.43</td>
<td>$83.54</td>
<td>$90.26</td>
<td>$243.18</td>
</tr>
<tr>
<td>NE - Lehman Pike</td>
<td>$16.90</td>
<td>n/a</td>
<td>$57.70</td>
<td>n/a</td>
</tr>
<tr>
<td>NE - Blue Mountain</td>
<td>$23.05</td>
<td>n/a</td>
<td>$80.02</td>
<td>n/a</td>
</tr>
<tr>
<td>NE - Winona Lakes</td>
<td>$27.33</td>
<td>n/a</td>
<td>$69.03</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The OCA served its accounting, cost of capital, rate structure and design direct testimonies in the four cases on August 5, 2010. In November, the parties submitted Joint Petitions for Settlement with supporting materials and Statements in Support to the Presiding Officer in the four wastewater cases. The following is a summary of the salient provisions of the PAWC Northeast Joint Petition for Settlement:

- significantly reduced revenues, *i.e.*, $1,278,162 or approximately 61%, of PAWC’s original request of $2,099,490.
- a phase-in of rates over a six-year period, as illustrated by the chart below (which uses rounded numbers):
<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Requirement</td>
<td>$2,400,000</td>
<td>$2,400,000</td>
<td>$2,400,000</td>
<td>$2,400,000</td>
<td>$2,400,000</td>
<td>$2,400,000</td>
<td>$14,400,000</td>
</tr>
<tr>
<td>Rate Increase</td>
<td>$500,000</td>
<td>$1,000,000</td>
<td>$1,500,000</td>
<td>$500,000</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Allowed Phase in Revenue</td>
<td>$1,400,000</td>
<td>$1,900,000</td>
<td>$2,400,000</td>
<td>$2,900,000</td>
<td>$2,900,000</td>
<td>$2,900,000</td>
<td>$14,400,000</td>
</tr>
<tr>
<td>Revenue Requirement Deficiency</td>
<td>$(1,000,000)</td>
<td>$(500,000)</td>
<td>$0</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$500,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

- PAWC-Northeast will forgo carrying charges on the revenue deficiency it will experience in the first three years of the phase-in.

- a significant stay-out, in that PAWC-Northeast will not file for an additional increase in revenues before March 31, 2016, subject to certain narrow exceptions. This would effectively provide for a “cap” on revenue requirement for six years from January 1, 2011 until January 1, 2017.

- a 15% overall bill discount for low-income customers.

The effective average rates produced by the Petition are reasonable. If approved, the Petition would produce the following rates for the average residential customer with a 5/8” meter:

<table>
<thead>
<tr>
<th>Monthly Average Usage And Rates</th>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>Usage (gallons)</td>
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<td>Current Rate</td>
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<tr>
<td>Proposed Rate</td>
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<tr>
<td>2011</td>
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<td></td>
<td></td>
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<tr>
<td>Settlement Rates</td>
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<td></td>
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<tr>
<td>2012</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2013</td>
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<td></td>
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<tr>
<td>2014-2016</td>
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</tr>
</tbody>
</table>

| Blue Mountain                                   | 4,407    | $23.05   | $80.02   | $35.57   | $50.16   | $64.26   | $78.63   |          |          |          |
| Lehman Pike                                     | 2,768    | $16.90   | $57.70   | $25.13   | $34.29   | $43.15   | $52.18   |          |          |          |
| Winona Lakes                                    | 3,600    | $27.33   | $69.03   | $30.43   | $42.35   | $53.87   | $65.60   |          |          |          |

These settlement rates include a fixed customer charge of $7.50 per month for customers with 5/8” meters.

The Clarion Joint Petition for Settlement contains virtually all of the above provisions of the Northeast Petition, with the exception that the Clarion Petition does not provide for a phase-in of the revenue increase. The Petition would allow PAWC-Clarion to collect up to $600,000 in additional annual revenues, subject to a filing stay-out until March 31, 2013. If approved, the Petition would produce the following rates for the average residential customer with a 5/8” meter in the Clarion Division:
Monthly Average Usage And Rates

<table>
<thead>
<tr>
<th>Usage (gallons)</th>
<th>Current Rate</th>
<th>Proposed Rate</th>
<th>Settlement Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5/8&quot; Meter</td>
<td>3,300</td>
<td>$21.52</td>
</tr>
</tbody>
</table>

The following summarizes the major provisions of the Joint Petition for Settlement relating to the PAWC – Claysville Division.

- an increase of no more than $360,000 or approximately 75%, of PAWC's original request of $487,486.
- a phase-in of rates over a six-year period, a stay-out to run with the phase-in, such that rates other than those discussed here will not go into effect prior to January 1, 2017 (assuming a fully litigated case filed on April 1, 2016).

The following chart, using rounded numbers, illustrates how the phase-in will work:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Requirement</td>
<td>$669,067</td>
<td>$669,067</td>
<td>$669,067</td>
<td>$669,067</td>
<td>$669,067</td>
<td>$669,067</td>
<td>$4,014,402</td>
</tr>
<tr>
<td>Rate Increase</td>
<td>$120,000</td>
<td>$240,000</td>
<td>$360,000</td>
<td>$120,000</td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>Allowed Phase-in Revenue</td>
<td>$429,067</td>
<td>$549,067</td>
<td>$669,067</td>
<td>$789,067</td>
<td>$789,067</td>
<td>$789,067</td>
<td>$4,014,402</td>
</tr>
<tr>
<td>Revenue Requirement Deficiency</td>
<td>$(240,000)</td>
<td>$(120,000)</td>
<td>$0</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$120,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

In short, the phase-in mechanism uses the principle of gradualism to mitigate rate shock while making the utility whole over time.

- PAWC-Claysville will forgo carrying charges on the revenue deficiency it will experience in the first three years of the phase-in, also mitigating rate shock.

The effective average rates produced by the Petition will produce the following rate changes:
### Monthly Average Usage And Rates

<table>
<thead>
<tr>
<th>Usage (gallons)</th>
<th>Current Rate</th>
<th>Proposed Rate</th>
<th>Settlement Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8” Meter</td>
<td>3,226</td>
<td>$38.30</td>
<td>$92.75</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Requirement</td>
<td>$10,131,000</td>
<td>$10,131,000</td>
<td>$10,131,000</td>
<td>$10,131,000</td>
<td>$10,131,000</td>
<td>$10,131,000</td>
<td>$60,786,000</td>
</tr>
<tr>
<td>Rate Increase</td>
<td>$1,999,000</td>
<td>$1,999,000</td>
<td>$1,999,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Allowed Phase-in Revenue</td>
<td>$6,132,000</td>
<td>$8,132,000</td>
<td>$10,131,000</td>
<td>$12,130,333</td>
<td>$12,130,333</td>
<td>$12,130,333</td>
<td>$60,786,000</td>
</tr>
<tr>
<td>Revenue Requirement Deficiency</td>
<td>$(3,999,000)</td>
<td>$(1,999,000)</td>
<td>$-</td>
<td>$1,999,333</td>
<td>$1,999,333</td>
<td>$1,999,333</td>
<td>$(0)</td>
</tr>
</tbody>
</table>

These settlement rates include a fixed customer charge of $7.50 per month for customers with 5/8” meters, rather than the Company-proposed customer charge of $25.00 per month.

The following is a summary of the salient terms of the Joint Petition for Settlement of the PAWC-Coatesville case.

The Petition provided that Coatesville may collect $5,999,000 in additional annual operating revenue, subject to a phase-in. This revenue increase was in effect, the OCA litigation position, as the variance between the settlement revenue requirement and the OCA litigation position was less than one percent. The Petition provided for a phase-in of rates over a six-year period. The Parties proposed a stay-out to run with the phase-in period, such that rates other than those agreed upon will not go into effect prior to January 1, 2017.

The following chart uses rounded numbers to illustrate the phase-in plan:

In short, the phase-in mechanism uses gradualism to mitigate rate shock while making the utility whole over time. The chart also shows how the phase-in and recovery period will not result in an over-or-under collection.

- Coatesville will forgo carrying charges on the revenue deficiency it will experience in the first three years of the phase-in.
The effective average rates produced by the Petition are reasonable. If approved, the Petition would produce the following rates for the average customer using 4,200 gallons of water per month:

<table>
<thead>
<tr>
<th>Current Average Rate</th>
<th>Average Rate As Filed</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>$27.43/month</td>
<td>$90.26/month</td>
<td>$42.35/month</td>
<td>$57.14/month</td>
<td>$71.94/month</td>
<td>$86.73/month</td>
</tr>
</tbody>
</table>

The settlement rates included:

- a fixed customer charge of $7.50 per month, rather than the Company’s proposed $20.00 per month.
- a 15% overall bill discount for low-income customers.
- an annual new customer growth adjustment designed to help mitigate rate shock by lowering rates for all customers.
- a capacity fee credit adjustment designed to help mitigate rate shock by lowering rates for all customers.
- depreciation rates based on Average Service Life rather than the Equal Life Group procedure to provide an immediate rate reduction to Coatesville ratepayers.
- a 10-year amortization of net negative salvage using the depreciation rates established in this proceeding.
- exploration of debt refinancing options to reduce rates under the period of the phase-in and stay-out.

The terms of the Petition resolved the cost of service and rate design issues developed by the OCA and will work to provide further cost allocation efficiencies in Coatesville’s next rate case.

Chief ALJ Rainey recommended approval of the four Joint Petitions for Settlement without modification; the Commission issued its Order and Statements adopting the Chief Judge’s recommendations on December 20, 2010.

Newtown Artesian Water Company, Docket No. R-2011-2230259. On March 10, 2011, NAWC submitted a base rate increase filing proposing two increases. The utility cited repeated Bucks County Water & Sewer Authority rate increases as a driver of its own
base rate increases and requested approval for an 18.6% increase in annual operating revenues from all classes of customers. The total of the two increases was $999,839 annually. In addition, the utility sought a removal of the 3% cap on the Purchased Water Adjustment Clause approved by the PUC on April 15, 2010.

Under the proposal, Newtown service area residential 5/8-inch meter customers using 15,000 gallons would experience a quarterly bill increase of $87.26 to $108.69 on January 1, 2012; residential 5/8-inch customers in the Indian Rock service area would experience a bill increase from $102.02 to $115.89 per quarter. On April 1, 2011, NAWC submitted the Direct Testimony and Exhibits of three witnesses in support of the increase.

The OCA filed a Formal Complaint against these increases and the removal of the 3% cap on the Purchased Water Adjustment Clause. The OCA served the testimony of its expert accounting witness and its expert engineering witness on June 8, 2011. The OCA proposed adjustments, including but not limited to pre-test year claims for abandoned well development costs, legal fees, and directors’ fees. At the end of the Fiscal Year, the case was pending before the ALJ.

