

2008-2009 Biennial Budget

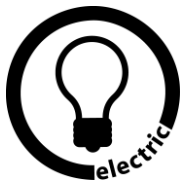
**Testimony by the Public Utilities Commission of Ohio
Alan R. Schriber, Chairman**

Before the Senate Finance Committee

May 22, 2007

PUCO MISSION:

**To ensure all residential and business consumers access
to adequate, safe, and reliable utility services at fair
prices, while facilitating an environment that provides
competitive choices.**



Chairman Carey, members of the committee, thank you for the opportunity to testify in support of the Public Utilities Commission of Ohio (PUCO) budget request today. My name is Alan Schriber, and I am the chairman of the Commission.

As you may know, the PUCO is governed by a chairman and four commissioners, who are appointed by the governor to staggered, five-year terms. The governor's selection is made from a list of names submitted by the PUCO Nominating Council, a broad-based 12-member panel charged with screening candidates for the position of commissioner. As chairman, I also act as the agency's director and chair the Ohio Power Siting Board, which reviews all applications for building major utility facilities in Ohio.

I am pleased to report that the PUCO's non-GRF budget request remained the same in both the Executive and House version of the bill. As you can imagine, I am here today to explain our budget request and ask that our budget remain as it is before you.

The PUCO employs a staff of about 400 professional accountants, auditors, engineers, economists, investigators and attorneys who work diligently to assist us in meeting our goals and serving the public. The PUCO is a non-General Revenue Fund (GRF) agency funded through assessments to the utilities, as well as through fees generated by motor carrier registrations and federal program assistance. It is important to let you know that the PUCO budget received no changes by the House of Representatives.

Although the PUCO is a non-GRF agency, we believe it is important to demonstrate to the legislature and the Governor that the PUCO is sensitive to budgetary constraints. We also understand that the public-at-large does not know about such things as "non-GRF" and that perceptions are very important. Therefore, we have made downward adjustments in our spending consistent with what we perceived to be prudent management techniques.

Since FY03, the PUCO has maintained a flat line budget and has not requested an increase in appropriations. Our annual operating budget is approximately \$39 million. In addition to our operating budget, we receive more than \$8 million in federal funding. For the past two years, the PUCO has contributed more than \$5.1 million to the GRF from

civil forfeitures and penalties against utilities that are not in compliance with Ohio's regulations.

In FY06, the PUCO received increased appropriations from the Controlling Board dedicated to the implementation of wireless enhanced 9-1-1 service in Ohio, which sunsets Dec. 31, 2008. Excluding the E9-1-1 fund and federal subsidies and transfers, the PUCO's budget includes a 2.2% increase in FY08 and a 3% increase in FY09.

The PUCO also supports the language included in the budget regarding household goods carriers or moving companies. The PUCO currently regulates the intrastate movement of household goods carriers. Those rules and regulations protect consumers when shipping household goods. A new federal statute allows the PUCO to enforce the same type of regulations against interstate carriers. The new federal language also allows Ohio to retain the civil forfeiture monies associated with the PUCO's enforcement to the benefit of Ohio's General Revenue Fund (GRF).

The PUCO is responsible for overseeing public utility industries, including electric, natural gas, pipelines, telephone, water, railroad, hazardous material carriers and commercial transportation carriers, including ferryboats, buses, towing companies and household goods carriers. The PUCO is the only state agency charged with ensuring that essential utility services are safe, reliable and adequate. Our expert staff regularly inspects utility facilities around the state to ensure that utility wires, pipes and equipment are safe and well-maintained.

The PUCO also sets service standards to protect customers from such things as poor service quality, unfair denial or disconnection of service, or long waits for repair or installation of service. The PUCO staff monitors compliance with these standards through customer complaints and on-site inspections. When violations are found, the PUCO can order corrective action to be taken and can fine utilities for non-compliance.

When I first served on the Commission in the early 1980s, we began to address the issue of competition in the utility industry. At that time, the primary focus on competition in

the utility regulatory environment revolved around the transition in the long distance telephone industry. However, since that time, utility markets have continued to evolve and, today, competition in utility sectors has been initiated in trucking, natural gas, local telephone and electricity. Over the last few years, the PUCO has made great strides in the development of a number of these markets in Ohio while ensuring that service reliability remains a top priority.

As we look to the future, the PUCO will continue to vigilantly monitor the evolving utility markets that have become increasingly more complicated with competition. It is essential that the PUCO closely track utility activities to ensure that consumers are protected, state laws are enforced and that an atmosphere conducive to furthering Ohio's economic development continues. As competitive utility options have increased, we have improved our call center database to increase our ability to monitor the performance of individual companies and the utility markets in general.

The PUCO serves all customer classes: commercial, industrial and residential. Recently, the number of small businesses looking to the PUCO for utility information and assistance has grown. The PUCO has the authority and enforcement power to resolve complaints directly between the consumer and the utility and between competitive providers. Our staff is well-trained to carry out this function. It is through our contact with customers and the inspections of PUCO investigators and auditors that we have been alerted to and acted upon violations of our service standards.

