

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

EXECUTIVE SUMMARY OF THE ANNUAL REPORT

FISCAL YEAR 2016-2017

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EXECUTIVE SUMMARY

The Office of Consumer Advocate (OCA) has served Pennsylvania utility consumers since its establishment by the General Assembly in 1976. Act 161 of the Pennsylvania General Assembly, 71 P.S. Sections 309-2, 309-4, as enacted July 9, 1976, authorizes the Consumer Advocate to represent the interests of consumers in matters before the Pennsylvania Public Utility Commission (PUC or Commission), any similar federal regulatory agency or any state or federal court regarding matters involving regulation by the Commission or corresponding regulatory agencies. The OCA is a statutorily independent office, administratively included within the Office of Attorney General.

The OCA participates before the PUC in all major rate cases, most small rate cases, and many non-rate proceedings that have a significant impact on consumers. The 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 participates actively on policy-making committees of non-government organizations such as the PJM Regional Transmission Operator (RTO), whose decisions have a critical impact on electric prices and service in Pennsylvania. Through our consumer education outreach, website, social media posting presence and toll-free call center, the OCA 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 electric and natural gas restructuring, regulatory requirements for basic and advanced telecommunications services, and Act 11 of 2012's provisions for recovery of distribution system infrastructure improvement costs outside of base rate cases, use of a fully projected future test year within base rate cases and the combination of water and wastewater revenue requirements. Stemming from Act 11, several additional Distribution System Improvement Charges (DSIC) were established, four utilities asked the Commission to waive the DSIC's statutory 5% cap, and numerous utilities filed plans to significantly increase the cost of infrastructure improvements. Several utilities filed base rate filings including a fully projected future test year. During Fiscal Year 2016-2017, the OCA worked on cases that were a result of more recent legislative changes, such as the legislation addressing the consolidated tax savings adjustment (Act 40 of 2016), and changes to the valuation method for certain acquisitions of municipal water and wastewater systems (Act 12 of 2016).

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

In the electric industry, the 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 continues to participate in all default service filings of electric distribution companies to ensure that those companies provide reliable default generation service to their customers at the least cost over time. The OCA also continues to be 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. The OCA is also involved in the DSIC filings made pursuant to Act 11 of 2012 by electric distribution companies. During Fiscal Year 2016-2017, the OCA has been involved in distribution base rate proceedings filed by six electric distribution companies. Each company used a fully projected future test year under Act 11 and eliminated its historic consolidated tax savings adjustment under Act 40 of 2016. The OCA has also participated in proceedings addressing changes to the calculation of taxes in the DSIC as a result of Act 40. At the same time, through our website, social media presence (postings) and consumer outreach, the 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 occurs at the federal and regional level, the OCA has continued its expanded participation in key electric proceedings before the FERC and in the activities of the PJM Interconnection.

In the natural gas industry, the OCA continues to represent consumers across Pennsylvania in the annual PUC review of every major 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. The OCA also is involved in the ongoing quarterly DSIC filings made pursuant to Act 11 of 2012 by natural gas companies and filings by four natural gas companies to increase the DSIC cap from 5% to 10%. During the Fiscal Year 2016-2017, the OCA has participated in four gas distribution company base rate cases and continued our work on natural gas main extensions and proposed abandonments of natural gas service to consumers. The OCA 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 quality of service, network maintenance, 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 as well as access to broadband services. 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 continues to monitor consumer complaints and inquiries regarding the availability of broadband in areas around the Commonwealth. At the federal level, the OCA works extensively 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 involving large, medium and small companies, acquisitions, and other application proceedings, and mandatory takeover proceedings involving both large and small utilities. The OCA also continues to address requests from water and wastewater utilities of all sizes under Act 11 of 2012 that choose to use the fully projected future test year and the provisions of Act 11 that allow for combining the revenue requirements of water and wastewater subsidiaries within the same parent company. During Fiscal Year 2016-2017, the OCA participated in six base rate cases. In addition, the OCA participated in three applications involving companies' acquisitions of municipal wastewater systems using fair market valuation under Act 12 of 2016. As water and wastewater infrastructure expand 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 taken part in service quality cases and an application case to ensure that consumers are receiving safe and adequate water and wastewater service, and has worked to extend public water service at a reasonable cost to unserved areas. The OCA also participated in two proceedings addressing water utilities' replacement of customer-owned service lines containing lead.

