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March 26, 2010

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Honorable James McNulty
Secretary, Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: Petition of West Penn Power Company d/b/a Allegheny Power for
Expedited Approval of its Smart Meter Technology
Procurement and Installation Plan
PUC Docket No. M-2009-2123951

Dear Secretary McNulty:

Please find attached for electronic filing the Supplemental Brief of the Commonwealth of Pennsylvania, Department of Environmental Protection in Opposition to the Petition for Interlocutory Review and Answer to a Material Question of West Penn Power Company d/b/a Allegheny Power in the above referenced matter. Copies have been served on all parties listed on the enclosed Certificate of Service.

Sincerely,

/s/ Kurt E. Klapkowski

Kurt E. Klapkowski
Assistant Counsel

cc: Service List

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

**Petition of West Penn Power Company :
d/b/a Allegheny Power for Expedited :
Approval of its Smart Meter Technology : Docket No. M-2009-2123951
Procurement and Installation Plan :**

**SUPPLEMENTAL BRIEF OF THE
COMMONWEALTH OF PENNSYLVANIA,
DEPARTMENT OF ENVIRONMENTAL PROTECTION**

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Dated: March 26, 2010

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I. Introduction

Pursuant to the January 26, 2010 Further Conference Order of Administrative Law Judge Mark A. Hoyer, the Commonwealth of Pennsylvania, Department of Environmental Protection (“Department”) files this supplemental brief in the above captioned matter.

Act 129 of 2008 became effective November 14, 2008 and requires electric distribution companies (“EDCs”) with more than 100,000 customers to, in relevant part, develop smart meter technology procurement and installation plans. 66 Pa.C.S. § 2807(f)(1). Act 129 further requires EDCs to furnish smart meters upon request from a customer, in new building construction, and in accordance with a distribution schedule not to exceed 15 years. 66 Pa.C.S. § 2807(f)(2).

Act 129 also specifies the functions smart meters must provide. In order to be considered a smart meter, the meter and supporting infrastructure must 1) be capable of bidirectional communication, 2) record electricity usage on at least an hourly basis, 3) provide customers with direct access to and use of price and consumption information, 4) directly provide customers with information on their hourly consumption, 5) enable time-of-use rates and real-time-price programs and 6) effectively support the automatic control of the customer’s electricity consumption by one or more of the following as selected by the customer: the customer, the EDC, or a third party engaged by the customer or the EDC. 66 Pa.C.S. § 2807(g).

Through its Smart Meter Procurement and Installation Order (“Installation Order”) at Docket No. M-2009-2092655, the Pennsylvania Public Utility Commission’s (“Commission”) established the process by which the Smart Meter Plans will be approved, the schedule under which smart meters are to be deployed, the minimum functions the meters are to provide, and the method by which the EDC may recover its costs.

Significantly, the Installation Order established a 30 month network and installation grace period during which EDCs are not required to deploy smart meters. Installation Order at 7. Equally significant, the Installation Order also required smart meters to provide nine additional functions unless the Commission determines that the function is not cost effective. Installation Order, 30-31. Finally, the Installation Order clarified that smart meters are to be deployed throughout the EDC's service territory in less than 15 years from the date the EDC's Smart Meter Plan is approved. *Id.* at 14-15.

Finally, Act 129 permits EDCs to recover Smart Meter Plan costs through: (1) base rates, including a deferral for future base rate recovery of current basis with carrying charge as determined by the Commission; or (2) on a full and current basis through a reconcilable automatic adjustment clause under Section 1307. 66 Pa.C.S. § 2807(f)(7).

II. Procedural History

Pursuant to Act 129 of 2008 and the Pennsylvania Public Utility Commission's ("Commission") Smart Meter Procurement and Installation Order ("Installation Order") at Docket No. M-2009-2092655, on August 14, 2009, Allegheny Power filed its Petition for Expedited Approval of its Smart Meter Technology Procurement and Installation Plan ("Smart Meter Plan").

On August 29, 2009 the Commission published a notice of Allegheny Power's petition in the *Pennsylvania Bulletin* that required Petitions to Intervene and comments to the Smart Meter Plan to be filed by September 25, 2009. The Department filed its petition to intervene and comments to the Plan on September 18, 2009. The Department's petition to intervene was granted October 5, 2009.

