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**VIA E-FILING**

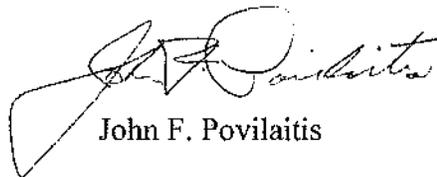
Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

Re: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company for Approval of their Smart Meter Deployment Plans; Docket Nos. M-2013-2341990, M-2013-2341991, M-2013-2341993, M-2013-2341994

Dear Secretary Chiavetta:

On behalf of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (the "Companies"), enclosed for electronic filing are the Exceptions of the Companies. Please contact me if you have any questions regarding the forgoing matters. Copies have been served as indicated in the attached certificate of service.

Very truly yours,



John F. Povilaitis

JFP/kra

Enclosure

cc: Office of Special Assistants  
Administrative Law Judge Elizabeth H. Barnes  
Kathy J. Kolich, Esquire  
Thomas P. Gadsden, Esquire  
Kenneth M. Kulak, Esquire

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>JOINT PETITION OF METROPOLITAN</b>	<b>:</b>	<b>DOCKET NOS.</b>	<b>M-2013-2341990</b>
<b>EDISON COMPANY, PENNSYLVANIA</b>	<b>:</b>		<b>M-2013-2341991</b>
<b>ELECTRIC COMPANY,</b>	<b>:</b>		<b>M-2013-2341993</b>
<b>PENNSYLVANIA POWER COMPANY</b>	<b>:</b>		<b>M-2013-2341994</b>
<b>AND WEST PENN POWER COMPANY</b>	<b>:</b>		
<b>FOR APPROVAL OF THEIR SMART</b>	<b>:</b>		
<b>METER DEPLOYMENT PLAN</b>	<b>:</b>		

**EXCEPTIONS OF  
METROPOLITAN EDISON COMPANY,  
PENNSYLVANIA ELECTRIC COMPANY,  
PENNSYLVANIA POWER COMPANY AND  
WEST PENN POWER COMPANY**

**To The Recommended Decision Of  
Administrative Law Judge Elizabeth H. Barnes**

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## I. INTRODUCTION

Pursuant to the November 8, 2013 Secretarial Letter issued by the Pennsylvania Public Utility Commission ("PUC" or the "Commission"), Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power) and West Penn Power Company (West Penn) (collectively, the Companies) hereby submit their exceptions to the November 8, 2013 opinion ("Recommended Decision" or "R.D.") of Administrative Law Judge Elizabeth H. Barnes ("the ALJ") in the above-captioned proceeding. As more fully discussed below, the ALJ ignored significant evidence submitted by the Companies when rendering her opinion and, therefore, the Companies take specific exception to those portions of the Recommended Decision that order them to: (i) conduct another cost benchmarking analysis and submit it with an amended plan within 120 days of the Commission's Order in this matter; (ii) hire yet another independent consultant to conduct a savings potential investigation and submit a report within 90 days of the Commission's Order; (iii) submit semi-annual reports on the status of the Companies' cyber-security measures; (iv) forego collection of \$5.1 million of incremental CIS costs incurred by West Penn; and (v) charge the incremental cost of removal of currently installed meters that will be replaced by smart meters ("Legacy Meters") to the regulatory asset account containing the Companies' unrecovered investment in Legacy Meters and amortize the cost over the remaining depreciable lives of those meters. Not only are the aforementioned recommendations contrary to the manifest weight of the evidence, but, if adopted, they will create unnecessary costs and delays in the start of smart meter deployment in the Companies' service territories, could create potential breaches of cyber security, will result in the Companies' under-collection of smart meter related costs in violation of Act 129 and/or are contrary to basic ratemaking principles. Accordingly, the aforementioned ALJ recommendations should be rejected.

Moreover, during the five months between the submission of briefs and the rendering of the R.D., the Companies determined that the deployment schedule set forth in their Smart Meter Deployment Plan (“Deployment Plan”) can be accelerated from that originally proposed and approved in the Recommended Decision. Therefore, while perhaps a bit unusual, the Companies also take exception to the Recommended Decision to the extent that it recommends the deployment schedule as proposed in the Deployment Plan and, instead, they urge the Commission to now adopt the deployment schedule set forth in Section III.F of these exceptions.

## **II. BACKGROUND**

On December 31, 2012, the Companies filed a Joint Petition requesting that the Commission issue an order approving their Deployment Plan. More specifically, the Companies asked that the Commission: (1) find that their proposed Deployment Plan satisfies the requirements of Act 129 and the Commission’s June 24, 2009 Implementation Order; (2) approve the Companies’ proposed procurement and deployment of approximately 2.1 million smart meters, over 98% of which would be installed by the end of 2019; (3) authorize the Companies to recover deferred and ongoing smart meter costs through their previously approved Smart Meter Technologies Charge (SMT-C) Riders; and (4) authorize the Companies to create a regulatory asset for their unrecovered investment in Legacy Meters.

The Commission launched an investigation of the Companies’ Deployment Plan and the matter was assigned to ALJ Barnes. A detailed history of the proceeding that followed is set forth in the Companies’ Main Brief, dated May 24, 2013.<sup>1</sup> As explained therein, much of the Companies’ Deployment Plan was unopposed. For example, no party questioned the robustness of the data gathering, technology evaluation or system testing undertaken by the Companies during their Assessment Period. Nor did anyone challenge the reasonableness of the Companies’

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<sup>1</sup> Cos. Main Br., pp. 3-4.

proposed smart meter architecture, their choice of vendors and equipment, or their recommended three-stage deployment plan. Indeed, by the end of the evidentiary phase of this case, the only issues that were left to be addressed were those raised by the witnesses for the Office of Consumer Advocate (“OCA”). And, as to those, the essence of the OCA’s position could be boiled down to the following claims: (1) that the Companies should be directed to conduct additional analyses of the **potential** costs and savings of their proposed deployment of smart meters, submitting more studies and more reports before being given the go-ahead to proceed with their deployment of smart meters; (2) that certain prudently-incurred customer information system (“CIS”) and smart meter related costs should not be flowed-through the Companies’ SMT-C Riders, but instead should be recovered through base rates or denied altogether; and (3) that certain modifications should be made to the Companies’ Communications Plan (“Comm Plan”).