During the last Fiscal Year, in addition to its litigation activities, OCA participated on behalf of utility consumers in state and federal legislative and policy debates. The Office has been called on to present formal testimony in the Pennsylvania General Assembly regarding the recovery of natural gas distribution system extension costs and the deployment of broadband service in Pennsylvania.

The OCA also responds to individual utility consumer complaints and inquiries. The OCA maintains a toll-free calling number (800-684-6560). In addition, the OCA devotes substantial resources to educating consumers about changes in the utility industry. The Acting 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 Fiscal Year 2016-2017, the OCA participated in 69 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 and its social media postings. 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 following pages highlight the key issues the OCA addressed in Fiscal Year 2016-2017. A complete listing of the OCA's case activities on behalf of consumers is provided in the Fiscal Year 2016-2017 Annual Report.

KEY ISSUES FOR ELECTRIC CONSUMERS

Protecting customers from unfair variable rates. In the 2016-2017 Fiscal Year, the OCA continued its complaints against two electric generation suppliers regarding the variable rates charged to customers during early 2014. One of those cases remains pending. The final order in the other case, among other things, included additional refunds to date of approximately \$2 million to affected customers and a contribution of \$25,000 to the electric distribution utilities' hardship funds. The OCA assisted two customers who contacted our office because they were renewed at a variable rate instead of a fixed rate; in each case the OCA was able to obtain appropriate refunds and correct the rate going-forward. In one case, the OCA asked the EGS to review its records and identify other customers who may not have received the required renewal notice and unknowingly paid a higher variable rate. As a result of its review, the EGS identified 1,383 customers who were impacted and they made a commitment to notify the customers and make appropriate adjustments if they were billed at a higher variable rate.

Least cost default service. The OCA has sought to ensure that customers continue to be protected through the development of stable, reasonably priced "default" service. Pursuant to Act 129, the OCA participated in all of the default service filings of electric distribution companies in Fiscal Year 2016-2017 to ensure that those companies provide reliable default generation service to their customers at the least cost over time.

Energy efficiency, demand response and smart meter deployment. The OCA has continued to be active in the Act 129 energy efficiency and demand response proceedings to ensure that the energy efficiency, demand response, and smart meter deployment programs developed by Pennsylvania electric utilities provide the greatest benefit to consumers at the lowest reasonable cost.

Prepaid metering. The OCA opposed an electric distribution utility's petition to begin offering prepaid metering service on a pilot basis. Experiences in other states and countries raise significant questions as to the impact on customers of prepaid metering. Further, the Company's proposal lacked a variety of consumer protections and tracking and reporting requirements. The OCA also opposed the pilot program because it is inconsistent with Pennsylvania law.

Consolidated supplier billing. During the 2016-2017 Fiscal Year, a petition was filed seeking permission for energy generation suppliers to bill electric customers directly for the utilities' distribution charges, the EGS' charges and additional EGS services such as home security, HVAC maintenance, surge protection, prepaid service and flat bills. Currently, the electric distribution utilities bill for all charges. The OCA opposed this request because it is likely to increase costs to consumers, would require a complex and confusing division of responsibilities for utility service, is unnecessary under current PUC practices and procedures, and provides no discernible benefits to ratepayers. The case is pending before the Commission.

