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December 8, 2009

VIA ELECTRONIC FILING

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2nd Floor
400 North Street
Harrisburg, PA 17120

**Re: Petition of Duquesne Light Company for Approval of its
Smart Meter Procurement and Installation Plan
Docket No: M-2009-2123948**

Dear Secretary McNulty:

Enclosed for filing please find the Main Brief of Duquesne Light Company in the above-referenced proceeding.

Copies have been served as indicated below and on the attached Certificate of Service.

Sincerely yours,

A handwritten signature in black ink, appearing to read "G. Jack", written over a rectangular stamp or box.

Gary A. Jack
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Enclosure

c: Administrative Law Judge Meehan (via E-Mail and Overnight Mail, including a CD)
See Service List (via E-Mail and U.S. First Class Mail)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

DUQUESNE LIGHT COMPANY :
Smart Meter Procurement and : Docket No. M-2009-2123948
Installation Program :

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Main Brief of Duquesne Light Company in the above-referenced proceeding has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant):

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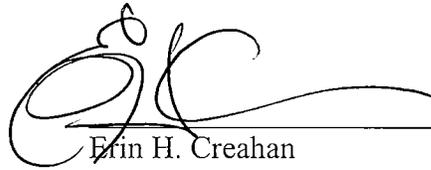
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Dated December 8, 2009

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DUQUESNE LIGHT COMPANY	:	
Petition for Approval of Smart	:	Docket No. M-2009-2123948
Meter Procurement and Installation	:	
Plan	:	

MAIN BRIEF OF APPLICANT
DUQUESNE LIGHT COMPANY

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Dated: December 8, 2009

TABLE OF CONTENTS

I.	Introduction.....	1
II.	Procedural History.....	4
III.	Overview of SMPI Plan.....	5
IV.	Summary of Argument.....	9
V.	Argument.....	9
A.	Duquesne’s SMPI Plan Meets the Requirements Set Forth By Act 129.....	9
1.	Duquesne’s Provision of Smart Meter Technologies To Customers.....	9
2.	Duquesne Satisfies Act 129’s Direct Access Requirements.....	9
3.	Duquesne’s Plan Will Enable Time-Of Use Rates and Real-Time Pricing Programs.....	10
4.	Duquesne’s Plan will Support the Automatic Control of Consumption.....	10
5.	Duquesne’s Plan Describes Its Proposed Cost Recovery Methods In Accordance With Act 129.....	10
B.	Duquesne’s Plan Meets the Requirements of the Implementation Order.....	11
1.	Duquesne’s Plan Meets the Commission Mandated Milestones.....	11
2.	Duquesne’s Plan Details its Current Deployment of Meters, And Plans For System Wide Deployment.....	12
a.	Current Meter Environment.....	12
b.	Future System-Wide Deployment.....	13
3.	Duquesne’s Plan Will Analyze the Required Minimum Capabilities.....	13

4.	Duquesne’s Plan Allows For Access to Interval Data and Early Deployment During the Grace Period.....	13
5.	Duquesne’s Plan Addresses Cost Recovery In Accordance with the Order.....	14
C.	Contested Issues Raised Regarding Duquesne’s SMPI Plan.....	16
1.	Data access.....	16
2.	Meters.....	18
3.	Project Timeline and Milestones.....	20
4.	Cost and Cost Recovery Issues.....	20
a.	Plan Cost issues.....	20
b.	Cost/benefit.....	21
c.	Cost Allocation.....	22
d.	Cost Recovery.....	24
i.	Smart Meter Charge.....	24
ii.	Return on Equity.....	26
iii.	Capital Structure.....	29
D.	Issues Raised and Accepted By Duquesne.....	31
VI.	Proposed Ordering Paragraphs.....	33
VII.	Conclusion.....	35

TABLE OF CITATIONS

66 Pa. C.S. § 2807(f).....1,2,9,35

66 Pa. C.S. § 2807(g).....1,2,12

Implementation Order, Docket No. M-2009-2092655, June 18,
2009.....1,2,3,4,5,6,9,11,12,13,16,18,19,34,35

Order, Petition of Duquesne Light Company for Approval of
Its Energy Efficiency and Conservation and Demand Response
Plan, Docket No., M-2009-2093217, Oct. 22, 2009.....26

Duquesne Light Company Rate Case,
FERC proceeding Docket No. EL06-109-000.....15,27

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

DUQUESNE LIGHT COMPANY :
Petition for Approval of Smart : **Docket No. M-2009-2123948**
Meter Procurement and Installation :
Plan :

**MAIN BRIEF OF APPLICANT
DUQUESNE LIGHT COMPANY**

AND NOW comes Applicant Duquesne Light Company (“Duquesne” or “Company”), and files its Main Brief in accordance with Administrative Law Judge Robert P. Meehan’s October 7, 2009 Prehearing Order, in the above-referenced Docket, Petition for Approval of Smart Meter Procurement and Installation Plan:

I. Introduction

On October 15, 2008, Governor Rendell signed into law Act 129 of 2008, which took effect on November 14, 2008 and, inter alia, mandated that EDCs file a smart meter procurement and installation plan with the Commission. See 66 Pa.C.S. § 2807(f), et seq. (“Act 129”). Each Pennsylvania EDC with at least 100,000 customers was required to file such plan with the Commission for approval within nine months after the effective date of Act 129, or by August 14, 2009. Id. at 2807(f)(1),(6).

Under Act 129, smart meter technology is defined as “technology, including metering technology and network communications technology capable of bidirectional communication, that records electricity usage on at least an hourly basis, including related electric distribution system upgrades to enable the technology.” Id. at 2807(g).

According to Act 129, an EDC is required to describe in its Plan the smart meter technologies that it will furnish: (1) upon request from a customer that agrees to pay the cost of the smart meter at the time of the request; (2) in new building construction; and (3) in accordance with a depreciation schedule not to exceed 15 years. Id. at 2807(f)(2).

Act 129 mandates that an EDC utilize technology that “shall provide customers with direct access to and use of price and consumption information.” 2807(g). The technology shall also: (1) [d]irectly provide customers with information on their hourly consumption[;] (2) [e]nable time-of-use rates and real-time price programs[;] [and] (3) [e]ffectively support the automatic control of the customer’s electricity consumption by [either] (i) the customer; (ii) the customer’s utility; or (iii) a third party engaged by the customer or the customer’s utility.” Id. Further, an EDC must, with customer consent, make available direct meter access and electronic access to meter data to third parties, including EGSs and conservation and load management providers. Id. at 2807(f)(3).

Finally, the Act defines cost-recovery methods, and provides that an EDC may “recover reasonable and prudent costs of providing smart meter technology...,” as determined by the Commission. Id. at 2807(f)(7). Such recovery includes annual depreciation and capital costs over the life of the technology, as well as the cost of any system upgrades that the EDC may require to enable the use of the technology which are incurred after the effective date, less operating and capital cost savings realized by the EDC from the installation and use of the technology. Id. The technology costs may be recovered either through base rates or a reconcilable automatic adjustment clause. Id.