On November 8, 2013, ALJ Barnes issued her 62-page decision in which she recommended that the Companies’ proposed Deployment Plan be adopted with certain modifications (R.D., pp. 54, 58). The Companies do not contest the ALJ’s recommendations adopting OCA’s position with respect to: (i) the Companies reporting of their method of cross-jurisdictional cost allocations of plan costs (R.D. at 28); (ii) the allocations of plan costs on the basis of the average annual number of meters per Company as of June 30 (with adjustments made in the prospective filing made for SMT-C Rider rates effective in 2015)(R.D. at 30); (iii) the early customer education regarding smart meter functionalities (R.D. at 39); (iv) the safety education processes and related materials (R.D. at 41); (v) the collaboration with interested parties on a stand-alone customer privacy policy (R.D. at 43); (vi) the principles for release of smart meter information (R.D. at 44-45); and (vii) the collaboration with Stakeholders on

voluntary disconnection protocols and the order to file with the Commission an amendment to the plan before implementing involuntary remote disconnection for non-payment procedures (R.D. at 46-47). However, the Companies oppose the ALJ's other suggested "modifications" previously discussed because these modifications are unsupported by the evidentiary record. For example, the Companies oppose the recommendation to conduct additional studies of their projected costs of the plan and submit their findings with an amended plan within 120 days of the Commission issuing an Order. Even though the ALJ found that the Companies had done a "comprehensive" and "thorough" job of identifying and pricing out their options, she concluded that the Companies did not meet their burden of proving that their estimated costs were "reasonable and prudent", instead agreeing with the OCA's witness that the five utilities against which the Companies benchmarked their average cost per meter were insufficient and that the total cost of the plan – which the OCA did not challenge – should have been broken out into more cost sub categories (R.D., p. 26). Similarly, the ALJ recommended the disallowance of \$5.1 million of CIS costs on the grounds that those costs were "a normal business expense and [were not incurred] solely for the purposes of Act 129" (R.D., p. 50), notwithstanding undisputed testimony to the contrary in this proceeding, and ALJ Hoyer's finding to the contrary in a prior proceeding.

As explained in these Exceptions, the ALJ's proposed modifications are neither supported by substantial record evidence nor required as a matter of law. Accordingly, they should be rejected for these reasons alone. However, it is also important that the Commission understand that the adoption of those modifications – and particularly the directives that the Companies either conduct or commission additional studies and reports – would invariably lead to the incurrence of unnecessary costs for customers and a considerable delay in the delivery of

smart meter services to customers. Admittedly, not all questions can be answered nor can all costs and savings be known in detail and to the penny at this stage of the project, as is true of any major, multi-year undertaking. Nonetheless, the Companies have done their homework, have provided the Commission with a detailed blueprint of their intentions, have committed to an ongoing process of periodic stakeholder meetings throughout the deployment period, and will present all of their actual smart meter costs and savings in future SMT-C Rider filings, both of which are subject to PUC audit. In short, the ALJ's concerns are misplaced and the Companies' Deployment Plan should be approved consistent with these comments.

### III. ARGUMENT

The Companies respectfully note the following Exceptions to the Recommended Decision:

**A. Companies' Exception No. 1: The recommendation that the Companies engage in a benchmarking analysis to address the reasonableness of estimated costs is inconsistent with the preponderance of evidence, unnecessarily delays smart meter installation and reflects a misunderstanding of the record. [Findings of Fact 7- 9, 12-13, 17, 24-25; Recommended Decision at 23-26; Ordering Paragraphs 5-6.]<sup>2</sup>**

Section II of the Recommendation Decision sets forth thirty-eight separately numbered Findings of Fact (FOF). With respect to the estimated cost of the Companies' proposed Deployment Plan, the following findings would seem especially relevant:

- That the Companies assembled a multi-disciplinary Smart Meter Implementation Plan Team (SMIP Team) comprised of experts from within and outside FirstEnergy (FOF 7, p. 5).
- That the SMIP Team reviewed numerous documents; hosted sessions with various stakeholder groups and employees; and visited other utilities with experience in the deployment of smart meters (FOF 8, p. 5).

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<sup>2</sup> The referenced Findings of Fact relate to the estimated costs of the Companies' Deployment Plan. They are not erroneous, but rather detail the efforts made by the Companies to correctly estimate costs.

- That the SMIP Team conducted “comprehensive” Requests for Information (RFIs) and Requests for Proposals (RFPs) and “thoroughly scrutinized” the responses received (FOF 9, p. 5).
- That the “mesh” communications network selected by the Companies will be less costly to construct than an alternative “point-to-point” system (FOF 12, p. 6).
- That the proposed use of public rather than private “backhaul” services was the more cost-effective option (FOF 13, p. 6).
- That the schedule chosen by the Companies, i.e. “98.5% [meters installed] by 2019,” would facilitate an orderly deployment at the lowest cost after factoring in risks (FOF 17, p. 7).
- That virtually all the Companies’ estimated smart meter costs were based on bids received during the highly competitive RFI/RFP process (FOF 24, p. 8).

and

- That the Companies’ estimated all-in (capital and O&M expense) cost per meter of approximately \$375 was “generally comparable to the corresponding per meter costs projected by Commonwealth Edison Company, Delmarva Power & Light Company, Duquesne Light Company, PECO Energy Company and Potomac Electric Power Company” (FOF 25, p. 8).

Astonishingly, the ALJ proceeded to disregard the foregoing Findings of Fact and concluded that the Companies failed to satisfy their burden of proof, agreeing with the OCA that they could have conducted “a better cost benchmarking analysis” (R.D., p. 26). In support of this determination, the ALJ cites to the “significant cost of the Companies’ Plan” and the 0.3 “benefit/cost” ratio calculated by the OCA’s witness.<sup>3</sup> Based on these additional “findings”, the ALJ recommended that the Companies be required to conduct a “proper” benchmarking analysis, using a “much larger sample size of utilities” to break out the reported major cost categories into sub categories, and to submit a report to the Commission setting forth the results of their analysis within 120 days of the Commission’s order in this matter (R.D., pp. 26, 59).

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<sup>3</sup> The OCA, in its Main Brief, inadvertently characterized this figure as a “cost/benefit” ratio and the ALJ repeated this erroneous nomenclature in her Recommended Decision.

The ALJ's recommendation should be rejected for several reasons. First, there is no requirement, embodied in either Act 129 or the Commission's Implementation Order, that an electric distribution company ("EDC") submit a "benchmarking analysis" with its smart meter deployment plan. This may explain, in part, why, to the best of the Companies' knowledge, no other Pennsylvania EDC has presented the results of such an analysis in support of its smart meter deployment plan filing. Notwithstanding, the Companies benchmarked their average cost per meter against five other utilities, after accounting for known differences, demonstrating that their average cost per meter was comparable with that of the other utilities. No party challenged these results. Rather, OCA only claimed that additional benchmarking of more utilities was necessary.

Second, the Companies do not dispute that it was incumbent upon them to establish the reasonableness of their proposed smart meter solution. Their "responsibility to investigate" (R.D., p. 26), however, was more than adequately met by the extensive data gathering efforts and thoughtful review by the Companies' SMIP Team. Stated simply, the RFI/RFP process conducted by the Companies for virtually all of the Companies' smart meter costs, which the ALJ specifically found to be "comprehensive" and "thorough" (R.D., p. 5), provided the Companies with a far more meaningful and reliable "benchmark" than would information regarding the costs incurred by other utilities deploying different smart meter systems, integrated into different utility infrastructure, at different times, throughout different service territory terrain.

