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December 4, 2009

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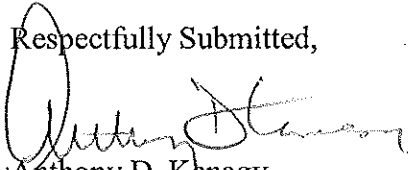
James J. McNulty
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**RE: Petition of PPL Electric Utilities Corporation for Approval of a Smart Meter
Technology Procurement and Installation Plan
Docket No. M-2009-2123945**

Dear Secretary McNulty:

Enclosed please find the Main Brief of PPL Electric Utilities Corporation in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully Submitted,


Anthony D. Kanagy

ADK/skr

Enclosure

cc: Certificate of Service
Honorable Wayne L. Weismandel

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing 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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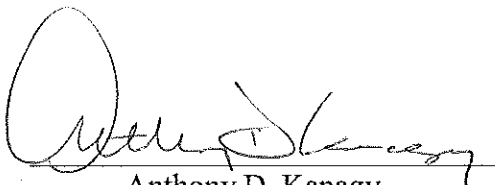
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Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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PPL ELECTRIC UTILITIES CORPORATION**

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TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. STATEMENT OF THE QUESTIONS INVOLVED	2
III. STATEMENT OF THE CASE.....	3
IV. SUMMARY OF ARGUMENT	6
V. ARGUMENT	8
A. PPL ELECTRIC HAS AN EXISTING SMART METER SYSTEM IN PLACE.....	8
B. UNDER ITS SMART METER PLAN, PPL ELECTRIC PROPOSES A SERIES OF EVALUATIONS AND PILOT PROGRAMS TO TEST AND ENHANCE ITS SMART METER CAPABILITIES.....	9
C. PPL ELECTRIC HAS AGREED TO WORK COLLABORATIVELY WITH INTERESTED PARTIES TO DEVELOP ADDITIONAL PILOT PROGRAM DETAILS.....	10
D. THE COMPANY’S COST RECOVERY PROPOSALS ARE REASONABLE AND SHOULD BE APPROVED.....	11
1. PPL Electric Agrees To The OCA and OTS Proposals To Have A Separate Cost Recovery Mechanism For Smart Meter Costs.....	11
2. PPL Electric Has Proposed A Reasonable Methodology For Determining The Cost Of Common Equity Under Its Smart Meter Cost Recovery Mechanism.....	11
3. It is Appropriate To Calculate Interest on Both Over and Under Collections, To Pay Interest To Customers on Over-Collections and To Recover Interest From Customers on Under-Collections.....	15
4. The Commission Should Deny OTS’ Proposal For Quarterly Review And Adjustments Of Smart Meter Costs.....	16
E. THE FEEDER METER PILOT WILL TEST SMART METER CAPABILITIES.....	17
F. THE COMPANY ACCEPTS PPLICA’S PRIMARY PROPOSAL REGARDING ALLOCATION OF FEEDER METER COSTS.....	20

G.	THE COMPANY'S SERVICE LIMITING AND PRE-PAY METERING PILOTS SHOULD BE APPROVED.....	20
H.	ACCESS TO CUSTOMER DATA.	22
	1. EGSs And Third Parties Can Obtain Direct Access To Customer Data.	22
	2. The Company Is Able To Provide Customers, EGSs And Third Parties Access To 15-Minute Data.	23
	3. The Company Currently Provides Wholesale Suppliers Access To Necessary Data.....	24
I.	DEP ISSUES.....	25
J.	LOW INCOME CUSTOMER ISSUES.....	26
	1. ACORN's Concerns Regarding The Impact Of The Smart Meter Plan On Low Income Customers Are Without Merit.	26
	2. ACORN's Criticisms Of PPL Electric's OnTrack Program Are Unreasonable And If Accepted Would Substantially Increase Low-Income Customer Program Costs.....	28
	3. ACORN's Enhanced Consumer Protections Are Unnecessary.	32
VI.	CONCLUSION.....	35

TABLE OF AUTHORITIES

Pennsylvania Administrative Agency Decisions

Pa. P.U.C. v. Aqua Pennsylvania, Inc., Docket No. R-00072711, Order entered July 31, 200814

Smart Meter Procurement and Installation, Docket No. M-2009-2092655, Implementation Order entered June 24, 2009 *passim*

Pennsylvania Statutes

66 Pa. C.S. § 1308(d)15

66 Pa. C.S. § 2807(f).....11, 16

66 Pa. C.S. § 2807(f)(5)1

66 Pa. C.S. § 2807(f)(7)16

66 Pa. C.S. § 2807(f)(7)(ii)31

Regulations

66 Pa. Code § 1023

66 Pa. Code § 28033

I. INTRODUCTION

On August 14, 2009, PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) filed a Petition for Approval of a Smart Meter Technology Procurement and Installation Plan (“Petition”) and its Smart Meter Plan (“Smart Meter Plan” or “Plan”) with the Pennsylvania Public Utility Commission (“Commission”). The Company filed its Plan pursuant to the requirements of Act 129 of 2008, P.L. 1592 (“Act 129”), 66 Pa. C.S. § 2807(f)(5), and the Commission’s Smart Meter Implementation Order. *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655, Implementation Order entered June 24, 2009.

As explained in greater detail below, PPL Electric already has installed an advanced meter infrastructure (“AMI”) system in its service territory. This system is a smart meter system that is able to support all of the capabilities set forth in the Commission’s Implementation Order. Therefore, under its Smart Meter Plan, PPL Electric proposes to study, test, and pilot applications that enhance and expand upon the capabilities of the Company’s existing smart meter system, focusing primarily on those that require a benefit to cost analysis as directed by the Commission Order. In its Smart Meter Plan, PPL Electric also proposed a cost recovery mechanism consistent with the requirements of Act 129 and the Commission’s Implementation Order.

The Company has relied upon its substantial experience with its existing smart meter system in designing its Smart Meter Plan to comply with Act 129 and the Commission’s Implementation Order. For the reasons explained herein, PPL Electric respectfully requests that the Commission approve the Company’s Smart Meter Plan.

