Prepared Testimony of

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*before the*

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Chairman Godshall, Chairman Daley, members of the Committee, I appreciate the opportunity to speak with you today about the responsibilities and challenges facing the Public Utility Commission (PUC), as well as our key legislative priorities for this session.

The PUC regulates approximately 7,000 utilities across the Commonwealth. These utilities are divided into five sectors: (1) electricity; (2) natural gas; (3) telephone; (4) water and wastewater; and (5) transportation. Each of these sectors presents its own set of unique challenges, and the PUC must continually evaluate the issues facing each sector and adapt to meet the developing needs of the industry as a whole. In doing so, the PUC never loses sight of its mission, which is to balance the needs of utilities and consumers to ensure safe and reliable utility service; to educate consumers to make independent and informed utility choices; and to foster new technologies and competitive markets in an environmentally sound manner.

2014 was certainly an exciting and challenging year in many ways for the utility industry in Pennsylvania. From the implementation of new customer protections in the aftermath of last winter's variable rate issue in the retail electricity market, to the emergence of innovative business models in the passenger-carrier transportation sector, my colleagues and I have attempted to harness technological innovation to ensure that new business models operate safely, legally, and in a way that benefits Pennsylvanians.

The PUC also continues to focus on other more longstanding objectives, such as ensuring sustainable competition in the retail gas and electricity markets, encouraging utilities to accelerate the replacement of aging infrastructure and the expansion of new infrastructure, and planning for potential environmental regulations that could impact Pennsylvania's electric generating plants. While I will discuss all of these important topics in greater detail below, I would first like to highlight the PUC's legislative priorities for this session.

**Legislative Priorities**

1. **Updating the PUC's Budget Cap**

One of the PUC's ongoing legislative priorities is to update the cap placed on the Commission's budget. The PUC thanks this Committee and the General Assembly for its efforts in the 2013-2014 legislative session, which will allow the Commission to include the intrastate operating revenues of "licensed entities" when calculating the Commission's budget cap. While this language is an important temporary fix that serves to alleviate the Commission's budgetary issues in the short term, a long-term solution is necessary to ensure funding levels that will allow the PUC to continue to perform its mission.

Currently, Section 510(a) of the Public Utility Code (Code) places a cap on the PUC's budget at three-tenths of one percent of the total intrastate gross operating revenues of Pennsylvania utilities. This is amount the PUC can assess to utilities for expenses incurred in enforcing the provisions of the Code. In the past, this cap was more than adequate to fund the Commission's operations. However, a number of factors, including customer conservation, the decline in electric and natural gas commodity rates, and stagnant or declining customer growth in some utility sectors have caused utility revenues to decrease, which ultimately lowers the ceiling, or cap, on the PUC's budget.

Simultaneously, however, independent PUC operating expenses have increased, due to contractual salary increases, the rising cost of healthcare benefits and pension costs, and the Commission's taking on of duties not related to the regulation of traditional utilities. The combined result of these forces is a squeeze on the Commission's budget that requires a further legislative amendment and modernization of the budget cap in Section 510 of the Code.

**2. Transfer PA One Call Authority to PUC**

Another ongoing legislative priority is to transfer PA One Call enforcement authority from the Department of Labor & Industry (L&I) to the PUC. PA One Call requires people to call 8-1-1 before they dig as a safety precaution and to prevent damage to underground infrastructure.

Utilities with underground lines are already regulated by the PUC. The transfer of One Call enforcement authority to the Commission is a logical extension of those responsibilities. The transfer of this function is also consistent with the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) recommendation encouraging state utility commissions to enforce One Call laws. In other states where a regulatory agency provides this enforcement, both the number of reportable incidents and damage to underground facilities is lower. Based on the experience in other states, the Commission confidently believes increased enforcement of PA One Call will reduce underground line hits, increase public safety, and reduce costs associated with line hits for utilities, excavators and ultimately utility customers.

The Commission fully supports the transfer of the enforcement authority for the PA One Call Law from L&I to the PUC as it is consistent with our current regulatory functions. In the 2013-2014 legislative session, the House of Representatives passed HB 1607, sponsored by Representative Matt Baker. However, the bill was not taken up in the Senate. The One Call law sunsets on December 31, 2016. The Commission stands ready to assist you in any way on this issue in order to make the transition to the PUC a reality.

### 3. Legislative Solution for Transportation Network Companies

Both across the United States and internationally, transportation network companies (TNCs) such as Uber, Lyft and numerous others are challenging the traditional way that customers, regulators, and other transportation service providers think about transportation service. Pennsylvania is no exception. Since early 2014, when Uber and Lyft entered the Pittsburgh market, TNCs have enjoyed widespread public support and have challenged the PUC, as well as the General Assembly to review the applicability of existing laws that govern transportation service providers.