Third, the record in this proceeding casts considerable doubt on the potential value of the ALJ's proposed benchmarking analysis with further break out of cost sub-categories. As noted by Mr. Fitzpatrick (Met-Ed/Penelec/Penn Power/West Penn St. 4-R, p. 12): "It would be

virtually impossible to obtain the granularity of the data necessary to perform meaningful comparisons on an “apples-to-apples” sub-cost category basis”. Indeed, in order to develop truly comparable data, one would need to know the status and age of the equipment/systems being replaced by the other utilities, and perform a detailed comparison of the specific technology being installed – information that is generally not made public.<sup>4</sup> And, even if the data could become known and be “normalized” in some acceptable way, there is no uniformity in the manner by which utilities categorize and record smart meter costs, as the OCA’s own witness acknowledged in his surrebuttal testimony (OCA St. 1-SR, p. 4, Table 1) and on cross-examination (Tr. 76).

Fourth, the reasons cited by the ALJ for mandating further cost benchmarking analyses reflect a basic misunderstanding of the record evidence. For example, on page 26 of the Recommended Decision, the ALJ expresses concern over the “significant” cost (\$1.258 billion) of the Companies’ Deployment Plan. Yet, at page 8, she notes that the Companies’ estimate translates into a per meter cost of \$375, which she acknowledges is comparable to the per meter cost projected by five other utilities, including Duquesne Light Company and PECO Energy. Similarly, the ALJ observes that the OCA’s witness computed the Deployment Plan’s “benefit/cost ratio” to be only 0.3 (R.D., p. 26). However, as Mr. Fitzpatrick demonstrated (Met-Ed/Penelec/Penn Power/West Penn St. 4-R, p. 17; Tr. 103-104), that figure, when properly restated on an equivalent basis, rises to approximately 0.7, or roughly the same as that which the OCA’s witness calculated for the other companies whose smart meter filings he claimed to have reviewed. As Mr. Fitzpatrick explained, two factors account for much of the difference in “benefit/cost ratios” claimed by the OCA’s witness: (1) three of the four Companies have already

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<sup>4</sup> For example, the Companies selected the most current technology available – Itron’s new advanced CISCO solution (Met-Ed/Penelec/Penn Power/West Penn St. No. 1, pp. 10-11). Actual data regarding the full-scale deployment of this technology does not exist.

substantially reduced their costs by converting to bi-monthly meter reading and, hence, the installation of smart meters will not produce the same level of savings it otherwise would have had the Companies still read meters monthly; and (2) the Commission's current customer service regulations will prevent the Companies from realizing much of the potential savings otherwise available through remote disconnection (Companies Main Brief, p. 21).<sup>5</sup>

Finally, adoption of the ALJ's recommendation, coupled with the significant delay that has already occurred in the processing of the Companies' Deployment Plan filing, could further delay the start of smart meter deployment in the Companies' respective service territories. Indeed, assuming (1) the issuance of a Commission Order in January, (2) use of the full 120-day period to conduct further cost benchmarking studies, and (3) several months for the parties to evaluate the additional information and for the Commission to determine whether such data confirmed the reasonableness of the Companies' estimated costs, it seems unlikely the Companies could commence meaningful deployment activities much before the fourth quarter of 2014, putting them about nine months behind schedule – a delay that would be caused by the completion of a report that will provide no meaningful information beyond that which is already included in the evidentiary record. In light of the foregoing, no further cost benchmarking is necessary.

**B. Companies' Exception No. 2: The recommendation that an additional consultant be hired to investigate cost savings potential misconstrues the record, increases costs and is completely unnecessary. [Findings of Fact 26-27; Recommended Decision 30-32; Conclusion of Law 16; Ordering Paragraph 10.]**

The Companies, for illustrative purposes only, included savings estimates in their Deployment Plan, totaling \$406 million over a 20-year period, for four operational cost

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<sup>5</sup> Moreover, the OCA's witness acknowledged on cross-examination that the "benefit/cost ratios" he presented for the other companies were based entirely on **estimated** costs and savings and that he had no opinion as to the reasonableness of those estimates (Tr. 83-84).

categories – meter reading, meter services, back-office and contact center (Joint Petitioners’ Exhibit 2, pp. 57-64) and presented a plan on how they intend to identify, measure, track and report other potential savings. Based on OCA’s witness’ review of those estimates and his calculation of the aforementioned “benefit/cost ratios,” the OCA recommended that the Commission direct the Companies as follows (OCA Main Brief, p. 13):

To hire an independent consultant with experience in identifying the potential for savings as a result of smart meter deployment to: (1) conduct a comprehensive savings potential investigation of categories of savings *achieved* by other companies that have deployed smart meters, including the seven categories identified by Nevada Power...; and (2) prepare and submit a report to the Commission of his or her findings within 120 days of the Commission’s order in this matter. Further, the Commission should direct the Companies to file an amended Plan detailing the potential categories and estimates of savings to be reflected in the SMT-C identified by such consultant. (emphasis added).

At page 32 of her Recommended Decision, the ALJ adopts the OCA’s proposal essentially verbatim. However, in doing so, she improperly relies on the OCA’s flawed “benefit/cost” calculations, misconstrues the Companies’ rebuttal and rejoinder testimony, and disregards important concessions offered by the OCA’s witness on cross-examination. For each and all of these reasons, the ALJ’s proposal that the Companies – and ultimately their customers – pay yet another consultant to speculate about smart meter savings opportunities should be rejected.

As previously discussed, the “benefit/cost ratios” calculated by the OCA’s witness, much like the results of the “benchmarking” analyses, are of limited value because no two electric distribution companies have identical characteristics. To be sure, significant differences can and do exist in areas such as statutory mandates, administrative regulations, nature of service territory, customer density, age and condition of critical infrastructure and meter reading frequency, to name a few. Unless those distinguishing factors are placed on an even plane and

normalized – tasks which themselves could prove to be impractical and highly contentious – no meaningful conclusions can be drawn.

