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February 17, 2010

BY HAND

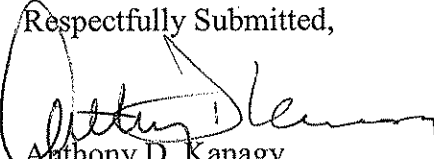
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**RE: Petition of PPL Electric Utilities Corporation for Approval of a Smart Meter
Technology Procurement and Installation Plan
Docket No. M-2009-2123945**

Dear Secretary McNulty:

Enclosed please find the Exceptions 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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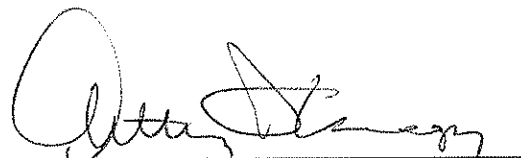
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**EXCEPTIONS OF
PPL ELECTRIC UTILITIES CORPORATION**

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TABLE OF CONTENTS

TABLE OF CONTENTS.....	i
TABLE OF AUTHORITIES	ii
I. BACKGROUND	1
II. EXCEPTIONS	3
III. SUMMARY OF EXCEPTIONS	4
IV. ARGUMENT	6
A. PPL ELECTRIC'S PROPOSAL TO CALCULATE INTEREST ON OVER AND UNDER COLLECTIONS AT THE RESIDENTIAL MORTGAGE RATE IS REASONABLE, CONSISTENT WITH THE COMPANY'S OTHER SECTION 1307(E) AUTOMATIC ADJUSTMENT CLAUSES AND, THEREFORE, SHOULD BE APPROVED.....	6
B. THE COMPANY'S FEEDER METER PILOT PROJECT WILL TEST SMART METER CAPABILITIES ON A SYSTEM-WIDE BASIS AND SHOULD BE APPROVED.	12
C. THE COMPANY SHOULD NOT BE REQUIRED TO MAKE 15- MINUTE INTERVAL DATA AVAILABLE FOR SMALL C&I CUSTOMERS, THEIR EGSS AND DESIGNATED THIRD PARTIES WITHOUT AN EVALUATION OF THE BENEFITS AND COSTS OF THIS CAPABILITY.....	14
D. PPL ELECTRIC'S PROPOSAL TO RECOVER SMART METER PLAN COSTS FROM LARGE C&I PRIMARY AND LARGE C&I TRANSMISSION CUSTOMERS ON A DEMAND BASIS IS REASONABLE AND SHOULD BE APPROVED.	16
V. CONCLUSION.....	17

TABLE OF AUTHORITIES

	<u>Page No.</u>
<u>Pennsylvania Cases</u>	
<i>Dee-Dee Cab, Inc. v. Pa. PUC</i> , 817 A.2d 593 (Pa. Cmwlth. 2003).....	7
<i>Popowsky v. Pa. PUC</i> , 869 A.2d 1144 (Pa. Cmwlth. 2005).....	8
<i>Wheeling-Pittsburgh Steel Corp. v. Department of Environmental Protection</i> , 979 A.2d 931 (Pa. Cmwlth. 2009).....	10
<u>Pennsylvania Administrative Agency Decisions</u>	
<i>Enron Capital & Trade Resources Corporation v. The Peoples Natural Gas Company, Peoples Industrial Intervenors and Columbia Energy Services Corp., Intervenors, Doc. No. R-00973928C0001</i> , 1998 Pa. PUC LEXIS 199 (Order entered August 24, 1998).....	7
<i>Pa. P.U.C. v. Pennsylvania American Water Company</i> , Docket Nos. R-00027982 et al. (Order entered November 7, 2003).....	8
<i>Smart Meter Procurement and Installation</i> , Docket No. M-2009-2092655 (entered June 24, 2009).....	<i>passim</i>
<u>Pennsylvania Statutes</u>	
1 Pa.C.S. § 1932.....	10
1 Pa.C.S. § 1953.....	10
66 Pa.C.S. §§ 515, 517-521	9
66 Pa.C.S. § 1307(b).....	10
66 Pa.C.S. § 1307(e).....	<i>passim</i>
66 Pa.C.S. § 1307(f).....	4, 8, 9, 11
66 Pa.C.S. §1307(g).....	9
66 Pa.C.S. § 1307(f)(5).....	6, 7, 8
66 Pa.C.S. § 1308(d).....	10
66 Pa.C.S. §§ 2201-2212	9
66 Pa.C.S. §§ 2701-2709	9

