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March 26, 2010

VIA HAND DELIVERY
James J. McNulty, Secretary
Pennsylvania Public Utility Commission
400 North Street – 2nd Floor
Commonwealth Keystone Building
Harrisburg, Pennsylvania 17120

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

Dear Secretary McNulty:

Attached please find an original and nine (9) copies of the Supplemental Main Brief on behalf of West Penn Power Company d/b/a Allegheny Power in the above-referenced proceeding. Two (2) copies of this brief have been served on each of the parties to this proceeding as indicated on the attached Certificate of Service.

Very truly yours,

John F. Povilaitis

JFP:jab

Enclosures

c. Certificate of Service

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 And Installation Plan	: : : :	Docket No. M-2009-2123951

SUPPLEMENTAL MAIN BRIEF OF WEST PENN POWER COMPANY d/b/a ALLEGHENY POWER

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Dated: March 26, 2010

Counsel for West Penn Power Company
d/b/a Allegheny Power

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I. INTRODUCTION

In accordance with the Supplemental Briefing Schedule, West Penn Power Company d/b/a Allegheny Power (also referred to herein as the "Company") submits this Supplemental Main Brief. As noted by the Company in filing a Petition with the Commission to permit this supplemental phase of the case, and as maintained by the Company throughout, the purpose of reopening of the record and this supplemental phase is narrow; to permit the admission of limited additional matter into the record for consideration by the Administrative Law Judge ("ALJ") and Commission in the following areas: Smart Meter deployment, deployment of In-Home Devices ("IHDs"), Asset Book Lives, Return on Equity, and Smart Meter Technology ("SMT") Surcharge amount. With this supplemental phase, Allegheny Power sought to provide alternative litigation positions in these areas in a manner that was fair to all parties and to introduce Smart Meter Technology Procurement and Installation Plan ("SMIP") alternatives that are more sensitive to the concerns of the parties that were revealed in the course of this proceeding.

As indicated in the Petition and in the Company's subsequent Supplemental Testimony, Allegheny Power has proposed alternative deployments, which slow down the pace of Smart Meter deployment. The Company has also sought to scale back the deployment of IHDs.[1] As noted by the Company, these proposed alternatives seek to keep the fundamental nature of the SMIP in tact as a key robust energy savings tool while, at the same time, easing the cost burden from the SMIP on individual customers.

[1] The term "IHD" when used by the Company includes three types of technologies: (1) the in-home display; (2) the programmable communicating thermostat; and (3) the load control device.

In addition, Allegheny Power's Supplemental Testimony proposes alternative positions on its revenue requirement associated with the alternative deployments. Specifically, the Company proposes to modify the book life of the following capital equipment: IHDs – 10 years; Smart Meters – 15 years; software (including CIS) – 10 years. Moreover, the Company's Supplemental Testimony includes an alternative proposal to base the alternative plans' SMT Surcharge on a Return on Equity of 10.5%.

In accordance with the record evidence, Allegheny Power seeks to recover SMIP costs via a separately stated non-bypassable line-item bill surcharge entitled "SMT Surcharge." That part of the Company's SMIP has not changed. Nor has the Company proposed any modifications to its previously approved Energy Efficiency and Conservation and Demand Response ("EE&C/DR") Plan. However, the Company's Supplemental Testimony provides new record evidence on the cost impact of the aforementioned modifications to Smart Meter deployment, IHD deployment, Asset Book Life, and Return on Equity on the SMT Surcharge to customers.

The alternatives proposed by Allegheny Power in this supplemental phase of the case are not intended to modify its original SMIP. As noted in its Supplemental Testimony, the Company prefers its originally proposed SMIP and maintains that it best meets the Act 129 Smart Meter implementation requirements at a reasonable and prudent cost. Rather, the Company in this supplemental phase seeks to supplement the record with additional deployment options. Allegheny Power is submitting slower deployment schedules, an alternative that initially provides Smart Meters and IHDs on an opt-in basis, and alternatives that reduce the SMT Surcharge. As noted above, these alternatives are proposed in response to the concerns of the parties that were revealed in the course of this

proceeding and to provide the Commission with some additional options to consider on Smart Meter deployment.

II. PROCEDURAL HISTORY

On or about December 18, 2009, Allegheny Power filed with the Commission a Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record. With its Petition, the Company sought to modify the Commission's Smart Meter Implementation Order to extend the Recommended Decision due date and allow for the receipt of additional relevant, important evidence in this matter and to allow the ALJ to issue one decision in this matter after receipt of that additional evidence and supplemental briefing.

At the time of the Petition, the record in the proceeding was closed, and the briefing phase of the proceeding was under way, with main briefs due on December 18, 2009 and reply briefs due January 5, 2010. Of note, the ALJ extended the original briefing schedule to permit settlement negotiations among the active parties to the proceeding.

Substantively, the Company's Petition requested a very limited scope reopening to permit the admission of limited additional matter into the record for consideration by the ALJ and Commission. Through the reopening, Allegheny Power sought to modify its litigation position in a manner that was fair to all parties and to introduce a modification of the SMIP that is more sensitive to the concerns of the parties that were revealed in the course of this proceeding.

By Secretarial Letter dated January 13, 2010, the Commission agreed to waive the requirement that an Initial Decision be rendered in this matter on or before January 29, 2010. The Commission then remanded the remaining issues in the Petition (including but not limited to the development of an appropriate procedural schedule) for disposition by the ALJ.

The ALJ subsequently adopted the following revised litigation schedule for the receipt of supplemental testimony, supplemental briefing and an ALJ decision covering both the initial and supplemental phases of the case:

Service of Company's written direct Testimony & work papers	January 29, 2010
Informal Discovery Session with Company witnesses	February 11, 2010
Service of other parties' direct testimony	March 2, 2010
Service of all parties' rebuttal written testimony	March 12, 2010
Further evidentiary hearing in Harrisburg	March 16, 2010
Main Briefs by close of business and record close	March 26, 2010
ALJ Initial Decision	April 23, 2010

On January 29, 2010, the Company submitted its Supplemental Direct Testimony from the following witnesses: John C. Ahr (AP Statement No. 1-SDT addressing the Company's alternative deployments for Smart Meters and IHDs); Edward C. Miller (AP Statement No. 2-SDT addressing the relationship of the alternative deployments to the Company's EE&C/DR Plan); and Raymond E. Valdes (AP Statement No. 3-SDT addressing issues relating to the impact of the alternative deployments on the SMT Surcharge and revenue requirement issues such as asset book lives and return on equity).

On March 2, 2010, the Office of Consumer Advocate ("OCA") submitted Supplemental Direct Testimony from J. Richard Hornby (OCA Statement No. 1-Supp.) and Nancy Brockway (OCA Statement No. 2-Supp.). The Office of Small Business

Advocate ("OSBA") submitted Supplemental Direct Testimony from Robert D. Knecht (OSBA Statement No. 3).

On March 12, 2010, Supplemental Rebuttal Testimony was served by the following parties: Allegheny Power (John C. Ahr – AP Statement No. 1-SRT; Edward C. Miller – AP Statement No. 2-SRT; and Raymond E. Valdes – AP Statement No. 3-SRT and OSBA (OSBA Statement No. 4).

