Keystone Connection

Utility News in Pennsylvania

A newsletter published by the Pennsylvania Public Utility Commission regarding utility news in the telecommunications, energy, transportation and water markets.

Summer 2006

Commissioners Preside over En Banc Hearing on Electric Price Increases

All five PUC Commissioners and Administrative Law Judge Charles Rainey presided over the En Banc Hearing and listened to testimony from representatives for consumers, utilities and electricity suppliers on potential electricity price increases.

The Commissioners presided over an En Banc Hearing on potential electricity price increases on June 22, 2006, at the Commonwealth Keystone Building in Harrisburg. The PUC scheduled this hearing through a motion adopted at the public meeting of May 19, 2006, at Docket No. M-00061957. In this motion, the Commission acknowledged the recent, significant electric price increases in Maryland, Delaware and Pike County, Pennsylvania, experienced by customers with the expiration of rate caps. The PUC concluded that it must begin to develop policies now to mitigate potential electricity price increases in Pennsylvania before the remaining rate caps expire. At this time, the large majority of Pennsylvania's retail electric customers still receive generation service at capped rates, including those of PECO, PPL Electric, Met Ed, Penelec and Allegheny Power.

In advance of the hearing, the Commission requested comments on a number of topics, including:

- customer education;
- energy conservation;
- reducing peak electricity demand;
- phased-in rate increases;

En Banc Hearing *Continued on Page 20.*

Connecting in Pennsylvania

Welcome to the fourth issue of *Keystone Connection*, a publication of the Pennsylvania Public Utility Commission (PUC) that gives a "snapshot" view of the utility markets under the jurisdiction of the Commission: electric, natural gas, transportation, telecommunications, water and the major issues that affect each industry.

The publication contains coverage of all utilities, including news on consumer issues and general information on PUC happenings.

The Commission ensures safe, reliable and reasonably priced electric, natural gas, water, telephone and transportation service for Pennsylvania consumers, by regulating public utilities and by serving as responsible stewards of competition. Industry monitoring is a crucial part of this mission.

ON THE INSIDE

Electric Reliability in the Summer

On May 24, 2006, the Energy Association of Pennsylvania (EAP), the Electric Power Generation Association, PJM Interconnection and Midwest Independent System Operator (MISO) advised the Pennsylvania PUC that they are expecting normal demands for electricity and have ample power to meet the demand for electricity during the summer months while maintaining enough power for emergencies.

The presenters discussed forecasted load and capacity; an update of heat emergency plans; inspection and maintenance plans; and the effects of environmental issues on the generation supply fleet.

Events subsequent to the Summer Reliability Meeting have demonstrated the importance of having an ample reserve margin. PJM, the electricity grid operator for 13 states and the District of Columbia, predicted that customers' peak demand during the summer of 2006 would reach as high as 133,500 megawatts, close to the all-time record of 133,761 set on July 26, 2005. However, PJM later reported that a new record for peak demand of 139,746 megawatts was set on July 17. Fortunately, PJM maintains a reserve margin of 25.5 percent in order to meet unanticipated demand.

The EAP member companies serve over 8.2 million electric and natural gas customers in the Commonwealth. EAP said that most Pennsylvania electric distribution companies (EDCs) are meeting or exceeding the reliability thresholds established for them by the Commission. EAP said that the EDCs should be able to continue their maintenance practices because, over time, the EDCs either have been meeting their reliability standards, or the Commission has dealt with the companies individually.

At the request of the PUC in 1994, electric utilities developed plans to help protect at-risk customers during heat-wave emergencies. EAP said Pennsylvania electric utilities have those plans in place, and ready to implement, if needed this summer.

To improve reliability, the PUC has approved regulations to tighten reliability standards and reporting requirements. In April, the Commission voted to propose expanding inspection and maintenance standards for electric transmission and distribution systems. The Commission also employs a heat-wave awareness campaign to help consumers know how to cope when temperatures rise.

Pike County Update

Pike County Investigation Report Released

The Commission voted to release a fact-finding report on the competitive market conditions in the Pike County Light & Power Company service territory at the public meeting of June 22. The Commission had adopted a motion directing the Law Bureau to conduct this investigation on Jan. 27, 2006. The investigation was prompted by a large increase in electric generation rates on Jan. 1 for the company's retail electric customers.

The Commission also organized a public input session on the rate increase in Pike County, on Feb. 27, 2006. As part of the investigation the Law Bureau solicited comments on multiple issues. Comments were filed by various parties, including the company, the Office of Consumer Advocate, and the Office of Small Business Advocate. Recommendations from these parties and others included changes in the company's method of procuring electricity for its customers, membership in the PJM Interconnection, a sale of the company, rule changes to facilitate alternative supplier participation in the Company's territory, and other options.

Based on this and other information, the Law Bureau prepared a report that reviewed present market conditions in the company's service territory and included recommendations for action. The report is available through the PUC's website under the Docket No. P-00052168.

PUC Approves Aggregation Program

The Commission approved an aggregation program for Pike County Light & Power Company's retail electric customers at the public neeting of April 20. The program had been proposed by Direct Energy Services LLC in response to a large price increase for the company's default service customers that took effect on Jan. 1, 2006. An evidentiary hearing was held on the merits of the proposal on April 11. The program established a competitive process through which electric generation suppliers could bid to serve nearly all of the company's customers. Customers were given option to opt out of the program and remain with the company.

Bids were submitted on April 26, and two days later the PUC announced that Direct Energy was the winning bidder. Customers were provided written notice of the aggregation program and offered the opportunity to remain with the company. Customers who did not opt out of the program were enrolled with Direct Energy and began receiving generation service in June. Direct Energy will provide a fixed rate of 12.707¢ per kWh to these customers through Dec. 31, 2007. Direct Energy's rate represents modest savings for most customers compared to the company's approved default service rate. Retail customers enrolled with Direct Energy may choose another electric generation supplier or return to the company at any time without penalty. Approximately one percent of the company's eligible customers chose to opt out of the aggregation program.

Penn Power Interim POLR Supply Plan

Pennsylvania Power Company (Penn Power), a FirstEnergy company, filed a petition with the Commission on Oct. 11, 2005, seeking approval of an electricity procurement plan for its non-shopping customers. The filing was necessitated by the expiration of Penn Power's generation rate caps on Dec. 31, 2006. The plan sets rates for Penn Power's retail customers for a 17-month period, beginning on Jan. 1, 2007, and continuing through May 31, 2008.

The Commission adopted a final order in this matter on April 20, 2006, and entered that order on April 28. Penn Power filed a petition for clarification of that order on May 1, 2006. The PUC adopted and entered an order disposing of the petition for clarification on May 4. On May 25, Penn Power filed a petition for review with the Commonwealth Court of Pennsylvania seeking a review of the Commission's April 28 and May 4 orders.

The approved plan requires that Penn Power's provider of last resort (POLR) load be bid out for full electricity requirements service for each of three groupings of rate classes: residential, small commercial and large commercial. Penn Power's POLR load is divided into 18 blocks or tranches. Residential has seven tranches, small commercial has six tranches and large commercial has five tranches.

The plan requires a minimum of two bid dates. For the first bid date of May 31, 2006, 10 tranches were available: four residential; three small commercial; and three large commercial. The Commission approved the results of the bid by secretarial letter on June 2, 2006.

For the second bid date of July 18, 2006, the remaining eight tranches were available; plus any of the 10 tranches not filled by May 31, 2006. If any of the 18 tranches are unfilled after the first two bids, a residual bid is scheduled for Aug. 15, 2006. A supplier may win a maximum of 12 tranches in total; subject to a maximum of five residential tranches, four small commercial tranches and three large commercial tranches.

Inspection and Maintenance Standards

On April 20, 2006, the PUC adopted a proposed rulemaking order which seeks to implement minimum inspection, maintenance, repair and replacement standards for the electric distribution companies operating in Pennsylvania. The PUC proposes to require the filing of an inspection and maintenance plan every two years. The proposal also contains minimum standards for vegetation management, pole inspections, overhead line inspections and substation inspections. Interested parties will have 30 days from the date of publication of the order in the *Pennsylvania Bulletin* to file written comments.

UGI POLR Filing

On April 17, UGI Utilities Inc. filed a petition for approval of tariff provisions relating to default service provisions for 2007-09.

The petition was filed on the premise that UGI purchases all of its default service electric generation supplies in wholesale energy markets because it is a small electric distribution company that owns no electric generation.

The Office of Consumer Advocate, the Office of Small Business Advocate and Constellation Energy Commodities intervened. At a prehearing conference on May 19, UGI and the other parties agreed to a settlement. The parties filed a petition for settlement on June 1.

The agreed upon maximum default service generation rates, which represent an increase of about 35 percent for residential customers in 2007, are consistent with the results of recent auctions for default service power supplies in Maryland and New Jersey and projected wholesale power prices.

In a recommended decision dated June 7, a PUC administrative law judge determined the settlement to be fair, reasonable and in the public interest.

At the June 22 public meeting, the Commission approved the settlement in a 5-0 vote. The POLR rates will go into effect on Jan. 1, 2007.

FirstEnergy Rate Transition Plan

On May 4, 2006 the PUC voted unanimously to investigate a FirstEnergy request to increase rates for its Met-Ed and Penelec customers. The proposed plan calls for an overall increase of $216 million (19 percent) for Met-Ed and an overall increase of $157 million (15 percent) for Penelec for 2007 under its preferred approach. In the alternative, FirstEnergy requests an increase of $269 million (24 percent) for Met-Ed and $206 million (19 percent) for Penelec. The filing is the first general rate case for Met-Ed since 1992 and the first for Penelec since 1986.

FirstEnergy describes the rate increase as part of a transition plan that it says would permit Met-Ed and Penelec to recover the costs of distribution, transmission and generation services, which have allegedly increased over the past several years. According to FirstEnergy, the plan is further designed to address claimed shortfalls in non-utility generation power cost recovery while implementing rate increases in a gradual, measured way so as to avoid rate shock to customers.