On December 18, 2009, Allegheny Power filed a Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record in order to amend the company's existing Smart Meter Implementation Plan. On January 13, 2010, the Commission waived the Implementation Order's requirement that an initial decision be rendered in this matter on or before January 29, 2010. Other issues in the Petition were remanded to Administrative Law Judge Hoyer for disposition. Allegheny submitted additional direct written testimony and work papers, followed by a series of discovery requests from several parties. The Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA") also submitted supplemental written testimony and work papers.

III. Description of Allegheny Power's Alternative Plans

Allegheny Power originally proposed an aggressive smart meter procurement and implementation schedule that would result in full deployment of smart meters system wide by the end of 2014. Smart Meter Plan at 14. Allegheny Power's smart meters will provide all 14 functions required by the Installation Order. AP St. No. 2 at 19. Although not required by Act 129 or the Installation Order, Allegheny Power also proposed installing in home displays ("IHDs") through out its service territory and provide in home load control devices in support of its Energy Efficiency and Conservation Plan. Smart Meter Plan at 55.

The total cost of Allegheny's plan is approximately \$663.6 million. Smart Meter Plan page 94. As a result of savings realized by upgrades to the Company's Customer Information System ("CIS"), savings from automated meter reading and apportionment of CIS costs to Allegheny's Maryland and West Virginia customers, the total cost to Allegheny's Pennsylvania customer is approximately \$580 million. AP St. No. 4 at 4. Under the original Smart Meter Plan, this cost would be recovered over a 4 year, 4 month time period using a section 1307

surcharge. Under the alternative Smart Meter Plans, these costs would be recovered over a longer timeframe using a tiered system of surcharges. AP St. No. 3-SDT, pages 9-10.

IV. Summary of Argument

The overall cost of Allegheny Power's Smart Meter Plan and its proposed Smart Meter Surcharge are not reasonable or prudent, even with the changes proposed in the amendments to the Smart Meter Plan. On a per meter basis, Allegheny Power's amended Smart Meter Plan is still significantly more expensive than any other Smart Meter Plan before the Commission. The reasons for this excessive cost are that Allegheny Power's Smart Meter Plan improperly includes the costs of modernizing its Customer Information System and recovery of stranded meter costs. In addition, Allegheny Power has not substantiated the costly upgrades to its information technology system.

The excessive cost of Allegheny Power's Smart Meter Plan leads to excessive monthly Smart Meter Surcharges. Under the alternative Smart Meter Plans, beginning in June 2010, Allegheny Power proposes a two-tiered system of surcharges with separate costs to be paid by all customers (Tier 1 costs) and those customers who have received smart meters (Tier 2 costs). While the monthly surcharges associated with the alternative plans are lower than those associated with the original Smart Meter Plan, they are still much higher than surcharges proposed by other EDCs with Pennsylvania service areas.

The Department agrees with OCA witness Nancy Brockway that the extreme overall cost and excessive surcharges of Allegheny Power's Smart Meter Plan could possibly lead to significant negative public backlash. Because Allegheny Power has not demonstrated that the cost of its Smart Meter Plan and proposed surcharge are reasonable and prudent, the Commission must deny Allegheny Power's Petition. In addition, the Department urges the

Commission to require that Allegheny Power resubmit a Smart Meter Plan that avoids the recovery of stranded meter costs through delayed deployment of smart meters, substantiate the cost of the IT system upgrades and recover appropriate costs of the amended Smart Meter Plan through base rates.

V. Argument

The Department has long championed expedited deployment of smart meters. In comments filed with the Commission pertaining to the Act 129 Energy Efficiency and Conservation proceedings, the Department requested that the Commission require expedited deployment of smart meters and held Allegheny Power's EEC Plan out as a positive example. See e.g., *Comments and Recommendations of the Department to PECO Energy Company's Petition for Approval of its Energy Efficiency and Conservation Plan* at Docket No. M-2009-2093215 at pages 5-6.

In addition, in comments filed with the Commission pertaining to the First Energy Companies' Smart Meter Plan, the Department again held Allegheny Power out as a preferred example of a utility promising expedited deployment of smart meters. See, *Comments of the Department to Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company's Petition for Approval of Smart Meter Technology Procurement and Installation Plans* at Docket No. M-2009-2123950 at page 3.

