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March 1, 2010

BY HAND

James J. McNulty
Secretary
PA Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
PO Box 3265
Harrisburg, PA 17105-3265

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 Replies of PPL Electric Utilities Corporation to Exceptions of Other Parties 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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Date: March 1, 2010

Anthony D. Kanagy

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLIES OF PPL ELECTRIC UTILITIES CORPORATION TO EXCEPTIONS OF OTHER PARTIES

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Date: March 1, 2010

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I. INTRODUCTION

The Initial Decision ("I.D.") of Administrative Law Judge Wayne L. Weismandel ("ALJ") was issued by the Pennsylvania Public Utility Commission ("Commission") on January 28, 2010. On February 17, 2010, PPL Electric Utilities Corporation ("PPL Electric" or the "Company"), the Office of Trial Staff ("OTS"), Office of Consumer Advocate ("OCA"), and the Pennsylvania Department of Environmental Protection ("DEP") filed Exceptions to the Initial Decision. The Office of Small Business Advocate ("OSBA") and the Pennsylvania Association of Community Organizations for Reform Now ("ACORN") did not file Exceptions. For the reasons explained below, PPL Electric respectfully requests that the Commission deny the Exceptions of OTS, OCA, and DEP and approve the Company's Smart Meter Plan as filed.

II. SUMMARY OF REPLIES TO EXCEPTIONS

In this proceeding, PPL Electric proposed to base the return component of its smart meter surcharge on the Company's cost of capital, as determined by the Commission, in the Company's last fully litigated base rate proceeding. This is reasonable because it utilizes Company specific data, from a single proceeding, to determine all cost of capital components. The OTS disagrees with this proposal and instead would propose to mix Company specific data with representative data derived from a barometer group in the Fixed Utility Services ("FUS") Quarterly Earnings Reports to determine the Company's cost of capital. On the other hand, the OCA proposes that the Company be required, as an initial matter, to use the return on equity that was approved by the Commission for Metropolitan Edison Company ('Met-Ed") and Pennsylvania Electric Company ("Penelec") in their last fully litigated base rate proceeding. The OTS and OCA proposals are not reasonable because they use data other than PPL Electric's cost of capital as determined by the Commission approximately 5 years ago in PPL Electric's 2004 base rate proceeding. PPL Electric should be permitted to utilize the cost of capital components

approved by the Commission in the Company's last base rate proceeding for its smart meter surcharge.

With regard to interest under the smart meter surcharge, OTS proposes that the Company be required to pay interest on over-collections, but not be permitted to recover interest on under-collections. OTS bases its position on the Commission's practice for water utilities under the distribution system improvement charge ("DSIC") mechanisms. OTS' contentions should not be accepted. The smart meter surcharge is not a DSIC mechanism, and the statutory provisions authorizing smart meter surcharges and DSIC mechanisms are different. The smart meter surcharge statutory provision expressly provides that EDCs may recover their smart meter costs on a full and current basis. Failure to provide interest on undercollections would deny full and current cost recovery and should be rejected. The DSIC statutory language, by contrast, does not contain this provision. Therefore, PPL Electric should be permitted to recover interest on under-collections to ensure recovery of costs on a full and current basis.

OTS also contends that the Commission should require the Company to make quarterly smart meter surcharge filings. This position is inconsistent with the Commission's Smart Meter Implementation Order[1] and completely unnecessary due to the low level of costs that the Company will collect through its smart meter surcharge and the fact that these costs will not be difficult to predict.

OCA contends that the Company should not be permitted to conduct its voluntary service limiting and pre-pay metering pilot programs. These pilot programs should be approved in this proceeding. They will be completely voluntary and could provide substantial benefits to the Company and its customers.

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[1] *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655, Order entered June 24, 2009 ("Implementation Order").

DEP submitted no testimony in this proceeding. Despite this, DEP has taken the position that the Company's plan does not meet the requirements of Act 129 and the Implementation Order because the Company is not providing Home Area Networks ("HANs") to all of its customers. DEP's position is untenable. Neither Act 129 nor the Commission's Implementation Order requires EDCs to provide HANs to all customers. PPL Electric provides its customers with direct access to price and consumption data through its web site and through meter pulse data. In addition, PPL Electric is proposing pilot programs to test and enhance its ability to provide price and consumption data to customers, including evaluating the benefits and costs of providing HANs. If DEP's position were accepted, it is likely that the Company would be required to replace its entire AMI system, at ratepayers expense, at an estimated cost of $380 - $450 million. The Company does not believe that such a substantial expenditure is warranted without a thorough evaluation of the benefits and costs of providing HANs to all customers.