Even in those utility markets where choice is available, the PUCO sets and enforces minimum service standards to ensure that competitive pressures do not degrade the quality of utility service and customers will be protected against unfair business practices, like slamming which is having your telephone service provider switched without your consent. To help protect against "fly-by-night" operations, the PUCO licenses competitive telephone and electric providers and approves codes of conduct for natural gas providers.

More than 3,700 cases are filed at the PUCO each year; these cases include formal complaint proceedings, certifications for operating authority, rulemakings, tariff filings and all other cases. Attached to my testimony is a flow chart illustrating how a complaint case and a rulemaking proceeding might become a finalized Commission order. We often get questions about this process as it resembles more of a legal proceeding than the legislative process of a bill becoming law.

The PUCO oversees the service quality of more than 400 telephone companies in Ohio with about 7.5 million telephone lines. Recently, the PUCO adopted new Minimum Telephone Service Standards. These standards ensure that, regardless of competitive market conditions, the quality of telephone services in Ohio, for both residential and business customers, is adequate and reliable.

The PUCO continues to work closely with each Ohio county to implement wireless enhanced 9-1-1 (E9-1-1). The wireless E9-1-1 law became effective in 2005 and gives the PUCO the authority to work with stakeholders to implement and fund the provisions of wireless E9-1-1, a feature that provides callers with added security in the event of an emergency. In the past, only 9-1-1 calls made from landline phones provided a callback number and the address or location of the caller. The new law provides E9-1-1 capabilities and makes the callback number and the location of a wireless caller available to emergency responders.

More than half of the counties in Ohio have applied for E9-1-1 funding and are in the process of upgrading their systems. Attached to my testimony is a map of Ohio that illustrates the status of E9-1-1 upgrades in each Ohio county.

The PUCO's motor carrier program ensures quality and equitable service for public and commercial carriers in Ohio. Our comprehensive program of carrier registration and insurance filing, data collection through audits and inspections and issuance of civil forfeiture fines for safety and rule violations, among other things has been both effective and efficient. The PUCO's hazardous materials inspectors examine and audit motor carriers to ensure safety on Ohio roadways. PUCO inspectors regularly conduct audits,

inspections and safety reviews to evaluate motor carriers' safety records, policies and procedures.

Railroad grade crossing safety is also a high priority at the PUCO. Since 1990, motor vehicle/train crashes at grade crossings in Ohio have declined significantly. This improvement has been achieved during a period of steady increase in the amount of train traffic and in the number of registered motor vehicles and licensed drivers in Ohio. Each year, the PUCO authorizes funding for the installation of lights and gates at about 100 grade crossings across Ohio. The PUCO Web site contains a comprehensive database of every highway-rail crossing in Ohio. Our Railroad Information System allows anyone to search for a crossing based on county, type of crossing, position of crossing and status.

The natural gas industry is a complex network of companies that produce, transport and distribute natural gas. In Ohio, more than 3 million people use natural gas. The PUCO oversees more than 54,000 miles of distribution lines which provide natural gas to individual users, as well as more than 6,000 miles of transmission lines. As you know, natural gas customers in Ohio can choose the provider of their natural gas. The PUCO's *Apples to Apples* natural gas rate comparison charts are updated regularly and provide gas supplier information in each service territory. The charts are routinely the most sought after information on our Web site.

The electric industry consists of three main components; generation, transmission and distribution. As many of you know, Senate Bill 3 (SB 3) was signed into law in 1999 and allowed for competition in electric generation. SB 3 also provided a five-year market development period lasting from Jan. 1, 2001 to Dec. 31, 2005. During this period, rates were frozen in order to allow a competitive wholesale market to take shape.

Since electric choice began in 2001, the PUCO has been working hard to facilitate a competitive electric market in Ohio. However, a fully competitive market has not developed as quickly as envisioned. As a result, the PUCO developed plans to secure the future of Ohio's retail electric market.

As the end of the market development period neared, the PUCO grew concerned that the limited number of competitive electric suppliers and low degree of market activity were an indication that an immediate shift to market-based rates in 2006 would not be in the best interest of customers. To minimize the effects of rate “sticker shock” and gradually transition customers to market-based rates, the PUCO worked with all interested stakeholders to develop rate stabilization plans (RSPs). These plans, coupled with other recent rate modifications, eliminate market uncertainty and provide customers with stable, predictable rates.

As many of you may recall, the Ohio Legislature supported the establishment of RSPs in a report issued in October 2003 encouraging the PUCO to “continue to take the necessary steps ... to ensure that a healthy competitive market is in place before full electric competition begins.” RSPs are in place for American Electric Power (AEP), Dayton Power and Light (DP&L), Duke Energy Ohio and FirstEnergy. The RSPs have been challenged at the Ohio Supreme Court and while parts of these RSPs have been remanded back to the PUCO, the Court preserved the most important elements.

