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March 1, 2010

HAND DELIVERED

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

Re: Petition of PECO Energy Company for Approval of Its Smart Meter Technology Procurement and Installation Plan
Docket No. M-2009-2123944

Dear Secretary McNulty:

Enclosed for filing are the original and nine (9) copies of the Reply Exceptions, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Daniel G. Asmus
Daniel G. Asmus
Assistant Small Business Advocate
Attorney ID No. 83789

Enclosures

cc: Parties of Record

Robert D. Knecht

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY	:	
FOR APPROVAL OF ITS SMART METER	:	
TECHNOLOGY PROCUREMENT AND	:	DOCKET NO. M-2009-2123944
INSTALLATION PLAN	:	

REPLY EXCEPTIONS
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

Daniel G. Asmus
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For: William R. Lloyd, Jr.
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Dated: March 1, 2010

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I. INTRODUCTION-PROCEDURAL HISTORY

Each electric distribution company ("EDC") with at least 100,000 customers was required to file a smart meter technology procurement and installation plan ("SMIP") with the Pennsylvania Public Utility Commission ("Commission") pursuant to Act 129 of 2008. PECO Energy Company ("PECO") filed a Petition for Approval of its Smart Meter Technology Procurement and Installation Plan ("Petition") with the Commission on August 14, 2009.

The Office of Small Business Advocate ("OSBA") filed a Notice of Intervention and Public Statement on September 25, 2009. Other parties to this proceeding include the Commission's Office of Trial Staff ("OTS"); the Office of Consumer Advocate ("OCA"); the Philadelphia Area Industrial Energy Users Group ("PAIEUG"); the Commonwealth of Pennsylvania, Department of Environmental Protection ("DEP"); Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively, "Constellation"); the Clean Air Council ("CAC"); and the Pennsylvania Association of Community Organizations for Reform Now ("ACORN").

The OSBA filed a pre-hearing memorandum and participated in the pre-hearing conference on September 29, 2009, before Administrative Law Judge ("ALJ") Marlane R. Chestnut. In accordance with the Commission's prior notice, a technical conference was held on October 7, 2009, in Harrisburg before ALJ David A. Salapa.

The OSBA filed the Rebuttal Testimony of its witness, Robert D. Knecht, on October 27, 2009.

An evidentiary hearing took place on November 13, 2009, at which the parties submitted their testimony for the record. ALJ Chestnut admitted the testimony and exhibits into the record.

A Joint Petition for Partial Settlement ("Settlement") of certain issues was filed with the Commission on November 25, 2009.

The Settlement set forth a list of issues that were resolved through the negotiation process. The parties were unable to reach an agreement on the methodology for allocating the SMIP costs not directly associated with the meters themselves, *i.e.*, the "common costs," among the rate class groups. The Settlement reserved that issue for briefing and for a decision by the Commission, as well as the issue of how the costs are to be recovered within the Small Commercial and Industrial ("C&I") rate class group.

On November 25, 2009, the OSBA filed a Statement in Support of the Settlement.

The OSBA filed its Main Brief on December 2, 2009, pursuant to the procedural schedule set forth in the September 30, 2009, Prehearing Order #1 of ALJ Chestnut, as subsequently amended by agreement of the parties and the ALJ. The OSBA filed its Reply Brief on December 9, 2009.

The Commission issued ALJ Chestnut's Initial Decision ("ID") on January 28, 2010. Exceptions to the ID were filed on February 17, 2010, by the OCA. These Reply Exceptions are being filed by the OSBA in response to the OCA's Exception No. 1 regarding the allocation of SMIP common costs.

II. REPLY EXCEPTION

A. REPLY TO OCA'S EXCEPTION NO. 1 REGARDING THE ALLOCATION OF SMIP COMMON COSTS: The ALJ correctly rejected OCA's proposal to allocate SMIP common costs on the basis of demand and energy rather than the number of customers in each class. (ID at 27-29)

The ALJ rejected the OCA's proposal to allocate SMIP common costs on the basis of demand and energy, agreeing with PECO, PAIEUG, and the OSBA that common costs should be allocated on the basis of the number of customers in each of the rate class groups, *i.e.*, Residential, Small Commercial and Industrial ("C&I"), and Large C&I.[1] In its Exception No. 1, the OCA excepted to this recommendation of the ALJ, and presented the following three arguments:

1. Traditional cost of service principles of cost causation support the OCA's allocation of common costs based on energy and demand.

