

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

EXECUTIVE SUMMARY OF THE ANNUAL REPORT

FISCAL YEAR 2018-2019

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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 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 Organization, 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, Act 11 of 2012's provisions for recovery of distribution 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, and the use of fair market valuation for municipal water and wastewater acquisitions authorized by Act 12 of 2016. The OCA also participated in 18 base rate filings during Fiscal Year 2018-2019 where utilities sought to increase the base rates paid by consumers.

Stemming from Act 11, one utility asked the Commission to waive the Distribution System Improvement Charge (DSIC) statutory 5% cap, five utilities filed updated Long Term Infrastructure Improvement (LTIIP) plans to, among other things, significantly increase the cost of infrastructure improvements, and two utilities filed initial LTIIPs. In addition, there were five DSIC cases that were related to the impact on the DSIC from changes due to Act 40, codified at 66 Pa. C.S. § 1301.1, which addressed federal income tax benefits. Stemming from Act 12, seven cases were filed or pending under Sections 1329 and 1102 of the Public Utility Code, in which the OCA actively participated. Also, during Fiscal Year 2018-2019, the OCA continued to work on cases

that involved more recent legislative changes, such as the impact of Act 40 in specific rate filings, and changes to the federal income tax rate as a result of the Tax Cuts and Jobs Act of 2017. In addition, the OCA participated in numerous Public Utility Commission investigations, such as supplier consolidated billing, universal service, Chapter 56 requirements, and alternative ratemaking as well as applications for acquisitions.

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 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, 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 continues to be involved in the universal service proceedings before the Public Utility Commission and during Fiscal Year 2018-2019, filed Comments and Reply Comments on a Commission staff-issued Report on Home Energy Affordability for Low-income Customers. The OCA is also involved in the DSIC filings made pursuant to Act 11 of 2012 by electric distribution companies. During Fiscal Year 2018-2019, the OCA has been involved in distribution base rate proceedings filed by two electric distribution companies. Each company used a fully projected future test year under Act 11. The OCA has also participated in proceedings addressing changes to the calculation of taxes in the DSIC as a result of Act 40 and changes to the federal income tax rate as a result of the Tax Cuts and Jobs Act of 2017. During Fiscal Year 2018-2019, the OCA was also involved in a major transmission line siting case. At the same time, through our website, social media presence, 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, including a PECO Energy transmission formula rate filing, 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 continues to be involved in the universal service proceedings before the Public Utility Commission and, as noted above, during Fiscal Year 2018-2019, filed Comments and Reply Comments on a Commission staff-issued Report on Home Energy Affordability for Low-income Customers. The OCA also is involved in the ongoing quarterly DSIC filings made pursuant to Act 11 of 2012 by natural gas companies. During the Fiscal Year 2018-2019, the OCA participated in four gas distribution base rate cases and continued our work on natural gas main extensions and proposed abandonments of natural gas service to consumers. The OCA has also participated in proceedings addressing changes to the federal income tax rate as a result of the Tax Cuts and Jobs Act of 2017. The OCA also participates in proceedings at FERC that involve the major interstate pipelines that serve Pennsylvania's retail natural gas distribution companies, including rate increase filings by Texas Eastern Transmission and Transcontinental Gas Pipe Line Company. Also during Fiscal Year 2018-2019, the OCA participated in an Application filed by Aqua America, Aqua Pennsylvania, Aqua Pennsylvania Wastewater, Peoples Natural Gas Company, and Peoples Gas Company to transfer 100% of the outstanding interests in the parent company of Peoples to Aqua America.