The PUC suspended First Energy's transition plan proposal and assigned it to a PUC administrative law judge for a recommended decision. The Commission has until Jan. 12, 2007, to make its final decision.

Electric Supplier Licensing

Activity from March 1 to May 31, 2006.

42 Active Licenses
1 license canceled
1 license approved
5 applications pending

Duquesne Light Company's General Rate Increase

On April 7, 2006, Duquesne Light Company filed a tariff proposing an annual increase in distribution and transmission rates of approximately $162.7 million (13.1 percent on a total bill basis) to become effective June 6, 2006. Duquesne serves approximately 587,000 customers in Allegheny and Beaver counties.

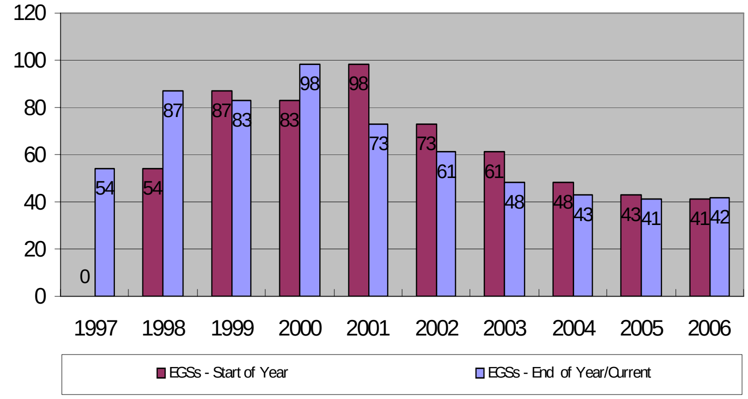
This filing is Duquesne's first base rate increase request since 1987. Duquesne states that the proposed rates would help to offset increased costs to provide service, including its ongoing upgrade of the region's infrastructure. These upgrades include improving power capacity to serve the expanding electricity needs of hospitals and universities in the Oakland area of Pittsburgh. For a residential customer using 600 kilowatt-hours per month, Duquesne's requested increase would result in a $12 increase in the overall monthly electric bill. At the public meeting of May 4, 2006, the PUC suspended this filing for investigation until Jan. 6, 2007, unless permitted by order to become effective at an earlier date.

AEPS Interconnection Regulations

The Commission is reviewing comments from the Independent Regulatory Review Commission and other commenters concerning the Alternate Energy Portfolio Standards (AEPS) Interconnection Standards for Customer-Generators. The purpose of the regulations is to expedite the process and reduce the cost of small (less than two MW) customer-generators to connect to the utilities distribution system. The proposed rulemaking was published in the Feb. 25, 2006, *Pennsylvania Bulletin*.

The proposed regulations incorporate provisions from the Middle Atlantic Regulatory Initiative interconnection working group and other states' interconnection regulations. The final regulations are targeted for issuance during the third quarter of 2006.

Number of Licensed EGSs



Single Bi-Directional Meter and Dual Meter Arrangements

The Alternate Energy Portfolio Standards (AEPS) regulations provide for metering capabilities that will be required and a compensation mechanism which reimburses customer-generators for surplus energy supplied to the electric grid.

One of the main issues addressed under the proposed regulations is whether the Commission should require a customer-generator facility used for net metering be equipped with a single bi-directional meter or a dual (two-meter) arrangement. The single-meter approach involves the netting of kilowatt-hours delivered to the customer and kilowatt-hours (kWh) generated by the customer to produce a single bill calculated using delivery rates. Under the dual meter approach, the customer is billed for delivery service in the same way that any other customer taking service on the same rate schedule is billed. The customer-generator is separately compensated for generation, credits and any other attributes.

Several parties believe that the single meter approach results in all other ratepayers unreasonably subsidizing the distribution service for customer-generators. It was argued that under the single meter approach, customer-generators would pay the customer transition charge (CTC) and intangible transition charge (ITC) only on the difference between the kWh delivered to the customer-generator by the electric distribution company (EDC) and the kWh sent by the customer-generator over the EDC's distribution system. Since the customer-generator would pay the CTC or ITC on too few kWhs, the EDC would experience a shortfall.

After a review of the different metering approaches, the PUC incorporated provisions requiring a single bi-directional meter arrangement. Since the approach in the proposed regulations is a one for one kilowatt hour credit generated from the customer-generator and the recovery of any stranded costs would be de minimis, any offsets in usage will still require that minimum charges be paid. In the event that the EDC's meter would not be capable of operating in a bi-directional mode, then a dual meter application would be permitted at the EDC's expense.

Meter Arrangements Continued on Page 20.

Rail Safety Focused Inspections

The Pennsylvania PUC conducts railroad safety efforts pursuant to an agreement with the Federal Railroad Administration (FRA) under the provisions of the Federal Railroad Safety Act of 1970. The Rail Safety Inspection Program in the Bureau of Transportation & Safety is a co-operative partnership between the PUC and the FRA to monitor railroad safety.

Safety inspections are conducted throughout Pennsylvania in the disciplines of Track, Motor Power & Equipment (MP&E), Hazardous Materials (HM) and Operating Practices (OP). Regular safety inspections are performed as well as focused inspections. The purpose of the focused inspection process is to analyze FRA data gathered by the FRA's Office of Safety Assurance & Compliance. This data is used to determine accident/incident trends on specific railroads, in specific counties. This data targets our inspection efforts to locations and disciplines where the statistics indicate an increase in accidents and injuries. Focused inspections include a team of PUC and FRA inspectors performing safety audits at the railroad facility, usually on a 24 hour basis. The team reviews its inspections and observations with the carrier and recommends ways to reduce accident/incidents.

Operating Practice Focused Inspections

Focused inspections performed by a PUC OP inspector seek to reduce accidents caused by human factors. A recent focused inspection of a major rail carrier concentrated on the carrier's dispatch operations, specifically hours of service, train movement records and radio communications. The OP inspections are also focusing on the railroads' programs required by federal regulation in Operational Testing, Accident/Incident Reporting, Hours of Service, and Drug and Alcohol programs.

Most accidents and injuries occur in rail yards; to combat this, the OP team is conducting Switching Operations Fatality Analysis (SOFA) focused inspections. Railroad crews are observed for operating and safety rule violations during normal switching operations. SOFA observations and presentations are conducted at any yard where the statistics indicate an increase in the accident/injury rate.

The inspectors are conducting an on-going focused inspection to ensure compliance with FRA Emergency Order No. 24 to reduce derailments due to improperly thrown switches. This focused inspection is being enforced by all disciplines on all railroads.

Track Focused Inspections

The track inspection efforts are concentrating on the rail lines with the greatest number of deficiencies and derailments caused by track defects. PUC track safety inspectors team up with FRA inspectors to conduct focused inspections throughout the Commonwealth. Currently the Rail Safety Division is participating in a focused inspection upon a rail line that has been the site of several derailments.

Another initiative in the track safety discipline is the Rail Integrity Task Force. This initiative provides a detailed analysis of the rail condition following a derailment that appeared to be caused by a defective track. The information provides "best practices" for inspecting, maintaining, and replacing rail with the objective to reduce rail-related accidents.

MP&E Focused Inspections

PUC MP&E inspectors are responsible for inspections to determine the safety compliance of rail cars and locomotives. They also enforce regulations for the safety of railroad employees working on equipment. Focused inspections are performed to ensure railroad worker protection regulations are being complied with by the carrier. For example, inspectors strictly enforce the "blue flag rule," which segregates railroad workers from moving equipment in the immediate area.

New Entrant Audit

In summer 2005, the PUC's Motor Carrier Division began participating in the New Entrant Audit Program as part of its commitment to the Federal Motor Carrier Safety Assistance Program. Eight enforcement officers attended two weeks of training to become certified to conduct the safety audits of new motor carriers domiciled in Pennsylvania. The Motor Carrier Division's Safety Office oversees the program, which has resulted in a very successful effort.

As required by the Motor Carrier Safety Improvement Act of 1999, the Federal Motor Carrier Safety Administration established the New Entrant Safety Assurance Program. This program requires new, interstate property and passenger motor carriers to submit to a safety audit within 18 months of beginning transportation service. The purpose of the safety audit is to provide an opportunity for the new carrier to receive educational and technical assistance about the safety regulations. It also allows regulators to make an assessment of the new carrier's safety management systems in order to ensure these systems are adequate so that the carrier can comply with the safety regulations.

Since the PUC began participating in the program, enforcement officers have conducted 188 audits, and their investigations have identified another 77 carriers who are no longer operating. More than 1,000 work hours have been committed to this program thus far. On average, 170 motor carriers enter the transportation business each month in the state.

The federal program is similar to the PUC's Safety Fitness Review Program that has been conducted since 1995. The most notable difference is that the PUC requires the carrier to correct deficiencies discovered during the first review, or the second review may result in the cancellation of the motor carrier's operating authority. Soon, three additional officers are expected to be added to the program.

Pennsylvania American Water DSIC

On Aug. 26, 1996, at Docket No. P-00961036, the Commission approved Pennsylvania American Water Company's (PAWC) request for a distribution system improvement charge (DSIC). The purpose of the DSIC is to recover the fixed costs (depreciation and pre-tax return) of certain non-revenue producing, non-expense reducing distribution system improvement projects which are completed and placed in service and recorded in individual accounts between base rate cases. The intent is to provide the company with the resources to accelerate the replacement of aging water distribution infrastructure, to comply with evolving regulatory requirements imposed by the Safe Drinking Water Act, and to develop and implement solutions to regional water supply problems. PAWC's initial DSIC rate became effective Jan. 1, 1997. The DSIC rate is recalculated quarterly and applied to all service excluding public fire hydrants.