While the Department believes that smart meters provide significant benefits to rate payers and the environment and that rapid deployment is necessary to realize those benefits, it has never advocated that such deployment occur at any cost. The Department's comments to Allegheny Power's Smart Meter Plan filed with the Commission reflect this position.

[T]he Department believes that Allegheny Power has developed the most thorough Smart Meter Plan that is before the Commission. As a matter of

providing smart meters with comprehensive functionality to consumers on an expedited basis, the Department has no objection to Allegheny Power's Smart Meter Plan. However, the Department also recognizes that cost impacts associated with smart meter deployment can create adverse reactions by Allegheny Power's customers and potentially delay or prevent widespread deployment of smart meters. As such, the Department fully supports a careful analysis of the costs and benefits of Allegheny Power's Smart Meter Plan." *Department Comments to Allegheny Power's Smart Meter Plan* at 4.

As the petitioner for a Commission Order in this matter, Allegheny Power has the burden of proving that the aspects of its proposed Smart Meter Plan meet the requirements of Act 129 and the Installation Order. 66 Pa.C.S. § 332(a). To satisfy that burden, the proponent of a rule or order must prove each element of its case by a preponderance of the evidence. *Samuel J. Lansberry, Inc. v. Pa. PUC*, 578 A.2d 600 (Pa.Cmwlth. 1990). A preponderance of the evidence is established by presenting evidence that is more convincing than that presented by the other parties to the case. *Se-Ling Hosiery v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950). Additionally, the Commission's decision must be supported by substantial evidence in the record. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established. *Norfolk & Western Ry. Co. v. Pa. PUC*, 489 Pa. 109, 413 A.2d 1037 (1980).

Although the amended Smart Meter Plan does make movement in the right direction, Allegheny Power has not met its burden of proving that the overall cost of any of its alternative Smart Meter Plans or its proposed Smart Meter Surcharge is reasonable or prudent. As proposed, Allegheny Power's Smart Meter Plan still costs significantly more than any other Smart Meter Plan before the Commission. As described in greater detail below, the four primary reasons for the extreme cost of Allegheny Power's Plan were: 1) universal deployment of in home displays and deployment of in home load control devices in support of Allegheny Power's Energy Efficiency and Conservation Plan; 2) modernizing the Customer Information

System; 3) unsubstantiated costs associated with network and information technology improvements and 4) recovery of stranded meter costs. Allegheny Power has addressed several of these issues in the amended Smart Meter Plan but significant problems remain.

A. Alternative Plans

As an initial matter, the Department notes that in each alternative plan proposed by Allegheny Energy the mandatory use of and charges for in-home displays (IHDs) is removed. AP St. No. 1-SDT, pages 5-6, 9. Only customers that request an IHD will be provided with one, and only those customers will bear the costs of those IHDs. *Id.* This will have the salutary effect of reducing the smart meter surcharge for Allegheny Energy customers who do not choose to accept an IHD. AP St. No. 3-SDT, page 10. The Department argued against the automatic use of and charging for IHDs in Allegheny Energy's original Smart Meter Plan and so the Department believes that this is an appropriate development both in terms of compliance with Act 129 and the Implementation Order.

1. Company Proposal

a. 375,000 Meter Plan

The first alternative proposed by Allegheny Power to its original Smart Meter Plan involves the deployment of 375,000 smart meters by mid-2012 ("375,000 Meter Plan"). AP St. No. 1-SDT, page 5. These smart meters would be provided to customers without their having elected to receive a smart meter and system-wide deployment would be complete by 2017.¹ In addition, the company will only provide IHDs for customers who request them or require them to participate in the company's Energy Efficiency and Conservation programs. AP St. No. 1-SDT, pages 5-6.

¹ The Department notes that under each proposed alternative, Allegheny Power would provide smart meters for new construction and customers who requested a smart meter subject to certain limitations during the grace period. AP St. No. 1-SDT, pages 6, 9; Implementation Order at 12.