II. STATEMENT OF THE QUESTIONS INVOLVED

1. Does PPL Electric's Smart Meter Plan comply with Act 129 and the requirements of the Commission's Implementation Order?

Suggested Answer: Yes.

2. Does PPL Electric's automatic adjustment clause for recovering Smart Meter Plan costs comply with Act 129 and the requirements of the Commission's Implementation Order?

Suggested Answer: Yes.

III. STATEMENT OF THE CASE

PPL Electric provides electric distribution, transmission and default generation services to approximately 1.4 million customers in a certificated service territory that spans approximately 10,000 square miles in all or portions of 29 counties in eastern and central Pennsylvania. PPL Electric is a “public utility and “electric distribution company” (“EDC”) as those terms are defined under the Public Utility Code, 66 Pa. Code §§ 102 and 2803.

PPL Electric filed its Smart Meter Plan with the Commission on August 14, 2009, pursuant to Act 129 and the Commission’s Implementation Order.

On August 20, 2009, the Office of Trial Staff (“OTS”) entered a Notice of Appearance. On August 28, 2009, the Office of Consumer Advocate (“OCA”) filed a Notice of Intervention and Public Statement.

On September 1, 2009, Administrative Law Judge Wayne L. Weismandel (“ALJ”) issued a Prehearing Conference Order which directed parties to file prehearing memoranda and set forth rules and a proposed schedule for the proceeding.

On September 14, 2009, PPL Electric served the following Direct Testimony: PPL Electric Statement No. 1, the Direct Testimony of Douglas A. Krall; PPL Electric Statement No. 2, the Direct Testimony of Michael S. Godorov; and PPL Electric Statement No. 3, the Direct Testimony of Joseph M. Kleha.

On September 25, 2009, the Office of Small Business Advocate (“OSBA”) filed a Notice of Appearance and Notice of Intervention. In addition, Petitions to Intervene were filed by PP&L Industrial Customer Alliance (“PPLICA”), the Pennsylvania Department of Environmental Protection (“DEP”), Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively “Constellation”), and the Pennsylvania Association of

Community Organizations for Reform Now (“ACORN”). Parties also filed prehearing memoranda in compliance with the ALJ’s Prehearing Conference Order.

On September 29, 2009, a Prehearing Conference was held before the ALJ. At the Prehearing Conference, the ALJ granted the Petitions to Intervene that had been filed in the proceeding, established a litigation schedule and established discovery rules for the proceeding. Also on September 29, 2009, the ALJ issued a Scheduling and Briefing Order which set forth the discovery rules and schedule that had been adopted at the Prehearing Conference and also set forth briefing requirements for the proceeding.

On October 5, 2009, the ALJ issued an Order formally granting the above-mentioned Petitions to Intervene. On October 6, 2009, a Technical Conference was held, at which PPL Electric presented personnel with in-depth knowledge of the Plan who responded to questions regarding the Plan.

On October 9, 2009, the following Direct Testimony was filed by parties other than PPL Electric: OTS Statement No. 1, Direct Testimony of Christine S. Wilson; OCA Statement No. 1, Direct Testimony of Christina R. Mudd; OCA Statement No. 2, Direct Testimony of Thomas S. Catlin; ACORN Statement No. 1, Direct Testimony of Ian Phillips; PPLICA Statement No. 1, Direct Testimony of Richard A. Baudino; and Constellation Statement No. 1, Direct Testimony of David I. Fein.

On October 26, 2009, PPL Electric filed the following Rebuttal Testimony: PPL Electric Statement No. 1-R, the Rebuttal Testimony of Douglas A. Krall; PPL Electric Statement No. 2-R, the Rebuttal Testimony of Michael S. Godorov; PPL Electric Statement No. 3-R, the Rebuttal Testimony of Joseph M. Kleha; and PPL Electric Statement No. 4-R, the Rebuttal Testimony of

Timothy R. Dahl. OTS also filed OTS Statement No. 1-R, the Rebuttal Testimony of Christine S. Wilson.

On October 30, 2009, the following Surrebuttal Testimony was filed by various parties other than PPL Electric: OCA Statement No. 1-S, the Surrebuttal Testimony of Christina R. Mudd; OCA Statement No. 2-S, the Surrebuttal Testimony of Thomas S. Catlin; OTS Statement No. 1-SR, the Surrebuttal Testimony of Christine S. Wilson; and PPLICA Statement No. 1-S, the Surrebuttal Testimony of Richard A. Baudino.

On November 2, 2009, PPL Electric served outlines for the Oral Rejoinder Testimony of Douglas A. Krall, Michael S. Godorov, and Joseph M. Kleha.

The parties engaged in discovery in support of their respective positions. Evidentiary hearings were held before the ALJ on November 3, 2009. At the hearings, all parties moved their respective testimonies and exhibits into evidence.

Pursuant to the briefing schedule established by the ALJ in the Scheduling and Briefing Order, PPL Electric hereby submits this Main Brief in support of its Smart Meter Plan. In addition, pursuant to the Scheduling and Briefing Order, the Company has provided Proposed Findings of Fact, Conclusions of Law and Ordering Paragraphs in Appendix A hereto.

For the reasons that follow, PPL Electric has met its burden of proof and has demonstrated that its Smart Meter Technology Procurement and Installation Plan is just, reasonable, and in the public interest and, therefore, should be approved by the Commission.

IV. SUMMARY OF ARGUMENT

PPL Electric has provided its customers with smart meter technology since 2002 when the Company began installing smart meters on a system-wide basis. The Company was able to read these meters remotely, thereby reducing meter reading costs, and has passed these reduced costs through to customers in subsequent base rate proceedings. In 2005, PPL Electric substantially expanded the capabilities of its smart meter system to provide multiple additional benefits to customers, including giving customers the opportunity to analyze their usage through a web-based interface.

