

**PECO ENERGY COMPANY
STATEMENT NO. 5**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY
FOR APPROVAL OF ITS
SMART METER TECHNOLOGY PROCUREMENT AND
INSTALLATION PLAN

DOCKET NO. M-2009-2123944

DIRECT TESTIMONY

WITNESS: ALAN B. COHN

SUBJECT: PECO ENERGY COMPANY'S SMART
METER PROGRAM – COST RECOVERY
AND COST ALLOCATION

DATED AUGUST 14, 2009

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1 Regulatory Affairs Division. Since that time, I have held various management
2 positions in PECO's Rates and Regulatory Affairs Department and Strategic
3 Planning Department, where I have responsibility for managing base rate case
4 filings, cost of service studies and financial and economic analyses.

5 **5. Q. Have you testified previously before this Commission or other regulatory**
6 **bodies?**

7 A. Yes. I have testified in regulatory proceedings before the Pennsylvania Public
8 Utility Commission (the "Commission"), the Federal Energy Regulatory
9 Commission and the Maryland Public Service Commission. A list of the
10 cases in which I have submitted testimony is attached as Exhibit ABC-1.

11 **6. Q. What is the purpose of your direct testimony?**

12 The purpose of my testimony is four-fold. First I will provide a brief
13 overview of the cost recovery provisions of the Commission's Implementation
14 Order concerning smart meter procurement and installation ("Implementation
15 Order"). Second, I will explain PECO's proposal for recovering the cost of its
16 smart meter plan. Specifically, I will describe the proposed Section 1307(f)
17 cost recovery mechanism that the Company proposes to implement at the
18 conclusion of this proceeding to recover the net costs of providing smart meter
19 technology. In addition, in this section, I will discuss changes the Company
20 may propose in a subsequent base rate case to the way all meter and meter
21 reading costs are recovered. The third area of my testimony will address how
22 the cost of PECO's smart meter plan is to be allocated among customers.

1 Finally, I sponsor the Company's responses to the Commission's standard
2 filing requirements for new tariffs.

3 **7. Q. Are you sponsoring any exhibits?**

4 A. Yes, I am sponsoring the following exhibits:

- Exhibit ABC-1 List Of Prior Testimony
- Exhibit ABC-2 Example Of Net Recoverable Cost Calculation
- Exhibit ABC-3 Tariff Supplement For Proposed Cost Recovery Mechanism
- Exhibit ABC-4 Tariff Rule 14.10 For Customer-Requested Smart Meters
- Exhibit ABC-5 Estimated Impact On Residential Customers
- Exhibit ABC-6 Responses To The Filing Requirements Set Forth At 52 Pa. Code § 53.52

5 **II. IMPLEMENTATION ORDER – COST RECOVERY PROVISIONS**

6 **8. Q. Does Act 129 provide any guidance on how the costs of implementing a**
7 **smart meter plan are to be recovered from customers?**

8 A. Yes. Act 129 of 2008 (“Act” or “Act 129”) expressly provides that an Electric
9 Distribution Company (“EDC”) is entitled to full and current recovery of the
10 costs associated with implementing a smart meter system, net of any
11 operational and capital benefits the system will create. Act 129 allows an
12 EDC to recover its net costs: (1) on a current basis through a Section 1307
13 reconcilable surcharge; or (2) in base rates with authority to defer costs
14 incurred between base rate cases. The EDC can choose which recovery

1 method it will use. These provisions of Act 129 are also discussed in the
2 Implementation Order.

3 **9. Q. Which cost recovery methodology has the Company decided to**
4 **implement?**

5 A. The Company proposes to use a Section 1307 mechanism to recover the net
6 cost of its smart meter plan. As proposed by PECO, the Section 1307
7 mechanism will provide full and current recovery of PECO's costs incurred
8 during the implementation and deployment of the smart meters, the associated
9 network and meter data management system. The Company will project the
10 costs to be recovered each year. Then the Company will track its actual costs,
11 compare those costs to its revenue under the surcharge for the same period and
12 make an appropriate adjustment to reconcile costs and revenues in subsequent
13 filings. Thus, the Company will make a filing each year to establish the
14 surcharge and to reconcile the prior year's costs and revenues. The Section
15 1307 mechanism provides a good method of achieving full and current
16 recovery during the smart meter implementation period. However, when the
17 system is fully deployed, it will be appropriate to roll smart meter program
18 costs into PECO's base rates.

19 Additionally, pending full deployment, the Company is considering proposing,
20 in a subsequent base rate case, removing all meter and meter reading costs
21 from its base rates and recovering those costs through a Section 1307
22 mechanism. Under this method, the avoided cost benefits arising from

1 ceasing operations of the current system would flow to customers
2 automatically. Once the new smart meter system is fully deployed, the meter
3 and meter reading costs would be rolled back into base rates.

4 **10. Q. How does the Implementation Order describe the smart meter costs that**
5 **an EDC is entitled to recover?**

6 A. The Implementation Order provides a general description of recoverable costs,
7 which include the capital costs of investments in “equipment and facilities”
8 needed to implement the smart meter plan, operating expenses for all plan
9 elements and plan-related “administrative costs.” The capital costs include
10 “depreciation, return and taxes associated with the capital investment.”
11 Administrative costs, as defined in the Implementation Order, include, but are
12 not limited to, incremental costs associated with “plan development, cost
13 analysis, measurement and verification and reporting.” Other expenses such
14 as “testing, upgrades, maintenance and personnel training” and stranded costs
15 attributable to the current system also are recoverable.

16 **III. COSTS TO BE RECOVERED UNDER PECO’S PLAN**

17 **11. Q. Has PECO identified the costs of providing smart meter technology that**
18 **it will seek to recover?**

19 A. Yes. PECO’s costs of providing smart meter technology, along with the
20 associated benefits that would be realized from deploying that technology are
21 identified in Exhibit APK-1 and explained in the testimony of Ms. Ann P.

1 Kelly. Exhibit APK-1 provides the estimated costs, by year, for the period
2 from 2010 to 2012, broken down between capital and expense. As required
3 under the Implementation Order, all of the costs and benefits identified in Ms.
4 Kelly's testimony are shown (1) as meeting the minimum requirements under
5 Act 129; and (2) separately, for the remote connection feature, which is the
6 only enhanced meter requirement that has an incremental cost as compared
7 with the base meter requirement.