An evidentiary hearing occurred on March 16, 2010, during which the aforementioned Supplemental Testimony was admitted into the evidentiary record. Various exhibits also were admitted into the evidentiary record via stipulation of the parties.

Allegheny Power submits this Supplemental Main Brief.

III. DESCRIPTION OF ALTERNATIVE PLANS

Allegheny Power's original SMIP called for approximately 450,000 Smart Meters to be deployed starting in 2010 and continuing through mid-2012. The remaining approximately 275,000 Smart Meters were planned to be deployed from mid-2012 through the end of 2014, at which time all of the Company's 715,000 plus customers would have Smart Meters. In its Supplemental Testimony Allegheny Power proposed two alternative Smart Meter deployments: a 375,000 Smart Meter deployment plan and a 100,000 Smart Meter deployment.

A. 375,000 Plan

Under the first alternative plan presented by the Company, approximately 375,000 Smart Meters would be deployed by mid-2012 ("375,000 Plan"). This option maintains a large pool of potential EE&C/DR program participants. Also, this option achieves the projected energy and demand savings under the EE&C/DR Plan and still achieves many

of the procurement and deployment efficiencies projected in the original deployment plan. Under the 375,000 Plan, Smart Meters would be provided to customers without their having elected to receive a Smart Meter or participate in a Smart Meter program. The 375,000 Plan calls for an overall deployment beginning in 2010 and continuing through 2017 in a progressive and controlled manner.[2] Smart Meters would also be installed for all customers requesting service for new construction.[3]

The 375,000 Plan targets 60,000 IHDs for only those customers that request one or to those customers for whom installation of an IHD is essential to participate in a relevant EE&C/DR program, including Residential Efficiency Rewards, Critical Peak Rebate, Time of Use with Critical Peak Pricing, Hourly Pricing Option, and Pay Ahead Smart Service. The 375,000 meter schedule also targets a deployment of approximately 30,000 programmable communicating thermostats ("PCTs") to those customers that participate in the PCT demand response program.[4]

From an EE&C/DR Plan perspective, the Company's preference is for the Company's original deployment schedule or the 375,000 Plan. This is because under this type of deployment approach, the deployment of 375,000 meters is a lower, but acceptable number of meters needed to obtain a sufficient level of customer participation in EE&C/DR programs and rate offerings for the Company to meet its Act 129 energy reduction requirements.[5] In the Company's view, the 375,000 Plan provides an acceptable level of risk in regards to achieving EE&C/DR Plan objectives.[6]

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[2] AP Statement No. 1-SDT, pp, 5-6.
[3] AP Statement No. 1-SDT, p. 6.
[4] AP Statement No. 1-STD, pp. 5-6.
[5] AP Statement No. 2-SDT, p. 8.
[6] AP Statement No. 2-SDT, pp. 8-9.

B. 100,000 Plan

Under the second alternative, 100,000 Smart Meters would be deployed to residential, small C & I, and large C & I customers by mid-2012 ("100,000 Plan"). Under the 100,000 Plan, Smart Meters would be deployed to all 715,000 plus customers over a ten-year period. But, for the first 5-year period (through the end of 2014), Smart Meters would be deployed only to customers that request a Smart Meter, request to participate in a Smart Meter program or rate offering ("opt-in" customers), or to customers that request service due to new construction.[7] The 100,000 deployment through mid-2012 is set up to support the approved EE&C/DR programs and to achieve the mandated energy and demand reduction goals of Act 129. To maximize customer participation, the opt-in deployment through 2012 would be targeted in higher customer density areas of the Company's service territory. Initially, the targeted areas would be in western Pennsylvania near Pittsburgh where customer density is greatest.[8] For the second 5-year period (through the end of 2019), Smart Meters would be deployed on a planned and controlled basis to all remaining customers in the Company's service territory and to those that request service due to new construction.[9]

The 100,000 Plan targets 100,000 IHDs for only those customers that request an on or to those customers for whom installation of an IHD is essential to participate in a relevant EE&C/DR program including Residential Efficiency Rewards, Critical Peak Rebate, Time of Use with Critical Peak Pricing, Hourly Pricing Option, and Pay Ahead

[7] AP Statement No. 1-SDT, p. 6.
[8] AP Statement No. 1-SDT, pp. 7-8.
[9] AP Statement No. 1-SDT, pp. 6-7.

Smart Service. The 100,000 meter schedule also targets a deployment of 30,000 PCTs to those customers that participate in the PCT demand response program.[10]

Thus, in comparing the two alternatives, the 100,000 Plan differs from the original SMIP and from the 375,000 Plan in that the 100,000 plan is an opt-in plan for the first five years and would first target geographic areas with the highest customer density for opt-in Smart Meter deployment. And, as required by Act 129, the Company would also locate Smart Meters wherever it received requests for service in new construction. Of note, compared to Allegheny Power's original proposed Smart Meter deployment schedule and the 375,000 Plan, the 100,000 Plan adds risk to the Company's ability to obtain sufficient customer participation levels in EE&C/DR programs and rate offerings that are necessary to meet the Act 129 energy reduction goals.[11]

With the exception of the deployment timetable, the other tasks and milestones required to be completed by the Company would be completed in the same order and timeframes as indicated in the original SMIP. This is because in order to have functional Smart Meters, the other tasks and milestones of the original SMIP still need to be completed during the initial deployment period, regardless of the number of Smart Meters deployed.[12]

IV. SUMMARY OF THE ARGUMENT

Allegheny Power has presented two additional alternative Smart Meter deployment plans that demonstrate its willingness to adjust its original deployment schedule to accommodate Intervenor concerns regarding the pace of deployment and the SMT Surcharge customers would pay. The 375,000 Smart Meter deployment would

[10] AP Statement No. 1-SDT, p. 9.
[11] AP Statement No. 2-SDT, pp. 6-7.
[12] AP Statement No. 1-SDT, p. 12.

install that number of meters by mid-2012 and complete installation within eight (8) years at only slightly higher cost, $1.4 million, than the original SMIP Plan. The 100,000 Smart Meter deployment option would aim to install that number of meters via customer opt-in by mid-2012. However, this option is the Company's least preferred since it increases overall plan costs by an estimated $61.2 million and increases the risk of the Company not meeting its EE&C/DR reduction goals under Act 129.

OCA's alternative plan cannot be deployed since it assumes an absence of necessary back office systems and a new communications system that it has neither designed nor estimated for price. Also, the OCA plan assumes significant modifications to the Company's already Commission-approved EE&C/DR Plan that already is at the maximum expenditure permitted by law.

OCA improperly seeks to bar Allegheny Power's recovery through the SMT surcharge of significant portions of SMIP costs, specifically the back office systems which are necessary for Smart Meters to function as Act 129 and the Commission's Implementation Order have prescribed. Denying the Company surcharge treatment and not even recommending the alternative Act 129 cost recovery mechanism of a deferral with carrying charges, constitutes a financial penalty on Allegheny Power that is unwarranted.

Allegheny Power's original SMIP Plan, including recovery of its costs through the SMT surcharge, should be approved because it is well planned, is at a reasonable cost for the Smart Meters and system upgrades those meters require and is fully consistent with Act 129.