In telecommunications, the OCA has participated in cases involving quality of service, network maintenance, and basic service pricing in Pennsylvania. During Fiscal Year 2018-2019, the OCA continued to address its complaints against the price change opportunity filings to ensure that the impact of the Tax Cuts and Jobs Act of 2017 was fully reflected in rates. 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, fair market value acquisitions and other application proceedings, and mandatory takeover proceedings involving both large and small utilities. During Fiscal Year 2018-2019, the OCA addressed Pittsburgh Water and Sewer Authority's first base rate case under PUC jurisdiction and Stage 1 of its Compliance Plan. 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 2018-2019, the OCA participated in 12 water and wastewater base rate cases. The OCA also participated in seven application proceedings involving companies' acquisitions of municipal water and wastewater systems using fair market valuation under Act 12 of 2016. During Fiscal Year 2018-2019, the OCA was involved in the ongoing quarterly DSIC filings made pursuant to Act 11 of 2012 by water and wastewater companies and a filing by a water company to increase the DSIC cap from 5% to 7.5%, as well as one initial LTIIP and one modified LTIIP. 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. The OCA has also participated in proceedings addressing changes to the federal income tax rate as a result of the Tax Cuts and Jobs Act of 2017. In addition, the OCA has participated in service quality cases and application cases 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. During Fiscal Year 2018-2019, the OCA participated in two cases involving the replacement of lead service lines and worked to incorporate the provisions of Act 120 of 2018 (recovery of costs related to replacement of customer-owned lead service lines) into a settlement of one of the proceedings.

During the last Fiscal Year, the OCA has filed extensive Comments in response to the Commission's investigation into alternative ratemaking for electric, natural gas, water, and wastewater utilities. In response to Act 58 of 2018, the Commission sought additional Comments, in response to a Tentative Order, regarding alternative ratemaking and the OCA filed Comments addressing the legislative changes. The Commission's resulting Policy Statement was entered on July 11, 2019 and the OCA expects that it will see a variety of filings related to alternative ratemaking proposals. The OCA also filed Comments in rulemakings and proceedings involving electric vehicle charging stations, electric customer choice, disclosure rules for electric generation suppliers, supplier consolidated billing, universal service, and a supplemental implementation order for municipal valuation under Section 1329. The OCA continues to work on those issues in the current Fiscal Year.

Also during the last Fiscal Year, in addition to its litigation activities, the OCA participated on behalf of utility consumers in state and federal legislative and policy debates. During Fiscal Year 2018-2019, the OCA has been called on to present formal testimony in the Pennsylvania General Assembly regarding utility issues.

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 2018-2019, the OCA participated in 75 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 presence on Facebook and Twitter. 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 2018-2019. A complete listing of the OCA's case activities on behalf of consumers is provided in the Fiscal Year 2018-2019 Annual Report.

KEY ISSUES FOR ELECTRIC CONSUMERS

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 2018-2019 to ensure that those companies provide reliable default generation service to their customers at the least cost over time.

Balancing the need for infrastructure investment with reasonable rates. The OCA continued to be involved in the Distribution System Improvement Charge filings made pursuant to Act 11 by electric distribution companies and continues to work to ensure that the DSIC rate is calculated in accordance with Pennsylvania law. During Fiscal Year 2018-2019, the OCA was involved in distribution base rate proceedings filed by two electric distribution companies.

Ensuring adequate Universal Service programs. The OCA continued its participation in proceedings addressing the Universal Service and Energy Conservation Plans filed by two electric utilities, focused on Customer Assistance Program outreach, consumer education and cost-effectiveness of the plans. During Fiscal Year 2018-2019, the OCA participated in Universal Service advisory groups that work on the details of program implementation.

Consolidated supplier billing. During the 2018-2019 Fiscal Year, the OCA continued its participation in proceedings stemming from a request by 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. 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.

Transmission line siting. The OCA continued its participation in an Application filed by Transource Pennsylvania, LLC seeking approval of the siting and construction of the Pennsylvania portion of two 230 kV transmission lines and two substations, in portions of York and Franklin counties. During the Fiscal Year, the OCA submitted testimony opposing the transmission project because the costs would greatly exceed the benefits for Pennsylvania consumers and the regional transmission organization, PJM Interconnection, did not consider what may be viable alternatives with less overall cost.

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. The OCA has also continued its expanded work at FERC where transmission rates for Pennsylvania customers are set and wholesale market rules that impact prices paid by Pennsylvania consumers are ruled upon.

Smart shopping. Through our website 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. During the Fiscal Year, the OCA participated in the Commission's proposed rulemaking to strengthen customer protections and to ensure that customers receive the necessary information to make informed decisions when shopping in the retail electricity market.