66 Pa.C.S. §§ 2801-2812	9
66 Pa.C.S. § 2807(f).....	1
66 Pa.C.S. § 2807(f)(4)(i)	9
66 Pa.C.S.A. § 2807(f)(7)	6
66 Pa.C.S. § 2807(f)(7)(ii)	6, 9
66 Pa.C.S. §§ 3001-3009	9

Regulations

52 Pa. Code § 5.533	2
52 Pa. Code § 54.187(f)	9

I. BACKGROUND

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

A Notice of Appearance was filed by the Office of Trial Staff (“OTS”) on August 20, 2009. On August 28, 2009, the Office of Consumer Advocate (“OCA”) filed a Notice of Intervention and Public Statement. The Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and Notice of Appearance on September 25, 2009. 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”).

In accordance with the procedural schedule set at the prehearing conference, PPL Electric, OTS, OCA, ACORN, PPLICA, and Constellation submitted direct testimony. PPL Electric and OTS submitted rebuttal testimony. OTS, OCA and PPLICA submitted surrebuttal testimony. Prior to the hearing, PPL Electric served outlines for oral rejoinder testimony.

Evidentiary hearings were held on November 3, 2009. At the hearings, PPL Electric’s witnesses provided oral rejoinder testimony, parties moved their respective testimonies and exhibits into evidence, and parties cross-examined witnesses.

The Initial Decision (“I.D.”) of Administrative Law Judge Wayne L. Weismandel (“ALJ”) was issued by Secretarial Letter dated January 28, 2010. Therein, the ALJ found that PPL Electric’s Smart Meter Plan should be approved with certain modifications. Specifically, the ALJ agreed with the Company that it should use its actual weighted cost of capital as determined by the Commission in a fully litigated rate proceeding to determine a return on PPL Electric’s smart meter investment. The ALJ also approved the Company’s request to conduct voluntary service limiting and pre-pay metering pilot programs. In addition, the ALJ disagreed with DEP that PPL Electric should install Home Area Networks (“HANs”) for all customers. However, the ALJ also determined that the interest provisions associated with PPL Electric’s smart meter automatic adjustment clause should be modified, such that PPL Electric would be required to pay interest on over-collections at the legal rate of interest plus two percent and recover interest on under-collections at the legal rate of interest. (I.D. at 26.) In addition, the ALJ determined that PPL Electric should not be permitted to include its feeder meter pilot project in its Smart Meter Plan. (I.D. at 27.) Moreover, the ALJ determined that PPL Electric should make 15-minute interval data available for Small C&I customers, and their electric generation suppliers (“EGSs”) and designated third parties. (I.D. at 30.) Finally, the ALJ determined that PPL Electric’s proposal to recover Smart Meter Plan costs from Large C&I-Primary and Large C&I-Transmission customers through a demand charge component of rates should be modified to recover costs through a customer charge. (I.D. at 36-37.)

PPL Electric herein files these Exceptions to the Initial Decision, pursuant to 52 Pa. Code § 5.533, and the Secretarial Letter dated January 28, 2010. For the reasons explained below, PPL Electric respectfully requests that the Commission adopt PPL Electric’s Exceptions and revise the Initial Decision accordingly.

II. EXCEPTIONS

- A. PPL Electric's proposal to calculate interest on over and under collections at the residential mortgage rate is reasonable, consistent with the Company's other Section 1307(e) automatic adjustment clauses, and therefore should be approved.

- B. The Company's feeder meter pilot project will test smart meter capabilities on a system-wide basis and should be approved.

