

Prepared Testimony of
Gladys M. Brown
Chairman
Pennsylvania Public Utility Commission

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Pennsylvania Public Utility Commission
400 North Street
Harrisburg, Pennsylvania 17120
Telephone (717) 787-4301
<http://www.puc.pa.gov>

Good morning Chairman Adolph, Chairman Markosek, and members of the House Appropriations Committee. I am Gladys Brown, Chairman of the PUC. Joining me today are my fellow commissioners: Vice Chairman Andrew Place, Commissioner Pamela Witmer, Commissioner John Coleman, and Commissioner Robert Powelson.

We appreciate the opportunity to testify today about the Pennsylvania Public Utility Commission's (PUC or Commission) budget request for Fiscal Year (FY) 2016-17. The Commission is requesting \$73.781 million for upcoming fiscal year, which includes \$71.101 million in state funds and \$2.680 million in potential federal funds. This represents a \$1.08 million increase in overall funding for FY 2015-16, or 3.5 percent, driven by contractual salary and benefit obligations, along with increases for healthcare costs, retirement contributions, and the cost of non-discretionary vendor goods and services.

I would note that this budget continues all current programs and maintains the current PUC complement of 503 – while also allowing further enhancements of key PUC safety initiatives with the planned hiring of two additional Rail Safety inspectors, two additional Gas Safety inspectors, and one additional Electric Safety inspector.

While the state share for that budget is funded by assessments and fees paid by jurisdictional public utilities, electric and natural gas suppliers, as well as assessments received for administration of Act 127 of 2011 and Act 13 of 2012, I want to underscore the PUC's commitment to continuing its efforts to reduce costs and increase productivity and operational efficiency within our existing programs.

We will continue to work to reduce spending wherever possible while we carry out our statutory responsibilities to regulate, in one fashion or another, the electric, natural gas, water, telecommunication, and transportation industries. Just last year the Commission processed 24,932 filings from regulated utilities and utility customers. Of these 24,932 filings, 11,788 were electronically filed. This 11,788 number represents a 45% increase in utilization of the Commission's 'e-filing' system by our regulated utilities

and utility industry stakeholders. This increased utilization of expedited electronic access is tangible evidence of the Commission's continued efforts to streamline processing and foster efficiency.

The Commission processed over 400 reconciliations, rate reviews, and audits in 2015. Such tasks are a vital component of the Commission's mission to protect customers. As well, our Audits Bureau completed 12 management audits last year. These audits identified inefficiencies in utility operations and resulted in one-time savings of approximately \$22 million while also resulting in on-going annual savings of approximately \$8 million. All of this is money saved for the benefit of utility customers.

As Chairman, I am intently focused on three key areas of interest for the Commission: (1) the safety and reliability of utility service; (2) enhancements and innovations for consumers; and (3) the future of utility services, here in Pennsylvania and nationally.

The PUC's greatest responsibility is to ensure the provision of safe and reliable public utility service for our citizens. This responsibility encompasses everything from replacing the aging pipelines under our feet to safeguarding critical systems against high-tech cyber threats. It also includes issues such as rail safety and enhancements to the PA One Call program, aimed at preventing accidents and protecting lives and property.

As you are all aware, Pennsylvania is blessed to be sitting on the largest natural gas formation in the eastern part of the US; the Marcellus Shale. It encompasses almost 60% of the state. According to a 2014 report by the US Energy Information Association, "Pennsylvania natural gas production was 15 times higher in 2014 than in 2009 because of development of the Marcellus Shale. Natural gas output exceeded 4 trillion cubic feet in 2014 and made the state the second largest natural gas producer in the nation after Texas. Pennsylvania is also second only to Texas in estimates of proved natural gas reserves, which quadrupled from 2010 to 2013." Pennsylvania's growth as an energy hub is driving a series of interrelated issues across the state. For instance, the PUC

is witnessing a growing demand for access to gas. In response, over the past two years the PUC has approved pilot projects for seven natural gas distribution companies. These pilots are aimed at reducing costs and providing alternative financing mechanisms for the extension of gas service to homes and businesses.

There is no doubt that a growing list of Pennsylvanians want access to low-cost natural gas – and they want it sooner rather than later – but we cannot overlook the importance of replacing old leak-prone and possibly corroded lines as quickly as possible. The Commission continues to push for rapid replacement of aging natural gas infrastructure, especially in Philadelphia and other older service areas, where thousands of miles of old cast iron and unprotected steel lines are considered “at risk.” Just last month the PUC approved a mechanism to expedite Philadelphia Gas Works pipeline replacement plan significantly, from 86 years to approximately 55 years. On a dollar basis, companies like UGI Gas and Columbia have increased expenditures on pipeline replacement by more than 100% since 2010. These companies are now on pace to replace all at-risk pipe by 28 and 14 years respectively.