As noted, the Department's preferred alternative is one that meets the requirements of Act 129 in the shortest time possible, within the constraints of cost effectiveness. Given those limitations, the 375,000 Meter Plan provides the best balance of the four alternatives currently under consideration. As discussed below, the Department is concerned with imposing the cost of certain Allegheny Power system improvements through the Smart Meter surcharge, as opposed to a base rate proceeding. That concern exists in all three of the alternative plans advanced by the company, however, and should be resolved in a manner that would make the either the 375,000 Meter Plan or the original Smart Meter Plan the best available option.

b. 100,000 Meter Plan

The second alternative proposed by Allegheny Power to its original Smart Meter Plan involves the deployment of 100,000 smart meters by mid-2012 ("100,000 Meter Plan"). AP St. No. 1-SDT, pages 6-9. These smart meters would only be provided to customers if they elected to receive a smart meter through 2014 and system-wide deployment would be complete by 2019. As with the 375,000 Meter Plan, the company will only provide IHDs for customers who request them or require them to participate in the company's Energy Efficiency and Conservation programs. *Id.*, page 9. Allegheny Power will concentrate its efforts to deploy smart meters in areas of highest customer density. *Id.*, pages 7-8.

As noted, the Department's preferred alternative is one that meets the requirements of Act 129 in the shortest time possible, within the constraints of cost effectiveness. The 100,000 Meter Plan greatly extends the timeframes for both initial and system wide deployment of smart meters in the Allegheny Energy territory. In addition, because it is a slower rollout, it ends up being the least cost effective option advanced by the company. OCA St. No. 1-Supp., pages 12-13. For those reasons, the 100,000 Meter Plan should be rejected by the Commission.

2. OCA Proposal

In response to Allegheny Power's amended Smart Meter Plan, the OCA submitted its own version of an acceptable plan for the company ("OCA Plan"). OCA St. No. 1-Supp. pages 23-29. Like the 100,000 Meter Plan, the OCA Plan would require installation of 100,000 smart meters by the company. Unlike that Plan, however, the OCA Plan would target the most populous geographic segments of Allegheny Energy's service territory and the smart meters would be provided to customers without their having elected to receive a smart meter. *Id.*, pages 24-25. In addition, to the greatest extent possible the company would use its existing back office and other systems while determining what the most cost-effective means for upgrading such components would be. In the fall of 2011 Allegheny Power would submit the results of that assessment, including proposed investments in upgraded or additional systems if justified. *Id.* at page 25.

Although system-wide deployment would be complete by 2019, the effect of the OCA Plan would be to reduce the monthly surcharge cost to Allegheny Energy customers but potentially delay installation of smart meters greatly compared to the original Smart Meter Plan or the 375,000 Meter Plan. The Department is concerned that the delay may be unreasonable even if counter-balanced by lower monthly surcharges.

3. Surcharge and Cost Issues

In terms of establishing surcharge rates, both the 375,000 Meter Plan and the 100,000 Meter Plan would create two Tiers for surcharges. AP St. No. 3-SDT, page 9. The first would be a base surcharge that all customers would pay, and includes the cost of all items included in the amended Smart Meter Plan except costs associated with the actual smart meter and IHDs. *Id.* The second Tier would only be applied to those customers actually having a smart meter and

differentiates between types of customers. Id. An additional monthly surcharge would be added if the customer opted for an IHD in addition to the smart meter. Id.

Under the 375,000 Meter Plan, the following monthly surcharges would apply for residential customers:

Rate/Period	6/10 thru 5/11	6/11 thru 5/12	6/12 thru 5/13	6/13 thru 5/14
Tier 1	\$6.37	\$9.23	\$8.60	\$7.93
Tier 2	\$1.93	\$1.93	\$1.93	\$1.93
Subtotal, no IHD	\$8.30	\$11.16	\$10.53	\$9.86
Add opt-in IHD	\$3.96	\$3.96	\$3.96	\$3.96
DR Program Increment Cost: Tier 2 plus IHD	\$5.89	\$5.89	\$5.89	\$5.89
Total with IHD	\$12.26	\$15.12	\$14.49	\$13.82

AP Response to OCA Interrogatories Set VI, #17 (emphasis added).

“Tier 1” represents the costs charged to all residential customers, whether or not they had a smart meter. Id. “Tier 2” represents the cost of the smart meter itself. AP St. No. 3-SDT page 9. The bolded line, “Subtotal, no IHD,” represents the monthly surcharge for an Allegheny Power customer who has received a smart meter. AP Response to OCA Interrogatories Set VI, #17.