- C. The Company should not be required to make 15-minute interval data available for Small C&I customers, their EGSs and designated third parties without an evaluation of the benefits and costs of this capability.

- D. PPL Electric's proposal to recover Smart Meter Plan costs from Large C&I-Primary and Large C&I-Transmission customers on a demand basis is reasonable and should be approved.

III. SUMMARY OF EXCEPTIONS

In the Initial Decision, the ALJ determined that PPL Electric should use the asymmetrical interest rate provisions set forth in Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f) for calculating interest on over and under collections under the Company's Smart Meter Section 1307(e) automatic adjustment clause. The ALJ made this determination *sua sponte* without any opportunity for PPL Electric or any other party to contest this issue on the record. By its very terms, Section 1307(f) only applies to recovery of natural gas costs. The Company currently has multiple Section 1307(e) automatic adjustment clauses for which it uses the residential mortgage rate to calculate interest on both over and under-collections. Therefore, the Commission should approve the Company's proposal to calculate interest at the residential mortgage rate for its Smart Meter automatic adjustment clause.

The ALJ has determined that PPL Electric should not be permitted to include the proposed feeder meter pilot under its Smart Meter Plan. The feeder meter pilot will enhance the Company's ability to monitor voltage on its system, aid in diagnosing power overloading and quality issues, and reduce system outages and restoration times. Feeder meters are smart meters that will directly assist the Company in meeting the smart meter goals and objectives set forth by the Commission in the Implementation Order. Therefore, the Company's proposed feeder meter pilot program should be approved.

The ALJ recommended that PPL Electric's Smart Meter Plan be modified to require PPL Electric to capture and make 15-minute interval data available for Small C&I customers. As part of its Smart Meter Plan, PPL Electric is proposing a pilot program to assess its ability to capture 15-minute data, identify the costs of providing this capability, and evaluate the benefits and cost effectiveness of this program for customers. Broad application of this capability could add significant additional costs to the Company's Smart Meter Plan, and customers would be

required to pay for these costs through rates. Therefore, the Commission should not require PPL Electric to provide this potentially very expensive capability for all of its Small C&I customers before allowing PPL Electric to evaluate both the benefits and costs of providing this function in order to determine if further implementation of this capability is appropriate. Moreover, the Company notes that it currently provides Small C&I customers 15-minute data in the form of meter pulses.

Finally, the ALJ determined that PPL Electric should allocate smart meter costs to Large C&I customers on a customer basis, rather than a demand basis. As the Company explained in this proceeding, it already has installed smart meters for its customers. Therefore, the Company's costs under the Smart Meter Plan will not be costs for actual meters, but, rather, are costs to implement programs that will help customers reduce usage. Therefore, it is appropriate to allocate Smart Meter Plan costs to Large C&I customers on a demand basis because the Plan will help customers reduce peak demand and usage over time.

IV. ARGUMENT

A. PPL ELECTRIC'S PROPOSAL TO CALCULATE INTEREST ON OVER AND UNDER COLLECTIONS AT THE RESIDENTIAL MORTGAGE RATE IS REASONABLE, CONSISTENT WITH THE COMPANY'S OTHER SECTION 1307(E) AUTOMATIC ADJUSTMENT CLAUSES AND, THEREFORE, SHOULD BE APPROVED.

Act 129 provides that electric distribution companies ("EDCs") may recover smart meter technology costs "on a full and current basis through a reconcilable automatic adjustment clause under Section 1307." 66 Pa. C.S. § 2807(f)(7)(ii). Consistent with this provision of Act 129, the Company proposes to recover its smart meter technology costs through a reconcilable Section 1307(e) automatic adjustment clause. In addition, in order to ensure recovery on a "full and current" basis as is permitted by Act 129, PPL Electric proposed to include an interest component in its smart meter surcharge. Under the surcharge, the Company proposed to calculate interest at the residential mortgage rate and to both refund interest on over-collections to customers and recover interest on under-collections from customers.

