

Prepared Testimony of
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Introduction

Good afternoon Chairman Roae, Chairman Matzie, and members of the House Consumer Affairs Committee. I am Gladys Brown, Chairman of the Public Utility Commission (Commission or PUC). Joining me today are my fellow commissioners: Vice Chairman David Sweet, Commissioner Norm Kennard, Commissioner Andrew Place, and Commissioner John Coleman.

The Commission is steadfastly committed to our key public safety, consumer protection, economic, and quality of service regulatory oversight responsibilities. We are pleased to be here today to brief you on our general responsibilities and key issues.

Overview

The Commission is comprised of a complement of 516 employees. Our present budget, 2018-2019 Fiscal Year, totals approximately \$80 million, which includes roughly \$5 million in federal funding. Our budget is funded by assessments and fees paid by jurisdictional public utilities, electric and natural gas suppliers, as well as assessments received for administration of Act 127 of 2011 and Act 13 of 2012 – rather than General Fund revenue. Any assessments not spent by the Commission are credited back to entities assessed in future fiscal years.

The Commission is dedicated to efficiently carrying out its regulatory duties. In effort to do so we committed to reallocating our existing work-force to adapt to expanding and evolving responsibilities. Case-in-point, our budget proposal for 2019-2020 Fiscal Year includes no increase in employee complement but rather reallocates open positions to facilitate four new gas safety inspector positions.

As an economic regulator, the Commission maintains an acute focus on realizing savings for utility customers. This can be highlighted by the three management audits and four management efficiency investigations conducted by the Commission's Audits Bureau last fiscal year (2017-2018). These proceedings identified improvement opportunities that could save utilities, and therefore utility customers, \$1.4 million. Additionally, in 2018, the Commission undertook significant effort to assure that the tax reductions from the Federal Tax Cuts and Jobs Act of 2017 were passed on to customers. Through proceedings commenced by this Commission, we are pleased to convey that natural gas, electric, and water / wastewater utility rates now reflect tax savings in excess of \$380 million annually, while an investigation into the

effects of the tax act on incumbent local exchange telephone companies remains pending.

Another keystone of the Commission's economic regulatory authority involves the adjudication of utility rate cases. In 2018, the PUC received 18 requests for base rate increases covering the state's electric, natural gas, steam, water, and wastewater utilities. All of these cases require thorough review and draw extensive input from consumers, various advocates, and other stakeholders, commanding a great deal of Commission resources as we seek to balance the need for safe, adequate and reliable utility service with the importance of maintaining just and reasonable rates.

The workload of this Commission is significant. In 2018 the PUC received and processed over 27,000 filings. Equally noteworthy is the substantial number of entities the Commission oversees. Presently the PUC oversees 11 electric distribution companies (EDCs), 400 electric generation suppliers (EGSs), 27 natural gas distribution companies (NGDCs), seven intrastate hazardous liquid pipelines, 250 natural gas suppliers (NGSs), 660 telecommunications carriers, 83 water companies, and over 8,000 transportation companies. In total, the PUC oversaw 9,000 plus entities in Fiscal Year 2018-19, furnishing the following in-state service: electricity; natural gas; telecommunications; water and wastewater collection and disposal; steam heat; transportation of passengers and property by motor coach, truck, taxicab and transportation network company; pipeline transmission of natural gas; and public highway-railroad crossings.

These utilities, and the PUC itself, continue to work together and support one another on the cybersecurity front. Mitigating real and potential threats to disrupt utility services requires constant vigilance. To assist us in this endeavor the PUC recently hired a Director for our newly formed Office of Cybersecurity, Compliance and Oversight to strengthen PUC systems and explore strategies to strengthen utility cybersecurity protocols. Further, the Commission maintains active outreach and education with the Governor's Office, our sister state agencies, other state commissions, national organizations like the National Association of Regulatory Utility Commissioners (NARUC), and various federal agencies in effort to improve our capability to identify and respond to potential cyber-attacks.

Consumer outreach and education is another primary mission for the PUC, as evidenced by our energy information and shopping websites – PAPowerSwitch and PAGasSwitch. Drawing over one million visitors per year, these sites provide access to information about how to shop, how to save, energy efficiency, and different types of rates and product offerings. Our shopping websites serve as national and

international models for retail energy shopping. A survey conducted in 2016 indicates that 90 percent of consumers who have visited the PAPowerSwitch website find its information helpful.