PPL Electric designed its Smart Meter Plan to comply with Act 129 and the Commission's Implementation Order based upon the Company's substantial experience with its smart meter system. Under its Plan, the Company proposes to conduct a series of 23 separate evaluations and pilot programs to test and enhance its ability to offer the smart meter capabilities set forth in the Implementation Order. The Company also proposes to meet with interested stakeholders two times per year to develop additional pilot program details and seek input with respect to pilot program decisions. This will ensure that interested stakeholders have an opportunity to present their views and give PPL Electric different viewpoints to consider when implementing the pilot programs.

In this proceeding, the Company proposes to recover its smart meter costs through an automatic adjustment clause. In the Implementation Order, the Commission stated that smart meter plan costs include capital expenditures that are required to implement smart meter plans, that EDCs can include a return component for capital costs and that the return component should be based on the individual EDC's weighted cost of capital. Consistent with this direction from the Commission, the Company proposes to include a return component based upon PPL Electric's actual return on equity, debt cost rate and capital structure as approved by the

Commission in the Company's most recent fully litigated base rate proceeding. Certain parties in this proceeding have proposed different methodologies for determining cost of capital. However, those methodologies are not based on PPL Electric's cost of capital and should not be accepted.

In this proceeding, the OCA is opposing certain of the Company's pilot programs, including the Company's proposed feeder meter pilot program. As explained below, the OCA is adopting a restrictive view of smart meter technology that is inconsistent with the broad view adopted by the Commission in the Implementation Order. The feeder meters are smart meters that will directly assist the Company in monitoring voltage on its system and communicating outages and restorations, in addition to other benefits. These are two smart meter capabilities that are specifically identified in the Implementation Order.

The OCA also opposes the Company's pre-pay metering and service limiting pilot programs. As explained by the Company, the Commission's Implementation Order allows EDCs to include these capabilities in their smart meter plans. The Company's proposed pre-pay metering and service limiting pilot programs will be completely voluntary for customers and may provide substantial benefits, including increased energy conservation, which is the primary purpose of Act 129. In addition, the Company proposes to meet with interested stakeholders to discuss the best ways to implement these programs and ultimately, to provide input into decisions based on results obtained from the pilots. The purpose of a pilot is fact finding and testing concepts, and so a pilot should not be construed as having reached a preconceived outcome nor should it be interpreted as a commitment to full scale expansion. For these reasons, the Company should be permitted to conduct these completely voluntary pilot programs.

The Company has proposed a reasoned methodology for complying with Act 129 and the Commission's Implementation Order. The Company will evaluate the costs and benefits of enhancing its smart meter system capabilities under its pilot programs and will propose to further implement these capabilities in the event they are cost-effective in relationship to the benefits that will be provided to customers.

For the reasons explained herein, the Company's Smart Meter Plan is in the public interest and should be approved.

V. ARGUMENT

A. PPL ELECTRIC HAS AN EXISTING SMART METER SYSTEM IN PLACE.

Unlike many other EDCs in Pennsylvania, PPL Electric already has installed a smart AMI system in its service territory. In 2002, the Company began full-scale deployment of an automatic meter reading system, and this deployment continued through 2004. (PPL Electric St. No. 1, p. 5). This system includes meters, communications infrastructure, computer servers and applications that permit the Company to remotely read all of its meters.

Beginning in 2005, the Company expanded upon the capabilities of its automated meter reading system by installing a Meter Data Management System ("MDMS"). The MDMS provides for: (1) a customer interface that allows customers to analyze their usage; (2) a data repository capable of storing two years of hourly meter readings from all customers; (3) an advanced billing engine; (4) an energy settlement system that allows electric generation suppliers ("EGSs") to serve customers based on hourly usage rather than by load profiles; and (5) expanded load analysis capabilities. (PPL Electric St. No. 1, p. 5).

The Company's existing smart meter system has provided considerable benefits to customers. Because of its smart meter system, the Company has experienced cost savings

associated with the elimination of meter readers and a reduction in the number of service personnel. (PPL Exh. No. 2, p. 5). The reduction in expenses for these positions was reflected in the Company's 2004 base rate proceeding at Docket No. R-00049255. In addition, the Company's smart meter system has improved the accuracy of its meter reads, allowed the Company to better analyze usage information, allowed the Company to offer innovative rate options, contributed to enhanced reliability and allowed EGSs to provide electricity to customers based upon their actual hourly load and not load forecasts. (PPL Exhibit No. 2, pp. 4-6).

B. UNDER ITS SMART METER PLAN, PPL ELECTRIC PROPOSES A SERIES OF EVALUATIONS AND PILOT PROGRAMS TO TEST AND ENHANCE ITS SMART METER CAPABILITIES.

As explained in this proceeding, the Company's existing smart meter system is able to support all of the capabilities set forth in the Commission's Implementation Order. (Tr. 93). Therefore, rather than replace its AMI system at an estimated cost of \$380 million-\$450 million, the Company proposes to conduct a series of evaluations and pilot programs to test and enhance its existing AMI system. (PPL Electric St. No. 1, pp. 6-7).

Descriptions of the Company's proposed pilot programs are set forth in pages 17-32 of the Plan and a summary of each pilot program is provided in Attachment 3 to the Plan. (PPL Electric Exh. No. 2). Attachment 3 provides an overview of each pilot program along with the estimated cost of the pilot and projected pilot program benefits. In addition, Attachment 3 describes the Company's plans to further implement the capabilities tested under the pilot programs in the event that the pilot programs are successful and produce the expected benefits in a cost-effective manner.

The overall cost of the Company's pilot programs is estimated at \$5.0 million. (PPL Electric St. No. 2-R, p. 3). This is quite modest, and equals less than \$4.00 per customer. As

explained below, the Company is not proposing to allocate costs simply on a per-customer basis, but this calculation is intended to show that customer costs under the Plan will be minimal.