Consistent with the PUC's mission to both protect the public interest and foster new technologies, and upon demonstrating compliance with conditions that evidence satisfactory levels of driver integrity, vehicle safety, and insurance requirements, the Commission has granted Uber and Lyft experimental authority to operate within Pennsylvania for a period of two years. As of the date of this hearing, both companies have filed compliance plans with the PUC. While the PUC has reviewed and approved Uber's compliance plan, allowing Uber to operate in most parts of the Commonwealth, Lyft's plan demonstrating its compliance with the Commission's requirements is still under review.

The PUC recognizes that TNC service presents numerous benefits for the traveling public, and has encouraged this innovative use of the public space. The benefits of these services include increased market competition, additional jobs, and new transportation options for consumers. However, my colleagues and I reiterate the need for a legislative solution that would accommodate the current state of the transportation industry, which includes TNCs, in order to streamline the application process moving forward. Legislation that provides a permanent set of rules for TNCs, ensures safe and reliable service for consumers, and maintains a level playing field for existing taxi companies is necessary to refine the PUC's temporary regulatory solution.

Additionally, as part of a more comprehensive inquiry into the state of the transportation industry in the Commonwealth, the Commission is presently reviewing the laws, regulations, and policies with regard to transportation matters, which may eventually result in a request for other legislative changes as necessary.

**4. Expand PUC Authority to Order Takeover of Troubled Utilities**

Another of the PUC's legislative priorities is to expand the Commission's existing authority regarding the takeover of small troubled water and sewer utilities to include other fixed utilities, particularly troubled natural gas distribution companies (NGDCs).

During the past year, specifically during the colder winter months, the PUC has run into several significant operational issues with small NGDCs that have experienced low pressure and customer outages during cold weather events. In one circumstance, the PUC had difficulty contacting appropriate staff at the company, requiring the Commission to issue an emergency order requiring a nearby large NGDC to take over operational control of the smaller company to avoid the potential loss of heating service for customers.

Revising Section 529 of the Code to allow the PUC to order the takeover of fixed utilities other than water and sewer utilities would allow the Commission to be more proactive in addressing issues with problem companies, helping to prevent future dangerous situations for customers during extreme weather events and therefore further fulfilling the PUC's mission.

## Issues of Primary Importance to the PUC

**1. Retail Gas and Electric Market Enhancements**

**A. New Customer Protections in the Retail Electricity Market**

Since 1996, with passage of the Electricity Generation Customer Choice and Competition Act, the competitive electric generation market replaced the regulated electric generation market. Today, electric competition is thriving in Pennsylvania. Customers have the option to choose their electric supplier, a choice that has the potential to save them money and provide them with a wide array of choices. As of February 4, 2015, more than 2.1 million Pennsylvania residential and business customers have switched to a competitive electric generation supplier (EGS). This represents almost 73 percent of the Commonwealth's total customer load. The Duquesne and PPL Electric Utilities territories are leading the way in customer shopping, with over 40 percent of their customers shopping, representing approximately 70 percent of load.

Despite the progress the market has made, the PUC continues to strive for a more robust competitive electricity market. As many of you know, in early 2014, due to the culmination of a unique set of unprecedented conditions, a number of Pennsylvania electric customers enrolled in variable rate contracts received electricity bills in amounts much higher than what would typically be billed during the winter months. The majority of affected customers were receiving a variable rate product from an EGS.

These high bills reflected wholesale energy market volatility resulting from the historic cold weather that much of the country experienced in the beginning of 2014. The cold weather contributed to increased and, on some days, record-breaking use of natural gas and electricity within the region. As consumer usage spiked on these days, so did wholesale market prices for gas and electricity. In some cases, these wholesale price increases, in whole or in part, were passed on by EGSs to retail electric customers receiving service at a variable rate. This resulted in a doubling, tripling, or even larger increases of the per-kilowatt hour rate that these customers were charged.

When the Commission became aware that certain variable rate customers were receiving extraordinarily high bills, we immediately took action. In addition to increased consumer education initiatives and consumer-friendly enhancements to the PAPowerSwitch.com website, the PUC initiated two rulemakings in response to this issue, which have already vastly improved the customer experience in the retail electricity market.

The first rulemaking dramatically reduced the time it takes for consumers to switch their supplier. During and prior to the winter of 2014, it took anywhere between sixteen (16) to up to forty (40) days for customers to switch suppliers, which left some individuals stuck on undesired variable rate contracts long after the customer had selected a new supplier. Pursuant to the PUC's accelerated switching rulemaking, however, utilities are required to switch a customer's supplier in only three (3) business days, a drastic reduction in the amount of time that a customer must wait.

The accelerated switching rule required electric distribution companies (EDCs) to facilitate new three-business-day switching procedures by December 15, 2014. Most Pennsylvania EDCs either met the deadline for implementation or received a partial waiver based on a clearly articulated and supported demonstration of the ability to provide at least one off-cycle switch within three business days.

The second PUC rulemaking required EGS disclosure statements to be more transparent and understandable for customers. These user-friendly changes ensure that consumers receive more detailed, adequate, and accurate information, empowering them to make informed decisions when purchasing electric supply. Uniform and consistent summaries of key contractual terms, and requirements that are designed to make contracts easier to read and understand means consumers will no longer have to wade through long and complicated contractual language to understand the key terms of their agreement.