Under the 100,000 Meter Plan, the following monthly surcharges would apply for residential customers:

Rate/Period	6/10 thru 5/11	6/11 thru 5/12	6/12 thru 5/13	6/13 thru 5/14
Tier 1	\$6.21	\$9.14	\$8.75	\$8.23
Tier 2	\$2.35	\$2.35	\$2.35	\$2.35
Subtotal, no IHD	\$8.56	\$11.49	\$11.10	\$10.58
Add opt-in IHD	\$3.86	\$3.86	\$3.86	\$3.86
DR Program Increment Cost : Tier 2 plus IHD	\$6.21	\$6.21	\$6.21	\$6.21
Total with IHD	\$12.42	\$15.35	\$14.96	\$14.44

AP Response to OCA Interrogatories Set VI, #16 (emphasis added). The categories included in this table are the same as for the 375,000 Meter Plan, although the 100,000 Meter Plan would only include customers who opted to receive a smart meter in the “Subtotal, no IHD” category.

While these surcharges are lower than the surcharge proposed in the original Smart Meter Plan, they still contain fundamental problems. First, they are still significantly higher than other EDCs Smart Meter Plan surcharges. OCA St. No. 1-Supp, Exhibit JRH-11. Second, the slower roll-outs of smart meters are actually less cost-effective than the original plan on a per-meter basis, due to spreading the back end systems cost over fewer installed meters. OCA St. No. 1-Supp., pages 12-13

Because Allegheny Power has the burden of proving that the cost of its Smart Meter Plan is reasonable and prudent but failed to justify this cost, the Department contends that the only appropriate alternative method of cost recovery for the entire Smart Meter Plan is through a base rate proceeding.

B. Revenue Requirement

1. Company Proposal

Under the original Smart Meter Plan and the alternative plans, Allegheny Energy is proposing to recover identical “back office” costs through the Smart Meter surcharge. Therefore, the Department’s original arguments in its main brief concerning this portion of Allegheny Power’s original Smart Meter Plan also applies to the alternative Plans.

Allegheny Power states that it must modernize its CIS and information technology system to support its smart meter infrastructure and meet its Energy Efficiency and Conservation plan goals. AP St. No. 3 page 11. The total cost of modernizing the CIS is

approximately \$71.4 million (Smart Meter Plan page 93) of which, 52% of the cost will be attributed to Pennsylvania rate payers. OCA St. No. 1, page 30.

The Department agrees with OCA witness Hornby that modernizing Allegheny Power's CIS is an investment that a utility would make in the normal course of business. OCA St. No. 1 page 30. As described by Allegheny Power witness Arthur, the Company's "CIS system was originally installed into production in the 1970s. This system is built upon an aging legacy platform that is increasingly more difficult maintain...The skill sets required to maintain and develop the CIS application are increasingly more difficult to find." AP St. No. 3 page 11. From this description it is clear that the Company's CIS is an antiquated system that should be replaced regardless of whether replacement supports Allegheny Power's Smart Meter Plan.

The Department also agrees with witness Hornby that a base rate proceeding is the best forum in which to examine the reasonableness of the proposed upgrades to the CIS as well as the Company's network and information technology systems. Id. The cost associated with improving Allegheny Power's IT system is the significant contributor to the excessive cost of Allegheny Power's Smart Meter Plan. OCA St. No. 1 page 5, 16; OCA St. No. 1-Supp., pages 14-16. In addition to providing a better forum for evaluating the reasonableness of the Company's proposals, cost recovery through base rates appropriately places the financial risk of the Company's investment in these systems on Allegheny Power rather than its rate payers. Accord, OCA St. No. 1, page 11.

While Act 129 permits EDCs to recover the costs of their Smart Meter Plans through section 1307 surcharges, that method of cost recovery is not the only option. 66 Pa.C.S. § 2807(f)(7). Act 129 also authorizes EDCs to recover their costs through base rates. Id. The Department shares witness Hornby's concern that Allegheny Power did not present a

comparison of other EDC AMI proposals and prepare a formal benchmarking during the development of its plan to adequately explain why the costs of its Plan are more than twice as high as all other EDC plans. OCA St. 1S, page 9.