C. PPL ELECTRIC HAS AGREED TO WORK COLLABORATIVELY WITH INTERESTED PARTIES TO DEVELOP ADDITIONAL PILOT PROGRAM DETAILS.

In this proceeding, the OCA proposed that PPL Electric hold collaborative meetings with interested parties to develop additional details regarding the design and implementation of the pilot programs. (OCA St. No. 1, p. 6). The Company agrees that holding collaborative meetings with parties to develop additional pilot program details and to discuss what information should be gathered and evaluated during the pilot process is important and, therefore, proposes to conduct semi-annual collaborative meetings with stakeholders. (PPL Electric St. No. 2-R, p. 2). As explained in testimony, the Company would propose to identify pilot program decisions during the upcoming six month period prior to the stakeholder meeting and seek input on those decisions at the meeting. (PPL Electric St. No. 2-R, p. 2).

In surrebuttal testimony, the OCA's witness, Ms. Mudd, generally agreed with the Company's collaborative process, but proposed that the Company meet with participants a minimum of three times per year. (OCA St. No. 1S, p. 2). The Company does not believe that it is necessary to meet three times per year to discuss the pilot programs. As the Company's witness, Mr. Godorov, explained at the hearing, the Company believes that semi-annual collaborative meetings are sufficient for obtaining input from the parties, reviewing the progress of ongoing pilot programs and providing results of pilot programs to participants. (Tr. 109). Therefore, the Company requests that the Commission not adopt the OCA's proposal to require a minimum of three collaborative meetings per year.

D. THE COMPANY'S COST RECOVERY PROPOSALS ARE REASONABLE AND SHOULD BE APPROVED.

1. PPL Electric Agrees To The OCA and OTS Proposals To Have A Separate Cost Recovery Mechanism For Smart Meter Costs.

In this proceeding, the Company originally proposed to recover its smart meter technology costs under its Act 129 Compliance Rider ("ACR") because the smart meter plan is required by Act 129. 66 Pa. C.S. § 2807(f). In this proceeding, however, OTS and OCA argued that the Company should establish a separate cost recovery mechanism for smart meter costs. (OCA St. No. 2, p. 10; OTS St. No. 1, p. 6). At the hearing, the Company indicated that it was willing to accept this proposal and establish a separate cost recovery mechanism for smart meter costs.

2. PPL Electric Has Proposed A Reasonable Methodology For Determining The Cost Of Common Equity Under Its Smart Meter Cost Recovery Mechanism.

Under Act 129 and the Commission's Implementation Order, EDCs are permitted to recover capital costs for smart meter technology through an automatic adjustment clause, along with a return component for these capital costs. 66 Pa. C.S. § 2807(f); Implementation Order, p. 29. In the Implementation Order, the Commission stated as follows:

Act 129 allows an EDC to recover "all reasonable and prudent costs of providing smart meter technology." In order to determine what these costs are, each EDC will document all costs relating to its smart meter deployment and installation plan. These costs will include both capital and expense items relating to all plan elements, equipment and facilities, as well as an analysis of all related administrative costs. More specifically, these costs would include, but not be limited to, capital expenditures for any equipment and facilities that may be required to implement the smart meter plan, as well as depreciation, operating and maintenance expenses, *a return component based on the EDC's weighted cost of capital, and taxes.*

Implementation Order, p. 29 (Emphasis supplied).

Consistent with this directive from the Commission, the Company proposed a return component that was based on PPL Electric's weighted cost of capital. The Company proposes to base its return component on the capital structure and cost of capital allowed in the Company's most recent fully litigated distribution rate case. (PPL Electric St. No. 3-R, p. 4). The Company notes that its proposal is the only one in this proceeding that is fully based on PPL Electric's weighted cost of capital. This is consistent with the Commission's Implementation Order and reasonable because it relies on data that has been reviewed and approved by the Commission in a fully litigated proceeding.

In testimony, OCA agrees with the Company's position to use the Company's actual Commission-approved return on equity ("ROE") for smart meter costs as long as the Company's last rate case was approved by the Commission within the most recent three years. (OCA St. No. 2S, p. 3). However, if the Company's last rate case is more than three years old, the OCA states that the ROE should be determined based upon "a specific methodology to be developed in a generic proceeding." (OCA St. No. 2S, p. 3). As explained by Mr. Kleha, this approach does not rely on Company specific data. (Tr. 146). Moreover, the Commission has not indicated that it intends to establish a generic proceeding to establish ROEs for smart meter costs, and this proposal could not be completed in a timely fashion.¹ For these reasons, the Company does not believe that the OCA's proposal should be adopted.²

¹ OCA's witness Mr. Catlin also states that if the Company's rate case "is not relatively recent", the costs of debt and preferred stock should be updated to reflect actual costs. (OCA St. No. 2S, p. 3). However, Mr. Catlin does not appear to propose a methodology for updating these costs.

² In Direct Testimony, Mr. Catlin also argued that the initial ROE for PPL Electric should be set at 10.1% based upon a recent Metropolitan Edison Company ("Met-Ed") and Pennsylvania Electric Company ("Penelec") rate proceeding. Mr. Catlin did not take this position in his Surrebuttal Testimony and, therefore, the Company does not believe that the OCA is continuing to advocate this position. However, in the event that the OCA is advocating this proposal, it should be denied. The Met-Ed/Penelec

In its testimony, the OTS argues that the Company should be required to use an ROE that is based on the most recent Fixed Utility Services Quarterly Earnings Report ("FUS Report") for jurisdictional utilities. (OTS St. No. 1, p. 14). The Company does not believe that this is reasonable for several reasons. First, as explained by Mr. Kleha at the hearing and by the OCA's witness in testimony, the FUS Reports' discounted cash flow ("DCF") returns and overall equity cost rates for electric utilities have been inconsistent and volatile. (Tr. 148; OCA St. No. 2, p. 5). At the hearing, Mr. Kleha testified that the ROE range in the FUS Reports for the previous five quarters ranged from 7.44% to 11.22%. (Tr. 148). Therefore, it is unreasonable to rely on these calculations to determine a return on equity for smart meter costs.

