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 2007

Commissioners Christy and Pizzingrilli Begin Terms

Commissioner Tyrone J. Christy

Commissioner Kim Pizzingrilli

At the July 11th public meeting, Chairman Wendell F. Holland congratulated and welcomed Commissioner Kim Pizzingrilli and Tyrone Christy on their recent confirmations.

Commissioner Pizzingrilli, a native of Corry, Erie County, starts her second full term, which expires in 2012, while Commissioner Christy, of Renfrew, Butler County, begins his first term, which expires in 2011.

They were nominated by Gov. Rendell on June 1 and confirmed unanimously by the Senate on June 27.

"The PUC's decisions have a direct impact on the lives and household budgets of millions of Pennsylvanians, as well as the continued economic success of our state," said Governor Rendell following the Commissioners' Senate confirmation on June 27. "I know Commissioners Christy and Pizzingrilli will work to ensure the fair regulation of public utilities and other businesses that are governed by the commission."

Commissioner Pizzingrilli has appointed Shane Rooney, formerly of the Commission's Law Bureau, as her counsel and energy adviser; Amanda Rumsey, from the PUC's Office of Administrative Law Judge, as her telecommunications adviser; and Kim Beemer as her administrative officer. They join Sheryl Delozier, who handles transportation, water and consumer issues.

Commissioner Christy has appointed Billie Ramsey, formerly of the Commission's Office of Special Assistants, as his chief of staff; Bob Carran as his executive policy manager; and Carrie Sheriff of the Bureau of Conservation, Economics and Energy Planning, as his administrative officer.

Connecting in Pennsylvania

Welcome to the seventh 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 PUC balances the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.

ON THE INSIDE

Default Service Regulations and Policy Statement

The Commission issued a final form default service rulemaking and separate default service policy statement at the public meeting of May 10, 2007. These rules will govern the provision of generation service to customers by their incumbent electric distribution company (EDC) after the expiration of generation rate caps. The Commission initiated this rulemaking proceeding in late 2004, and had released a proposed and advance notice of final form rulemaking for public comment.

The Commission was required to promulgate these rules by the Electricity Generation Customer Choice and Competition Act. The Competition Act requires EDCs to serve those customers unable or unwilling to obtain generation service from an alternative provider. Energy must be acquired at prevailing market prices, and the EDC shall fully recover its reasonable costs of service.

The Commission chose to issue a separate default policy statement to address certain issues that require greater flexibility. The Commission recognized that an all encompassing regulatory approach could be rendered obsolete by changes in markets, law or technology. Accordingly, the Commission adopted this separate policy statement that will provide guidance to market participants.

The default service regulations address the obligations of the default service provider, program terms and conditions of service, the process for replacing the default service provider, rate design and cost-recovery. The default service policy statement provides additional guidance on various issues, including energy procurement, rate change mitigation, and retail market safeguards.

The default service rules were submitted to the Pennsylvania General Assembly and the Independent Regulatory Review Commission (IRRC) on May 24, 2007. Commissioner Tyrone J. Christy submitted a letter to IRRC on July 18, 2007, stating his personal view that the regulations should be more conducive to the procurement of competitively priced power under long-term contracts, which he believes are critical to ensuring reasonable and stable prices for customers after the expiration of the rate caps.

IRRC approved the rules 4-0, on July 19, 2007, and they are currently under review by the Attorney General. They will be legally effective upon publication in the *Pennsylvania Bulletin*.

Electric Companies' Provider of Last Resort (POLR) Plans

Pike County POLR Plan

On June 8, 2007, a PUC administrative law judge (ALJ) issued a recommended decision granting, in part, and denying, in part, Pike County's Petition for Expedited Approval of its Default Service Implementation Plan.

The ALJ rejected Pike County's primary proposal to conduct an auction to buy financial hedges for its default service needs for all of 2008 and percentages of the provider of last resort (POLR) power needed for 2009 and 2010, determining that the company failed to provide adequate justification for a three-year "laddered" or "layered" plan. Instead, the ALJ adopted an alternative proposal for a 17 month default service plan utilizing spot market purchases from the New York Independent System Operator, Hudson Valley Zone.

Several parties filed exceptions to the ALJ's Decision. At its July 25, 2007, public meeting, the Commission conducted a binding poll of the issues raised on exceptions and substantially adopted the recommended decision via a 3-2 vote of the Commissioners.

Commissioner Tyrone J. Christy submitted a statement on the polling expressing his disagreement with the ALJ's recommendation to reject Pike's proposed auction for a three-year laddered hedging default service purchasing plan. The majority of the Commissioners adopted the recommendation for Pike to procure default service requirements with monthly spot market power purchases.

Duquesne Light County POLR IV Plan

At its June 21, 2007, public meeting, the PUC approved Duquesne Light Company's default service plan for the period from Jan. 1, 2008, through Dec. 31, 2010. The Commission adopted the recommended decision of a PUC administrative law judge (ALJ) approving the settlement reached by the parties which set forth the rates to be charged to each individual rate class during the applicable time period.

The ALJ concluded that the settlement reached by the parties was in the public interest since it ensures that Duquesne's distribution customers have a stable and reliable source of supply through the year 2010. The settlement agreement sets out default service rates to be charged to residential and commercial and industrial customers and eliminates declining energy blocks for residential customers.

Duquesne Light Company provides electric distribution and transmission service to approximately 580,000 customers in Allegheny and Beaver Counties.

Commissioners Testify at Senate Energy Hearing

On June 5, 2007, the Senate Environmental Resources and Energy Committee and Senate Consumer Protection and Professional Licensure Committee held a joint public hearing on energy policy for Pennsylvanians. The Chairman and Commissioners individually offered testimony at this hearing.

Chairman Wendell F. Holland described the various energy issues facing the PUC, including the Alternative Energy Portfolio Standards Act and the electric and natural gas restructuring acts. He stated that given these various initiatives that impact energy markets, policies and rates, PA needs a comprehensive energy policy that will provide additional direction for state agencies tasked with ensuring Pennsylvanians have safe, yet affordable, energy available for years to come. The Chairman stated the PUC will soon be acting on recommendations based on the PUC's Demand Side Response (DSR) Working Group, which he believes will be in line with proposed legislation.

Vice Chairman James H. Cawley stated that we must make every effort to empower customers to make vital energy choices about how much energy they use and how much they are willing to pay for it and encourage market entry by competitors. He explained that on the demand side, the PUC has taken steps that include distributed generation, efficient pricing signals, demand side management and efficiency/conservation programs, and consumer education. On the supply side, the PUC recently implemented default service regulations, is developing polices that encourage market entry or remove barriers to entry to new retail and wholesale suppliers, and is participating in the formulation of wholesale market rules and market structure before Federal Energy Regulatory Commission (FERC).

Commissioner Kim Pizzingrilli opined that it is important to continue to establish policies and programs to reduce consumer energy costs and to expand the availability and use of alternative energy. She offered that the impact of any energy policy has different costs and benefits for various classes of customers, and the needs of consumers and utilities also vary among the service territories. She explained that the Commission actively represents the Commonwealth's interests before the FERC and actively participates in the Mid-Atlantic Distributed Resources Initiative (MADRI). She stated that the Commission recently took action on an overall strategy for preparing consumers for potential increases in generation costs; the centerpiece is a potential $5 million consumer-education campaign.

Commissioner Terrance J. Fitzpatrick testified that generation rate caps had two drawbacks: the lack of

Senate Hearing Continued on Page 22.

PPL's Competitive Bridge Plan (CBP)

On Aug. 2, 2006, PPL petitioned the PUC for approval of a plan for acquisition of Provider of Last Resort (POLR) supply service as a one-year "bridge" between the expiration of its POLR rate caps on Dec. 31, 2009, and a fully competitive, statewide market beginning Jan. 1, 2011. In addition to its generation rate caps, PPL's contract with PPL Energy Plus LLC, its current POLR supplier, expires on Dec. 31, 2009.

Under the competitive bridge plan, PPL proposed a three-year competitive procurement program beginning in 2007 for POLR supply in 2010, enhancement of demand side response (DSR) programs, expanded consumer education, and increased assistance for low-income customers beginning Jan. 1, 2010. PPL requested a 2007 effective date for the CBP. The PUC's final order was entered on May 17, 2007.

The basic structure for residential and small commercial POLR service is that PPL will undertake a series of six solicitations over three years to develop the POLR price separately for the residential and small commercial and industrial (C&I) classes. Through its automated meter reading system, PPL will begin to collect and organize customer data in 2007 to provide customers, wholesale bidders and electric generation suppliers, within the limits of the PUC's rules, with relevant volume and load profile information to provide more useful data and to encourage innovative products.

Large C&I customers will be required to merely express an interest in the fixed rate option, through a sign-up process, prior to the solicitation. PPL then will conduct a single solicitation for fixed price service for the large C&I customers in October 2009. Those large C&I customers who expressed an interest in the option would be advised of the price and would be given 30 days to "opt-in" to the fixed price for 2010. Otherwise, large C&I customers will receive real-time hourly service for 2010 as their POLR default service.

On July 26, 2007, the PUC approved suppliers' contracts for 850 megawatts of generation PPL will need for 2010. The average generation supply price for residential customers is $96.30 per megawatt-hour (9.63¢ per kWh) and $99.46 per megawatt-hour (9.946¢ per kWh) for small commercial and industrial customers. If these prices remain the same for the following five purchases, the average residential customer's monthly bill would increase by about 29 percent while small commercial and industrial bills would increase on the order of 18 percent to 37 percent. The winning suppliers from this first bid process were selected from seven competitive bidders.