The ALJ agreed that the Company should be permitted to include an interest component in its smart meter surcharge. On page 25 of the Initial Decision, the ALJ states as follows:

... Act 129 provides that the Company is permitted to recover its costs on a "full and current basis." 66 Pa.C.S.A. § 2807(f)(7). If PPL 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 period, not a return on capital costs. Both PPL and its customers are entitled to a recognition of the time value of money when over or under collections occur, as they inevitably will. [footnote omitted]

However, the ALJ disagreed with PPL Electric's proposal to calculate interest on over and under collections at the residential mortgage rate. Instead, the ALJ recommended that payment of interest be set at the legal rate of interest plus two percent on over collections and at the legal rate of interest on under collections pursuant to Section 1307(f)(5) of the Public Utility

Code. 66 Pa. C.S. § 1307(f)(5). The ALJ cited several reasons for using the interest rates set forth in Section 1307(f)(5). First, the ALJ noted that Section 1307(f)(5) is the only Section of 1307 that sets forth specific interest rates. Second, the ALJ opined that the residential mortgage rate can fluctuate significantly. Third, the ALJ stated that requiring PPL Electric to pay customers 8% interest will encourage the Company to avoid over-collections. And fourth, the ALJ stated that with both rates being fixed, the utility can more accurately estimate the amount of money it needs to recover in its automatic adjustment clause. (I.D. at 26.)

The Company respectfully disagrees with the ALJ's decision on this issue for several reasons. As an initial matter, no party in this proceeding argued that the Company should adopt the asymmetrical interest provisions under Section 1307(f)(5). The ALJ proposed this modification *sua sponte*, and the parties, including PPL Electric, were denied any opportunity to respond on the record to such a proposal. Therefore, the ALJ's proposed modification denied the parties their right to due process of law.¹

PPL Electric's proposal to calculate interest at the residential mortgage rate is consistent with many of the Company's existing and previous Section 1307(e) automatic adjustment cost recovery mechanisms, e.g., transmission service charge ("TSC"), universal service rider ("USR") and energy cost rate ("ECR"). (Tr. 142). It is clearly reasonable for the Company to use the

¹ "[D]ue process requires that the Parties have had the opportunity to examine the proposal during the evidentiary stages of this proceeding." *Enron Capital & Trade Resources Corporation v. The Peoples Natural Gas Company, Peoples Industrial Intervenors and Columbia Energy Services Corp., Intervenors*, Doc. No. R-00973928C0001, 1998 Pa. PUC LEXIS 199 (Order entered August 24, 1998). See also *Dee-Dee Cab, Inc. v. Pa. PUC*, 817 A.2d 593, 598 (Pa. Cmwlth. 2003), appeal denied, 836 A.2d 123 (Pa. 2003) ("For matters coming before an administrative agency, procedural due process, however, requires that a party be afforded reasonable notice of the issues raised and the agency's rulings on those issues, so that the party has an opportunity to present any response or objection."). Here, the Parties to this proceeding were not afforded an opportunity to explore and challenge this proposal through cross-examination and rebuttal evidence. Further, no evidentiary foundation was laid for the ALJ's alternative proposal.

same interest provisions that it is using for its other Commission-approved Section 1307(e) automatic adjustment clauses.

The ALJ states that the Company should be required to use the asymmetrical interest rates under Section 1307(f)(5), because this is the only provision of Section 1307 that sets forth specific interest rates. The Company respectfully disagrees with this conclusion. As recognized by the ALJ, Section 1307(f)(5) specifically states that it only applies to recovery of natural gas costs. There is no basis in fact or law to apply this provision to non-gas utilities. Moreover, the ALJ's decision proves too much. If Section 1307(f)(5) can be applied to non-gas utilities, then presumably all of Section 1307(f) should apply to non-electric utilities as well, and all utility automatic adjustment clauses should be required to follow all of the requirements of Section 1307(f). Section 1307(f) is a special statutory provision that applies only to the recovery of purchased gas costs by gas utilities. It has no application to non-gas utilities, and the ALJ's attempt to apply it to non-gas utilities should be rejected.