Newtown Artesian Water Company, Docket No. R-2009-2117550. As discussed in last year’s Annual Report, on July 1, 2009, Newtown Artesian Water Company filed a rate case seeking Commission approval of a Purchased Water Adjustment Clause (PWAC) in the Company’s tariff. The Company would not be able to utilize the PWAC until September 1, 2010, consistent with the stay-out in the Company’s recent general rate case (Docket No. R-2008-2042293). If the proposed Purchase Water Adjustment Clause were permitted to become effective as proposed, the Company would be able to charge all retail customers a surcharge to recover the amounts expended to purchase water from the Bucks County Water and Sewer Authority (BCWSA) in excess of purchased water amounts allowed for ratemaking purposes in its most recent base rate case. The surcharge would be implemented on the effective date of a change in BCWSA’s rates charged to NAWC for purchased water, but not on less than forty-five days’ notice. The purchased water supplements Newtown Artesian’s current source of supply from its own wells. The OCA filed a Formal Complaint and Public Statement in this matter on July 24, 2009.

The OCA maintained that the Commission is without statutory authority to approve a Purchased Water Adjustment Clause that would violate the prohibition on single-issue ratemaking. The expense does not meet the criteria for an exception to the prohibition on single-issue ratemaking, because it is not abnormal, extraordinary or non-recurring, nor is the level of expense outside of the utility’s control. On February 1, 2010, the PUC issued the Recommended Decision of Administrative Law Judge Ky Van Nguyen. The ALJ recommended granting the PWAC; however, the ALJ also recommended that the Commission impose a 3% cap on the surcharge and
require the payment of interest to consumers on overcollections. On April 15, 2010, the PUC accepted the ALJ’s Recommended Decision.

On April 23, 2010, the OCA filed a Petition for Review with Commonwealth Court. On January 21, 2011, the Commonwealth Court filed its Opinion, affirming the Order of the PUC. The Court determined that the Public Utility Commission has discretion pursuant to Section 1307 of the Public Utility Code to approve surcharges for increases in expense items such as purchased water, where increases are not within the control of the utility. The Court concluded that the Bucks County increases in the price of purchased water to Newtown are “easily identifiable and beyond the utility’s control.” The Court also determined, however, that the Commission was correct in capping the surcharge at 3% and agreed with the OCA that the preferred method for recovering the cost of providing service in Pennsylvania was through changes in general base rates pursuant to Section 1308 of the Code. On these facts, the approval of the purchased water surcharge did not constitute “single-issue ratemaking.”

While the appeal was pending, Newtown sought to increase the surcharge above 3% to collect all of the increased expense not currently collected through base rates. The OCA filed a Formal Complaint against this increase and opposed, through the filing of an answer and motion to dismiss, its Petition for Expedited Approval (P-2010-2211420) of the proposed tariff that would increase the charge to more than 3% of billed revenues. The OCA presented three primary arguments against the approval of the tariff designed to increase the surcharge. First, the proposed increase would violate the Commission’s Order that capped the surcharge at 3%. Second, any action by the Commission essentially modifying its Order and changing the status quo would violate Pa. Rule of Appellate Procedure 1701, which allows for changes in orders under appeal only under very limited circumstances not present in the instant case. Third, the OCA argued that granting the requested increase in the surcharge would constitute the setting of an unlawful interim rate in violation of the Public Utility Code and contrary to pertinent Commonwealth Court holdings.

On February 1, 2011, the ALJ granted the OCA’s Motion to Dismiss on the basis that the request by Newtown for approval of the second tariff would (1) contravene the Court’s decision that affirmed the Commission’s Order approving the surcharge but limiting it to 3% and (2) violate Pa. Rule of Appellate Procedure 1701.

The PUC however, issued an Order overturning ALJ Barnes’ Initial Decision and denying the OCA’s Motion to Dismiss. The Commission established a 7.5% cap on the Purchased Water Adjustment Clause. The Order was entered on June 21, 2011.

Little Washington Wastewater Co. – Southeast Division, Docket No. R-2010-2207853. On October 29, 2010, LWW-Southeast requested an increase in revenues of approximately $1,078,436 or 32.4%. The OCA filed a Formal Complaint against this
proposed base rate increase on November 9, 2010. LWW-Southeast serves approximately 4,500 residential customers in portions of Chester, Bucks, and Delaware Counties, Pennsylvania. The utility intends to consolidate the revenue requirement of thirteen divisions in the Southeast. However, only eight of the divisions were to experience a rate increase as a result of this filing.

The following chart sets forth the rate changes proposed by the filing:

<table>
<thead>
<tr>
<th>Division</th>
<th>Current Monthly Rates Average Customer</th>
<th>Proposed Overall Rate Increase</th>
<th>Proposed Monthly Rates Average Customer</th>
<th>Percent Increase Average Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willistown Woods/ Chesterdale</td>
<td>$49.56</td>
<td>$45,397</td>
<td>$54.18</td>
<td>9.32%</td>
</tr>
<tr>
<td>Greens at Penn Oaks</td>
<td>$95.14</td>
<td>$12,990</td>
<td>$108.37</td>
<td>13.90%</td>
</tr>
<tr>
<td>Media</td>
<td>$16.26</td>
<td>$829,265</td>
<td>$36.93</td>
<td>127.12%</td>
</tr>
<tr>
<td>New Daleville</td>
<td>$66.67</td>
<td>$28,021</td>
<td>$90.00</td>
<td>34.99%</td>
</tr>
<tr>
<td>Newlin Greene</td>
<td>$100.34</td>
<td>$38,336</td>
<td>$165.79</td>
<td>65.22%</td>
</tr>
<tr>
<td>Little Washington</td>
<td>$85.32</td>
<td>$45,826</td>
<td>$96.34</td>
<td>12.91%</td>
</tr>
<tr>
<td>Twin Hills</td>
<td>$54.74</td>
<td>$56,913</td>
<td>$69.08</td>
<td>26.19%</td>
</tr>
<tr>
<td>Peddlers View</td>
<td>$71.33</td>
<td>$21,544</td>
<td>$79.68</td>
<td>11.7%</td>
</tr>
</tbody>
</table>

The tariff proposing the above increases was suspended by Commission Order of December 16, 2010 and the case was assigned to ALJ.

A public input hearing was convened telephonically on February 3, 2011, during which ten customers offered testimony against the proposed rate increases and concerning quality of service issues, such as persistent malodors. The OCA served the Direct Testimony of its engineering consultant regarding quality of service issues in one of the Southeast Divisions and recommended solutions.

The active parties, OCA, OTS and the Company, participated in settlement discussions and an agreement among LWWC, OCA and OTS was reached. By their Recommended Decision of March 31, 2011, the ALJs recommended approval of the Joint Petition for Settlement without modification. The following summarizes the salient features of the proposed base rate case settlement:

- Rate increase stay-out until November 1, 2012.
- Reduction in revenues to $999,000 (from the requested $1,078,436).
• Consolidation of 13 LWWC Southeast Divisions for rate purposes.
• Odor remediation for the LWWC treatment plant in response to public input testimony.

The PUC approved the ALJ’s recommendation to approve the settlement without modification; however, the PUC added a term to require LWWC to include a report with its next base rate case to describe its efforts to remediate the odor problems that were the subject of a consumer’s Exceptions to the Recommended Decision. A final order was issued on June 9, 2011.

Little Washington Wastewater Co. – Masthope Division, Docket No. R-2010-2207833.

On October 29, 2010, LWW-Masthope asked for an increase in revenues of approximately $158,890; however, Masthope current residential customers would experience an increase of approximately $207,434 if LWW-Masthope’s proposal to eliminate its availability fees (equivalent to a revenue shortfall of about $48,000) were adopted. The OCA filed a Formal Complaint against this proposed base rate increase on November 10, 2010. LWW-Masthope serves approximately 1,206 residential, 639 availability and 8 commercial customers in Lackawaxen Township, Pike County.

Masthope’s proposed residential increase, at an average usage of 2,934 gallons per month, would be $13.96, from $20.66 to $34.62 (a 67.5% increase). LWW-Masthope proposed to move from a flat rate structure to one with a monthly customer charge of $31.10 and a volumetric charge of $1.20 per thousand gallons.

The OCA served its Direct Testimony challenging the LWW-Masthope proposed increase. In particular, the OCA’s witness recommended rejection of LWW-Masthope’s acquisition adjustment in the amount of $435,263 in rate base, as unsupported by any Company testimony or documents. In lieu of the requested revenue requirement increase, the OCA recommended an increase of no more than $68,886, or 19.6%. A Joint Petition for Settlement was submitted to the ALJs on March 16, 2011; the signatory parties to the Joint Petition are the Masthope Property Owners Association, LWWC, the OCA and the OTS.

The salient features of the settlement follow:

• Consolidation of the Masthope Division with the divisions of LWWC Southeast for rate purposes.
• Reduction of revenues to $115,000 (from $161,426)
• Base rate stay-out until November 1, 2012.
• Move from a flat rate to a customer charge of $26.96 and volumetric charge of $.50 per thousand gallons.
• Retention of the availability fee (that LWWC had proposed to eliminate)
• 20-year amortization of a reduced level of the claimed acquisition adjustment, $309,404 (from $435,263) beginning in 2011 and ending in 2030.

The OALJ issued a Recommended Decision to approve the Joint Petition for Settlement without modification. On June 8, 2011, the PUC approved the Settlement without modification by the issuance of a Final Order.

City of Bethlehem – Bureau of Water, Docket No. R-2011-2244756. On May 27, 2011, the City of Bethlehem filed a request to increase its annual revenues for customers outside the City by $996,710, or 13.6%. The bill for an average residential customer, using 14,000 gallons per quarter would increase from $71.17 to $83.62 per quarter. The City serves approximately 13,449 customers outside of the City, in the Townships of Salisbury, Upper Saucon, and Hanover, and the Borough of Fountain Hill, all in Lehigh County, and the Townships of Lower Saucon, Bethlehem, Hanover, East Allen, and Allen and the Borough of Freemansburg, all in Northampton County. The OCA filed a formal complaint on June 15, 2011. At the end of the Fiscal Year, this case was pending before the PUC.

Twin Lakes Water Supply, Inc., Docket No. R-2011-2246415. On June 10, 2011, Twin Lakes Water filed a request to increase its annual revenues by $124,420, or 367.7%. The bill for an average residential customer using 2,500 gallons per month would increase from a flat rate of $23.40 to a metered rate of $109.96. The company serves 120 customers in Shohola Township, Pike County. The OCA filed a formal complaint on June 23, 2011. At the end of the Fiscal Year, this case was pending before the PUC.

CMV Sewage Company, Docket No. R-201102218562. On December 30, 2010, CMV filed a request to increase its rates. CMV sought additional annual revenues of $270,532 (96.5%). CMV provides sewer service in two areas – Colonial Crossings (174 residential customer and 1 apartment complex) and Chanceford Manor (279 customers), in portions of North Codorus and Chanceford Townships, York County.

For a residential customer in Colonial Crossings, the total bill would increase from $115.21 to $375.25 per quarter and a change from metered to flat rate. This was due to the connection of Colonial Crossings to the North Codorus sewage treatment plant which was agreed to after an earlier PUC order, which denied CMV’s application to abandon service to North Codorus Township Sewage Authority. For a customer in Chanceford Manor, the total bill would increase from $142.14 to $151.81 per quarter.