Macquarie Consortium Finalizes Acquisition of Duquesne Light Holdings

Duquesne Light
Our Energy...Your Power

At a public meeting on April 24, 2007, the Commission approved a settlement agreement authorizing the transfer of control of Duquesne Light Holdings (DLH), the parent company of Duquesne Light Company and DQE Communications Network Services LLC, to the Macquarie Consortium. DLH and the Macquarie Consortium finalized the merger agreement on May 30, 2007, whereby shareholders received $20 per share in cash.

Under the settlement agreement Duquesne Light Company will:

- Provide corporate contributions and community support in southwestern Pennsylvania for a period of five years at levels substantially comparable to the levels provided by the company in 2006. (For 2006, that is approximately $2.9 million);
- Continue to match customer contributions to the Dollar Energy Fund with shareholder dollars up to $375,000;
- Maintain operating locations and field offices in its territory, and staffing levels, as appropriate, to provide safe and reliable service, consistent with good utility practices;
- Establish a competitively neutral Economic Development Program to attract and support expanding Pennsylvania industrial employers; and
- Report annually to the Commission the status of all commitments under the settlement.

Duquesne Light Company, the principal subsidiary of DLH, is a jurisdictional utility that provides electric distribution and transmission services to approximately 580,000 customers in Allegheny and Beaver Counties.

PENNSYLVANIA PUC
PUBLIC UTILITY COMMISSION

PASEB Best Practices

At the public meeting held on March 1, the Commission approved "Best Practices" for the regional Sustainable Energy Funds (SEFs). This was the culmination of a stakeholder process through which the Pennsylvania Sustainable Energy Board (PASEB) developed uniform guidelines for the application and reconsideration processes, as well as a code of conduct for regional fund directors. These guidelines promote greater public participation and enhance transparency in the SEFs' processes and mitigate potential conflicts of interests by regional fund directors and staff.

Various restructuring and merger settlements from electric competition allocated nearly $80 million of ratepayer and shareholder funds to the SEFs over about a 10-year period for regional projects. The PASEB was created by the PUC in 1999 provide oversight guidance and technical assistance to the SEFs. In 2003, the PUC charged PASEB with developing Best Practices for the SEFs.

Electric Supplier Licensing

Activity from April 1, 2007 to July 31, 2007.

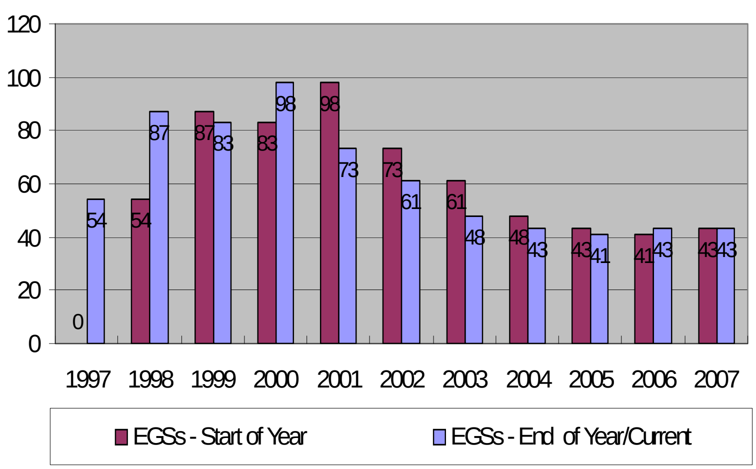
40 Active Licenses

3 license canceled

0 licenses approved

0 applications pending

Number of Licensed EGSs



Commission Identifies Strategies for Mitigating Electric Price Increases

On May 10, 2007, the Commission issued a final order concluding its investigation into policies to mitigate electric price increases. The Commission had commenced this proceeding in April 2006 in response to recent, significant increases in electric rates in Maryland, Delaware and some portions of Pennsylvania. The Commission's objective was to develop strategies to mitigate the harm that customers may experience in the context of expiring generation rate caps.

The Commission identified several issues at the outset of the investigation for examination, including consumer education, energy efficiency and conservation, demand side response, assistance to low-income customers, the deferral of rate increases, and the relationship between retail and wholesale markets. The Commission requested stakeholder comment on these issues, and presided over an En Banc Meeting on June 22, 2006, at which it received testimony from interested parties.

Subsequent to this hearing, the Commission initiated a separate investigation to develop new energy efficiency, conservation, and demand side response policies in October 2006. The Commission then announced tentative findings on the other issues subject to this investigation on Feb. 9, 2007. After reviewing public comments to these tentative findings, the Commission prepared the final order that was issued on May 10, 2007.

Consumer Education

Pursuant to this final order, the Commission directed the Office of Communications, with the assistance of stakeholders, to develop a new consumer education initiative to inform customers about the expiration of rate caps and steps they can take to better manage their energy costs. This initiative will include separate, but complementary, electric distribution company and Commission led efforts. The Commission will seek at least $5 million in funding for the statewide component, subject to approval by the General Assembly. Additionally, the Commission identified new steps it would take to secure additional Low-Income Home Energy Assistance Program (LIHEAP) funding, committed to completing the default service rulemaking and aggressively representing Pennsylvania's interests before the Federal Energy Regulatory Commission (FERC) and PJM.

The PUC's Office of Communications was directed to hold an initial meeting of interested stakeholders within 60 days of the issuance of the order. The goal of stakeholder meetings is to plan the statewide consumer education campaign.

The first stakeholders meeting was held on June 19, 2007. More than 50 people attended this meeting, representing approximately 28 utilities, organizations and government agencies. Commissioner Terrance Fitzpatrick greeted the group, offered opening remarks regarding the importance of the campaign, and noted the support of the other Commissioners for the campaign. Issues discussed at the meeting included the goals of the campaign, funding, scope, appropriate message and audience.

The next stakeholders meeting will be held on Aug. 29, and may include a presentation on potential costs for components of the campaign.

Demand Side Response Working Group (DSR WG) Completes Investigation, Recommendations to be Released

On June 6, 2007, the Demand Side Response (DSR) Working Group delivered its investigation report to the Commission. The Commission charged the DSR WG with this task when it initiated an investigation of DSR, energy efficiency, conservation and advanced metering infrastructure on Oct. 11, 2006. The DSR WG was to develop a list of issues to investigate, solicit comments from interested parties, and provide specific recommendations to the Commission where consensus was obtained.

The DSR WG was convened by the Director of Operations in November 2006, and met periodically through March 2007. Staff participants conducted research and drafted reports and position papers on DSR, energy efficiency and conservation programs, advanced metering technologies, and revenue decoupling. The Commission also hosted a panel of expert witnesses at an all day session on Jan. 19, 2007.

Commission staff surveyed the DSR WG participants for areas of policy consensus in February and March 2007. Staff then distributed a draft investigation report in April for comment. A revised draft was distributed in May for a second round of comments. As consensus was not achieved, staff will be preparing specific policy recommendations for Commission review. These recommendations may be released in the form of a tentative order for public comment.

Water and Wastewater Company Applications Approved

Applications Approved

April 1, 2007 through July 31, 2007

Utility	Action	Territory	Approval Date
Pennsylvania-American Water Company	Additional Territory	Plymouth Township, Montgomery County	04/13/07
Jackson Sewer Corporation	Abandonment	Jackson Township, York County	05/10/07
Pennsylvania-American Water Company	Additional Territory	Boggs Township & Wallaceton Borough Clearfield County	05/10/07
The York Water Company	Additional Territory	Hamilton, Reading, Berwick, Oxford & Mount Pleasant Townships, Adams County	06/21/07
Lee E. Mummau d/b/a School House Village (Water)	New Company	Licking Creek Township, Fulton County	06/21/07
Lee E. Mummau d/b/a School House Village (Wastewater)	New Company	Licking Creek Township, Fulton County	06/21/07
Little Washington Wastewater Company	Additional Territory	Worcester Township, Montgomery County	06/21/07
Aqua Pennsylvania Inc.	Acquisition and Additional Territory	Sadsbury Township, Crawford County	07/11/07
Little Washington Wastewater Company	Additional Territory	Thornbury Township, Chester County	07/11/07
Aqua Pennsylvania Inc.	Additional Territory	Dallas Township, Luzerne County	07/11/07
Regal Oaks Inc.	Abandonment	Upper Pottsgrove Township, Montgomery County	07/11/2007
Superior Water Company Inc.	Additional Territory	Washington & Colebrookdale Townships, Berks County	07/25/07
Sand Springs Water Company Inc.	New Company	Butler Township, Luzerne County	07/25/2007
Columbia Water Company	Additional Territory	Rapho Township, Lancaster County	07/25/2007

Water Mergers & Acquisitions

Pennsylvania-American Water Company Initial Public Offering (IPO)

On May 5, 2006, Pennsylvania-American Water Company (PAWC) filed an application docketed at A-212285F0136 for approval of a change in control through a public offering of the common stock of its parent company, American Water Works Inc. Protests and/or notices of intervention were filed by several parties.

On Dec. 22, 2006, a joint petition for non-unanimous settlement was submitted by PAWC, the PUC's Office of Trial Staff and the Office of Consumer Advocate (OCA).

At a public meeting on July 25, 2007, the Commission voted 3 to 2, to tentatively approve a joint motion that grants exceptions filed by PAWC and the OCA. The Commission adopted the settlement that has a number of conditions that benefit the public, including:

- Commitment to Pennsylvania by maintaining PAWC's corporate offices in the Commonwealth;
- Community involvement levels will be maintained, including funding for PAWC's low-income program to assist low-income residential customers with their water bills; and
- Capital improvement commitments in order to adequately fund and maintain treatment, transmission and distribution systems.

The motion modified the administrative law judges decision by approving PAWC's request to install without customer contributions, the facilities necssary to provide service to about 800 customers in Washington and Allegeny Counties. Upon sale of the stock, American Water Works will no longer be owned by RWE, and will become an independent, publicly traded company. Parties in the case have 20 days to file comments or the tentative order becomes final.