8 **12. Q. Does the Implementation Order allow recovery of any other costs?**

9 A. Yes, the Implementation Order also permits recovery of stranded costs.
10 Stranded costs can be incurred if meters or other assets that are replaced are
11 not yet fully depreciated. In that case, the Implementation Order allows EDCs
12 to recover accelerated depreciation on those assets. In addition, PECO might
13 incur stranded costs in connection with its current contract with a third-party
14 metering provider. While the Implementation Order encourages EDCs to
15 implement their plans in a way that minimizes stranded costs, there may be
16 variables, such as deadlines for expending Stimulus Act funds, which make it
17 difficult and uneconomic to avoid incurring stranded costs. The Company's
18 implementation plan will be designed to minimize stranded costs.

19 **13. Q. Is any other information required in order to calculate the annual**
20 **recoverable costs?**

1 A. Yes, other required information includes the annual depreciation rate for new
2 meters and related investments and the cost of capital that will be used to
3 calculate the return on investment. The depreciation rate used for meters and
4 for the network and communication system is based upon the estimated useful
5 life of that equipment. PECO will use 15 years for all of the smart meter
6 system except capitalized information technology and software for which it
7 will employ a five-year life. The cost of capital will be based upon the
8 Company's capital structure and embedded costs of debt and preferred stock at
9 the time of each annual update of the surcharge. The return on equity will be
10 calculated at the equity cost rate determined in the Company's last base rate
11 case prior to the annual update. If the Company files a rate case during the
12 effective period of a surcharge, the new, allowed return on equity would be
13 reflected as of the effective date of the rates established in that case, when
14 calculating the true up for the then current year's costs.

15 **14. Q. Earlier, you discussed stranded costs. Will PECO have stranded costs?**

16 A. As discussed in Ms. Kelly's direct testimony, PECO believes that there are
17 two possible categories of stranded costs. First, the Company's existing
18 investment in meters is being depreciated over an average remaining life of
19 approximately 12 years. Because the deployment period for smart meters is
20 shorter than the average remaining life of PECO's existing meters, there will
21 be stranded meter assets. The amount of stranded costs is PECO's investment
22 in existing meters that will not have been recovered at the time the smart

1 meters are installed. Second, the Company currently has a contract with
2 Landis + Gyr for its existing AMR system, under which certain recoverable
3 stranded costs may arise.

4 **15. Q. How will these stranded costs be reflected in PECO's proposed cost**
5 **recovery mechanism?**

6 A. The un-recovered investment associated with the early retirement of existing
7 meters will be reflected as accelerated depreciation of PECO's existing
8 system. Also, any recoverable stranded costs arising from the contract with
9 Landis + Gyr will be reflected as a reduction in the benefits achieved by the
10 smart meter plan.

11 **16. Q. Could the Company avoid stranded costs by adjusting the smart meter**
12 **implementation period?**

13 A. Possibly. However, PECO is seeking a grant from the U.S. Department of
14 Energy through the American Recovery and Reinvestment Act of 2009
15 ("Stimulus Act") and, if funding is awarded to the Company, it will be
16 required to spend the Stimulus Act funds by the deadline specified by the
17 Stimulus Act rules. To the extent the benefit of any Stimulus Act funds
18 exceeds the stranded costs, it makes economic sense to incur the stranded
19 costs because the net cost to customers would be less.

20 **17. Q. Has the Company reflected the incremental costs and benefits of**
21 **additional functionalities, as required by the Implementation Order?**

1 A. As noted in Ms. Kelly's testimony, the only additional functionality that
2 results in an incremental cost is the remote connection feature. The cost of the
3 remote connection feature is included in the cost of the meters and will be
4 reflected in the smart meter surcharge. The operational benefits of this
5 functionality include avoided connection costs and reduced charge offs. As
6 these savings are difficult to track, the Company proposes to calculate the cost
7 recovery charge using an agreed upon savings amount, which will not be
8 reconciled.

9
10 In addition to those operational benefits, the remote connection feature also
11 provides societal benefits that automatically flow through to the benefit of
12 customers and that are not reflected in the calculation of recoverable costs.
13 These include a reduction in unbilled energy charges due to the ability to
14 disconnect hard-to-reach meters that currently have continuous service and
15 avoided reconnection charges. The societal benefits flow through to
16 customers through lower reconnection fees or reduced purchased power costs
17 in the case of continuous service. Because these benefits automatically flow
18 through to customers, they are not reflected in the 1307 surcharge. At the time
19 of a base rate case, the operational benefits of this functionality would be
20 rolled into base rates, while the societal benefits would continue to flow
21 through to customers automatically.

1 18. Q. **Have you developed an example to show how recoverable costs will be**
2 **calculated?**

3 A. Yes, Exhibit ABC-2 provides an example of the calculation of recoverable
4 costs.

5 19. Q. **Please describe the calculation of recoverable costs.**

6 A. The actual costs of the smart meter plan are provided in Ms. Kelly's
7 testimony. Exhibit ABC-2 illustrates the conversion of those costs to revenue
8 requirement for developing the smart meter surcharge. As shown on page 1
9 of Exhibit ABC-2 the revenue requirement consists of the following
10 components: (1) operating and maintenance ("O&M") expenses; (2)
11 depreciation; (3) return on ratebase; (4) Impact of flowing through accelerated
12 tax depreciation for Pennsylvania state income tax purposes; (5) stranded
13 costs; (6) avoided costs and other benefits; and (7) a gross up for gross
14 receipts tax. Each calculation is described below and included in Exhibit
15 ABC-2, pages 1a to 1g.

16 **O&M Expense**

17 This element is the incremental expense associated with the new smart meter
18 system. This includes administrative costs, operational costs for the meters,
19 testing, the costs of the customer acceptance program and other expenses. As
20 shown on page 1a of Exhibit ABC-2, the only O&M expenses included for
21 2010 are the costs of plan development, project management and internal

1 labor. To the extent the Company receives any Stimulus Act grant for
2 operating expenses, it will be treated as a credit to this component of the
3 revenue requirement.

4 **Depreciation**

5 This is the annual depreciation on the new investments. Most investments
6 have a 15-year book life with the exception of information technology costs,
7 which have a five-year life. Page 1b of Exhibit ABC-2 shows that in 2010 all
8 investment is information technology and has a five-year book life.

9 Depreciation starts once the investment is placed in service. The example in
10 Exhibit ABC-2 assumes a January 1, 2010 in service date.