Pursuant to 66 Pa. C.S. §1307(e), PAWC is required to file an annual statement with the Commission showing the amount of DSIC revenues billed customers, along with the associated DSIC eligible costs. Differences between DSIC revenues and DSIC recoverable costs are either refunded to ratepayers or recovered by the company. The annual Section 1307(e) statement is subject to both a public hearing and Commission-conducted audit.

During its most recent DSIC audit of PAWC for the two years ended Dec. 31, 2004, the Bureau of Audits developed five findings concerning the PAWC's calculation, application and reporting of its DSIC activity. One finding revealed that the company overstated its DSIC-eligible property by $766,380, while two others noted that reported Section 1307(e) costs were overstated by $23,212 and revenues were understated by $8,296. A fourth finding indicated that $25,096 of DSIC overbillings occurred due to the company's miscalculation of its DSIC rate. The fifth finding was procedural in nature.

PAWC agreed to the PUC's findings and recommendations, and will make the appropriate refunds to customers.

PUC Celebrates Water Week

In May, with a backdrop of 162 one-gallon jugs of water representing how much water one person could use per day, PUC Chairman Wendell F. Holland, Commissioners Bill Shane and Kim Pizzingrilli commemorated National Drinking Water Week with the help of more than 100 elementary school children.

The Commissioners reminded consumers to "Prepare Now: Be Water Wise," underlining the importance of using water responsibly. Education efforts also focused on utility shut-off laws changes. An actor portraying Ben Franklin delivered the messages "A penny saved is a penny earned" and "When the well is dry, we know the worth of water." State Rep. Carole Rubley (left) also presented a proclamation from the General Assembly.

Settlement Approved for Aqua Pennsylvania

By order entered June 22, 2006, the PUC unanimously approved a joint settlement between Aqua Pennsylvania Inc. and the active parties and the majority of complainants in the proceeding. Under the terms of the settlement, Aqua PA will be allowed to increase rates to produce additional annual revenue of approximately $24.9 million (9.2 percent increase), which is less than the original company request of $38.8 million (14.4 percent increase).

The settlement also provides that:

- the company may not apply for another rate increase until after Nov. 18, 2007;
- the company may use a 10.6 percent rate of return on common equity for its Distribution System Improvement Charge in lieu of the equity return rate(s) in the PUC's Quarterly Earnings Report;
- municipalities, at their own expense, may attach marking devices on public fire hydrants owned and operated by Aqua PA to facilitate their locations; and
- the company will use its best efforts to minimize the cost of water it purchases to meet its customers' needs and to pursue alternative sources of supply when feasible and cost-effective.

Under the settlement, the annual bill for the average customer will increase by approximately $40 to about $495. The company's original request would have increased the annual bill for the average customer by approximately $65 to about $520. All customer classes, except the sales for resale and public fire classes will receive approximately the same percentage increase, and main division residential and commercial consumption blocks will increase at a uniform percentage rate.

According to Aqua PA, the primary reason for the rate increase was to help recover the cost associated with the quarter of a billion dollars it invested in capital improvements since its last rate request in July 2004. Also cited are upgrades made to its treatment facilities, required to meet federal Environmental Protection Agency standards and a new radio frequency metering system as reasons for the increase.

Water and Wastewater Rate Increases

Rate Increase Request Summary

April 1 to June 30, 2006

Utility Name	Amount Requested	Amount Granted	% of Increase	Action	Action Date
DuBois – City Water Department	$129,349	-----	-----	Settlement	Pending
United Water	$7,541,225	$5,904,732	24.9%	Settlement	Pending
Meadows Sewer	$55,472	$23,800	12.3%	Settlement	4/06/06
Pocono Waterworks	$18,371	$18,370	28.9%	Settlement	5/19/06
Emporium Water	$316,144	-----	-----	Investigation	5/19/06
Emporium Water	$342,092	$0	0%	Denied	5/19/06
City of Lancaster Water Fund	$999,995	$950,000	13%	Settlement	6/01/06
York Water	$4,549,737	-----	-----	Investigation	6/01/06
Aqua Pennsylvania	$38,800,000	$24,900,000	9.2%	Settlement	6/22/06
C.M.V. Sewage Company	$81,771	$81,771	65%	Stipulation/ Litigation	6/22/06
Columbia Water	$519,500	-----	-----	Investigation	6/22/06
Exit II WWTP	$89,733	$68,540	161.6%	Alternative	6/22/06
Corner Water Supply & Service	$41,829	-----	-----	-----	Pending
Utilities Inc. - Westgate	161,225	-----	-----	------	Pending

Solutions to Problem Systems of Redstone Water Company

In 1954, Redstone Water Company began to acquire several coal patch systems, later to be known as Smock, Allison I and II, Crescent Heights and Royal Divisions. Redstone was certificated and formally incorporated in 1967.

For the past decade, Redstone has been an historically troubled water system. In 1995, the Commission approved the North Fayette County Municipal Authority to acquire the 800-customer Smock System from Redstone because of poor service and Department of Environmental Protection infractions.

In 2005, Redstone was directed by the PUC's order to interconnect its Crescent Heights division with the Tri-County Water Authority or sell the system at a reasonable price to a viable entity. They chose to sell.

Later that year, Redstone and Pennsylvania American Water Company (PAWC) executed an asset purchase agreement involving the 260-customer Crescent Heights System and the 230-customer Allison I and II System. PAWC plans to interconnect the systems with their sources, to abate a contamination concern and to insure safe and reliable service for all customers. This application was approved in April.

In May 2006, the PUC approved Redstone's application to sell its remaining Royal division, to the North Fayette County Municipal Authority. This closing will result in Redstone's exit from the water industry entirely. When small water companies are unable or unwilling to invest in maintenance and upgrades of their systems, an effective solution is a sale to or takeover by another company.

City of Lancaster Granted Rate Increase

On Dec. 9, 2005, the City of Lancaster – Water Fund filed Supplement No. 37, proposing a $999,995 increase in annual operating revenues. Jurisdictional water service is provided outside the city limits to 27,750 residential, commercial and industrial customers located within the Townships of East and West Lampeter, East and West Hempfield, Lancaster, Manheim, Pequea and Manor. The city also indirectly supplies water to customers in East Petersburg Borough, Leola and West Earl Townships under bulk rate contracts. The rate change does not affect the 17,000 customers within Lancaster City. The city does not need PUC approval to raise rates within city limits. There were no formal complaints filed against the request by the outside municipalities. Protests were filed by the state Office of Consumer Advocate, Small Business Advocate and PUC's Trial Staff.

On Jan. 12, 2006, the Commission suspended the filing for investigation and assigned the matter to the Office of Administrative Law Judge for disposition and the preparation of a recommended decision.

On May 3, 2006, all parties submitted their joint petition in full settlement of the rate investigation. The administrative law judge recommended that the settlement be approved by the Commission and at public meeting on June 1, the Commission adopted the recommended decision. The City of Lancaster was permitted to increase the jurisdictional annual revenues by $950,000 instead of the $999,995 requested.

Under the negotiated settlement, the quarterly bill for an average customer using 15,000 gallons of water would increase by about $7.50, from $58.20 to $65.70, or 13 percent. The original request would have raised the average bill by $8.00, an increase of 13.7 percent.

The company says the increase will pay for maintenance costs of the aging Conestoga and Susquehanna River treatment plants, water mains, and increased wages and insurance for plant employees. The company also plans to replace filtration beds of sand with microfiltration systems at each plant (two year project) which will trigger an additional rate increase request.

Proposed Policy Statement: Unscheduled Service Interruptions

By order entered March 10, 2006, at Docket Number I-00050109, the Commission released staff's investigative report relating to Pennsylvania American Water Company's (PAWC's) high fluoride concentration incident that occurred on Dec. 10, 2005. Staff found that the elevated level of fluoride concentration was the result of operator error at PAWC's Yellow Breeches Water Treatment Plant in Fairview Township, Cumberland County, which affected about 34,000 customers in Cumberland and York counties. In the order, the Commission directed staff to prepare a proposed policy statement regarding public notice standards for unscheduled water service interruptions to be considered at a future public meeting.

At the June 1, 2006 public meeting, the Commission determined that the proposed policy statement should not only provide guidance to utilities related to public notice during unscheduled water service interruptions, but also should address the provision of alternative water supplies. The Commission stated that the policy statement adopted will help ensure that actual, timely notice to customers is provided by water utilities whenever there is any event that potentially endangers public health or safety of the customer's water supply.

To accomplish this goal, the proposed policy statement includes a series of acceptable methods for improving the timeliness and effectiveness of notice to water customers whenever it has been determined that any event such as a terrorist act, chemical spill, or water line break, has affected the quality or quantity of the customers' potable water supply. These acceptable methods of public notification include:

- taking advantage of existing technology such as sending faxes or e-mail notification to local radio and television stations, cable systems, newspapers and other print and news media;
- using outbound dialing notification to affected customers' landline or wireless phones where available;
- sending e-mail and text messages to affected customers who have opted to receive such notice; and
- utilizing the utility's Internet website.

Other types of direct/personal notification, such as doorknob flyers, are also encouraged, where feasible.

The proposed policy statement reiterates that all water utilities are required to follow the Department of Environmental Protection regulations relating to public notification. Also, the statement provides that utilities should have a knowledgeable contact person stationed on site during the emergency. Finally, the statement reminds utilities of the need to ensure that adequate quantities of alternative supplies of water are made available in pre-determined, conspicuous and in sufficient locations relative to the number of customers affected by the incident. The proposed policy statement will now be subject to a 30-day comment period by interested parties before it becomes final.