III. REPLIES TO EXCEPTIONS

A. PPL Electric's Return Component Of Its Smart Meter Surcharge Should Be Based On The Company's Cost of Capital As Determined By The Commission In A Litigated Rate Proceeding.

1. Introduction.

Act 129 and the Commission's Implementation Order allow EDCs 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 that the return component of a smart meter surcharge should be "based on the EDC's weighted cost of capital." Implementation Order, p. 29. Pursuant to the Commission's directive in the Implementation Order, the Company proposed to base its return component on its weighted cost of capital as determined by the Commission in the Company's most recent fully litigated distribution rate case. (PPL Electric St. 3-R, p. 4).

The ALJ agreed with the Company's proposal. In the Initial Decision, the ALJ stated as follows:

> ...PPL proposes to include a return component based on PPL's actual return on equity, debt cost rate and capital structure as approved by the Commission in its most recent fully litigated base rate proceeding. Certain parties in this proceeding have proposed different methodologies for determining cost of capital. However, these methodologies are not based on PPL's cost of capital and are not accepted.
>
> PPL's proposal is the only one in this proceeding that is fully based on PPL'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.

Implementation Order, pp. 21-22.

The OTS and OCA take certain Exceptions to the ALJ's decision regarding this issue. The Commission should not accept the OTS and OCA positions because the OTS and OCA would propose to rely on data that is not based on PPL Electric's weighted cost of capital.

2. Return On Equity ("ROE").

a. The OTS' ROE Proposal Would Rely On Inconsistent And Volatile Data That Does Not Reflect PPL Electric's Capital Costs.

The OTS asserts that the ROE component of the Company's smart meter surcharge should be determined by FUS based upon information contained in the Quarterly Earnings Reports. (OTS Exc. p. 11). The Commission should not accept this position.

The record evidence in this proceeding clearly demonstrates that the ROE ranges contained in recent Quarterly Earnings Reports are too inconsistent and volatile to use to determine the ROE for PPL Electric's smart meter surcharge. (Tr. 148, OCA St. 2, p. 5). To illustrate, the ROE values in the FUS reports for the previous 5 quarters ranged from 7.44% to

11.22%. (Tr. 148). In addition, the lower end of this range is completely inconsistent with any prior Commission determination of the cost of common equity and must be rejected.

Moreover, at no point in this proceeding did the OTS explain how FUS would pick a specific number in the range. In fact, in its Exceptions, OTS states as follows: "It is evident that OTS did not make specific recommendations regarding how the cost rate of common equity should be calculated." (OTS Exc. p. 14). It is clearly unreasonable for OTS to claim that the Company's ROE should be based on the FUS reports and then fail to provide information on how the specific ROE value should be determined. The Company must use a specific ROE number in its smart meter surcharge, not a range of numbers.

At the hearing, the Company attempted to question the OTS witness regarding the data contained in the FUS reports, and the OTS witness was unable to answer any substantive questions about this data. In the Initial Decision, the ALJ recognized this, stating that the OTS witness was "not qualified to testify as to cost of capital." (I.D. at 23).[2] As a result, the Company was not able to fully challenge the OTS proposal, and the Commission should not accept it.

As support for its position, OTS argues that PPL Electric's ROE in its last litigated base rate proceeding was based on a barometer group and that the OTS position is similar because it is recommending that FUS staff calculate an ROE based on the barometer group in the Quarterly Earnings Report. (OTS Exc. at 13). The OTS recommendation is not similar. PPL Electric's ROE in its last fully litigated base rate proceeding was established after a careful analysis of PPL

[2] "It is well within the purview of the ALJ, as fact finder to adjudicate the credibility of the evidence presented." *See Margaret Peschka v. Equitable Gas Company*, Docket No. C-00015534, 2002 Pa. PUC LEXIS 10 (June 28, 2008); *accord Application of the City of Harrisburg to Discontinue Or Abandon the Provision of Water Service to the Public in Areas Outside of the City's Corporate Boundaries including the Discontinuance of Service to the Public in Portions of Susquehanna Township, Dauphin County*, Docket No. A-221400F2000, 2001 Pa. PUC LEXIS 13 (April 23, 2001).