To assist EDCs with the Act 129 requirements, the Commission issued an Implementation Order (hereinafter “Order”). Implementation Order, Docket No. M-

2009-2092655, June 18, 2009. Specifically, the Order recognized that full development and installation of the entire network will take significant time and effort, thus granted a Grace Period of 30 months following plan approval (“Grace Period”). Order, pgs. 6-7. During this Grace Period, however, EDCs are required to meet specific milestones, including: Assessment of needs and technological solutions; Selection of technologies and vendors; Establishment of network designs; Establishment of plans for training personnel; Establishment of plans for installation, testing and rollout of support equipment and software; Installation, testing and rollout of support equipment and software; Establishment of plans to design, test and certify EDI transaction capability; and Establishment of plans for installation of meters consistent with the Order. Order, pgs. 7-8. The Order required that each plan include a schedule to meet these milestones, including reporting deadlines. Order, p. 4, 8.

The Order mandated that each plan include a summary of the EDC’s current deployment of smart meter technology, if any, as well as a plan for future system - wide deployment, including plans to address new construction and cost information. Order, pgs. 3-4, 9-15. The Order also provided guidance regarding the minimum smart meter capabilities that the Commission believes all meters should accommodate, including: bidirectional data communications capability; remote disconnect and reconnect; ability to provide 15-minute interval data on a daily basis; a minimum of hourly reads delivered at least once per day; on-board meter storage; open standards and protocols that comply with non-proprietary standards; ability to upgrade minimum capabilities; ability to monitor voltage at each meter and report data; remote programming capability; communicate outages and restorations; ability to support net metering of customer-

generators; support automatic load control; support dynamic pricing programs; and provide customer direct access to consumption and pricing information (minimum within 48 hours, ideally every 24 hours), including sufficient EDI capabilities. Order, pgs. 15-28. However, the Commission similarly recognized that these suggested extended capabilities may not be feasible, given the associated costs, and thus reserved the right to waive or amend these proposed capabilities. Order, p. 17.

The Order also provided guidance regarding provision of an interval data capable meter during the Grace Period, and similarly access to interval data, and mandated that each EDC's plan address early deployment of smart meters during the Grace Period, including cost information. Order, p. 7, 10-12.

Finally, the Implementation Order provided guidance regarding cost recovery. The Commission has instructed an EDC to document all costs related to its plan, including administrative costs, capital expenditures, depreciation, operating and maintenance expenses, a return component based on the EDC's weighted cost of capital, and taxes. Also, the plan should include estimates for testing, upgrades maintenance and training. Order, p. 29. Because various requirements of the Order go beyond the requirements of Act 129, the Commission directed EDCs to file cost information, including vendor estimates, regarding the minimum meter capabilities set forth in the Order. Order, p. 29. To ensure that proper cost allocation takes place, once costs are determined, EDCs must allocate based upon class. Order, p. 32.

II. Procedural History

On August 14, 2009, Duquesne filed a petition seeking Commission approval of its Smart Meter Procurement and Installation Plan (hereinafter "SMPI Plan" or "Plan"),

pursuant to Act 129 and the Order. Petition, DLC Ex. A. Duquesne also requested authorization to recover the prudently incurred costs of the Plan. Accompanying this Petition were Duquesne's actual SMPI Plan Document and Budget, as well as the direct testimony of Duquesne witnesses Ruth A. DeLost and William V. Pfrommer. DLC Exs. A, C and D.

Petitions to Intervene were filed by Pennsylvania Association of Community Organizations for Reform Now ("ACORN"), Citizen Power, Constellation NewEnergy, Inc./Constellation Commodities Group, Inc. ("Constellation"), Department of Environmental Protection ("DEP"), Duquesne Industrial Intervenors ("DII"), Office of Consumer Advocate ("OCA"), Office of Small Business Advocate ("OSBA"), and Office of Trial Staff ("OTS"). The matter was assigned to Administrative Law Judge Robert P. Meehan. A Prehearing Conference was held on October 7, 2009. A Technical Conference was held on October 27, 2009, in Harrisburg, PA, with Administrative Law Judge Cocheres presiding. Testimony was filed by Duquesne, OTS, OCA, Constellation, OSBA, and DII. Evidentiary hearings were held on November 17, 2009 in Harrisburg, PA. Pursuant to the Prehearing Order, briefs are due on December 8, 2009, and Reply Briefs are due on December 22, 2009. The Implementation Order referenced an anticipated Initial Decision on or before January 29, 2010. Order, p. 6.

III. Overview of SMPI Plan

Duquesne's Plan was designed to meet the requirements of Act 129 and the Implementation Order. The Plan builds upon the Company's already Advanced Meter Reading ("AMR") system, which currently obtains interval reads on all Large C&I customers, and daily reads on over 90 percent of residential and small commercial

customers. However, as stated throughout Duquesne's filed documents, in many respects this is a "plan for a later plan." As recognized by the Commission in the Order with the established Grace Period, "EDCs will need time to develop and install the entire smart meter network." Order, p. 7. Thus, Duquesne feels that it would be imprudent for it to have assessed, evaluated, and decided all the major components of its smart meter plan at this juncture. However, it has provided information known to date demonstrating compliance, either now or in the future, with Commission requirements with respect to smart meters.

Duquesne sets forth in its plan a detailed framework for the analysis that will be conducted during the Grace Period to ultimately ensure a compliant, fully functioning, efficient and cost-effective smart meter network that benefits Duquesne's customers, EGSs and the electric grid as a whole. Additional information will be provided in future filings, as described in the Plan. Duquesne commits to provide a smart meter network that meets all Commission requirements within the designated timeframe.

Grace Period Analysis

Duquesne's plan details its network development and installation plan within the Grace Period. For planning purposes, the scope of work for the Grace Period is comprised of two major components: Component 1 – Billing and Metering System Upgrades, and Component 2 – Smart Meter Technology Infrastructure. In Component 1, Duquesne will focus on an upgrade to its existing billing and metering systems required to comply with smart meter requirements, utilizing the Oracle Utility's Practice project implementation methodology to address application functionality, pricing options mandated by the Act, business transformation, data conversion, deployment, interfaces,

IT infrastructure, project management, quality management, testing and training. This component is scheduled to begin upon approval of Duquesne's SMPI Plan (estimated to be in April of 2010) and to be completed in December of 2011. Duquesne requested that all aspects of Component 1 be approved as part of this filing. No party has raised any objection. It should be approved by the Commission.

With respect to Component 2, Duquesne will focus on technical infrastructure, process and systems to support the roll out of smart meters by year end 2012, including an analysis of virtually all functions within the Company that will support smart meter operation and functionality. During this component, Duquesne will perform a gap analysis between the current meter environment and the future smart meter environment, and will develop and implement solutions to result in a final functioning product, including selection of vendors, network design, customer education process, and internal training. This component is scheduled to begin upon Plan approval (estimated to be in April of 2010) and will be completed in the last quarter of 2012. This proposed process should be approved as part of this case. However, the results of the work of Component 2 will be submitted to the Commission at a later time for review and further direction, in subsequent filings within the Grace Period.