2. The ALJ's decision does not reflect the fact that the meters are being installed for the purpose of impacting energy and demand consumption.

3. The OCA's proposed common cost allocation methodology would not result in cross-subsidization.

The OSBA agrees with the conclusion of the ALJ that the Company's plan should be approved, with respect to the allocation of common costs. In support of that conclusion, the OSBA offers the following arguments:

1. Implementation Order

Section 2807(f)(7) of the Public Utility Code, 66 Pa. C.S. §2807(f)(7), states that "[a]n electric distribution company may recover reasonable and prudent costs of providing smart meter technology" through base rates or "through a reconcilable automatic adjustment clause under

[1] ID at 25, fn. 6.

section 1307." With regard to the allocation of these costs among the rate class groups, the Commission has offered the following guidance:

> The Commission will require that all measures associated with an EDC's smart metering plan shall be financed by the customer class that receives the benefit of such measures. In order to ensure that proper allocation takes place, it will be necessary for the utilities to determine the total costs related to their smart metering plans, as discussed in E.1. Once these costs have been determined, we will require the EDC to allocate those costs to the classes whom derive benefit from such costs. Any costs that can be clearly shown to benefit solely one specific class should be assigned wholly to that class. Those costs that provide benefit across multiple classes should be allocated among the appropriate classes using reasonable cost of service practices.[2]

By definition, what PECO has characterized as "common costs" are what the Commission has labeled as "costs that provide benefit across multiple classes." Therefore, according to the Implementation Order, these costs "should be allocated among the appropriate classes *using reasonable cost of service practices*."[3] (emphasis added) The disagreement in this proceeding is over what constitute "reasonable cost of service practices."

2. Allocation of Common Costs

PECO proposes to allocate the common costs to the three rate class groups on the basis of the relative number of customers in each group.[4] The OSBA and PAIEUG support PECO's proposal for allocating the common costs among the rate class groups.[5] With the exception of the OCA, no other party took a position with respect to the allocation of common costs.

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[2] *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (Order entered June 24, 2009) ("Implementation Order") at 32; ID at 48.

[3] OSBA Main Brief at 10, citing the Implementation Order; OSBA Reply Brief at 7.

[4] ID at 26.

[5] ID at 26. *See also* OSBA Main Brief at 9.

As shown in the following table, the effect of PECO's proposal is to assign a bigger percentage of the common costs to the Residential rate class group than that rate class group's share of the meters costs:

TABLE I[6]

PECO SMIP Cost Allocation Factors		
	Meters Cost: Direct Assignment	Common Costs: Number of Customers
Residential	83.0%	89.9%
Small C&I	13.5%	9.9%
Large C&I	3.6%	0.2%
Total	**100.0%**	**100.0%**

The OCA opposed PECO's proposal and recommended an alternative. Specifically, instead of allocating the common costs on the basis of the relative number of customers in each rate class group, the OCA proposed to allocate 50% of the common costs on the basis of the relative energy consumption by each rate class group and 50% of the common costs on the basis of the relative coincident peak of each rate class group.[7]

The OCA's proposal would effectuate a dramatic reduction in the share of the common costs allocated to the Residential rate class group and a dramatic increase in the share of the common costs allocated to the Commercial and Industrial rate class groups. The following table illustrates the impact of the OCA's proposal:

[6] Table I appears in the record in OSBA Statement No. 1 at 2.

[7] ID at 27, citing OCA Statement No. 3 at 8.

TABLE II[8]

SMIP Cost Allocation Factors			
	Meters Cost: Direct Assignment (PECO, OCA)	Common Costs: Number of Customers (PECO)	Common Costs: Energy Consumption (OCA*)
Residential	83.0%	89.9%	33.9%
Small C&I	13.5%	9.9%	22.1%
Large C&I	3.6%	0.2%	44.0%
Total	**100.0%**	**100.0%**	**100.0%**
* OCA witness Swan proposes a 50/50 weighted allocator of energy and coincident peak demand. Dr. Swan does not provide the demand allocation factors.			