Electric's specific conditions, investigation by other parties through formal discovery, several rounds of testimony by the Company and other parties, review by an administrative law judge, exceptions, reply exceptions and review and approval by the Commission. On the other hand, under the OTS recommendation, FUS staff apparently would pick a number based upon its evaluation of available information from a barometer group. The basis for the decision would not be subject to discovery, testimony, review by an administrative law judge, exceptions, reply exceptions, or review by the Commission before going into effect. These are extreme differences between the two methodologies.

The OTS also states that the Quarterly Earnings Reports provide current information and that "reliance on PPL's 2004 base rate proceeding uses inputs that may no longer be representative of the Company's current financial condition ...." (OTS Exc. at 14). PPL Electric disagrees with this statement for several reasons. First, the Company disagrees that information from its 2004 base rate case is stale. The case was decided by the Commission approximately 5 years ago. The Commission has decided subsequent cases with higher ROEs for utilities. In 2008, the Commission established an ROE of 11% for Aqua Pennsylvania. (OTS Ex. 1-SR, Attachment C, p. 11). In addition, as explained above, the ROE ranges set forth in the Quarterly Earnings Reports do not reflect the Company's "current financial condition." They reflect FUS staff's "interpretation of available data" for the barometer group. (I.D. at 23; Tr. 184).

Under the Company's proposal, the Company would update the ROE component of its smart meter surcharge after the Commission enters an order establishing a new ROE in the Company's next fully litigated base rate proceeding. (PPL Electric Ex. 2, p. 33). This is a reasonable approach because it would update the ROE based upon Commission-approved data. Under the OTS approach, if the Company had a fully litigated base rate proceeding where the

Commission approved a specific ROE, the Company would not be permitted to use that ROE for its smart meter surcharge, rather it would be required to rely on the Quarterly Earning Report data as selected by FUS staff. This further demonstrates that the OTS position is not reasonable.

PPL Electric's cost of capital is not the same as other EDCs, and the Company does not believe that it is appropriate to rely on an industry average ROE number that has not been examined in a litigated proceeding, has not been reviewed by the Commission, does not reflect PPL Electric's operating conditions, is meant for operational purposes only and has been inconsistent and volatile.

b. The OCA Proposal Would Unreasonably Require PPL Electric To Use Met-Ed and Penelec's ROE In PPL Electric's Smart Meter Surcharge.

The OCA agrees that the Company should use its specific Commission-approved ROE for the Company's smart meter surcharge unless the Commission decision is more than three years old. Under these circumstances, the OCA proposes that the Commission establish a procedure that would rely on Quarterly Earnings Report data prepared by FUS. (OCA Exc. at 3). Recognizing that the Commission has not adopted such an approach, the OCA proposes that the Company use an initial ROE of 10.1%, which is the ROE approved by the Commission for Metropolitan Edison Company ("Met-Ed") and Pennsylvania Electric Company ("Penelec") in the Met-Ed and Penelec 2006 rate case. *Pa. P.U.C. v. Metropolitan Edison Company and Pennsylvania Electric Company*, Docket Nos. R-00061366, *et al.* (Order entered January 11, 2007). The Company disagrees with these proposals. As explained above, it is not appropriate to rely on the FUS Quarterly Earnings Reports to establish an ROE for PPL Electric's smart meter surcharge. The Quarterly Earnings Reports do not reflect PPL Electric's specific conditions and have been inconsistent and volatile.