Given the size and scope of Commission responsibilities, combined with the knowledge and skills of the Commission staff, Pennsylvania exercises a strong voice among regional, national and international utility regulators. We are heavily involved in the Mid-Atlantic Conference of Regulatory Utilities Commissioners, Commissioner Place is Secretary to the Organization of PJM States Incorporated (OPSI), and Chairman Brown is Chairman of the NARUC Critical Infrastructure Committee. Additionally, staff and Commissioners are active in various NARUC committees. Utility issues are often regional or national in scope necessitating the PUC to communicate with other regulatory boards around the country.

Legislative Priority

The Commission seeks legislative changes to the assessment language in § 510(a) of Title 66, the Public Utility Code. This language limits the amount the Commission can assess utilities to finance its budget. The Commission proposes to increase this cap from 3/10ths of one percent of total gross operating revenues of public utilities to 5/10ths of one percent.

Act 155 of 2014 provided the Commission with additional funding by permitting the recovery of fees from EGSs and NGSs to support our regulatory operations associated with these entities. Act 155 also permitted the Commission to include EGS and NGS revenues in its assessment calculation. Further, Act 155 provided that any federal funds received shall not count against this assessment cap. These provisions have facilitated appropriate funding for the Commission in the short-term. However, the Commission's long-term budget still risks reaching the post-Act 155 designed assessment cap. While the Commission maintains flat operational expenses, we see sustained increases in expenses for contractual salary obligations and fringe benefits. Similarly, lower prices for natural gas and electricity, and sustained deployment of energy efficiency measures have reduced the total gross operating revenues from which the budget cap is calculated. The Commission's 2018-2019 budget, excluding federal funds, is \$74.2 million. The budget cap for that same time period is \$86 million. It appears to be only a matter of time before we reach the budget cap.

Therefore, we ask that you consider increasing the budget cap from 3/10ths of one percent to 5/10ths of one percent.

Now, we would like to touch on some of the key issues for the major categories of public utility service regulated by the PUC.

Transportation

The Commission holds broad regulatory authority over transportation in the state. This authority encompasses the transport of people and goods via motor vehicle and railway – with safety being the paramount interest of this Commission.

The over 5,600 miles of railways located in Pennsylvania are increasingly utilized for the transportation of petroleum-based commodities. The Commission's ten rail safety inspectors work side-by-side with counterparts from the Federal Railroad Administration to carry out inspections and enforcement actions related to tank cars, railroad lines, bridges, signals, grade crossings, and hazardous material shipping requirements necessary to respond to the increased utilization of railways. Two of the PUC's primary goals in this endeavor are the fostering of safe railroad crossings and the elimination of rail incidents caused by human factors.

In fiscal year 2017-2018, the Commission processed 129 formal proceedings and conducted 203 field meetings and inspections associated with rail crossings. More than \$113 million in bridge improvement projects were approved while more than \$11 million in at-grade crossing projects were approved. The Commission anticipates that as efforts continue to replace the state's aging infrastructure, the level of activity to repair and replace rail crossings will continue.

While railroads are emphasized in this testimony, the Commission's regulatory authority extends to taxis, transportation network companies, property carriers, limousines, and charter carriers as well. We will continue to work to ensure that our regulatory authority over each of these areas manifests safe and reliable transportation service so that the people, businesses, and communities that rely on them can continue to do so now, and in the future.

Natural Gas

The Commission's oversight covers the state's natural gas distribution companies, intrastate natural gas transmission pipelines, intrastate hazardous liquids

transmission pipelines, retail NGSs, and the Act 13 impact fee. A significant amount of the PUC's day-to-day work involves safety oversight of the distribution and transmission pipelines within the Commonwealth.

The Commission employs 15 Gas Safety Inspectors who monitor over 47,000 miles of distribution lines and over 1,100 miles of intrastate transmission lines. This responsibility entailed over 1,161 inspections in 2018. Our Gas Safety Inspectors do a yeoman's job, as evidenced by the recent results of a federal Pipeline and Hazardous Materials Safety Administration (PHMSA) 2017 calendar year audit of the PUC's pipeline safety activities. This PHMSA audit resulted in an aggregate score of 252 out of a maximum possible score of 253.