The Plan is further broken down by milestones. Duquesne will assess meter capabilities, in conjunction with its "smart meter capability cost benefit analysis and filing", including the extended capabilities identified in the Commission's Order. Duquesne will engage in a detailed analysis with respect to the milestone "assessment of needs and technological solutions and selection of technologies and vendors." In conjunction with this milestone, Duquesne will analyze communication mediums (e.g.

bidirectional - meter to in home and meter to collector, licensed or unlicensed, mesh or tower technology, etc.) and networks (data and security segregated systems and network devices). Further, Duquesne will look at the hardware and software that will be necessary for the smart meter rollout, including servers and data storage. Duquesne will review the various meter types/forms (i.e. by service type, whether the meter needs to be a booster, hub, collector, etc.) in conjunction with the necessary software and security parameters. Duquesne will analyze the various components that are tied to the meters and metering infrastructure, such as modems, cellular devices, load control interface equipment, and Home Area Network devices, among other things. Duquesne will design the network in conjunction with the milestone “Establishment of network designs,” and will go through a detailed process to design, test and certify EDI transactions and direct access, working through the EDEWG committee, in conjunction with the milestone “Establishment of plans to design, test and certify EDI transactions, Web Access and Direct Access capability.” Finally, once all of the analysis discussed above is complete, Duquesne will engage in the installation, testing and rollout of the network, and then the meters. All of this will be done in conjunction with comprehensive consumer education as well as employee education.

Future Filings

Duquesne’s filed plan proposed to make at least three¹ additional filings with the PUC for approval. They are:

July 1, 2010 –submit cost benefit analysis of meter capability

¹ OCA proposed an additional filing on or about March 31, 2011. Duquesne agrees that approval is needed for technology solutions, and the parties agree that it can be included in the filing already proposed for on or about December 31, 2010. Mudd Surrebuttal, OCA St. 1-SR, pp. 3.

Dec. 31, 2010 – submit the intended technology and design of the smart meter infrastructure

Dec. 31 2011 --- submit final details and smart meter implementation and schedule.²

IV. Summary of Argument

The Commission should accept and approve Duquesne’s SMPI Plan, as well as the reasonable and prudently incurred costs of the Plan, because it meets the requirements of Act 129, Section 2807(f) and (g), and meets the additional requirements set forth in the Implementation Order.

V. Argument

A. Duquesne’s SMPI Plan Meets the Requirements Set Forth By Act 129

Duquesne’s Plan meets all of the requirements set forth by Act 129, Section 2807(f) and (g).

1. Duquesne’s Provision of Smart Meter Technologies to Customers

During the Grace Period, Duquesne will furnish the same interval meters that are currently used by Large C&I customers to collect hourly reads for any customer requesting interval metering. This is part of Duquesne’s current Tariff. Plan, DLC Ex. A, pps. 9-10; DeLost Direct, DLC Ex. C, p. 11. This issue is discussed in more detail in B2, below.

2. Duquesne Satisfies Act 129’s Direct Access Requirements

Duquesne has committed to provide direct access to price and consumption information, as well as real time operational meter data, and commits to make this

² These dates are approximate, in light of many factors, including Commission approval, uniform decisions, progress, etc. Thus, the filings will be made “on or about” the dates proposed. Transcript, p. 105; DeLost Rebuttal, DLC Ex. C-R, p. 9.

information available first through EDI and the Web and then later through communication to in home devices or other downstream devices. Plan, DLC Ex. A, p. 12; DeLost Direct, DLC Ex. C, p. 17-18. This will be available to the customer as well as to the customer's authorized third party. Id. However, in order to achieve this, Duquesne will work through the Electronic Data Exchange Working Group (EDEWG) to develop appropriate transactions to meet applicable standards. Id.

3. Duquesne's Plan Will Enable Time-Of Use Rates and Real-Time Pricing Programs

Duquesne's plan will enable customers to participate in time of use programs, Real Time or Critical Peak Pricing programs. DeLost Direct, DLC Ex. C, p. 13.

4. Duquesne's Plan will Support the Automatic Control of Consumption

Duquesne's Plan will ensure that the meters and infrastructure employed will provide the data needed to enable customers or authorized third parties to control consumption. Plan, DLC Ex. A, 12; DeLost Direct, DLC Ex. C, p. 13.

5. Duquesne's Plan Describes Its Proposed Cost Recovery Methods in Accordance with Act 129

Duquesne has proposed to implement a Smart Meter Charge ("SMC") that provides for full and current cost recovery through a reconcilable automatic adjustment clause under Section 1307. Pfrommer Direct, DLC Ex. D, p. 4 and WVP-1 (tariff); Plan, DLC Ex. A, p. 37. This proposed charge complies with the requirements of Act 129 and the Commission's Order. Pfrommer Direct, DLC Ex. D, p. 14. The charge is designed to recover smart meter plant in service and operating expenses on a forward looking basis with quarterly filings and an annual reconciliation, and will align revenues with the

timing of expenditures. Pfrommer Direct, DLC Ex. D, p. 4; Plan, DLC Ex. A, p. 37. All incremental direct and indirect costs associated with implementing this new service will be captured in the SMC. Pfrommer Direct, DLC Ex. D, p. 5.

B. Duquesne's Plan Meets the Requirements of the Commission's

Implementation Order

Duquesne's Plan meets the additional requirements set forth by the Implementation Order.

1. Duquesne's Plan Meets the Commission Mandated Milestones

Duquesne has developed a detailed description of the activities that will be conducted to complete each milestone, along with a date for completion. Plan, DLC Ex. A, pps. 10–15; DeLost Direct, DLC Ex. C, pps. 10-11. Duquesne's schedule is as follows:

- Smart meter capability cost benefit analysis and filing- July 1, 2010
- Assessment of needs and technological solutions and selection of technologies and vendors and filing – December 31, 2010
- Establishment of network designs and filing- March 31, 2011
- Establishment of plans to design, test, and certify EDI transactions, web access and direct access – June 30, 2011
- Installation, testing and rollout of support equipment and software – September 30, 2011
- Establishment of plans for installation of meters, outside communications (customer education) and training – November 1, 2011
- Supplemental filing with costs – December 31, 2011

All of these milestones are described in more detail on pages 10 through 15 of the Plan document, DLC Ex. A and in the Technical Conference presentation.³ Additionally, Duquesne commits to file the required annual smart meter progress report on or about March 1 of each year after the Grace Period ends, pending Commission determination of a different filing date. DeLost Direct, DLC Ex. C, p. 18.

2. Duquesne's Plan Details its Current Deployment of Meters, And Future Plans For System Wide Deployment

a. Current Meter Environment

Duquesne currently has an advanced Automated Meter Reading (AMR) system implemented across its zone, and has had such a system since 1996-1998. Plan, DLC Ex. A, pps. 2-9; DeLost Direct, DLC Ex. C, p. 6-10. Duquesne currently obtains 15 minute interval reads, and summarizes to the hour, on all Large C&I customers with demands over 300 kw, and daily reads on almost 90% of its Residential and Small and Medium C&I customers. Plan, DLC Ex. A, pps. 5, 7. The remaining 10% are monthly reads picked up on the monthly bill cycle. Plan, DLC Ex. A, p. 5. Duquesne's current meter environment for Large C & I customers meets all of the requirements of Section 2807(g) and the Implementation Order, with the exception of remote connect and disconnect and billing functionality. Plan, DLC Ex. A, p. 7; DeLost Direct, DLC Ex. C, p. 9. However, Duquesne does not have the network, communications, bandwidth and systems in place to expand this zone-wide, thus Duquesne will be required to undergo significant analysis during the Grace Period. Plan, DLC Ex. A, p. 9; DeLost Direct, DLC Ex. C, p. 12-13.

³ These dates are approximate, in light of many factors, including Commission approval, uniform decisions, progress, etc. Transcript, p. 105; DeLost Rebuttal, DLC Ex. C-R, p. 9.

b. Future System-Wide Deployment

Duquesne's systems will require an overhaul in order to support the full roll-out of smart meters, which will be an important component of the 30 month Grace Period. Plan, DLC Ex. A, p. 9. Duquesne will utilize the Grace Period to engage in the analysis, design, vendor selection, planning and implementation for the systems, and will provide a system wide roll-out plan on November 1, 2011, in conjunction with its future reporting deadlines. DeLost Direct, DLC Ex. C, p. 13, 15.