11 **Return on Ratebase**

12 This element reflects a return on the net investment at the Company's cost of
13 capital. Also reflected in this amount are the income taxes associated with the
14 equity portion of the cost of capital. The return or pre-tax weighed average
15 cost of capital is calculated as described earlier in my testimony. The
16 components of the weighted average cost of capital are shown on Exhibit
17 ABC-2, page 1g. Prior to being placed in service, any capital expenditures
18 will accrue an allowance for funds used during construction.

19 **State Tax Flow Through**

20 The capital investment included in the ratebase receives the benefit of
21 accelerated tax depreciation. Pennsylvania requires the flow through of the
22 benefit of accelerated tax depreciation used in calculating state income taxes.

1 This component reflects the flow through of those deductions. The calculation
2 of this component is shown on page 1c of Exhibit ABC-2.

3 **Stranded Costs**

4 This component reflects the recovery of the stranded costs of the current meter
5 system that is incurred with the implementation of the new system. This
6 includes the accelerated depreciation of the existing system. The first year of
7 the surcharge includes stranded costs associated with meters that are being
8 installed in the Phase One of the Company's plan. The value is shown on
9 page 1d of Exhibit ABC-2.

10 **Avoided Costs and Other Benefits**

11 This component reflects the benefits associated with any costs avoided by
12 installing the new smart meter system. Also included here are any benefits
13 associated with the system such as those associated with the remote connect
14 feature of the meter. As noted in Ms. Kelly's testimony, there are no avoided
15 costs or benefits in 2010.

16 **Ratebase**

17 Also shown in Exhibit ABC-2 is the derivation of the ratebase. The ratebase
18 includes five components. They are: (1) gross plant; (2) accumulated
19 depreciation, 3) a credit for any Stimulus Grant, 4) accumulated deferred
20 income taxes from accelerated depreciation, 5) accumulated deferred taxes
21 from the Stimulus Grant.

1 **Gross Plant**

2 This component reflects the investment in smart meters, the network,
3 communication system and any other capital investment required in the plan.
4 The first year completed investment consists primarily of software and other
5 information technology costs. The components of gross plant are shown in
6 Exhibit ABC-2, page 1e.

7 **Accumulated Depreciation**

8 This represents the depreciation on the gross plant investment recorded to the
9 date of the calculation.

10 **Stimulus Grant/Accumulated Deferred Taxes – Stimulus grant**

11 This is a credit to the ratebase for any funds received under the Stimulus Act
12 specifically for this project. Such funds will be treated as a contribution in aid
13 of construction (“CIAC”). Stimulus Act funds are taxable, so deducting the
14 full amount from ratebase would not be appropriate. Consistent with CIAC
15 treatment, the taxes paid on the grant will be deferred and netted against the
16 credit from the grant. The deferred tax asset will be reduced to zero over the
17 tax life of the assets funded by the grant. Exhibit ABC-2, page 1f shows the
18 calculation of this ratebase component.

19 **Accumulated Deferred Income Taxes – Accelerated Depreciation**

20 Consistent with standard ratemaking practices, any tax benefits associated
21 with accelerated tax depreciation that are deferred are deducted from ratebase

1 when calculating the return on ratebase. An illustrative calculation is provided
2 in Exhibit ABC-2, page 1f.

3 The example provided in Exhibit ABC-2 assumes all capital is incurred on
4 January 1. All capital related costs, such as depreciation and state tax flow
5 through, are assumed to be incurred in equal monthly amounts during the year
6 and all O&M is incurred equally throughout the year. Returns are calculated
7 on the monthly rate base. The total recoverable costs are the sum of the 12
8 monthly revenue requirements.

9 IV. THE SMART METER COST RECOVERY RIDER

10 **20. Q. Have you prepared a tariff supplement that contains PECO's proposed**
11 **Smart Meter Cost Recovery Rider?**

12 A. Yes, the form of PECO's proposed Smart Meter Cost Recovery Rider is
13 provided in Exhibit ABC-3. The rider will establish a non-bypassable charge
14 under Section 1307 of the Public Utility Code to apply to the bills of all
15 customers whether they purchase default service from PECO or purchase
16 generation from an electric generation supplier. As shown from the formulas
17 and definitions set forth in the Smart Meter Cost Recovery Rider, the rider is
18 designed to recover, on a full and current basis, all of PECO's incremental
19 costs to provide, operate, and maintain smart meter technology.

20 **21. Q. Will the Smart Meter Cost Recovery Rider be a separate line item on a**
21 **customer's bill?**

1 A. No. Since the charge will not vary with electricity usage, the charge will be
2 included in the customer-charge component of a customer's bill. This is
3 consistent with the way metering costs are treated for ratemaking purposes.

4 **22. Q. Please describe how the proposed surcharge will be calculated.**

5 A. The proposed surcharge will be designed to recover the incremental costs of
6 the smart meter program. The costs will be projected for one year and reduced
7 by any expected benefits or avoided costs. The costs will include any
8 operating expenses associated with the smart meter system and the related
9 network and meter data management system, depreciation associated with the
10 capital investment, taxes, return on the capital investment (less accrued
11 depreciation and accumulated deferred income taxes) and any stranded costs.
12 The costs associated with capital investment will become recoverable when
13 the plant funded by that investment goes into service. Any avoided costs or
14 direct benefits will be deducted from the total costs to obtain the net costs to
15 be recovered. The surcharge that will apply in any year will be calculated on
16 the basis of the total estimated net costs to be incurred during that year. The
17 total costs will be allocated among the rate classes to develop the rate. A rate
18 will be developed for each class by dividing the costs for the class by the
19 number of customers in the class and dividing by 12 to derive the monthly
20 charge.

21 **23. Q. What benefits does the Company expect to reflect in the surcharge?**

1 A. As discussed in Ms. Kelly’s testimony, in the early years of the plan, the
2 benefits will be limited because the Company already achieves many of the
3 operational benefits provided by smart meters. Additionally, because the
4 Company’s existing contract for meter and meter reading services extends to
5 October 2014, there will not be significant avoided costs from the current
6 system. To the extent there are avoided capital and operating expenses, they
7 will be reflected in the estimated costs and, ultimately, in calculating any over
8 or under recovery of plan costs.

