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March 1, 2010

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

**VIA HAND DELIVERY**

**RE: Petition of PPL Electric Utilities Corporation for Approval of its Smart Meter Technology Procurement and Installation Plan; Docket No. M-2009-2123945**

Dear Secretary McNulty:

Enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") are the original and nine (9) copies of the Reply Exceptions of the PP&L Industrial Customer Alliance ("PPLICA") to the Initial Decision of Administrative Law Judge Wayne L. Weismandel, issued on January 28, 2010, in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Please date stamp the extra copy of this transmittal letter and Reply Exceptions, and kindly return them to our messenger for our filing purposes.

Very truly yours,

McNEES WALLACE & NURICK LLC

By

Pamela C. Polacek  
Shelby A. Linton-Keddie

Counsel to the PP&L Industrial Customer Alliance

PCP/km  
Enclosure

c: Administrative Law Judge Wayne L. Weismandel (via E-mail and Hand Delivery)  
Certificate of Service

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities Corporation :  
for Approval of its Smart Meter Technology : Docket No. M-2009-2123945  
Procurement and Installation Plan :

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**REPLY EXCEPTIONS OF THE  
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

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Dated: March 1, 2010

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## **I. INTRODUCTION**

On October 15, 2008, Governor Rendell signed into law House Bill 2200, which became Act 129 of 2008 ("Act 129" or "Act"). Among other things, Act 129 expands the Pennsylvania Public Utility Commission's ("PUC" or "Commission") oversight responsibilities and sets forth new requirements on Electric Distribution Companies ("EDCs") with less than 100,000 customers for energy conservation, default service procurements, and the expansion of alternative energy resources.

As required by Act 129, on August 14, 2009, PPL Electric Utilities Corporation ("PPL" or "Company") submitted a Petition for Approval of its Smart Meter Technology Procurement and Installation Plan ("Petition"). The Company's Smart Meter Technology Procurement and Installation Plan ("Smart Meter Plan" or "Plan") was attached to the Petition.

Following evidentiary hearings conducted by Administrative Law Judge ("ALJ") Wayne L. Weismandel on November 3, 2009, and submission by the parties of Main Briefs and Reply Briefs, ALJ Weismandel issued an Initial Decision ("I.D.") on January 28, 2010, approving the Company's Plan with modifications. Subsequently, on February 17, 2010, PPLICA received Exceptions from PPL, the Office of Consumer Advocate ("OCA"), the Office of Trial Staff ("OTS") and the Pennsylvania Department of Environmental Protection ("DEP"). Also on February 17, 2010, PPLICA filed a letter with the Commission indicating that it would not be filing Exceptions, but reserved its right to file Reply Exceptions.

As reserved in that letter, PPLICA hereby exercises its right to respond to the Exceptions of PPL by filing these Reply Exceptions.<sup>1</sup>

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<sup>1</sup> PPLICA's Reply Exceptions will not respond to every argument contained in the Company's Exceptions, but only those issues necessitating additional response. Further, PPLICA's decision not to respond to all arguments made by

## II. REPLY EXCEPTIONS

### 1. **Reply to PPL Exception D (pp. 16-17): *The ALJ was Correct in Approving the Recovery of Smart Meter Plan Costs from Large Commercial and Industrial Customers Through a Customer Charge.***

The Initial Decision in this proceeding found, in part, that PPL's proposal to recover Smart Meter Plan costs from Large commercial and industrial ("C&I") – Primary and Large C&I – Transmission customers through a demand charge should be modified to recover costs through a customer charge. See I.D. at 36-37. Specifically, the I.D. states:

15. PPL's proposal to recover Plan costs from Large C&I Primary and Large C&I Transmission customers through a demand charge component of rates is not consistent with the normal treatment of metering costs for ratemaking purposes and does not recognize the fact that smart meter costs will not vary with a customer's electricity usage.

16. PPLICA's proposal to recover PPL Plan costs from Large C&I Primary and Large C&I Transmission customers through a customer charge is consistent with the normal treatment of metering costs for ratemaking purposes and recognizes the fact that smart meter costs will not vary with a customer's electricity usage.

Id.