3. Duquesne's Plan Will Analyze the Required Minimum Capabilities

The Order set forth minimum required capabilities for the smart meter technologies, but also recognized that such capabilities went beyond the minimum requirements set forth in Act 129, and thus indicated that such requirements may be waived. Order, pps. 15-28. EDCs were directed to perform a cost-benefit analysis on these issues and submit it to the Commission; the results of the analysis may result in Commission waiver of some of these requirements. Order, pps, 30 and 31.

Duquesne will analyze these various capabilities, and will file this cost benefit analysis on or before July 1, 2010. DeLost Direct, DLC Ex. C, p. 6, 18; Plan, DLC Ex. A, p. 10. Duquesne seeks a waiver from the Commission on this item. DeLost Direct, DLC Ex. C, p. 6, 18.

4. Duquesne's Plan Allows For Access to Interval Data And Early Deployment During the Grace Period

As discussed in detail in Sections VA1 (provision of smart meters) and

VA2 (direct access) above, Duquesne's Plan will satisfy this requirement. Note, however, that it is uncertain at this time which meters will ultimately be deployed post-grace period.

5. Duquesne's Plan Appropriately Addresses Cost Recovery

Given the significant analysis that will occur during the Grace Period, it is impossible for Duquesne at this point to fully identify all costs that will be incurred in conjunction with full deployment of the smart meter technology and system. Pfrommer Direct, DLC Ex. D, p. 3-4. Such information will be provided in future filings. Duquesne has provided a budget based upon preliminary assessments and evaluations, which includes the estimated spend for the 30 month Grace Period. DeLost Direct, DLC Ex. C, p. 14. Duquesne requests approval of this budget. No party has raised any objection to the budgeted numbers presented, especially since additional supplemental filings and true-ups are a significant part of Duquesne's plan.

With respect to the smart meter charge, the rates paid by customers in a given quarter will be based upon the smart meter revenue requirement ("SMRR") projected for that quarter using estimated expenses and capital expenditures for the upcoming quarter. Pfrommer Direct, DLC Ex. D, p. 4; Plan, DLC Ex. A, pps. 37-38. The SMC will be a fixed rate per meter per month calculated by dividing the projected SMRR by the forecast meters and customer bills for the upcoming period, or, as proposed by OCA, a partial fixed and kwh based charge to recover costs. Pfrommer Direct, DLC Ex. D, p. 4; Plan, DLC Ex. A, p. 37; Catlin Direct, OCA St. 2, p. 12. Duquesne proposes to utilize Duquesne's most recently available data to derive a rate of return for the SMRR calculation -- basing the cost of debt and the cost of preferred equity as demonstrated in

the most recent quarterly earnings report filed with the Commission. Pfrommer Direct, DLC Ex. D, pps. 6-7. The Company proposes a base return on common equity of 10.90%, and using its actual common equity capitalization, so long as it falls within a range of reasonableness of between 45% and 59%. Pfrommer Direct, DLC Ex. D, p. 7. These figures are based on the Company's most recent regulatory proceeding that had an approved return on equity. FERC proceeding Docket No. EL06-109-000; Pfrommer Direct, DLC Ex. D, p. 7.

The Company will submit a reconciliation adjustment each year to coincide with and support its annual smart meter progress report. Pfrommer Direct, DLC Ex. D, p. 8. The Company will reconcile the actual revenue requirement for the previous calendar year with actual billed revenues for the same period. Id. Excess revenue collections will be returned to customers as a credit against the projected SMRR in the quarter following the reconciliation calculation; similarly, revenue deficits will be recovered in the Company's rates in the subsequent quarter. Pfrommer Direct, DLC Ex. D, p. 8. All over and under recovery collections were proposed to include interest at 6%, or as proposed by OTS, the residential mortgage rate. Pfrommer Direct, DLC Ex. D, p. 8; Sears Direct, OTS St. 1, p. 19. Costs will be recovered from the customer class receiving the benefit. A separate SMRR will be calculated for each meter type and for common costs. Pfrommer Direct, DLC Ex. D, p. 9. The SMRR for common costs will be allocated to the SMRR for each meter type based upon the number of meters. Id. A charge per meter type for each meter installed at the customer premise will ensure that costs are fairly recovered. Id.

Duquesne proposes that the SMC become effective upon approval of Duquesne's Plan (estimated to be April 1, 2010), and it will be in effect until the end of deployment; after deployment, the Company will roll the Charge into base rates or hold a new distribution base rate proceeding. Pfrommer Direct, DLC Ex. D, p. 10-11. The SMC will be updated four times each year, with annual reconciliation on or about March 1 of each year, or, as proposed by OTS, an August date is acceptable if a uniform process for all EDCs is established by the Commission. Pfrommer Direct, DLC Ex. D, p. 12; Sears Direct, OTS St. 1, pps. 6-7.

C. Contested Issues Raised Regarding Duquesne's SMPI Plan

1. Data access

Constellation suggests that Duquesne has not provided sufficient detail regarding the methods of customer and third party access to data and the types, formats and frequency of data that will be available. Fein Direct, Constellation St. 1, pps. 4-7. Duquesne has set forth as much detail as possible at this point; however, much of the analysis, development and planning are not complete, e.g., as the Commission's EDEWG group is just now setting up a subcommittee to begin work on this subject, so as a result, Duquesne will utilize the Grace Period to develop and provide this information, and will work through the EDEWG committee as appropriate. DeLost Rebuttal, DLC Ex. C-R, p. 2-4; Transcript (hereinafter "Transcript"), p. 92 (Constellation witness Fein acknowledged awareness of upcoming filings). Duquesne believes the Grace Period was designed by the Commission for this purpose. DeLost Rebuttal, DLC Ex. C-R, p. 3; Order, pps. 6-7 ("EDCs will need time to develop and install the entire smart meter network.")

Similarly, regarding data access, Constellation believes that it is important for all customer classes to have Smart Meters and access to data in as detailed a form and as frequently as possible. Transcript, p. 95; Fein Direct, Constellation St. 1, pps. 8-10. Duquesne disagrees with Constellation's position on this issue, as different customers have different needs and the costs/benefits need to be analyzed associated with the data retrieval, storage, and providing that level of detail to the customer suggested by Constellation. Constellation acknowledged at the hearing that different customers have different levels of sophistication and need to access data. Transcript, p. 96.

Constellation recommends that Duquesne's Plan should electronically grant data access through a pre-registration process, and should automatically grant access to EGS's registered in the territory. Fein Direct, Constellation St. 1, p. 7. Duquesne will work through EDEWG to grant electronic access to data with customer consent, pursuant to Commission rules, 52 Pa. Code Section 54.8 and customer security concerns. DeLost Rebuttal, DLC Ex. C-R, p. 5.