Telecommunication Mergers

PUC Approves Joint Stipulation and Alltel Changes New Landline Operations to *Windstream Communications*

By order entered June 12, 2006, the PUC approved a joint stipulation entered between Alltel and the Office of Consumer Advocate, the Office of Small Business Advocate and the PUC's Office of Trial Staff. This allows Alltel's request for change of control of its operations so that it can spin-off its local phone business and merge it with Valor Communications Group Inc. The transaction was designed to create a voice, broadband and entertainment services company focused on the rural market in the United States. Similar to the Sprint/Nextel spin-off of its local land line business, the transaction will reposition Alltel Corporation as a wireless only service provider.

The terms of the joint stipulation will:

- freeze rates for a three-year period, until June 1, 2009, for Alltel Pennsylvania Inc.'s residential and business customers;
- accelerate Alltel PA's broadband availability commitment from 80 percent to 84 percent, by Dec. 31, 2010;
- preclude Alltel PA from issuing certain additional debt;
- allow Alltel PA to agree not to pay dividends in excess of 90 percent of annual net income until Dec. 31, 2010; and
- require Alltel to notify the Office of Consumer Advocate and the Office of Small Business Advocate if its service outage repair index falls below 90 percent restored/repaired within 24 hours, in any month across the system, or for three consecutive months in any exchange, and take appropriate action to correct any shortcomings.

In a press release dated April 10, 2006, Alltel Corporation announced that the new company to be formed by the spin-off of Alltel's landline business and merger with Valor Communications will be named Windstream Communications. The newly formed company will be headquartered in Little Rock, Arkansas and is expected to trade on the New York Stock Exchange under the ticker symbol "WIN." Windstream Communications will provide service in 16 states and have approximately $3.4 billion in annual revenue.

AT&T/BellSouth Merger Approved

On June 1, 2006, the PUC unanimously approved the merger of AT&T Inc. and BellSouth Corporation docketed at A-310503F0004. Under the merger, BellSouth will become a wholly-owned affiliate of AT&T Inc. The Commission's approval completes its review of the joint application which was filed on Feb. 25, 2005.

AT&T Inc. is a Delaware corporation headquartered in San Antonio, Texas and is one of the largest providers of telecommunications services in the world. AT&T Inc. was recently created by the merger of AT&T Corporation and SBC Communications Inc. BellSouth is one of the original regional bell operating companies and operates primarily as an incumbent local exchange carrier in the southeastern United States. AT&T Inc. and BellSouth co-own Cingular Wireless.

In Pennsylvania, BellSouth's subsidiary BellSouth Long Distance Inc. provides service as an interexchange reseller, a competitive access provider and a competitive local exchange carrier. The change in ownership will not change the rates, terms and conditions provided to current Bellsouth Long Distance customers.

The PUC approved the merger after determining that the joint applicants met their burden of proof that the merger is in the public interest. The Commission agreed with the applicants that the merger will provide significant benefits to Pennsylvania customers including new Internet Protocol (IP)-based services, reduced costs and increased network efficiency along with increased network security.

AT&T Reverses Position on Job Reductions in Pennsylvania

Following merger approval, the PUC directed its staff to investigate AT&T's proposed reductions in force (RIFs) in Pennsylvania. The PUC looked at the impact those reductions might have on the Telecommunications Relay Service (TRS) call center in western Pennsylvania that handles calls between people who are deaf, hard of hearing and speech disabled, and the hearing public. The RIFs were announced several months after the PUC approved the AT&T/SBC merger in October 2005, and after AT&T had implicitly asserted that the merger would have a positive impact on employment in the state and that it would not affect AT&T-PA's role as the TRS provider for the state.

The staff investigation was initiated by a Commission motion adopted on March 16, 2006. The order commencing the investigation was entered on May 8, 2006 at Docket No. I-00060111. On May 11, 2006, AT&T filed its response to the investigation order, confirming an announcement made by Governor Edward G. Rendell that AT&T had committed to forego the RIFs and call center closing. Upon reconsideration, AT&T had rescinded its plan for involuntary RIFs in western Pennsylvania and the New Castle TRS call center. Instead, AT&T will rely on attrition to accomplish its goals relative to employee

Telecommunications Mergers *Continued on Page 11.*

Chapter 30 Update

Broadband Services Inventory

The new Chapter 30 rules require that the Department of Community and Economic Development (DCED) compile a listing of advanced and broadband services available from all advanced and broadband service providers operating in Pennsylvania. Advanced services are defined as those capable of supporting a minimum speed of 200 kilobits per second (Kbps) in at least one direction at the network demarcation point of the customer's premise. Broadband services are defined as having a bandwidth equal to or greater than 1.544 megabits per second (Mbps) downstream and equal to or greater than 128 Kbps upstream.

The DCED database will include data from all providers of advanced and broadband services including incumbent and competitive local exchange carriers, as well as wireless and cable providers of local service. The DCED online database is anticipated to be available for the public this fall. The database will be accessible on the DCED's website at www.newpa.com.

Price Stability Index Update

The Commission has recently approved a number of price cap filings by telephone companies that permit rates for noncompetitive services to be adjusted based on an inflation formula known as the Price Stability Index (PSI). Since January 2006, the Commission approved the PSI filings of 19 incumbent local exchange carriers—all of them rural carriers—which resulted in allowable revenue increases for these companies ranging from approximately $8,000 to $4.1 million. The PSI filings were made according to the provisions for alternative forms of regulation set forth in Act 183 of 2004.

In accordance with each company's Chapter 30 Plan, which implements the provisions of Act 183, a company utilizing the PSI formula may elect to put its entire allowable increase into effect immediately, or it may choose to "bank" all or part of the increase, meaning the money is set aside to be used in the future. Of the 19 companies that have filed so far this year, four have proposed to increase their rates by the full amount permitted by the formula, two have proposed partial increases while banking the remainder, and the rest have elected to bank their entire allowable increase at this time. Those companies electing to increase rates have proposed to distribute the extra revenue among a number of different rate elements, including basic local service rates for residential and business customers.

National Security Agency and American Civil Liberties Union Complaint

On Thursday, May 11, 2006, *USA Today* reported that AT&T Inc., Verizon Communications Inc., and BellSouth Corporation turned over tens of millions of customer call records to the National Security Agency (NSA) as part of the Bush Administration's alleged efforts to crack down on terrorist activity in the United States. The story suggested that this release of customer proprietary network information (CPNI) was done without NSA obtaining subpoenas or the phone companies' obtaining the consent of their customers prior to the phone records' release.

On May 24, 2006, the American Civil Liberties Union of Pennsylvania and several other public-interest organizations together filed a formal complaint against Verizon Pennsylvania Inc., AT&T Communications of Pennsylvania and other Pennsylvania telephone companies requesting a cease and desist order to prevent the phone companies from disclosing personal information in violation of the privacy protections contained in the Public Utility Code and the Commission's regulations. Additionally, a similar formal complaint was filed by the Communications Workers of America, District 13, with the Commission, and it is expected that it and any similarly-filed complaints will all be consolidated before an administrative law judge after answers are received from the respondent phone companies.

Pennsylvania Telephone Relay Service

The PUC completed the funding recalculation of the Telecommunications Relay Service (TRS) for the coming year based on wireline telephone lines in service at the end of 2005. The per line rates effective July 1, 2006, are residence $0.08/month and business $0.09/month. TRS allows the deaf, hard of hearing, or speech disabled to communicate with anyone using a regular telephone simply by calling 711. TRS is available 24 hours a day, every day of the year and is consumer-funded by a surcharge appearing on monthly wireline telephone bills. The surcharge funds the relay service, the Telephone Device Distribution Program (TDDP), and the Print Media Access System Program (PMASP). PMASP is a system whereby blind or print-disabled individuals may access a synthetic voice service that reads newspapers to the caller.

Telecommunications Merger

Continued from Page 9.

count in Pennsylvania. As a result, by order entered May 19, the PUC terminated the investigation based on its conclusion that the matter has been resolved by AT&T's commitment and that there are no outstanding facts or questions that would warrant further action.

PUC Adopts Final Order in Sprint/Nextel's Spin-Off Case

On April 7, 2006, the PUC entered its final opinion and order (Docket Nos. A-312200F0007 and A-311379F0002), which approved, with one modification, a joint petition for settlement reached between Sprint, the Office of Consumer Advocate, the Office of Small Business Advocate and the PUC's Office of Trial Staff. The action relates to the proposed transfer, or spin-off, of United PA and LTD Long Distance from the newly merged Sprint/Nextel into a new, independent, stand-alone parent company now known as Embarq.

The PUC previously issued a tentative order on March 22, 2006, to adopt the administrative law judge's recommendation that the settlement be approved as in the public interest. In its tentative order, the PUC indicated that its tentative approval of the spin-off was subject to the condition that a commitment letter, as referenced in the settlement, be filed to ensure that adequate resources and service reliability, as they relate to Pennsylvania workforce numbers, would be maintained after the transfer of control. On March 29, 2006, Sprint filed its commitment letter addressing the concerns identified by the PUC. In the letter, Sprint provided assurances to the Commission that the service quality to retail Pennsylvania customers would not be adversely impacted by the transaction. Sprint also indicated that the separation transaction is not expected to result in Pennsylvania job cuts and that higher employment levels are projected in the state for the end of 2006.

In the final order, the PUC concluded that Sprint's assurances in its commitment letter satisfied the condition raised in the tentative order. As such, the PUC's tentative order became final and the settlement, as supplemented by the commitment letter, was approved. A summary of the terms of the settlement was included in the Winter/Spring 2006 edition of *Keystone Competition*.

Verizon's Consolidated Loop Cost Study Proceeding

At the July 20 public meeting, the PUC voted unanimously to adopt a tentative order that would grant a joint petition to terminate Verizon PA's and Verizon North's consolidated loop cost study (CLCS) proceeding at Docket No. R-00028028. The joint petition was filed on April 19, 2006, by Verizon, Covad, CTSI Inc., AT&T, the PUC's Office of Trial Staff and the Office of Consumer Advocate. In addition, the Pennsylvania Office of Attorney General filed a motion to join in the joint petition. The tentative order will become final in ten days if no objections or comments are filed.