V. ARGUMENT

A. Alternative Plans

1. Company Proposals for 375,000 Meter and 100,000 Meter Deployment Schedules.

As discussed in Section III of this Supplemental Main Brief, Allegheny Power's Supplemental Testimony has proposed two alternative Smart Meter deployments in addition to its original SMIP deployment schedule: a 375,000 Smart Meter deployment plan and a 100,000 Smart Meter deployment. From an EE&C/DR Plan perspective, the Company's preference is for the Company's original deployment schedule or the 375,000 Plan. This is because the deployment of 375,000 meters is the minimum number of meters needed to obtain a sufficient level of customer participation in EE&C/DR programs and rate offerings for the Company to meet its Act 129 energy reduction requirements.[13] In the Company's view, the 375,000 Plan provides an acceptable level of risk in regards to achieving EE&C/DR Plan objectives.[14] In contrast, the 100,000 Plan adds more risk to the Company's ability to obtain sufficient customer participation levels in EE&C/DR programs and rate offerings that are necessary to meet the Act 129 energy reduction goals.[15]

In OCA Statement No. 2-Supp., the OCA provides generic testimony (i.e., testimony that is not specific to any Smart Meter deployment plan) about adverse customer reactions to Smart Grid deployment plans in an attempt to support a slowed down deployment. The ALJ and the Commission should give no weight to this testimony. First, the testimony is misleading in that it attempts to create an impression of

[13] AP Statement No. 2-SDT, p. 8.
[14] AP Statement No. 2-SDT, pp. 8-9.
[15] AP Statement No. 2-SDT, pp. 6-7.

a consensus that Smart Meter deployment like that proposed by Allegheny Power should be slowed down when no such consensus actually exists. In contrast, one state – Texas – has affirmed the importance of proceeding with Smart Meter deployment, even in the face of customer concerns, given the benefits that Smart Meters offer to customer.[16] Second, Allegheny Power intends as part of any SMIP deployment to take the necessary steps to minimize any adverse customer response. These steps include extensive customer education about the technologies and the use of field trials.[17]

OCA witness Hornby expresses the view that the alternative deployment schedules are less, rather than more, cost effective than the original plan.[18] He relies primarily on his Exhibit JRH-10 for support. But, as Allegheny witness Ahr pointed out, it is nor clear that witness Hornby has made a true component to component comparison of projects. As Mr. Ahr testifies, Exhibit JRH-10 provides a salad of capital and O&M costs mixed together. However, when a "total cost per meter installed" is derived, the numbers simply don't match what witness Hornby provided in Exhibit JRH-8. He did not use the meters to be installed through 2014. Instead, he relied only on the mid-2012 installation numbers.[19] Moreover, Mr. Hornby tried to bolster his previous and current arguments by challenging, again, the previous testimony of Allegheny witnesses (including witness Cohen) that the rural, hilly terrain of Allegheny's territory make it

[16] AP Statement No. 1-SRT, pp. 2-3.
[17] For example, with its original SMIP, the Company testified that it was considering several different delivery methods to deploy IHDs and that it plans on using the results from field trials to determine the most prudent installation manner, including the techniques that minimize the potential for customer dissatisfaction with the installation process. AP Statement No. 2-R, pp. 4-5.
[18] OCA Statement No. 1-Supp, p. 11.
[19] AP Statement No. 1-SRT, p. 5.

more costly to establish a highly reliable communications network. That argument remains contrary to the actual conditions on the ground.[20]

2. The OCA Proposal

The OCA, through witness Hornby, has proposed its own deployment schedule for Smart Meter installations. The OCA proposes an initial deployment of approximately 100,000 Smart Meters in the segments of the Company's service territory with the highest customer densities. Under this deployment, all customers in a given area would receive a Smart Meter.[21] OCA considers this a sufficient number of meters for Allegheny Power to enroll customers in relevant EE&C/DR Plan rate offerings and conduct pilot programs of time of use ("TOU") and other rates.[22]

The OCA believes it is not necessary to install any of the back office systems or other components that support the Company's original and alternative deployment schedules, and that the Company's "existing systems" can support 100,000 Smart Meters.[23] Under OCA's alternative, by Fall of 2011, the Company would file with the Commission an assessment of whether upgraded or additional back office systems, customer interfaces and system management/security were justified, propose allocations of the costs of those systems to other states and identify "normal business investments" for recovery in base rates.[24]

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[20] Id.
[21] OCA Statement No. 1–Supp., pp. 23-25.
[22] OCA Statement No. 1–Supp., p. 25.
[23] OCA Statement No. 1–Supp., pp. 25-26. The "back office" systems referenced by OCA include the Meter Data Management System ("MDMS"), Enterprise Service Bus ("ESB"), Outage Management System ("OMS"), Work Management System ("WMS"), Demand Response Management System ("DRMS"), Business Intelligence Data Warehousing ("BI-DW"), Interactive Voice Response ("IVR"), Customer Information System ("CIS") and Geographic Information System ("GIS").
[24] OCA Statement No. 1–Supp., p. 25.

The OCA's alternative provides that IHDs would be provided to customers only upon request and customers who participated in a Company EE&C/DR Plan program could "elect" to receive an IHD. Customers who so choose to obtain an IHD would pay a separate charge for the display.[25] Based on the results of the Company's 2010 experience, the full deployment of Smart Meters would be completed within ten (10) years under OCA's plan.[26]

The OCA's alternative SMIP is not limited to Smart Meters. It also includes revisions to the EE&C/DR Plan already approved by the Commission. Specifically, OCA's alternative includes a new direct load control ("DLC") program to be deployed to residential and small commercial customers throughout the service territory before installation of Smart Meter and Smart Meter infrastructure. The cost of this DLC program is to be made part of the Company's EE&C/DR Plan surcharge.[27] No evidence was presented showing the Company's EE&C/DR budget limit can accommodate these costs. Mr. Hornby's alternative plan calls for enrolling "as many eligible participants as possible" into the PCT program, which is an existing element of the Company's EE&C/DR Plan. OCA recognizes that it "makes sense" to install a Smart Meter at the same time a PCT is installed to minimize costs.

The OCA also recognizes that to obtain "sufficient" PCT program participants a new communications network may be needed, which the Company needs to still "justify." OCA allows that such a PCT/Smart Meter program could require meters located outside the main deployment areas, in addition to the 100,000 Smart Meters

[25] OCA Statement No. 1–Supp., p. 26.
[26] Id.
[27] OCA Statement No. 1–Supp., pp. 26-27.

allowed under the alternative.[28] OCA's plan presents no EE&C/DR budget for the expanded PCT program, but assumes the costs of all the PCTs can be recovered through the EE&C/DR Plan surcharge.[29] Although OCA proposes to "sequence" this new communication system, no cost estimate for the communications system associated with its deployment plan was provided.

The OCA proposes that the Company's previously approved Smart Meter rate offerings in its EE&C/DR Plan be replaced with unspecified "TOU rate offerings ... it can support with its existing back office systems and pilot programs" to ascertain customer interests, then design back office systems based on those customer preferences.[30]

In sum, OCA's alternative deployment plan is unreasonable and ill advised as proposed for the following reasons:

- The plan erroneously assumes existing back office systems will enable the deployment of 100,000 plus Smart Meters, IHDs and PCTs.

- The plan ignores the EE&C/DR Plan actually approved by the Commission and assumes deletion of existing approved programs and expansion of other programs such as the PCT program that were not approved as part of the Plan.