Moreover, OCA's proposal to rely on the Med-Ed/Penelec ROE of 10.1% as an initial ROE has multiple flaws. Importantly, it is not based on PPL Electric's cost of equity but, rather, on the cost of equity for the Met-Ed and Penelec companies. In the Initial Decision, the ALJ noted that "The Med-Ed/Penelec rate case that the OCA refers to reflected unique circumstances for those companies, and the ROE does not reflect PPL's cost of capital." (I.D. at 22). The appropriate ROE for an EDC cannot be determined without looking at the individual EDC's capital structure because generally an EDC is considered more risky if it has more debt. In addition, the Commission has held that it is appropriate to consider an individual utilities' customer service and management performance in establishing the appropriate ROE. *Pa. P.U.C. v. West Penn Power Co.*, 83 Pa. PUC 628, 675 (December 29, 1994); *Pa. P.U.C. v. Aqua Pa, Inc.*, 236 PUR 4th 218, 247 (August 5, 2004). The Med-Ed/Penelec ROE clearly does not reflect PPL Electric's customer service or management performance.

In the Initial Decision, the ALJ also noted that the Med-Ed/Penelec ROE proposed by OCA does not even meet the OCA's three year test. (I.D. at 22). The OCA claims that it was unreasonable to reject using this ROE for this reason because the Med-Ed/Penelec case was only decided 3 years and one month ago. (OCA Exc. at 5). It is the OCA's position that is unreasonable. The OCA proposed the three-year test, and its proposed ROE does not meet its own test. Moreover, the OCA does not and cannot explain why it is reasonable for the Company to rely on Met-Ed and Penelec specific data that is over three years old rather than PPL Electric's specific data, as decided by the Commission in a fully litigated rate proceeding, that is approximately 5 years old. This is a reasonable time period and reflects data that has been fully investigated and approved by the Commission specifically for PPL Electric. (I.D. at 22).

Based on the foregoing, the Commission should reject the proposals of OTS and OCA that PPL Electric rely on a generic ROE for smart meter costs that is based on data from the FUS Quarterly Earnings Reports or rely on an ROE established in a separate proceeding for Med-Ed and Penelec. The Implementation Order requires that the cost of capital for a smart meter surcharge be based on the specific EDC's weighted cost of capital. Implementation Order, p. 29. Accordingly, the Commission should adopt the recommendation of the ALJ and approve PPL Electric's use of 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.

3. Cost of Debt and Preferred Stock.

In this proceeding, the Company proposed a consistent methodology for determining cost of capital for its smart meter investment. Specifically, the Company proposed to utilize all capital components that were approved by the Commission in the Company's last base rate proceeding. These capital components include ROE, cost of debt and preferred stock and capital structure. The ALJ agreed with the Company's proposal, and with regard to the cost of debt and preferred stock, stated as follows:

> With regard to cost of debt and preferred stock, OTS recommends that PPL rely on its latest quarterly financial report to obtain these cost rates. This recommendation shows that OTS picks and chooses different data points, some that reflect PPL's actual costs and others that do not. Use of Company-specific data, from a single adjudicated proceeding, that has been reviewed and approved by the Commission will produce a more accurate reflection of PPL's capital costs.

(I.D. at 24).

The OTS excepted to the ALJ's decision, claiming that it is preferable to use the debt and preferred stock rates contained in the Quarterly Earnings Reports because they "reflect[s] the Company's current cost rate and will best reflect the cost of capital used to finance the smart meter technology." (OTS Exc. at 11). The primary problem with OTS' proposal is that it does

not use consistent data points. In a litigated base rate proceeding, the cost of capital is determined by looking PPL Electric's specific capital costs. OTS, on the other hand, would utilize the Company's cost of debt and preferred stock as reflected in the Quarterly Earnings Reports, an ROE based on available data for a barometer group and a capital structure based on available data for a barometer group. As the ALJ recognized, use of Company-specific data from a single proceeding, that has been investigated by all interested parties and approved by the Commission, will produce a more accurate reflection of the Company's capital costs. (I.D. at 24).

OTS argues that its proposal to mix the Company's actual cost data with representative data from a barometer group is appropriate because OTS' reason for using actual versus representative data is consistently applied. (OTS Exc. at 11). Specifically, OTS states that it is appropriate to use the Company's actual costs for debt and preferred stock because these costs "are fixed and do not fluctuate." (OTS Exc. at 11). OTS further states that "In contrast, the cost of equity and capital structure are not fixed and do fluctuate within the industry; therefore, the representative capital structure and equity cost is appropriate to ensure that no EDC or its customers are improperly harmed or advantaged through the smart meter cost recovery." (OTS Exc. at 11).