Moreover, the ALJ mischaracterizes and seriously understates the nature of the Companies' commitment to quantifying smart meter savings when she paraphrases their rebuttal testimony in these terms: “[I]f savings occur in areas not identified in the Plan, the Companies will reflect such savings in their annual SMT-C filings” (R.D., p. 32). As Mr. Fitzpatrick made clear in his rejoinder testimony (Tr. 97-103), the Companies fully intend to investigate and track all sources of potential savings, **including the categories enumerated by the OCA’s witness**, and to flow-through to their customers in future SMT-C Rider filings all savings actually realized. In order to accomplish this, the Companies retained Mr. Fitzpatrick and, at the time the case was briefed to the ALJ, were in the process of hiring a nationally recognized consulting firm for the project management office to assist in such identification and quantification (Met-Ed/Penelec/Penn Power/West Penn St. No. 4-R, p. 19).<sup>6</sup> In other words, the Companies have already made plans to develop the information the OCA seeks. That said, it should be kept in mind that meaningful savings will not begin to accrue until approximately 2018 – after completion of the Solution Validation Stage, by which time the Companies will have a much better understanding of the scale and scope of the savings that are achievable.<sup>7</sup>

Finally, the type of report that the ALJ would have the Companies prepare and submit within ninety days of the Commission’s Order in this case – “a comprehensive savings potential investigation of categories of savings *achieved* by other utilities” – cannot be done. That is

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<sup>6</sup> In the five-month interval between the filing of briefs and the issuance of the Recommended Decision, the Companies retained Accenture for this role. An overview of this company and its credentials can be found at [www.accenture.com](http://www.accenture.com).

<sup>7</sup> Should the Commission adopt the revised deployment schedule described in Section III. F, *infra*, benefits would begin to accrue in late 2016 - early 2017.

because, as the OCA's witness admitted (Tr. 68-69), relevant data regarding actual savings will not be available for several years:

Q. Do you have any actual final numbers on costs and savings to know what the actual ratios are?

A. No. The -- very few utilities have completed the deployment, and so just as in this case the Company had done a projection over 20 years of costs and projection over 20 years of savings, those companies in their filings have done similar types of projections, typically over 20 years.

These filings are in the span of time, except for California, sort of 2009, 2010, so the only utilities that are finished their deployment that I'm aware of for the most part on this list are -- it's probably PG&E in California and Centerpoint and Oncor in Texas. There might be another one of the California utilities close to finishing.

So basically, it would be at best at this point, having just completed, they would have a handle on their actual costs. They'd need a few years of experience to get a sense of whether their actual savings were coming in consistent with their estimates.

The Companies agree that a "proper" analysis of their own operations should be conducted to ensure that "savings realized ... from the installation and use of the smart meter technology," 66 Pa.C.S. § 2807(f)(7), are offset against their recoverable smart meter costs. However, as the OCA's witness's response on cross-examination, *supra*, confirms, such an analysis can only proceed on the basis of actual operating experience -- such as that to be gained during the Companies' Solution Validation Stage and the first several years of full-scale smart meter deployment. There is no reason to pay another independent consultant to guess what those savings might look like and where they might come from when the Companies already have a consultant on board and a plan in place to identify and quantify those savings as they actually occur. Adoption of this recommendation, like that involving further study of cost benchmarks

and cost subcategories, would unnecessarily delay the start of smart meter deployment. No additional meaningful information beyond that which is already in the evidentiary record can be obtained at this time. Accordingly, this recommendation should be rejected.

**C. Companies' Exception No. 3: The ALJ's recommendation to submit semi-annual cyber-security reports is redundant with other Commission activities and could jeopardize such security. [Findings of Fact 36; Recommended Decision at 47-48; Ordering Paragraph 21]**

The ALJ recommends that the Companies "continue to discuss and address cyber-security issues with the stakeholder group on a going forward basis and to report to the Commission on a regular semi-annual basis the status of cyber-security at the Companies" (R.D., p. 48). The Companies do not take exception to making cyber-security issues a standing agenda item for their stakeholder meetings. However, they do take exception to the filing of semi-annual cyber-security reports with the Commission, especially since (i) the ALJ found (in Finding of Fact No. 36) that "[t]he Companies currently comply with all [cyber security, as well as customer privacy and remote disconnection] guidelines and will monitor these issues and adjust procedures and protocols as necessary to remain in compliance with any new requirements;" and (ii) no party claimed that any such recommendation was necessary. Not only did no party suggest the need for such reports, but by making such filings, the Companies' cyber security protocols and safeguards could be compromised and would be redundant with other activities occurring at the Commission.

As OCA's witness testified:

T]he Companies are aware of the added risks introduced to utility operations by smart metering, and are proactively taking steps to meet the challenge of maintaining the security of the grid and or their operations. They recognize that they have additional work ahead of them to specify practices for the secure integration of their metering solution and network into their operations, and are in the process of doing this planning. They also give cyber-security the attention of senior management and the Board of

Directors, and work to keep their cyber-security efforts in working order and up to date. [OCA Statement No. 2, p. 6]

OCA's witness went on to add:

The Companies annually review the FirstEnergy AMI and Smart Grid Cyber Security Program. Updates are made as needed. FirstEnergy participates in many industry cyber-security working groups and forums in order to keep abreast of the latest standards and best practices. The groups also provide a forum where utilities can alert one another to emerging threats. The Companies have chosen vendors whose products (e.g. smart meters) have been evaluated by third-party security services, in addition to the vendor's own internal penetration testing and vulnerability scanning. FirstEnergy also performs vulnerability assessment activities regarding vendor products, in the form of documentation and architecture review and active assessment of security controls. Among other security practices, the Companies make use of log monitoring and analyzes activity on the network and alerts managers to possible problems. The Companies deploy intrusion prevention systems in-line with connections to external and untrusted networks. The Companies have engaged independent cyber security risk assessors. FirstEnergy keeps records of cyber-security access to key systems, and of any successful cyber-security intrusions. The Companies audit these logs and records systems, to ensure that they are fulfilling their purpose of identifying any successful cyber-security intrusions. *These practices are among those in use by the utilities that take seriously their cyber-security responsibilities.* [Id. at 6-7 (italics added)(citations omitted)].

In sum, the evidence demonstrates that the Companies take seriously their cyber-security responsibilities – something that is required by law to be certified with the Commission on a regular basis.

Section 101.1 of Chapter 52 of the Pennsylvania Code requires utilities within the Commonwealth “to develop and maintain appropriate written physical security, *cyber security*, emergency response and business continuity plans to protect this Commonwealth's infrastructure and ensure safe, continuous and reliable utility service” (emphasis added). The utility is required to “submit a Self Certification Form to the Commission documenting compliance with this

chapter.” (*Id.*) Even the legislature chose not to require public reporting of cyber security issues, instead opting for the submission of a self certification form. While not expressly stated, clearly, the legislature recognized the potential breaches in security that could occur should details of a utility’s cyber security processes, protocols and practices be made public.<sup>8</sup> Moreover, the submission of such reports contemplated by the ALJ would be redundant. Cyber security is a major topic in periodic management audits conducted by Commission Staff and the Companies are also subject to periodic data requests on this same topic. And, in May of this year, the Commission hosted, in conjunction with the U. S. Department of Homeland Security, a half day “Cyber Resilience Workshop.”