In response, PPL disagrees with the I.D. and argues that the Company's proposal to recover Smart Meter Plan costs from Large C&I – Primary and Large C&I – Transmission customers on a demand basis is reasonable and should be approved. See PPL Exceptions at 16. Moreover, the Company asserts that during the course of this proceeding, PPLICA proposed alternative methods for allocating feeder meter costs to Large C&I customers, and that because the Company accepted PPLICA's primary proposal for cost allocation by dividing the Large C&I customers into two subclasses and calculating the surcharge separately by subclass, PPLICA

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other parties in this proceeding should not be construed as agreement with the positions raised by any party on any of the issues currently outstanding in this proceeding.

should not have also argued for implementation of a customer charge to reflect proper rate design. See PPL Exceptions, pp. 16-17. PPLICA disagrees.

As made clear by PPLICA in its Main Brief, PPLICA's concern in this proceeding was not limited to proper cost allocation but also included advocacy for proper rate design for Large C&I Smart Meter Plan Costs. Specifically, PPLICA sought to ensure that the proposed feeder meter costs (which, as the Company conceded, would only benefit distribution customers<sup>2</sup>) were not allocated to transmission voltage customers. In addition, upon evaluation of anticipated Smart Meter Plan costs for the Large C&I customer class, PPLICA asserted that the Company failed to propose a rate design that would collect Plan costs from Large C&I customers on a cost of service basis. See generally PPLICA M.B. Accordingly, PPLICA sought proper rate design for Large C&I Smart Meter Plan costs through a customer charge rather than a demand charge. See PPLICA St. 1-S, pp. 3-4; PPLICA M.B., pp. 8-10; PPLICA R.B., pp. 3-4. PPLICA's Main Brief clearly summarized this position when stating:

The Commission should approve PPL's proposed interclass allocation of both direct and non-direct costs, as the Company's analysis of how these costs should be assigned to the various customer classes appropriately acknowledges the specific requirements of Act 129, the express direction of the Commission in the Implementation Order, and previous legal precedent addressing cost causation requirements. Specifically, PPL's proposed cost allocation methodology accurately assigns all costs, including non-direct costs, to each customer class based on reasonable cost of service and cost causation principles, which the Commission and the Commonwealth Court have long held to be the fundamental basis for utility ratemaking and which is explicitly required under the Implementation Order. PPL has also appropriately bifurcated the Large C&I class between primary

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<sup>2</sup> See PPLICA St. 1 at p. 5: "Mr. Godorov testified that the Company plans to conduct two feeder meter pilots that will assist the Company in improving the reliability and performance of its distribution system and reduce costs associated with installing and removing voltmeters." See also PPLICA St. 1-S at p. 2: "Mr. Kleha agreed that the feeder meter program is directed primarily to the distribution system . . . In fact, in the response to PPLICA Set II, Question 2, which is attached as Exhibit (RAB-1S), PPL indicated: 'Feeder meters are not expected to provide services or other benefits to PPL Electric's customers served at transmission voltage levels because they are planned to be deployed at the distribution level (i.e., 12,470 volts and below).'"

voltage customers and transmission customers to ensure an accurate allocation of the costs of the distribution feeder meter program, which may benefit primary voltage customers but will not benefit transmission voltage customers.

PPL's proposed use of a demand charge to recover the Smart Meter Plan costs from Large C&I customers is not consistent with standard cost allocation principles, and is not just and reasonable. The costs at issue are appropriately recovered through a monthly customer charge, rather than a demand charge. This is consistent with standard cost of service principles for meter investment.

PPLICA M.B., pp. 4-5 (emphasis added).

PPL's summary of PPLICA's position in this proceeding simplifies PPLICA's advocacy to one of cost allocation and virtually ignores PPLICA's stance that requiring the Company to collect Large C&I Plan costs via a customer charge would adhere to the ratemaking precedent of the Commission, the Commonwealth Court and would also follow sound cost causation principles. See PPLICA R.B. at 3 (internal citations omitted); see also PPLICA M.B., pp. 8-10. While PPLICA appreciates the Company's decision to bifurcate the Large C&I class between primary voltage customers and transmission customers to ensure an accurate allocation of the costs of its proposed feeder meter program (which the I.D. has not approved), PPLICA does not believe that this accommodation should surrender Large C&I customers' right for proper rate design.