- No evidentiary foundation was provided for OCA's conclusion that the Company's EE&C/DR capped budget can actually include costs of a new DLC program and an expanded PCT program and adoption of the OCA's alternative plan would result in the Company not meeting its Act 129 EE&C/DR objectives;

- The plan assumes the necessity of revolving uncertainties regarding the back office systems and rate offerings that don't exist, given the detailed planning contained in the SMIP.

[28] OCA Statement No. 1–Supp., p. 27.
[29] Id.
[30] OCA Statement No. 1–Supp., p. 28.

Back Office Systems

The OCA's alternative erroneously concludes that existing back office systems are sufficient to deploy its proposed 100,000 Smart Meters. The credible record evidence does not support this conclusion. Allegheny Power witness Ahr explained that these back office systems, either new or upgraded, are needed to enable Smart Meter technology under any alternative deployment schedule and "cannot be partially installed in phases so that they are fully built over the same time it takes to deploy all the Smart Meters."[31] Thus, the back office component is not scalable, based on the number of meters being deployed. To meet the requirements of Act 129 regarding Smart Meters and the conditions of the Commission's Smart Meter Implementation Order, the credible record evidence is that all of these systems must be installed or upgraded, and without these requirements, the Company would not be proposing these network and information technology additions and/or upgrades at this time.[32]

Mr. Ahr explained that Mr. Hornby misconstrued and improperly relied on the Company's response to an interrogatory to support his assumption that existing back office systems could support 100,000 Smart Meters, as is assumed in his alternative plan. Only a very limited quantity of Smart Meters can be deployed before installation of the MDMS is essential. The MDMS manages the activation of each Smart Meter and monitors its functioning. A manual approach is more costly and less reliable, and regardless, the Company will be unable to support either the 14 Smart Meter technology

[31] AP Statement No. 1-SRT, pp. 5-11. Mr. Ahr also explained, at page 6, that if interim measures were taken to patchwork existing back office systems, those changes would ultimately have to be replaced by the system design in the SMIP which would add costs and increase the total cost of the plan.
[32] AP Statement No. 1-SRT, p. 11.

requirements for 100,000 Smart Meters or the TOU and Real Time tariff requirements of Act 129 under the OCA's plan.[33]

Moreover, the back office systems are technologically essential components that are necessary to deploy Smart Meters. The ESB allows efficient interconnection (*i.e.*, interoperability) between field operations and back office systems that are required components of Smart Meters.[34] It is "standard" to include an ESB as a core component of system architecture to support Smart Meters.[35] The OMS is a core system used by the Company's dispatchers to record, analyze and track customer outages and restorations. To meet the Implementation Order's requirement that outages be communicated, the system must be upgraded to permit polling of Smart Meters at any time to determine if service exists, verifying a customer report of an outage, verifying outage restoration and differentiating between momentary and sustained outages.[36]

An upgrade of the WMS system is required to support the outage detection and restoration process. Work Management must be able to receive outage notification from the OMS to dispatch resources to the trouble area and record completion of work.[37] Meanwhile, the GIS provides GPS capability with respect to location of the Smart Meters and supports efficient location of these assets when restoring service and performing Smart Meter system maintenance and upgrades.[38]

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[33] AP Statement No. 1-SRT, p. 14.
[34] *See*, AP Statement No. 1-SRT, pp. 7-9, for the role of the ESB in meeting its 14 Smart Meter requirements detailed in the Commission's Implementation Order.
[35] AP Statement No. 1-SRT, p. 7.
[36] AP Statement No. 1-SRT, p. 9.
[37] AP Statement No. 1-SRT, p. 10.
[38] Id. The Company fully explained in its Main and Reply Briefs why the Customer Information System ("CIS") could not be effectively modified and must be replaced, whereas ESB does not even exist. AP Statement No. 1-SRT, pp. 12-13.

Direct Load Control Programs

The OCA's alternative plan rejects prompt installation of back office systems but supports rapid deployment of a direct load control (DLC) program as a less expensive means to achieve the Act 129 demand reduction requirements. This represents a collateral attack on the Company's EE&C/DR Plan, which has already been litigated. The Company's PCT Program and TOU Rate were both approved by Final Commission Order back in October 2009 and thus, have been fully litigated before the Commission.[39] The supplemental phase of this proceeding clearly was not intended to provide an opportunity for parties to re-litigate issues that have been previously litigated. Rather, as made clear by the Company's Petition, the reopening was for the limited purpose of modifying the SMIP to make it more sensitive to the concerns of the parties that were revealed in the course of this proceeding, including concerns raised about the pace of the Smart Meter and IHD deployments.

The OCA in Statement No. 2-Supp. references various utility programs in New Jersey as examples of less expensive means to meet the Act 129 energy reduction requirements. However, a comparison of Pennsylvania to New Jersey is an apples-to-oranges comparison that should be rejected. As Company witness Mr. Miller points out, in asserting that the New Jersey utilities are providing direct load control programs in advance of Smart Meters, OCA witness Ms. Brockway fails to consider that the New Jersey utilities were required to implement demand response programs less than one-year from the order with a significant demand response goal due May 31, 2010. Thus, a phased Smart Meter deployment approach was not a feasible option in New Hersey.

[39] *Petition of West Penn Power Company d/b/a Allegheny Power for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-209-2093218 (Order entered October 23, 2209).

Moreover, OCA witness Mr. Hornby acknowledged the added difficulty of achieving demand reduction in Western Pennsylvania compared to New Jersey due to the difference in utility prices. Finally, in contrast to Pennsylvania, no specific budgetary caps were imposed on the New Jersey utilities in targeting demand response targets set out by the New Jersey Board of Public Utilities.[40]

On the merits, the credible record evidence is that Mr. Hornby's DLC proposal is uneconomical. As Company witness Mr. Miller explained, a rapid deployment of a DLC program is inadvisable because Smart Meters would support the PCT demand response program in an economical way by leveraging Smart Meter infrastructure "instead of deploying alternative non-Smart Meter related technologies [such as DLC] that would come at an additional expense and have a limited life."[41]

Another shortcoming of the OCA's DLC proposal is that it would require deployment of a communications network outside the Company's proposed Smart Meter infrastructure with an unspecified design and expense lead. Moreover, the Company's existing back office systems are simply not capable of handling the volume of data required to process in order to make available to customers the dynamic rate offerings that are part of the Company's EE&C/DR Plan. For example, with dynamic rate offerings, instead of six (6) bi-monthly meter readings per year, the Company's systems will be required to handle and bill customers based on potentially 12,410 hourly intervals (24 x 365) over the course of a year.[42]

[40] AP Statement No. 2-SRT, p. 7.
[41] AP Statement No. 1-SRT, p. 11.
[42] AP Statement No. 1-SRT, p. 13.