The Company disagrees with this argument. First, OTS provides no support for its argument that it is appropriate to rely on actual data when the data does not "fluctuate" and representative data when the data fluctuates. This is not a valid basis for mixing and matching actual Company data with representative data from a barometer group to determine cost of capital. In addition, there is no record evidence to support the OTS' conclusion that debt and preferred stock rates do not fluctuate. Moreover, the OTS argument that these rates do not

fluctuate is inconsistent with its argument that the debt and preferred stock costs from the Company's 2004 rate case are "stale." If debt and preferred stock rates do not fluctuate, they cannot be stale. The fact is, all capital cost components fluctuate and are different for each EDC. This is another reason why the Company's proposal to use Company-specific data from a single adjudicated proceeding is the most reasonable proposal in this proceeding.

4. Capital Structure.

As explained above, the ALJ adopted the Company's proposal to use the capital structure approved by the Commission in the Company's last fully-litigated base rate proceeding for its smart meter surcharge. (I.D. at 23).

The OTS excepts, stating that the Commission should utilize the barometer group capital structure from the FUS Quarterly Reports because this is the same barometer group that OTS proposes to use to determine ROE. (OTS Exc. at 9). As explained above, the barometer group does not represent PPL Electric's cost of capital, either for capital structure or ROE, and the Company's capital structure should be based on Company-specific data.

OTS also states that it is recommending that all EDCs use a representative capital structure because some EDCs have capital structures that are not representative of the industry norm. This argument is not relevant in this case. PPL Electric is proposing to use its capital structure as approved by the Commission in a litigated rate proceeding. The fact that other EDCs may have different capital structures has no impact on the decision in this case. In fact, this is another reason why the Company should be permitted to use the capital structure from its last litigated rate proceeding. The Commission has approved it and, therefore, it should be deemed to be reasonable.

PPL Electric's cost of capital proposal is the only proposal that is fully based on the Company's cost of capital as determined by the Commission. Therefore, the Company's proposal should be accepted.

B. The Commission Should Not Accept OTS' One-Sided Interest Proposal.

In this proceeding, PPL Electric proposed to recover its smart meter technology costs through a reconcilable Section 1307(e) automatic adjustment clause. 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. PPL Electric proposed to calculate interest at the residential mortgage rate and both refund interest on over-collections to customers and recover interest on under-collections from customers. Although OTS agreed with using the residential mortgage rate to calculate interest, OTS argued that the payment of interest should be one-sided such that PPL Electric should be required to refund interest on over-collections but not be permitted to recover interest on under-collections. (OTS MB, p. 16). The ALJ rejected the proposals of both PPL Electric and OTS and, *sua sponte*, 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 its Exceptions, OTS argues that the ALJ erred in rejecting the residential mortgage rate for purposes of calculating interest under PPL Electric's smart meter automatic adjustment clause. (OTS Exc. at 6-7). PPL Electric agrees with OTS on this issue and, for the reasons more fully explained in its Exceptions, the Commission should reject the ALJ's recommendation 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. (*See* PPL Exceptions, Section IV.A).

OTS also asserts that the ALJ erred in rejecting its proposal that interest under PPL Electric's smart meter automatic adjustment clause be one-directional so that PPL Electric should be required to refund interest on over-collections, but not be permitted to recover interest on under-collections. (OTS Exc. at 7-9). In support, OTS provides two reasons for proposing to require PPL to pay interest on over collections, but to deny it the ability to recover interest for under collections. First, OTS states that the Commission already has recognized the applicability of applying one-directional interest to capital intensive recovery in DSIC proceedings. (OTS Exc. at 8). Second, OTS states that PPL Electric's smart meter surcharge includes a return component and, therefore, PPL Electric should not be permitted to recover interest on under collections. (OTS Exc. at 8). OTS' arguments in support of its one-directional interest proposal should be denied.

Under Act 129, EDCs are permitted to recover their smart meter costs on a full and current basis. 66 Pa.C.S. § 2807(f)(7)(ii). Interest and recognition of the time value of money is essential to both "full" and "current" recovery. The time value of money is a widely recognized component of costs. If PPL Electric is not permitted to recover the time value of its money, it will not be permitted fully recovery of its costs. Likewise, if PPL Electric is not permitted to recover costs for the time value of money, it will not be permitted current recovery of costs, as is allowed by Act 129.