The Commission also continues its expanded oversight of gas and hazardous liquids pipelines across the state, as authorized by The Gas and Hazardous Liquids Pipelines Act (Act 127 of 2011). Working in conjunction with the federal Department of Transportation’s Office of Pipeline and Hazardous Materials Safety Administration (PHMSA), the PUC enforces the federal pipeline safety regulations involving a number of different categories of pipelines, such as cooperatively owned natural gas distribution systems, non-utility natural gas transportation and gathering lines, and propane distribution pipeline systems. The Commission also maintains a registry of all gas and hazardous liquids pipeline operators within the state.

Currently, the PUC has 15 gas safety inspectors who are responsible for inspecting 46,000 miles of distribution pipeline, 3,000 miles of transmission pipeline, and 1,300 of Act 127 non-jurisdictional pipeline. I am proud to convey that last year the PUC

received the results of a 2014 PHMSA performance evaluation. PHMSA gave the PUC a perfect score in its evaluation of our enforcement of federal pipeline safety regulations. These results will help bolster our case for continued federal funding. However, as I noted earlier in my remarks, our budget includes the proposed hiring of two additional gas safety inspectors to assist with our efforts to effectively monitor the safety of this burgeoning industry.

The Commission also has a strong voice in the work of the Governor's Pipeline Infrastructure Task Force, where I chair the Pipeline Safety and Integrity Working Group. The draft report, which will include more than 180 recommendations, is being finalized for delivery to the Governor this month. I envision the report will include a number of practical recommendations, including supporting modifications to the existing PA One Call program.

The PUC continues to promote enhancements to the PA One Call programs, aimed at reducing the number of "hits" on underground lines. These hits are a threat to the safety of workers and bystanders, and can impact the cost and reliability of utility service.

PA One Call requires people to call 8-1-1 before they dig as a safety precaution and to prevent damage to underground infrastructure, but current and proposed future exemptions can compromise the effectiveness of the law. Additionally, we believe that the transfer of enforcement authority from the Department of Labor & Industry (L&I) to the PUC will increase enforcement of PA One Call, curb the number of underground line hits, improve public safety, and reduce costs associated with line hits for utilities, excavators and ultimately utility customers. I encourage you to support these PA One Call legislative initiatives, which are contained in HB 445, as well as the inclusion of an amendment to remove the exemption related to crude oil or natural gas production and gathering lines, or facilities associated with conventional oil and gas wells.

The flow of resources used to produce energy across Pennsylvania is not just occurring by pipeline, but also by rail – something that is a concern for communities across our state, for you, and for the PUC. Approximately 70 trains cross through Pennsylvania each week carrying millions of gallons of Bakken Shale crude oil. Working in partnership with the Federal Railroad Administration (FRA), PUC rail safety inspectors work to ensure the safe movement of trains throughout the state by checking tracks, equipment, operating practices, signals, grade crossings and the handling of hazardous materials.

Currently, we have eight rail safety inspectors (one vacancy) responsible for 5,600 miles of railways located in the Commonwealth. Over this past year, we have worked to fill vacancies in our rail safety inspection unit, and the budget request before you includes the hiring of two additional inspectors – increasing our complement by 25 percent and going beyond recommendations included in the Governor’s August 2015 Assessment of Crude By Rail Safety Issues in Commonwealth of Pennsylvania report. Our goal, working with FRA, is to ensure that our rail network is safe for transporting all cargoes – from crude oil to people – so communities and industries across the state can continue to benefit from the positive economic impact that rail transportation provides.

Equally important, especially concerning infrastructure, is our access to water. It is almost impossible to watch the news without being reminded of the precious nature of drinking water – underscored by issues like the long-running drought in western states or the current water quality crisis in Flint, Michigan.

In Pennsylvania, the water industry has changed dramatically over the past 20 years. Constituting more than 400 regulated water companies in the 1990s, the industry has now consolidated down to approximately 90 regulated companies– with only a handful of large and mid-size companies serving much of the state. Still, we have a huge range of diversity; from small community-based Acorn Water Company serving 21

customers to Pennsylvania American Water Company serving over 650,000 Pennsylvanians.

Challenges in the water industry come via many forms: aging systems, compliance with water quality regulations, stress on rates for wastewater companies, and small “stranded” companies operating in isolated regions. Solutions come in many forms as well: including a Best Practices Group, a Small Water Company Task Force working to share information, highlight potential problems and develop coordinated solutions, as well as the authority under Act 11 to merge rates for wastewater and water utilities.