United Water Pennsylvania

On Nov. 1, 2006, United Water Pennsylvania Inc. (UWPA) filed an application seeking approval of the proposed merger of its ultimate parent company, Suez, with Gaz de France. The application was assigned to the Office of Administrative Law Judge on Dec. 8, 2006. Suez is a French-based multinational corporation with primary operations that include water, electricity and natural gas supply, and waste management.

There have been a number of issues that have arisen to block the proposed merger. The merger has not been approved by the government of France and the terms of the merger may have to be revised as Suez's market valuation has increased significantly since the merger was announced.

The French government is also seeking to hold a one-third ownership position in the new company and the increase in Suez's market value and the potential for increased compensation for Suez shareholders is affecting how the government can afford that one-third position. The French government would be the largest single shareholder if the merger is approved. On July 18, a French government official announced that the government would take all the time necessary to consider the future of the proposed merger.

PAWC DSIC Cap

At public meeting on July 11, 2007, the Commission voted unanimously to grant Pennsylvania-American Water Company's (PAWC) request to increase its allowed Distribution System Improvement Charge (DSIC) investment recovery to 7.5 percent.

The DSIC, which is employed by PAWC, was capped at 5 percent of other-wise billed revenues, is a surcharge that PAWC adds to each customer's monthly bill. This surcharge, which was first implemented in 1997, represents timely recovery of its investment in DSIC eligible projects, between base rate cases. DSICs allow companies to accelerate infrastructure remedies in a timeframe that more closely matches actual service lines.

PAWC is now investing more than it is permitted to recover from ratepayers and as a result the company asked the PUC to increase the allowable DSIC Cap to 7.5 percent of otherwise billed revenues.

PAWC's customers' rates now include an average DSIC charge of $1.75 a month, at the 5 percent cap. With the increase from 5 percent to 7.5 percent, that average rate will increase by approximately $1.00 to $2.75 per month.

Important safeguards within the DSIC requires that it be set to zero following each base rate case (or at any time the company is over-earning) and it takes a number of billing cycles of progressive increases over a few years to raise the allowed recovery amount above the current cap of 5 percent. Before any of PAWC's infrastructure investment may qualify for DSIC recovery, it must be placed into service and meet the used and useful test, which means that is in use and providing service to customers.

Water Week

In May, the PUC celebrated National Drinking Water Week with displays in the Atrium and a press conference that was attended by Home Depot, Sen. Mary Jo White, Rep. Carole A. Rubley, industry representatives and PUC Commissioners.

Water and Wastewater Rate Increases

Rate Increase Request Summary

April through July 2007

Utility Name	Amt ($) Requested	Amt ($) Granted	% of Increase	Action	Action Date
CAN Do, Inc. (Water)	202,062	202,062	25.00	Approved as filed	4/13/2007
Imperial Point Water Service Co.	80,679	40,000	22.80	Settlement	4/13/2007
Emporium Water Co.*	316,144	254,741	40.16	Petition for Reconsideration	4/24/2007
Audubon Water Co.	477,975			Litigation	4/24/2007
Borough of Ambler	454,798			Mediation	5/10/2007
Reynolds Disposal Co.	278,969	90,000	28.31	Settlement	5/10/2007
Borough of Pheonixville (WW)	72,575	65,000	88.62	Settlement	5/30/2007
Village Water Co.	42,575			Investigation	6/21/2007
Glendale Yearound Sewer Co.	142,655			Investigation	6/21/2007
Pennsylvania-American Water Co.	59,236,366			Investigation	6/21/2007
Allied Utility Services	183,902	115,000	81.00	Settlement	6/21/2007
Little Washington Wastewater Co.					
Peddlers View Div.**	59,165	56,012	42.48	Settlement	6/21/2007
Little Washington Div.**	168,407	118,386	53.46	Settlement	6/21/2007
Chesterdale/Willistown Woods Div.**	62,175	54,362	12.40	Settlement	6/21/2007
Media Div.	64,969	64,695	9.50	Settlement	6/21/2007
Eaton Sewer and Water Co., Inc (WW)**	69,641	32,973	49.95	Settlement	6/21/2007
Eaton Sewer and Water Co., Inc (Water)**	71,113	41,080	71.60	Settlement	6/21/2007
Little Washington Wastewater Co.					
Twin Hills Div.	67,479			Investigation	7/11/2007
Rivercrest Div.	63,573			Investigation	7/11/2007

* The Commission had approved an increase of $238,639 - 37.63 percent on Dec. 21, 2006.

** Two-step increase.

W.P. Water Emergency Order

On June 6, 2007, the Office of Consumer Advocate (OCA) filed a Petition for Emergency Order requesting that the Commission direct W.P. Water Company Inc. to provide immediate relief to its customers who were experiencing frequent water outages and low pressure. By Emergency Order issued June 15, 2007, Vice Chairman Cawley ordered W.P. to take immediate steps to provide adequate water service to its customers and to provide the Commission with periodic written progress reports. At the June 21, 2007, public meeting of the PUC, this Emergency Order was ratified.

W.P. is a jurisdictional water utility incorporated in Pennsylvania on July 17, 1970. The Commission granted W.P. a certificate of public convenience on Oct. 1, 1975. W.P.'s principal place of business is 1199 Laurel Run Road, Wilkes-Barre, and it provides service to approximately 150 customers in the development of Washington Park in Wyoming County.

On June 14, 2007, W.P. had filed its answer to OCA's Petition for Emergency Order agreeing that W.P. needed to install a new deep well, a new storage tank and meters. Specifically, the Emergency Order ordered W.P. to immediately locate a new well site, submit applications to the Department of Environmental Protection (DEP) and the Susquehanna River Basin Commission and drill the well, apply to DEP for permission to provide a finished water storage tank with a volume of approximately 50,000 gallons, take all steps necessary to assure that customers have alternative supplies of potable water during all periods of low pressure or outage; and install meters pursuant to the

W.P. Water Continued on Page 9.

W.P. Water

Continued from Page 8.

Commission's April 26, 1991, order.

In a related matter, also on June 6, 2007, the OCA filed a companion petition requesting that the Commission initiate a mandatory takeover proceeding under Section 529 of the Public Utility Code to require a capable public utility to acquire W.P. and to serve W.P.'s customers. That petition was granted in part and denied in part at the public meeting of July 11, 2007, and this matter is now pending before the Office of Administrative Law Judge.

PUC Staff Tours Aqua Pennsylvania

Vice Chairman James H. Cawley inspects a corroded section of water pipe during the PUC's staff tour of Aqua Pennsylvania. The first stop of the trip was to view a work site, where workers flushed out existing pipes. The staff then toured Aqua's headquarters in Bryn Mawr, where Chairman and Chief Executive Officer Nicholas DeBenedictis spoke to the staff and answered questions.

PA American Water Company Outages in the Pittsburgh Area

On Dec. 10, 2006, approximately 1,000 Pennsylvania American Water Company (PAWC) customers in the Pittsburgh area and two nearby schools experienced extended water outages. These outages in the Pittsburgh area continued for several days. Similar extended outages arose in November 2006 when 2,000 PAWC customers in portions of Lackawanna County lost their water service.

As a result of these events, the Commission, at its public meeting of Dec. 15, 2006, approved a motion that called for an investigation of theses outages to examine the utility's compliance with the Public Utility Code and the PUC's regulations regarding safe and reliable water service. To this end, it was noted in the PUC's order, entered on Jan. 5, 2007, at Docket No. I-00060112, that "the Commission has a fundamental duty to ensure that public utilities provide safe, adequate and continuous service to their customers without unreasonable interruptions or delay in accordance with our regulations and orders."

The Commission's investigation included, but was not limited to, a determination as to whether:

1. PAWC responded to the outages in an effective and timely manner with adequate resources available;
2. The public and emergency response officials received adequate notice and were kept informed in a timely manner;
3. Adequate supplies of drinking water were provided and/or available at convenient locations; and
4. Additional steps can be taken to mitigate main breaks and to respond to future outages in a timely and effective manner.

The PUC's Law Bureau, in conjunction with with the Bureau of Fixed Utility Services, prepared a report relating to the Pittsburgh outages that was submitted to the Commission in April 2007. On June 21, 2007, the report, which contained 15 directives for PAWC to implement, was released to the public. The report and order are on the Commission's Web site.

Among other things, the Commission's order tentatively directed the company to:

- Reevaluate its staff complement in the Pittsburgh district office on an annual basis;
- Directly contact its customers through bill inserts and direct mail to ensure the company has updated customer information;
- Develop an effective process for providing updates to customers, local officials, emergency services and the media as to the status of main breaks and service interruptions;
- Meet with affected municipalities and emergency management agencies in the Pittsburgh district within six months to further discuss the appropriate notification requirements;
- Establish direct communication with all critical care customers in the Pittsburgh district;
- Complete the reduction of the various pressure zones in the Pittsburgh district; and
- Continue efforts to minimize the occurrence of pressure surges originated from the Hay Mine production plant.

A second report relating to the extended outages in Lackawanna County and other portions of PAWC's service territory will be submitted to the Commission later in the year.

PUC Reverses ALJ Decision on Access Charge Increases

By orders entered June 23, 2006, the PUC permitted three rural carriers (Denver & Ephrata Telephone and Telegraph Company, Buffalo Valley Telephone Company, and Conestoga Telephone and Telegraph Company) to increase their intrastate access rates as part of their 2006 Annual Price Stability Index/Service Price Index filings. These increases were made on the express condition that they would be subject to further investigation in the pending intrastate rural company access charge investigation at Docket No. I-00040105.

Subsequently, the rural telephone carriers requested and received a further stay of the rural company access charge investigation for one year or until the Federal Communications Commission completed its access reform proceeding.