The OCA filed a formal complaint. Public input hearings were held in both service territories. The OCA’s direct testimony recommended a rate decrease for the
Chanceford Manor customers and an increase of no more than $187,521 for Colonial Crossings customers. A hearing was held on May 19, 2011

On June 21, 2011, the parties filed a Joint Petition for Settlement and Application to Transfer Assets and Abandon Wastewater Service to the Public In Portions of North Codorus Township (Settlement). The parties also filed a Joint Petition for Expedited Treatment and Certification of the Record. The Settlement proposed:

**Colonial Crossings customers**

The Joint Petition proposed to transfer the Colonial Crossings customers to the North Codorus Township Sewer Authority (NCTSA). The OCA supported this proposed transfer for a number of reasons. First, the transfer would occur with the express condition that no Colonial Crossings residential customer would pay a connection fee or capacity reservation fee to the Authority. This provision is a key component that makes the proposed transfer in the public interest. Second, the Colonial Crossings customers would be charged the same rates as the rates charged to the current NCTSA customers, specifically, $250 per quarter. This rate compares favorably to the rate proposed by CMV in the rate case ($375.25 per quarter) and the rate proposed by the OCA in the rate case ($215.06 per quarter). The additional costs needed by CMV to provide collection services and have the Authority provide bulk treatment services included the capacity reservation fee and interest on the debt that CMV proposed to incur to pay that fee for its customers up front and then recover the costs over ten years. The annual revenue requirement associated with the connection fee, including interest, was $28,888 per year for ten years. By having the customers transferred without incurring the costs of the capacity reservation fee, and by having those customers pay the current rate charged by NCTSA, the transfer is in the public interest.

CMV overbilled its customers from October 2006 until October 2010 (for service from July 2006 through September 2010), or 17 quarters. Specifically, it charged a higher customer charge and a higher volumetric rate than had been approved by the PUC at the end of its last rate case at Docket No. R-00050677. The OCA recommended that the overbilled customer charge be refunded in one quarter and the overbilled volumetric charge be refunded over three years. The Company did not agree with the OCA’s recommendation regarding the volumetric charge refunds.

As part of this Settlement, the parties agreed that the refunds of $22,550.51 ($14,283.49 payable to Colonial Crossings residential customers and $8,267.02 payable to the apartment complex customer), including 6% simple interest, will be made over one year (4 quarterly payments), starting after the entry of the PUC order approving this Settlement. The refunds will be made as quarterly checks to each Colonial Crossings customer who received service during the October 2006–October 2010 time frame. The Company will pay the refunds owed to the residential customers before it begins to make refunds to the apartment complex customer.
If a customer moves out of the service territory, CMV will pay the full amount of refunds for that customer at that time. CMV will provide quarterly reports to the parties and to the PUC showing the refunds made to each customer during each quarter and a list of cancelled checks.

At the end of the one year period, if CMV has not been able to locate former customers to pay their refunds, then it will pay an equal amount as if the amounts were a civil penalty. Also, if CMV does not complete the refunds at the end of one year, as contemplated in the Settlement, then it will pay a minimum civil penalty equal to the amount not refunded and the parties have reserved the right to argue that the penalty should be higher.

The refund provisions are a reasonable resolution to the refund issues litigated by the parties in this proceeding. Customers will receive full refunds of the amounts overbilled by CMV, along with interest at the legal rate. The time period over which the refunds will be returned is reasonable given the time frame of the overbilling.

**Chanceford Manor customers**

The proposed Settlement provided for an increase in annual revenues of $2,000, or 1.26%. A typical Chanceford Manor residential customer using 13,506 gallons of water per quarter would see an increase from $142.14 to $144.98 per quarter, rather than $151.81 as originally proposed by the Company.

As explained above, CMV overbilled its customers from October 2006 until October 2010 (for service from July 2006 through September 2010), or 17 quarters. As part of this Settlement, the parties agreed that the refunds of $30,721.68, including 6% simple interest, will be made over three years (12 quarterly payments), starting with the first billing following the entry of the PUC order approving this Settlement. The refunds will be made as a credit on each customer’s bill. If a customer moves out of the service territory, CMV will pay the full amount of refunds for that customer at that time. CMV will provide quarterly reports to the parties and to the PUC showing the credits/refunds made to each customer during each quarter.

At the end of the three year period, if CMV has not been able to locate former customers to pay their refunds, then it will pay an equal amount as if the amounts were a civil penalty. Also, if CMV does not complete the refunds at the end of three years, as contemplated in the Settlement, then it will pay a minimum civil penalty equal to the amount not refunded and the parties have reserved the right to argue that the penalty should be higher.

The refund provisions are a reasonable resolution to the refund issues litigated by the parties in this proceeding. Customers will receive full refunds of the amounts overbilled...
by CMV, along with interest at the legal rate. The time period over which the refunds will be returned is reasonable given the time frame of the overbilling.

The Company also agreed that it will not file another rate case any sooner than thirty-six months from the entry date of the PUC’s order in this case to the filing date of the next case. If the Company files another rate increase request as soon as its stay out expires and if that case is fully litigated, customers would receive the benefit of no rate increase for a period of 45 months. Thus, the stayout will provide some level of rate stability for the customers.

If the Company completes the refunds, as described above, in less than twelve quarters, the stay out period will be shortened to be the same as the shortened refund period. However, the stay out period will not be shorter than 18 months. For example, if refunds are completed in 24 months, the stay out would be shortened to 24 months. If refunds are completed in 12 months, the stay out would be 18 months. Thus, even under a scenario of faster refunds, the shortened stay out would be 18 months, which also would provide some level of rate stability for the customers.

CMV agrees that it will not seek to recover from Chanceford Manor customers expenses related to service to Colonial Crossings, including but not limited to operating and maintenance expenses, depreciation expense, rate case expense, taxes, amortization claims, including but not limited to legal expenses related to NCTSA/DEP litigation and PUC abandonment litigation and investment in utility plant. This provision should ensure that future CMV rate cases are limited to issues related to service to Chanceford Manor customers and not complicated by issues related to service to Colonial Crossings customers.

CMV also agreed that none of the amortization claims it made in this case were included in the rates and resolutions presented in this Settlement. This provision will ensure that there are no claims in a future Chanceford Manor case that there were amortizations implicitly approved as part of the settlement of this case. This will save the parties, the ALJ and the PUC from dealing with this type of claim in future cases. At the end of the Fiscal Year, the proposed settlement was pending before the PUC.

City of Lancaster – Bureau of Water, Docket No. R-2010-2179103. On August 27, 2010, the City of Lancaster – Bureau of Water filed a request to increase its annual revenues for providing service to its customers who reside outside of the City. The City requested an annual increase in base rate revenues of $8,608,024 (99.8%). Under the City’s proposal, the proposed metered usage rates would increase from $33.59 to $63.38 per quarter, or by 88.7% for the average residential customer using 12,000 gallons of water per quarter. The City serves 45,014 customers outside of the City in a portion of the Borough of Millersville and the Townships of East Hempfield, East
Lampeter, Lancaster, Manheim, Manor, Pequa, West Hempfield, and West Lampeter in Lancaster County, Pennsylvania. OCA filed a complaint in September 2010.

Public input hearings were held on December 2, 2010 at which time 8 customers testified. OCA filed its direct testimony on December 9, 2010 and recommended an overall increase of no more than $5.33 million for outside customers. A hearing was held on February 1, 2011. The OCA and the City were able to stipulate to certain accounting issues, including pensions, salaries, and depreciation. Briefs were filed in February 2011. The OCA’s final litigation position recommended an increase of no more than $6,206,856.

On April 27, 2011, the OALJ issued the Recommended Decision of ALJ Melillo. She recommended that the City receive an annual revenue increase of $7.393 million if the City has the irrevocable trust in place and $6.914 million if it does not have the irrevocable trust in place. The ALJ adopted the City’s proposed hypothetical capital structure and many of its arguments regarding rate of return. The OCA and other parties filed exceptions and reply exceptions.

The PUC entered a final order in the case, allowing Lancaster additional annual revenues of $5,787,910 (pre irrevocable trust), or approximately 5.21%. The PUC rejected the ALJ’s capital structure recommendation and adopted the OCA’s position that the actual capital structure should be used. The PUC also adopted a return on equity that was closer to the OCA’s recommendation. The PUC agreed with the ALJ’s recommendation, as argued by OCA, which rejected the City’s claim for rate case normalization period and late-filed request for additional rate case expenses.

Tri-Valley Water Supply, Inc., Docket No. R-2010-2207776. On November 1, 2010, Tri-Valley filed a request to increase its rates for its three divisions. Tri-Valley sought additional annual revenues of $54,430 (44.3%). Tri-Valley serves 278 customers in portions of Carbon and Monroe counties. The OCA filed a formal complaint. OCA’s engineering consultant visited the three service areas to inspect the Company’s wells and other facilities. The parties participated in several mediation sessions and were able to reach an agreement on the issues presented in the case. The settlement was filed with the ALJs on April 21, 2010 and sent to the two formal complainants for review. On June 29, 2011, the ALJs recommended that the PUC adopt the settlement petition with some minor additional reporting requirements.

The Settlement provided for an increase in annual revenues of $24,000, or 19.5%. A typical El-Do residential customer using 8,000 gallons of water per quarter would see an increase from $84 to $105 per quarter, rather than $125 as originally proposed by the Company. Typical Cypress Park and Stone Ridge Manor residential customers, using 10,000 gallons per quarter, would see an increase from $130.50 to $152.10, rather than $184.90 as originally proposed by the Company. The Company agreed that it will not
file another rate case any sooner than thirty-six months from the entry date of the PUC's order in this case to the filing date of the next case. The Company agreed that the rates in the proposed settlement will not become effective until it has registered all water sources and updated its Primary Facility and Subfacility reports with the Department of Environmental Protection. The ALJs proposed that the Company provide a verification of compliance to the PUC.

The Company also agreed that it will arrange for Pennsylvania Rural Water Association to conduct a leak detection survey of all three of its systems. Tri Valley will report the results to OTS and OCA and submit quarterly reports to OTS and OCA thereafter of its efforts to address leaks in its systems. This provision will allow OCA to monitor the effort and the impact the Company is making in addressing its leak detection and repairs. The ALJs proposed that the initial survey be completed within four months of the PUC's order and that the ongoing reports also be sent to the PUC's Bureau of Fixed Utility Services.

The Company also agreed that it will conduct pressure surveys at least once per year as required by Commission regulation. This provision will allow OCA to determine whether the pressures in the system are adequate for all household purposes. The ALJs proposed that the reports of the pressure surveys be provided to OCA, OTS, and FUS. At the end of the Fiscal Year, the case was pending before the PUC.

Deer Haven Water and Sewer, Docket Nos. R-2010-2194499, R-2010-2194577, P-2010-2204817, and P-2010-2204818. On August 18, 2010, Deer Haven filed general rate increase requests for its water and sewer operations. Deer Haven Water sought additional annual revenues of $29,266 (380%). For a residential customer, Deer Haven Water's request would result in an increase in the flat rate bill from $15 to $72 per month.