Balancing the need for infrastructure investment with reasonable rates. The OCA continued to be involved in the Distribution System Improvement Charge (DSIC) filings made pursuant to Act 11 by electric distribution companies; six electric distribution companies established initial DSICs during Fiscal Year 2016-2017. During the same period, the OCA was involved in distribution base rate proceedings filed by six electric distribution companies as well an application proceeding for an electric utility to construct a community microgrid.

Ensuring adequate Universal Service programs. The OCA submitted Comments on the Universal Service and Energy Conservation Plans filed by five electric utilities, focused on Customer Assistance Program outreach, consumer education and cost-effectiveness of the plans. During Fiscal Year 2016-2017, the OCA participated in Universal Service advisory groups that work on the details of program implementation.

Federal issues of importance to Pennsylvania utility customers. The OCA has continued its expanded participation at PJM Interconnection because much of the decision-making that affects Pennsylvania electric consumers occurs at the regional level.

Smart shopping. 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.

A full listing of the OCA's electric-related case activities on behalf of consumers is provided in the Fiscal Year 2016-2017 Annual Report.

KEY ISSUES FOR NATURAL GAS CONSUMERS

Reasonable rates for infrastructure investments to provide safe and adequate service. In Fiscal Year 2016-2017, the OCA participated in four base rate cases involving natural gas utilities. The OCA was involved in the ongoing quarterly infrastructure surcharge rate filings made pursuant to Act 11 by natural gas companies. The OCA also actively participated in five filings to increase the statutory DSIC cap. In all cases, the OCA worked to ensure that rates are as low as possible and adequate to support prudent investment by natural gas utilities.

Helping to make the retail markets work for consumers. 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 Fiscal Year 2016-2017, the OCA continued to represent consumers across Pennsylvania in the annual PUC review of every major natural gas distribution company's purchased gas costs. Over the last few Fiscal Years, the OCA has been involved in a number of PUC proceedings related to the retail gas market, including a rulemaking to direct natural gas companies to accelerate timeframes for customers to switch suppliers, where the OCA has worked to improve the market for the benefit of customers.

Preserving natural gas service. The OCA continued to participate in a proceeding where 86 existing natural gas customers in Greene County were potentially being abandoned and worked to ensure that all affected customers continued to receive safe and reliable natural gas service at affordable rates.

Ensuring adequate Energy Efficiency and Universal Service programs. During Fiscal Year 2016-2017, the OCA submitted Comments on the Universal Service and Energy Efficiency plans filed by two natural gas distribution utilities, focused on Customer Assistance Program outreach, consumer education and cost-effectiveness of the plans. The OCA also addressed universal service issues in two other natural gas distribution utilities' base rate proceedings. The OCA participated in Universal Service advisory groups that work on the details of program implementation.

Federal issues of importance to Pennsylvania utility customers. The OCA participated in proceedings at the Federal Energy Regulatory Commission that involve the major interstate pipelines that serve Pennsylvania's retail natural gas distribution companies.

A full listing of the OCA's natural gas-related case activities on behalf of consumers is provided in the Fiscal Year 2016-2017 Annual Report.

KEY ISSUES FOR WATER AND WASTEWATER CUSTOMERS

Working for safe and reliable service at reasonable rates. In the water and wastewater industries, the OCA continued to represent consumers in six base rate increase cases involving large, medium and small companies. In addition, the OCA continued its participation in two service quality cases to ensure that consumers are receiving safe and adequate water and wastewater service.

Ensuring benefits and consumer protection in water and wastewater consolidation. During the 2016-2017 Fiscal Year, the OCA participated in seven acquisition, application and mandatory takeover proceedings involving both large and small utilities. In all of these cases, the OCA worked to ensure that existing and acquired customers were protected and benefitted from the transaction.

Fairly sharing costs. 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. Three application proceedings by large wastewater utilities were filed under recently enacted Section 1329 of the Public Utility Code, which provides for fair market valuation of municipal utilities. In each proceeding, the OCA made recommendations to ensure the valuation is consistent with standard financial and utility ratemaking practice. The OCA continues to address requests from water and wastewater utilities of all sizes under Act 11 that choose to use the fully projected future test year and the provisions of Act 11 that allow for combining the revenue requirements of water and wastewater subsidiaries within the same parent company.