In addition, the FUS Reports are only intended to be used for informational purposes and not to establish ROE rates for EDCs. As explained at the hearing, the FUS Reports contain a disclaimer which states as follows:

Disclaimer. This report does not represent the views of the Pennsylvania Public Utility Commission or of any individual Commissioner or Commissioners. Selection of the information contained in this report was based solely upon the judgment made by Staff of the Bureau of Fixed Utility Services. The calculation of market derived returns on equity and the presentation of utility earnings data and related adjustments represents only the Bureau's interpretation of available data and the Bureau makes no recommendation with regard to the use of the data.

(Tr. 184).

Moreover, the OTS witness was not qualified to testify as to cost of capital. At the hearing, the OTS witness could not answer any specific questions about whether data from the FUS Reports was established in a litigated proceeding, whether the data reflected PPL Electric's risk, or what companies are included in the barometer group. (Tr. 186-188). In addition, even

rate case that the OCA refers to reflected unique circumstances for those companies, and the ROE does not reflect PPL Electric's cost of capital. (PPL Electric St. No. 3-R, p. 5).

though the OTS witness was proposing that the Company be required to rely on the FUS Reports to establish rate of return, the OTS witness was unaware that the Commission relies primarily on the DCF methodology for determining rate of return. (Tr. 188). *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711, Order entered July 31, 2008.

For the reasons explained herein, the OTS' arguments that the Commission should rely on the FUS Reports to establish a return on equity should be given no weight. (See Tr. 191). The OTS witness was unable to answer any questions about how the ROE data in the FUS Report was developed or what it means. As a result, the Company was unable to fully challenge the OTS proposal that the Company be required to rely on the FUS Reports to establish an appropriate ROE. Therefore, the Commission should not accept the OTS proposal.

In this proceeding, the OTS also proposes that the Company be required to use the capital structure representative of the barometer group in the FUS Reports. (OTS St. No. 1-SR, p. 3). The Commission should not accept this proposal. As explained above, the Company believes that it is appropriate to rely on the Company's actual capital costs, as reviewed and approved by the Commission. The FUS Reports are for information purposes only. Moreover, at the hearing, the OTS witness was unable to answer any substantive questions regarding the FUS Reports. (Tr. 187). The OTS recommendations regarding the FUS Reports should be given no weight.

With regard to cost of debt and preferred stock, OTS recommends that the Company rely on its latest quarterly financial report to obtain these cost rates. (OTS St. No. 1, p. 2). As explained by Mr. Kleha, the OTS proposal should not be accepted. (PPL Electric St. No. 3-R, p. 6). The OTS picks and chooses different data points, some that reflect the Company's actual costs and others that do not. The Company's proposal to use Company-specific data, from a single adjudicated proceeding, that has been reviewed and approved by the Commission will

produce a more accurate reflection of the Company's capital costs. (PPL Electric St. No. 3-R, pp. 6-7).

3. It is Appropriate To Calculate Interest on Both Over and Under Collections, To Pay Interest To Customers on Over-Collections and To Recover Interest From Customers on Under-Collections.

In this proceeding, the Company proposed to calculate interest on over and under collections at the residential mortgage rate, as provided in Section 1308(d) of the Public Utility Code. 66 Pa. C.S. § 1308(d). The Company proposes to calculate interest on both over and under-collections and to pay interest to customers on over-collections and recover interest from customers on under-collections. At the hearing Mr. Kleha explained that this is consistent with the Company's existing and previous automatic adjustment cost recovery mechanisms, including the competitive transition charge ("CTC"), transmission service charge ("TSC"), universal service rider ("USR") and intangible transition charge ("ITC"). (Tr. 142). Mr. Kleha also stated that every other cost recovery mechanism that the Company has had in his almost 30 years of experience has had symmetrical interest provisions. Further, the Company notes that in this proceeding, the OCA agrees with the Company's proposal to recognize interest on **both** over and under-collections. (OCA St. No. 2S, p. 2).

The OTS, however, proposes that the Company be required to pay interest on over collections, but not be allowed to recover interest on under-collections. (OTS St. No. 1, p. 20). The Company does not believe that this approach is reasonable.

In testimony, OTS states two reasons for proposing to require the Company to pay interest on over-collections, but to deny the Company the ability to recover interest for under-collections. First, OTS argues that "... the Commission's current application of the residential mortgage rate as the prevailing interest rate in existing cost recovery mechanisms on any over- or under-collections is established as one-directional." (OTS St. No. 1, p. 20). However, contrary

to OTS' assertions, the Company has multiple cost recovery mechanisms that use the residential mortgage rate as the interest rate, such as the Company's TSC and USR, and all of these cost recovery mechanisms provided for symmetrical or two-directional interest provisions. (Tr. 142-143).

OTS also argues that the Company's smart meter surcharge includes a return component and, therefore, the Company should not be permitted to recover interest on under-collections. (OTS St. No. 1, p. 20). This argument should be rejected. First, Act 129 and the Commission's Implementation Order provide for recovery of a return component on the Company's smart meter capital costs. 66 Pa. C.S. § 2807(f); Implementation Order, p. 29. Neither Act 129 nor the Commission's Implementation Order prohibit the Company from recovering interest on under-recovery of smart meter costs. In fact, Act 129 provides that the Company is permitted to recover its costs on a "full and current basis." 66 Pa. C.S. § 2807(f)(7). If the Company is not permitted to recover interest on under-collections, it will not be able to recover its costs on a "full and current" basis. Moreover, interest on over and under-collections reflects the time value of carrying those amounts during the application period, not a return on capital costs.

4. The Commission Should Deny OTS' Proposal For Quarterly Review And Adjustments Of Smart Meter Costs.

In the Implementation Order, the Commission specifically states that smart meter automatic adjustment clauses will be subject to an annual review and reconciliation process. Implementation Order, p. 31. Despite this clear direction from the Commission regarding annual reconciliation, OTS proposes that the Company's smart meter cost recovery mechanism be subject to quarterly review filings and rate adjustments. (OTS St. No. 1, p. 2; Tr. 182). The OTS proposal for quarterly reviews and adjustments stands in clear contradiction to the Commission's direction in the Implementation Order and cannot be accepted for that reason alone.