Deer Haven Sewer sought additional annual revenues of $40,314 (375%). For a residential customer, Deer Haven Sewer's request would result in an increase in the flat rate bill from $20 to $95 per month. Deer Haven serves 43 water customers and 46 sewer customers in a portion of Palmyra Township, Pike County. The OCA filed formal complaints against the rate filings.

On October 20, 2010, the OCA was served with emergency or extraordinary rate relief petitions filed by Deer Haven Water and Sewer. In the emergency petitions, Deer Haven asked that the entire rate increase request be approved immediately. The OCA filed answers on October 26, 2010 and a prehearing was held on October 28, 2010. The OCA’s answers noted that the Petitions were deficient and that no support was provided in the Petitions or the underlying rate increase requests. The two Homeowners’ Associations in the service territory filed answers to the Petitions and filed formal complaints in the rate cases. Deer Haven was permitted to amend its petitions
and secure counsel, which it did on November 5, 2010. In its amended petition, Deer Haven lowered its emergency or extraordinary rate increase requests to $14,633 (190%) for water and $30,236 (275%) for sewer. On November 12, 2010, a hearing was held on the Petitions and briefs were filed on November 22, 2010. The OCA's position was that Deer Haven was providing inadequate service and could not justify a rate increase at this time. Even if the PUC reviewed the accounting claims, Deer Haven had not justified any emergency rate relief in water and had justified only $6,492 in sewer. The PUC denied the water company's emergency petition because it found that the company had not justified a need for additional revenues. It granted the sewer company an emergency increase of $10,872, or 98.5%. On December 7, 2010, the water company informed the parties and the ALJ that it would be petitioning to withdraw its rate increase request and would be filing an application to abandon service.

The OCA filed its direct testimony on December 17 and recommended an increase of no more than $2,542 above the amount granted in the emergency rate proceeding. However, the OCA’s position was that no increase should be granted because the company provided inadequate service and did not have the requisite technical, managerial, and financial fitness. A hearing was held on January 10, 2011 and briefs were filed in February.

On March 16, 2011, the presiding ALJ issued a Recommended Decision, in which she agreed as a matter of law that DHS has failed to furnish and maintain adequate service in violation of Section 1501 of the Public Utility Code. Despite finding that DHS was providing inadequate service and that the Commission had the authority to adjust rates to reflect inadequate service, however, the ALJ did not adopt the OCA's recommendation that no rate increase be allowed. Moreover, she did not accept the OTS and HOA recommendations that no increase beyond the increase from $20 to $39.70 per month permitted as interim, emergency rate relief be allowed. The ALJ adopted all of the OCA’s accounting adjustments and recommended that rates be increased to $46.60 per month. The OCA filed exceptions on April 5, 2011 wherein it opposed any rate increase and asked the Commission to commence a Section 529 proceeding immediately. The Commission adopted the Recommended Decision and an order was entered on May 19, 2011.

Superior Water Co., Docket No. R-2010-2191376. On July 29, 2010, Superior Water filed a request to increase its annual revenues by $404,190 (18.81%). Under the Company’s proposal, the proposed usage rates would increase from $52.57 to $62.89 per month, or by 19.6% for the average residential customer using 4,838 gallons of water per month. The Company serves 3,026 residential and commercial customers in portions of Douglass, New Hanover, Lower Pottsgrove, Upper Frederick, Upper Pottsgrove, and Worcester Townships, Montgomery County. The OCA filed a formal complaint.
A public input hearing was held in Gilbertsville on November 10, 2010, at which time seven customers testified. Subsequently, the parties were able to reach a settlement which was filed with the ALJ on December 1. The proposed Settlement provided for a two step phase in. In the first step, Superior would establish rates to collect additional annual water revenues of $380,000 in lieu of its request of $404,190. In the second step, to be effective on July 1, 2011, Superior would establish rates to collect additional annual water revenues of $24,190. In its filing, Superior indicated that it could support an increase of $754,632, or 35.12%. In its supplemental testimony, it indicated that it could support an increase of $864,949, or 40%. Superior had voluntarily reduced its request below the level it claimed it could support. A typical residential customer using 4,838 gallons of water per month would see an increase from $52.57 to $62.27 per month in the first phase and to $62.89 in the second phase. The Company agreed that it would not file another rate case any sooner than April 28, 2012. On December 28, 2010, the ALJ issued a Recommended Decision, recommending approval of the Joint Petition for Settlement. On January 27, 2011, the PUC approved the settlement.

Total Environmental Solutions, Inc., Treasure Lake Water and Sewer, Docket Nos. R-2010-2171918, R-2010-2171924. On June 30, 2010, Total Environmental Solutions, Treasure Lake Water Division filed a request to increase its annual base rate revenues by $376,183 or 62.2%. Under TESI-Water’s request, the typical residential monthly water bill (for 3,500 gallons per month) would increase from $14.30 to $32.66 per month, or 128.4%. Availability rates would decrease by 61.5%, from $3.04 to $1.17 per month.

On that same date, Total Environmental Solutions, Treasure Lake Sewer Division filed a request to increase its annual base rate revenues by $268,150 or 25.6%. Under the Company’s request, the typical residential monthly sewer bill (for 3,500 gallons of water per month) would increase from $27.76 to $42.44 per month, or 52.9%. Availability rates would decrease by 49% from $4.53 to $2.31 per month.

TESI-Water and TESI-Sewer serve approximately 2,105 residential and commercial usage customers and 3,455 availability customers in a portion of Sandy Township, Clearfield County. The OCA filed formal complaints against both rate increase requests. In October, OCA filed testimony setting forth adjustments to the Company’s claims and issues related to operational and quality of service. Public input hearings were held in Treasure Lake on November 9, 2010 at which time 28 customers testified regarding the proposed rate increase and the quality of the service provided by TESI. Subsequently, the active parties were able to reach a settlement in both cases and they were filed with the ALJ on November 30.

Water: The proposed Settlement provided for additional annual water revenues of $244,917. A typical residential customer using 3,500 gallons of water per month would see an increase from $14.30 to $25.13 (75.73%) per month, rather than to $32.66 (128.39%) as originally proposed by the Company. The Company agreed that it will not
file another water rate case any sooner than twelve months after the effective date of the rates in this case. The Joint Petitioners agreed that the availability rates will stay at the current levels, rather than be reduced as proposed by the Company in its filing. This provision meant that the usage customers will not bear the additional burden of bearing the revenues currently collected from the availability customers.

The Company also agreed to provide its iron and manganese test results for every well and its entry point chlorine residual tests on a quarterly basis. Monitoring the level of iron and manganese that is going into the system will allow the OCA and OTS to determine whether the chemical treatment at the wells is adequately addressing the levels of iron and manganese that are present in the raw water. The levels of iron and manganese in the finished water are impacting the water that the customers get at the tap. The requirement to provide the entry point chlorine residual tests will allow OCA and OTS to monitor and see if there are instances where the levels are higher than the usual levels, which might impact some customers especially those who are near the entry points. The Company also agreed to conduct main flushing twice a year. This provision will address build up of sediment that may be in the lines and may be contributing to complaints about brown water. It is important to address the water that enters the system and the condition of the distribution system it flows through. The Company also agreed to keep a customer complaint log and send that log to the OCA and OTS on a quarterly basis. The complaint log, which is required by 52 Pa. Code §65.3, is an important way for the OCA to monitor the level and type of customer complaints in between rate cases. When that information is combined with the operating data described above, it provides a way for OCA to see how the Company’s operational choices may be impacting the water that the customers get at the tap.

Sewer: The proposed Settlement provided for additional annual wastewater revenues of $105,059. A typical residential customer using 3,500 gallons of water per month would see an increase from $27.76 to $33.74 (21.54%) per month, rather than to $42.44 (52.88%) as originally proposed by the Company. The Company agreed that it will not file another wastewater rate case any sooner than twelve months after the effective date of the rates in this case. The stay-out will provide some level of rate stability for the customers. The Joint Petitioners also agreed that the availability rates will stay at the current levels, rather than be reduced as proposed by the Company in its filing. This provision means that the usage customers will not bear the additional burden of bearing the revenues currently collected from the availability customers.

The ALJ approved the sewer settlement without modification. She proposed additional provisions for the water settlement, namely, that the Company be required to address its unaccounted for water by meeting a goal of no more than 20% unaccounted for water within 24 months of the PUC’s order, and that it conduct leak detection on a semi-annual basis, rather than annually as provided for in the settlement. The Company filed exceptions to the Recommended Decision. On March 17, 2011, the PUC approved the sewer settlement as filed and approved the water settlement with modifications.
Specifically, the PUC required TESI to complete an inspection of its system within one year of the PUC’s order, and directed TESI to file a report of its leak detection and remediation activities within 60 days of the end of its leak inspection report. TESI also is required to submit a plan to reduce unaccounted for water within 15 months after the PUC order or its next rate filing, whichever occurs first. TESI accepted these additional requirements and filed its compliance filings on March 21, 2011.

**Reynolds Disposal, Docket No. R-2010-2171339.** On June 30, 2010, Reynolds Disposal Company filed a request to increase its annual base rate revenues by $77,167 (20.5%) Under the Company’s proposal, the proposed metered usage rates would increase from $100.15 to $117.07 per quarter, or by 16.89% for the average residential customer using 10,500 gallons per quarter. The Company serves 681 residential, commercial, industrial and other customers in Pymatuning, Delaware, and Hempfield Townships, Mercer County, Pennsylvania. The OCA filed a formal complaint.

A public input hearing was held in Greenville on November 8, at which time five customers testified. The parties were able to reach an agreement and filed a settlement on November 24, 2010. The proposed Settlement provided for additional annual wastewater revenues of $49,500 or 13.2%. A typical residential customer using 10,500 gallons of water per quarter would see an increase from $100.15 to $111.06 (10.89%) per quarter, rather than to $117.07 (16.89%) as originally proposed by the Company. The Company agreed that it will not file another wastewater rate case any sooner than eighteen months after the effective date of the rates in this case. The stayout will provide some level of rate stability for the customers. The ALJ recommended approval of the settlement on January 11, 2011. On February 10, 2011, the PUC approved the Settlement.

**City of Lock Haven Water Department, Docket No. R-2010-2174543.** As discussed in last year’s Annual Report, on April 29, 2010, the City of Lock Haven Water Department filed a request to increase its rates by $491,423 (41.6%). The bill for a typical residential customer (14,400 gallons per quarter) would increase from $80.78 to $115.53, or by 43%. The revenue increase applied to customers inside and outside of the City. The City serves approximately 1,063 customers outside of the City in portions of Clinton County. The OCA filed a formal complaint on June 7, 2010.