Supporting lead control programs. During Fiscal Year 2016-2017, two large water utilities sought Commission approval of proposals to allow tariff waivers and recovery of costs for replacing customer-owned service lines containing lead. The OCA has supported the utilities' concept to replace customer-owned service lines to protect the public health of customers and worked to ensure that the costs are fairly shared between the utility and consumers. In addition, the OCA has focused on the need for customer outreach and education to ensure that consumers are informed about the risks of lead contamination, how to identify whether they have a lead service line, and information about their utility's lead control projects.

Preserving the consumer protections afforded by the Public Utility Code. During the 2016-2017 Fiscal Year, four municipally-owned utilities requested a determination that they are not regulated by the Public Utility Commission for water service they provide outside their corporate boundaries. If those customers are not customers of a "public utility," they will not be afforded the protections of the Public Utility Code and also have no power to vote in the municipality that provides their service. In each case,

the Commission granted the utilities' requested relief but required it to apply the same rates to inside and outside customers. The OCA prevailed in the case of a fifth, privately-owned utility, with the result that its rates and service to all customers will be regulated by the Commission.

Extending public water service. The OCA has worked to balance the need to extend public water service at a reasonable cost to unserved areas, with the interest of existing water and wastewater customers in maintaining the quality and affordability of their service.

A full listing of the OCA's water and wastewater-related case activities on behalf of consumers is provided in the Fiscal Year 2016-2017 Annual Report.

KEY ISSUES FOR TELECOM CONSUMERS

Reliable and affordable service for all Pennsylvanians. In the 2016-2017 Fiscal Year, the OCA participated in cases involving basic service pricing and quality of telephone service in Pennsylvania. At the federal level, the OCA supported reforms to the Lifeline program to provide eligible consumers with access to voice and broadband services, improved notice for consumers subject to network changes from copper to fiber, and allocation of federal universal service funding for broadband infrastructure. The OCA continued to focus on the goal of ensuring that Pennsylvania maintains and enhances the provision of reliable and affordable universal telephone service throughout the Commonwealth while preserving the universal broadband requirements of Chapter 30. 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.

Meeting the Chapter 30 broadband obligation. The OCA continued to monitor consumer complaints and inquiries regarding the availability of broadband pursuant to Chapter 30 of the Public Utility Code in areas throughout the Commonwealth.

Federal issues of importance to Pennsylvania utility customers. At the federal level, the OCA worked extensively with the National Association of State Utility Consumer Advocates to provide the consumers' perspective in proceedings before the Federal Communications Commission.

A full listing of the OCA's telecommunication-related case activities on behalf of consumers is provided in the Fiscal Year 2016-2017 Annual Report.

CONSUMER EDUCATION SUMMARY

Shopping guides. The OCA continued to compile 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.

Electric shopping statistics. The OCA continued to compile the number and percentage of customers and customer load that are being served by alternative suppliers throughout Pennsylvania. Each quarter, the OCA posts those statistics on its website.

Outreach events. During Fiscal Year 2016-2017, the OCA participated in 69 consumer outreach events across Pennsylvania, many of which were sponsored by members of the General Assembly. The OCA helped plan and participate in consumer presentations, roundtables, and forums across the Commonwealth to help educate consumers about their utility service.

OCA website, call center and mailings. The OCA continued to provide consumer information and education through its website at www.oca.state.pa.us and its toll-free phone number (800-684-6560). The OCA continues to maintain its website and, in the first quarter of 2017, the OCA launched on social media platforms, Twitter and Facebook. During the 2016-2017 Fiscal Year, the OCA received 9,576 customer contacts through its call center. The OCA also kept consumers and members of the General Assembly informed through regular letters and bulletins about upcoming cases and public hearings.

OCA No. 241207