In sum, there is no practical reason to require the Companies to submit reports not required by the other EDCs within the Commonwealth. Indeed, such a recommendation is inconsistent with the ALJ’s Finding of Fact 36, wherein she recommends a “*global state wide approach*” to cyber security issues (italics added). The undisputed evidence indicates that the Companies are extremely aware of the potential for cyber attacks on their systems and take this matter very seriously. In light of this evidence, as well as the fact that the ALJ’s recommendation to submit semi-annual reports on the Companies’ cyber security issues could jeopardize the Companies’ cyber security and is redundant with other on-going activities at the Commission, the recommendation should be rejected.

**D. Companies’ Exception No. 4: The ALJ’s recommendation to deny West Penn’s Claim for \$5.1 Million in incremental smart meter related CIS Costs ignores both the law and the preponderance of the evidence. [Findings of Fact 31 and 32; Recommended Decision at 49-51, Ordering Paragraph 22.]**

The ALJ recommended denial of West Penn’s claim for \$5.1 million of funds expended to improve its CIS system so that smart meters could be utilized because, in her opinion: (1) the

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<sup>8</sup> Any document filed with the Commission could become the subject of a public records request.

expense was a “normal business expense” and not solely for the purposes of Act 129 (R.D. p. 50); (2) CIS costs were allocated to sister operating utilities in other state jurisdictions that did not have smart meter mandates and the allocated costs were claimed in base rates in those jurisdictions (R.D. pp. 50-51); (3) West Penn is now using the FirstEnergy CIS system (R.D. p. 51); and (4) the West Penn CIS system bolstered by the \$5.1 million expenditure “is not used or useful for smart metering purposes” (R.D. p. 51). This analysis did not consider West Penn’s countervailing evidence or the specific authorization in Act 129 for cost recovery of this type of expense.

West Penn’s \$5.1 million claim for CIS related expenses incurred during 2009-2010 (a subpart of an overall \$45.1 million West Penn spend) is a reserved legal issue from West Penn’s 2009 smart meter filing at Docket No. M-2009-2123951. Recovery of this claim was not included in the settlement because some parties challenged these dollars on the basis that the amount might relate to a general updating of West Penn’s CIS. Thus, the issue is primarily a legal issue centering on whether expenditures made to enable smart meters, but which also have the effect of updating the CIS generally, are recoverable under Act 129’s provisions for cost recovery. Act 129 clearly and definitively resolves this legal issue in West Penn’s favor.

The legal basis for recoverability of the \$5.1 million is addressed by the plain language of Act 129. Section 2807(f)(7) states that an electric distribution company may recover the reasonable and prudent costs of “providing smart meter technology” including “*the cost of any system upgrades that the electric distribution company may require to enable the use of the smart meter technology which are incurred after the effective date of this paragraph...*” (66 Pa.C.S. § 2807(f)(7)(emphasis added)). This provision of Act 129 makes it clear that system upgrade costs, which are expressly included within the definition of “smart meter technology”,

are recoverable through the smart meter rider. Therefore, the general CIS system \$5.1 million upgrade, which was an ancillary benefit of West Penn's overall \$45.1 expenditure, is explicitly recoverable as a system upgrade under Act 129.

West Penn, however, did not rest its support for recovery of this \$5.1 million solely on this legal argument. It also bolstered the claim with additional evidence that countered OCA's position that the \$5.1 million was not recoverable because it was a "normal business expense", allocated to other states without smart meter mandates and was not "used and useful. In fact, West Penn's evidence in this proceeding showed that full recovery of the \$5.1 million is factually warranted because this expenditure proved to be useful in the FirstEnergy smart metering design solution and supported West Penn's ability to deploy the approximately 25,000 smart meters that enabled West Penn's Energy Saver Rewards Program. (Met-Ed/Penelec/Penn Power/West Penn St. 5, pp. 15-16).

Moreover, the \$5.1 million CIS expense was not "normal" in the least because it would not have been incurred absent the Act 129 smart meter mandate. The Companies explained in their Main Brief (p. 33) and in testimony that the *only* reason West Penn expended the \$5.1 million (which is inextricably linked to the other funds expended for similar reasons) was because of the requirements of Act 129 (Met-Ed/Penelec/Penn Power/West Penn St. 5-R, p. 15). West Penn's CIS was incompatible with the smart metering mandate (Tr. 53). The existing CIS was functional to meet West Penn's needs for the future absent the requirements of Act 129 and there were no CIS upgrades planned for the foreseeable future. (Met-Ed/Penelec/Penn Power/West Penn St. 5-R, p. 16).

In his rebuttal testimony, Mr. Valdes definitively refuted this “normal course of business” assertion by OCA by noting that West Penn’s testimony in the prior smart meter proceeding stated that:

The only reason that the Company is choosing to modernize the CIS solution now is exclusively due to the requirements of Act 129. Excluding the requirements of Act 129, the current CIS solution is capable of supporting the [Allegheny Power] business for the foreseeable future, and the total cost of ownership of the CIS modernization solution is less than the extensive renovation required to the legacy CIS system to permit use of Smart Meters. Given that the CIS Modernization is required to meet Act 129 requirements and the SMI plan is dependent upon the specific approach to modernize CIS, we believe that it is reasonable for the company to recover these costs through the surcharge recovery provisions outlined by Act 129.

(Met-Ed/Penelec/Penn Power/West Penn St. 5-R, p. 15).

The ALJ’s reliance on the allocation of CIS improvement costs to West Penn’s sister utilities as support for denial of the claim is also misplaced. The allocation of CIS costs to West Penn’s sister utilities in Maryland and West Virginia, where there was no smart meter mandate, is irrelevant to the issue of whether West Penn expended those funds in support of the Pennsylvania Act 129 smart meter mandate, and not in the ordinary course of business. It has never been the Companies’ position that these CIS upgrades did not also benefit West Penn’s sister utilities, justifying the allocation of a portion of these costs to them. Rather, it is the Companies’ position that such upgrades were not necessary, nor would they have been made, absent the Act 129 mandates. Moreover, the inclusion of those allocated costs in the base rates of West Penn’s sister utilities means nothing other than there was no smart meter surcharge available to those companies in those other jurisdictions.

The ALJ’s assertion that the \$5.1 million claim should be denied on the grounds it was not “used and useful” is both factually and legally erroneous. First, West Penn presented

undisputed evidence that the expenditure was useful in the FirstEnergy smart metering design solution<sup>9</sup> and also supported West Penn's ability to deploy the approximately 25,000 smart meters that enabled West Penn's Energy Saver Rewards Program. (Met-Ed/Penelec/Penn Power/West Penn St. 5, pp. 15-16). Therefore the expenditure was "useful" and in support of the deployment of smart meters. And West Penn's witness explained that the \$5.1 million was inextricably related to the recoverable costs West Penn incurred as part of the development of its 2009 plan (Met-Ed/Penelec/Penn Power/West Penn St. 5, p 15). Furthermore, OCA and the ALJ erroneously rely on *Barasch v. Pa.PUC*, 516 Pa. 142, 532 A.2d 325 (1987), aff'd *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989) as support for the recommended disallowance. West Penn's claim is not a rate base claim, which implicates whether an asset is used and useful, but is an expense claim. As explained above, Section 2807(f)(7) expressly provides for recovery of this expense as a system upgrade needed to enable the deployment of smart meters.