The disclosure rulemaking also requires that customers who have rolled off of fixed-rate contracts on to a variable rate product receive at least thirty (30) days advance notice of any change in their rate, thereby eliminating the scenario where those customers do not know the rate they will be charged until receipt of their electric bill. The disclosure rule, which has been in effect since July 14, 2014, coupled with the accelerated switching regulation, should effectively prevent these customers from unknowingly experiencing electricity price spikes like they did in the winter of 2014.

**B. Natural Gas Retail Market Investigation**

On June 22, 1999, Governor Thomas J. Ridge signed into law the Natural Gas Choice and Competition Act, 66 Pa. C.S. §§ 2201-2212 (Act). Pursuant to the Act, all Pennsylvania retail gas customers were given the ability to choose their Natural Gas Supplier (NGS), instead of receiving their supply service from the NGDC.

While the PUC has implemented a number of changes in an attempt to enhance retail gas competition since then, given the tremendous natural gas resources that exist in the Commonwealth, the Commission believes there are more opportunities for customers to benefit from robust competition in the retail natural gas market.  To that end, in September of 2013, the Commission renewed its inquiry into the status of Pennsylvania's retail natural gas market by launching its Investigation into Pennsylvania's Retail Natural Gas Supply Market (Investigation).

More recently, in December of 2014, after soliciting and receiving numerous comments from stakeholders via a Tentative Order, the PUC took further action in continuance of the Investigation, announcing specific topics and issues that the Commission intends to pursue.  The PUC narrowed the scope of the Investigation in order to focus on potential changes that will provide for a more robust shopping experience for Pennsylvania natural gas consumers.

In moving forward, the PUC plans to collaborate with various stakeholders through discussions and reviews of the issues in a variety of forums, such as in-person meetings, conference calls, working groups and subgroups, the submission of comments and/or white papers on specific issues, as well as notice-and-comment rulemaking.  It is critical that the PUC hears from all sides so that we can effectively bring the best possible product to benefit existing and, hopefully, future natural gas customers in the Commonwealth.

**2. Utility Infrastructure Replacement and Expansion**

The replacement of aging utility infrastructure remains a priority for the PUC, and with Act 11 of 2012 fully implemented, utilities now have the flexibility to petition the PUC for approval to implement a Distribution System Improvement Charge (DSIC) to fund infrastructure upgrades.  Additionally, Act 11 provided several other progressive ratemaking mechanisms that simultaneously allow utilities to accelerate infrastructure rehabilitation while ensuring the least possible rate impact to customers over time.

In addition to the replacement of aging infrastructure, however, the Commission remains interested in ensuring that more Pennsylvanians are able to enjoy the benefits of switching to natural gas as a home-heating fuel. Currently, many areas of the Commonwealth do not have access to the natural gas infrastructure required for service.

To that end, in February of 2014, the PUC approved a settlement for a pilot program that changes the way that UGI's Pennsylvania gas distribution utilities charge customers for certain infrastructure expansion projects. Under most natural gas company tariffs, a customer who wishes to have natural gas service extended to their property must pay the cost of that line extension, which can run in the thousands of dollars, as an upfront payment. UGI's pilot program – GET Gas – allows eligible customers to pay the extension costs over ten (10) years as an on-bill, monthly charge. Eligible customers are those who are seeking an extension of facilities that would require a total capital cost of $15,000 or more, a per-customer maximum project cost of $10,000, and where at least 50 percent of the prospective customers along the path of the facilities can reasonably be estimated to convert their heating source to natural gas within a 12-year period after facilities are installed.

Several other natural gas utilities have also filed for similar pilot programs and tariff changes related to customer line extensions; however, those proceedings are still ongoing. The PUC looks forward to working with the General Assembly on this issue to expand Pennsylvanians' access to and use of low-cost natural gas as a home-heating fuel.

**3. EPA's Clean Power Plan – Section 111(d) of the Clean Air Act**

In June of 2014, the Environmental Protection Agency (EPA) proposed a plan to limit carbon dioxide emissions from existing power plants by 30 percent by 2030. The EPA has until

June 2015 to finalize its plan, and states have until June 2016 to submit implementation plans demonstrating compliance. The PUC filed comments to the EPA regarding the proposed rule relaying certain procedural and substantive concerns over the timeframe, the lack of a grid reliability safety valve, and the EPA's failure to recognize and account for the differences between regulated and unregulated energy markets.

While the PUC does not regulate the generation of electricity, we do play an important role in assuring continued electricity supply to jurisdictional EDCs as well as ensuring adequate and reliable service to Pennsylvania electric customers. The EPA's emissions proposal, if adopted, will heavily impact and change the composition of electric generation into the future which may both reduce the supply of and increase the price of electricity while threatening the reliability of electricity service to the state and the region. The PUC is monitoring and remains actively involved in the EPA's rulemaking proceeding.

**Conclusion**

Thank you again for inviting me here to speak today. I welcome the opportunity to answer any questions you may have and to meet with you at any time to further discuss these issues.