Act 129 Issues

The OCA's proposal does not demonstrate that it meets all the requirements of Act 129, including the 2% budget based on each EDC's 2006 revenues.[43] Allegheny Power is already authorized to implement a DLC program, the PCT demand response program, which is similar to the programs offered by the extra New Jersey utility programs touted by Ms. Brockway.[44] However, in contrast to the OCA's DLC proposal, as supported by Ms. Brockway, the Company's plan leverages Smart Meter infrastructure and a necessary communications system to permit the Company to meet the 2% budget for the EE&C/DR Plan. As Mr. Miller succinctly stated, "Allegheny's EE&C Plan is at the budget amount and does not permit for additional costs including the cost of any alternate technologies."[45]

Simply put, the OCA plan, which implements a DLC program for residential and small commercial customers with costs recovered under the EE&C/DR Plan, ignores the EE&C/DR budget realities. In contrast, the Company's plan placed the PCT demand response program administration, marketing, evaluation and incentives costs in the EE&C/DR Plan and the technology costs in the SMIP.[46] This prudently allows the EE&C/DR budget to be maintained, and properly uses the Smart Meter cost recovery mechanism to leverage the technology needed to make the programs work, without

[43] AP Statement No. 2-SRT, p. 8.

[44] Id. As Mr. Miller pointed out, in asserting that the New Jersey utilities are providing direct load control programs in advance of Smart Meters, Ms. Brockway failed to consider that the New Jersey utilities were required to implement demand response programs less than one-year from the order with a significant demand response goal due May 31, 2010. Moreover, Mr. Hornby acknowledged the added difficulty of achieving demand reduction in Western Pennsylvania compared to New Jersey due to the difference in utility prices. Finally, in contrast to Pennsylvania, no specific budgetary caps were imposed on the New Jersey utilities in targeting demand response targets set out by the New Jersey Board of Public Utilities. AP Statement No. 2-SRT, p. 7.

[45] AP Statement No. 2-SRT, p. 11.

[46] Id.

deploying as OCA proposes, non-Smart Meter technologies such as direct load control which creates additional expense and a limited service life.[47]

Moreover, Mr. Hornby's PCT program would not achieve the EE&C/DR objectives based on the Company's projections for the PCT demand response program.[48] Allegheny Power completed benchmarking and/or reviewed industry reports to establish the participation rates for the Smart Meter-enabled programs. All of the Company's deployment plans should provide a sufficient population of customers to achieve the necessary subscription level of customer participation in programs or rate offerings, especially the original plan or the 375,000 meter options.[49] Consequently, the OCA plan fails to substantiate that its alternative is cost effective or that the required EE&C/DR reduction mandates would be met.

As noted above, OCA's alternative deployment plan strips the Smart Meter related rate programs from the Company's approved EE&C/DR Plan.[50] In contrast, the Company's alternative deployment plans are fully consistent with the amended EE&C/DR Plan approved by the Commission, including the programs or rate offerings that rely on installation of Smart Meters, such as Residential Efficiency Rewards Rate, PCT Program, Pay Ahead ("Smart") Service Rate, Customer Load Response Program, Customer Resources Demand Response Program, Critical Peak Rebate, Time of Use with Critical Peak Pricing Rate and Hourly Pricing Option Rate.[51] Narrowing the scope of

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[47] Id.
[48] AP Statement No. 2-SRT, p. 12.
[49] AP Statement No. 2-SRT, p. 9.
[50] 66 Pa.C.S. § 2806.1(g) "Limitation on costs – the total cost of any plan required under this section shall not exceed 2% of the electric distribution company's total annual revenue as of December 31, 2006." Under this formula, the lower the EDC's revenues, the less funding is available to an EE&C/DR Plan. However, the reduction percentages for all EDCs in Act 129 are the same and not scaled to match the level of resources permitted to be spent.
[51] AP Statement No. 2-SRT, pp. 5, 9.

programs available to the Company, as OCA proposes, jeopardizes achievement of the Act 129 energy and demand reduction mandates.

However, making fewer programs available to customers is also inconsistent with the "portfolio" theme of the Company's EE&C/DR Plan. As Mr. Miller stated, "[i]t is also important to note that the portfolio approach of the Company's EE&C/DR Plan, i.e. having a range of measures and programs for each customer class, increases the opportunity for a customer to participate in and benefit from a program or rate offering."[52]

Alleged Lack of Certainty regarding Back Office Systems and Rate Offerings

Similar to OCA's position with respect to the Company's original deployment schedule, witness Hornby recommends use of the 30-month grace period to finalize its SMIP. As noted by Mr. Ahr, Allegheny Power's detailed SMIP has adequately addressed uncertainties and plans field trials to test and prove the sustainability of products before commencing deployment of significant numbers of meters. Consequently, a "go slow" approach is not necessary or prudent. In addition, the Company's SMIP is adaptable, as Mr. Ahr stated, "the overall solution is designed as a highly modular, loosely coupled, service oriented architecture ... [that] will allow Allegheny Power to perform interactive evaluation and analysis of each solution components' fit-for-purpose and enable us to quickly modify, upgrade or replace as needed."[53] And, as previously mentioned, OCA's contemplated use of existing back office systems to support deployment of 100,000

[52] AP Statement No. 2-SRT, p. 9.
[53] AP Statement No. 1-SRT, pp. 11-12.

Smart Meters as a "pilot" through Fall of 2011 is untenable since the Company will be unable to support the 14 Smart Meter technology requirements for 100,000 meters.[54]

In summary, OCA's alternative proposal erroneously assumes back office and support systems need not be deployed to enable Smart Meters and improperly assumes the Commission will utilize this SMIP proceeding to revise the previous outcome of the EE&C/DR case, which was a different proceeding with different parties. No foundation was laid for the design or cost of the new communications system inherent in OCA's alternative, and no evidence was presented that the cost of the reconfigured EE&C/DR Plan would fit within the statutory budget limit for these EE&C/DR plans. Moreover, the elimination of reduction programs available to customer under OCA's proposal negates the portfolio of programs concept and would result in the EE&C/DR reductions not being met. The OCA alternative proposal must be rejected.

3. Surcharge and Cost Issues.

a. The SMT surcharges under the alternative plans are lower and reasonable.

Allegheny Power witness Valdes prepared a three page Exhibit, attached to this Supplemental Main Brief, which shares the Company's estimated SMT Surcharges under: (i) the original SMIP Plan (Exhibit REV-1, page 1 of 3), (ii) the 100,000 meter by mid-2012 alternative plan (Exhibit REV-1, page 2 of 3), and (iii) the 375,000 meter by mid-2012 alternative plan (Exhibit REV-1, page 3 of 3).[55]

Under the Company's alternative plans, IHD costs are not collected through the SMT surcharge. Rather, they are collected through the dynamic rate offerings Allegheny Power will be filing with the Commission by mid-2010, as outlined in the approved

[54] AP Statement No. 1-SRT, pp. 11-13.
[55] AP Statement No. 3-SDT, Exhibit REV-1.

EE&C/DR filing. Since IHDs would only go to customers on an opt-in basis, customers who do not opt-in will not have any IHD related cost responsibility. This aspect of the alternative plans is consistent with cost causation since only customers who elect to have an IHD will pay for an IHD.[56] Also, as Mr. Valdes clarified, the IHD charge also includes the costs of PCTs in the same charge.[57] As an example of the SMT Surcharge reduction the alternative plans achieve under the 375,000 Plan (for the period June 2011 through May 2012), the original plan monthly surcharge for residential customers with Smart Meters would decline from $14.34 to $11.16 if the customer elected not to request an IHD.[58]

The OSBA witness Knecht testified in his Supplemental Direct Testimony, that the cost of Smart Meters should be applied to all customers instead of only customers that receive a Smart Meter. The Company does not object to spreading the costs of installed Smart Meters across the entire customer base. The concept of a second tier of the SMT surcharge was presented as an option that would tie such costs to the customers that caused the costs, and as a means of reducing the surcharge amount to customers who had not yet received a Smart Meter under the deployment schedule.[59]

Witness Hornby calculated an "order of magnitude" estimate of the surcharge associated with OCA's recommended deployment schedule.[60] Under this estimate, a residential customer in the period June 2011 through May 2012 would pay an SMT surcharge of only $2.42 per month. This estimate of an SMT Surcharge should not be given any evidentiary weight by the ALJ or the Commission.