Moreover, to the extent one wishes to judge the recoverability of this expense based on the eventual merger with FirstEnergy, thus, removing the necessity of a stand-alone West Penn CIS system, the relevant case is *Pittsburgh v. Pa.PUC*, 370 Pa. 305; 88 A.2d 59 (1952) which held that utility management must be judged by what it knew or ought to have known at the time it exercised its managerial discretion. *Pittsburgh* at 319. At the time West Penn incurred this cost it was responsible for enabling smart meters through a stand-alone West Penn CIS and could not rely on FirstEnergy's systems. It cannot be penalized for the consequences of a later merger that made it unnecessary for West Penn to complete the updating of its own CIS system.

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<sup>9</sup> As stated by Mr. Valdes in his Direct Testimony "the \$7.3 million Phase I development of requirements, designs, vendor analysis and cost analysis was useful during the Grace Period in providing templates for process design and business case modeling. The \$37.8 million Phase II development of process designs, technical and functional designs, change management plans, data conversion, security system and project management office estimates was useful during the Grace Period in offering templates for how to model aspects of the technology systems for the Deployment Plan and validating work done by the PA Companies." (Met-Ed/Penelec/Penn Power/West Penn St. 5, p. 16).

It is also noteworthy that West Penn's \$5.1 million claim was sustained in the Recommended Decision of ALJ Mark A. Hoyer that preceded the West Penn smart meter settlement. ALJ Hoyer's Initial Decision dated April 29, 2010 at Docket No. M-2009-2123951, was based on the evidence presented during hearing and, based on this evidence, ALJ Hoyer concluded that West Penn's back office costs (which included CIS costs) were recoverable within the purview of Act 129 and through a surcharge.<sup>10</sup> ALJ Barnes' inconsistent recommendation should not be followed.

In sum, West Penn's claim should be approved because the Commission is required by Act 129 to allow recovery of the \$5.1 million expense as a system upgrade necessary to enable smart meters. In addition, the preponderance of the evidence shows that (i) West Penn properly exercised its managerial discretion to incur this expense; (ii) the ultimate smart meter solution proposed in this proceeding benefited from the expenditure; and (iii) the \$5.1 million CIS-related portion of the overall \$45.1 million expense could not have been bifurcated from the overall spend.

**E. Companies Exception No. 5: The ALJ's recommendation on legacy meter incremental removal cost recovery conflicts with the Companies' lawful election under Act 129 of full and current cost recovery through the SMT-C Rider and is contrary to basic Pennsylvania ratemaking principals. [Finding of Fact 33; Recommended Decision at 53-56; Conclusion of Law 17; Ordering Paragraph 23.]**

The ALJ unlawfully and erroneously directed that recovery of the Companies' new incremental costs of Legacy Meter removal be charged to the regulatory asset account proposed by the Companies containing the remaining cost of retired meters and be amortized over the remaining depreciable lives of the metering assets (R.D. at 52-54). This recommendation, however, is completely inconsistent with the Companies' election to recover costs through the

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<sup>10</sup> Initial Decision at 50.

rider, rather than base rates – a factor, in and of itself, that is sufficient grounds to reject the ALJ’s recommended rate making treatment of incremental Legacy Meter removal costs.

In support of her conclusion that incremental removal costs should be charged to the regulatory asset account and amortized over the remaining depreciable lives of Legacy Meters and recovered in a future base rate case when the regulatory asset was reflected in base rates, the ALJ cited the Commission’s caution to EDCs in its smart meter *Implementation Order*<sup>11</sup> that stranded costs be minimized, as well as her belief that cost of meter removal and salvage value were “two halves of the same whole” and that separating costs of removal from salvage value and depreciation would not minimize costs to consumers. (R.D. at 54.) As explained below, the ALJ’s analysis is incorrect.

The ALJ essentially adopted OCA’s erroneous description of the Companies’ proposal to recover incremental Legacy Meter removal costs (which are above and beyond removal costs currently in base rates), thus, resulting in an erroneous conclusion. (R.D. at 53). As the Companies explained through the testimony of Mr. Raymond E. Valdes and in their briefs, Act 129’s mandate to replace current legacy meters with smart meters creates several ratemaking issues that must be addressed by the Commission since current base rates only cover traditional depreciation of Legacy Meters, salvage value and the Operation and Maintenance (“O&M”) expense of removing these meters during the normal course of business. However, the massive replacement of these meters with smart meters creates incremental costs of meter removal that are different in magnitude and timing than was previously assumed for ratemaking purposes. In other words the “incremental” costs of legacy meter removal are amounts above and beyond costs currently collected in base rates. In addition, under Act 129, electric distribution utilities were given the right to recover their new smart meter-related installation costs either through

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<sup>11</sup> *Implementation Order* at 33.

base rates or a reconcilable rider. The Companies chose the latter – recovery through their SMT-C Rider. To coordinate this election with ongoing cost recovery under base rates, the Companies’ proposal uses a recovery schedule set equal to the remaining depreciable lives of such meters per the respective Company’s Annual Depreciation Reports as filed with and approved by the Commission pursuant to 52 Pa. Code §§ 73.1-73.9, and continued recovery through base rates. Salvage value received from the disposition of Legacy Meters will be used as an offset to the regulatory asset, similarly amortized over the remaining depreciable lives of the metering asset.<sup>12</sup> The rate base equivalent of the regulatory asset for Legacy Meters will continue to be included in the respective Company’s rate base allowing the Companies to continue to earn a fair return on the asset. (Met-Ed/Penelec/Penn Power/West Penn St. 5, pp. 7-8).

The removal of the Legacy Meters is part of the installation of the smart meters. Therefore, the Companies are asking for Commission approval to include the incremental cost of removal for Legacy Meters as a recoverable O&M expense in the each Company’s SMT-C Rider. This approach harmonizes the reality that traditional meter removal costs are already being recovered in base rates, but also allows the Companies to recover through the SMT-C Rider any incremental Legacy Meter costs incurred as a result of the smart meter mandate, as is their prerogative afforded them in Act 129.

The ALJ’s reliance on the Commission’s previously expressed concern over excessive stranded costs is misplaced. No party in this case suggested that the Companies’ plan causes excessive stranded costs. Rather, OCA (and, therefore, the ALJ) misinterprets the Commission’s Implementation Order on the subject. The paragraph cited does not support the ALJ’s assertion.