Nonetheless, the state's distribution system still consists of a significant amount of at-risk pipe. Approximately 11,000 miles of the state's distribution system is comprised of unprotected steel and cast-iron lines. This represents over 20 percent of total distribution mileage. In an on-going effort to ameliorate the state's gas distribution infrastructure, the Commission has approved long-term infrastructure improvement plans (LTIIPs) for six major gas utilities. These plans lay out the timeline for replacement of all at-risk pipes. Five utilities have a range of replacement from 11 years to 22 years. Philadelphia Gas Works has a schedule of 44 years, which although higher than the rest, still represents a reduction from PGW's originally scheduled 80-year replacement.

In 2017, the Commission took over enforcement of PA One Call. We wish to thank the General Assembly and the Governor for passage of Act 50, which the Commission believes is vital to fostering safe construction environments around utility infrastructure, particularly that of natural gas. Our damage prevention program is now underway, signified by the first Damage Prevention Committee meeting held in November of 2018.

Electricity

The landscape for electricity, whether it be on the wholesale side, the retail side, the distribution grid, or the generation fleet, continues to dynamically evolve. The largest EDCs are nearing full implementation of smart meter roll-out throughout their respective service territories, with completion expected to be largely done by 2021. Further, the number of distributed energy facilities interconnected to the electric distribution grid in the state has increased from 4,400 in 2011 to 21,443 in 2018.

The growth of distributed energy facilities, such as solar, and deployment of smart meters prompted the Commission to review traditional public utility ratemaking tenets within the context of this dynamic landscape via a proceeding commenced in March of 2017. In a similar response to the evolving electricity marketplace, the General Assembly passed Act 58 of 2018 which authorized the Commission the ability to utilize alternative ratemaking methodologies such as revenue decoupling, performance-based rates, formula-rates, and multi-year rate plans. This array of ratemaking tools will provide options for rate designs that may better align the interests of utilities with the interests of customers while continuing to support innovation and development of the “grid of tomorrow.” The Commission is presently going through an Act 58 implementation proceeding to ensure that our fixed utilities all have an efficient process to propose any alternative ratemaking proposals. The Commission has also recently initiated another proceeding to address default service rate design and wholesale cost allocation methods as a result of the more granular meter data provided by smart meters, which may be a means of providing market-based incentives to distributed energy resources and electric vehicle development, among other potential benefits.

Our oversight of electricity also touches on a significant safety component. Accidents associated with the electric grid can result in fatalities. This is why the Commission formed its Electric Safety Division (ESD) in 2014. The ESD conducts inspections, audits, and accident and fatality investigations over the 11 regulated EDCs. The ESD has jurisdiction over the activities and equipment that are utilized for each EDC’s distribution facilities (meters, poles, wires, transformers, substations, etc.). This includes over 120,000 miles of distribution lines and over 38,000 miles of transmission lines. Conversely, the ESD does not have purview over customer-owned equipment or facilities. The ESD is currently comprised of four field inspectors and one supervisor. In 2018, the ESD investigated six fatalities and 21 reportable incidents, and logged 310 inspection days. The inspectors logged over 91,000 miles of travel to facilitate these actions.

While the Commission no longer regulates generation facilities, we nonetheless are charged with ensuring that our distribution companies provide safe, adequate, and reliable service to customers. Because reliability is of utmost importance, we pay close attention to the generation sector through our direct interactions with PJM, participation in OPSI, participation in NARUC, and participation in Federal Energy Regulatory Commission (FERC) proceedings. It is well-known that the topic *du jour* involves the potential retirement of nuclear generating facilities in the Commonwealth. The Commission is committed to intently following this wholesale

market development and stands as a resource to the General Assembly should it have any questions or require any information as it deliberates the issue.

Lastly, the Commission has approved LTIIPs for all seven major EDCs in the Commonwealth, as well as for UGI Utilities Inc. – Electric Division. Approval of the LTIIP is a prerequisite to the EDCs’ ability to implement a Distribution System Improvement Charge (DSIC) to recover reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. The primary focus of these LTIIPs is to increase electric reliability and resiliency.

