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March 6, 2014

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Petition of PECO Energy Company for Approval of Its Smart Meter
Universal Deployment Plan - Docket No. M-2009-2123944**

Dear Secretary Chiavetta:

PECO Energy Company ("PECO" or the "Company") is submitting this letter to provide the Pennsylvania Public Utility Commission ("PUC" or the "Commission") information relevant to the above-referenced matter. Specifically, PECO has reached a final agreement with Sensus USA, Inc. ("Sensus") for reimbursement of costs PECO incurred, and deferred on its books of account, in connection with meter overheating events that occurred in 2012. As a consequence of the final agreement, PECO will not seek to recover those deferred costs from customers and will reflect an approximately \$16 million credit against the original cost of recoverable Smart Meter plant investment in the next update of its Smart Meter Cost Recovery Surcharge ("SMCRS"). A brief summary of relevant background information, the final agreement and its effect on customers' SMCRS rates are discussed more fully below.

On January 18, 2013, PECO filed the above-referenced Petition together with accompanying direct testimony and exhibits, including PECO's Smart Meter Universal Deployment Plan ("Universal Deployment Plan") (PECO Exhibit 1). The proceeding was subsequently resolved by an unopposed Joint Petition for Settlement ("Joint Petition"), which PECO filed on May 31, 2013. On August 15, 2013, the Commission entered an Order granting the Joint Petition and approving PECO's Universal Deployment Plan subject to the terms set forth in the Joint Petition.

Under its Universal Deployment Plan, PECO will substantially complete the installation of advanced metering infrastructure (“AMI”) for its customers by the end of 2014 by installing approximately 1.2 million AMI meters across its service territory. The 1.2 million AMI meters being installed under the Universal Deployment Plan are in addition to the approximately 600,000 AMI meters PECO had proposed to install, and did install, by June 30, 2013, pursuant to the terms of the Commission’s Orders entered May 6 and June 3, 2010 approving the first phase (“Phase I”) of its Smart Meter Technology Procurement and Installation Plan (“Smart Meter Plan”). *See Petition of PECO Energy Company for Approval of Smart Meter Technology Procurement and Installation Plan*, at Docket No. M-2009-2123944.

As the Commission is aware, PECO committed to an initial Phase I deployment of approximately 600,000 AMI meters by June 30, 2013 if it received a Smart Grid Investment Grant (“SGIG”) from the United States Department of Energy (“DOE”) under the American Recovery and Reinvestment Act of 2009 (“ARRA”). At the time it sought Phase I approval, PECO applied to DOE and, in November 2009, was notified that it would receive a \$200 million SGIG, of which approximately \$140 million would be applied to the net costs of implementing Phase I of its Smart Meter Plan.

As explained in PECO’s Universal Deployment Plan (PECO Ex. 1, at 13-15) and accompanying direct testimony (PECO St. 1, at 12-13), in 2012, during Phase I deployment of AMI meters, several overheating events were experienced. In response, PECO suspended the installation of AMI meters to additional customers while those events were investigated. PECO also initiated corrective actions, including replacing all previously installed AMI meters. By the time PECO’s Petition seeking approval of its Universal Deployment Plan was filed, incidents of overheating AMI meters had been resolved.

As also explained in PECO’s Universal Deployment Plan (PECO Ex. 1, at 30-31), PECO had incurred costs, net of the DOE reimbursement under the SGIG, of approximately \$19 million to purchase approximately 320,000 Sensus meters and to install (and later remove) approximately 186,000 of those meters. The costs were later depreciated by \$2 million, resulting in a net cost of \$17 million. PECO indicated that it would defer those net costs as well as any additional costs it might incur related to the meter events while it worked to resolve issues related to cost responsibility with Sensus. *Id.* PECO explained that it intended to provide customers the full benefit of DOE reimbursement received under the SGIG and to reflect the amount it recovered from its meter vendor as a reduction to the costs it was deferring. *Id.*

On January 23, 2014, PECO entered a final agreement with Sensus pursuant to which PECO will be reimbursed for amounts incurred for the original meters and related installation and removal costs, via cash payments and rebates on future purchases of licenses, goods and services primarily through 2017. PECO previously intended to seek regulatory rate recovery in a future filing with the PAPUC of amounts not recovered from the vendor. However, because of the final

Secretary Rosemary Chiavetta
March 6, 2014
Page 3

agreement, PECO will not seek recovery from customers of any of the \$17 million of net meter-event related costs that it had deferred. Additionally, PECO will reflect an approximately \$16 million credit against the original cost of SMCRS-eligible plant investment in the next update of its SMCRS, which represents a credit to customers for the value of the DOE funds allocated to reimburse PECO under the SGIG for Sensus meter acquisition and installation costs.

Accordingly, as PECO promised in its Universal Deployment Plan, customers will receive the full benefit of the DOE funds provided by the SGIG for AMI deployment, and the amount recovered from Sensus is being used to reduce to zero the costs PECO deferred in connection with the 2012 meter events.

Please feel free to contact me with questions concerning the matters discussed in this letter.

Sincerely,

A handwritten signature in blue ink that reads "Craig Williams" followed by a stylized flourish that appears to be "edz".

W. Craig Williams
Assistant General Counsel

cc: Per accompanying Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PECO ENERGY	:	
COMPANY FOR APPROVAL OF ITS	:	
SMART METER UNIVERSAL	:	DOCKET NO. M-2009-2123944
DEPLOYMENT PLAN	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the letter from PECO Energy Company regarding the agreement with its meter vendor in the above-captioned proceeding upon the following persons in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

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Date: March 6, 2014