The common costs will include such things as meter data management, network management, and administrative costs.[9] These are costs that bear no relation to energy or demand, but do bear a relation to each customer that is serviced by PECO. These costs do not vary from customer to customer, and do not vary based upon the customer's energy usage. Therefore, it is logical to spread these costs evenly across all the PECO customers, as proposed by PECO.[10]

[8] Table II appears in the record in OSBA Statement No. 1 at 3. The column headed "Common Costs: Energy Consumption (OCA)" uses the data provided by OCA witness Dr. Dale Swan. Dr. Swan provided metered energy consumption but did not provide peak demand data. *See* OCA Statement No. 3 at 6 and Ex. DES-1. Therefore, to illustrate the impact of the OCA's cost allocation proposal, OSBA witness Robert D. Knecht assumed that all of the common costs would be allocated on the basis of energy consumption. Mr. Knecht conceded that using 50% peak demand and 50% energy consumption as the allocators would likely assign a somewhat larger share of the common costs to the Residential rate class group than shown in Table II. *See* OSBA Statement No. 1 at 3. In surrebuttal, Dr. Swan defended the OCA's proposal against Mr. Knecht's criticism. However, Dr. Swan offered no evidence that using the demand and energy allocators would result in a significantly less dramatic shift of costs from the Residential rate class group to the Small C&I and Large C&I rate class groups than portrayed in Table II. *See* OCA Statement No. 3S at 6-8.

[9] PECO Statement No. 5 at 21.

[10] PECO Main Brief at 7-8, citing, *inter alia*, PECO Statement No. 5-R at 7.

3. Cost Basis for PECO's Proposal

As noted above, PECO's common costs include meter data management system costs, network costs, and administrative costs.[11] As OSBA witness Mr. Robert Knecht testified, costs of this nature "are classified as 'customer-related,' and are allocated to each class based on a weighted or unweighted customer allocator."[12] PECO has classified these costs as "customer-related" and has proposed to allocate them to each rate class group through an unweighted customer allocator, *i.e.*, on the basis of the relative number of customers in each rate class group.[13]

In rebuttal, PECO witness Mr. Alan Cohn defended the Company's proposal, including through the following testimony:

> From a cost of service perspective, smart meter common costs are driven by the number of meter locations and, therefore, are properly allocated on the basis of number of customers. Specifically, the size of the network needed to read meters and the size of the systems used to store meter data are a function of the number of meter locations that have to be connected and, therefore, vary in proportion to the number of customers.[14]

As stated by ALJ Chestnut, "Clearly, metering costs – whether those associated with the current meters or the smart meters that will eventually be deployed – vary with the number of customers."[15] ALJ Chestnut addressed the OCA's "benefit" argument as follows: "The Commission statement relied on by the OCA (that costs should be allocated to the customers

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[11] PECO Statement No. 5 at 21.

[12] OSBA Statement No. 1 at 6.

[13] PECO Statement No. 5 at 21-22 and Ex. ABC-2.

[14] ID at 27, *citing* PECO Statement No. 5-R at 7.

[15] ID at 27.

who derive the benefit from those costs) is merely a general cost of service statement that recognizes that customers should not bear the costs of facilities not used to serve them . . . ."[16]

ALJ Chestnut reasoned, "Simply put, it is the need for the meter itself (as well as the associated costs to make use of that meter) that 'causes' those specific costs to be incurred. Based on the relative number of customers, the residential classes will be associated with almost 90% of the meter locations and this is why it is just, reasonable and appropriate that they be responsible for a proportionate share of the common costs to utilize those meters."[17] As OSBA witness Mr. Knecht testified, PECO's proposal to allocate the common costs on a per customer basis is "within the range of normal cost allocation practice for these costs." [18]

4. No Cost Basis for OCA's Proposal

The OCA's Exception cites to the testimony of Dr. Dale Swan for the notion that the allocation of costs on an energy and demand basis is consistent with traditional cost of service principles.[19] Dr. Swan accepted PECO's proposal for the direct assignment of meters costs, but then proposed to allocate the "common costs" on the basis of peak demand and energy consumption. Specifically, Dr. Swan proposed that 50% of the common costs be allocated among the three rate class groups on the basis of the relative contribution of each class to PECO's systemwide coincident peak demand. Dr. Swan proposed that the other 50% be allocated among the three rate class groups on the basis of the relative contribution of each to PECO's systemwide energy consumption.[20]

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[16] ID at 28.