A full listing of the OCA's electric-related case activities on behalf of consumers is provided in the Fiscal Year 2018-2019 Annual Report.

KEY ISSUES FOR NATURAL GAS CONSUMERS

Reasonable rates for infrastructure investments to provide safe and adequate service. In Fiscal Year 2018-2019, the OCA participated in four base rate cases involving distribution rates for natural gas utilities. The OCA was also involved in the ongoing quarterly infrastructure surcharge rate filings made pursuant to Act 11 by natural gas companies. 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 2018-2019, 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, where the OCA has worked to improve the market for the benefit of customers and ensure that changes are cost-justified.

Preserving natural gas service. The OCA continued to participate in two proceedings where existing natural gas customers in Washington and Greene Counties 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 2018-2019, the OCA focused on Customer Assistance Program outreach, consumer education and cost-effectiveness of the plans. The OCA also addressed universal service issues in four other natural gas distribution utilities’ base rate proceedings. The OCA participated in Universal Service advisory groups that work on the details of program implementation.

Acquisition of a major natural gas distribution utility by a large water and wastewater utility. The OCA sought to ensure that the acquisition of Peoples Gas Company and Peoples Natural Gas Company by Aqua Pennsylvania, Inc. provided substantial affirmative benefits to the customers of all three utilities. The OCA raised concerns about the transaction as proposed and negotiated a Settlement that will help to ensure all entities remain financially healthy and able to provide safe, adequate and reliable service going-forward, as well as providing other benefits to consumers and the public.

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, including two rate filings by transmission companies serving a number of Pennsylvania 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 2018-2019 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 represented consumers in 12 base rate increase cases involving large, medium and small companies. The OCA continues to work to ensure that the DSIC rate is calculated in accordance with Pennsylvania law. In addition, the OCA continued its participation in three 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 2018-2019 Fiscal Year, the OCA participated in 14 acquisition, abandonment 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. Recently enacted Section 1329 of the Public Utility Code provides for fair market valuation of municipal utilities. During the 2018-2019 Fiscal Year, the OCA participated in seven application proceedings filed under Section 1329 by large wastewater utilities. In each proceeding, the OCA made recommendations to ensure the valuation is consistent with standard financial and utility ratemaking practice. In an October 2018 Order addressing the OCA's appeal of the Commission's Order approving the first acquisition under Section 1329, the Commonwealth Court adopted the OCA's position that the Commission must consider the rate impact of Section 1329 acquisitions and require applicants to provide notice of that rate impact to existing and acquired customers. The OCA worked to ensure that the Court's directives were carried out in that remanded proceeding and in the other, pending acquisition cases. 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.

PUC regulation of Pittsburgh Water and Sewer Authority. During Fiscal Year 2018-2019, the OCA continued to actively participate in all proceedings arising from the amendment of the Public Utility Code that brought Pittsburgh Water and Sewer Authority under the jurisdiction of the PUC on April 1, 2018. The OCA has worked to ensure that PWSA customers receive high quality water and wastewater service at reasonable cost.

Supporting lead control programs. During Fiscal Year 2018-2019, the OCA has supported utilities' efforts to replace customer-owned lead 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.

Acquisition of a major natural gas distribution utility by Aqua Pennsylvania, Inc. As discussed above, the OCA sought to ensure that Aqua Pennsylvania's acquisition of Peoples Gas and Peoples Natural Gas Companies provided substantial affirmative benefits to the customers of all three utilities. The OCA raised concerns about the transaction as proposed and negotiated a Settlement that will help to ensure all entities remain financially healthy and able to provide safe, adequate and reliable service going forward, as well as providing other benefits to consumers and the public.

A full listing of the OCA's water and wastewater-related case activities on behalf of consumers is provided in the Fiscal Year 2018-2019 Annual Report.

KEY ISSUES FOR TELECOM CONSUMERS

Reliable and affordable service for all Pennsylvanians. In Fiscal Year 2018-2019, the OCA participated in cases involving basic service pricing and quality of telephone service in Pennsylvania. At the federal level, the OCA supported preservation of 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 2018-2019 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 2018-2019, the OCA participated in 75 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 2018-2019 Fiscal Year, the OCA received 8,430 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.

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