There is significant evidence demonstrating that the prices customers are paying now under the RSPs are less costly than those that would result from market-based prices. Recent events in other states including Maryland and Illinois also support this point.

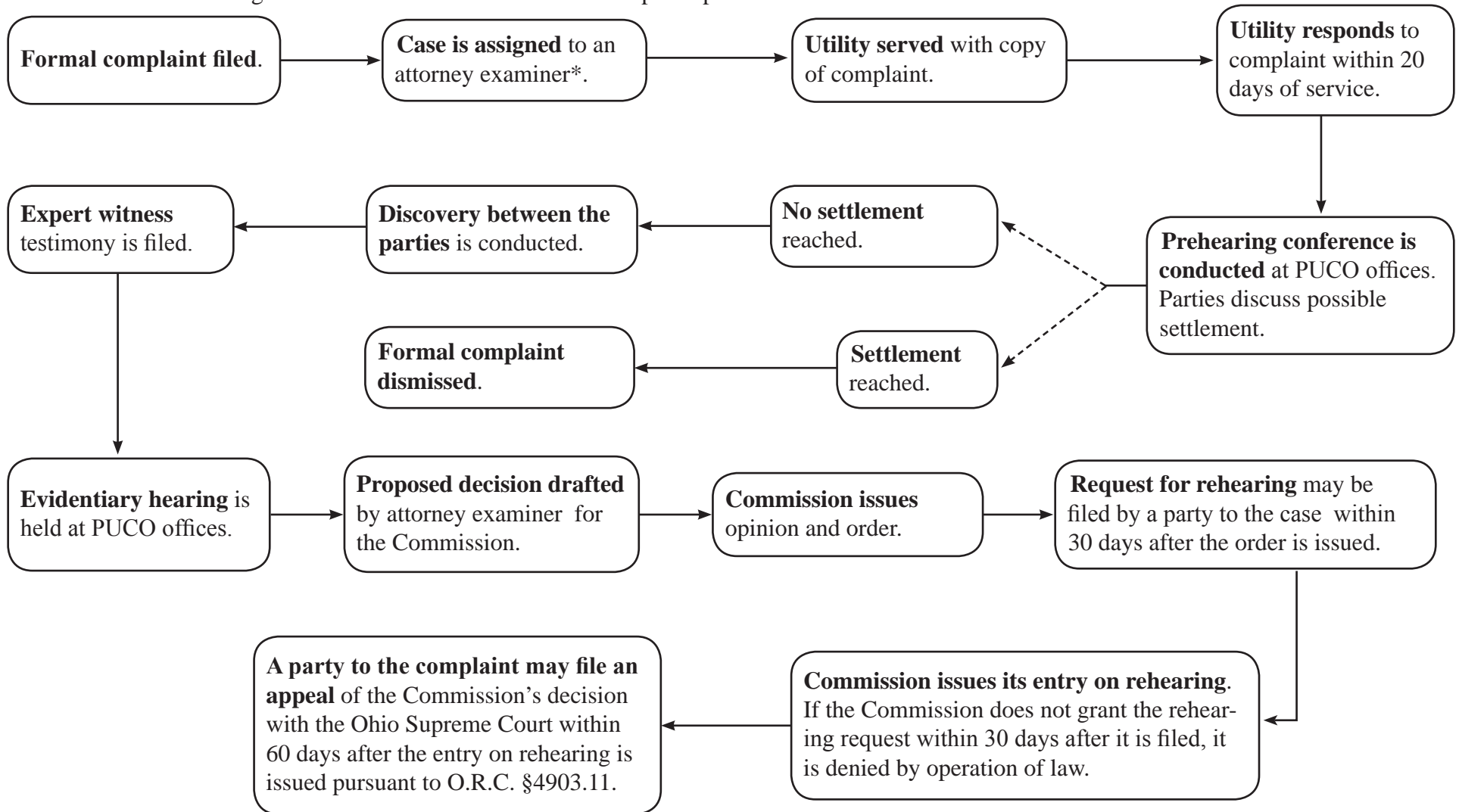
Thank you for the opportunity to appear before you today. We look forward to working with you to continually improve our service to the citizens of Ohio.

Chairman Carey, if you or members of the committee have questions, I would be happy to answer them.



PUCO Formal Complaint Process

The PUCO operates a call center staffed by professionals trained to resolve issues between consumers and utility companies. In most cases, the PUCO’s call center staff are able to help the consumer and utility reach an agreement over the concern at hand. From time to time, however, the consumer will choose to file a formal complaint if a solution cannot be worked out. The following chart outlines the PUCO’s formal complaint process.



* PUCO attorney examiners perform the duties of an administrative law judge.



PUCO Administrative Code Rule Review Process

Each Ohio Administrative Code rule must be reviewed every five years and sent to the Joint Committee on Agency Rule Review (JCARR). The following chart outlines the process the PUCO uses to review its rules and make any necessary changes.