[17] *Id.*

[18] OSBA Statement No. 1 at 6.

[19] OCA Exceptions at 5-9.

[20] OCA Statement No. 3 at 8.

Dr. Swan's proposal flows from his conclusion that common costs should be allocated on the basis of the "benefits" produced by the SMIP. In Dr. Swan's opinion, each of the three customer rate class groups is more likely to benefit from the SMIP in proportion to that group's energy consumption and peak demand than in proportion to the number of customers in that group.[21]

There are numerous fundamental flaws in Dr. Swan's assumptions. Those flaws render his proposed cost allocation unjust, unreasonable, and unduly discriminatory.[22]

First, Dr. Swan is ignoring the fact that the General Assembly mandated the deployment of smart meters to ***all*** customers over a 15-year period of time, regardless of how many of those customers will actually be able to save money by using those smart meters to adjust their consumption profile.[23] Because PECO will incur smart meter costs to fulfill this mandate, the costs should be allocated on the basis of traditional cost of service principles rather than on the basis of a theoretical notion of which customers are more likely to use smart meters to reduce their electric bills.

In defense of the traditional cost of service approach used by PECO, Mr. Knecht testified as follows:

> Some customers will not be able to obtain any direct benefit at all, because they are unable to modify their load shape. Nevertheless, the cost incurred by PECO to install a smart meter at the location of a customer who *can* benefit from the capabilities is the same as the cost incurred by PECO to install a smart meter at the location of a customer who *cannot* benefit. From a cost causation standpoint, PECO must install a smart meter for every customer it serves, because it is obligated to do so by Pennsylvania law. The costs associated with installing those meters are therefore based on (a) the

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[21] OCA Statement No. 3, at 5-6.

[22] *See* Sections 1301 and 1304 of the Public Utility Code, 66 Pa. C.S. §§1301 and 1304.

[23] *See* Section 2807(f)(2).

> number of customers for whom the meters must be installed and (b) the cost of the meter. Whether a customer can or cannot benefit from the meter is irrelevant in the cost causation approach.[24]

Second, Dr. Swan assumes that customers in the Small C&I rate class group are more likely to be able to reduce their electric bills through the use of smart meters than are customers in the Residential rate class group. However, Dr. Swan offered no evidence that customers in the Small C&I rate class group will be better able to shift their loads off-peak than will customers in the Residential rate class group.[25] For example, Dr. Swan offered no evidence that restaurants and retail stores in the Small C&I rate class group will be able to shift their consumption off-peak, in view of the need for lighting, cooking facilities, and HVAC systems to be fully operational when customers patronize those restaurants and stores during on-peak hours.

Third, Dr. Swan assumes that the principal reason for mandating the deployment of smart meters is to save ratepayers money.[26] In making that assumption, Dr. Swan ignores the fact that smart meters are expected to result in environmental benefits which will accrue to all citizens, regardless of how much electricity they use and regardless of whether their electric bills go down—or go up—as a result of smart meters. Interestingly, Dr. Swan acknowledged that fact when he testified that "[t]he preamble to Act 129 of 2008 states that the features of the Act are intended to promote the '. . . availability of adequate, reliable, affordable, efficient and *environmentally sustainable electric service* at the least cost, taking into account any benefits of

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[24] OSBA Statement No. 1 at 5-6. (emphasis in original)

[25] In fact, Dr. Swan conceded that "I have not measured the benefits to accrue to each class." OCA Statement No. 3S at 4.