The final safety and reliability issue that is front-and-center for the PUC involves the relatively new and wide-reaching concern about cybersecurity. According to the U.S. Director of National Intelligence, cybersecurity is the number one security threat worldwide, ranking higher than terrorism, espionage, and weapons of mass destruction.

In October 2015, the Commission released the second edition of its Cybersecurity Best Practices for Small and Medium Pennsylvania Utilities. The report stresses cooperation between agencies and companies, and reminded all stakeholders of the interdependency among utility sectors, from both physical and cybersecurity perspectives. You may be interested to know that the PUC is working with the Federal Energy Regulatory Commission (FERC) on Cybersecurity issues. FERC is developing a pilot program with the PUC staff on ways to identify, analyze, and respond to cyber concerns. This program is being provided at no cost to Pennsylvania. Suffice it to say, we take cyber-security seriously and are working to prepare our agency and our utilities to mitigate the threat it poses.

The Commission is also attentive to ways that services - both those provided by the PUC and innovative developments in the marketplace - for Pennsylvania consumers can be enhanced. These include broadband availability, the modernization of transportation services, energy shopping, and the deployment of advanced electric meters.

Access to high-speed Internet connections continues to be a national and statewide topic for discussion. This past August I testified before the House Consumer Affairs Committee concerning HB 1417 – a legislative proposal to continue the state universal service fund through at least January 2022. At its core, universal service is about helping more people afford basic telephone service – especially in high-cost/rural areas. Last year, Pennsylvania telecommunication carriers received \$66 million in support to provide service to over 571,000 low-income customers. Without our state fund, service might be unavailable to some consumers or the rates could be far higher. And, at the federal level, our country is moving to support a lot more than basic voice. Universal service for broadband access to the internet is on the horizon.

Chapter 30 requires the Commission to maintain universal telecommunications service at affordable rates and to strike a balance between mandated deployment and market-driven deployment of broadband. Chapter 30 also requires all participating incumbent carriers to make broadband available as of December 31, 2015 at .128 Mbps up and 1.5 Mbps down. All carriers met that standard by 2013 except for Verizon. In its August 2015 filing Verizon stated that broadband was now 99.54% available. Its last compliance filing, due in March of this year, is on track to show 100% availability.

It is important to note that the landscape surrounding this issue is changing rapidly, especially on the federal level. The PUC has offered a number of suggestions for addressing the interaction between state and federal universal service efforts, with an eye toward ensuring that Pennsylvania voice and broadband services for low-income and rural consumers continues to benefit from these initiatives.

Additionally, the Commission has a commitment to educating consumers about how they can potentially reduce their energy costs. This includes the ongoing upgrades our PAPowerSwitch and PAGasSwitch websites. Drawing over one million visitors per year, these sites provide an intuitive interface where customers can obtain

information about how to shop, how to save, opportunities for energy efficiency, and research different types of rates and product offerings. The Commission is proud to convey that the PAPowerSwitch website has been highlighted by independent experts as a national model for retail energy shopping websites.

Another issue on our radar also focuses on competition and the Commission's efforts to modernize motor carrier regulations to address a number of items. These items include changes in the transportation industry, technological innovations, evolution in business operations, and shifts in consumer demand. Our goal is to accommodate consumer expectations while continuing to ensure that carriers demonstrate that they are technically and financially able to operate safely, reliably and legally.

As part of an ongoing comprehensive review of all regulations for transportation carriers, in 2015 the Commission adopted a proposed rulemaking that would eliminate the requirement that new applicants demonstrate their service will fulfill a public demand or need, while preserving vital safety and fitness related requirements.

The Commission also continues to encourage a legislative solution for issues raised about Transportation Network Companies, such as Uber, Lyft and others. These services, which currently operate across much of Pennsylvania under two-year experimental PUC authority, have challenged the traditional way that customers, regulators, and other transportation service providers think about moving people.¹

Consistent with the Commission's mandate under Act 129, Pennsylvania continues to make significant progress in the installation of advanced electric meters. Each of the seven major electric distribution companies in the state now have an approved plan to implement advanced meter roll-out. As of August 2015 more than two million meters were installed in the state. This represents 35% of the Commonwealth's meters. PECO is largely done, and the other electric distribution utilities will finish their

¹ The companies' temporary certificates expire on December 14, 2016.

meter installation projects by 2022 at the latest. The PUC's goal is to assure that all parties get the best value out of this investment. That means using meter information for more than just incumbent utility reliability management and more efficient utility operations, but also for third-party company innovations such as time-of-use rates and demand response implementation.