As such, on Nov. 15, 2006, the PUC entered an order to reconsider its prior determination that allowed the rate increases and directed the Office of Administrative Law Judge to conduct hearings to determine whether any rescission or amendment to the PUC's previous June 23, 2006, orders is warranted. The PUC was also concerned that the three companies' move to raise access charges appeared to contradict long-standing access charge reform in Pennsylvania.

The matter was subsequently assigned to an administrative law judge (ALJ), who recommended, based on the evidence, that no rescission or amendment of the prior orders was necessary. However, by order entered July 11, 2007, the PUC reversed the ALJ's recommendation and directed that the June 23, 2006, orders be rescinded and amended. In the July 11th order, the PUC noted that no party to this case filed an incremental cost study to support whether or not access rates are being subsidized.

The PUC also rejected arguments, without prejudice, by those parties who maintained that the National Exchange Carrier Association proxy cost model may be used by small carriers to demonstrate actual cost support for access rates. The PUC concluded that the record failed to adequately support the companies' argument that access charges are not being subsidized. As such, the PUC explained that it is reluctant to abandon a generic, industry-wide approach to achieve access charge reform for the accommodation of the three companies based on the limited record in this proceeding and in light of the fact that the companies failed to demonstrate, on the record, whether the deviation from the generic access charge approach was appropriate. The companies were directed to file tariffs within 30 days of the order's entry date to place access rates at their prior levels and to refund carriers for the higher access rates that were charged.

A petition for reconsideration was filed on July 26, 2007, by the three rural carriers.

Audit of Verizon PA's Network Modernization Plan

The Liberty Consulting Group has been contracted to conduct a review and evaluation of Verizon Pennsylvania Inc.'s Network Modernization Plan (NMP) implementation progress as reported in its biennial NMP update of June 30, 2007, representing its progress as of Dec. 31, 2006. Liberty began its work in late June and its report is expected to be released during the second quarter of 2008.

This audit is being conducted in compliance with the PUC's order entered Oct. 28, 2005, in which the Commission affirmed its authority under Act 183, the new Chapter 30 of the Public Utility Code, to perform investigative audits. The audits are performed for the purpose of independently verifying the reported progress of an incumbent local exchange carrier's broadband deployment obligations contained in their Commission-approved NMPs and to require the audited company to pay for the audit. In this order the Commission also agreed to defer conducting the first such audit until Verizon filed its 2007 biennial NMP report and to allow Verizon to use the money remaining in the Escrow Fund established to facilitate the PUC's analysis of performance metric reports to help pay for its NMP audits.

TRS Surcharge

The PUC has concluded the 17th annual recalculation of the Pennsylvania Telecommunications Relay Service (TRS) surcharge in accordance with the May 29, 1990, order at Docket No. M-00900239, directing that the Commission complete and notify local exchange carriers (LECs) by June 1 of each year of the surcharge rate to be applied for the prospective 12-month period commencing July 1 of that year.

The 2007-08 monthly TRS surcharge for residential and business wireline access will remain set at $0.08 and $0.09, respectively.

The surcharge recalculation includes components to fund the TRS Program, the Telecommunications Device Distribution Program (TDDP) and the Print Media Access System Program (PMASP).

In related TRS news, Eric Jeschke of the PUC's Bureau of Fixed Utility Services, was nominated to the TRS Advisory Board for a two-year term ending May 30, 2009. The Commission unanimously voted on his nomination at the public meeting of May 30, 2007.

Accelerating Broadband Deployment

Partnering with the Department of Community and Economic Development (DCED) and the Office of Consumer Advocate, the PUC has worked with the Pennsylvania Telephone Association and individual telephone companies to produce a brochure educating consumers about the Bona Fide Retail Request (BFFR) programs. Consumer outreach specialists and company field representatives are distributing these brochures in an effort to enhance consumer awareness of these programs.

The law requires Verizon PA, Verizon North, Embarq and Windstream to provide high-speed access no later than 2015, but under BFFR programs, consumers can request that high-speed Internet service be provided to their area sooner. If enough consumers in a certain geographic area commit to purchasing service, the companies are obligated to accelerate deployment.

Many consumers of these companies have successfully met the thresholds required to gain high-speed access by 2008, seven years earlier than they might otherwise have received this service. Efforts of the interagency group and the companies over the past several months to enhance consumer awareness and ease consumer participation should result in even greater numbers of consumers enjoying the benefits of these programs.

More information about the status of deployment throughout the Commonwealth, and on how to participate in these programs to accelerate deployment to certain areas may be obtained from DCED's Web site at www.newpa.com/broadband.

Feedback

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

Staff from the Office of Administrative Law Judge, Bureau of Audits, 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.

Chapter 30 Implementation

The Commission continues to implement key provisions of Act 183 of 2004 (66 Pa. C.S. §§ 3011-3019, i.e., Chapter 30 or the Act), which seeks to encourage earlier completion of existing network moderization plans (NMPs) by incumbent local exchange carriers (ILECs) with more economic incentives and less Commission regulation. The continued Commission-approved alternative regulation encourages companies to accelerate broadband development.

Price Caps Adopted by ILECs

To date, 23 incumbent local exchange carriers (ILECs) adopted price caps using the Gross Domestic Product – Price Index outlined in the Act as the inflation factor under the alternative regulation portion of their Chapter 30 Plan. As a result, the carriers file their annual price stability index either accompanied by tariffed rate increases or banked revenue.

Through past settlements reached with the Office of Consumer Advocate, most of the ILECs are required to implement banked increases within four years or forego the revenue.

During the fiscal year, companies with price caps collectively were permitted to increase local service rates $29.1 million with accumulated banked revenues of $8.3 million.

PUC Celebrates 70 Years

On Thursday, Sept. 27, the PUC will be celebrating its 70th Anniversary. Activities will commence after public meeting, which starts at 10 a.m. Former PUC Commissioners will be invited and recognized, and highlights of the history of the PUC will be briefly recounted.

Know What's Below. Call 811 Before You Dig.

On June 14, 2007, the PUC and Pennsylvania One Call System Inc. (PA One Call) hosted a joint press conference to remind Pennsylvanians planning any outdoor excavation project to call PA One Call, by dialing 811, at least three business days before the digging begins. PUC Vice Chairman James H. Cawley joined PA One Call President Bill Kiger for the press conference during PA One Call's "Central PA Safety Day" at Harrisburg Area Community College. Vice Chairman Cawley emphasized that no matter the size of the job – whether it's planning shrubs or trees, installing a new mailbox post –the law requires anyone planning to do any digging must contact PA One Call at least three business days in advance.

"Before you start digging your new fence, mailbox post or tree, dial PA One Call using the new abbreviated dialing system of 811 to make certain underground utility lines are marked," said Cawley. "PA One Call was designed to keep residents safe while preventing damage to underground facilities. We were pleased to provide the regulatory support needed to allow Pennsylvania to join the nation with 811 abbreviated dialing for the PA One Call system that can help everyone complete their improvement projects safely."

In May, the PUC launched a statewide consumer-education campaign as part of an effort to increase awareness of the new abbreviated dialing. An informational brochure on the "Know what's below. Call 811 before you dig" was created along with statewide radio advertising featuring Chairman Wendell F. Holland, Vice Chairman Cawley, and Commissioner Kim Pizzingrilli.

PUC Vice Chairman James H. Cawley and PA One Call President and Executive Director Bill Kiger used the backdrop of backhoes, trench diggers, as well as emergency personnel and equipment attending PA One Call's "Central PA Safety Day" at Harrisburg Area Community College, to drive the point home.

Gas Safety Division Helps Verizon Contractors

Since the spring of 2006, the Commission's Gas Safety Division has been cooperating with Verizon, contractors for Verizon, PPL, PA One Call, and the Department of Labor and Industry to hold periodic safety presentations for excavation contractors involved with Verizon's Fiber to the Premises (FTTP) project. The safety training is offered to the Verizon contractors to help to make them aware of the hazards they may encounter during excavation to install fiber optic lines. The weekly classes are normally held at Verizon's Harrisburg facilities.

The safety presentation consists of approximately two hours of instruction that focuses on the major tenets of the PA One Call Law, the different types of underground utilities and the hazards associated with each, and other basic worker protection standards. The training is also offered in Spanish. Thus far, more than 1,000 Verizon contractor employees have received the orientation training.

The impetus for developing the contractor training was a large spike in underground facility damage when Verizon began its FTTP project. Since that time, line hits have significantly decreased due largely to the cooperation of Verizon, an improved communication among project stakeholders and safety training for the contractors performing the excavation.

Vice Chairman James H. Cawley recently tried his hand at backhoe operation during PA One Call's Safety Day event on June 14. The event announced 811 as the new abbreviated dialing code to access the PA One Call network.

Management Efficiency Investigation of Equitable Gas

On April 13, 2007, the PUC released a Management Efficiency Investigation (MEI) that examined Equitable Gas Company's progress in implementing recommendations from a January 2003 Focused Management and Operations Audit and reviewed their corporate governance practices. The MEI, which was conducted by the PUC's Bureau of Audits, identified potential annual and one-time savings of approximately $30.4 million and $2.2 million, respectively, by implementing new recommendations from the Audit staff.

The Commission directed Equitable to proceed with its plan to implement the 19 follow-up recommendations in the audit report. Equitable's implementation plan indicated that the company accepted all 19 of the staff's follow-up recommendations. Furthermore, the company reported that it has already fully implemented five and partially implemented 11 of the follow-up recommendations.

Staff found that Equitable has effectively implemented six of the 21 recommendations reviewed and has taken some action on 12 other recommendations from the 2003 audit. At the time of the MEI, the company had not taken any action on three recommendations.

As a result of its implementation efforts, Equitable has experienced annual savings of about $9 million. Some of the changes made by Equitable since the 2003 audit include:

- Decreasing write-offs of uncollectible accounts, achieving savings of about $17.5 million from 2002-04;
- Obtaining competitive bids to assure costs for certain functions are reasonable and service is provided on a least cost basis;
- Reducing the number of indoor residential gas meters while implementing an automated meter reading system;
- Decreasing residential service terminations; and
- Implementing systems to assist in pipeline repair and replacement decisions.