[26] *See, e.g.*, OCA Statement No. 3S at 7.

price stability over time *and the impact on the environment.*'"[27] Furthermore, OCA witness John G. Athas acknowledged that PECO's claimed benefits from smart meters include *both* reduced emissions and reduced energy prices.[28]

OSBA witness Mr. Knecht warned that using "the 'customer benefit' standard for cost allocation [as Dr. Swan proposed] can lead to a morass of conflicting interpretations as to (a) what the benefits of the SMIP are (e.g., load management, conservation, environmental benefits, price reductions), and (b) which customers and customer classes receive these benefits."[29] In addition to the purported "measurement" of the energy cost reduction benefit on which Dr. Swan based his cost allocation, Mr. Knecht pointed out that "[m]any other 'customer benefit' arguments could be constructed, in which benefits inure differently to customers based on (a) whether they take default service or supply from an alternative generation supplier ('EGS'), (b) whether a particular customer does or does not take advantage of time-of-use ('TOU') rates, and (c) what specific smart meter capabilities are used by each customer."[30]

ALJ Chestnut implicitly agreed with Mr. Knecht when she stated:

> Even if the benefits for each class could be accurately measured, there is no support for the assumption that each customer class will derive benefits from smart meter technology in direct proportion to the class's demand and energy usage. The effect would be to shift a large portion of the residential class costs to the other rate classes, resulting in a subsidization of the residential class. This

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[27] OCA Statement No. 3 at 2. (emphasis added)

[28] Specifically, Mr. Athas testified that "PECO mentions additional potential benefits of Smart Meters such as *reduced emissions* and energy prices, but does not provide any quantification of these benefits in its plan." OCA Statement No. 1 at 22. (emphasis added) Unfortunately, without providing any quantification of the benefits from reduced energy prices relative to the benefits from reduced emissions, Dr. Swan simply proposed to allocate the common costs as though the only benefits from smart meters would come from reduced energy prices.

[29] OSBA Statement No. 1 at 4.

[30] OSBA Statement No. 1 at 4-5.

> would produce unjust and unreasonable rates, since the rates would not be based on a cost of service study.[31]

Consequently, the ALJ was correct in rejecting the OCA's approach to common cost allocation.

However, even if the Commission were to reject the ALJ's reasoning, the OCA has failed to prove that the "benefits" from SMIP will accrue to customers on the basis of how much, and when, customers use electricity. Therefore, the Commission must reject the OCA's cost allocation approach.

5. *Lloyd v. Pennsylvania Public Utility Commission*

On pages 8-9 of its Exception, the OCA asserts that the decision in *Lloyd v. Pennsylvania Public Utility Commission,* 904 A.2d 1010 (Pa. Cmwlth. 2006), does not stand for the proposition (put forth by PAIEUG) that the OCA's cost allocation proposal must be rejected. In fact, the OCA argues that *Lloyd* actually supports the implementation of the OCA's proposed cost allocation. According to the OCA, the OCA's cost allocation proposal in this proceeding is consistent with "another section of the Lloyd decision [which] upholds the allocation of Sustainable Energy Fund (SEF) costs to all classes of distribution customers on the basis that all ratepayers benefit from the Fund's activities."[32]

Regardless of whether or not *Lloyd* supports PAIEUG's argument in the instant proceeding, *Lloyd* does not support the OCA's common cost allocation proposal. Significantly, the issue in *Lloyd* dealt with whether all customers should have to pay SEF costs and not with the allocation of those costs among the customer classes. Specifically, the Court in *Lloyd* simply rejected an argument that SEF funding should come through generation rates and not through

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[31] ID at 28-29.

[32] OCA Exceptions at 8-9.

distribution rates. It did not address (indeed, did not have before it) the question of allocation of SEF costs among the rate classes.[33]

Here, by contrast, no one challenges whether all customers should pay SMIP common costs. Rather, the challenge is over how those costs should be allocated among the classes, an issue which was not before the Court in *Lloyd*. Therefore, OCA's reliance on *Lloyd* is misplaced.