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[56] AP Statement No. 3-SDT, p. 10.
[57] AP Statement No. 3-SRT, p. 7.
[58] AP Statement No. 3-SDT, Exhibit REV-1, pp. 1, 3.
[59] AP Statement No. 3-SRT, p. 6.
[60] OCA Statement No. 1-Supp., p. 28, Exhibit JRH-14, p. 2.

First, as can be seen by Mr. Hornby's exhibit, back office costs are excluded in OCA's surcharge is for CIS; no back office systems that are required for Smart Meter functionality are included.[61] Moreover, OCA would deny the Company a portion of even this small surcharge amount if it cannot "justify its proposed investments in the communications network through 2012."[62] No explanation of the underlying cost allocation method used by Mr. Hornby for this surcharge was provided in his testimony.[63] Finally, Mr. Hornby conceded that only the Company was in a position to provide a "detailed" estimate of the cost, rate and bill implications of his recommended deployment schedule.[64]

In addition, Mr. Hornby presents a flawed depiction of the surcharges associated with the Company's alternative plans. In his Exhibit JRH-13, Mr. Hornby shows dramatic increases in customers' existing rates under the Company's alternative deployment plans. Mr. Valdes pointed out, however, that Exhibit JRH-13 is misleading because it provides exaggerated percentage impacts based on customers using 500 kWh per month. Such a usage level is one-half of a typical Allegheny Power residential customer usage level of 1,000 kWh per month. Using a more realistic usage level of 1,000 kWh cuts the percentage impact approximately in half.

In addition, Exhibit JRH-13 did not take into account the Company's proposal to modify the SMT surcharge to recover 21% of residential SMIP costs through a fixed customer charge, and 79% via a volumetric charge. Adopting this proposal of the Company cuts the percentage impact of the Company's plans approximately in half, even

[61] OCA Statement No. 1-Supp., Exhibit JRH-14, p. 1.
[62] OCA Statement No. 1-Supp., p. 28.
[63] OSBA Statement No. 4, p. 3.
[64] OCA Statement No. 1-Supp., p. 28.

for a residential customer using 500 kWh per month.[65] As stated by Mr. Valdes, JRH-13 is misleading and should be disregarded. Mr. Valdes' Exhibit REV-2 attached to this brief also shows the reasonable SMT Surcharge increases established under the original plan, as well as the 375,000 and 100,000 meter plans under a combination fixed and volumetric rate for typical customers using 1,000 kWh per month.

The Company's estimated surcharges under the 375,000 and 100,000 Smart Meter deployments show that these options reduce customer rate impacts compared to the original SMIP Plan. But, they do not reduce overall costs, while, at the same time, they increase the risk of not meeting EE&C/DR objectives and do not eliminate the need to install back office systems. Nevertheless, they call for lower Smart Meter deployment objectives and lower the SMT surcharge especially for customers who do not receive a Smart Meter and elect not to have an IHD. These alternative plans are not superior to the original SMIP plan, but they provide the Commission with further reasonable options if surcharge reduction and a slower deployment rate are priorities. OCA's alternative plan and associated surcharge are not a reasonable or supportable basis on which to adopt a SMIP and should be rejected.

b. Back office systems and jurisdictional cost allocation.

The OCA was critical of the Company's original SMIP with respect to back office systems and the allocation of these costs. OCA renews those arguments in opposition to Allegheny's alternative plans that it previously made in response to the Company's original deployment plan.

The OCA calculates higher per meter installed costs under the alternative plans, which, given the lower number of deployed meters under the alternative plans, is

[65] AP Statement No. 3-SRT, pp. 9-10, Exhibit REV-2.

completely unsurprising. This is also due to the fact that a slower deployment of Smart Meters does not allow a phasing of back office system installation. As noted by witness Ahr, whether under the 375,000 or the 100,000 Smart Meter deployment schedule, the SMIP tasks and milestones must be completed in the same order and timeframes as the original SMIP. Regardless of whether one Smart Meter or 450,000 Smart Meters are deployed, tasks associated with the Smart Meter solution architecture areas of In Home Technologies, Communications Network, Back Office Systems, Customer Interface and Systems Management and Security are still required for a functional Smart Meter solution.[66] As Mr. Ahr stated, deleting CIS and all back office systems from the surcharge prevents the Company from meeting the requirements of Act 129.[67]

OCA contends that some, if not all, of the back office systems the Company proposes are part of its "normal distribution service."[68] However, as Mr. Valdes observed:

> This issue has already been addressed in connection with the Company's original Smart Meter deployment schedule plan. If back office investments such as the Enterprise Service Bus, upgraded Work Management System, a new Geographic Information System and an upgraded Outage Management System were investments made as part of the Company's normal distribution service, then it is logical that such investments would have already occurred. The simple fact is that such investments have not occurred since, outside of the requirements of Act 129, the Company is able to meter and bill its customers with its existing systems and would not need such new investments. This issue has been previously addressed on page 4 of the rejoinder testimony of Company witness Mr. Heasley, Statement No. 1-RJ, where he states that Allegheny Power would not need the network and information technology additions and/or upgrades at this time without Act 129's Smart Meter requirements, and Act 129 provides that the cost of deploying Smart Metering infrastructure includes the cost of related distribution system upgrades.[69]

[66] AP Statement No. 1-SDT, p. 12.
[67] AP Statement No. 1-SRT, p. 11.
[68] OCA Statement No. 1-Supp., p. 16.
[69] AP Statement No. 3-SRT, pp. 8-9.

If back office systems are deleted from the SMIP, Smart Meters cannot be deployed and be fully functional. Neither can the costs associated with those back office systems be banished from the SMT Surcharge simply by arguing that they should be part of a base rate case claim.

Act 129 clearly identifies "Smart Meter technology" and "system upgrades that the electric distribution company may require to enable the use of the Smart Meter technology" as distinct separate cost recovery components.[70] By mentioning "system upgrades" in the definition of "Smart Meter technology" and by referencing "system upgrades" in the subsection on cost recovery, the General Assembly was highlighting the significance of assuring EDCs cost recovery of system upgrades. The challenged back office systems are clearly "system upgrades" that enable use of Smart Meters. There is no indication in Act 129 that merely because a system upgrade could have been pursued prior to Act 129, it is now barred from recovery via the two cost recovery means provided to electric distribution companies by Act 129 – through base rates, including a deferral for future base rate recovery of current basis with carrying charge, or on a full and current basis through a reconcilable automatic adjustment clause under Section 1307.[71]

In providing EDCs with two favorable cost recovery options, the General Assembly, unquestionably, was encouraging them to make the necessary investments in their metering and related systems without fear of financial penalty. However, if adopted, OCA's position on back office systems would impose a financial penalty on

[70] 66 Pa.C.S. § 2807(f)(7). The definition of "Smart Meter technology" includes "related electric distribution system upgrades to enable the technology."
[71] 66 Pa.C.S. § 2807(f)(7)(i)(ii).