Although the Commission has approved one-directional interest in DISC proceedings, PPL Electric's Smart Meter Plan is not a DSIC mechanism. PPL Electric filed its Plan pursuant to the requirements of Act 129 and the Commission's Implementation Order. The Commission's

limitations on interest in DSIC proceedings are not applicable to PPL Electric's Smart Meter Plan. The statutory provision related to smart meter surcharges is quite different from the statutory provision authorizing water utilities to implement DSIC charges. As explained above, the smart meter statutory section provides that 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). The DSIC provision, however, does not contain this specific language allowing water utilities to recover costs on a "full and current basis." 66 Pa.C.S. § 1307(g). Therefore, the OTS comparisons to the DSIC mechanism are not applicable. Further, as noted by the ALJ, PPL Electric has multiple Commission-approved Section 1307(e) cost recovery mechanisms that use the residential mortgage rate as the interest rate, and all of these mechanisms provide for two-directional interest. (I.D. at 24).

OTS also argues that PPL Electric's proposal to recover interest on under collections should be denied because the smart meter cost recovery mechanism allows for recovery of "carrying costs" through a return component. The ALJ rejected OTS' argument, correctly concluding as follows:

> Act 129 and the Commission's Implementation Order provide for recovery of a return component on smart meter capital costs. 66 Pa.C.S.A. § 2807(f); Implementation Order, p. 29. Neither Act 129 nor the Commission's Implementation Order prohibit an EDC 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.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.*** (Emphasis supplied.)

(I.D. at 25).

Contrary to OTS' assertions, the return component is not recovering carrying costs. The OTS witness acknowledged that the time value of money equals what is commonly referred to as

a carrying charge. (Tr. 183). The return component is not associated with the time value of money, but recovers a return on investment. It is the interest on both over and under-collections that reflects the time value of money. The Company should not be denied recovery of carrying charges for the time value of money just because it is allowed a return component on its capital investment.

Based on the foregoing, the ALJ correctly rejected OTS' one-sided interest proposal concluding that "[i]t is both just and reasonable for interest to be paid on both over-collections and under-collections resulting from the use of a smart meter automatic adjustment clause." (I.D. at 36).

C. Quarterly Review and Reconciliation of Smart Meter Costs is Contrary to the Commission's Implementation Order and Unnecessary.

The ALJ determined that the Commission should approve PPL Electric's proposal for an annual review and reconciliation of its smart meter technology cost recovery mechanism, with annual rate adjustments on June 1 of each year. (I.D. at 26.). OTS asserts that the ALJ erred in rejecting the OTS proposal that rates be reviewed and adjusted quarterly, with rate adjustments on January 1, April 1, July 1 and October 1 of each year. (OTS Exc. at 3). The ALJ correctly rejected OTS' proposal for several reasons.

The Commission's Implementation Order provides for an annual review and reconciliation of smart meter costs. *Implementation Order*, p. 31. Therefore, OTS' proposal for quarterly adjustments contradicts the Commission's Implementation Order. Further, as explained in testimony, PPL Electric's smart meter plan costs are relatively small and are not difficult to predict. (PPL Electric St. 3-R, p. 9). Therefore, quarterly adjustments are not necessary.

OTS claims that its proposed schedule will promote administrative and judicial efficiency. (OTS Exc. at 4). The Company disagrees with this conclusion. The OTS proposal will add administrative costs and reduce judicial efficiency because it would require 4 quarterly filings per year as opposed to one annual filing.

The ALJ also correctly denied OTS' proposal to adjust rates on July 1 of each year. PPL Electric's EE&C rider will be adjusted on June 1 of each year, and PPL Electric believes that it is appropriate to coordinate rate adjustments, when possible, to avoid customer confusion. The ALJ agreed, finding that avoiding customer confusion "makes good sense." (I.D. at 26.) OTS disagrees with the ALJ's conclusion, stating that customer confusion is unlikely because both EE&C and smart meter costs are applied to distribution base rates. (OTS Exc. at 4). OTS misses the point. Customer confusion can be caused by the frequency of rate changes, not just changes to different components of the bill. Therefore, the ALJ correctly determined that it is better to adjust the EE&C rider and the smart meter surcharge on the same date.