The parties were able to reach a settlement of the proceeding which was filed on October 6, 2010. The proposed Settlement provided for additional annual water revenues of $375,000 or 31.75%. A typical residential customer using 14,400 gallons per quarter would see an increase from $80.78 to $104.23 (22.5%) per quarter, rather than to $115.53 (42%) as originally proposed by the City. The City agreed that it will not file another water rate case any sooner than two years after the effective date of the rates in this case. The stayout will provide some level of rate stability for the customers. The parties addressed additional issues as well. The City agreed to conduct pressure
surveys as required by 52 Pa. Code § 65.6(d), and will retain the records for at least three years. The City will send a copy of the first survey done to the OCA and OTS. The City agreed to modify its current billing format to include information required by 52 Pa. Code § 56.15 (13), which requires that the customer's applicable rate schedule be designated on the bill. The City agreed to retain the records of customer complaints it receives in the format provided in this case for at least 5 years, in accordance with 52 Pa. Code § 65.3. The ALJ recommended approval of the settlement on November 5, 2010. On December 2, 2010, the PUC approved the Settlement.

Clean Treatment Sewage Co., Docket No. R-2009-2121928. As discussed in last year's Annual Report, on July 29, 2009, Clean Treatment Sewage Company filed a request with the PUC to increase the level of rates that it charges for providing service to its ratepayers. CTSC proposed additional annual revenues of $221,317, or 72.7%. The bill for an average residential usage customer would increase from a flat rate of $68.00 to a flat rate of $117.44 per month. CTSC did not propose to charge any fee for availability service. CTSC provides wastewater service to approximately 369 residential usage customers and 4 commercial usage customers in portions of Delaware Township, Pike County. In addition, there are 371 lot owners who cannot be connected to the Company’s system or charged rates for service until a moratorium on new connections has been lifted. The moratorium has been in place since February 2005. OCA filed a formal complaint in August, 2009. Twenty-one customers filed formal complaints. Two public input hearings were held in the service territory on November 9, 2009. OCA, OTS, and CTSC stipulated to overall cost of capital but argued the issue of fair rate of return in recognition of ongoing service quality issues, in addition to several accounting issues. Other than return, the primary issue was whether CTSC should recover from usage customers the revenues it is unable to recover from availability customers. This followed from a May 15, 2009 order in a related complaint case where the Commission found inadequate service and ordered CTSC to cease billing availability customers for service it cannot provide during the moratorium. Hearings were held in Scranton and briefs were filed in January 2010. The OCA’s position was that no increase should be granted because the Company continued to provide inadequate service.

On March 2, 2010, the ALJ issued a Recommended Decision agreeing with OCA that the ongoing moratorium is evidence of inadequate service and a violation of Section 1501 but recommended that CTSC receive a $78,526 increase in annual revenue, or to recover about half of the revenues the Company proposed to shift to usage customers. The ALJ also adopted the OCA’s adjustments to Material & Supplies and depreciation and officers’ salaries, and reduced the Company’s administrative services claim. The parties filed Exceptions in March 2010. The Commission entered its Opinion and Order on April 22, 2010, exercising its authority pursuant to 66 Pa. C.S. § 526 to reject the proposed rate increase in its entirety based on the utility’s continued provision of
inadequate service. The Commission encouraged CTSC to seek another rate increase that includes a plan for improving service and lifting the moratorium.

On May 6, 2010, OTS filed a Petition for Clarification of the Order, asking that the Commission amend its Order to reflect that the OTS presented positions on both of the legal issues in question - whether CTSC was in compliance with Section 1501 and whether a revenue increase should be denied under Section 526. On May 17, 2010, the OCA filed an Answer supporting the OTS Petition and supporting the Commission’s finding that CTSC continues to provide inadequate service and its denial of CTSC’s proposed rate increase. On June 16, 2010, the Commission voted to grant the OTS Petition. The Company subsequently filed an appeal with Commonwealth Court. Since the PUC’s final order, the OCA has been working to move forward with the mandatory takeover proceeding under Section 529 of the Public Utility Code, which would allow a larger, capable utility to provide the necessary improvements to lift the moratorium and provide adequate service to the customers. At the end of the Fiscal Year, the Section 529 proceeding and the appeal were pending.


The OCA and its engineering consultant participated in multiple site visits. After extensive discovery and several settlement meetings and teleconferences, the parties were able to arrive at settlements in four of the five cases. The results of the settlements are shown in the chart below:

<table>
<thead>
<tr>
<th>Division and Location</th>
<th>Number of Customers</th>
<th>Present Rate Avg. Residential Customer/Mo</th>
<th>Proposed Rate Avg. Residential Customer/Mo</th>
<th>Proposed % Increase</th>
<th>Settlement Rate Avg. Residential Customer/Mo</th>
<th>Settlement % Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridlewood R-2008-2081542 Thornbury Twp., Chester Co.</td>
<td>290</td>
<td>$30.00</td>
<td>$48.72 ($42.00 customer) ($1.20/M Usage)</td>
<td>62.4%</td>
<td>$44.51 ($37.00 Single Family) ($33.00 Townhome) ($1.63/M Usage)</td>
<td>48.36%</td>
</tr>
<tr>
<td>Deerfield Knoll R-2008-2081547 Williston Twp., Chester Co.</td>
<td>118</td>
<td>$41.05</td>
<td>$55.80 ($49.75 customer) ($1.95/M Usage)</td>
<td>36%</td>
<td>$55.45 ($45 Customer) ($3.37/M Usage)</td>
<td>35.08%</td>
</tr>
<tr>
<td>East Bradford R-2008-2081533 East Bradford Twp., Chester Co.</td>
<td>80</td>
<td>$91.47</td>
<td>$110.18 ($65.00 customer) ($6.95/M Usage)</td>
<td>20.5%</td>
<td>$109.79 ($60 customer) ($7.66/M Usage)</td>
<td>20.02%</td>
</tr>
</tbody>
</table>
The Eagle Rock filing initially was not settled. The ALJ approved the Settlement agreements in all other divisions. The Commission conducted hearings on the issues raised by the Eagle Rock Community Association and Eagle Rock Resort. The Parties...
submitted Main and Reply Briefs on Eagle Rock division issues and proposed a non-
unanimous settlement on Eagle Rock. The ALJ recommended approval of all of the 
Settlements and the PUC adopted the recommendations. On September 24, 2009 the 
PUC approved the Eagle Rock Settlement. On October 26, 2009, the Eagle Rock 
Community Association and the Eagle Rock Resort Company filed a Petition for Review 
with Commonwealth Court. Eagle Rock Community Association appealed the decision 
based on its opinion that construction disputes between the owner of the Eagle Rock 
Resort and LWWC, i.e., that LWWC did not comply with the demands of Eagle Rock 
Resort, was a violation of Section 1501 of the Public Utility Code. While the OCA 
monitored the proceeding before Commonwealth Court it did not actively participate in 
the appeal. While the Court ultimately dismissed the appeal, Eagle Rock Community 
Association and LWWC settled their dispute. Construction of new residential 
development now continues at Eagle Rock Resort.

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 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. The proposed Settlement provided for a 
revenue increase of $240,000, or approximately 3.6%, increase in total annual revenues 
for customers outside the City and the City could not 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 issues. 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. On October 9, 2008, the PUC denied the Exceptions. On 
November 10, 2008, the Authority filed a Petition for Review in Commonwealth Court. 
The appellant, Lower Saucon Authority, filed its brief. The PUC and OCA briefs were 
due in June, 2009. Lower Saucon and the PUC determined that a remand of the 
proceeding, to address the petition for reconsideration filed by Lower Saucon, related to
the City’s filing of its compliance tariffs, was appropriate. On June 12, 2009, Commonwealth Court granted the PUC’s application for a remand.

Hearings in the remanded proceeding were held and briefs were filed by the parties. The PUC issued Judge Fordham’s Recommended Decision on May 3, 2011. Judge Fordham recommended that Lower Saucon’s request to keep the honor system area and the virtual meter charge be denied. She also recommended denial of Lower Saucon’s request to have the PUC’s metering regulations waived. She recommended that the City install meters within one year of the PUC’s order in this proceeding and that Lower Saucon was responsible for the ancillary metering costs associated with the installation of the meters. At the end of the Fiscal Year, the case was pending before the PUC.

Applications, Petitions, and Investigations

Application of North Heidelberg Water, Docket No. A-2009-2117241. As discussed in last year’s Annual Report, on June 22, 2009, NHWC filed an Application for approval to abandon water service and transfer its customers and water system assets to Reading Area Water Authority (RAWA). The purchase agreement filed with NHWC’s Application was in draft form and not executed. NHWC’s application was published in the Pennsylvania Bulletin on July 18, 2009. On August 6, 2009, the OCA filed a Protest against the Application, identifying several concerns including the absence of a final purchase agreement and inadequate information regarding customer notice and the rate impact of the proposed sale. On November 6, 2009, NHWC filed a Revised Application containing a final, executed purchase agreement. Pursuant to the Agreement, NHWC would sell the water system for $800,000.

Between November 16, 2009 and November 25, 2009, four customers filed Protests against the Revised Application: On January 14, 2010, a public input hearing was held in Bernville, Pennsylvania. Ten customers provided testimony. On February 3, 2010, NHWC filed a Supplemental Agreement on behalf of the Company and RAWA. Pursuant to the ALJ’s instructions, the Supplemental Agreement directed parties to submit any objections to the documents to the Secretary, ALJ and parties by February 16, 2010. The Supplemental Agreement contained information about rates; connection fees; RAWA’s budget, operations, public meetings and plans for the NHWC system; and the effect of the proposed sale with regard to North Heidelberg Sewer Company. Two customer protestants filed timely objections to the Supplemental Agreement.

On February 16, 2010, NHWC submitted a July 31, 2007 Agreement between NHWC and John H. Guenther, Jr. for the purchase and reserve of equivalent dwelling unit (EDU) availability from the NHWC system. NHWC Late-Filed Exh. 3. The purpose of
the submission was to ensure that Mr. Guenther’s interests would be protected if NHWC transfers the system to RAWA.

Next, the parties participated in an on the record conference call on February 19, 2010, at which time a schedule was established for written testimony and further hearings. Pursuant to that schedule, NHWC submitted the testimony of Joseph M. Aicholz, Jr., operator and former president of NHWC, and Susan Werner of the Department of Environmental Protection (DEP) on March 5, 2010. On March 9, 11, and 23, 2010, respectively, three customer protestants submitted timely responsive testimony.

On April 20, 2010, the parties participated in an Initial Hearing held in Harrisburg where cross-examination of witnesses was conducted. Counsel for the Department of Environmental requested and was granted permission to Intervene. In May 2010, NHWC, DEP and OCA filed briefs. The OCA recommended that the Application be approved in light of the Revised Application, Supplemental Agreement and additional information provided by the witnesses at hearings. On June 23, 2010, ALJ Colwell issued a recommendation that the Commission approve the Application based on her conclusion that the evidence showed that customers will be better off with RAWA and that RAWA is technically, managerially, and financially fit to provide adequate service. On August 2, 2010, the Commission entered an Order adopting the Recommended Decision and approving the abandonment and transfer. Closing occurred in 2011.