The CLCS proceeding was required by the PUC as a condition in its Nov. 4, 1999 merger order at Docket No. A-310200F002, when it approved the merger between Bell Atlantic Corporation and GTE Corporation, which ultimately resulted in the formation of Verizon.

The primary purpose of the CLCS proceeding was to establish uniform, statewide, tariffed rates for unbundled network element (UNE) loops, based on the merged companies' consolidated loop costs in accordance with the total-element long-run incremental cost (TELRIC) methodology required by the Federal Communications Commission. The proceeding was subsequently expanded to include consideration of additional UNE rate elements.

In its action on the instant joint petition, the PUC agreed with the joint petitioners that no substantial public benefit will be gained by continuing to litigate consolidated UNE loop rates in light of the fact that the following significant changes in circumstances occurred since the issuance of the merger order:

- Verizon UNE rates from the PUC's *Generic UNE Investigation* at Docket No. R-00016683 were affirmed on appeal by the United States District Court for the Eastern District of Pennsylvania. *See Verizon PA v. Pa. Public Utility Comm'n*, No. 04-3866 (order entered Aug. 3, 2005); *appeal pending* No. 05-4124 and 05-4345 (United States Court of Appeals, Third Circuit);
- the FCC's decisions in its Triennial Review Order (TRO) and Triennial Review Remand Order (TRRO) have significantly altered the unbundling obligations of local exchange companies pursuant to the federal Telecommunications Act of 1996 (TA-96); and
- the FCC, by order released Nov. 17, 2005, approved the merger of MCI Inc. and Verizon Communications Inc. (parent of Verizon), subject to certain conditions which include, among other conditions, a stay-out provision that does not permit the merging companies to increase UNE rates prior to Jan. 7, 2008.

SEARCH Working Group - Looking for Ways to Promote Natural Gas Competition

The PUC has formed a working group known as SEARCH (Stakeholders Exploring Avenues for Removing Competition Hurdles), to identify steps that may be taken to facilitate the development of a competitive market for natural gas supply in Pennsylvania. Formerly referred to as the Natural Gas Stakeholders Working Group, this task force is led by PUC staff and includes participants representing natural gas distribution companies (NGDCs), natural gas marketers, and residential, commercial and industrial consumers.

Under the Natural Gas Choice and Competition Act, which went into effect in July 1999, the PUC was obligated to initiate an investigation after five years to determine whether effective competition for natural gas supply services exists in the Commonwealth. The PUC completed that investigation and issued a report to the General Assembly in October 2005, concluding that effective competition did not exist on a statewide basis.

As required by the Competition Act, the PUC then reconvened the stakeholders to explore avenues, including legislative, to increase competition. Though four subgroups focused on specific issues, SEARCH is actively seeking solutions for the PUC's consideration. Areas of inquiry include security requirements, mandatory capacity assignments, the purchase of receivables, consumer protection rules, consumer education, costs of retail supply service, fixed price options, code of conduct and aggregation and assignment programs.

A meeting of the entire Working Group was held on July 26, 2006. At that meeting, the subgroups provided updates on the issues they are addressing. Additionally, SEARCH members had the opportunity to discuss broader overlapping issues, such as proposals that NGDCs exit the merchant function and that consideration be given to ensuring cost recovery by NGDCs of competition-related activities.

Another working group meeting will be held in September, with the subgroups continuting to meet in the interim.

Staff expects to gather information and proposals from SEARCH participants through the end of September. It is anticipated that the working group's report will contain a menu of options from which the PUC may select specific measures intended to promote the development of competition in Pennsylvania's natural gas supply market. Staff will use that information as a basis for formulating recommendations for the Commission's consideration.

Gas Safety Division Adds an Electronic Database

The Gas Safety Division has entered into a modernization program. Historically, the division would collect paper reports related to inspections, incidents and data requests. In order to improve the efficiency of the Gas Safety Division's inspection and investigation responsibilities, management information systems (MIS) and Gas Safety have been working together to computerize reporting, data collection and analysis.

Gas Safety currently performs 46 different types of gas safety inspections. Prior to June, the inspections were performed on paper. Each inspector would fill out the inspection form and then mail the form into the office. The time from the initial inspection to when it was submit-ted, averaged 30 days. This has changed. The Division purchased new computer notepads which permit the inspectors to write directly on the screen. All the inspection forms have been converted to word or excel documents so that the forms can be filled out electronically and then sent via email when the inspector gains access to the Internet. On average, the time frame for the inspection cycle has been reduced from 30 to five days. However, Gas Safety is investigating the use of wireless cards that would permit them to send inspections immediately after completion on the job site. This will reduce the processing time to days instead of weeks.

In addition to the computerizing of inspection forms, the Division has also created several electronic databases. In the past, all inspection forms and reports have been filed using paper copies. Gas Safety has developed a database that permits the tracking of case loads, violations, inspection days and inspection types. In addition, the Division has created a statistical database which will help it identify potential problems to better utilize its inspectors.

Finally, with the help of the PUC's MIS department, the Division is developing a case tracking system to replace its current system. The new tracking system will permit the monitoring of every inspection data point on each inspection report. This enhancement will permit a more sophisticated extrapolation of information than is currently possible. The new database will be in an Adobe format and will permit the inclusion of digital information such as photos.

Pending Natural Gas Rate Cases

National Fuel Gas

On June 2, 2006, National Fuel Gas (NFG) Corporation filed for a base rate increase for its gas delivery rates of approximately $25.9 million or a 6.1 overall percentage increase. The Pennsylvania division serves approximately 214,000 customers in 14 counties in the northwest area of the state. The average monthly bill for a residential customer using 8.3 Mcf would increase from $143.97 to $153.93 or around 7 percent if the entire amount of the request was authorized.

The major drivers for the proposed increase are the company's on-going construction program, declining residential consumption and increased expenses such as labor, benefits and uncollectible expense. A final decision on the amount of the increase is anticipated during the first quarter of 2007.

PPL Gas Utilities

On April 27, PPL Gas Utilities filed for a base rate increase for its gas delivery rates of approximately $12.8 million or a 6 percent increase. PPL Gas provides natural gas delivery service to 76,000 homes and businesses in 27 counties. The average monthly bill for a residential customer using 8 Mcf could increase from $149.65 to $160.25 or around 7 percent if the entire amount of the request is authorized. The major drivers for the proposed increase are the company's continued investments in infrastructure and higher operating expenses.

PPL states that it has invested more than $50 million in safety and reliability since its last rate increase five years ago. The company also maintains that the costs of benefits, particularly health care, have increased significantly. A final decision on the amount of the increase is anticipated towards the end of the first quarter of 2007.

T.W. Phillips

T.W. Phillips Gas and Oil Company is seeking a rate increase. Under the company's proposal, the annual bill for an average customer using 100 Mcf of natural gas will increase by about $276 (18.3 percent). The average annual residential bill would increase from about $1,512 to $1,788. T.W. Phillips serves about 59,500 customers in Allegheny, Armstrong, Beaver, Butler, Clarion, Clearfield, Indiana, Jefferson and Westmoreland counties.

The company describes the proposed increase as enabling it to recover the cost of providing gas service; properly maintain its facilities; continue to furnish adequate, safe and reliable service and have the opportunity to earn a fair and reasonable rate of return on the fair value of property used or useful in rendering service. The PUC will render a final decision on the amount of the increase by mid-November.

PG Energy

PG Energy is seeking a rate increase of $29.8 million. The annual bill for an average customer using 9,700 Mcf of natural gas would increase by about $146 (8.64 percent). The average annual residential bill would increase from approximately $1,687 to $1,833. PG Energy serves about 160,880 customers throughout northeastern and central Pennsylvania, including the cities of Scranton, Wilkes-Barre, Bloomsburg and Williamsport.

According to the company's filing, the proposed increase would allow the company to earn a fair return on the value of its gas utility property, offset increased costs of providing natural gas service, maintain adequate coverage on all outstanding securities and attract investment capital at reasonable costs.

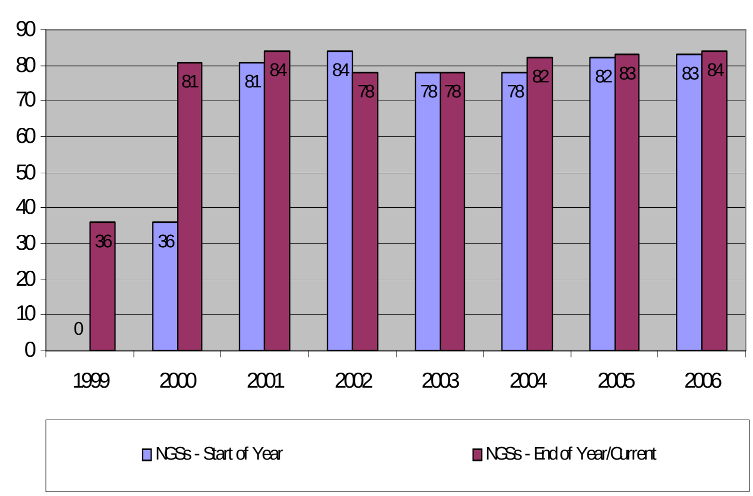
Natural Gas Supplier Licensing

Activity from March 1 to May 31, 2006.

84 Active Licenses

0 licenses canceled
1 license approved
5 applications pending

Number of Licensed NGSs



Energy Price Forecast for July 2006

The Energy Information Agency's (EIA's) July 2006 *Short Term Energy Forecast* shows a downward trend in heating oil and natural gas prices compared to the first quarter of 2006.

West Texas Intermediate crude oil (WTI) is the benchmark crude oil in the United States. WTI crude oil is expected to average around $70 per barrel in 2006 and 2007.

EIA estimates that average United State households heating with natural gas will end up spending 4.0 percent less for fuel this coming winter than last winter. Households heating with heating oil or propane can expect to pay about the same as last winter.