OTS claims that it is trying to make smart meter surcharge filings uniform for all EDCs to promote administrative efficiency. (OTS Exc. at 4). The OTS fails to consider that not all EDCs are in the same circumstances. EDCs have rates that change at different times and other factors to consider. Moreover, there are many cases where EDCs do not make uniform filings. EDCs file different default service plans at different times based upon their specific circumstances and customer considerations. EDCs also do not have uniform rate schedules. There are many differences between EDCs that warrant different treatment under the same statutory and regulatory scheme.

D. The Commission Should Approve the Company's Voluntary Service Limiting and Pre-Pay Metering Pilot Programs.

In this proceeding, PPL Electric proposed to conduct a completely voluntary service limiting pilot program whereby customers can choose an amperage level and limit their service to that level. PPL Electric also proposed to conduct a completely voluntary pre-pay metering pilot program that will allow customers to pre-pay for their electric service. (PPL Electric MB, pp. 20-21). The ALJ approved the Company's request to conduct these completely voluntary service limiting and pre-pay metering pilot programs. (I.D. at 28).

In its Exceptions, OCA argues that PPL Electric should not be allowed to implement these pilot programs until after the Commission has addressed public policy implications associated with the programs. (OCA Exc. at 6). In support of its position, OCA asserts that the Implementation Order indicates that the Commission intended to have a separate proceeding to address the public policy issues implicated by service limiting and prepaid services before an EDC may implement such programs. (OCA Exc. at 6). The Company disagrees with OCA's conclusions regarding the service limiting and pre-pay metering pilot programs.

The Company has clearly explained in this proceeding that it will work with interested stakeholders to develop these pilot programs. (PPL Electric Reply Brief, at 5.) The Company and interested stakeholders can discuss all of these concerns in the collaborative meetings. In addition, these pilot programs will be completely voluntary, so if customers do not want to participate, they do not have to participate. OCA also states that it is concerned by PPL Electric's lack of analysis regarding these programs. (OCA Exc. at 7). However, OCA disregards the fact that the point of these voluntary pilot programs is to create an opportunity to analyze potential issues. In other words, PPL Electric needs to conduct the pilot programs in

order to be able to better analyze the issues associated with providing these capabilities, along with the benefits and costs.

In the Initial Decision, the ALJ explained why it is appropriate for PPL Electric to conduct these voluntary pilot programs:

> First, PPL already has a smart AMI system in place and believes that it is reasonable and appropriate for it 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, PPL will seek Commission staff and stakeholder input on developing these pilot programs to ensure that they are appropriately designed and to ensure that it does not violate Commission regulations. In this regard, PPL has not sought a waiver of any Commission regulations for these pilot programs. Fourth, these programs are completely voluntary.

(I.D. at p. 28). As the ALJ recognized, there are many public policy reasons that support PPL Electric's proposal to conduct voluntary service limiting and pre-pay metering pilot programs.

The Company also disagrees with OCA's conclusion that the Commission intended to have a separate proceeding prior to allowing EDCs to implement these capabilities. (OCA Exc. at pp. 6-7). As noted by the ALJ, "it is evident that the 'separate proceeding' referred to by the OCA applies before the Commission will require EDCs to offer these capabilities." (I.D. at. 28). The relevant portion of the Commission's order provides as follows:

> [T]he Commission agrees that the significant policy implications of service limiting and prepaid service should be addressed in another proceeding prior to *requiring* such capability in smart meters. Therefore, we have removed support for service-limiting, and prepaid service as a minimum capability *requirement*.

Implementation Order, at 18 (emphasis added). Thus, contrary to OCA's characterization, under the Implementation Order, the Commission concluded that it would be necessary to conduct further proceedings before requiring EDCs to implement service limiting and pre-pay metering capabilities. Stated otherwise, the Commission has clearly allowed EDCs to include service limiting and pre-pay metering pilot in their smart meter plans.

For these reasons, the Commission should reject OCA's proposal and adopt the ALJ's recommendation that the Commission approve PPL Electric's service limiting and pre-pay metering pilot programs.