9 **24. Q. What is the proposed timing of the calculation of the surcharge?**

10 A. The calculation of the surcharge will be filed with the Commission by October
11 1 each year, with an effective date of January 1 of the following year. Any
12 over or under recovery will be based upon the 12-month period ending August
13 30 and will accrue interest at the statutory rate of 6%. Additionally, a
14 preliminary filing will be made by August 30 of each year to provide sufficient
15 time for a Section 1307(e) hearing and the Commission’s review process (*i.e.*,
16 120 days in total). The August 30 filing will contain an estimate of the over
17 and under collection. The actual over or under collection will be provided in
18 the October 1 filing.

19 **25. Q. How will the “E” factor or reconciliation component be calculated?**

20 A. Since the Smart Meter Cost Recovery Rider revenue is based upon estimated
21 costs and an estimated number of customers, an annual true up or

1 reconciliation will be necessary. The reconciliation will compare on a
2 monthly basis the revenue actually collected under the rider to the monthly
3 revenue requirement. Any difference between the revenues and the revenue
4 requirement will be an over or under collection, whichever is applicable. As
5 noted above, 6 % interest will be paid or received on over or under collections.
6 Interest will be calculated from the month of over or under collection to the
7 mid-point of the year in which it is to be refunded or recouped.

8 **26. Q. Have you provided an example of the calculation of the Smart Meter Cost**
9 **Recovery Surcharge?**

10 A. Yes. Exhibit ABC-2 shows the mechanics of the surcharge calculation. The
11 values used in the calculations are for illustrative purposes only.

12 **27. Q. Please briefly describe the calculations in Exhibit ABC-2.**

13 A. The first step in calculating the surcharge is to determine the recoverable
14 costs, which are used in the table on page 1 of Exhibit ABC-2 and allocated
15 among residential, small commercial and industrial, and large commercial and
16 industrial customer classes. The allocated costs are used on page 3 of Exhibit
17 ABC-2 to calculate a rate for the year. As shown on that page, the rate has
18 three components:(1) "C" factor or current cost; (2) "E" factor or true-up
19 factor for the prior year over or under recovery; and (3) the interest on any
20 over or under recovery. Of course, the initial calculation would only have the
21 C factor component. Going forward, an over or under recovery will be

1 calculated each month, as illustrated on page 4 of Exhibit ABC-2. The
2 monthly over or under amount is calculated by comparing actual revenue
3 produced by the surcharge to the actual monthly revenue requirement.
4 Calculations will be performed separately for each of the three groups.

5 **28. Q. How will the Company handle costs incurred before the surcharge takes**
6 **effect?**

7 A. The Company is deferring costs incurred prior to the date the surcharge goes
8 into effect. Such expenses, including the costs of developing the plan, will be
9 recovered in the first surcharge period. The Company currently estimates the
10 costs of the approval process at about \$1 million, which consists of \$600,00
11 for consultants, \$200,000 for legal fees, and \$200,000 for information
12 technology costs. Additionally the Company may advance expenditures
13 currently projected for 2010 into 2009 to accelerate the plan development
14 process. Such expenditures will also be deferred for recovery in the surcharge
15 since they will be incurred prior to the effective date of the cost recovery
16 mechanism.

17 **29. Q. Have you estimated the impact on customers of the proposed cost**
18 **recovery mechanism?**

19 A. Yes. Exhibit ABC-5 provides estimates of the impact on a residential
20 customer's bill under two scenarios. The first scenario is based upon the
21 Company's proposed Phase One plan, which calls for an initial installation of

1 100,000 meters. The second scenario assumes that PECO receives a Stimulus
2 Act grant allowing it to deploy 600,000 meters over the same timeframe. As
3 shown in the table in Exhibit ABC-5, the increase starts at about 0.5 % in
4 2010 and peaks at about 2.5% in 2014. In the event a Stimulus Act grant is
5 awarded, the percentages are 1.0% and peaks at about 2.1% in 2014.

6 **30. Q. Will the proposed Smart Meter Cost Recovery Rider be subject to audit?**

7 A. Yes, consistent with the requirements of Section 1307(d) of the Pennsylvania
8 Public Utility Code, the surcharge will be audited on an annual basis.

9 **31. Q. Are there any other changes to the tariff necessary?**

10 A. Yes, Act 129 requires that the Company install a smart meter for any customer
11 that requests one after the grace period, even if the request is made prior to the
12 universal deployment but after the thirty (30) month grace period. In
13 accordance with the Implementation Order, the requesting customers must pay
14 the incremental cost of that installation. Such payments will be made prior to
15 the installation and will be treated as CIAC. As shown in Exhibit ABC-4, the
16 Company is adding Rule 14.10 to its tariff to implement this requirement.

17 **32. Q. How will the Company determine the incremental cost to charge the**
18 **customer?**

19 A. The incremental cost will be the difference between the actual cost to install a
20 meter and the average installation cost per meter in the mass deployment

1 scenario. There will be no additional cost for the meter because the customer
2 would ultimately have a meter installed in any case. However, the Company
3 will incur an additional cost to install the meter outside of the planned
4 installation schedule.

5 **33. Q. Has the Company estimated this incremental cost?**

6 A. Yes. The estimated cost to install a meter as part of the mass installation is
7 \$24. The standard cost for installing a meter under normal replacement
8 scenarios is approximately \$40. Thus, the customer would pay the difference
9 of \$16, adjusted for gross receipts tax (or \$17), to have a smart meter installed
10 early. In the case of more complex meter systems, the customer will have to
11 pay an amount based upon an hourly labor rate, net of the cost under the
12 universal implementation. Additionally, depending upon the final network
13 design implemented, the Company may have to assess an additional fee on
14 customers opting for a smart meter outside of the normal deployment. The
15 Company will address this issue in a later filing once the vendor selection
16 process is completed and the final design is selected.

17 **34. Q. Will the Company also have to replace its current AMR system for**
18 **natural gas?**

19 A. Possibly. If the Company does have to replace all of its natural gas meters, it
20 will seek recovery of the costs of that replacement in a manner similar to that
21 proposed for electric smart meters. Such a request may be made in PECO's

1 next gas base rate case. As with its electric meters, the Company may, in its
2 next gas base rate case, propose that all meter and meter reading costs be
3 recovered through a surcharge until the smart meter implementation is
4 completed.

5 V. ALLOCATION OF COSTS

6 **35. Q. Will the Smart Meter Cost Recovery charge be calculated separately for**
7 **each rate class?**

8 A. Yes. The Implementation Order provides that EDCs should assign the costs
9 of their smart meter programs to the customer classes that derive benefits from
10 the plan and, if such assignment is not possible, EDCs should use reasonable
11 cost of service principles to allocate the costs.