In addition, as explained by Mr. Kleha, the Company's smart meter plan costs are relatively small, should be incurred on a fairly predictable schedule and will not be affected by shopping. (PPL Electric St. No. 3-R, p. 9). Therefore, quarterly adjustments are unnecessary.

Moreover, in this proceeding, the OTS proposes that rates be adjusted on July 1 of each year. (OTS St. No. 1, p. 7). This is not appropriate. Under the Company's Commission-approved Energy Efficiency and Conservation Plan, ACR costs will be adjusted on June 1 of each year. The Company believes that it is appropriate to minimize the number of rate adjustments, where possible, to reduce customer confusion. Therefore, the Company believes that it is better to adjust both the ACR and the smart meter surcharge on the same date. (PPL Electric St. No. 3-R, p. 9).

E. THE FEEDER METER PILOT WILL TEST SMART METER CAPABILITIES.

Under the smart meter plan, the Company proposes to conduct a feeder meter pilot program. Feeder meters are advanced meters that are installed on the Company's distribution system lines to enhance the Company's ability to monitor voltage on its system, to reduce system outages and to reduce restoration time. (PPL Electric St. No. 2-R, p. 5). As Mr. Godorov explained in his rebuttal testimony:

The feeder meters are strategically placed along the main feeder lines to measure energy, voltage, current flow and transient energy anomalies that provide information to aid in the diagnosis of overloading, power quality, and outage verification and restoration.

(PPL Electric St. No. 2-R, p. 5).

In this proceeding, the OCA has argued that the Company should not be permitted to include the feeder meter pilot in its Smart Meter Plan. In its direct testimony, OCA argued that the feeder meter pilot should not be approved because it is a "distribution system upgrade rather than a customer smart meter capability." (OCA St. No. 1, p. 17). On page 17 of its testimony,

OCA also states that “PPL has not demonstrated that feeder meters in any sense enhance the capabilities of the customer’s AMI.” OCA’s arguments should not be accepted. The OCA is adopting a restrictive view of smart meter technology that contradicts the Commission’s broad interpretation of smart meter technology and capabilities in the Implementation Order. In the Smart Meter Implementation Order, the Commission stated as follows:

The Commission recognizes that a fully functional smart meter involves more than just the meter hardware attached to the customer’s premises. A fully functional smart meter that supports the capabilities required by Act 129 and as outlined below, involves an entire network, to include the meter, two-way communication, computer hardware and software, and trained support personnel.

Smart Meter Procurement and Installation, Docket No. M-2009-2092655, Order entered June 24, 2009, p. 6. Later in the Implementation Order, the Commission stated:

The Commission believes that the smart meter capability requirements set out in Act 129 are minimal requirements. The Commission also recognizes that smart meter technology can support more than demand response and pricing programs. *Smart meters have the ability to support maintenance and repair functions, theft detection, system security, consumer assistance programs, customer-generator net metering, and other programs that increase an EDC’s efficiencies and reduce operating costs.*

Implementation Order, p. 16 (Emphasis supplied).

Under the Commission’s interpretation of Act 129, smart meters should assist an EDC’s ability to support maintenance and repair functions, increase efficiencies and reduce operating costs. The Company’s feeder meters will support all of these capabilities. As explained by Mr. Godorov, the feeder meters will allow the Company to better monitor its system to aid in the diagnosis of overloading, power quality and outage verification and restoration. This will directly benefit the Company’s maintenance and repair functions by enabling the Company to

pinpoint system problems and reduce maintenance and repair times and expenses. This will increase the Company's efficiency and reduce its operating costs.

Moreover, in the Implementation Order, the Commission expressly states that an EDC's smart meter technology should support the capability to monitor voltage at each meter and report data in a manner that allows an EDC to react to the information and to communicate outages and restorations. Implementation Order, p. 16. The feeder meters will allow the Company to better monitor voltage on its system and react to that information. This directly supports a specific capability that is set forth in the Implementation Order. The feeder meters also will provide valuable information regarding outages and restorations and, in the future, they may be able to communicate that information to the Company on their own. (Tr. 114). This is another specific capability that is set forth in the Implementation Order. Implementation Order, p. 16.

The feeder meters clearly are smart meters and will directly assist the Company in meeting the smart meter goals and objectives set forth by the Commission in its Implementation Order.

In its testimony, the OCA also states that the Commission should not approve the feeder meter pilot without exploring the potential overlap between federally funded projects. (OCA St. No. 1S, p. 6). Mr. Krall addressed this issue at the hearing. (Tr. 82-85). The feeder meter pilot will not overlap with the Company's federally funded Keystone Smart Distribution Project and will have separate value for the Company and its customers. (Tr. 82-83). The Keystone Project is not a substitute for the feeder meter program and, in fact, is limited in scope to one specific area of the Company's distribution system. (Tr. 84-85). The OCA's proposal regarding exploring the potential overlap between federally funded projects was addressed in this proceeding and further inquiry is not necessary.

F. THE COMPANY ACCEPTS PPLICA'S PRIMARY PROPOSAL REGARDING ALLOCATION OF FEEDER METER COSTS.

In this proceeding, PPLICA witness Mr. Baudino argued that the Company should not allocate feeder meter costs to transmission voltage customers in the large C&I class because feeder meters will be installed on the distribution system. (PPLICA St. No. 1, p. 5). At the hearing, the Company agreed that it was willing to segregate the large C&I class into primary voltage and transmission voltage customers and not allocate feeder meter costs to transmission voltage customers. (Tr. 151).

Mr. Baudino also proposed an alternative proposal to allocate smart meter plan costs to large C&I customers on a customer charge basis if his primary proposal was not accepted. (PPLICA St. No. 1, p. 6). As explained above, the Company has accepted Mr. Baudino's primary proposal and, therefore, it is unnecessary to consider his alternative proposal. Moreover, as explained by Mr. Kleha, the Company does not believe that it is appropriate to recover smart meter costs on a customer charge basis because the smart meter programs will allow customers to reduce peak demand and usage. (Tr. 151).