The Company further claims that because its Smart Meter Plan will be initiating programs that will purportedly allow all customers to reduce peak demand and usage over time it is appropriate to recover Smart Meter Costs for Large C&I customers on a demand basis, not a customer charge basis. See PPL Exceptions at 17. Contrary to this assertion, however, the I.D. was correct when determining that a demand charge for Large C&I Plan costs does not reflect the nature of the costs, which do not vary based on the kW of electricity demand used by a

customer. See I.D. at 37; see also PPLICA M.B. at 8; see generally PPLICA R.B. As PPLICA's witness Mr. Baudino explained:

...[T]he costs of the Smart Meter Plan are customer-related costs and such costs should be collected in a customer charge...Collecting Smart Meter Plan costs in a customer charge is entirely consistent with the design and purpose of a customer charge.

In addition, PPL's response to PPLICA Interrogatory Set II, Question 7, which is attached as Exhibit\_\_ (RAB-2S), indicates that the [smart meter] expenses are Meter Investment, which was allocated on a customer basis in PPL's most recent Cost of Service Study. In addition, PPL's response to PPLICA Interrogatory Set II, Question 6, which is attached as Exhibit (RAB-3S), confirmed that PPL will not propose to change its rate design as a result of implementing the roll-in of the smart meter plan costs in its next rate case. Because the rate design for the transmission voltage customers contains only a monthly customer charge, this is further confirmation that a customer charge is the appropriate recovery mechanism. I continue to recommend that the Commission adopt my recommendation for the collection of Smart Meter Plan costs for Large C&I customers using a customer charge.

PPLICA M.B. at 9; (citing PPLICA St. 1-S, pp. 3-4 (emphasis added)).

The use of a customer charge for Large C&I Plan costs which do not vary based on electricity demand is further supported by examining the actual costs that will be directly allocated to the Large C&I Class:

The costs being directly assigned to the full Large C&I class are for a wireless based system enhancement. Because the customers' benefits from that system do not appear to depend on the amount of energy used or their peak demand, this should likely be allocated on a customer basis.

PPLICA M.B. at 9 (citing PPLICA St. 1, p. 6).

As recognized by ALJ Weisman in the I.D., the customer charge approach is the only reasonable method for structuring the Large C&I Smart Meter Plan surcharge, as any other

methodology would produce rates on either an energy or capacity basis that would not be reasonably related to the purpose of the Plan and would result in an unjust rate mechanism. See PPLICA M.B. at 10. Further, an energy or capacity charge mechanism for Large C&I customers' Plan costs would disproportionately assign greater costs to higher energy and demand users, despite the fact that the actual costs of administering the Smart Meter Plan for Large C&I customers will not vary based on the amount of energy or capacity used.

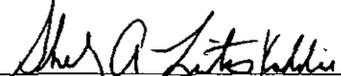
The ALJ was correct in determining that "PPLICA's proposal to recover PPL Plan costs from Large C&I Primary and Large C&I Transmission customers through a customer charge is consistent with the normal treatment of metering costs for ratemaking purposes and recognizes the fact that smart meter costs will not vary with a customer's electricity usage." Accordingly, in regard to Large C&I rate design, the I.D. should be affirmed by the Commission without modification and PPL's proposal to "divide the Large C&I class into two groups and recover costs on a demand basis" should be rejected.

### III. CONCLUSION

**WHEREFORE**, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission deny the aforementioned Exception of the PPL Electric Utilities Corporation and adopt the well-reasoned Initial Decision of Administrative Law Judge Wayne L. Weismandel.

Respectfully submitted,

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Dated: March 1, 2010

## CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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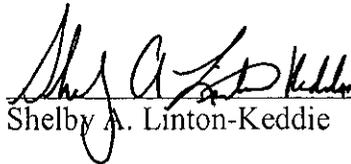
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Dated this 1<sup>st</sup> day of March, 2010, at Harrisburg, Pennsylvania.