Constellation believes that this SMPI Plan should provide up-to-date, aggregated, class-by-class data to wholesale suppliers. Fein Direct, Constellation St. 1, p. 10-12. It is Duquesne's position that these issues are more appropriately dealt with through POLR proceedings. DeLost Rebuttal, DLC Ex. C-R, p. 7. The data being requested is part of RFP processes that is analyzed and approved through POLR proceedings (or POLR rulemaking). This proceeding is for the purpose of approving the smart meter design and implementation --- not the information that is to be provided as part of POLR. Depending upon the particular RFP conducted, different information is needed. For instance, if the EDC is only procuring block power from wholesale suppliers, then such

detail is not needed or helpful to the wholesale supplier. It is only if the wholesale supplier is shouldering some of the load-following responsibilities can more detailed customer usage be of some benefit. But since PJM operates all of its pricing and scheduling on an hourly basis, Duquesne believes that it should be consistent and provide hourly data. DeLost Rebuttal, DLC Ex. C-R, pps. 6-7; Transcript, pps. 98-99.

Finally, Constellation requests monthly updates on Plan progress and smart meter installation, with respect to wholesale suppliers. Fein Direct, Constellation St. 1, p. 12. The Commission has requested yearly updates. Order, p. 14. Duquesne believes yearly updates are sufficient for Constellation and others.

2. Meters

Constellation indicates that it is unclear whether Duquesne's final choice of meters will meet the Commission requirements and it is unclear which meters Duquesne will ultimately install. Fein Direct, Constellation St. 1, pps. 6-7. As stated, Duquesne will file its cost benefit analysis of the meter capabilities by July 1, 2010 and the Commission can issue a uniform final order regarding required meter capabilities. DeLost Rebuttal, DLC Ex. C-R, p. 6.

Constellation believes that Duquesne's smart meters must provide 15-minute interval data for all customers and classes on a retail basis (as opposed to wholesale), and that such data should be available hourly, but at a minimum, on a daily basis. Fein Direct, Constellation St. 1, pps. 8-9. Duquesne does not agree with Constellation that such detail is necessary. It is Duquesne's experience that such level of data is not utilized in the industry; PJM utilizes hourly data for the hourly pricing, demand peaks, (1 CP, 5CP) and scheduling, and payment. DeLost Rebuttal, DLC Ex. C-R, pps. 6-7; Transcript,

pps. 98-99. Further, 15 minute interval data creates communication, backhaul, access and storage issues, as well as incrementally increases the costs of the supporting communication, network, and system infrastructure. See Transcript, pps. 97-98. Nonetheless, Duquesne intends to address this issue in its July 1, 2010 filing. DeLost Rebuttal, DLC Ex. C-R, p. 6-7; Transcript, pp. 97-98 (Fein acknowledged that this is an issue that can be addressed in a subsequent filing).

OCA asserts that Duquesne should explore less expensive alternatives to meet residential customer requests during the Grace Period, as \$1305 is too high of a cost for customers and could affect participation. Mudd Direct, OCA St. 1, pps. 11-12. Duquesne agrees that it will explore other options, but given Duquesne's current AMR environment and supporting systems, this is the only option available at this time. DeLost Rebuttal, DLC Ex. C-R, p. 11. This is the current rate that Duquesne charges per its Tariff when providing an interval meter upon request. Pfrommer Direct, DLC Ex. D, p. 13; Plan, DLC Ex. A, p. 9. Further, this is the cost incurred by the Company in order to provide this interval meter, which per the Implementation Order, is what Duquesne believes is directed. Pfrommer Direct, DLC Ex. D, p. 13; Order, pps. 9-10 ("incremental costs over and above the cost for system-wide deployment are to be paid by customers requesting early deployment of a smart meter.") Duquesne will continue to explore whether there are other alternatives that would be less expensive. DeLost Rebuttal, DLC Ex. C-R, p. 11; Transcript, pps. 107 (OCA Witness Mudd acknowledges that Duquesne is exploring less expensive alternatives). At the hearing, OCA suggested that there could perhaps be a cheaper alternative, as a consumer can buy an off the shelf device from Home Depot. Transcript, pps. 107-108. However, the important thing to remember is

that Duquesne, during the Grace Period, has an automated meter reading system and full infrastructure in place. Therefore, procuring reads from an off-the-shelf device, as Ms. Mudd suggested, will have minimal communication capability, absolutely no backend system or network in place, and would not permit customer metering and billing. Transcript, pps. 107-108 (Ms. Mudd acknowledges that alternatives that she suggested may not communicate with Duquesne's system). Such devices have been tested by Duquesne and could possibly be used as an educational tool for customers. Finally, these devices are not anywhere close to providing meter or bill quality data.⁴

3. Project Timeline and Milestones

OCA recommended that Duquesne make an additional informational filing in conjunction with the Establishment of Network Designs milestone, to be filed on or about by March 31, 2011. Mudd Direct, OCA St. 1, p. 7. However, this suggestion overlooked Duquesne's December 31, 2010 filing. DeLost Rebuttal, DLC Ex. C-R, p. 9. The parties agree that this issue has been resolved, and information on technological solutions and vendor analysis will be included in the filing to be made on or about December 31, 2010. Mudd Surrebuttal, OCA St. 1-S, p. 3; Transcript, pps. 104-105.

4. Cost and Cost Recovery Issues

a. Plan Cost issues

OCA suggests that Duquesne's proposed costs as set forth in the Plan may serve as a placeholder, but cannot be approved until after an interim filing following completion of the milestone, Establishment of Network Designs, on March 31, 2011. Mudd Direct, OCA St. 1, pps. 9-10. Duquesne agrees that the costs set forth in the

⁴ Smart meters need not be deployed in new construction during the Grace Period. Order, p. 12. Duquesne will address deployment of smart meters in new construction post-Grace Period in an upcoming filing. Plan, DLC Ex. A, pps. 10, 36.

August 14, 2009 filing for the last two milestones of Component 2 were intended as an estimate. Duquesne seeks Commission approval of the Plan's scheduled filings and estimated costs of Component 1 and all of Component 2 as filed with the exception of the last two milestones of Component 2. The costs for the last two milestones of Component 2 will be submitted in subsequent filings. DeLost Rebuttal, DLC Ex. C-R, p. 10.

b. Cost/benefit

OCA recommends that as Duquesne performs its cost benefit analysis, that it obtain such information on a customer class basis. Mudd Direct, OCA St. 1, pps. 8-9. Further, OCA suggests that costs and benefits must be evaluated on an incremental basis (per each capability), and must be broken down by cost category and class. OCA feels that this information is missing from Duquesne's Plan. *Id.* Duquesne agrees that cost benefit analysis is critical to the success of the Plan for both the Company and for stakeholders, but at this time, it is premature to provide such an analysis requested until the Company proceeds with its Plan and obtains the required information. Pfrommer Rebuttal, DLC Ex. D-R, p. 2. Additionally, whether the benefits can be quantified at a customer class level remains to be seen, as such quantification is difficult. The prices to use for energy, capacity, and energy conservation are difficult to quantify over time and change rapidly. Costs, on the other hand, are known and measurable. Nevertheless, Duquesne agrees to attempt to capture the necessary data, and will address this in supplemental filings. Pfrommer Rebuttal, DLC Ex. D-R, p. 2-3; Plan, DLC Ex. A, pps. 10-15.

c. Cost Allocation

OCA believes that costs should be allocated on a customer class basis, based upon the benefits expected to be received by each class as a result of the smart meter system. Swan Direct, OCA St. 3, pps. 2-3. While OCA agrees with Duquesne on its assignment of meter costs based upon single-phase and multi-phase meter groups, OCA does not believe that it is appropriate to allocate common costs based upon meters, as such allocation does not accurately reflect benefits realized by each class. Swan Direct, OCA St. 3, pps. 4-7. Rather, such costs should be allocated based upon expected benefits, which can be quantified in proportion to energy use at the meter, and avoidance of PJM capacity and transmission costs. Swan Direct, OCA St. 3, pps. 8-9. OCA attempted to support this argument by pointing to information and figures provided by Duquesne in its stimulus filing, and its breakdown of cost allocation based upon the single and multi-phase groups to prove that residential and small commercial customers will bear 96% of the costs for the smart meter program, while only receiving between 2.2 and 5.7 percent of the benefits. Swan Direct, OCA St. 3, pps. 4-8; DLC Ex. D, WVP-2; “Benefits to Customers,” DLC Cross Exam Ex. 2; Transcript, pps. 151-152. In making these assessments, OCA believes that customer participation in dynamic pricing programs will be higher among the large classes, and that greater benefits to this class will naturally follow. Swan Direct, OCA St. 3, p. 6.