G. THE COMPANY'S SERVICE LIMITING AND PRE-PAY METERING PILOTS SHOULD BE APPROVED.

In this proceeding, PPL Electric proposes to conduct voluntary service limiting and pre-pay metering pilot programs. Under the service limiting pilot, the Company will seek volunteers to participate in a program whereby customers can choose an amperage level and limit their electric service to that level. (PPL Electric St. No. 2-R, p. 12). If the customer exceeds the pre-determined level, the customer's service will temporarily disconnect until the customer resets the meter.

Under the pre-pay metering pilot, the Company will seek volunteers to participate in a program that will allow customers to pre-pay for their electric service. Through this program,

customers will better understand that they are purchasing electricity on an ongoing basis. The Company anticipates that this program may assist customers in reducing their energy use. (PPL Electric St. No. 2-R, p. 15).

In testimony, the OCA argues that the Commission should not allow the Company to conduct its service limiting and pre-pay metering pilot programs. (OCA St. No. 1, p. 14). The OCA interprets the Implementation Order as requiring a separate proceeding for service limiting and pre-pay metering programs. (OCA St. No. 1, p. 14). The Company disagrees with this interpretation. In the Implementation Order, the Commission states that the "... policy implications of service limiting and prepaid service should be addressed in another proceeding **prior to requiring** such capabilities in smart meters." However, the Commission further states that "This does not preclude EDCs from including these capabilities..." Implementation Order, p. 18.

When these two sentences are read together, it is evident that the "separate proceeding" referred to by the OCA applies before the Commission will **require** EDCs to offer these capabilities. However, EDCs are not precluded from offering them, and PPL Electric seeks Commission approval in this proceeding to conduct voluntary pilot programs to test its service limiting and pre-pay metering capabilities.

PPL Electric believes that this approach is reasonable for several reasons. First, PPL Electric already has a smart AMI system in place and believes that it is reasonable and appropriate for the Company to test its service limiting and pre-pay metering capabilities with its AMI system. Second, as set forth in Attachment 3 to the Plan, these programs have many potential benefits. The service limiting program may help: (1) maintain service and reduce revenue loss from customers; (2) improve customer payment behavior; (3) provide basic

amperage levels for essential loads; and (4) reduce costs. The pre-pay metering pilot may help: (1) customers to reduce their energy consumption; (2) enable certain customers to better manage their energy payments; (3) enhance customer payment behavior; and (4) reduce costs. Third, the Company will seek Commission staff and stakeholder input on developing these pilot programs to ensure that they are appropriately designed and to ensure that the Company does not violate Commission regulations. In this regard, the Company notes that it has not sought a waiver of any Commission regulations for these pilot programs. Fourth, these programs are completely voluntary.

For the reasons explained in the Company's testimony and herein, the Company's service limiting and pre-pay metering programs should be approved.

H. ACCESS TO CUSTOMER DATA.

1. EGSs And Third Parties Can Obtain Direct Access To Customer Data.

In direct testimony, Constellation's witness Mr. Fein made several suggestions regarding access to customer data. (Constellation St. No. 1, p. 6). First, Mr. Fein recommended that the Company electronically grant third parties access to customer data through a pre-registration process. (Constellation St. No. 1, p. 6). In response to this recommendation, the Company explained that it responds to requests by customers to grant access to their data through e-mail and has a web-based release form that permits customers to electronically grant the release of information to EGSs. (PPL Electric St. No. 1-R, p. 10). With regard to a pre-registration process, the Company explained that it would support a generic Commission-sponsored effort to develop a standardized pre-registration process. (PPL Electric St. No. 1-R, p. 10). However, the Company does not believe it is appropriate to develop this process in this proceeding without input from industry participants across the state.

Finally, Mr. Fein also recommends that third parties and EGSs be permitted to access customers' data through a web-interface system or by direct delivery of such information by the Company. (Constellation St. No. 1, p. 6). As explained by Mr. Krall, third parties and EGSs can access a customer's account through the Company's web-based system if the customer has provided his or her password and account number. In addition, EGSs can obtain customer information through electronic data interchange. (PPL Electric St. No. 1-R, p. 11). PPL Electric believes that these measures address Constellation's recommendations.

2. The Company Is Able To Provide Customers, EGSs And Third Parties Access To 15-Minute Data.

In this proceeding, Mr. Fein states that the Company should clarify that it will provide 15-minute data for any customer that desires this data, including small and medium commercial customers. (Constellation St. No. 1, p. 7). As Mr. Krall explained in his testimony, the Company currently is able to provide 15-minute or shorter interval data on a daily basis to customers, EGSs and/or designated third parties. (PPL Electric St. No. 1-R, p. 12). The Company currently captures 15-minute data for all large C&I customers and makes this data available to customers and their designated third parties and EGSs. For residential and small C&I customers, the Company installs equipment upon request that makes meter pulse data available to customers on 15-minute intervals or other intervals that the user may desire. (PPL Electric St. No. 1-R, p.12).

In addition, as part of this proceeding, the Company is proposing a pilot program to assess its ability to capture 15-minute data, identify the costs of such a program and evaluate the cost effectiveness and benefits of this program for customers. (PPL Electric St. No. 1-R, p. 12; Plan Attachment 3, 6C(2)). The Company believes that this is a reasonable approach for evaluating this issue for residential and small C&I customers.

In testimony, Mr. Fein also notes that the Implementation Order does not require EDCs to update 15-minute data on an hourly basis. However, Mr. Fein recommends that the Company adopt this capability. (Constellation St. No. 1, p. 7). As Mr. Krall explains in his rebuttal testimony, the Company disagrees with this recommendation for several reasons. First, PJM aggregates 15-minute data into hourly values to develop peak demands, so there is no need to provide 15-minute data for developing retail customer peak demands. (PPL Electric St. No. 1-R, p. 15). Second, because energy is priced on an hourly basis, 15-minute data is largely irrelevant to the price a customer is offered for energy. In addition, while 15-minute data may provide benefits to some customers for achieving peak load reductions, it is not cost-effective to provide this level of detail for all customers. Therefore, the Company believes that it is reasonable to provide this capability to customers on an as-needed basis.