Application of KH Wastewater Treatment Co., Docket No. A-2010-2174191. On April 28, 2010, KH Wastewater Treatment Co. (KHW) filed an application to acquire the wastewater system assets of Model Enterprises, Inc. (MEI). KHW and MEI are affiliates and MEI is not currently regulated because the customers do not pay separately for service (it is included in their rent). The OCA filed a Protest against the application on June 1, 2010, raising several concerns. Notably, KHW proposed to establish a rate base using the purchase price, which was not the result of arms-length negotiation, KWH proposed a $50 per month customer charge, the proposed tariff is not sufficiently clear regarding which method – metered, flat or estimated rates will be applied for service, and KHW does not have an executed purchase agreement. The OCA filed testimony setting forth its position regarding the customer charge and the tariff issues. After extensive negotiations, the parties were able to reach a settlement. The Settlement provided for approval of KH Wastewater’s application, with a certificate to be issued within 30 days after KH notifies the Commission that the first house is to be constructed. If that happens, initial rates would be a flat rate of $105 per month. Each potential homebuyer will receive notice (the notice is to be drafted in consultation with OCA) of the rates for service. If KH decides to meter its customers, it will not file a proposed metered tariff until it has at least 6 months of usage date for at least 6 homes. KH agreed to file affiliated interest agreements for its relationship with Model Enterprises Management Company within one month of PUC approval of the application. KH also agreed, to the extent its rates are more than 15% higher than its
neighboring wastewater providers, to file a report every six months that shows that it contacted neighboring wastewater service providers to let them know that KH is open to having the other provider provide service to KH’s customers. On April 27, 2011, the ALJ recommended approval of the settlement. The PUC entered a final order adopting the recommendation of the ALJ and approving the settlement.

Application of Birch Acres Water Works and Pennsylvania-American Water, Docket Nos. A-2010-2169734 and A-2010-2169738. As discussed in last year’s Annual Report, Pennsylvania-American Water Company sought Commission approval to acquire the water system property of Birch Acres Waterworks, Inc., in portions of Smithfield Township, Monroe County, the right to record the expenses incidental to the acquisition, and to maintain Birch Acres current rates for the acquired customers. The OCA filed a protest, although it did not oppose the sale of Birch Acres to PAWC. In fact, in the settlement of the Birch Acres rate case at Docket No. R-2009-2110093, approved by the PUC in February 2010, Birch Acres agreed to provide updates to the parties on its efforts to sell the company. The OCA had a concern about the rates that PAWC proposed to charge the acquired customers and wanted to ensure that PAWC complied with the recent settlement, and wanted to clarify the request of PAWC regarding the recording of the acquisition expenses. Those concerns were addressed and the PUC approved the application. Birch Acres and PAWC closed the transaction in December 2010.

Elison v. PAWC, Docket No. C-2010-2175677. The Elisons complained of a high bill during a period that usage was reasonably constant. A plumber checked for leaks and found none. Still, the Company insisted that the Elisons had to pay the high bill or be terminated. An informal complaint at the PUC was resolved in the Company’s favor; thus, the Elisons submitted a formal complaint, having learned from the manufacturer of the meter that had been installed in their home that backflow prevention was required for accurate readings. The OCA intervened in the complaint. A mediation session was held on September 29, 2010 and a site visit on October 12, 2010. A second site visit occurred on November 22, 2010. The parties requested that the case be assigned to an ALJ and scheduled for hearings.

On May 13, 2011, PAWC filed a Second Status Report informing the ALJ that a tentative settlement agreement had been reached among the parties. The Settlement provided that PAWC would distribute a customer bill insert in the July 2011 billings to its entire residential customer base. The bill insert informed customers that they should have a dual check valve or backflow prevention device on their water service connections to prevent billing errors. The Settlement also provided that the Company
would provide training to customer service representatives about customer meter and billing issues related to the absence of a backflow preventer. Customer service representatives would be trained to identify the issue; what corrective issues needed to be taken to resolve the problem; and that customer bills may need to be adjusted or corrected as a result. The Company also created a form on its website by which customers could report a potential backflow problem and that questions through this website would be responded to by the Company within two business days. The Elisons were also previously provided with rate credits. As a result of the completion of the terms of the Settlement by PAWC, the parties executed and filed the Joint Stipulation of Certificate of Satisfaction and Settlement with the PUC.

Pickford, et al. v. Pennsylvania-American Water Co., Docket No. C-20078029. As discussed in last year’s Annual Report, this complaint was filed by 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. The OCA intervened in the case. 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.

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). 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 for dismissal 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 not divest the PUC of jurisdiction 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 stated that the DEP would be welcome as an intervenor in the case and invited the agency to become a party. The ALJ granted the DEP’s Petition to Intervene.

The OCA served the Direct Testimony of Dr. Yuefeng Xie, a nationally known expert on chlorination and chloramination. Dr. Xie recommended the following:

1. That PAWC provide detailed plans for combating nitrification in its distribution system;
2. That PAWC conduct pipe analyses to evaluate the potential impact of water chloramination on lead and copper levels.
3. That the Company provide more information to its customers on chloramine disinfection and nitrogenous disinfection byproducts.

At the hearing held on October 29, 2008, Complainants presented one expert witness regarding an alternative disinfection method by filtration, and PAWC presented two expert witnesses regarding notice of the implementation. The OCA and PAWC then introduced a Joint Petition For Settlement (Settlement), in which PAWC agreed to terms that represented almost all of Dr. Xie’s recommendations. PAWC agreed to monitor for nitrification, implement an action plan for nitrification that adopts Dr. Xie’s recommended remedies, monitor lead levels for lead leaching at homes of 10 customers selected by OCA, provide at least three months notice prior to implementation of chloramination by multiple forms of media, and publicly post developments related to the health effects and regulations concerning chloramine disinfection byproducts. DEP stated that it supported the Settlement. The individual Complainants did not join in the settlement. The ALJ issued an Initial Decision dismissing the Complainants’ formal complaint. The PUC entered an order dismissing the formal complaint. The complainant appealed the PUC’s order to Commonwealth Court. The Court issued its decision and concluded that the PUC had not abused its discretion in excluding evidence of adverse health effects of chloramination, since DEP had already issued a permit allowing PAWC to switch to that disinfection process. The Court further found no error in the PUC’s conclusion that the Petitioners had failed to meet their burden of proving that PAWC’s service including its choice to switch to chloramination was not reasonable, safe and prudent. The Court affirmed the PUC Order in all respects.

Sutter, et al. v. Clean Treatment Sewerage Co., Docket Nos. C-20077794, C-20078197. As discussed in last year’s Annual Report, on May 14, 2007, a customer 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. The customer 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 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 at Docket No. C-20078197 for hearings before an ALJ. 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 in February 2008, in Dingmans Ferry, Pennsylvania. Twenty-nine of the formal complainants testified at the hearings. The Company and the OCA also attended the hearings and presented witnesses. Briefs and Reply Briefs were filed by the Parties. The ALJ issued an Initial Decision on January 2, 2009. In the decision, the ALJ found that CTSC is not providing adequate service but dismissed all customer complaints, deciding in favor of the OCA on one issue – the collection of past due accounts. On January 22, 2009, the OCA filed Exceptions, to which CTSC responded on February 2, 2009.

The Commission reversed the ALJ’s decision, except for the collection of past due accounts, and sustained the customers’ complaints. Specifically, the Commission found that CTSC was not providing adequate service, cannot charge availability customers for a service it is not able to provide, and ordered an investigation into whether the Commission should order a capable utility to acquire CTSC pursuant to 66 Pa. C.S. § 529. The Commission directed, further, that the issue of refunds to customers would be addressed in the context of a separate proceeding. Both the ALJ and Commission rejected arguments by CTSC that the Commission has no jurisdiction over the subject matter of the customer complaints because the condition and operation of CTSC’s wastewater system is not related to the Commission’s authority over safe, adequate and reasonable service by regulated utilities.

On June 12, 2009, CTSC filed a Petition for Review by the Commonwealth Court. The OCA filed a Notice of Intervention. Since the PUC’s final order, the OCA has been working to move forward with the mandatory takeover proceeding under Section 529 of the Public Utility Code, which would allow a larger, capable utility to provide the necessary improvements to lift the moratorium and provide adequate service to the customers. At the end of the Fiscal Year, this case was pending before Commonwealth Court.
Brown v. PAWC, Docket No. C-2010-2164259. As discussed in last year’s Annual Report, Mrs. Brown filed a Formal Complaint seeking public water service from PAWC, after receiving water tests that indicate possible contamination due to gas drilling in her vicinity. The OCA intervened in order to assist Mrs. Brown and five of her neighbors who are also concerned about water well contamination in obtaining public water service. Mrs. Brown and her neighbors live in Mount Pleasant Township, Washington County. PAWC submitted a status report indicating that the company continues to seek a source of funding for the main extensions. At the end of the Fiscal Year, this case was pending before the PUC.
CONSUMER AND LEGISLATIVE OUTREACH