The ALJ's decision also is inconsistent with well-established precedent. For example, Section 1307(g) of the Public Utility Code authorizes water utilities to establish an automatic adjustment clause to recover the cost of certain distribution system improvement projects. The Commission approved a similar mechanism for a waste water utility. *Pa. P.U.C. v. Pennsylvania American Water Company*, Docket Nos. R-00027982 et al. (Order entered November 7, 2003). On appeal, the Commonwealth Court reversed and held that the plain language of 1307(g) limits the availability of distribution improvement surcharges to water utilities and does not authorize such surcharges for other types of utility companies. *See Popowsky v. Pa. PUC*, 869 A.2d 1144,

1158 (Pa. Cmwlth. 2005). The same logic applies equally here and prohibits the application of Section 1307(f) to non-gas utilities.²

Further, the Company has multiple automatic adjustment clauses under Section 1307 that have been approved by the Commission and that use the residential mortgage rate for both over and under-collections. Indeed, there are only two instances in which utilities have been required to apply asymmetrical interest rates. The first is in natural gas utility purchased gas cost (“PGC”) proceedings where asymmetrical interest rates are required by statute. *See* 66 Pa.C.S. § 1307(f). The second instance is in EDC default service plan proceedings, where it is required by the Commission’s regulations. *See* 52 Pa. Code § 54.187(f). There simply are no provisions in Act 129, the *Implementation Order*, or the case law that require asymmetrical interest rates.

Moreover, Act 129 does not reference Section 1307(f) of the Public Utility Code, which applies to PGC proceedings. Rather, Act 129 provides that an EDC will be entitled to recover smart meter technology costs “on a full and current basis through a reconcilable automatic adjustment clause under section 1307.” 66 Pa.C.S. § 2807(f)(7)(ii). However, as noted earlier in Act 129, costs for smart meter technology are recoverable “under a reconcilable automatic adjustment clause under section 1307(b).” 66 Pa.C.S. § 2807(f)(4)(i). When these two sections of Act 129 are read together, it is clear that the reconcilable automatic adjustment for recovery of

² Moreover, Section 1307(f) and 1307(g) are not unique. There are many provisions of the Code that apply to only certain utilities. For example, Chapter 22 of the Public Utility Code specifically applies to natural gas distribution companies and natural gas suppliers and not to electric utilities. 66 Pa.C.S. §§ 2201-2212. Likewise, Chapter 28 of the Public Utility Code applies to electric distribution companies and electric suppliers and not to gas companies. 66 Pa.C.S. §§ 2801-2812. Sections 515 and 517-521 of the Public Utility Code only apply to electric utilities. 66 Pa.C.S. §§ 515, 517-521. Chapter 27 of the Public Utility Code only applies to railroads. 66 Pa.C.S. §§ 2701-2709. In addition, Chapter 30 only applies to telecommunications companies. 66 Pa.C.S. §§ 3001-3009. It is clear that the legislature is well aware of the different types of utilities regulated by the Commission and has on many occasions enacted provisions to deal with issues presented by particular types of utilities. The Commission should follow the plain language of these provisions and limit their application to the specific utilities referenced in the particular statutory provision.

smart meter costs is under Section 1307(b) rather than 1307(f). See *Wheeling-Pittsburgh Steel Corp. v. Department of Environmental Protection*, 979 A.2d 931, 937 (Pa. Cmwlth. 2009) (statutes or parts of statutes are *in pari materia* when they relate to the same persons or things or to the same class of persons or things and must be construed together, if possible) (citing 1 Pa.C.S. § 1932); see also 1 Pa.C.S. § 1953 (whenever a statute is amended, “the original statute and the amendment shall be read together and viewed as one statute passed at one time”).