6. Alternative Cost-Based Allocation Approach

As OSBA witness Mr. Knecht testified, PECO's proposal to allocate the common costs on a per customer basis is "within the range of normal cost allocation practice for these costs." However, in recognition that the Commission may be persuaded by the OCA's argument against allocating the common costs on a customer basis, Mr. Knecht proposed a cost-based alternative to PECO's approach, *i.e.*, allocate the common costs in proportion to the allocation of the direct costs.[34]

Mr. Knecht's alternative builds on the fact that no parties oppose PECO's proposal to allocate the cost of each meter to the rate class group for which that meter is purchased and installed. Rather than requiring a decision on whether common costs should be allocated on the basis of number of customers, on the basis of energy consumption, or on the basis of some hybrid of those two approaches, Mr. Knecht's alternative offers a simple solution, *i.e.*, let the common costs follow the meters costs. Furthermore, as Mr. Knecht testified, this alternative would also be consistent with reasonable cost of service practices.[35]

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[33] *Lloyd*, 904 A.2d at 1027.

[34] OSBA Statement No. 1 at 6.

[35] OSBA Statement No. 1 at 6.

To simplify consideration, Table II (from above) is repeated here:

TABLE II

SMIP Cost Allocation Factors			
	Meters Cost: Direct Assignment (PECO, OCA)	*Common Costs:* Number of Customers (PECO)	*Common Costs:* Energy Consumption (OCA*)
Residential	83.0%	89.9%	33.9%
Small C&I	13.5%	9.9%	22.1%
Large C&I	3.6%	0.2%	44.0%
Total	**100.0%**	**100.0%**	**100.0%**
* OCA witness Swan proposes a 50/50 weighted allocator of energy and coincident peak demand. Dr. Swan does not provide the demand allocation factors.			

PECO's proposal for allocating the common costs is displayed in the column of Table II headed "Common Costs: Number of Customers (PECO)." The OCA's proposal for allocating the common costs is displayed in the column headed "Common Costs: Energy Consumption (OCA)." Mr. Knecht's alternative (to allocate common costs in the same proportion as meters costs) is displayed in the column headed "Meters Cost: Direct Assignment (PECO, OCA)."

As illustrated in Table II, PECO's uncontested proposal (regarding meters costs) will allocate 83% of the meters costs to the Residential rate class group and will split 17% of the meters costs between the Small C&I and Large C&I rate class groups. Under Mr. Knecht's alternative, the common costs would be allocated among the rate class groups in exactly the same proportion as the meters costs are allocated, *i.e.*, 83% of the common costs would be allocated to the Residential rate class group and 17% would be split between the Small C&I and Large C&I rate class groups.

PECO's proposal would assign 89.9% of the common costs to the Residential rate class group and would split only 10.1% between the Small C&I and Large C&I rate class groups. Therefore, Mr. Knecht's alternative would provide some relief to the Residential rate class group relative to the Company's proposal by reducing that group's share of the common costs from 89.9% to 83%. In contrast, Dr. Swan's proposal would cause a very dramatic shift, by reducing the Residential rate class group's share of the common costs from 89.9% to 33.9%.

The ID did not address this proposal "in light of my [ALJ Chestnut's] determination that the company's proposal should be adopted."[36] However, if the Commission rejects PECO's common cost allocation approach (*which the Commission should not do*), then the Commission should adopt the OSBA's alternative.

7. Cost Recovery within Rate Class Groups

Once the Commission determines how meters costs and common costs will be allocated among the three rate class groups, it will be necessary for the Commission to determine how those costs will be recovered within each rate class group. ALJ Chestnut did not address this issue in the ID, based upon her determination that PECO's common cost allocation proposal should be adopted. *There is a dispute over how the costs should be recovered within the Small C&I rate class group only if the Commission rejects the ALJ's recommendation and adopts the OCA's cost allocation proposal.*

[36] ID at 29.