The 19 follow-up recommendations contained in the MEI include:

- Implementing procedures to improve customer service telephone performance to at least levels comparable with other Pennsylvania gas distribution companies;
- Investigating the causes of the high justified consumer complaint rate and strive to lower this rate;
- Continuing efforts to reduce the capital project backlog through the improved capital project monitoring process;
- Determining the causes of high PUC infraction rate and strive to lower this rate;
- Reducing response times to consumer complaints and payment arrangement requests;
- Continuing to reduce the under-representation of women and minorities within the company's workforce; and
- Striving to reduce distribution expenses by adopting the best operating practices of other gas distribution companies.

Equitable's Purchase of Dominion Peoples

The United States Court of Appeals for the Third Circuit is considering a request by the Federal Trade Commission (FTC) to block the purchase of the Peoples Natural Gas Company by Equitable Resources, parent of Equitable Gas, until after the FTC completes its administrative review of the purchase. In early June, the court granted a request by the FTC for a temporary injunction to stop the purchase while the appeal is pending. The court is expected to make a final judgment in early October after briefs are filed and arguments are heard.

This case began in March 2006 when Equitable Resources and Peoples filed a joint application with the PUC seeking permission for Equitable Resources to acquire the stock of Peoples. Following an investigation into the purchase, public input hearings and evidentiary hearings, the PUC approved a settlement, with conditions, among many of the parties. The PUC's order, entered April 13, 2007, allowed the purchase to proceed.

The FTC immediately filed suit in federal district court in Pittsburgh to stop the purchase until the FTC could complete its investigation. The FTC maintained that the purchase could be detrimental to competition in the Pittsburgh area. It argued that the elimination of gas-on-gas competition was anti-competitive.

The PUC's decision found that gas-on-gas competition was unique to Southwestern Pennsylvania where service territories overlap. In the past, the PUC had allowed distribution utilities to discount sales to customers who switch to another local distribution company. The PUC found that generally, these rates were subsidized by other customers in the system. The PUC concluded that the potential improvements to all customers in available gas supply outweighed the benefits of gas-on-gas competition to a relative few customers. It found that supplier competition as mandated by the Natural Gas Choice and Competition Act was more desirable than subsidized gas-on-gas competition.

The PUC joined Equitable Resources and Dominion Resources, the parent of Peoples, in opposing the FTC. On May 14, 2007, the United States District Court for the Western District of Pennsylvania granted the motion of Equitable and Dominion, and dismissed the case. The court said an injunction would "interfere and abrogate the statutory duty of the PUC to protect the interest of the public in Pennsylvania."

It was then that the FTC sought an injunction from the Third Circuit.

Philadelphia Gas Works Rate Filing

On Dec. 22, 2006, Philadelphia Gas Works (PGW) filed a request for an increase in rates of $100 million. The effective date of the rate filing was suspended by the Commission until Sept. 20, 2007, and voluntarily extended by the company until Sept. 28, 2007.

Four public input hearings were held in PGW's service territory to provide customers with the opportunity to comment on the proposed rate increase. Evidentiary hearings were held in late May. The PUC's administrative law judges are issued a recommended decision on July 30, 2007, for consideration by the Commission. A final commission order is expected in mid-September.

Valley Energy Rate Increase

On April 30, 2007, Valley Energy filed for a base rate increase for its gas delivery rates of $638,025 or an approximate 7 percent increase. The average monthly bill for a residential customer using 76 Mcf could increase from $89.04 to $94.29 or by around 6 percent if the entire amount of the request was authorized. The average monthly bill for a commercial customer using 311 Mcf could increase from $332.26 to $345.88 or around 5.9 percent if the entire amount of the request was authorized. Bills for other types of customers, including customers purchasing only transportation service will also increase.

The major drivers for the increase are the substantial increases in operation and maintenance costs, coupled with increases in costs of materials. Valley Energy has also replaced 1.7 miles of distribution mains and 172 service laterals as well as maintaining an ongoing replacement program which has essentially eliminated all of the cast iron pipes on their system.

The company is currently working on a program to replace the 4.4 miles of bare steel pipe that remains on its system. Valley Energy provides natural gas delivery services to around 5,500 homes and businesses in Bradford County.

PPL Gas Utilities General Rate Increase

On April 27, 2006, PPL Gas filed a tariff supplement proposing to increase base rates by $12.8 million (6.2 percent). The administrative law judge's recommended decision, issued on Dec. 8, 2006, recommended a rate increase of $7.7 million. At the Feb. 8, 2007, public meeting, the Commission adopted an order which authorized PPL Gas to file tariffs to produce revenues not in excess of $8.1 million (3.9 percent).

The Commission on Economic Opportunity, Transcontinental Gas Pipe Line, the Hess Corporation, and PPL Gas Large Users Group, the Office of Small Business Advocate, the Office of Consumer Advocate, and the PUC's Office of Trial Staff participated in the proceedings.

The average annual residential bill will increase by $80 to about $1,876 or by approximately 4.5 percent. The company's proposal would have increased the annual bill for an average residential customer by about $127.

The rates went into effect on or after Feb. 9, 2007. The Commission also ordered the company to file a proposed Low Income Usage Reduction Program, including funding mechanisms, for Commission consideration. PPL Gas serves about 75,000 customers in 27 counties in Pennsylvania.

Gas Supplier Licensing

Activity from April 1, 2007 to July 31, 2007.

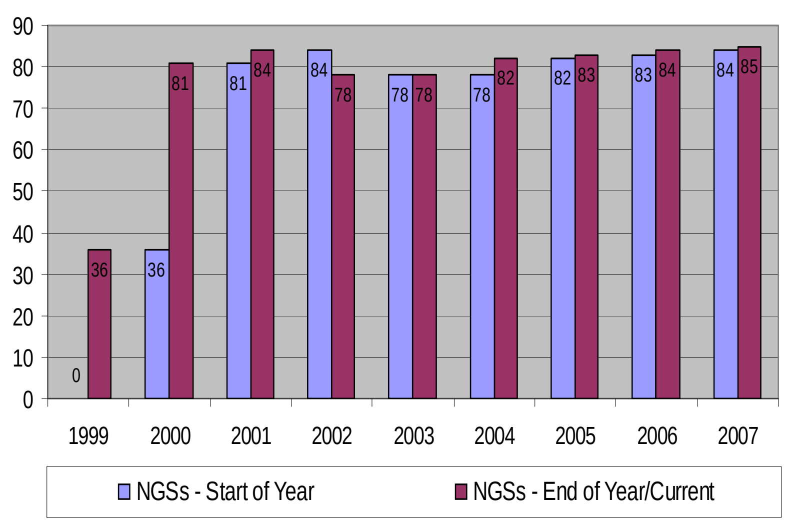
85 Active Licenses

2 licenses canceled

1 license approved

0 applications pending

Number of Licensed NGSs



Energy Price Forecast for August 2007

The Energy Information Agency's (EIA's) August 2007 *Short Term Energy Forecast* reports that rising consumption, the continued effects of production cuts by members of the Organization of Petroleum Exporting Countries (OPEC), and modest increases in non-OPEC production have pulled oil inventories down. Yet, oil prices have been stable and the average price of retail gasoline declined by more than 40 cents per gallon from the record nominal price of $3.22 per gallon on May 21. In 2007 regular gasoline pump prices are now expected to average $2.74 per gallon.

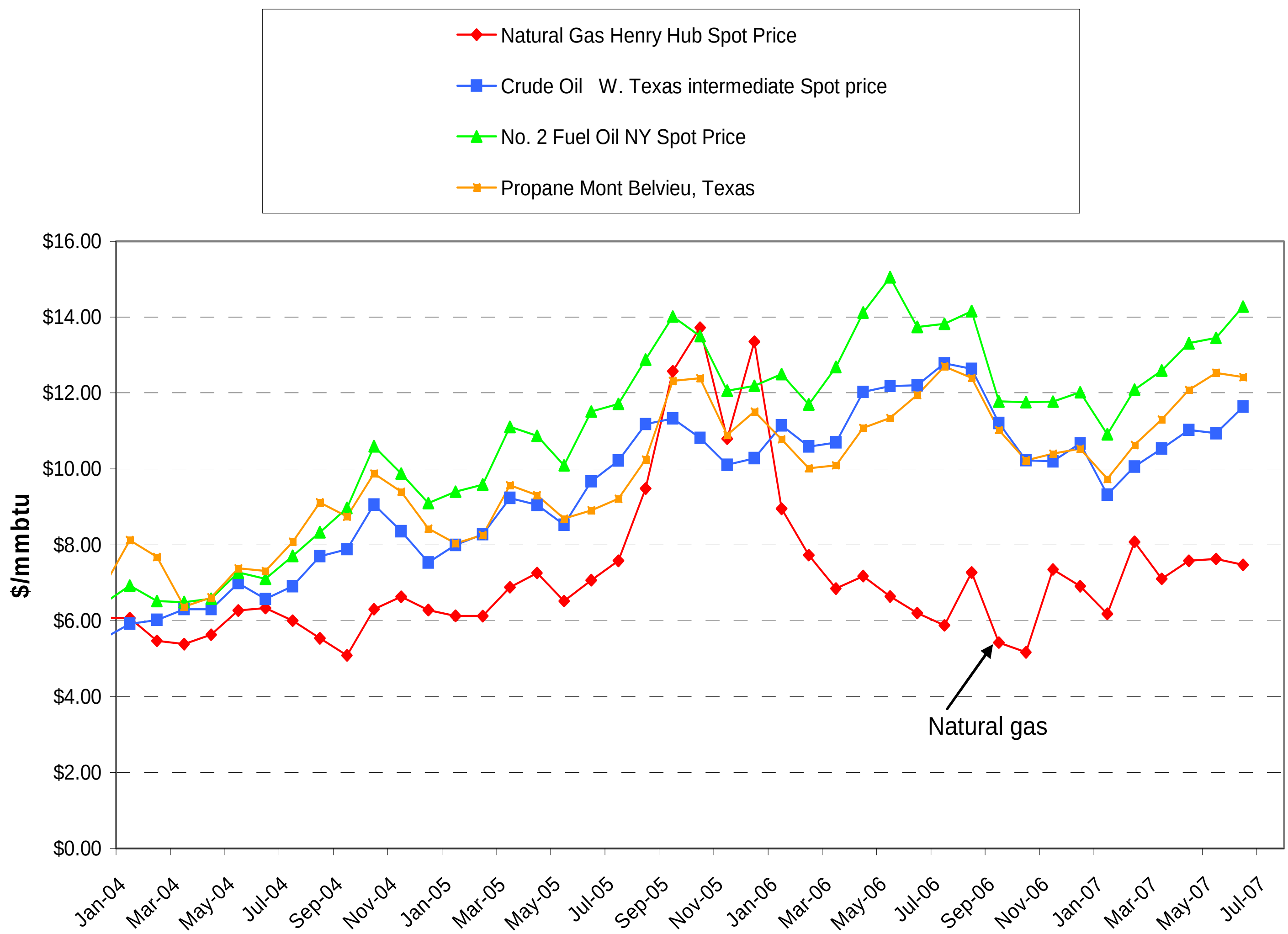
West Texas Intermediate crude oil (WTI) is the benchmark crude oil in the United States. In 2006 WTI crude averaged $66.02 a barrel. WTI crude oil is expected to average around $67.61 per barrel in 2007 and $71.25 in 2008.