3. The Company Currently Provides Wholesale Suppliers Access To Necessary Data.

In testimony, Mr. Fein states that the Company should provide default service bidders with information regarding monthly updates on the numbers of smart meters installed by customer class and validated aggregated customer consumption data, by customer class, for every hour as soon as possible but no later than 48 hours after each hour. (Constellation St. No. 1, p. 11). As Mr. Krall explained in his rebuttal testimony, the Company believes that its current meter deployment meets the smart meter requirements of Act 129. Therefore, there is no need to provide monthly updates. In addition, the Company currently aggregates customer data and provides it to PJM for scheduling and settlement purposes. (PPL Electric St. No. 1-R, p. 17). Therefore, the Company believes that this satisfies Mr. Fein's request as to this issue.

I. DEP ISSUES.

DEP did not present any testimony in this proceeding. However, at the hearing, DEP's counsel asked PPL Electric's witness Mr. Krall if the Company was specifically committing to implement any of the enhanced functionalities included in the pilot programs. (Tr. 94). In response to this question, Mr. Krall explained that the Company would evaluate whether to fully implement the enhanced functionalities evaluated in the pilot program if the pilot program provides incremental benefits to customers above the costs of implementing the enhancement. Mr. Krall also explained that the Company would present its recommendation to the stakeholder group for feedback. (Tr. 94). PPL Electric believes that this is a reasonable approach for addressing this issue because the pilot programs may not prove to be cost-effective and technology evolutions may impact future decisions.

DEP's counsel also asked whether it was PPL Electric's plan to commit to "installing meters in new construction at the end of the grace period that do support home area networks or in-home displays as the result of the pilot program?" (Tr. 97-98). In response to this question, Mr. Krall indicated that the Company's meters were capable of delivering this functionality and that the Company was committed to making them available upon request. (Tr. 98). The Company believes that this is a reasonable, cost-effective manner for supporting home-area networks and in-home displays for customers.

DEP's counsel also asked several questions regarding whether the Company was intending to fully deploy certain capabilities throughout its service territory at the end of the grace period in all new construction. (Tr. 100-101, 128). In response to these questions, the Company's witnesses stated that the Company did not intend to fully install all capabilities, where the capability may not be cost-effective, where technology may evolve or where the capability may not be desired by all customers. (Tr. 100-101, 128-129). The Company believes

that this is a reasonable, cost-effective approach for providing customers with smart meter functionality.

J. LOW INCOME CUSTOMER ISSUES.

ACORN raises several concerns and issues regarding the effect of PPL Electric's Plan on low-income customers. ACORN also offers several recommendations to insulate low-income customers from the costs associated with the Plan, and recommends that the Commission adopt additional customer safeguards and protections for low-income households. (ACORN St. No. 1, p. 3). ACORN's criticisms and recommendations overlook key features of PPL Electric's Plan, universal service programs, and three-year Universal Service & Energy Conservation Plan, as well as Chapter 14 of the Public Utility Code and Chapter 56 of the Commission's regulations. For the reasons explained below, ACORN's issues and recommendations should be denied.

1. ACORN's Concerns Regarding The Impact Of The Smart Meter Plan On Low Income Customers Are Without Merit.

ACORN asserts that the low-income customers are unable to afford smart meter costs. (ACORN St. No. 1, p. 6). ACORN also contends that imposing the costs associated with the smart meter plan on low-income households will result in increased terminations of service. (ACORN St. No. 1, p. 7). PPL Electric disagrees with these statements. PPL Electric estimates that the cost of the Smart Meter Plan will add approximately \$0.75 to the monthly bill of residential customers. (PPL Electric St. No. 4-R, p. 4). PPL Electric believes that an additional \$9.00 annually will be a minimum burden for these customers, which should easily offset this cost by implementing simple, easy-to-do conservation tips at home, or by participating in programs and services offered by PPL Electric, including Act 129 initiatives.³ (PPL Electric St.

³ Replacing several incandescent lights with compact fluorescent bulbs ("CFLs") could probably offset the \$9.00. Through its Act 129 programs, PPL Electric will be working with local stores to provide CFLs

No. 4-R, p. 4). Further, although rising electric costs will undoubtedly have an impact on low-income households, the Company's universal service programs (OnTrack, WRAP and Operation HELP) have all been in place many years, and PPL Electric has taken steps to increase its funding for these programs. (PPL Electric St. No. 4-R, p. 3).

ACORN next contends that the Company's customer assistance program ("CAP") will not protect low-income customers as the program now exists. (ACORN St. No. 1, pp. 7-8). The Company disagrees with this conclusion. The Company's CAP program is called "OnTrack." (PPL Electric St. No. 4-R, p. 2). The Company developed and implements the OnTrack program in accordance with not only the Commission's CAP Policy Statement, but also with PPL Electric's three-year Universal Service & Energy Conservation Plan, which the Commission reviewed and approved. (PPL Electric St. No. 4-R, p. 4). Importantly, PPL Electric's Smart Meter Plan has no impact on customers' eligibility for or participation in OnTrack and, therefore, low-income customers will continue to be protected by the Company's OnTrack program. (PPL Electric St. No. 4-R, pp. 4-5).

ACORN also states that essential uses rather than luxury or non-essential uses drive energy usage for low-income households and, therefore, these customers will be unable to shift their energy usage to other hours. (ACORN St. No. 1, pp. 8-9). Although low-income customers whose monthly usage is low may find limited opportunities to shift their usage, there are a substantial number of low-income customers who have high usage and may benefit from learning more about the opportunities to shift usage without affecting their health and safety. (PPL Electric St. No. 4-R, p. 6). The Company conducted a study approximately five years ago to determine the usage profile of low-income residential customers versus residential customers

at half price to customers. In addition, the Company will support various community events where customers will receive free CFLs. (PPL Electric St. No. 4-R, p. 4).