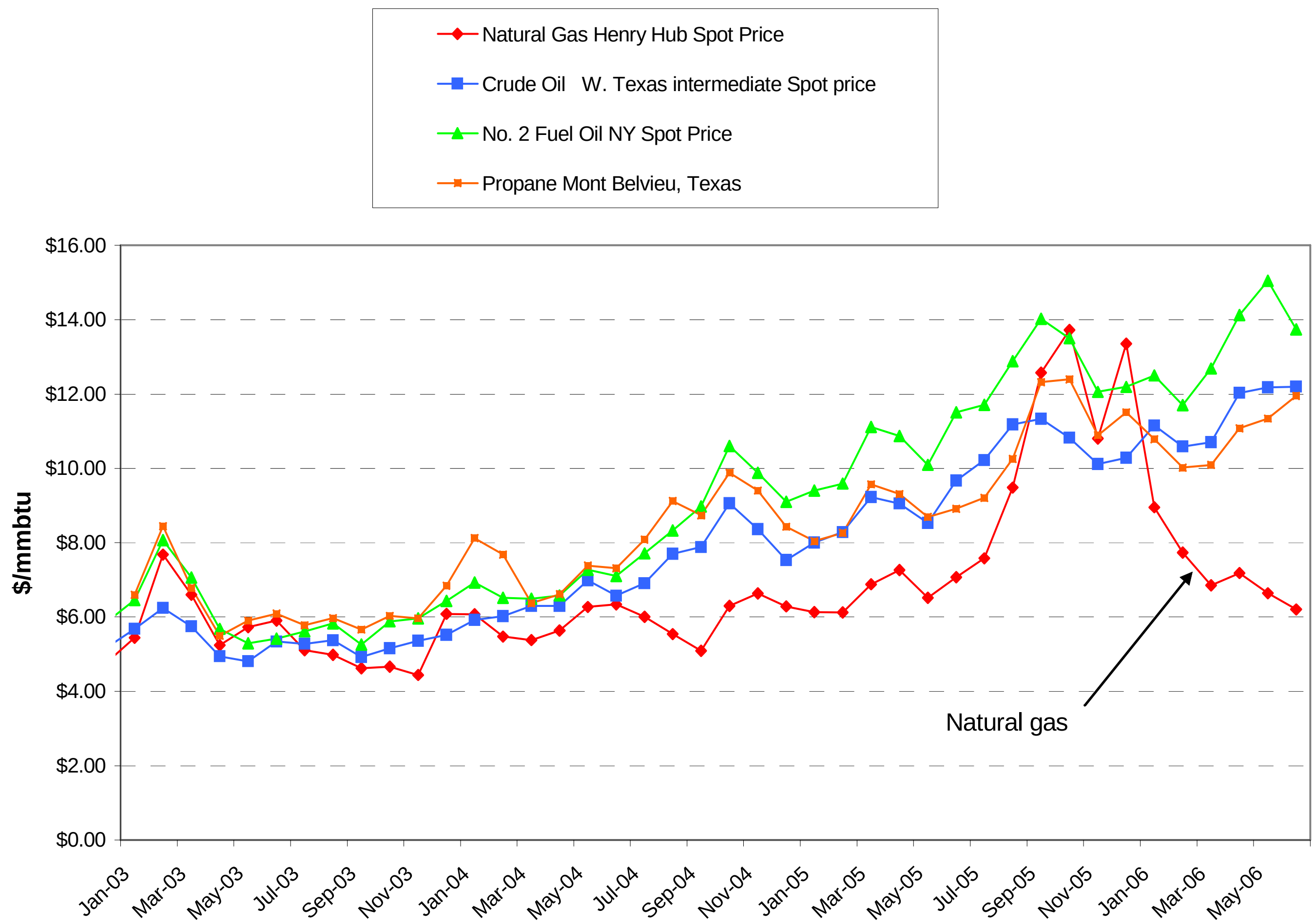
EIA shows that Henry Hub (Louisiana) wholesale natural gas prices averaged $9 per Mcf in 2005 and are projected to average $7.61 per Mcf in 2006. For 2007, the Henry Hub average price is projected to move up to an average of $8.13 per Mcf, assuming sustained high oil prices and normal weather.

Summer 2006 regular gasoline pump prices are now expected to average $2.88 per gallon, 51 cents higher than last year's average of $2.37 per gallon. Additional forecast details can be found at http://www.eia.doe.gov/oiaf/forecasting.html.

Hurricane damage to oil and gas facilities from Katrina and Rita is still not completely repaired. As of June 19, 12 percent of Gulf oil production remains shut in. Normal oil production is 1.5 million barrels per day. About 9 percent of Gulf gas production was still shut in. Normal production is 10 billion cubic feet per day. Additional hurricane damage and shut in information is available at http://www.mms.gov.

Wholesale Fuel Prices by Heat Content

Data from EIA's *Weekly Gas Report* and *Weekly Petroleum Status Report*
(Unweighted Average)



FCC Highlights

The Federal Communications Commission (FCC) continues to examine intercarrier compensation, universal service, Internet services, and telecommunications relay service (TRS). The Commission submitted comments in all these proceedings.

The PUC also is watching federal reform on telephone law. Federal law now divides communications into 'telecommunications' subject to the Commission's authority and 'information service' which is not.

Federal Legislation: House 5252

The Senate Commerce Committee voted 15-7 to amend the law on cable, wireless service, net neutrality, Voice over Internet Protocol (VoIP) and universal service.

The proposed legislation (HR 5252) preempts state authority to protect wireless consumers and requires internet telephone service to support state universal service programs. Other changes involve competitors' access to the telephone and cable companies' facilities to serve customers (net neutrality) and VoIP. The final change provides how new cable companies like Verizon would get a license to provide television.

Cable Service

The bill reduces state and local oversight over cable franchising in favor of federal authority so new providers, like Verizon, do not have to obtain state or local licenses to offer video broadcasting. The bill does not impose any "build out" obligation on new cable company services. However, local and state licenses given to current cable companies require the cable companies to "build out" their networks as a condition to getting the license. Finally, the bill denies consumers the right to buy a few stations (a la carte) from a cable company. Right now, consumers must buy cable packages with many stations they either do not want or do not use.

Wireless

The new law would prohibit state commissions from imposing protections or penalties on wireless companies although the FCC must develop "Truth in Billing" protections. States would not be able to impose taxes on wireless service although existing taxes could continue. However, the FCC must examine "special access" or the need of other companies to interconnect with the phone companies to provide wireless or broadband services.

VoIP and Universal Service

The proposed legislation prevents states from regulating the rates and services of VoIP providers. The bill also requires the FCC to act within nine months on a wireless company request to draw money from the federal universal service fund. There were requests to cap the universal service fund and they were narrowly defeated.

Video Relay Service

In the video relay service (VRS) order at FCC 06-81, the FCC addressed VRS. VRS is a form of TRS. VRS was first addressed in the Further Notice of Proposed Rulemaking (FNPRM) in the 2004 TRS report. The recent TRS order clarified that if the calling party or the VRS communications assistant (CA) finds that they are not communicating effectively given the nature of the call, the 10-minute in-call replacement rule does not apply and the VRS provider may have another CA handle the call. The FCC clarified that the VRS CA may ask the VRS user questions during call set-up when necessary to assist the CA in properly handling the call.

Sprint/Nextel Merger

The FCC recently approved the merger of Sprint Inc. and Nextel Inc. In order FCC 06-84, the Commission granted applications filed by Nextel Partners Inc. and Nextel WIP Corp. and its parent, Sprint Nextel Corporation for consent to the transfer of control of the wireless authorizations indirectly held by Nextel Partners to Sprint Nextel.

VoIP and Federal Universal Service

In the order and NPRM at FCC 06-94, the FCC adopted two modifications on assessing contributions to the federal universal service fund (FUSF). The FUSF, like the Pennsylvania universal service fund (PaUSF), provides support to companies so that local rates are affordable for consumers in high priced areas.

The new rule requires providers of interconnected VoIP service to contribute to the USF. For interconnected VoIP providers, the safe harbor percentage used to estimate interstate revenue will be 64.9 percent of total VoIP service revenue. This figure is then assessed a USF rate to support the FUSF. The interconnected VoIP providers can also calculate their interstate revenues based on their actual revenues or by using traffic studies.

The FCC defined interconnected VoIP services as those services that:

- enable real-time, two-way voice communications;
- require a broadband connection from the user's location;

FCC Highlights *Continued on Page 17.*

Federal Legislation News

Neptune Project

Briefing continues in the federal appeal by the Pennsylvania PUC and two New Jersey transmission owners (USCA, D.C., Docket 05-1225, et al) of the Federal Energy Regulatory Commission's (FERC's) Feb. 19, 2005 and June 23, 2005 orders (FERC Docket EL05-48). This order granted Neptune Regional Transmission System's complaint that PJM was misinterpreting its tariffs regarding engineering study of the Neptune Project, a direct current transmission line from New Jersey to Long Island. The complaint says that PJM was improperly requiring the Neptune Project to bear costs resulting from its interconnection with the New Jersey/PJM interstate grid. Briefings will be finished in early September 2006, with arguments scheduled shortly thereafter.

At issue is whether FERC's order addressed the issues in a reasoned manner, and whether FERC had violated its duty under the federal Power Act to give notice to state commissions prior to expanding the geographic scope of PJM's operations outside of its existing area to include portions of Long Island. In addition, the case is of interest to Pennsylvania because of the Neptune Project's potential to affect transmission congestion and increase the need for new transmission projects in and through Pennsylvania.