EIA shows that Henry Hub (Louisiana) wholesale natural gas prices averaged $6.41 per Mcf in 2006 and are projected to average $7.45 per Mcf in 2007. For 2008, the Henry Hub average price is projected to move up to an average of $8.06 per Mcf.

Additional forecast details can be found at http://www.eia.doe.gov/oiaf/forecasting.html.

Wholesale Fuel Prices by Heat Content

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



Rail Safety Inspection Program Scores High with FRA State Program

The PUC Railroad Safety Inspection Program ranked 5th overall among the 30 states that conduct inspections in association with the Federal Rail Administration's (FRA) State Program. The track inspection discipline was ranked first.

The Rail Safety Act of 1970 authorized the states to enter into an agreement with the FRA to conduct inspections of track, equipment, operating practices, hazardous materials and crossing signals in order to ensure compliance with the FRA's regulations. Currently 30 states have work agreements with the FRA. State programs vary in regard to the number of inspectors employed and types of disciplines. However, regardless of the program size, all inspectors are required to be certified by the FRA to enforce its safety regulations.

The PUC's Rail Safety Division employs six inspectors and one supervisor. The disciplines covered include track (two certified inspectors, one certified supervisor), equipment (two certified inspectors), operating practices (one certified inspector) and hazardous materials (one certified inspector). The Rail Safety Division does not employ a signals inspector. The inspectors conduct daily inspections of various railroad facilities, and examinations of safety related records. The rail safety inspectors have achieved the fine ranking based on an excellent evaluation primarily of their quantity and quality of inspection activity.

State programs are ranked by assigning a "score" to the following categories: number of inspection days, reports filed, units inspected, defects recorded, defect ratio, and violations submitted. Work category scores are totaled for each technical discipline to determine a state discipline score. The program score is a summation of all discipline scores. States with inspectors in five disciplines have the highest program scores. Pennsylvania has four technical disciplines.

Pennsylvania's overall program was ranked fifth, with Track ranked as first, Motor Power & Equipment was ranked fifth, and Operating Practices coming in sixth among the states participating in the FRA's safety program. The PUC's activities associated with hazardous material inspections statistics were not included in the FRA's rankings because the inspector was in trainee status.

PUC Extends Compliance with Taxi and Limousine Age Requirement

At its May 30, 2007, public meeting, the Commission extended the compliance date for the eight-year taxicab and limousine vehicle age limitation until Dec. 31, 2007. This action was taken in response to a petition filed by the PA Taxicab and Paratransit Association (PTPA).

The Commission had established a maximum taxicab and limousine vehicle age requirement of eight model years. This regulation was to be effective on Aug. 6, 2007. The PTPA had petitioned the PUC to delay the eight-year age requirement until 2009.

The eight-year age requirement also allows for carriers to operate older vehicles if authorized by the PUC. The PUC delegated this authority to the Bureau of Transportation and Safety (BTS) in its order. BTS has developed a procedure for carriers to request permission to operate vehicles older than eight years. The procedure includes justification for the request, a review of the vehicles maintenance history, a safety inspection at an official Pennsylvania Inspection Station, and a compliance check by a Motor Carrier Enforcement Officer.

Enforcement Staff Attends Instructor Certification for Chemical Spray

Since 2004, the Director of Operations, the Law Bureau, Office of Human Resources and the Bureau of Transportation and Safety (BTS) have been working together to evaluate non-lethal personal protection equipment for the Motor Carrier Division enforcement staff. BTS has developed detailed policies and procedures for the deployment of chemical spray and the reporting of incidents. In addition, BTS has procured all necessary equipment for the enforcement staff to carry chemical spray while on duty.

On June 4, five Motor Carrier Division enforcement personnel completed an instructor certification training course about the use of chemical spray for on-duty personal protection. The training was the next step in the process of issuing chemical spray to the Motor Carrier Division enforcement staff. In addition to the five instructors, Chief Wendy Keezel and Safety Coordinator Gerry Clark also attended the training.

The instructor certification course was provided as a train-the-trainer concept, which will permit the five instructors to provide training to the remainder of the enforcement staff. The training covers subjects such as: the properties of the chemical spray (Oleoresin Capsicum), safety and liability considerations, officer survival techniques, use of force options, and decontamination techniques.

It is anticipated that the training of the enforcement staff will be completed by fall.

FCC Highlights

The Federal Communications Commission (FCC) recently issued several important orders that impact Pennsylvania.

Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135, Final Order

On June 28, 2007, the FCC issued a Declaratory Ruling that interexchange and wireless carriers are not permitted to block calls because a local exchange carrier's (LEC) access charges are considered unreasonable. The FCC in this Declaratory Ruling clarifies that carriers cannot engage in self help measures by blocking traffic to LECs. The FCC determined previously that no carriers, including interexchange carriers, may block or restrict traffic in any way and has found that call blocking is an unjust and unreasonable practice under section 201(b) of the Communications Act of 1934, as amended.

IP-Enabled Services; Access to Telecommunications Relay Services and Speech-to Speech Services for Individuals with Hearing and Speech Disabilities, WC Docket No. 04-36, Final Order

On June 15, 2007, the FCC released an order extending the disability access requirements to providers of Voice over Internet Protocol (VoIP) service and to manufacturers of specially designed equipment used to provide those services. The FCC also extends the Telecommunications Relay Services (TRS) requirements to providers of interconnected VoIP services including contributing to the Interstate TRS Fund and offering 711 abbreviated dialing for access to relay services.

Recommendations of the Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks, EB Docket No. 06-119, WC Docket No. 06-63, Final Order

On June 8, 2007, the FCC directed its Public Safety and Homeland Security Bureau to implement several recommendations impacting communications networks. In doing so, the FCC adopted rules requiring all incumbent and competitive LECs, as well as wireless carriers, to have an emergency back-up power source for all assets that are normally powered from local AC commercial power. The assets include those inside central offices, cell sites, remote switches and digital loop carrier system remote terminals. The FCC exempts smaller LECs (those companies that have less than $134 million in annual revenues from regulated telecommunications operations) from the minimum emergency back-up power requirements. In addition, the FCC is requiring all LECs, wireless service providers, and interconnected VoIP service providers to analyze and report on their 911 and E911 networks for redundancy, resiliency and reliability of those networks in accordance with the schedule established by the Public Safety and Homeland Security Bureau.

Interim Cap on High Cost Universal Service Fund, WC Docket Nos. 05-337, 96-45

On May 1, 2007, the Federal-State Joint Board on Universal Service recommended that the FCC take immediate action to address the explosive growth in high-cost universal service support disbursement. The Joint Board recommended that the FCC immediately impose an interim, emergency cap on the amount of high-cost support that competitive eligible telecommunications carriers (ETCs) may receive for each state, based on the average level of competitive ETC support distributed in that state in 2006. The FCC has sought comment on this recommendation.

Also, the FCC sought comment on the Joint Board's recommendation on proposals for long-term, comprehensive reform of the high-cost program, including the use of reverse auctions to determine high-cost universal service support. The FCC also requested comment on whether universal service funding should be used to promote broadband deployment directly.

The PA Commission and the Mid-Atlantic Conference of Regulatory Utility Commissions (MACRUC) states filed reply comments in this proceeding in June.

Numbering Resource Optimization, CC Docket Nos. 99-200, 96-98 and 95-116, Final Order

On April 26, 2007, the FCC issued its Fourth Order on Reconsideration dismissing petitions requesting reconsideration of the FCC's service-specific and technology-specific overlay (SO) requirements. The petitioners argued that a blanket prohibition on SOs should be reinstated because SOs have discriminatory effects against service providers. The FCC determined that the petitioners had not presented any new evidence or changed circumstances and therefore found that it is unnecessary for the FCC to revisit this issue.

Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans, GN Docket No. 07-45

On April 16, 2007, the FCC issued a Notice of Inquiry into whether advanced telecommunications capability is being deployed to all Americans in a reasonable and timely fashion. The FCC sought comment on various market, investment and technological trends in order for the FCC to analyze and assess whether infrastructure capable of supporting advanced services is being appropriately deployed. The FCC sought Comments in May.