Duquesne strongly disagrees with this theory. Pfrommer Rebuttal, DLC Ex. D-R, p. 6. Duquesne’s position is that the common costs should be allocated based upon cost causation, using reasonable cost of services practices. *Id.* This is appropriate because all of the functions of the common infrastructure (collect, back haul, store and maintain data)

are required equally for each meter, regardless of the benefits realized or the size of the customer. *Id.* at pps. 5-6. Cost allocation based upon number of meters, as opposed to benefits as OCA suggests, is appropriate as the costs are established based upon the number of meters, not hypothetical or proposed benefits. *Id.* at 6. However, to address OCA's theories regarding cost allocation based upon benefits, Duquesne has committed to examine costs and benefits during the Grace Period; but any cost allocation based upon expected benefits, at this time, is speculative, unsupported and inappropriate as the necessary analysis has not yet been conducted and is unknown. Pfrommer Rebuttal, DLC Ex. D-R, p. 6.

Finally, regarding OCA's assumptions about customer participation in dynamic pricing programs, and associated benefits that will follow, OCA's assumptions are unfounded. Pfrommer Rebuttal, DLC Ex. D-R, pps. 6-7. No evidence is provided to support this statement, and in fact, Duquesne's experience proves that assumptions cannot be made regarding customer behavior. *Id.* at 7. Given that Large C&I customers already have interval meters in Duquesne's zone, Duquesne believes that the benefits of smart meters have already been largely realized for these customers, and the smart meter implementation will benefit the other customer classes to a greater extent. *Id.* Thus, under OCA's misplaced theory, those smaller customers should pay much more than those who have previously realized the benefits. Importantly, OCA's theory regarding benefits allocation was based in part upon DLC Cross Exam Ex. 2, which was an assessment of benefits that Duquesne submitted in conjunction with its U. S. DOE Stimulus application for grants. OCA failed to take into account that the benefits only took into account the first year of smart meter installation, which was only 8,000 meters.

Further, Witness Swan incorrectly presumed that the stimulus filing, and associated exhibits, would have the same implementation plan as the SMPI Plan. To the contrary, the criteria examined in the stimulus filing were different than that examined for the SMPI Plan. Thus, the underlying data on which OCA relies for its theory is not appropriate. In summary, Duquesne reaffirms its desire to allocate common costs based upon individual meters, as described in detail in Mr. Pfrommer Rebuttal, DLC Ex. D-R, pages, 6-8. See also Knecht Rebuttal, OSBA St. 1, p. 4 (cost causation is more appropriate and in line with Commission requirements; Swan's theory leads to endless speculation, analysis and litigation); Baudino Rebuttal, DII St. 1-R, p. 4. As OCA confirmed at the hearing, it is unsure whether and to what extent customers will utilize smart meter technology. Transcript, p. 111.

d. Cost Recovery

i. Smart Meter Charge

OCA recommends that the smart meter charge should be updated on an annual basis. Catlin Direct, OCA St. 2, pp. 13-14; Transcript, p. 114. Duquesne proposes a quarterly filing reflecting projected quarter-end plant in service which will more closely reflect rate base versus an annual filing. Pfrommer Rebuttal, DLC Ex. D-R, p. 4. OTS agrees with Duquesne's proposal. Sears Direct, OTS St. 1, pps. 7-8. In surrebuttal, Mr. Catlin agreed with Mr. Pfrommer subject to the clarification that whether the SMC is adjusted annually or quarterly, the annual reconciliation should account for the actual timing of when plant was placed in service. Catlin Surrebuttal, OCA St. 2-S, p. 2. Duquesne will accept annual reconciliation provided that it takes into account projected plant and actual in service dates.

Regarding rate base, OCA believes that Duquesne should utilize average rate base during each reconciliation period. Catlin Direct, OCA St. 2, p. 9; Transcript, pps. 114-115 (average rate at time of reconciliation; look at actual investment each month for the annual period). OCA witness Catlin confirmed at the hearing that for purposes of setting the rate at the end of the year, forwarding looking projections would be used. Transcript, p. 115. It is Duquesne's position that the SMC should closely align with the timing of expenses and in-service date of investment. Pfrommer Rebuttal, DLC Ex. D-R, p. 4. Pennsylvania is a terminal rate base state, so Duquesne believes that due to precedent it should use projected plant in service as of the end of each quarter.

OCA recommends that the SMC should not be rolled into base rates without a base rate case. Catlin Direct, OCA St. 2, p. 13; Transcript, p. 118-121. While this is one option that Duquesne is amenable to, it should not be the only option. Duquesne should have the option to roll the surcharge into base rates without having to file a complete base rate case. Catlin noted that roll-in could be accomplished without a base rate case – he just wanted to make sure any “benefits” would be factored into base rates too. Transcript, p. 120. Duquesne has no objection to rolling in “benefits” or any other factor that should be accounted for related to smart meters if it were to roll the surcharge into base rates without filing a complete base rate case.

OCA recommends that stranded cost recovery be addressed in the first base rate case after full deployment. Catlin Direct, OCA St. 2, p. 10; Transcript, pps. 122. Duquesne agrees with this, however, Duquesne also believes that EDC's should be afforded the flexibility to seek recovery of stranded costs prior to full deployment of smart meters and on an accelerated depreciation schedule to mitigate stranded costs.

Pfrommer Rebuttal, DLC Ex. D-R, p. 4. The Commission does not need to decide these details until presented with an actual justicible case.

OTS also believes that interest on under/over recoveries for the SMC should be one directional: any cumulative net over-collection of interest should be refunded to the ratepayers; any cumulative net under-collection of interest is not to be recovered from ratepayers. Sears Direct, OTS St. 1, pp. 21-22; Sears Surrebuttal, OTS St. 1-SR, p. 3; Transcript, p. 170. Duquesne does not agree with this proposal, as under collections without interest creates a cost by not allowing the Company to recover smart meter costs on a full and current basis as permitted by Act 129, and thus Duquesne asks that the Commission reject this proposal. Pfrommer Rebuttal, DLC Ex. D-R, p. 8. A similar asymmetrical approach wherein over collections were refunded at a statutory rate plus two percent was raised in the recently concluded Energy Efficiency cases and rejected. Order, p. 62, Petition of Duquesne Light Company for Approval of Its Energy Efficiency and Conservation and Demand Response Plan, Docket No. M-2009-2093217, Oct. 22, 2009.

ii. Return on Equity

Initially, it should be stated that all parties seem to agree that the actual cost of debt and the actual cost of preferred stock should be used by Duquesne in calculating its allowed rate of return for smart meters. For example, OTS recommends that the Company utilize a cost rate of debt and preferred stock developed from the Company's quarterly financial statements to be filed for rider rate adjustments with the Commission. Sears Direct, OTS St. 1, p. 13. Duquesne agrees with this. Bordo Rebuttal, DLC Ex. E, p. 2.