Telecommunications

The Commission maintains a concerted focus to ensure telecommunications voice and broadband internet access services are available to all Pennsylvanians. On voice service, the Commission continues to monitor the adequacy, service quality, rates, and reliability of local phone service except for local telephone service prices for those Verizon wire centers that the Commission reclassified as competitive in 2015. While Verizon’s reclassified wire centers are not rate regulated, the Commission monitors them for adequacy, service quality, and reliability. So far, Verizon’s rate increases in their reclassified wire centers have increased in tandem with the rate increases the Commission approved for Verizon’s other wire centers that have not been reclassified under Verizon’s “one state one rate” policy.

On broadband, the Commission reviews and approves local rate changes under Chapter 30. Those rates support the delivery of broadband service at Chapter 30 speeds of 1.544 megabits-per-second (Mbps) (down)/0.128 Mbps (up). Under Chapter 30, all Pennsylvanians have a right to broadband availability within 10 business days of request. However, the speeds prescribed in Chapter 30 have become dated since they were last visited in 2004. Today, the Federal Communications Commission (FCC) requires carriers receiving federal universal service support to provide voice service and deploy broadband networks that can provide broadband at the FCC’s defined speeds of 10/1 Mbps. Nonetheless, the Commission continues to enforce the current Chapter 30 requirements as well as to engage in efforts to educate the public about them.

Given the importance of broadband, the existence of un/underserved customers (under the FCC’s standards), and our net contributor role to the federal Universal

Service Fund, the Commission continues working with the General Assembly and the Governor's Office to explore ways to expand broadband availability at modern speeds. We are also actively involved in proceedings at the federal level to advance Pennsylvania's interests. This includes opposing any federal decisions that attempt to preempt or reduce your legal authority over intrastate matters.

Finally, given the evolution of competition in the telecommunications market following years of industry mergers and acquisitions, the Commission is taking a more in-depth review of the impact of this activity to ensure compliance with our statutory obligation to find substantial evidence of affirmative public benefit in Pennsylvania.

Water

Access to clean water at reasonable rates has always been a foundation of this Commission's responsibilities, and we continue to maintain a keen interest in administering regulations that can foster a healthy water industry.

Like other fixed utilities, the water industry faces challenges caused by its outdated infrastructure. Many companies still use pipes that are upwards of 60 or more years old. Thanks to the foresight of the General Assembly, each major water utility utilizes the DSIC to accelerate infrastructure replacement.

Also, many small regulated water companies and non-jurisdictional municipal water systems are in dire need of repairs but have minimal resources to support upgrades. Larger regulated utilities have consistently seen these utilities as opportunities for growth while the Commission has seen this as an avenue to support repairs and expand access to adequate, safe and reliable water supplies that meet appropriate environmental quality standards. This has resulted in a significant amount of industry consolidation throughout the state.

The passage of Act 12 of 2016 has further accelerated the opportunities for investor-owned utilities to step in and purchase municipal water and wastewater systems in need of repairs. This bill expands the valuation options permitted for these purchases to include market value as an option separate from the traditionally used original cost book value. The Commission has received over ten applications under this new legislation.

Lastly, the Commission has taken considerable strides in effectuating its newly received regulatory authority over the PWSA, provided via the passage of Act 65 of

2017. These actions include establishing new rates, creating a timeline for enacting compliance with applicable statutes and regulations, and directing PWSA to propose an LTIP. All of this has been facilitated by the hard work of our staff, PWSA, and interested stakeholders. The remediation of PWSA's infrastructure and operations will take time, but we are now taking steps in the right direction.

Closing

In closing, we submit that the details contained in this testimony are not an exhaustive listing, but rather, a sample of the responsibilities this Commission tackles everyday as an administrative agency.

The PUC is well-equipped to decisively promulgate and administer regulations in an objective manner. As we continue to do so, we will never stray from our true mission: to balance the needs of consumers and utilities; ensure safe, adequate and reliable utility service at reasonable rates; protect the public interest; educate consumers about their rights and to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally-sound manner.

My colleagues and I hope you will find this testimony informative. We are at your service if you should have any questions.