Nothing in Section 1307(b) directs an EDC to use the asymmetrical interest proposed by the ALJ. Absent such a directive, PPL Electric believes that the normal provision for symmetrical interest should apply to over and under collections, as proposed in PPL Electric’s Smart Meter Plan. This is consistent with PPL Electric’s existing and previous Section 1307 automatic adjustment cost recovery mechanisms. (Tr. 142.)

The ALJ also disagrees with using the residential mortgage rate because “residential mortgage rates can fluctuate significantly.” There is no evidence in the record that residential mortgage rates fluctuate significantly. Moreover, there is no evidence in the record that fluctuations in residential mortgage rates would significantly impact the Company’s cost recovery mechanism. As a result, the Company did not have an opportunity to respond to this allegation. Moreover, the Public Utility Code provides that interest on refunds under Section 1308(d) are to be calculated at the residential mortgage rate. Therefore, it is certainly reasonable to use the residential mortgage rate in calculating interest. In addition, as stated above, the Company is using and has used the residential mortgage rate to determine interest under its Section 1307 automatic adjustment clauses for many years.

The ALJ also states that paying customers 8% interest will encourage the Company to avoid over-collections. (I.D. at 26.) The Company disagrees that this is a concern for the smart

meter surcharge. As a policy matter, asymmetrical interest is not appropriate in this proceeding. The rationale for asymmetrical interest rates presumably is to reduce any incentive for utilities to overestimate their costs and overcollect through automatic adjustment clauses. This policy may have merit when a gas utility is estimating the future cost of gas in a Section 1307(f) proceeding or when an EDC is estimating the cost of acquiring provider of last resort generation supply. In the context of smart meter plans under Act 129, however, there is little incentive or ability to overestimate costs. The Company has set forth estimates of the costs of its pilot programs in this proceeding, and these costs are not significant. (PPL Electric St. 2-R, p. 3). In addition, the Company has agreed to a collaborative process with participants to develop and review pilot programs. Therefore, collaborative participants will have the ability to review the Company's costs for the pilot programs before the programs are in place.

Finally, the ALJ states that with fixed interest rates, the Company can more accurately calculate the amount of money it will have to budget. (I.D. at 26.) Again, the Company did not have the opportunity to address this issue on the record. Therefore, the contention should not be accepted. Moreover, as stated above, the Company has used and is using the residential mortgage rate as the interest rate in multiple automatic adjustment clauses. The Company is able to calculate the amount of money it has to budget for its costs.

Based on the foregoing, the Commission should deny the ALJ's decision that would require the Company to use the asymmetrical interest provisions of Section 1307(f) because this Section specifically applies to recovery of natural gas costs. Instead, the Commission should approve PPL Electric's proposal to calculate interest on over and under collections at the residential mortgage rate.

B. THE COMPANY'S FEEDER METER PILOT PROJECT WILL TEST SMART METER CAPABILITIES ON A SYSTEM-WIDE BASIS AND SHOULD BE APPROVED.

Under its Smart Meter Plan, the Company proposes to conduct a feeder meter pilot program. Feeder meters are advanced or "smart" meters that provide information regarding energy, voltage, current flow, and transient energy anomalies on the Company's distribution system. Under this proposed pilot program, the feeder meters will be strategically placed along main feeder lines. The feeder meters will enhance the Company's ability to monitor voltage on its system, aid in the diagnosis of power overloading, help the Company monitor power quality, help the Company monitor and reduce system outages, and reduce power restoration time. (PPL Electric St. 2-R, p. 5.)

The ALJ recommended that the Commission deny PPL Electric's feeder meter pilot project on the basis that it is a distribution system upgrade, rather than a customer smart meter capability. (I.D. at 27.) In support of this position, the ALJ stated that "PPL has not proved that feeder meters enhance the capabilities of the customer's advanced meter infrastructure." (I.D. at 27.) In rejecting the feeder meter pilot program, the ALJ adopted a restrictive view of smart meter technology that appears to limit smart meter technology to specific end-use customer applications. However, PPL Electric respectfully believes that this view is contrary to the Commission's broad interpretation of smart meter technology.

In the *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.

Implementation Order, p. 6. The Commission further 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.