12 **36. Q. What allocation methodology is the Company proposing for the costs and**
13 **benefits?**

14 A. There are several different costs to be allocated, including the costs of smart
15 meters, the meter data management system, the network, administrative costs,
16 and stranded costs. In the case of smart meters, the costs will be assigned to
17 the different rate classes because residential, commercial and industrial meters
18 are priced differently. Consequently, an allocation across all customers would
19 not be appropriate. The meter data management system and the network,
20 however, benefit all customers. So, those costs should be allocated to the rate
21 classes based on customer count. Similarly, the administrative costs are

1 appropriately allocated to the rate classes based upon customer count. This
2 allocation is reasonable because no class benefits either more or less from the
3 administration of the program. Expenses associated with operating these
4 systems also should be allocated on a customer basis. The allocation of
5 stranded costs will follow the methodology for the underlying asset or
6 expense.

7 **37. Q. Has the Company provided an example of how the allocations will work?**

8 A. Yes. Exhibit ABC-2, which shows the calculation of the surcharge, also
9 provides an example of the proposed allocation methodology.

10 **38. Q. Will the reconciliation of the Smart Meter Cost Recovery Charge costs,
11 savings and revenue be calculated by rate class?**

12 A. Yes. A class-differentiated approach assures that the classes that benefit from
13 the program pay their fair share. Absent separate surcharges, an over or under
14 collection in one class could improperly benefit, or be borne by, another class.
15 The reconciliation process described earlier would be done once for each class
16 of service. Monthly costs and savings would be separated by class based upon
17 the allocation factors, and monthly class revenue would be the actual revenue
18 collected from each rate class.

Listing of Prior Case Testimony

Maryland

Conowingo Power Company Case No. 7982 – Revenue, expense, rate base and taxes
Conowingo Power Company Case No. 8352 – Revenue, expense, rate base and taxes

Federal Energy Regulatory Commission

Docket No. ER91-478 – Revenue, expense, rate base, taxes, cost of service and rate design

Pennsylvania

Docket No. R-891364 – Revenue, expense, rate base and depreciation
Docket No. I-900005 – Impact of demand side management on off-system sales
Docket No. R-922479 – Appropriate ratemaking treatment of SFAS 106
Docket No. R-973877 – Quantification of assets, jurisdictional allocation, revenue requirement and allocation of revenue requirement
Docket No. R-973953 - Quantification of assets, jurisdictional allocation, revenue requirement and allocation of revenue requirement
Docket No. C-20016610- Appropriate discount rate for use in determining a CTC buyout
Docket No. P-072260 – Appropriate cost recovery mechanism for providing full and current recovery of cost of complying with the Alternative Energy Portfolio Standards
Docket No. P-2008-2062739 – Default Service Tariff Changes
Docket No. P-2008-2062741 – Market Rate Transition Phase-In Rider and Cost Recovery
Docket No. M-2009-2093215 – Energy Efficiency and Conservation Plan, Avoid Cost Projections

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
 (\$ in thousands)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Residential													
O&M (a)	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 1,500
Depreciation (b)	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 3,600
Return on Rate Base (c)	\$ 283	\$ 278	\$ 274	\$ 269	\$ 265	\$ 274	\$ 256	\$ 252	\$ 247	\$ 243	\$ 239	\$ 234	\$ 3,102
State Tax Flow Through (d)	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 22	\$ 266
Stranded Cost (e)	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 1,167	\$ 14,000
Avoided Cost/Benefits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Revenue Requirements	\$ 1,896	\$ 1,892	\$ 1,888	\$ 1,883	\$ 1,879	\$ 1,875	\$ 1,870	\$ 1,866	\$ 1,861	\$ 1,857	\$ 1,853	\$ 1,848	\$ 22,468
Rate Base													
Gross Plant (f)	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000	\$ 36,000
Accumulated Depreciation (g)	\$ 300	\$ 600	\$ 900	\$ 1,200	\$ 1,500	\$ 1,800	\$ 2,100	\$ 2,400	\$ 2,700	\$ 3,000	\$ 3,300	\$ 3,600	\$ 36,000
Stimulus Grant (h)	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000	\$ 18,000
Acc. Def. Tax (Depreciation) (i)	\$ 70	\$ 140	\$ 210	\$ 280	\$ 350	\$ 420	\$ 490	\$ 560	\$ 630	\$ 700	\$ 770	\$ 840	\$ 8,400
Acc. Def. Tax (Grant) (i)	\$ 7,441	\$ 7,234	\$ 7,026	\$ 6,819	\$ 6,611	\$ 6,404	\$ 6,196	\$ 5,989	\$ 5,782	\$ 5,574	\$ 5,367	\$ 5,159	\$ 51,519
Net Rate Base	\$ 25,071	\$ 24,494	\$ 23,916	\$ 23,339	\$ 22,761	\$ 22,184	\$ 21,606	\$ 21,029	\$ 20,452	\$ 19,874	\$ 19,297	\$ 18,719	\$ 18,719

13.43%

Revenue Requirement By Class

	January	February	March	April	May	June	July	August	September	October	November	December	Allocator
Residential	\$ 1,704	\$ 1,700	\$ 1,697	\$ 1,693	\$ 1,689	\$ 1,685	\$ 1,681	\$ 1,677	\$ 1,673	\$ 1,669	\$ 1,665	\$ 1,661	Customers
Small C&I	\$ 188	\$ 188	\$ 187	\$ 187	\$ 187	\$ 186	\$ 186	\$ 185	\$ 185	\$ 184	\$ 184	\$ 184	Customers
Large C&I	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	Customers

(a) Refer to Exhibit ABC-2, page 1a
 (b) Refer to Exhibit ABC-2, page 1b
 (c) Equals average of prior month and current month net rate base * cost of capital; for January the prior month is assumed to be Gross plant less Stimulus Grant
 (d) Refer to Exhibit ABC-2, page 1c
 (e) Refer to Exhibit ABC-2, page 1d
 (f) Refer to Exhibit ABC-2, page 1e
 (g) Equal to prior month balance plus current month depreciation
 (h) assumes grant is 50% of gross plant
 (i) Refer to Exhibit ABC-2, page 1f; Assumes annual change accrues in equal monthly amounts for specific plant
 (j) Refer to Exhibit ABC-2, page 1g