For common equity, Duquesne proposed a Return on Equity of 10.9% as that rate is the result of a recently settled and approved rate case, albeit at the Federal Energy Regulatory Commission. FERC proceeding Docket No. EL06-109-000. That case had the Pa PUC and the OCA as parties. It resulted in a ROE of 11.4% as the rate consisted of a base 10.9% ROE and a .5% adder for being a part of a regional transmission organization, i.e., PJM. Actual costs and capital structure should be used to the extent possible in order to best align recovery with actual costs and attributes of Duquesne. Bordo Rebuttal, DLC Ex. E, p. 4.

OCA made several proposals to determine ROE. First, OCA recommended using the equity return rate approved by the Commission in Duquesne's most recent fully litigated base rate proceeding, if that proceeding was entered not more than 3 years prior to the updated smart meter charge. Catlin Direct, OCA St. 2, p. 5. If it has been more than 3 years, OCA recommends the Commission direct FUS to begin a generic proceeding to publish a return on equity that would be specific to smart meter charges. Id. at 6; Transcript, p. 123-124. Until that generic proceeding can be established and developed, OCA recommended application of the 10.1 percent return on equity established in the Met Ed and Penelec cases be utilized. Catlin Direct, OCA St. 2, p. 7.

Duquesne agrees with OCA's approach as it relates to using an actually determined ROE for a utility. The Company recommends that any determined return on equity that results from the fully litigated or settled rate case would be used. Bordo Rebuttal, DLC Ex. E, p. 4-5. Whether three years is the appropriate timeframe is difficult to determine, but three year limit seems reasonable. Duquesne believes its FERC base rate case meets that requirement.

Regarding a generic proceeding to develop a procedure to calculate ROE and equity capitalization, Duquesne believes that could work but has the shortfall that neither method will take into account the unique attributes of individual companies. Bordo Rebuttal, DLC Ex. E p. 4; Transcript, pps. 135-137 (OCA Witness Catlin acknowledges uncertainty in whether companies in the barometer group have similar characteristics to Duquesne). However, given the time constraints of the approval process and the desire for efficiency, the Company would agree, for this proceeding, to a Return on Equity developed using an appropriate barometer group for the smart meter surcharges. Bordo Rebuttal, DLC Ex. E, p. 4.

Finally in regard to OCA, Duquesne does not support using the ROE of Metropolitan Edison and Penelec. Bordo Rebuttal, DLC Ex. E, p. 5. It is not reflective of the credit rating, the cost of equity, nor the risk profile of Duquesne. Many issues go towards a public utility commission determining an ROE for a company, including customer service, operational performance, and management. That ROE should not be applied to Duquesne as part of this proceeding.

OTS recommends that Duquesne use the Commission's latest Quarterly Earnings Report of jurisdictional utilities to obtain a return on common equity and to calculate a representative capital structure for the electric industry based on a barometer group. Sears Direct, OTS St. 1, pps. 14-17; Transcript, p. 174. Although not the preferred approach, Duquesne could be comfortable using a Commission determined Return on Equity established by an appropriate barometer group that appropriately incentivizes utilities, recognizing that the smart meter plan is designed for public benefit, although results of a litigated or settled case should supersede. Bordo, DLC Ex. E, pps. 2-3;

Transcript, p. 134 (OCA Witness Catlin notes that there is lack of transparency in FUS reports), p. 176 (OTS Witness Sears uncertain of how FUS would determine numbers or factors that are considered). However, at this point it is not clear that such a proceeding will result in a utility achieving an acceptable level of return on its investment. This is crucial so that utilities can continue to operate at an acceptable level and to be able to finance this large smart meter investment. Further, at this point, Duquesne is reticent to consent to a process as envisioned by FUS, as there has been no evidence presented regarding how FUS conducts its methodology or derives its calculations. At this point, OTS simply states that FUS is “qualified” and Duquesne should acquiesce and have faith in FUS. Transcript, pps. 176-177 (OTS Witness Sears does not know how FUS derives numbers, but they are just qualified to do it). Without additional information, Duquesne cannot consent to this, as it has no certainty on the methodology it would be supporting nor that such a proceeding will result in a fair result.

iii. Capital Structure

Duquesne recommends using its actual equity capitalization so long as it falls within a zone of reasonableness of 45%-59%. Pfrommer Direct, DLC Ex. D, pps. 6-7. As shown on OTS Ex. 1, Sears Rebuttal, Duquesne’s actual equity capital is 67%, but Duquesne proposes that 59% be used so long as its equity capital structure is above that level. OCA disagrees with this approach, because these figures were established as part of a settled proceeding, and was not meant for PUC ratemaking purposes. Catlin Direct, OCA St. 2, p. 4.

OCA rejects the range offered by Duquesne of up to 59% saying it is unreasonable. Catlin Direct, OCA St. 2, p. 8. But no realistic range was presented by

OCA. (Duquesne would note that Alliant Energy, which is in TSC-2 Exhibit 2 representing common equity ratios of the FUS barometer Group, has an equity ratio of 58.9%.) In order to be consistent with the OCA recommendation to use Med Ed and Penelec ROE, OCA recommends a 51% proxy equity ratio be used for Duquesne based upon Met Ed and Penelec. Catlin Direct, OCA St. 2, p. 8. Duquesne does not agree with Mr. Catlin that the Met Ed capital structure should be applied to Duquesne; it is not representative of Duquesne's capital structure nor the costs it incurs for financing. Bordo Rebuttal DLC Ex. E, pp. 5-6; Sears Rebuttal, OTS St. 1-R, p. 6-7; Transcript, p. 124 (OCA Witness Catlin acknowledges that applying the Med Ed capital structure is not a perfect solution) In Duquesne's view it makes sense to use a utility's actual numbers, so long as they fall within a zone of reasonableness.

OTS recommends that Duquesne use the capital structure representative of the barometer group that the Commission uses to calculate the cost rate of common equity in the most recent quarterly earnings report. Sears Direct, OTS St. 1, p. 16; Sears Surrebuttal, OTS St. 1-SR, pps. 5-6. It is Duquesne's position that the Company should align recovery with actual costs to the extent possible, and that actual capital structure representative of the actual utility should be used. Bordo Rebuttal, DLC Ex. E, p. 3-4. Actual capital structures are used of the Pennsylvania water companies in calculating their return for additional water plant in service pursuant to the distribution service improvement charge ("DSIC"). Catlin Direct., OTS St. 2, pps. 6-7. Duquesne believes OTS' recommendation on that important issue is not consistent with its overall recommendation to utilize the current methodology used by Pennsylvania water companies for the DSIC for smart meters.

Further, if a barometer group's capital structure were to be used, the barometer group currently relied upon by FUS is not representative of electric distribution companies in Pennsylvania, particularly Duquesne. See DLC Cross Exam Ex. 1. The companies in the barometer group are not the same size as Duquesne and are much larger; none operates in Pennsylvania; only one of the companies operates in PJM; several are in the gas distribution business, and many of the companies own electric generation. Transcript, pps. 136-139. In order for Duquesne to be comfortable with a barometer group, the companies in the group would need to have similar characteristics to Duquesne or, at the very least, have characteristics more representative of the Pennsylvania electric utility industry.