Because Allegheny Power has the burden of proving that the cost of its Smart Meter Plan is reasonable and prudent but failed to justify this cost beyond the conclusory statements of its witnesses, Allegheny Power's Petition for Approval of its Smart Meter Plan must be denied. In addition, given Allegheny Power's failure to demonstrate the cost effectiveness of its plan, the Department contends that the only appropriate method of cost recovery for the entire Smart Meter Plan is through a base rate proceeding.

2. Rate of Return

In its original Smart Meter Plan, Allegheny Power proposed to collect a return on equity of 11.5% AP St. No 4, page 9. In the company's supplemental direct testimony, Allegheny Power proposed a reduction in its requested return on equity for purposes of the Smart Meter Plan surcharge to 10.5%. AP St. No. 3-SDT, page 7.

The Department considers this change to be a major step in the right direction. However, the Department also agreed OCA witness Kahal that if the Commission permits Allegheny Power to recover its costs through a reconcilable surcharge, the financial risk faced by Allegheny Power is significantly reduced and should be reflected in its return on equity. OCA St. No.3S pages 5. In addition, the Department agreed with OCA witnessed Hornby and Kahal that using a 10.1% return on equity based on the most recently litigated rate case is reasonable and prudent. OCA St. No. 1 page 29, OCA St. No. 3S page 10 (noting that 10.1% may be too high). Therefore, while the amended Smart Meter Plan moves in the right direction

on the question of return on equity, the Department believes that the Commission should use a 10.1% return on equity in determining the proper allowable Smart Meter surcharge.

3. Asset Lives

In its main brief, the Department raised a concern that the Allegheny Power Smart Meter Plan established asset lives that were too short, and OCA witness Hornby noted that other EDCs had proposed a depreciable life for smart meters of 15 years. OCA St. No. 1 page 29. Allegheny Power agreed to extend the book life of the majority of the Smart Meter Plan assets as follows:

<u>Asset Type</u>	<u>Book Life</u>	<u>Difference from Original Filing</u>
IHD	10 years	+5 years
Smart Meters	15 years	+5 years
Hardware	5 years	No change
Software w/o CIS	10 years	+5 years
Software w/ CIS	10 years	+3 years

AP St. No. 3-SDT page 5.

The Department believes that these extended book lives for these assets are appropriate under Act 129 and commends Allegheny Power for making this change.

VI. Conclusion

For the foregoing reasons, the Department respectfully requests that the Commission deny Allegheny Power’s Petition for Approval of its Expedited Smart Meter Technology Procurement and Installation Plan and require Allegheny Power to resubmit a Smart Meter Plan that complies with the proposed ordering paragraphs provided below.

VIII. Proposed Findings of Fact

- 1) Allegheny Power has 715,000 metered customers. Smart Meter Plan at 5.
- 2) The gross cost of Allegheny Power’s Smart Meter Plan is \$663.7 million. Smart Meter Plan at 94.