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
(\$1,000)

Operating and Maintenance Expense	<u>2010</u>
Meter expense	
Communication Expense	
Meter data management system	
Network expenses	
Plan Approval expense	\$ 1,000
Project Management and Internal Labor	\$ 1,000
Stimulus Credit	\$ (500)
Total	\$ 1,500

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
(\$1,000)

Depreciation and Amortization	2010	Stimulus	Adjusted	Life	Annual
	<u>(1)</u>	<u>(2)</u>	<u>Gross Plant</u>	<u>(4)</u>	<u>Depreciation</u>
			<u>(3)= (1)-(2)</u>		<u>(5)= (3)/(4)</u>
Meters				15	
Communication Equipment				15	
Meter data management system				15	
Network				15	
IT support and Software	\$ 36,000	\$ 18,000	\$ 18,000	5	\$ 3,600
Remote Connect				15	

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
(\$1,000)

State Tax Flow Through	Tax basis	Tax Depn	SL Depn	Excess Depn	Flow Through	Revenue Requirement
	(1)	(2)	(3)=(1)-(2)	(4)	6.493% (5)=(4)*.06493	(6)=(5)/(1-.41493)
Tax Life 3 Years	\$ 18,000	\$ 6,000	3600	\$ 2,400	156	266
Tax Life 5 Years						
Tax Life 10 years						
	\$ 18,000	\$ 6,000	\$ 3,600	\$ 2,400	\$ 156	\$ 266

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
(\$1,000)

Stranded Cost	<u>2010</u>
Accelerated Depreciation(a) Minimum read requirement Early Replacement Penalty	\$ 14,000
Total	\$ 14,000

(a) per Testimony of Ann P. Kelly

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
(\$1,000)

Gross Plant	<u>Gross Plant</u>	<u>Stimulus Grant</u>
	(1)	"(2)=(1)*Grant%
Meters		
Communication Equipment		
Meter data management system		
Network		
IT support and Software	\$ 36,000	\$ 18,000
Remote Connect		
Total	\$ 36,000	\$ 18,000

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010
(\$1,000)

Accumulated Deferred Taxes - Plant	<u>Tax basis</u>	<u>Tax Deprn</u>	<u>SL Deprn</u>	<u>Excess Deprn</u>	<u>Deferred</u>
	(1)	(2)	(3)=(1)-(2)	(4)	35.000% (5)=(4)*35%
Tax Life 3 Years	\$ 18,000	\$ 6,000	3600	\$ 2,400	840
Tax Life 5 Years					
Tax Life 10 years					
Total Year End balance	\$ 18,000	\$ 6,000	\$ 3,600	\$ 2,400	\$ 840
Accumulates in equal monthly amounts					

Accumulated Deferred Taxes - Stimulus grant	<u>Tax basis</u>	<u>Tax Deprn</u>	<u>Deferred</u>
	(1)	(2)	41.493% (3)=(2)*41.493%
Tax Life 3 Years	\$ 18,000		\$ 7,649
Change during 2010	\$ 18,000	\$ 6,000	\$ 2,490
Year End balance			\$ 5,159

Starting balance is \$5737 with equal monthly changes to get to \$3869
 CIAC is taxable and the deferred tax reverses as tax depreciation is taken

PECO Energy Company
Summary of Recoverable Revenue Requirements
for the 12 Months Ending December 31, 2010

	Capital Ratio (1)	Cost (2)	Weighted Cost (3) = (1) * (2)	Tax Gross up Factor (c) (4)	Revenue Requirement (5) = (3) / (4)
Debt	0.4350	0.0580 (a)	0.0252	1.00000	0.0252
Preferred Stock	0.0174	0.0476 (a)	0.0008	0.58506	0.0014
Common Stock	<u>0.5476</u>	0.1150 (b)	0.0630	0.58506	<u>0.1076</u>
Total	1.0000				0.1343

(a) Based on year end 12/31/08

(b) For the purpose of determining the ROE for this Act 129 1307 recovery mechanism, the Company proposes to use the capital structure and cost of debt and preferred at the end of 2008 and the ROE claimed in the last rate case

(c) (1-t) = 1-0.41494 = 0.58506

	<u>Amount</u>	<u>\$/Customer</u>	
(1)	\$ 20,192,817	\$1.19549	p. 3 of 6
(2)			
	\$ -	\$0.00000	p. 4 of 6
	\$ -	\$0.00000	p. 5 of 6
	\$ -	\$0.00000	
(3)	\$ 20,192,817	\$1.19549	
(4)	16,890,876		
(5)	Smart Meter Recovery Projected Rate: (3) / (4)	\$1.1955	

Residential C-Factor Month	Total Revenue Requirements	Estimated Customer Count	Project Rate \$/Customer
	(1)	(2)	(3) = (1) / (2)
Jan-10	\$ 1,704,443	1,407,573	
Feb-10	\$ 1,700,496	1,407,573	
Mar-10	\$ 1,696,549	1,407,573	
Apr-10	\$ 1,692,602	1,407,573	
May-10	\$ 1,688,655	1,407,573	
Jun-10	\$ 1,684,708	1,407,573	
Jul-10	\$ 1,680,761	1,407,573	
Aug-10	\$ 1,676,814	1,407,573	
Sep-10	\$ 1,672,867	1,407,573	
Oct-10	\$ 1,668,920	1,407,573	
Nov-10	\$ 1,664,973	1,407,573	
Dec-10	\$ 1,661,026	1,407,573	
Estimated Recovery C-Factor	\$ 20,192,817	16,890,876	\$ 1.20