Finally, while we tackle the regulatory and oversight responsibilities of today, the Commission is also attentive to the challenges and opportunities of the future, such as: the impact and implementation of the Environmental Protection Agency's Clean Power Plan, energy efficiency and conservation initiatives, the role of renewable generation, our responsibility for collecting and distributing Act 13 impact fee funds, ensuring staff diversity, and utilizing the Public Utility Code as an effective tool for balancing the needs of utilities and consumers.

Regarding the Clean Power Plan, the Commission continues to evaluate the impact on both Pennsylvania's utilities and consumers, with a focus on two areas: (1) reliability and least-cost compliance and (2) energy efficiency and renewables.² We will continue to work with key stakeholders in the process, including the Department of Environmental Protection, which is the lead agency regarding PA's state implementation plan, PJM Interconnect, and the National Governor's Association for analysis and modeling of various alternatives. PJM's modelling results will be released at the end of May. The PUC will have a keen eye on these economic models.

In comments submitted by PUC to the DEP in November 2015, we encouraged the prioritization of Pennsylvania's indigenous energy resources, maintaining a diverse fuel mix and protecting of our position as a net energy exporter. We also underscored existing renewable requirements in the state's Alternative Energy Portfolio Standards, which requires 18 percent alternative energy by 2021. Further, we conveyed the ongoing success of Act 129's Energy Efficiency and Conservation programs, which

² The Clean Power Plan was stayed by the Supreme Court of the United States on February 9, 2016 pending litigation.

continue to reduce total consumption and peak demand, guided by new benchmarks commencing June 1st of this year.

The Commission has also scheduled a special *en banc* hearing in March to gather perspectives on alternative ratemaking. These alternatives, such as decoupling, involve re-thinking existing ratemaking principles to make the recovery of utilities' fixed costs less dependent on customer usage. Advocates suggest this could remove disincentives for greater energy efficiency and conservation by diminishing or removing the link between utility revenues and the volume of product sold.

The collection and distribution of Act 13 Impact Fees is another area where the PUC affects communities across the state. This past year more than \$223 million was disbursed to more than 1,400 counties, municipalities and affected state agencies. Over the past four years, the PUC has collected and distributed more than \$855 million in impact fees.

The Commission strives to make the process as transparent as possible, detailing all available information on our interactive Act 13 website. Using this tool, residents across the state can examine how these dollars have been distributed – and – in most situations, how those funds have been used on the local level. It is important to note that the PUC goes to great lengths to remind municipalities of their reporting requirements and filing deadlines, and our website streamlines the reporting process as much as possible. Unfortunately, a small number of municipalities do not submit their spending reports, or send late or incorrect data. We continue working to enhance this process, within the limits of Act 13, in order to make this information as useful as possible to the public. For instance, the PUC coordinates with statewide municipal associations to reach their membership with information about their reporting obligations – although I would emphasize that the ultimate responsibility for disclosure of Act 13 spending rests with individual municipalities.

Additionally, given the size of scope PUC's responsibilities, combined with the knowledge and skills of the Commission staff, we continue to have a strong voice among regional and national utility regulators. We are heavily involved in the Mid-Atlantic Conference of Regulatory Utilities Commissioners (MACRUC) – led by Commissioner Powelson, who is the Immediate Past President of that organization – along with the National Association of Regulatory Utility Commissioners (NARUC) – where Commissioner Powelson is currently First Vice President and will assume overall leadership in the fall of this year. With so many of issues – energy policy, transportation, rate structures, competitive markets and many more – impacting Americans far beyond Pennsylvania, it is important for us to be an integral part of national discussions on these matters.

Moving on, the PUC has a long history of being committed to diversity. I am proud to serve as the second African-American woman to chair the PUC, and my goal is to continue championing equality and opportunity in the workplace. In today's complex regulatory and business world I believe that it is imperative that the Commission continue to serve as a model for independent, ethical, and diverse leadership.

For the PUC to remain viable, it is essential that we continue to revisit the statutes and regulations that guide our work. Already today I have touched on a number of topics where change should be considered – from broadband access and pipeline safety to transportation technology and cyber threats. In our world, as in many other fields, there is no such thing as “keeping pace.” We either move ahead or we fall behind. That is why I have made it a priority to carefully and systematically revisit the Public Utility Code – looking ahead toward the needs of the future, so that important consumer and public safeguards will always remain viable in Pennsylvania.

In closing, I submit that the Commission will continue to work diligently to balance the interests of those involved in our utility marketplace. We thank you for your time and attention today, along with your careful consideration of our budget request. I

am confident that the PUC is well-positioned to tackle the wide range of issues before us.
My colleagues and I are at your service to answer any questions you may have.