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<sup>12</sup> In their Rebuttal Testimony, the Companies agreed as an alternative to this approach, to use salvage value received from the disposition of Legacy Meters as an offset to the removal costs collected through the SMT-C Rider. (Met-Ed/Penelec/Penn Power/West Penn St. 5-R, p. 19 lines 4-9).

While the Implementation Order *allowed* electric distribution companies to seek recovery of stranded costs through an accelerated depreciation schedule, it did not *require* this approach (Implementation Order at 33). To amortize these incremental costs over several decades, rather than simply treat these removal costs as O&M, *as is typically done in Pennsylvania*, has the effect of denying the Companies recovery of costs and is contrary to the typical treatment of meter removal costs. Notwithstanding OCA's assertion to the contrary, as explained in the Companies' Main Brief (pp. 35-36), the Companies' request for a regulatory asset results in no net change to base rates. Further, the ALJ's recommendation would prevent the Companies from fully collecting all of their smart meter related costs. As explained in the Companies' Main Brief (at page 37), adding incremental removal costs to the regulatory asset without any corresponding base rate revenues will erode revenues and earnings over time.

Finally, by placing both salvage value and incremental meter removal costs in the SMT-C Rider – as recommended by the Companies in the alternative (Met-Ed/Penelec/Penn Power/West Penn St. 5-R, p. 19 lines 4-9), concerns over ratemaking symmetry are alleviated and both “halves of the whole” are kept intact.

Although the ALJ did not appear to rely on other elements of the OCA's position, the Companies, in an abundance of caution, will address these arguments in anticipation of OCA making them again in its reply to the Companies' exceptions set forth herein. OCA acknowledged that the Companies' ratemaking treatment only involves new, *incremental* legacy meter removal costs. Yet, OCA's witness ignored this fact, instead asserting that allowing removal costs as an O&M expense claim in the SMT-C Riders is some form of impermissible double cost recovery. Clearly, if the costs are *incremental*, they are not being double recovered through both a rider and in base rates. Similarly, OCA's witness acknowledged that historically,

the cost of meter removal has been treated as an O&M expense. Notwithstanding this acknowledgement, OCA's witness still recommends recovery of the incremental Legacy Meter removal costs through base rates on an amortized basis over the remaining depreciable lives of the Legacy Meter assets – which is consistent with OCA's apparent preference for base rate recovery, rather than rider recovery of smart meter costs.<sup>13</sup>

Finally, OCA attempted to justify moving the incremental costs of legacy meter removal out of the SMT-C Rider based on an objective to minimize customer impact. However, as Mr. Valdes explained, the customer's monthly rate impact caused by the Companies' proposal to recover the costs of removal through the Riders (prior to factoring in salvage value) is 16 cents during the three-year full deployment stage and a penny or less throughout the remainder of the deployment plan period (Met-Ed/Penelec/Penn Power/West Penn St. 5-R, p. 20).

In sum, the Recommended Decision promotes ratemaking gamesmanship by moving the incremental costs of Legacy Meter removal to base rates and treats them as an asset to be depreciated as opposed to an incurred O&M expense, which effectively denies recovery of all or a portion of the Companies' incremental Legacy Meter removal costs and potentially erodes their revenues and earnings. This recommendation is in conflict with the Companies' lawful election to recover smart meter and related installation costs through a rider. The Companies' proposed treatment of the incremental costs of legacy meter removal maintains traditional rate making treatment of such removal costs as an O&M expense and does not materially impact customer rates. The ALJ's proposed approach, on the other hand: (i) is inconsistent with traditional Pennsylvania ratemaking treatment; (ii) has no significant customer impact benefits; (iii) attempts to substitute the ALJ's judgment for that of the Companies who, as permitted by Act

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<sup>13</sup> *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (June 24, 2009) (“*Implementation Order*”) (“OCA stated that it feels traditional rate base procedures would be the preferred method for recovery, rather than an adjustment mechanism that may be unnecessarily complicated.” *Implementation Order* at 32).

129, elected to recover smart meter costs through an automatic adjustment clause; and (iv) denies the Companies full recovery of all smart meter related costs. Accordingly, the Commission should approve a regulatory asset for recovery of existing Legacy meter costs, including salvage values, and rider treatment of incremental legacy meter removal costs as proposed by the Companies, or in the alternative, approve a regulatory asset for existing Legacy Meter costs and allow the Companies to add salvage value to the incremental cost of removing Legacy meters for recovery through the SMT-C Rider.

**F. Companies' Exception No. 6: Given the time that has elapsed between the submission of briefs and the issuance of the Recommended Decision, the Companies determined that their initial proposed smart meter deployment schedule can be accelerated without any impact on the nominal cost of the Deployment Plan and should be modified as described herein. [Findings of Fact 15-16, Recommended Decision at 12-13; Conclusion of Law 2; Ordering Paragraph 1.]<sup>14</sup>**

The Deployment Plan proposes a deployment schedule that contemplates a three-year Solution Validation Stage wherein the Companies would first create a test lab/ "mini-system" in Penn Power's service territory by installing 60,000 meters during this stage (5,000 meters in 2014, 15,000 meters in 2015, and 40,000 meters in 2016) (Met-Ed/Penelec/Penn Power/West Penn St. 2, p.12). This proposal was not challenged by any party. During the five months between the submission of briefs and the rendering of the Recommended Decision, the Companies continued to test the selected smart meter equipment, both individually, as well as in combination with the other components comprising the smart meter solution. Based on this additional testing, it is now the Companies' belief that the entire Penn Power system, which is comprised of approximately 170,000 meters, can be built out between 2014 (50,000 meters) and the end of 2015 (120,000 meters), rather than only deploying 60,000 meters through 2016 as originally proposed. This can be done without increasing the estimated overall nominal cost of

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<sup>14</sup> Since the deployment schedule was not challenged, these references to the R.D. are general references wherein the deployment schedule was discussed.

deployment as set forth in the originally filed Deployment Plan. Instead, there would be a shift of budget dollars among the various years, with approximately \$62.5 million being shifted to 2014 and another \$49 million being shifted to 2015. Because no change in the overall nominal cost of the Deployment Plan is contemplated, the Companies anticipate corresponding decreases in annual budgets in 2016 through 2019. Further, given that much of the incremental spend in 2014 and 2015 will be to complete a significant portion of the IT work, much of this incremental increase in budgets will be allocated to all four of the Companies. As such, the Companies anticipate the following estimated monthly bill impacts for each of the Companies in 2014 and 2015 as a result of the accelerated smart meter deployment in Penn Power’s service territory:<sup>15</sup>