E. DEP's Exceptions Are Without Merit and Should be Rejected.

1. DEP Offered No Evidence In This Proceeding.

DEP submitted no testimony in this proceeding. Despite a lack of testimony, however, DEP contends that PPL Electric's Smart Meter Plan does not meet the minimum requirements of Act 129 or the Commission's Implementation Order. In support, DEP asserts PPL Electric's AMI does not meet the definition of "smart meter technology" because according to DEP, the Company does not sufficiently provide customers with direct access to and use of price information. (DEP Exc. at 6-8).

DEP's assertions that PPL Electric's AMI and smart meter plan do not meet the minimum requirements of Act 129 or the Implementation Order are based upon averments of fact. Because DEP presented no testimony in this proceeding, DEP's positions were not introduced during the evidentiary stages of this proceeding, and no evidentiary foundation was laid for DEP's positions. As a result, the Parties were not afforded an opportunity to explore and challenge DEP's positions through cross-examination and rebuttal evidence. Due process requires that the Parties have the opportunity to examine DEP's positions and 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).

DEP's assertions should be denied simply because DEP failed to present its positions during the litigation stages of this proceeding, and the Company did not have an opportunity to respond. Moreover, as explained by the ALJ in the Initial Decision and as explained below, DEP's assertions do not have merit and should be denied for this reason as well.

2. The Company's AMI Meets The Smart Meter Technology Requirements of Act 129 and the Implementation Order.

DEP asserts that PPL Electric's existing AMI does not meet the requirements of Act 129 or the Implementation Order because PPL Electric does not propose to provide Home Area Networks ("HANs") or similarly capable devices with open protocols to all customers.[3] (DEP Exc. at 6-8). DEP, therefore, contends that PPL Electric's Smart Meter Plan should be rejected as a whole.

The ALJ dismissed DEP's conclusions in the Initial Decision, stating as follows:

> The Implementation Order does not specifically require HANs but also provides for similarly capable methods of open protocols. PPL's website and provision of consumption data through meter pulses meet this criteria. In addition, PPL has proposed a pilot program to study the costs and benefits of enhancing its ability to provide this function, including through HANs or other methodologies. (PPL Electric Ex. No. 2, Attachment 3, p. 3-3). DEP has presented no evidence in this proceeding that the PPL Plan does not meet all requirements.

(I.D. at p. 31).

As explained in its Smart Meter Plan, PPL Electric provides customers with direct access to and use of price and consumption information in several ways, including PPL Electric's

[3] As explained above, DEP did not present this position in testimony in this proceeding. Therefore, PPL Electric did not have the opportunity to specifically rebut this position.

website. The Company's website provides actual day-ahead and real-time pricing information to consumers, including historical day-ahead and real-time prices. The website also performs bill calculations, calculates savings, and provides trend information. (PPL Electric Ex. 2, p. 7). In addition, the Company provides real-time consumption information through pulse data. (PPL Electric Ex. 7). Under its Plan, PPL Electric proposes a pilot program using in-home displays ("IHD"), near real-time e-mails and text messages to customers. (PPL Electric Ex. 2, Attachment 3, p. 3-3). Moreover, PPL Electric will conduct a HAN pilot trial incorporating IEEE 802.15.4 Zigbee communications to evaluate the costs and benefits of providing HANs to customers. (PPL Electric Ex. 2, Attachment 3, p. 3-10).

DEP has presented no evidence in this proceeding to support its conclusion that PPL Electric's AMI fails to provide customers with direct access to and use of consumption and pricing information. Notwithstanding, DEP would require PPL Electric to install HANs for all customers. It is quite possible that, if PPL Electric were required to install HANs for all customers, the Company would be required to replace its entire AMI system at a cost of $380 - $450 million. (PPL Electric Ex. 2, p. 11). PPL Electric does not believe that it should make this substantial expenditure, at ratepayers' expense, without a thorough evaluation of the benefits and costs of providing HANs to all customers. As the Company has explained in this proceeding, it will perform a pilot program to evaluate the benefits and costs of providing HANs to customers. (PPL Electric Ex. 2, Attachment 3, p. 3-10). If the pilot is successful, the Company will propose a wider deployment to customers. This is a well-reasoned approach for evaluating this issue and will ensure the prudent use of ratepayers' funds.