Id. p. 16. 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 proposed feeder meter pilot program will allow PPL Electric to better monitor its system to aid in the diagnosis of overloading, power quality, and outage verification and restoration. This will directly benefit PPL Electric's maintenance and repair functions by enabling PPL Electric to pinpoint system problems and reduce maintenance and repair times and expenses. (PPL Electric St. 2-R, p. 5.)

Further, the Commission expressly stated 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. (*Id.* p. 16.) The feeder meter pilot program will allow PPL Electric to better monitor voltage on its system through the feeder meter and react to that information. (PPL Electric St. 2-R, p. 5.) 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 PPL Electric on their own. (Tr. 114.)

Based on the foregoing, PPL Electric does not believe that "smart meter technology" should be viewed in a restrictive manner. Rather, the Company believes that smart meter technology should include feeder meters, which will, on a system-wide basis, directly assist PPL Electric in meeting the smart meter goals and objectives set forth in the *Implementation Order*.

Accordingly, the Company respectfully requests that the Commission approve the feeder meter pilot program proposed in PPL Electric's Smart Meter Plan.

C. THE COMPANY SHOULD NOT BE REQUIRED TO MAKE 15-MINUTE INTERVAL DATA AVAILABLE FOR SMALL C&I CUSTOMERS, THEIR EGSS AND DESIGNATED THIRD PARTIES WITHOUT AN EVALUATION OF THE BENEFITS AND COSTS OF THIS CAPABILITY.

PPL Electric currently captures 15-minute or shorter interval data for all Large C&I customers and makes such data available on a daily basis to customers, EGSSs and/or designated third parties. (PPL Electric St. 1-R, p. 12.) 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. 1-R, p.12.)

In addition, under its Smart Meter Plan, PPL Electric is proposing a pilot program to evaluate methodologies for enhancing its ability to collect and provide 15-minute data to customers. (PPL Electric Ex. 2, Attachment 3, pp. 3-8.) PPL Electric's pilot program will evaluate both the benefits and costs of providing this function in order to determine if further implementation of this capability is appropriate.

The ALJ recommended that PPL Electric's Smart Meter Plan be modified to require PPL Electric to capture and make available 15-minute interval data for Small C&I customers. (I.D. at 30.) As support for this position, the ALJ stated as follows:

The Implementation Order provides that smart meter technology must support, among other things, the "[a]bility to provide 15-minute or shorter interval data to customers, EGSSs, third-parties and the regional transmission organization ("RTO") on a daily basis, consistent with the data availability, transfer and security standards adopted by the RTO." The Implementation Order does not limit this requirement to Large C&I customers.

Id.

PPL Electric respectfully disagrees with the ALJ's interpretation of the Implementation Order. In the Implementation Order, the Commission also stated that "[w]e stress, however, that the ability to provide 15-minute or shorter interval data does not mean that EDCs must collect that data *on all customers* at all times." *Implementation Order*, pp. 19-20 (emphasis added). Moreover, the ability to provide 15-minute data is not one of the minimum requirements of Act 129. In addition, the Commission expressly stated in the Implementation Order that it will have the option of waiving certain requirements for EDCs, including the ability to provide 15-minute data, if the imposed requirement is not cost-effective. *Implementation Order*, pp. 30-31. This supports PPL Electric's proposal to analyze the benefits and costs of providing this capability before requiring it for Small C&I customers. Moreover, PPL Electric notes that it currently provides meter pulses to EGSs or third parties, which gives these entities real-time access to 15-minute interval data or other intervals that the user may desire. (PPL Electric St. 1-R, p. 13.) Therefore, all users currently have access to 15-minute data through meter pulses.

PPL Electric believes that the ALJ's decision to require PPL Electric to provide 15-minute data (other than through meter pulses) to Small C&I customers is premature at this time. PPL Electric has proposed a plan to evaluate the benefits and costs of providing this capability. This is consistent with the Implementation Order and a reasonable approach for evaluating this issue for residential and Small C&I customers. Moreover, broad application of this capability could add significant costs to the Company's Smart Meter Plan, and customers would be required to pay for this in rates. Therefore, such a requirement should not be imposed without further study as to the cost of adding this capability and whether it will be of interest to customers.