<u>Company</u>	<u>2014</u>	<u>2015</u>
Met-Ed (R)	\$2.33	\$2.20
Met-Ed (C)	\$2.38	\$2.30
Met-Ed (I)	\$2.29	\$2.21
Penelec (R)	\$2.34	\$2.22
Penelec (C)	\$2.44	\$2.35
Penelec (I)	\$2.38	\$2.29
Penn Power (R)	\$2.82	\$3.94
Penn Power (C)	\$3.03	\$4.61
Penn Power (I)	\$2.32	\$3.41
West Penn Power (R)	\$3.87	\$3.64
West Penn Power (C)	\$3.91	\$3.75
West Penn Power (I)	\$3.81	\$3.65

As the Companies indicated during the evidentiary hearing, they would attempt to accelerate the deployment schedule if possible. (Met-Ed./Penelec/Penn Power/West Penn St. 4, pp. 7-8). And, by doing so, consistent with the Companies’ revised deployment schedule for Penn Power, an entire utility’s smart meter system will be completed in the same time frame that only about a third of it would otherwise have been built – without any increase in the overall

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<sup>15</sup> Preliminary analysis indicates that the maximum monthly bill impacts for the remainder of the 20 year life cycle would not exceed \$4.07, \$5.07 and \$6.87 for Penn Power residential, commercial and industrial customers, respectively; \$3.94, \$4.68 and \$5.81, for Met-Ed’s residential, commercial and industrial customers, respectively; \$3.93, \$4.62 and \$5.75, for Penelec’s residential, commercial and industrial customers, respectively; and \$5.43, \$6.46 and \$7.22 for West Penn’s residential, commercial and industrial customers, respectively.

nominal cost of the project. Not only is this consistent with the Commission’s policy to improve competition through the use of smart meters,<sup>16</sup> but it will also provide the Companies with empirical data on a broader scale, which should identify virtually all potential problems that they may encounter prior to full scale deployment, rather than only those that would be identified through a partial build out of the system and should allow the Companies to better identify and verify potential cost savings from the installation of smart meters more quickly. Moreover, it will bring actual benefits to customers sooner than otherwise contemplated.<sup>17</sup>

In sum, for the reasons previously stated, the Companies take issue with the smart meter deployment schedule as currently recommended by the ALJ and urge the Commission to modify it as follows for the Penn Power service territory:

	<u>No. of Meters Deployed</u>	<u>Budget</u>	<u>Increment. Bud Adj</u>
Orig Plan	5,000	\$47 million	
Mod Plan	50,000	\$109 million	+ \$ 62.5 million
Orig Plan	15,000	\$59 million	
Mod Plan	120,000	\$108 million	+ \$49 million
Orig Plan	40,000	\$109 million	
Mod Plan	Completed		N/A

This will allow the complete build out of the Penn Power system by the end of 2015, with the remaining deployment schedule for the other utilities currently remaining unchanged.<sup>18</sup>

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<sup>16</sup> See e.g., *Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Service*, Docket I-2011-2237952, Final Order, pp. 31, 69-70 (entered Feb. 15, 2013)(We expect the EDCs to continue adding medium C&I customers to the hourly LMP product as interval meters are deployed)(The rulemaking to review and revise the switching regulations at 52 Pa. Code §§ 57.171-179 will explore methods to accelerate the switching timeframes beyond simply shortening the confirmation period. This could include off-cycle switching and other processes made possible with the deployment of advanced metering).

<sup>17</sup> As indicated in the Deployment Plan, benefits were not going to start to accrue to customers until 2018. Under the revised deployment schedule, benefits for Penn Power customers should start to be realized by late 2016 – early 2017.

<sup>18</sup> Based on this acceleration, the Companies anticipate a slight change in the deployment of meters in 2019 as proposed in the Deployment Plan. However, at this time the Companies cannot commit to any changes beyond 2015, given their inability to predict the types of problems they may encounter during the Penn Power build out. Once this is known, it may be necessary or preferable to modify the remaining deployment schedule. Should such

#### IV. CONCLUSION

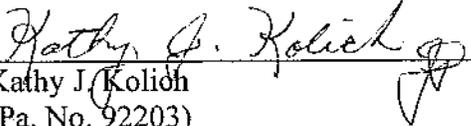
Based upon the foregoing, the Companies respectfully ask the Commission to reject the ALJ's recommendations to the extent that they require the Companies to: (i) conduct another cost benchmarking analysis and submit it with an amended plan within 120 days of the Commission's Order in this matter; (ii) hire yet another independent consultant to conduct a savings potential investigation and submit a report within 90 days of the Commission's Order; (iii) submit semi-annual reports on the status of the Companies' cyber-security; (iv) forego collection of \$5.1 million of incremental CIS costs incurred by West Penn; and (v) charge the incremental cost of removal of currently installed meters that will be replaced by smart meters ("Legacy Meters") to the regulatory asset account containing the Companies' unrecovered investment in Legacy Meters and to amortize the cost over the remaining depreciable lives of those meters. The Companies further request that the Commission modify the smart meter deployment schedule consistent with that described in Section III. F, which will allow the complete build out of the Penn Power system by the end of 2015. Finally, the Companies ask that the Commission: (1) find that their proposed Deployment Plan satisfies the requirements of Act 129 and the Commission's June 24, 2009 Implementation Order; (2) approve the Companies' proposed procurement and deployment of approximately 2.1 million smart meters, over 98% of which would be installed by the end of 2019, as modified herein; (3) authorize the Companies to recover deferred and ongoing smart meter costs, including the \$5.1 million of incremental West Penn CIS costs, through their previously approved Smart Meter Technologies Charge (SMT-C) Riders; and (4) authorize the Companies to create a regulatory asset for their unrecovered investment in Legacy Meters.

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changes to the remainder of the deployment schedule (2016-2019) be necessary or possible in the future, the Companies will submit to the Commission a request to amend the deployment schedule.

Respectfully submitted,

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Date: December 2, 2013

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Petition of Metropolitan Edison	:	
Company, Pennsylvania Electric Company,	:	Docket Nos. M-2013-2341990
Pennsylvania Power Company and	:	M-2013-2341991
West Penn Power Company for Approval	:	M-2013-2341993
of their Smart Meter Deployment Plan	:	M-2013-2341994

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the foregoing document in accordance with the requirements of 52 Pa. Code § 1.54 et seq. (relating to service by a participant).

**VIA FIRST CLASS AND ELECTRONIC MAIL**

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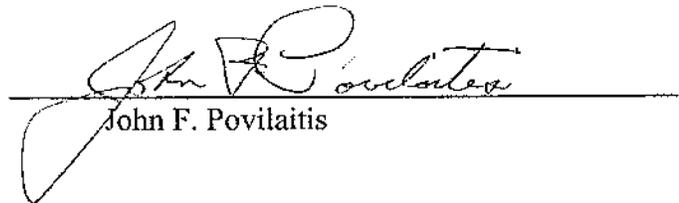
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