2009 Budget data used for usage forecast

Residential E-Factor Period	Total Revenue Requirements	Customer Count	Expenditures Recovered in Base Rates	Over / (Under) Base Recovery	E-Factor Rate	E-Factor Revenue	Over/(Under) Recovery	Cumulative Over/(Under) Recovery
Jan-10 (Est)	\$ 1,704,443	1,407,573	\$ 1,689,088	\$ (15,356)	\$ -	\$ -	\$ (15,356)	\$ (15,356)
Feb-10 (Est)	\$ 1,700,496	1,407,573	\$ 1,689,088	\$ (11,409)	\$ -	\$ -	\$ (11,409)	\$ (26,765)
Mar-10 (Est)	\$ 1,696,549	1,407,573	\$ 1,689,088	\$ (7,462)	\$ -	\$ -	\$ (7,462)	\$ (34,226)
Apr-10 (Est)	\$ 1,692,602	1,407,573	\$ 1,689,088	\$ (3,515)	\$ -	\$ -	\$ (3,515)	\$ (37,741)
May-10 (Est)	\$ 1,688,655	1,407,573	\$ 1,689,088	\$ 432	\$ -	\$ -	\$ 432	\$ (37,309)
Jun-10 (Est)	\$ 1,684,708	1,407,573	\$ 1,689,088	\$ 4,379	\$ -	\$ -	\$ 4,379	\$ (32,929)
Jul-10 (Est)	\$ 1,680,761	1,407,573	\$ 1,689,088	\$ 8,326	\$ -	\$ -	\$ 8,326	\$ (24,603)
Aug-10 (Est)	\$ 1,676,814	1,407,573	\$ 1,689,088	\$ 12,273	\$ -	\$ -	\$ 12,273	\$ (12,330)
Sep-10 (Est)	\$ 1,672,867	1,407,573	\$ 1,689,088	\$ 16,221	\$ -	\$ -	\$ 16,221	\$ 3,891
Oct-10 (Est)	\$ 1,668,920	1,407,573	\$ 1,689,088	\$ 20,168	\$ -	\$ -	\$ 20,168	\$ 24,058
Nov-10 (Est)	\$ 1,664,973	1,407,573	\$ 1,689,088	\$ 24,115	\$ -	\$ -	\$ 24,115	\$ 48,173
Dec-10 (Est)	\$ 1,661,026	1,407,573	\$ 1,689,088	\$ 28,062	\$ -	\$ -	\$ 28,062	\$ 76,235
	\$ 20,192,817	\$ 16,890,876	\$ 20,269,051				\$ 76,235	

2009 Budget data used for usage forecast

Total Recovery E-Factor \$ 76,235

Residential E-Factor Period	Over / (Under) Recovery	Interest Rate	Interest Time Factor	Interest		Cumulative Interest
				(1)	(2)	
Jan-10 (Est)	\$ (15,356)	6%	18/12	\$	(1,382)	\$ (1,382)
Feb-10 (Est)	\$ (11,409)	6%	17/12	\$	(970)	\$ (2,352)
Mar-10 (Est)	\$ (7,462)	6%	16/12	\$	(597)	\$ (2,949)
Apr-10 (Est)	\$ (3,515)	6%	15/12	\$	(264)	\$ (3,212)
May-10 (Est)	\$ 432	6%	14/12	\$	30	\$ (3,182)
Jun-10 (Est)	\$ 4,379	6%	13/12	\$	285	\$ (2,897)
Jul-10 (Est)	\$ 8,326	6%	12/12	\$	500	\$ (2,398)
Aug-10 (Est)	\$ 12,273	6%	11/12	\$	675	\$ (1,723)
Sep-10 (a)	\$ 16,221	6%	10/12	\$	811	\$ (912)
Oct-10 (a)	\$ 20,168	6%	9/12	\$	908	\$ (4)
Nov-10 (a)	\$ 24,115	6%	8/12	\$	965	\$ 960
Dec-10 (a)	\$ 28,062	6%	7/12	\$	982	\$ 1,943
Total	\$ 76,235			\$	1,943	\$

**PECO Energy Company
Summary of Allocation Factors
for the 12 Months Ending December 31, 2010**

Customer Allocation

	Customer Count	Ratio %
Res	1,407,573	89.9%
SC&I	155,509	9.9%
LC&I	3,084	0.2%
Total	1,566,166	100.0%

Direct Assignment

Applies in cases where the expense or capital can be determined to be specific to a rate class such as meters

SMART METER COST RECOVERY SURCHARGE

(C)

Purpose: The purpose of this surcharge is to provide for full and current cost recovery of all incremental costs associated with the Company's PaPUC-approved Smart Meter Program.

Applicability: The surcharge shall be a per-customer charge calculated to the nearest one cent, which shall be added to the fixed distribution rates for billing purposes for all customers with metered service. The rate shall be calculated separately for each customer class (residential, small commercial and industrial, and large commercial and industrial).

Billing Provisions: The surcharge shall be calculated on an annual basis using the following formula:

$SM(n) = (C+E+I)/R(n)$ where;

C – the incremental cost of the Company's Smart Meter Program. These costs shall include the following:

Capital and expense items relating to all plan elements, equipment and facilities, as well as incremental administrative costs and the cost of the Company's customer acceptance program. Specifically, these costs shall include, but are not limited to, the capital costs of capital expenditures for any equipment and facilities required to implement the Smart Meter Program, including depreciation, a return on the un-depreciated investment, and taxes, as well as operating and maintenance expenses. The rate of return to be used in calculating capital costs shall be at the Company's weighted average cost of capital. The return on equity used in developing the weighted average cost of capital shall be that allowed by the Commission in the Company's last base rate case. Administrative costs shall include incremental costs related to plan development and approval, cost analysis, measurement and verification, reporting, testing, upgrades, maintenance and personnel training plus any other incremental cost necessary to implement the PaPUC-approved Smart Meter Program. Costs recoverable under this surcharge shall also include cost, whether capital or expense that is stranded due to the implementation of the approved Smart Meter Program. Any reductions in operating expenses or avoided capital expenditures due to the Smart Meter Program will be deducted from the incremental costs of the Smart Meter Program to derive the net incremental cost of the Program that is recoverable. Such reductions shall include any reductions in the Company's current meter and meter reading costs.

SM(n) = smart meter cost for procurement class n including over or under recovery and associated interest.

E – The estimated over or under recovery from the prior year. The reconciliation period shall be the 12 months ended August 31.

I – Interest on any over or under recovery balance. Interest shall be a rate of 6% and shall be calculated from the month of over or under collection to the mid-point of the recovery period.

n – rate class where: 1 = residential, 2 = small C&I, 3 = large C&I
 Residential – Rates R, RH, OP
 Small C&I – Rate GS,
 Large C&I – Rates HT, PD, EP

R – The total delivery service customers for the rate class for the application period where the application period shall be the 12-month period commencing on January 1 after the reconciliation period.

Filing Schedule: The estimated surcharge shall be filed by October 1 of each year to be effective on the following January 1. The application period shall be the 12 months that start the January 1 effective date of the surcharge. The Bureau of Audits shall audit the data in the surcharge on an annual basis.