PECO witness Mr. Cohn proposed to recover both meters and common costs via a customer charge, *i.e.*, each customer within a rate class group would pay exactly the same amount regardless of consumption.[37] PAIEUG endorsed PECO's approach.[38]

In contrast, OCA witness Thomas S. Catlin proposed that these costs be recovered within the Residential rate class group via an energy charge rather than via a customer charge, *i.e.*, on a per kWh basis rather than on a per customer basis, or via a combination of a customer charge (for meters costs) and an energy charge (for common costs).[39]

Because the OSBA supports PECO's proposal to allocate both meters and common costs among the rate class groups on a per customer basis, the OSBA also supports PECO's proposal to recover these costs within the Small C&I rate class group via a customer charge. Therefore, the OSBA filed no testimony solely on the cost recovery issue.

However, if the Commission approves the OCA's proposal to allocate the common costs on the basis of energy consumption (*which the Commission should not do*), then the OSBA respectfully requests that the meters costs be recovered within the Small C&I rate class group via a customer charge and that the common costs be recovered within the Small C&I rate class group via a per kWh charge.

As illustrated in Table II, the OCA's proposal would increase the Small C&I rate class group's share of the common costs dramatically, from 9.9% to 22.1%. Therefore, because the OCA's cost allocation proposal would dramatically increase the total amount charged to the Small C&I rate class group, the result would be an unreasonably high customer charge.

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[37] PECO Statement No. 5 at 15, and PECO Statement No. 5-R at 13.

[38] PAIEUG Statement No. 1 at 8.

[39] OCA Statement No. 2 at 12-14.

OCA witnesses Dr. Swan and Mr. Catlin assert (*incorrectly*) that customers who use more energy should be assigned a higher cost responsibility (and, therefore, should pay higher SMIP charges) than customers who use less energy.[40] If the Commission agrees with this argument by Dr. Swan and Mr. Catlin (*which the Commission should not do*), then consistency dictates that customers within the Small C&I rate class group who use more energy should pay higher SMIP charges than customers within the Small C&I rate class group who use less energy. In fact, because of the very diverse nature of customers in the Small C&I rate class group, the logic of the OCA's argument would appear to be even more applicable to cost recovery within the Small C&I rate class group than it is to recovery within the Residential rate class group.

The Small C&I rate class group (Rate GS) includes all C&I customers except those who are in the Large C&I rate class group. The Large C&I rate class group includes only customers who take service at primary distribution voltage (Rate PD), customers who take service at high tension voltage (Rate HT), and customers who take service for electric propulsion (Rate EP, *i.e.*, Amtrak and SEPTA).[41] In effect, all secondary voltage C&I customers are included in the Small C&I rate class group, regardless of their peak demand and their energy consumption.

The OSBA's position is consistent with the rebuttal testimony of PECO witness Mr. Cohn:

> The Commission typically includes the cost of meters and meter reading in the customer charge in accordance with 'reasonable cost of service practices' because these are customer-related costs, i.e., costs that vary based on number of customers, not energy usage. Therefore, the Company proposed to include the smart meter recovery charge in the customer charge component of each class' rate. *If the Commission departs from past practice and decides that recovery of some or all of these costs through a kWh charge*

[40] OCA Statement No. 3 at 5-6, and OCA Statement No. 2 at 13.

[41] PECO Statement No. 5 Ex. ABC-3. *See also* PECO Electric Service Tariff at 45-50 and 62-63.

> *is reasonable, then the Company will design a rate that comports with the Commission's directive.*[42]

In the OSBA's view, cost recovery should flow from cost allocation. Therefore, if the Commission determines (*incorrectly*) that some smart meter costs should be allocated on the basis of peak demand and energy, then the cost recovery method within rate class groups should reflect that determination. Under those circumstances, it would be both inappropriate and inequitable to require the smallest Small C&I customer to pay exactly the same monthly charge as the largest Small C&I customer.

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[42] PECO Statement No. 5-R at 13. (emphasis added)

III. CONCLUSION

For the reasons set forth herein, the OSBA respectfully requests that the Commission deny OCA's Exception No. 1, thereby rejecting the OCA's common cost allocation proposal.

Respectfully submitted,

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Dated: March 1, 2010

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PECO Energy Company for Approval of its Smart Meter Technology Procurement and Installation Plan	:	Docket No. M-2009-2123944

CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Reply Exceptions, on behalf of the Office of Small Business Advocate, by e-mail and first-class mail (unless otherwise noted) upon the persons addressed below:

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