Based on the foregoing, the Commission should not accept the ALJ's recommendation that PPL Electric must make 15-minute interval data available for Small C&I customers at this time. Instead, the Commission should approve PPL Electric's proposal to evaluate both the benefits and costs of providing this function in order to determine if further implementation of this capability is cost-effective in relationship to the benefits it would provide.

D. PPL ELECTRIC'S PROPOSAL TO RECOVER SMART METER PLAN COSTS FROM LARGE C&I PRIMARY AND LARGE C&I TRANSMISSION CUSTOMERS ON A DEMAND BASIS IS REASONABLE AND SHOULD BE APPROVED.

In this proceeding, PPLICA proposed two alternative methods for allocating feeder meter costs to Large C&I customers. As its primary proposal, PPLICA argued that PPL Electric should divide the Large C&I class into two subclasses (Primary and Transmission) and calculate the surcharge separately for each subclass. (PPLICA St. 1, p. 6; PPLICA St. 1-S, p. 2.) As an alternative proposal, PPLICA argued that the Company should recover smart meter plan costs from Large C&I customers on a customer charge basis. (PPLICA St. 1, p. 6; PPLICA St. 1-S, p. 3.) At the hearing, PPL Electric accepted PPLICA's primary proposal to divide the Large C&I customers into two subclasses and calculate the surcharge separately for each subclass. (Tr. 168-169.)

Despite the fact that PPL Electric accepted PPLICA's primary proposal, PPLICA continued to argue that the Company also should accept its alternative proposal to allocate smart meter costs to Large C&I customers on a customer charge basis. In the Initial Decision, the ALJ adopted PPLICA's alternative proposal, stating as follows:

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

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

(I.D. at 36, 37.)

The Company respectfully disagrees with the ALJ's decision on this issue for several reasons. For one, the Company accepted PPLICA's primary proposal to divide the Large C&I class into two subclasses. It was improper for PPLICA to continue to argue for its alternative cost-allocation proposal after the Company accepted its primary proposal.

In addition, it is important to recognize that PPL Electric already has installed smart meters for its customers, including its Large C&I customers. Therefore, the costs under the Smart Meter Plan do not include costs for the actual meters themselves. Rather, under its Smart Meter Plan, the Company is conducting programs that will allow customers including Large C&I customers, to reduce peak demand and usage over time. (Tr. 151.) Therefore, it is appropriate to recover Smart Meter Plan costs from Large C&I customers on a demand basis. The Company respectfully requests that the Commission accept PPLICA's primary proposal to divide the Large C&I class into two groups and recover costs on a demand basis.

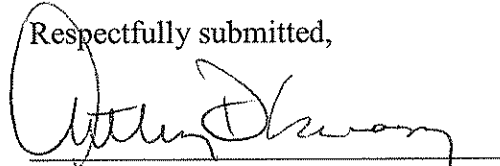
V. CONCLUSION

WHEREFORE, for the foregoing reasons, PPL Electric Utilities Corporation respectfully requests that the Initial Decision of Administrative Law Judge Wayne L. Weisman del issued on January 28, 2010 be modified, as discussed above, and that the Commission:

- 1) Approve PPL Electric's proposal to calculate interest on over and under collections at the residential mortgage rate;
- 2) Allow PPL Electric to conduct its feeder meter pilot program under its Smart Meter Plan;

- 3) Allow PPL Electric to evaluate the benefits and costs of providing 15-minute interval data to Small C&I customers before requiring this capability;
- 4) Adopt PPLICA's primary cost allocation proposal which would divide the Large C&I customer class into two groups and allow the Company to recover smart meter costs from Large C&I customers on a demand basis; and
- 5) Adopt the ALJ's Initial Decision in all other respects.

Respectfully submitted,



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