***FCC HIghlights** Continued on Page 22.*

FERC Highlights

The Federal Energy Regulatory Commission (FERC) recently issued several important decisions that impact Pennsylvania.

Duquesne Light Filing

On Sept. 29, 2006, Duquesne Light Company filed a petition for a declaratory order for approval of incentive rate treatment for a high-voltage transmission project and Federal Power Act Section 205 formula rate filing in the form of revised tariff sheets to the Duquesne FERC open access transmission tariff. The petition requested the Commission to issue a declaratory order approving certain incentive treatments authorized by FERC orders 679, 679A and 679B in connection with a new high-voltage transmission upgrade project Duquesne is planning to construct, or cause to be constructed, to enhance reliability of service to the City of Pittsburgh and surrounding area.

On Feb. 6, 2007, FERC issued an interim order, by a 3-2 vote, conditionally granting Duquesne's petition for declaratory order. FERC granted the incentives requested and accepted the proposed formula rate, subject to conditions and established hearing and settlement procedures. FERC stated that:

- Duquesne's request satisfied FERC's policy that the transmission projects have some nexus to implementation of new technology or increased risk to the company;
- It conditionally concluded that an upward adjustment regarding the return on equity (ROE) in the upper end of the range of reasonableness up to 150 basis points was appropriate;
- Inclusion of Duquesne's construction work in progress (CWIP) in rate base was appropriate;
- Pre-construction and pre-commercial costs can be expensed and recovered in current rates; and
- Allowing recovery of prudently incurred costs associated with abandoned transmission projects would be appropriate, if the abandonment is outside of the control of management.

FERC directed the parties and FERC trial staff to request a settlement judge if they thought that settlement of the hearing issues was appropriate. To date, several settlement conferences have been held and negotiations are continuing.

Trans-Allegheny Interstate Line Company (TrAILCo)

In February 2006, Allegheny Power filed a petition for declaratory order with FERC requesting that the Commission approve incentive rate treatment on a proposed project for a new 500 kV transmission line it is proposing to construct within the Allegheny Power transmission zone. Allegheny Power sought incentives in the following: the return on equity, construction work in progress, preconstruction/preoperating expenses, and abandonment.

In July 2006, FERC issued it order in which it granted the petition for declaratory order. In the order FERC approved the incentive rate treatments proposed by Allegheny Power. FERC predicated its approval on Allegheny Power making a subsequent section 205 filing and held that Allegheny Power must demonstrate the justness and reasonableness of its overall rates in that filing.

Between February 2006 and March 2007, Allegheny Energy organized a separate entity, TrAILCo, to finance, construct, own, operate and maintain the project. In February 2007, TrAILCo filed tariff sheets regarding the formula rate for inclusion in FERC's Open Access Transmission Tariff pursuant to section 205 of the Federal Power Act and also sought approval for an incentive return on equity for installation of specific equipment at one of the existing substations. In March 2007, the PUC intervened in the case.

On May 31, 2007, FERC issued an order that required TrAILCo to submit a compliance filing. The filing was required to include:

1. A narrative describing TrAILCo's internal accounting procedures and controls;
2. Revisions to the tariff to require a filing under section 205 or 206 of the Federal Power Act prior to modifying the post-employment benefits other than pensions expense;
3. Revisions to the tariff requiring a section 205 filing prior to modifying extraordinary property losses;
4. An attestation pursuant to FERC regulations regarding Period II information;
5. Revisions to the tariff to incorporate the informational filing with FERC for the annual update; and
6. Tariff revisions to correct typographical errors.

   The order accepted and suspended the proposed formula rates, subject to conditions and established hearing and settlement judge procedures.

On July 2, 2007, TrAILCo submitted its compliance filing. The filing included revised tariff sheets to the Open Access Transmission Tariff, provided a narrative of TrAILCo's internal accounting procedures and controls, and provided an attestation for certain projected information in accordance with FERC's May 31 Order.

The parties have commenced settlement discussions on this matter, and met as recently as July 19.

Regional Transmission New Additions Cost Allocation

FERC recently issued a decision in Docket EL05-121 in which it determined that new transmission facilities at voltage levels of 500 kV and above serve the entire region as major backbone facilities and the costs of such new

FERC HIghlights Continued on Page 19.

FERC Highlights

Continued from Page 18.

facilities should be borne by all transmission customers. It also directed that the issue of allocation of sub-500 kV transmission facility costs be set for further hearing.

On May 21, 2007, in compliance with the April 19, 2007, order, PJM Interconnection submitted a filing containing amendments to Schedule 12-Appendix of the PJM Electric Tariff filed with FERC. The amendments allocate the cost responsibility for 500 kV or above transmission facilities, and lower voltage transmission facilities required to support the higher voltage facilities included in the PJM Regional Transmission Expansion Plan, on a region-wide basis rather than "beneficiary pays" basis.

On April, 10, 2007, FERC issued an order in which it accepted PJM's filing of revised tariff sheets proposing sub-500 kV cost allocation, suspended the effective date subject to refund, and set the matter for hearing. In addition, the FERC consolidated the cost allocation proceeding at Docket ER07-424-000 with the numerous other ongoing transmission cost proceedings in Docket Nos. ER06-456-000, -001, and -002; ER06-880-000; ER06-954-000; and ER06-1271-000.

The parties have commenced settlement discussions. These discussions are ongoing at this time.

Market Monitoring Unit

FERC has long recognized the importance of market monitoring in the electricity markets and active market monitoring is a required core function of regional transmission organizations (RTOs). In Order 2000, the commission articulated the important role that market monitoring plays in the electricity market. Among other duties, RTO market monitors are required to be independent of market participants and RTO management, and have an obligation to monitor and report exercises of market power or gaming, and to recommend improvements to the wholesale electricity markets.

Recently, FERC reaffirmed its position on the importance the market monitoring plays in the markets in its May 27, 2005 Policy Statement on Market Monitoring Units. In the Policy Statement, FERC established protocols for referrals for enforcement, reaffirmed the important role of market monitoring within the RTO and in assisting FERC in ensuring just and reasonable rates, and in maintaining markets for the benefit of end use customers. FERC has continued review of the market monitors and held a technical conference on April 5, 2007, to review its general policies on market monitoring.

On April 17, 2007, a number of parties including electric cooperatives, state public advocates, and municipalities filed a complaint against PJM, as did the Organization of PJM States (OPSI) on April 23, 2007. OPSI is an organization formed by and consisting of all 14 state regulatory commissions within the PJM footprint. Both complaints were based on testimony by the PJM Market Monitor at a April 5, 2007, FERC technical conference that PJM management had interfered with the independent market monitoring function and had sought to remove market monitoring unit employees and resources.

The complaints raise serious concerns about the independence of the PJM market monitor from PJM management and PJM's compliance with its market monitoring tariff obligations. The OPSI complaint also sought interim action by FERC directing that supervision of the PJM market monitoring unit be removed from existing senior PJM management either to a joint federal/state board or to a committee of the PJM Board of Managers.

FERC has not yet acted on the complaints, although it submitted data requests to PJM and the PJM market monitor for information. On July 2, 2007, PJM sent a letter to FERC seeking to have the complaints dismissed. The matter continues in litigation and the Pennsylvania PUC, in coordination with OPSI, will continue to play an active role in its resolution.

National Interest Electric Transmission Corridor Designations

On May 7, 2007, the Office of Electricity Delivery and Energy Reliability of the United States Department of Energy (DOE) published notice of Draft National Interest Electric Transmission Corridor Designations in the *Federal Register* under Section 1221 of the Energy Policy Act of 2005. The notice designated two large draft national interest electric transmission corridors: the Mid-Atlantic Area corridor and the Southwest corridor.

In the Mid-Atlantic area, the Department designated all or major portions of West Virginia, Pennsylvania, Maryland, Delaware, the District of Columbia, New Jersey, New York and Virginia, as well as minor portions of Ohio as a National Interest Electric Transmission Corridor (NIETC), which would enable transmission project developers, under certain circumstances, to seek siting authorization and eminent domain power from the federal government instead of state siting authorities. Subsequently, on June 7, 2007, DOE issued an errata in which it amended the notice by adding six counties in three states to the Mid-Atlantic designation.

On July 6, 2006, the PUC filed comments on this matter with DOE opposing the draft designation in the Mid-Atlantic Area. In its comments, the PUC the draft designation misinterpreted and failed to follow the legal requirements set forth by Congress for NIETC designation, failed to make the detailed factual findings required by Congress, and that the Department should not adopt the draft Mid-Atlantic Area national corridor. The PUC will continue to participate in this matter on an ongoing basis.

Improvements to the Formal Complaint Form

The PUC has made several improvements to the formal complaint form and to the instructions that accompany the form. Many of the changes should simplify the process for consumers and ensure that they are aware of their obligations and options. For instance, the new form describes the legal proceeding that is initiated when a formal complaint is filed, and explains when it may be appropriate to use the Commission's informal complaint process. Some of the changes were simply needed to bring the formal complaint form into the 21st century, such as inclusion of a space for consumers to indicate their e-mail address, if they wish.

In addition, the PUC has developed a special form that permits consumers to register their objection or comment on proposed rate increases. This form will give consumers a streamlined method for expressing their views without filing a formal complaint. Their objections and comments will be placed in the official document folder for review by the presiding officer, the parties and the PUC staff. It will also let them know a public input hearing may be scheduled in their area.

With the new complaint form, consumers will be made aware of the possibility of having their dispute resolved by mediation. Consumers are also given the option of contacting the Office of Consumer Advocate or the Office of Small Business Advocate for assistance.

Energy Expo

On Thursday, April 26, PUC Chairman Wendell F. Holland (above) joined Department of General Services Secretary James P. Creedon to kick off the 2007 Energy Expo. The Expo was held in the atrium of the Commonwealth Keystone Building.