Testimony, Presentations and Speaking Engagements

Consumer Advocate Sonny Popowsky, Consumer Liaison Heather Yoder, 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>Purpose</th>
<th>Place</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-13-10</td>
<td>Pennsylvania Public Utility Commission, (PApowerswitch.com) Event</td>
<td>Harrisburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>7-17-10</td>
<td>Representative Dwight Evans’ “Taking it to the Streets” Festival</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>7-19-10</td>
<td>Blue Ridge Cable- 11 show “Your Local Government”</td>
<td>Ephrata, PA</td>
<td>Interview regarding the OCA and shopping for an electricity supplier</td>
</tr>
<tr>
<td>7-26-10</td>
<td>Representative Mario Scavello’s Senior Expo</td>
<td>Swiftwater, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-4-10</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>8-5-10</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>8-5-10</td>
<td>Representative Carl Walker Metzgar’s Senior Expo</td>
<td>Somerset, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-6-10</td>
<td>Representative Donna Oberlander’s Nifty Sixty Plus Baby Boomer’s Expo</td>
<td>Clarion, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>8-13-10</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>8-16-10</td>
<td>AARP</td>
<td>DuBois, PA</td>
<td>Presentation: What To Do About Upcoming Electric Rate Hikes</td>
</tr>
<tr>
<td>8-19-10</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>8-25-10</td>
<td>Easton Kiwanis</td>
<td>Easton, PA</td>
<td>Presentation on the Office of Consumer Advocate and Electric Competition in Pennsylvania</td>
</tr>
<tr>
<td>8-26-10</td>
<td>Senior Day sponsored by Senator Shirley Kitchen and Representative Mark Cohen</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
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<tr>
<td>Date</td>
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<tr>
<td>9-1-10</td>
<td>Senior Expo sponsored by Senator Don White, Representative Jeff Pyle and</td>
<td>Kittanning, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
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<tr>
<td></td>
<td>Representative Donna Oberlander</td>
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<tr>
<td>9-9-10</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Bethlehem, PA</td>
<td>Testimony on HB 2619 regarding Municipal Aggregation</td>
</tr>
<tr>
<td>9-10-10</td>
<td>Representative Rob Kauffman’s Senior Expo</td>
<td>Chambersburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-13-10</td>
<td>Senator Michael Brubaker, Representative John Bear and Representative Thomas</td>
<td>Manheim, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
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<tr>
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<td>Creighton’s Senior Expo</td>
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<tr>
<td>9-14-10</td>
<td>Representative Garth Everett and Senator Gene Yaw’s Senior Expo</td>
<td>Pennsdale, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-15-10</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>9-16-10</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>9-16-10</td>
<td>Senior Expo sponsored by the Southwestern Area Agency on Aging,</td>
<td>Washington, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
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<td></td>
<td>Representative Timothy Solobay and Representative Jesse White</td>
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<tr>
<td>9-18-10</td>
<td>Energy Fair sponsored by Representative Mario Scavello</td>
<td>Swiftwater, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-21-10</td>
<td>2010 Pennsylvania Broadband Summit</td>
<td>Camp Hill, PA</td>
<td>Presentation on Act 183 of 2004 (Chapter 30) Revisited-</td>
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<td>The Consumer Perspective</td>
</tr>
<tr>
<td>9-23-10</td>
<td>Representative John Siptroth’s Senior Fair</td>
<td>Dingmans Ferry, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-23-10</td>
<td>Senator Robert Tomlinson’s Senior Citizen Expo</td>
<td>Bristol, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-24-10</td>
<td>Senator Jane C. Orie’s Senior Expo</td>
<td>Butler, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-24-10</td>
<td>Senator Darlin Leach’s Senior Expo</td>
<td>Plymouth Meeting, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-24-10</td>
<td>Representative Tom Houghton’s Senior Fair</td>
<td>Oxford, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>9-25-10</td>
<td>Representative Dwight Evans’ and City Councilwoman Marian Tasco’s “Quality of Life”</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
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<tr>
<td></td>
<td>Town Meeting</td>
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<tr>
<td>9-27-10</td>
<td>WGAL</td>
<td>Harrisburg, PA</td>
<td>Interview regarding telephone cramming</td>
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<tr>
<td>Date</td>
<td>Event Description</td>
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<tr>
<td>9-30-10</td>
<td>Representative Dwight Evans’ and City Councilwoman Marian Tasco’s “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>10-1-10</td>
<td>Representative Dan Deasy, Representative Nick Kotik and Representative Robert Matzie’s Senior Expo</td>
<td>Pittsburgh, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-7-10</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>10-8-10</td>
<td>Representative Martin Causer’s Senior Expo</td>
<td>Roulette, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-13-10</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>10-14-10</td>
<td>Our Lady of Lourdes Parish</td>
<td>Enola, PA</td>
<td>Presentation on the Office of Consumer Advocate and Electric Competition in Pennsylvania</td>
</tr>
<tr>
<td>10-14-10</td>
<td>Representative Bill Kortz’s Senior Fair</td>
<td>West Mifflin, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-15-10</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>10-18-10</td>
<td>FOX 29 News Philadelphia</td>
<td>Philadelphia, PA</td>
<td>Interview regarding PECO</td>
</tr>
<tr>
<td>10-21-10</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>10-21-10</td>
<td>Representative Ron Marsico’s Senior Expo</td>
<td>Hershey, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-22-10</td>
<td>Representative Randy Vulakovich’s Senior Expo</td>
<td>Glenshaw, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-23-10</td>
<td>Alpha Kappa Alpha Sorority Energy Forum</td>
<td>Harrisburg, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>10-28-10</td>
<td>PA Retired Employees</td>
<td>Indiana, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>10-28-10</td>
<td>Lackawanna &amp; Wayne County Senior Expo sponsored by the Salvation Army</td>
<td>Waymart, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>10-29-10</td>
<td>Electricity Advisory Committee (EAC)</td>
<td>Arlington, VA</td>
<td>Initial meeting</td>
</tr>
<tr>
<td>10-29-10</td>
<td>Warren-Forest Eldercare Council Senior Expo</td>
<td>Warren, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
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<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
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<tr>
<td>11-9-10</td>
<td>Representative Seth Grove’s Energy Fair</td>
<td>York, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>11-10-10</td>
<td>Dillsburg Senior Center</td>
<td>Dillsburg, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>11-10-10</td>
<td>“Partners for Warmth” and “Face of LIHEAP” Public Awareness Campaigns</td>
<td>Pittsburgh, PA</td>
<td>Participated in a press conference to promote the Low Income Home Energy Assistance Program in Western Pennsylvania</td>
</tr>
<tr>
<td>11-14-10</td>
<td>NASUCA Workshop</td>
<td>Atlanta, GA</td>
<td>Participated in a panel regarding the Eastern Interconnection</td>
</tr>
<tr>
<td>11-16-10</td>
<td>Cross Keys Village</td>
<td>New Oxford, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>11-17-10</td>
<td>Pennsylvania House Consumer Affairs Committee</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Municipal Aggregation (House Bill 2619)</td>
</tr>
<tr>
<td>11-18-10</td>
<td>AARP Monthly Meeting</td>
<td>Levittown, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>11-23-10</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>11-23-10</td>
<td>WPIC Valley Talk Radio</td>
<td>Harrisburg, PA</td>
<td>Telephone interview regarding Electric and Natural Gas Choice</td>
</tr>
<tr>
<td>11-29-10</td>
<td>WHYY Radio</td>
<td>Philadelphia, PA</td>
<td>Interview regarding Electric Shopping</td>
</tr>
<tr>
<td>12-1-10</td>
<td>AARP Utility Town Hall Meeting</td>
<td>York, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>12-6-10</td>
<td>AARP Monthly Meeting</td>
<td>Easton, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>12-8-10</td>
<td>WITF-TV</td>
<td>Harrisburg, PA</td>
<td>Program on Rate Caps and Smart Grid</td>
</tr>
<tr>
<td>12-9-10</td>
<td>TV program with Representative Kate Harper</td>
<td>Harrisburg, PA</td>
<td>Program on utility consumer issues</td>
</tr>
<tr>
<td>1-19-11</td>
<td>Philadelphia Corporation For Aging Information and Referral Council Meeting</td>
<td>Philadelphia, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>1-19-11</td>
<td>Pennsylvania Public Utility Commission, (PApowerswitch.com) Event</td>
<td>King of Prussia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>2-16-11</td>
<td>National Association of Retired Federal Employees (NARFE) Chapter Meeting</td>
<td>Philadelphia, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>2-17-11</td>
<td>St. Charles Senior Center</td>
<td>Philadelphia, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>2-17-11</td>
<td>NBC10/Pennsylvania Public Utility Commission, (PApowerswitch.com) Event</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>2-24-11</td>
<td>The Academy of Natural Sciences, Center for Environmental Policy</td>
<td>Philadelphia, PA</td>
<td>Shopping for Electricity in the New Energy Landscape</td>
</tr>
<tr>
<td>3-3-11</td>
<td>Electric Choice Seminar sponsored by Representative Vitali</td>
<td>Wayne, PA</td>
<td>Electric Choice in Pennsylvania</td>
</tr>
<tr>
<td>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Action Details</td>
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<tr>
<td>3-9-11</td>
<td>OAG Bureau of Consumer Protection Consumer Fair</td>
<td>Harrisburg, PA</td>
<td>Staff an exhibitor's booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>3-10-11</td>
<td>OAG Bureau of Consumer Protection Consumer Fair</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor's booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>3-14-11</td>
<td>Russian Federal Tariff Service Delegation</td>
<td>Harrisburg, PA</td>
<td>Relationship Between Public Advocate and Regulatory Commission</td>
</tr>
<tr>
<td>3-18-11</td>
<td>Pennsylvania Association of Retired State Employees (PARSE)</td>
<td>Latrobe, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>3-19-11</td>
<td>Energy Summit sponsored by the West Philadelphia Coalition of Neighborhoods and Businesses, State Representative Vanessa Lowery Brown and the PUC</td>
<td>Philadelphia, PA</td>
<td>Participate in an electric shopping panel</td>
</tr>
<tr>
<td>3-22-11</td>
<td>Pennsylvania Public Utility Commission, (PApowerswitch.com) Event</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-4-11</td>
<td>Electricity Choice Seminar Sponsored by Representative Dwight Evans and City Councilwoman Marian Tasco</td>
<td>Philadelphia, PA</td>
<td>Presentation on Electric Shopping</td>
</tr>
<tr>
<td>4-7-11</td>
<td>Community Outreach meeting sponsored by Representative Michael O’Brien</td>
<td>Philadelphia, PA</td>
<td>Presentation on Shopping and Saving on Your Electricity Bills</td>
</tr>
<tr>
<td>4-10-11</td>
<td>Representative Rosemary Brown’s Family Expo</td>
<td>East Stroudsburg, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-14-11</td>
<td>Senator Charles McIlhinney’s Senior Expo</td>
<td>Levittown, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-15-11</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>4-15-11</td>
<td>Representative John Sabatina’s Senior Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>4-19-11</td>
<td>Electricity Choice Seminar Sponsored by Representative Dwight Evans and City Councilwoman Marian Tasco</td>
<td>Philadelphia, PA</td>
<td>Presentation on Electric Shopping</td>
</tr>
<tr>
<td>4-21-11</td>
<td>“It’s a Green Thing: What’s your Carbon Footprint&quot; workshop sponsored by Representative Cherelle Parker</td>
<td>Philadelphia, PA</td>
<td>Presentation on electric shopping</td>
</tr>
<tr>
<td>4-29-11</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>Date</td>
<td>Event Description</td>
<td>Location</td>
<td>Role/Activity</td>
</tr>
<tr>
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</tr>
<tr>
<td>5-5-11</td>
<td>Energy Bar Association</td>
<td>Washington, D.C.</td>
<td>Electric Competition</td>
</tr>
<tr>
<td>5-6-11</td>
<td>Senator Shirley Kitchen’s Senior Healthy Living Expo</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-11-11</td>
<td>Pennsylvania Legal Aid Network (PLAN) state training conference</td>
<td>Harrisburg, PA</td>
<td>Presentation on the impact of current utility issues on low income customers</td>
</tr>
<tr>
<td>5-12-11</td>
<td>Briefing and Discussion Regarding Marketing Practices for Electric Generation Suppliers sponsored by Blank Rome</td>
<td>Philadelphia, PA</td>
<td>Electric Marketing and Shopping Rules</td>
</tr>
<tr>
<td>5-12-11</td>
<td>Senator Dominic Pileggi’s Senior Expo</td>
<td>Kennett Square, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-13-11</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>5-13-11</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>5-13-11</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>5-19-11</td>
<td>Representative Vincent Hughes’ Senior Fair</td>
<td>Philadelphia, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>5-31-11</td>
<td>Pennsylvania Public Utility Law Conference</td>
<td>Harrisburg, PA</td>
<td>Industry Leaders Panel Discussion</td>
</tr>
<tr>
<td>5-31-11</td>
<td>Pennsylvania Public Utility Law Conference</td>
<td>Harrisburg, PA</td>
<td>Planning team</td>
</tr>
<tr>
<td>6-1-11</td>
<td>Pennsylvania Public Utility Law Conference</td>
<td>Harrisburg, Pa</td>
<td>Moderator: “Recent Regulatory Changes and Initiatives at DEP/EPA/Pennvest</td>
</tr>
<tr>
<td>6-1-11</td>
<td>Senator David Argall’s Senior Expo</td>
<td>Frackville, 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>
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</tr>
<tr>
<td>6-2-11</td>
<td>Penn Future Conference</td>
<td>Camp Hill, PA</td>
<td>Green Energy Shopping</td>
</tr>
<tr>
<td>6-8-11</td>
<td>Pennsylvania Public Utility Commission En Banc Hearing</td>
<td>Harrisburg, PA</td>
<td>Testimony regarding Electric Default Service</td>
</tr>
<tr>
<td>6-9-11</td>
<td>Representative Marcy Toepel's Senior Expo</td>
<td>East Greenville, PA</td>
<td>Staff an exhibitor’s booth, answer questions and distribute materials</td>
</tr>
<tr>
<td>6-10-11</td>
<td>AARP Tele-Town Hall Meeting</td>
<td>Harrisburg, PA</td>
<td>Q&amp;A with AARP members regarding utility issues</td>
</tr>
<tr>
<td>6-14-11</td>
<td>Capital Area Managing Partners (CAMP) Program</td>
<td>Harrisburg, PA</td>
<td>Public utility law roundtable</td>
</tr>
<tr>
<td>6-20-11</td>
<td>FCC</td>
<td>Washington, D.C.</td>
<td>Presentation regarding NASUCA’s support of a national database to assist in managing Lifeline and Link-Up programs.</td>
</tr>
<tr>
<td>6-21-11</td>
<td>&quot;Flowing into the Future: Evolving Water Issues&quot;</td>
<td>Mechanicsburg, PA</td>
<td>“Sustainable Infrastructure” panel</td>
</tr>
<tr>
<td>6-21-11</td>
<td>&quot;Flowing into the Future: Evolving Water Issues&quot;</td>
<td>Mechanicsburg, PA</td>
<td>“Jurisdictional Issues as a Practical Matter” panel</td>
</tr>
<tr>
<td>6-27-11</td>
<td>MACRUC Education Conference</td>
<td>Hershey, PA</td>
<td>Water Industry Green Initiatives panel</td>
</tr>
</tbody>
</table>
OCA CALL CENTER