Reliability Price Mechanisms

FERC issued an interim order April 20, 2006 largely approving PJM application (FERC Docket EL05-148, et al) to replace its existing capacity mechanism with a PJM proposed Reliability Pricing Mechanism opposed by nearly all buyers of electricity in the PJM wholesale market. The Pennsylvania PUC and numerous other parties filed petitions for rehearing. No response from FERC on the rehearing petitions has been issued. In addition, FERC held a two day staff technical conference and initiated a "paper proceeding" to resolve remaining issues, as well as invited parties to request initiation of settlement proceedings. A settlement judge was appointed in June and settlement talks have been proceeding since that time and are scheduled through late July 2006. The PUC is a participant in those ongoing talks.

Energy Policy Act

FERC has continued implementation of provisions of the Energy Policy Act of 2005 with the issuance of several policy statements and proposed or final regulations.

Open Access Transmission Tariff

Changes to the existing FERC Open Access Transmission Tariff rules were proposed on May 19, 2006. (FERC Dockets RM05-25, RM05-17). FERC has indicated that it wishes to update and strengthen its Order 888 transmission and market tariff rules in accordance with EPACT 2005 to forestall the exercise of market power in wholesale electric markets. Comments are due Sept. 20, 2006.

Market Based Rates

On May 19, FERC issued proposed rules regarding authorization of market based rates by federal public utilities conditioning such authorization on demonstrations that no market power will be exercised and proposing new tests to screen for market power issues that may arise. Comments are due Aug. 7, 2006. (FERC Docket RM04-7)

EPACT

On June 15, FERC issued rules intended to carry out its EPACT Section 1221 responsibilities to receive siting applications from transmission project owners that wish to take advantage of the federal backstop provisions, where state authorities have either failed to act within one year of a state application or are unable to do so under state law. Such projects must be located within National Interest Electric Transmission Corridors designated by the Department of Energy under rules yet to be issued.

PJM Marketing Monitoring Plan

On March 31, 2006, PJM filed a number of changes to the PJM market monitoring plan, in response to a general FERC policy statement regarding the relationship of the regional transmission organization (RTO) market monitors to FERC's enforcement function. Several parties, including the Pennsylvania PUC and the Organization of PJM States (OPSI) filed comments or protests in response to the filing. OPSI's May 8, comments in opposition to the PJM filing concluded that the PJM market monitor should have a greater degree of structural independence from PJM management, should report directly to the PJM board of managers, should be represented by independent counsel and should have an established right to make formal filings with FERC about matters of concern, instead of (as the PJM filing requested) being limited to informal contacts with FERC staff. The Pennsylvania PUC's comments, also filed on May 8, supported the OPSI comments and urged FERC to recognize that the independence of the PJM market monitor is essential to public confidence in the fairness of PJM wholesale electricity markets.

On June 26, PJM filed a lengthy and unauthorized answer to the comments and protests of OPSI, the Pennsylvania PUC and others. PJM asserted that as a corporation organized under Delaware laws, it is immune from regulation as to its internal management organization, that the PJM market monitoring unit is an internal unit solely subject to the direction of PJM management, which is satisfied with the existing PJM market monitoring structure, and that the comments of OPSI and state agencies are an attempt to "raise their own profile in the investigative process". Responses to the PJM answer have not yet been filed.

FCC Highlights

Continued from Page 15.

- require IP-compatible customer premises equipment; and
- permit users to receive calls from and terminate calls to the Public Switched Telephone Network (PSTN).

The FCC emphasized that interconnected VoIP service offers the capability for users to receive calls from and terminate calls to the PSTN so they should contribute to FUSF.

These requirements apply to any VoIP communication that uses an interconnected VoIP service even if it does not touch the PSTN. Those requirements apply regardless of how the interconnected VoIP provider facilitates access to and from the PSTN, whether directly or by making arrangements with a third party.

The FCC stated that the definition of interconnected VoIP services may need to expand as new VoIP services increasingly substitute for traditional phone service.

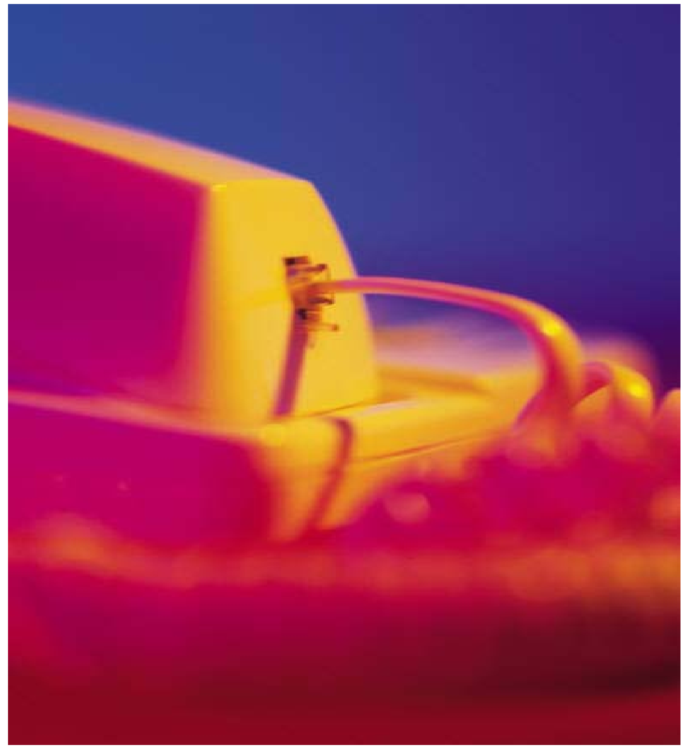
Interconnected VoIP providers must report and contribute to the USF on all their interstate and international end-user telecommunications revenues. To fulfill this obligation, interconnected VoIP providers have three options:

- they may use the interim safe harbor established in the order;
- they may report based on their actual interstate telecommunications revenues; or
- they may rely on traffic studies, subject to the conditions set forth in the order.

Time-Warner Petition

In Docket No. 06-55, Time-Warner asked the FCC to preempt state decisions holding that wholesale services from one company to another are not telecommunications services. Section 251(a) of the Telecommunications Act of 1996 only requires telecommunications to be interconnected. There is no obligation to interconnect information services. There are also similar cases underway at the PUC on this question.

In its filed comments, the PUC urged the FCC to issue a declaratory ruling clarifying federal law and not to preempt state decisions. The PUC asked the FCC to make a decision in other proceedings that had more completed records instead of this more limited proceeding. Finally, the PUC also urged the FCC to establish federal requirements as a minimum, not a maximum, so that states could provide other requirements if they were necessary. The FCC has not yet issued a decision.



Feedback

PENNSYLVANIA PUC PUBLIC UTILITY COMMISSION

We welcome any feedback on the Pennsylvania Public Utility Commission's quarterly newsletter, *Keystone Connection.*

Staff from the Office of Administrative Law Judge, Bureau of Conservation, Economics and Energy Planning, Bureau of Consumer Services, Office of Communications, Bureau of Transportation and Safety, Office of Special Assistants, Bureau of Fixed Utility Services and the Law Bureau all contribute and write articles for this publication.

For media inquiries or to share ideas, feel free to contact Cyndi Page of the Communications Office at (717) 787-5722.

Focus on Bureau of Consumer Services

Since 1978, the Bureau of Consumer Services (BCS) has investigated more than 1,270,000 consumer complaints and payment arrangement requests from customers of the electric, gas, water, sewer and telephone companies under the Commission's jurisdiction. In addition, since that time the Bureau has documented over 962,000 other contacts from consumers that the BCS staff handled that are separate and apart from the 1 million plus complaints and payment arrangements. Consumers contact the PUC using a toll-free hotline, the Commission's website, the United States mail or by making a personal visit to the BCS offices.

The Bureau consists of two divisions: the Customer Assistance & Complaints Division and the Policy Division. Although the divisions are separate, staff from each division work closely with each other to achieve the Bureau's goals to handle consumer complaints and enforce the Commission's customer service regulations. Most of the 77 permanent staff members work in Harrisburg; however, the Bureau maintains a satellite office in Philadelphia. The BCS opened a call center in Harrisburg in October 2005, with a second location opened in Philadelphia in February 2006. The call centers are responsible for answering three toll-free lines that Pennsylvania consumers may call to file informal complaints or obtain information. When the call centers first opened the monthly average access rate was 91 percent. Within a month, access improved to an average of 99 percent and has been consistently at that rate ever since. On average, callers wait no more than 25 seconds before a BCS employee answers the call.

Act 216 of 1976 mandated the Bureau of Consumer Services to provide responsive, efficient and accountable management of consumer contacts to the Commission. Act 114 of 1986 clarified the Bureau's responsibilities. To carry out its mandate, the BCS maintains a computer-based information system that contains records of all consumer contacts to the Bureau. This system enables the BCS to aggregate and analyze complaints and contacts to the Bureau and provides information about problems that consumers are having with their utility companies.

In order to monitor its service to consumers, the Bureau surveys customers who contact BCS with a utility-related problem or payment arrangement request. The BCS management team reviews survey findings and investigates any negative trends to improve the Bureau's service. In the 2004-05 fiscal year, over 80 percent of consumers rated the BCS service as "good" or "excellent."

Mitch Miller has held the position of Director of BCS for almost 14 years. However, this past year has brought about changes in the management team under Mitch's direction: Lou Sauers took over the reins of the BCS Customer Assistance & Complaints Division and Lenora Best became Chief of the Consumer Services Policy Division. Both Lou and Lenora bring many years of experience at BCS to their new positions.

2005 Gas and Electric Utility Performance on Telephone Access is Now Available on Commission's Website

Accessing a utility company by telephone is important because energy customers must be able to readily contact their electric distribution company (EDC) or natural gas distribution company (NGDC) to ask questions, lodge complaints, request service, and report service outages or other problems.

In order to give the Commission an accurate picture of their telephone access, the major companies must report the results from three separate measures: percent of calls answered within 30 seconds; average busy-out rate; and call abandonment rate.