(C) Indicates Change

RULES AND REGULATIONS (continued)**14. METERING**

14.1 SUPPLY OF METERS. An EGS that is also an AMSP may provide Advanced Meter Services in accordance with the Electric Generation Supplier Coordination Tariff (C). Otherwise, subject to Rules 14.3 and 14.9, the measurement of service for billing purposes shall be by meters furnished and installed by the Company. The Company will select the type and make of metering equipment to be used for meters supplied by the Company, and may, from time to time, change or alter the equipment. It is the Company's sole obligation to supply meters that will accurately and adequately furnish data for billing purposes. In fulfilling its obligations with respect to metering and meter reading, and with respect to AMSPs that provide Advanced Meter Services, the Company will comply with Electric Generation Supplier Coordination Tariff.

14.2 SPECIAL MEASUREMENTS. The Company shall have the right, at its option and its own expense, to place demand meters, reactive-component meters, or other instruments, on the premises of any customer except for any customer for whom an AMSP is providing Advanced Meter Services, for the purpose of measuring the demand and/or the power factor, or for other tests of all, or any part, of the customer's load.

14.3 CUSTOMER REQUEST FOR SPECIAL METER. If a customer for whom the Company is providing either metering and meter reading wishes to replace its billing metering equipment, to the extent technically possible, the Company may offer, provide and support a selection of qualified meters and may perform installation within a reasonable amount of time at the expense of the customer. The customer must pay for any such metering equipment based on the net incremental cost of purchasing and installing the new metering equipment as approved by the Commission. The Company will own and maintain all such new metering equipment.

14.4 POWER FACTOR MEASUREMENT. For customers for whom the Company is providing metering and meter reading or Advanced Meter Services, the Company reserves the right to measure the power factor of the customer's load, either by test or by permanently installed instruments. For customers for whom an AMSP is providing Advanced Meter Services, the Company reserves the right to require such AMSP to measure the power factor of the load of the customer on the same basis the Company measures the power factor of customers for which the Company provides metering and meter reading or Advanced Meter Services.

14.5 REVERSE REGISTRATION. The Company may, by ratchet or other device, control its meters to prevent reverse registration.

14.6 ESTIMATED USAGE. The kilowatt-hours and billing demands to be paid for may be determined by computation instead of by measurement in the case of installations having a fixed load or demand value controlled to operate for a definite number of hours each day.

14.7 METER READING INTERVALS. The Company will read its meters at scheduled regular intervals of one month. Monthly customer usage will not be prorated for seasonality. For customers for whom it provides Consolidated EDC Billing or Separate EDC Billing, the Company will render standard bills for the recorded use of service based upon the time interval between meter readings. EGS & EDC charges shall be based on the EDC defined meter reading route schedules. Only those bills which cover a period of service of less than 27 days or more than 34 days will be prorated.

14.8 ESTIMATED USAGE. For customers for whom the Company provides meter reading or Advanced Meter Reading Services, the Company shall estimate the amount of service supplied to premises where access to the meter is not available or if such estimate is necessary, and to installations at remote locations when warranted by the type of installation, regularity of usage, or other circumstances. For customers for whom it provides Consolidated EDC Billing or Separate EDC Billing, the Company will render bills in standard form based on such estimate and so marked, for the customer's acceptance. Meter readings will be secured from time to time and billing will be revised when they disclose that the estimate failed to approximate the actual usage. For residential customers, an actual meter reading will be obtained at least every six months in accordance with Commission regulations.

14.9 CUSTOMER SELECTED ADVANCED METERS. A customer may request either PECO Energy or an AMSP to have an Advanced Meter installed and have Advanced Meter Services provided pursuant to the Electric Generation Supplier Coordination Tariff and any applicable rules adopted by the Commission. For an advanced meter to be deployed in the PECO Energy service territory, it must be included in the Commission's Advanced Meter Catalog, and indicated as eligible for deployment in the PECO Energy territory.

14.10 Once all necessary infrastructure is complete but not later than October 2012 a customer may request that PECO install a smart meter ahead of the planned schedule for their property; however, the customer must pay the incremental cost of installing the meter outside of the normal installation schedule. For residential and single phase commercial customers the cost is \$17. In the case of more complex meter arrangements the Company shall provide the estimated cost and the customer shall pay the cost prior to installation.

**PECO Energy Company
Smart Meter Plan
Estimated Impact on Residential Customers**

Estimated Cumulative Increase for Residential Customers			
<u>Scenario</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Base Proposal (100,000)	0.5%	2.0%	2.5%
Proposal with Stimulus Grant	1.0%	1.7%	2.1%

Responses to the Questions in 52 Pa Code Section 53.52

53.53(a)

1. The specific reasons for the change.

The change in the tariff is being requested to permit recovery of costs associated with the Company's smart meter implementation plan required under Act 129 of 2008.

2. The total number of customers served by the utility.

PECO has approximately 1,562,661 electric customers as of June 30, 2009.

3. A calculation of the number of customers, by tariff subdivision, whose bill will be affected by the change.

Approximately 1.563 million customers will be impacted by the change associated with cost recovery. As the Smart Meter Plan is mandatory for the Company and requires that all customers be impacted.

4. The effect of the change on the utility's customers.

The change associated with the cost recovery tariff will be reflected as an increase in the customer charge. The Company will file the proposed surcharge sixty (60) days before it becomes effective. The purpose of the Smart Meter Plan is to allow customers to manage their load more effectively, based upon price signals. The Plan is being implemented in accordance with requirements of Act 129.

5. The direct or indirect effect of the proposed change on the utility's revenue and expenses.

The cost recovery associated with the Smart Meter Plan will increase revenue in an amount equal to the increase in the annual revenue requirement resulting from implementation of the Plan.

6. The effect of the change on the service rendered by the utility.

PECO does not expect that the proposed tariff change will impact service other than to provide customers with a more effective way to manage their energy usage.

7. A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each.

The changes were made to implement the mandatory legal requirements set forth in Act 129.

8. Studies undertaken by the utility in order to draft its proposed change.

No specific studies were undertaken.

9. Customer polls taken and other documents, which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.

No customer polls were taken.

10. Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

The petition requesting approval of the Company's default service plan summarizes the implementation of the changes and references specific testimony, which provides further detail.

11. FCC, FERC, or Commission orders or rulings applicable to the filing.

The following orders are applicable to the filing.

Docket M-2009-2092655, Smart Meter Procurement and Installation