- 3) The net cost of Allegheny Power's Smart Meter Plan to its Pennsylvania customers is estimated to be \$580 million. AP St. No. 4 at 4
- 4) On a per meter installed basis, the cost of Allegheny Power's 375,000 Meter Plan to its Pennsylvania customers is \$925. OCA St. No. 1-Supp. page 13.
- 5) On a per meter installed basis, the cost of Allegheny Power's 100,000 Meter Plan to its Pennsylvania customers is \$2811. OCA St. No. 1-Supp. page 13.
- 6) The gross cost of Allegheny Power's Smart Meter Plan is two to three times the cost of every other Smart Meter Plan before the Commission. OSBA St. No. 1 page 2.
- 7) The cost to benefit ratio of Allegheny Power's 375,000 Meter Plan is 0.2. OCA St. No. 1 page 19.
- 8) Allegheny Power proposes to recover the cost of its 375,000 Meter Plan through a monthly surcharge that would start at \$8.30 per month for customers with smart meters in June 2010, would increase to \$11.16 per month by June 2011, decrease to \$10.53 per month in June 2012 and \$9.86 in June 2013. AP Response to OCA Interrogatories Set VI, #17.
- 9) Allegheny Power proposes to recover the cost of its 100,000 Meter Plan through a monthly surcharge that would start at \$8.56 per month for customers with smart meters in June 2010, would increase to \$11.49 per month by June 2011, decrease to \$11.10 per month in June 2012 and \$10.58 in June 2013. AP Response to OCA Interrogatories Set VI, #16.
- 10) The monthly smart meter surcharge would increase the electric bill of a residential customer who uses approximately 500 kWh per month by 17% in 2013 for customers without a smart meter and 21-23% for customers with a smart meter. OCA St. No. 1-Supp., page 18.
- 11) Allegheny Power did not provide quantitative analysis comparing the cost of its plan to the cost of any other EDC smart meter plan.
- 12) The primary reasons for the over all expense of Allegheny Power's smart meter plan are customer information system upgrades, network and information technology costs, and meter costs. OCA St. No. 1 page 16.
- 13) Allegheny Power's Smart Meter Plan states the Allegheny Power will deploy IHDs only to customers who request them. AP St. No. 1-SDT, pages 5-6, 9.
- 14) The total cost to upgrade Allegheny Power's Customer Information System is \$71.4 million.
- 15) Upgrading Allegheny Power's Customer Information System is an activity that occurs in the normal course of business. OCA St. No. 1 page 17.
- 16) The network and information technology costs of Allegheny Power's smart meter plan are significantly higher than the network and information technology costs of EDCs that have installed advanced metering infrastructure in other parts of the country. OCA St. No. 1 pages 15 – 16, OCA St. No. 1-Supp. pages 13-14.

- 17) Allegheny Power has not provided a quantitative analysis to explain the differences between its proposed network and information technology costs and the network and information technology costs of EDCs that have installed advanced metering infrastructure in other parts of the country. OCA St. No. 1S page 9, OCA St. No. 1-Supp. pages 13-14.
- 18) Allegheny Power requests a return on equity of 10.5%. AP St. No. 3-SDT, page 7.
- 19) Allegheny Power proposes the following asset lives for its smart meters and smart meter infrastructure:

<u>Asset Type</u>	<u>Book Life</u>
IHD	10 years
Smart Meters	15 years
Hardware	5 years
Software w/o CIS	10 years
Software w/ CIS	10 years

AP St. No. 3-SDT page 5.

IX. Proposed Conclusions of Law

- 1) Allegheny Power has the burden of proving that the cost of its Smart Meter Plan is reasonable and prudent.
- 2) Allegheny Power has the burden of proving that its Smart Meter Plan is cost effective.
- 3) Allegheny Power has failed to prove that its Smart Meter Plan is reasonable, prudent and cost effective.
- 4) Allegheny Power has not provided an adequate justification for the proposed level of expenditures on information technology and software.

X. Proposed Ordering Paragraphs

- 1) Allegheny Power's Petition for Expedited Approval of its Smart Meter Technology Procurement and Installation Plan is denied.
- 2) Allegheny Power is ordered to resubmit a Smart Meter Technology Procurement and Installation Plan that meets the following minimum requirements within 60 days of this order.
 - a. All reasonable and prudent costs of the Smart Meter Plan shall be recovered through base rates.
 - b. Smart meters that provide the functions required by the Commission's Smart Meter Procurement and Installation Order, unless otherwise waived by the Commission, shall be provided to all customers who request a smart meter and agree to pay the incremental cost of the meter after the 30 month grace period but in advance of system wide deployment.

- c. Smart meters that provide the functions required by the Commission's Smart Meter Procurement and Installation Order, unless otherwise waived by the Commission, shall be installed on all new construction after the 30 month grace period.
- d. Smart meters that provide the functions required by the Commission's Smart Meter Procurement and Installation Order, unless otherwise waived by the Commission, shall be deployed throughout Allegheny Power's service territory within 10 years.

Respectfully submitted,

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Dated: March 26, 2010

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of West Penn Power Company :
d/b/a Allegheny Power for Expedited : **Docket No. M-2009-2123951**
Approval of its Smart Meter Technology :
Procurement and Installation Plan :

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document, Supplemental Brief of the Commonwealth of Pennsylvania, Department of Environmental Protection in Opposition to the Petition for Interlocutory Review and Answer to a Material Question of West Penn Power Company d/b/a Allegheny Power, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner upon the persons listed below:

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