The Expo was part of the state's Energy Conservation Week, April 22-28, to showcase the state's work to conserve and reduce energy consumption.

The expo featured over 50 vendors who displayed innovative energy conservation measures and state-of-the-art conservation technology.

InfoMAP Update

InfoMAP

Mapping the PUC of Tomorrow

With InfoMAP (Information Management and Access Project) on track for summer 2008 deployment, PUC staff has been working on proposed regulations to permit electronic filings. A stakeholder meeting on this issue, was held on May 4, during which interested parties provided their views on a variety of issues, including whether paper copies should be required, how service on parties should be handled, the size and type of documents that may be electronically filed and the registration of e-users.

After considering that feedback, staff circulated draft proposed regulations on electronic filing on July 11 for discussion at a stakeholder meeting to be held on Aug. 13. Staff is also encouraging the submission of written comments either in lieu of participating in that meeting or as a supplement to discussions held at that time. Those comments should be sent to ra-infomap@state.pa.us. To access a copy of the staff's proposal or to obtain additional information about InfoMAP, you may go to the PUC's Web site at www.puc.state.pa.us/general/infomap.aspx.

InfoMAP is a $6.6 million project that began in March 2006 to replace the PUC's case management system that was developed in-house in 1978. Construction of the first phase is 88 percent complete and, by the fall of 2007, the PUC expects to be operating with a new system that automates workflows and relies less on paper. Enhancing public access to information, permitting electronic filings and implementing e-commerce are in the second and third phases.

Commission's Budget Approved

On June 30, Gov. Edward G. Rendell signed Act 5A of 2007 (Senate Bill 795), approving the PUC's budget for the fiscal year starting on July 1, 2007. This approval provides the PUC with $51.5 million in state funds and authorizes expenditures of anticipated federal funds in the amount of $2.9 million. The budget, which is slightly less than the level authorized for the fiscal year that ended on June 30, will fully fund the recently negotiated salary increases, support a complement of 509, and permit the PUC to fulfill statutory responsibilities in all program areas. With assessments on public utilities of $51.5 million, which may be recovered from ratepayers, the PUC's budget costs the Commonwealth's 5 million utility customers an average of about $10 per year.

Spotlight on the PUC's Law Bureau

The Commission's Law Bureau functions much like a corporate legal department. While each Commissioner has his or her own attorney(s), the Law Bureau provides legal services to the Commission as a whole and to individual bureaus within the Commission. The Law Bureau is committed to the Commission's goals of balancing the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protecting the public interest; educating consumers to make independent and informed utility choices; furthering economic development; and fostering new technologies and competitive markets in an environmentally sound manner. In support of these goals, the three main categories of legal services provided by the Bureau are advisory, representational, and prosecutory and enforcement.

Advisory services include interpreting state and federal laws and regulations, analyzing court decisions and administrative rulings, ensuring fairness to parties, recommending resolutions in contested cases, and addressing ethics questions. Advice is provided via formal written memos, e-mail, and orally. The opinions rendered are confidential and not for public disclosure. The Law Bureau also provides legal support to other bureaus on assignments such as tariff filings, applications for authority, and final adjudication orders.

In addition to advisory work, the Law Bureau represents the Commission before state and federal courts and agencies when utility-related matters are at issue such as in appeals of decisions regarding rates or service problems, in rulemaking proceedings and matters relating to utility competition, and in bankruptcy proceedings involving public utilities. In such matters, the Law Bureau defends the Commission's actions or presents the Commission's point of view. For example, the Law Bureau represents the Commission before the Federal Energy Regulatory Commission (FERC), the Federal Communications Commission (FCC) and, most recently, in federal court regarding the Federal Trade Commission (FTC) challenge to the Equitable/Dominion acquisition.

Additionally, the Law Bureau represents the Commission in collaboratives (*i.e.*, non-adversarial) matters, such as the demand side working group, the natural gas competition collaborative, and the telecommunications carrier working group. Personnel litigation and tort claims against Commission employees, however, are typically referred to the Office of the Attorney General or outside counsel.

The third major component of the Law Bureau's function is to initiate prosecutions and enforcement proceedings against public utilities that are alleged to have failed to comply with applicable law. For example, the Law Bureau will investigate and file complaints before the Commission against utilities that are alleged to have operated without authority or to have failed to file annual reports, to pay annual assessments, or to maintain adequate insurance or service reliability. If a Commission order or court order is already in place, the Law Bureau will represent the Commission by initiating an enforcement action in Commonwealth Court.

Some Law Bureau assignments involve several functions and typically come from requests for regulatory action or approval, such as petitions for waiver of regulations or for a declaratory order to interpret the law or resolve a controversy, requests for an emergency order in a situation that requires immediate relief before the next public meeting, or requests for an opinion-of-counsel letter to address questions of legal interpretation. The Law Bureau also investigates allegations of utility wrongdoing such as false reporting, wasteful spending, and other unlawful conduct.

The Law Bureau is headed by the Chief Counsel, Bohdan R. (Buck) Pankiw, and has three deputy chief counsels (DCC), presently Frank Wilmarth and Robert Young. The third DCC position is vacant with the recent retirement of Robert Longwell, who has come back as an annuitant in Commissioner Terrance J. Fitzpatrick's office. There are 20 assistant counsels, an administrator, an executive secretary, a regulatory review coordinator, an appeals clerk, and three secretarial support staff.

Commission Retirements Soar

During June alone, the PUC saw 36 retirements, representing over 1,000 years of service – a millennium of service - to the Commission and the Commonwealth.

Coupled with the 17 retirements from January through May, over 10 percent of the PUC's complement has retired. During 2007, the PUC said farewell to 1,500 years of institutional knowledge that cannot be replaced. The employees who are "left behind" have opportunities to advance, learn and meet the challenges created by these departures. We are confident that the remaining employees will step up to ensure that the PUC's statutory duties and mission are fulfilled.

Commission to Hold Open House

Coming this fall is a PUC Open House. All interested parties will be invited to visit us in the Keystone Building for overview presentation of PUC and bureau responsibilities, building and office tours, as well as opportunities to interact with Commissioners and staff. The date will be announced soon!

Trans-Allegheny Interstate Line (TrAIL) Update

On April 13, 2007, Allegheny Energy applied for authorization to construct a high voltage line in Western Pennsylvania. The proposed $1.8 billion, 240-mile, 500 kv Trans-Allegheny Interstate Line (TrAIL) will extend from Southwestern Pennsylvania, into West Virginia and into Virginia.

The Commission will hold hearings to consider the necessity, safety, and environmental impact of the proposed line. The PUC also considers a variety of other issues including need for the proposed line; risk of danger to the health and safety of the public; compliance with applicable statutes and regulations providing for the protection of natural resources; and minimal adverse environmental impact.

More than 420 consumers have called, written or emailed the Commission to share their opinions on the proposal. About 25 residents and advocacy groups filed formal protests in the case.

The Commission's Office of Administrative Law Judge will conduct technical hearings in addition to public input hearings. Six public input hearings, which will take place in August, are planned for the case. The public input hearings will be held in the areas affected by the application. By attending a public input hearing and providing comments, consumers place their views in the official record of the case, which becomes part of the record on which the PUC will base its decision. The schedule of public input hearings will be announced shortly.

Senate Hearing

Continued from Page 3.

retail competition and the potential for price shock as they expire. To mitigate the anticipated increases, the PUC will pursue a strategy of educating customers, encouraging conservation, reviewing low-income assistance programs, and encouraging plans that would give customers the option of phasing in significant increases. He encouraged further consideration of long-term contracts and noted the proposed language specifically restricts the ability of utilities to enter into long-term wholesale contracts. Lastly, he questioned if the systems benefit charge (SBC) is good public policy and opined that it should not be a high priority to provide additional subsidies to alternative energy projects, especially with other pressing issues facing the state.

Daniel Desmond, Deputy Secretary for Energy and Technology Deployment and Sonny Popowsky, PA Consumer Advocate, also testified at this hearing.

FCC Highlights

Continued from Page 17.

Broadband Industry Practices, WC Docket No. 07-52

On April 16, 2007, the FCC issued a Notice of Inquiry into broadband industry practices. In this docket, the FCC is seeking comment on the nature of the broadband market and related services including whether network platform providers and others favor or disfavor particular content. Also, the FCC sought comment in July on how consumers are affected by these policies and whether consumer choice of broadband providers is sufficient to ensure that all such policies ultimately benefit consumers. The FCC also is requesting information on whether any regulatory intervention is necessary.

Development of Nationwide Broadband Data to Evaluate Reasonable and Timely Deployment of Advanced Services to All Americans, WC Docket No. 07-38

In a related matter, on April 16, 2007, the FCC issued a Notice of Proposed Rulemaking seeking comment on how the FCC can continue to acquire the information it needs to develop and maintain appropriate broadband policies. The FCC is requesting information on the best means to receive sufficient information about the availability and deployment of broadband services nationwide, particularly in rural and other hard-to-serve areas, including tribal lands. Also, the FCC is seeking comment on how it can improve the data about wireless broadband Internet access and whether it should modify the speed tier information it currently collects. Further, the FCC requested comment in July on how the FCC can best collect information about subscribership to interconnected VoIP service.

Time Warner Cable Request for Declaratory Ruling, WC Docket No. 06-55, Final Order

On March 1, 2007, the FCC issued a Declaratory Ruling that wholesale telecommunications carriers are entitled to interconnect and exchange traffic with incumbent LECs when providing services to other service providers, including VoIP service providers. The FCC reaffirmed that wholesale providers of telecommunications services are telecommunications carriers for the purposes of interconnection. The FCC concluded that state decisions denying wholesale telecommunications service providers the right to interconnection with incumbent LECs are inconsistent with section 251 of the Communications Act of 1934, as amended.