D. Issues Raised And Accepted by Duquesne

The following recommendations were raised by opposing parties and Duquesne will agree to accept them as part of this proceeding.

1. OCA believes that billing system upgrades should be limited to that required by Act 129 and that Duquesne's Plan should only be approved pending its willingness to collaborate with stakeholders throughout the process. Mudd Direct, OCA St. 1, pps. 5-7. Regarding billing system upgrades, Duquesne agrees that such upgrades will be limited to only that which is necessary. DeLost Rebuttal, DLC Ex. C-R, pps. 8-9; Transcript, p. 105. Regarding stakeholder involvement, Duquesne will agree to stakeholder meetings to consider input, throughout the Grace Period. DeLost Rebuttal, DLC Ex. C-R, p. 10; Transcript, pps. 105-106.

2. OCA suggests that low income and elderly customers may need targeted educational outreach to enable such customers to benefit from AMI. Mudd Direct, OCA

St. 1, p. 13. OCA also suggests that Duquesne's December 31, 2011 filing should include detailed information regarding education and outreach. Mudd Direct, OCA St. 1, p. 13. Duquesne recognizes that consumer education is critical. Petition, DLC Ex. A, p. 10; Plan, DLC Ex. A, p. 13-14, 27 and 33; DeLost Rebuttal, DLC Ex. C-R, pps. 11 and 12. Additional detail will be included in the November 1, 2011 milestone "Establishment of plans for installation of meters, outside communications (customer education) and training" and be reported to the PUC. DeLost Rebuttal, DLC Ex. C-R, p. 12; Transcript, p. 109 (Mudd acknowledges that Duquesne will provide additional information).

3. OTS recommends establishing a uniform Commission designated twelve month reconciliation period ending on June 30 each year, such that the annual filing will occur on August 1 of each year. Sears Direct, OTS St. 1, pps. 6-7. OTS also recommends that the Commission require filing of a quarterly smart meter rate update report showing projected revenues and recoverable costs for each calendar quarter, to be submitted a minimum of ten days prior to the next calendar quarter, with effective dates January 1, April 1, July 1, and October 1. Sears Direct, OTS St. 1, p. 8; Transcript, p. 169. Duquesne does not object to this proposal. Pfrommer Rebuttal, DLC Ex. D-R, p. 8.

4. OTS believes that the appropriate interest rate to use for reconciliation is the monthly residential mortgage lending rate published in the PA bulletin. Sears Direct, OTS St. 1, pp. 19-20; Transcript, pps. 169-170. Duquesne does not object to this. Pfrommer Rebuttal, DLC Ex. D-R, p. 8.

5. OTS recommends the use of a weighted, simple interest computation with the weighting factor being equivalent to the total number of months spanning from (and

inclusive of) the month when the over or under-collection occurred, to the midpoint of the payback period. Sears Direct, OTS St. 1, p. 25. Duquesne can agree to this proposal.

6. OCA disagrees with Duquesne's proposal to recover smart meter costs through a wholly fixed charge per residential customer. Catlin Direct, OCA St. 2, p. 11. Rather, OCA believes that the appropriate means of recovery for residential customers is either (1) recovering through a surcharge per kwh, or (2) recovering costs of meter through a customer surcharge, and indirect costs through a kwh surcharge. Catlin Direct, OCA St. 2, p. 11-12; Transcript, p. 116. Duquesne does not object to a smart meter charge for residential customers that is a combination of a fixed charge per meter and a charge per kWh. Pfrommer Rebuttal, DLC Ex. D-R, p. 4-5. Duquesne will agree to revise the design of the residential Smart Meter Charge to recover the cost both in a fixed monthly charge and a charge per kWh. Pfrommer Rebuttal, DLC Ex. D-R, pps. 4-5. The exact split of cost is not known at this point. This redesign would be made in the first compliance filing to implement the SMC.

7. OCA recommended an additional filing be made with the Commission on or about March 31, 2011 on design selection. Mudd Direct, OCA St. 1, p. 7. Duquesne agrees to incorporate this information in a currently scheduled filing.

VI. Proposed Ordering Paragraphs

THEREFORE, IT IS ORDERED:

1. That Duquesne's SMPI Plan is approved, and Duquesne may proceed with the framework set forth in its Petition and Plan, including with respect to the proposed milestones and timeline and waivers, with the modifications identified in Section V above.

2. That Duquesne's Plan Budget and proposed costs are approved, with the recognition that a refined project budget and cost estimate will be provided in supplemental filings;
3. That Duquesne's Smart Meter Charge ("SMC") proposed tariff supplement is approved, with the recognition that the Company will submit a compliance filing with proposed rates to become effective upon Plan approval (estimated to be April 1, 2010), at least 20 days prior to the effective date;
4. That Duquesne may recover all costs associated with the smart meter program incurred after November 18, 2008, as a deferred expense over the first year, subject to further review by the parties and Commission review and audit;
5. That on or before July 1, 2010, Duquesne will file its cost and benefit estimates on capabilities of smart meters. Duquesne is granted a waiver of the requirement in the Implementation Order to provide specifics regarding meter capabilities at this time, and is to provide such information in said supplemental filing;
6. That Duquesne is authorized to file for approval its itemization of incremental costs to install individual smart meters in advance of system wide deployment and after the network installation Grace Period as part of a supplemental filing prior to the expiration of the Grace Period;
7. Duquesne's proposed Return on Equity for the SMC of 10.9% and its utilizing its actual capital structure as part of the SMC, with the limits of 45%-59% for equity capitalization is approved, and the proposals of OTS and OCA on this issue are rejected.
8. Constellation's recommended changes to Duquesne's Plan are rejected;
9. OTS's proposal to calculate interest in a one-directional manner is rejected;

10. OCA's recommendation that common costs should be allocated based upon benefits rather than actual costs, calculated by energy use at the meter, and avoidance of PJM capacity and transmission costs, is denied.
11. Component 1 is approved as modified herein and the schedule and outline of Component 2 is approved.
12. OCA's recommendation that Duquesne perform a cost/benefit analysis on a customer class and incremental basis is hereby denied as premature.
13. Duquesne's meter cost of \$1305 for residential customer requests during the Grace Period is consistent with existing Commission approved tariff for such services and no further action is necessary at this point.
14. The SMC and its annual reconciliation will take into account projected plant in service on a terminal quarterly basis.
15. When the SMC is rolled into base rates does not need to be addressed at this time, or it may be rolled into base rates at the end of smart meter full deployment, at the first base rate case after full deployment, or at such other time as is appropriate.
16. Stranded cost recovery does not need to be addressed at this time or it may be addressed in the first base rate case after full deployment, prior to full deployment of smart meters and on an accelerated depreciation schedule to mitigate stranded costs.
18. The paragraphs listed in Section D above regarding agreements between the parties are hereby incorporated and approved.

VII. Conclusion

For the reasons set forth above, Duquesne's Smart Meter Procurement and Installation Plan meets the requirements of Act 129, 66 Pa.C.S. § 2807(f), et seq. and the

Commission's Implementation Order dated June 18, 2009, and is hereby approved and authorized for implementation, including its proposed budget, tariffs to be effective April 1, 2010, schedule and requested waivers.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "G. Jack", with a stylized flourish underneath.

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