Allegheny Power. Giving the Company the obligation to deploy Smart Meters but barring back office system costs from the surcharge would mean the Company would not recover any depreciation and return or O&M on their investments until some future base rate proceeding that would incorporate the investment into rates. In the meantime, those costs would not be recovered.

Furthermore, because the investment in back office systems would occur over several years, multiple base rate filings may be needed with little or no intervals in-between to adjust rates. There is nothing in the letter or spirit of Act 129 that suggests base rate cases, without deferrals and carrying costs as OCA maintains, were intended to be forced upon EDCs as a means of cost recovery. To the contrary, Act 129's deferrals with interest and automatic adjustment clause mechanisms are fairly viewed as substantive means to avoid EDCs filing base rate increase proceedings. The rate penalty OCA seeks to impose on Allegheny Power risks by barring back office system costs from the SMT surcharge should be rejected as completely inconsistent with Act 129.

Neither does OCA put forth a reasonable position on allocating back office systems' costs to other state jurisdictions. The Company is allocating its CIS across other states, and Mr. Hornby advocates allocating some of the other back office system costs to other states as well.[72] This issue was argued with respect to the original SMIP Plan and is freshly applied by OCA to the new alterative deployment plans.

Mr. Valdes responded by noting that CIS costs were appropriately allocated to Allegheny Power's sister companies since CIS is a billing system that is, and continues to be, used by all Allegheny Power regulated utility companies. Other back office systems are only allocated to Pennsylvania since these new costs are necessary to implement the

[72] OCA Statement No. 1-Supp., p. 15.

SMIP. However, the Company continues to agree that if Smart Meter technology begins in other jurisdictions, the back office costs should be allocated to other jurisdictions.[73] This is a reasonable position that takes into account how systems are used and matches that with appropriate rate treatment. OCA's forced allocation of costs away from Pennsylvania to jurisdictions where they can't be recovered in the absence of Smart Meters should be denied.

Another argument resurrected from the debate over the Company's original SMIP is the question of whether the alternate plans are flawed because of a cost comparison to other EDC Smart Meter deployment proposals. OCA represents its chart (JRH-11) comparing capital costs and contrasts these costs with the costs under the Company's proposals.[74] OSBA joins in questioning the reasonableness of the SMIP costs.

As noted by Mr. Valdes, this issue was thoroughly vetted in the Company's Main and Reply Briefs and specifically answered in Company testimony.[75] In summary, the Company's meter capital costs compare well to others given the features the Allegheny Power Smart Meter will provide. Other EDCs are not launching Smart Meters from the same technological starting point and the Company's rigorous process for competitively procuring its systems ensures reasonableness of costs.

The Company also pointed out the rural nature of its service territory which adds to its communication expenses. Although Mr. Hornby conceded that the Company serves fewer customers per square mile (60 on average) than the other utilities in his comparison group (some of which have almost twice as dense customer ratios – 100 customers per

[73] AP Statement No. 3-SRT, p. 7.
[74] OCA Statement No. 1-Supp., p. 13.
[75] AP Statement No. 3-SRT, p. 3, *citing*, AP Statement No. 4, p. 7 and AP Statement No. 1-R, pp. 4-7.

square mile), he saw no basis for higher Allegheny Power SMIP costs.[76] In response, Mr. Ahr noted this issue was fully addressed by Mr. Cohen in Statement 5-R and that "a rural, hilly terrain presents particular communications architecture and engineering challenges where it is more costly for the Company to establish a highly reliable communications network. This is still the case today."[77]

4. Other Issues

a. OSBA meter cost differential concerns.

Mr. Knecht on behalf of OSBA, raised concerns regarding the cost differential between single-phase residential and single-phase non-residential meters.[78] In response, Mr. Valdes explained that the per meter cost differential identified by Mr. Knecht was a direct function of the cost estimates the Company provided with regard to acquisition and installation of the meters. The cost differential in these types of meters is driven primarily by the turnkey installation cost estimates. In the event the cost differential estimated doesn't actually materialize, the SMT surcharge would be adjusted accordingly.[79]

The Company is amenable to either of two approaches on this issue.

1. Use the current estimated non-residential meter cost and allow the reconciliation procedure to adjust the surcharge downward if the estimated cost differential doesn't materialize.

2. Match the non-residential meter cost to the estimated residential meter cost and adjust the surcharge upward if the differential does materialize.

Mr. Valdes' Exhibit REV-1R shows the difference in the estimated surcharge under approach 2, which is that the surcharge is reduced for Schedules 20, 22, 23 and 24 by

[76] OCA Statement No. 1-Supp., p. 14.
[77] AP Statement No. 1-SRT, p. 5.
[78] OSBA Statement No. 3, pp. 3-5.
[79] AP Statement No. 3-SRT, p. 4.

approximately 60 cents.[80] If both of these approaches are acceptable to the Presiding Officer and the Commission, the Company would include in its surcharge OSBA's preference in regard to this issue.

B. Revenue Requirement

1. Company Proposal

As mentioned earlier in this Supplemental Main Brief, there are elements of a proposed Smart Meter and IHD deployment schedule that to Allegheny Power are acceptable alternatives to the original SMIP deployment schedule submitted in this proceeding.

It is still the Company's position that the originally filed SMIP best implements the Act 129 Smart Meter mandate at reasonable and prudent costs, and that its second preference is the 375,000 meter deployment option. Based on concerns raised by parties to the case regarding the cost of the deployment and the pace at which Smart Meters were proposed to be deployed, Allegheny Power considers it important to include in the record an alternative that is acceptable to the Company, provides a slower deployment schedule, and reduces the impact of the SMT Surcharge.[81]

The alternative deployment schedule also responds to the Commission's concern about the deployment of Smart Meters expressed in its Opinion and Order entered October 23, 2009, in the EE&C/DR proceeding, where it acknowledged testimony of Allegheny Power about the Smart Meter deployment and previewed the Smart Meter costs as a "massive undertaking," EE&C/DR Order, p. 31, and strongly encouraged the

[80] AP Statement No. 3-SRT, pp. 4-5.
[81] AP Statement No. 3-SDT, pp. 3-4.

Company to develop a Plan less reliant on Smart Meter deployment, EE&C/DR Order, p. 106.[82]

Allegheny witness Valdes specifically addressed proposed changes to asset book lives and return on equity, and the resulting cost impacts of those changes on the SMT Surcharge, in the event an alternative plan is approved. Mr. Valdes also addressed a change in the SMT Surcharge application and the movement of IHD costs into tariffed rates that relate to EE&C/DR Programs approved by the Commission. These proposed alternatives will reduce the SMT Surcharge impact to customers as compared to the originally filed SMIP.[83]

As previously mentioned in this proceeding, the Company has elected to recover Smart Meter technology costs on a full and current basis through a reconcilable automatic adjustment clause under Section 1307.[84] The SMT Surcharge, as it is called, is designed to collect a revenue requirement consisting of a return of and on capital costs, based on the Company's pre-tax cost of capital; forecasted incremental O&M costs as incurred, which are offset by forecasted savings associated with deployment of the Company's proposed SMIP; and costs associated with depreciation of the Company's existing meters. The SMT Surcharge would also reflect any adjustment associated with the annual reconciliation mechanism, which is intended to reconcile prior period revenues and costs.[85]

The Company has now proposed some adjustment to how the SMT Surcharge is applied, as part of the alternative plans. The Company originally proposed the SMT

[82] Energy Efficiency and Conservation/Demand Response ("EE&C/DR") Programs were approved in Docket No. M-2009-2093218, subject to amendments required by the Commission.
[83] AP Statement No. 3-SDT.
[84] AP Statement No. 4, pp. 7-8.
[85] AP Statement No. 4, pp. 8.