The 2005 telephone access statistics for the major electric and gas companies are now available on the Commission's website. The charts appear under "2005 Customer Service Performance Report Charts" on the "Announcements" page. So far, the Commission has posted six charts related to telephone access.

This is the first year that the statistical charts prepared by BCS for inclusion in the annual *Customer Service Performance Report* will be made available on the PUC website as they are completed. Telephone access statistics are just one component of the annual data on customer service performance that the major EDCs and NGDCs must report to the Commission. Companies also report data on billing frequency, meter reading, timely response to customer disputes and the level of customer satisfaction with the companies' handling of recent interactions with customers.

As charts related to the other performance measures are completed, the Commission will make them available on its website.

InfoMAP is Moving Forward: Electronic Filing Requirements Being Considered

As reported in the Winter/Spring issue of *Keystone Connection*, the PUC has contracted with Unisys to develop our Information Management and Access Project, or InfoMAP. Key elements of this project include an overhaul of the PUC's case management system, automation of workflows, electronic access to PUC information and electronic filing capability.

On June 7, Unisys and PUC representatives offered an InfoMAP update to interested stakeholders. Over 50 external users, representing major law firms and public utilities, attended this session. Following the update, the PUC staff solicited input from the participants as to the electronic filing requirements that should be implemented. As explained at the session, this meeting was intended to gather information prior to the issuance of proposed regulations.

Specific issues that were discussed on June 7 with stakeholders included:

- A requirement for certain parties, such as law firms or corporations, to submit electronic filings;
- Any need for paper copies to accompany electronic filings, particularly in designated types of proceedings, such as Category 1 rate cases;
- Service on parties when electronic filings are made with the PUC;
- Time of day when electronic filings are due;
- Handling of affidavits, verifications, and electronic signatures;
- Training sessions for external users; and
- A phase in of electronic filing requirements and capabilities.

The PUC staff expects to draft proposed regulations by the end of the summer, which will be the subject of another meeting of this group. Following further feedback at that time, it is anticipated that the PUC will consider proposed regulations submitted by staff. When proposed regulations are adopted, interested parties would be given an opportunity to submit written comments through the normal regulatory review process.

More information about InfoMAP is available on the PUC's website at http://www.puc.state.pa.us/general/infomap.aspx. Any questions, concerns or suggestions may be directed to ra-infomap@state.pa.us.

PUC has Active Alternative Dispute Resolution Program

The Commission "encourages parties to seek negotiated settlements of contested proceedings in lieu of incurring the time, expense and uncertainty of litigation" (52 Pa. Code section 69.391 (a)). It does this by offering the parties the option of mediation instead of litigation.

The program primarily consists of two components: interim orders (IO) setting a resolution conference and mediations.

More specifically, pleadings filed with the Office of Administrative Law Judge (OALJ) are reviewed by the head of its Legal Division to determine whether they involve cases appropriate for mediation. If so, the pleading is forwarded to a mediator. If the mediator agrees, the case is entered into the mediation system. When the responsive pleading is filed, the mediator reviews the pleadings together and, if the mediator still believes that the case is appropriate for mediation, an IO, ordinarily signed by the Chief Administrative Law Judge, is issued. The IO directs the parties to attempt to resolve the matter themselves through a resolution conference. It further directs one of the parties (usually the respondent in a complaint case) to file a report with the mediator assigned to the case indicating, among other things, "whether a full resolution…was achieved, and, if not, whether the parties consent to have [the] case set for mediation…"

Mediation is an informal, non-adjudicatory process through which an impartial third party (the mediator) serves as a facilitator to assist the parties in reaching a mutually acceptable resolution of their disputes. The process allows the parties to control the outcome, as opposed to having an administrative law judge do so.

In addition to the IO process, parties may request mediation prior to the commencement of a proceeding, in pleadings, and even during the course of a proceeding. Before mediation can take place, all the parties must consent to mediate unless the Commission assigns the case for mediation.

En Banc Hearing

Continued from Page 1.

- universal service;
- the interplay between retail and wholesale markets;
- long term contracts; and
- locational marginal pricing.

Comments were filed by 38 parties, and are available through the Commission's website. Reply comments were due by July 20.

Testimony was presented at the hearing by 25 parties, which included representative for consumers, utilities, and electricity suppliers. Presenters included Consumer Advocate Sonny Popowsky, Small Business Advocate William Lloyd Jr., former Commissioner John Hanger of PennFuture, and Eric Thumma of the Pennsylvania Department of Environmental Protection. The presenters offered remarks on a wide array of issues, and offered specific policy recommendations for the PUC's consideration. The hearing was attended by all five Commissioners, who directed questions to the presenters after their testimony. The hearing was also covered by print and broadcast media, and later aired on the Pennsylvania Cable Network.

Meter Arrangements

Continued from Page 4.

Bi-directional meters provide an immediate impact on the customer's bill while reducing administrative costs, an import-ant factor in the successful implementation of net metering. The intent of the Act is to encourage the increased use of alternate energy and provide an immediate positive feedback to the customer-generator.

Alternative Energy Credit Ownership

Another issue addressed is the need to incorporate protections in cases where a customer-generator expressly rejects ownership of the alternative energy credits and the EDC secures ownership by supplying additional metering equipment.

The proposed regulations make it clear that any solicitation from the EDC requesting that a customer give up title to credits can only be made in the context of a full and accurate description of the options open to the customer. The EDC must fully inform the customer of the value of the credits and other options for the credits.

Rate Comparison Report

Act 201 (Senate Bill No. 677), signed into law on Nov. 30, 2004, added Section 308.1(b) to the Public Utility Code, 66 Pa. C.S. §308. Section 308.1(b) requires the Public Utility Commission to file an annual Rate Comparison Report with the Governor and the General Assembly on April 15, every year. The report compares all categories of ratepayers for all electric and gas public utilities so that a reasonably accurate comparison of rates can be made between similar ratepayers receiving services in different service areas of the Commonwealth.

In order to compile information for the report, utilities are asked via secretarial letter to go to the Commission's website and download the rate tables based on PUC determined rate classes and usage parameters. The utilities' officially filed tariffs are utilized to determine the rates for those who do not submit tables. The rate tables are then submitted to the Commission.

Once all rate tables have been submitted, the Bureau of Fixed Utility Services prepares the report for approval by the Commissioners. The report presents comparison tables detailing the rates for all electric and gas public utilities and then presents each individual utility's rate table with the applicable tariff number and a brief informational description of the utility. Once approved, the report is printed and bound in hard copies to be filed with the Governor and General Assembly. Beginning in 2006, the report is posted to the PUC's website under "Yearly Publications & Reports."

PJM Approves Allegheny's Transmission Expansion Plan

On June 23, 2006, the PJM Interconnection Board approved its first 15-year regional electric transmission plan. The plan is designed to maintain the reliability of the PJM area transmission system, which serves 51 million people in 13 states and the District of Columbia. The plan authorized construction of $1.3 billion in transmission upgrades, including a 240-mile, 500 kV transmission line from Southwestern Pennsylvania to Virginia to be built by Allegheny Energy and Dominion. Allegheny Energy's portion of the cost of the project and other upgrades is estimated to be in excess of $850 million. The project has a targeted completion date of 2011. Allegheny Energy states that it will now begin line siting and permitting activities. Allegheny will also seek regulatory approvals from utility commissions in states where the line will cross, including the Pennsylvania PUC. The PUC will become involved in any siting application to determine the need of the transmission line and the potential impacts the line might have on the environment.

American Electric Power has also proposed a 765 kV transmission line from West Virginia to New Jersey. A portion of the line is expected to traverse through southeastern Pennsylvania.

Water Company Applications Approved

Utility	Action	Territory	Approval Date
Timberlee Valley Sanitation Company	Additional Territory	Connequenessing and Lancaster Township, Butler County	4/06/06
PA American Water Company	Additional Territory	Plymouth Township, Montgomery County	4/20/06
Redstone Water Company - Allison and Crescent Heights	Abandonment of Service Acquired by PAWC	Fayette County, Washington County	5/04/06
PA American Water Company	Acquisition of Redstone-Allison and Crescent Heights	Fayette County, Washington County	5/19/06
Rustic Acres Sewer Treatment Plant	Abandonment of Service Collection-Forward Township Treatment and Disposal - Elizabeth Borough Municipal Authority	Forward Township, Allegheny County	5/04/06
Redstone Water Company - Royal	Acquired by North Fayette County Municipal Authority	Village of Royal, Fayette County	5/10/06
Brandonville Springs Water Company	New Company	East Union Township, Schuylkill Company	6/01/06
Aqua Pennsylvania Water Company	Additional Territory	Robinson Township, Berks County	6/22/06
York Water Company	Additional Territory	Adams and York Counties	7/20/06

Commission's 2006-07 Budget Receives Approval

On July 2, 2006, Governor Edward G. Rendell signed the law approving the PUC's budget, which was passed by the General Assembly as Senate Bill 1162 on July 1, 2006. With the Governor's signing of Act 6A of 2006, the PUC's operating budget for Fiscal Year 2006-07 is $53,252,000, which includes $1,621,000 in expected federal funds.

This budget is a decrease of 0.9 percent or $473,000 from the prior year. Included in the PUC's approved budget is $2.75 million for InfoMAP, representing the balance of the funding needed for this estimated $6.6 million technology project.

Don't Hang Up on TRS

"Don't Hang Up," the hit song recorded by The Orlons of Philadelphia in the 1960s, enjoyed a revival as part of a statewide radio campaign by the Commission and the Telephone Relay Service (TRS) Advisory Board to educate the hearing public about PA Relay, the service with enables individuals who are deaf, hard of hearing or speech disabled to communicate by telephone.

The campaign is a result of a statewide study that showed only 9 percent of Pennsylvanians recognized 711 as the number to call for PA Relay. Now, 14 percent of Pennsylvanians recognize 711. The statewide advertising and education campaign includes billboards, radio, mass transit ads and a website, www.PArelay.net.