The OCA’s toll free number – 800-684-6560 – was implemented in the year 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. 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 2010-2011, we had a total of 30,195 consumer contacts in the Call Center, including requests for shopping guides, phone calls, letters and e-mails.

Summarized here are examples of our assistance to individual consumers:

We assisted a consumer who was facing termination of her electric service. She was enrolled in the company’s customer assistance program (CAP) but was unable to make monthly payments due to a change in her husband’s employment. We contacted the company on her behalf and they put a 30 day hold on the account. Upon reviewing her account, the company lowered her monthly CAP payment amount based on her household’s current income. They also helped her apply for an energy assistance grant. Between the lower monthly CAP payment, the energy assistance grant and payment from the customer, she avoided termination and now has a more manageable monthly bill.

We assisted a consumer who was double charged for his monthly telephone, internet and cable package. The telephone company agreed to remove the charges from his bill, but did not investigate why the billing error occurred. After we contacted the company and asked them to investigate, they discovered an IT issue that caused this billing error. The error was corrected.

We assisted a consumer who was having difficulty enrolling in her phone company’s Lifeline program. We contacted the company on her behalf and discovered there was some confusion surrounding the qualification process. The company worked with the consumer and outlined exactly what she needed to do to enroll in the program.

We assisted a consumer who was referred to our office by her State Representative. The consumer’s DSL had not been working for two weeks and after numerous calls to the company, she was unable to resolve the issue. We contacted the company on the customer’s behalf. It was determined that the modem was not working properly. The company sent a new modem and assisted the customer over the phone on how to install the modem.
We assisted a consumer who had switched telephone companies, but was still receiving bills from the old company. We contacted the company on her behalf and they issued a credit check in the amount of $36.15.

We assisted a consumer who paid her gas bill online through her bank, but mistakenly paid $1,673 rather than $16.73. She contacted the company and was told they had to wait for the payment to post before they could issue a refund. The customer felt it was taking too long to receive her refund. We contacted the gas company on her behalf. They said the refund check was processed but they agreed to give her an additional $25 credit for the delay.

We assisted a consumer whose electric meter had stopped working and was rebilled for three months of service. She was concerned whether the amount of the make up bill was correct. We contacted the electric company on her behalf. They reviewed the bill, determined the bill was incorrect, and issued a corrected bill. They also confirmed the new meter was registering the correct usage.

We assisted a consumer who was referred to us by her State Representative. The consumer had been hospitalized and fell behind on her monthly payments which caused her to be removed from the customer assistance program and have her service terminated. Due to her health problems, she was unable to pay the full amount in order to get her service reconnected. We contacted the gas company on her behalf and they assisted the consumer in paying the outstanding balance and getting her service reconnected.

We assisted another consumer who was seeking a refund from her telephone company for an overpayment. We contacted the company on her behalf and found out the refund had been approved but there was an error in processing the check. The company addressed the issue and sent the $243 refund check within days of our contact.

We assisted an electric consumer who missed a budget payment and was removed from budget billing for one year. She had recently lost her job and depended on the budget to manage her monthly bills. We contacted the company on her behalf. They worked with the customer on entering into a payment agreement and getting back on the budget billing.

We assisted a consumer who was referred to our office by her State Senator. Her electric service had been terminated and she was having difficulty figuring out how much she owed the company in order to have the service restored. We contacted the electric company on her behalf. They worked out a payment arrangement with her which gave her manageable monthly payments and enabled her to get her service restored.
We assisted an elderly couple who were referred to our office by their State Representative. Their phone service had not been working properly, but the telephone company was unable to visit the property to troubleshoot the problem for several days. The couple had health issues and was unable to be without phone service. We contacted the telephone company on their behalf. The company was able to send a technician and restore the service that same day.

We assisted an elderly consumer with a complaint regarding a higher than normal telephone bill. She was charged $144 for a 1,035 minute long distance call she says she did not make. We contacted the company and they agreed to adjust the bill and credit the charges for this call.

We assisted a natural gas consumer who was having difficulty with his natural gas company’s autopay program. He had changed banks and contacted the gas company with his new bank information. Instead of changing the information in the system, the gas company inadvertently removed him from the autopay option. The gas company changed the banking information and restored the customer’s ability to utilize the autopay system.

We assisted an elderly consumer whose power was terminated for non-payment while she was in a skilled rehabilitation center. She could not afford to pay the entire past due balance and the rehabilitation center was concerned about the impact the lack of electricity would have on her medical condition. The consumer had defaulted on prior payment arrangements with the electric company and they were not willing to make another arrangement. We contacted the electric company on her behalf. They agreed to give her another payment arrangement and put her in touch with company personnel to discuss enrollment in their customer assistance program.

We assisted an elderly consumer who was billed for DSL service prior to installing the equipment and setting up the service. Since she disputed some of the charges, she stopped paying her entire telephone bill. We contacted the telephone company on her behalf. They agreed to credit the disputed charges and she agreed to pay the balance, which were valid charges.

We assisted a consumer who switched to an alternate electric generation supplier, not realizing that he was currently getting a discounted rate from his electric distribution company. When he realized his mistake, he contacted the supplier during the rescission period and thought he prevented the switch from occurring. However, when he received his bill, he was charged by the new supplier and since he was no longer on the discounted rate, his bill was higher. We contacted the supplier on his behalf. Since he cancelled within the rescission period, his service should not have been switched. The supplier agreed to credit him the difference between their rate and the discounted rate.
In May, we were contacted by a newspaper reporter on behalf of a reader. The reader chose an alternate electric supplier and discovered he was being charged sales tax. In Pennsylvania, residential electric customers should not be charged sales tax so we contacted the electric supplier. The supplier discovered an error in its system which resulted in sales tax being charged to customers. The supplier corrected the error and refunded the customer for the erroneous charges. Upon further review, the supplier discovered this error affected approximately 5,770 customers and a total of $98,471 was refunded to all current and former customers affected by this error.

We assisted a consumer who was having trouble paying her electric bill. She moved into a mobile home last August, but did not realize how expensive it would be to heat during the winter. Due to her location, she was unable to get an oil delivery and relied on electric space heaters to heat her home. This resulted in winter electric bills of approximately $780. She received LIHEAP assistance and was on the electric company’s customer assistance program but due to recent financial hardships had been unable to make payments. We contacted the company on her behalf and they agreed to defer approximately $500 which will be forgiven over time if the customer makes her monthly CAP payments in full and on time. They also placed a two week hold on the account to allow her to pay the revised amount due on the account.

A social worker contacted OCA by e-mail in May seeking help in obtaining discounted Lifeline telephone service for residents in a halfway house in Philadelphia operated by a non-profit. The OCA provided information about how to apply for Lifeline when the eligible consumers do not have a private residential address. As of June, one client of the halfway house had been approved for Lifeline service from a wireless carrier. Other residents are waiting to hear from the carrier. If necessary, OCA will assist the residents with their requests with the wireless carrier.
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 participates in the Water Committee.
- Assistant Consumer Advocate Barrett Sheridan participates 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 Advocate Subcommittee.

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

- In August 2010, Mr. Popowsky was appointed by the Secretary of Energy to serve on the United States Department of Energy’s Electricity Advisory Committee. He is the first state consumer advocate to serve on this Committee. In 2010, Mr. Popowsky was also selected as one of two state consumer advocates to represent electricity consumers on the Stakeholder Steering Committee of the Eastern Interconnection Planning Collaborative. 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.
- 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, Regional Planning Process Working Group, Public Interest/Environmental Organizations Users Group, and the Liaison Committee.
- Ms. 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. Ms. Sheridan serves as a
member of the advisory staff for the Consumer Representative on the Joint Board for Universal Service which advises the FCC.

- Assistant Consumer Advocate Darryl Lawrence was elected to serve as a small consumer representative on the Planning Committee of the North American Electric Reliability Corporation (NERC).

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.
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
David T. Evrard
Erin L. Gannon
Jennedy S. Johnson
Darryl A. Lawrence
James A. Mullins
Barrett C. Sheridan
Shaun A. Sparks
Candis A. Tunilo

**Assistant Consumer Advocates**

Bryan Flannery

*Legal Intern*

Marilyn J. Kraus

*Senior Regulatory Analyst*

Pamela R. Carroll
Jayne M. Hontz
Leslie B. Jackson
Robert B. Robinson
Kim M. Yetter

**Administrative Staff**

Cheryl A. Cootes
Denise F. Smith
Victoria N. Stone

**Clerical Staff**

Sandra L. Kinsey
Cammie A. Shoen

**Legal Assistants**

Heather R. Yoder

*Consumer Liaison*

Sheri L. Steigleman
Kevin R. Yiengst

*Consumer Service Representatives*