Surcharge as a fixed rate per month by dividing the allocated revenue requirement by the number of customer connections, respective to the three customer classes of residential, non-residential and street lighting. A fixed rate per month was used in lieu of a volumetric rate since different customers within the same customer class should not bear a disproportionate responsibility for SMIP costs that are non-volumetric in nature.[86] However, in order to address a concern put forth by OSBA, in Statement No. 4-R, Mr. Valdes offered to develop a non-residential single-phase Smart Metering rate that is separate from a three-phase Smart Metering rate. This proposal was accepted by the OSBA, and Allegheny Power will modify its originally filed SMT Surcharge in accordance with that acceptance. As Mr. Valdes explained in his written rebuttal testimony, Statement 4-R, pp. 5-8, the separation of single- and three-phase customers mitigates the cost differential between small and large non-residential customers that was a concern for OSBA.

The Company also is proposing an alternative two-tiered approach for the SMT Surcharge. The first tier is the base amount of the SMT Surcharge and includes all cost items except costs associated with the Smart Meter and IHDs. The base amount would include items such as the infrastructure, communications and related electric distribution system upgrades needed to enable Smart Metering technology. The first tier (*i.e.,* base amount) of the SMT Surcharge would be applied to all customers regardless of whether they have a Smart Meter, and would be differentiated by residential, non-residential and street-lighting customers. There would be no need to separate the base amount of the SMT Surcharge into single-phase and three-phase rates since such costs do not vary by such criterion. The second tier of the SMT Surcharge collects costs associated with the

[86] AP Statement 3-SDT, p. 8.

Smart Meter and would only apply to customers that have a Smart Meter. Additionally, in accordance with the agreement reached with the OSBA, the second tier would be differentiated by costs associated with residential, non-residential single-phase, and non-residential three-phase meters.[87]

The use of a two-tiered approach to the SMT Surcharge would mean that customers who have not yet received a Smart Meter would not have to pay costs for a Smart Meter.

Mr. Valdes also presented one additional alternative, dealing solely with the IHD costs. Instead of collecting IHD costs in the SMT Surcharge, Allegheny Power is proposing to collect the IHD costs through the dynamic rate offerings it will be filing with the Commission by mid-2010, as outlined in the Company EE&C/DR filing. IHD's would only be available to residential customers on an opt-in basis, which means that non-residential customers would not have an IHD provided by Allegheny Power and subsequently would not have any related cost collection. This alternative also means that only residential customers who elect an IHD will pay costs for the IHD.[88]

In supplemental written rebuttal testimony, Mr. Valdes clarified certain of the above details in response to supplemental OSBA testimony concerned with meter cost differentials among customer classes. [89] He also addressed repetitive arguments from OCA witness Hornby, that already were discussed as part of the original case, and prepared an exhibit showing that Mr. Hornby's residential bill comparisons were exaggerated and misleading.[90]

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[87] AP Statement No. 3-SDT, p. 9.
[88] AP Statement No. 3-SDT, p. 10.
[89] OSBA Statement No. 3; AP Statement No. 3-SRT, pp. 3-6; Exhibit REV 1-R.
[90] AP Statement No. 3-SRT, pp. 9-10; Exhibits JRH-13 compared with Exhibit REV-2.

2. Rate of Return

As mentioned in the Company's previous briefing, the rate of return on common equity compensates shareholders for the use of their capital to finance the plant and equipment necessary to provide utility service. Investors commit capital only if they expect to earn a return on their investment commensurate with returns available from alternative investments with comparable risks. To be consistent with sound regulatory economics and the standards set forth by the Supreme Court in the *Bluefield*[91] and *Hope*[92] cases, a utility's allowed return on common equity should be sufficient to: (1) fairly compensate capital invested in the utility, (2) enable the utility to offer a return adequate to attract new capital on reasonable terms, and (3) maintain the utility's financial integrity.[93] The Company's proposed Return on Equity ("ROE") for purposes of the original SMT Surcharge filing incorporated the weighted effect of debt and equity, and a ROE of 11.5 percent from the Company's last authorized return on equity in Docket No. R-942986.[94] The SMT Surcharge is designed to collect a revenue requirement consisting of a return of and on capital costs, based on the Company's pre-tax cost of capital; forecasted incremental operating and maintenance costs as incurred, which are offset by forecasted savings associated with deployment of the Company's SMIP; and costs associated with depreciation of the Company's existing meters. The return on capital costs compensates the Company for its financing costs associated with capital costs and is determined from the quarterly earnings report that is filed with the Commission.

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[91] *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n*, 262 U.W. 679 (1923).
[92] *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).
[93] AP Statement No. 7-R, p. 5.
[94] AP Statement No. 4, p. 9.

In its Supplemental testimony, under the alternative proposal the Company is offering, its requested return on equity would be reduced to 10.5%, a reduction of 100 basis points.[95] The Company believes that its last authorized return on equity is appropriate and in compliance with the Commission's Implementation Order entered June 24, 2009 at Docket No. M-2009-2092655, which mentions that capital expenditures for any equipment and facilities that may be required to implement the Smart Meter plan would include a return component based on the electric distribution company's weighted cost of capital[96]. However, in an attempt to recognize concerns from other parties regarding the return on equity, the Company is willing to accept for purposes of its alternative plans a return on equity of 10.5%. This will result in a lower SMT Surcharge. The Company has offered to use a 10.5% return on equity since this value matches the return on equity in PECO Energy Company's Joint Petition for Partial Settlement at Docket No. M-2009-2123944. The Company expects that the SMT Surcharge will be adjusted to reflect the return on equity that may be awarded in future base rate proceedings or other appropriate proceedings.[97]

Allegheny Power agrees to use of a 10.5% return on equity in the event the Commission adopts one of the alternative plans addressed in this Supplemental Brief.

3. Asset Lives

For purposes of offering an alternative to the Company's original SMIP, the Company has proposed to extend the book lives of the majority of the assets as follows:

[95] AP Statement No. 3-SDT, p. 7.
[96] Order, at p. 29
[97] AP Statement No. 3-SDT, pp. 6-7.

Asset Type	Alternative Book Life	Difference from Original Filing
In Home Technologies	10 years	Additional 5 years
Smart Meters	15 years	Additional 5 years
Hardware	5 years	No change
Software (without CIS)	10 years	Additional 5 years
Software (with CIS)	10 years	Additional 3 years

As illustrated above, compared to the original filing, under the alternative the book lives for all capital assets would be extended from three to five years, with the exception of hardware-related capital assets. The Company was not comfortable offering to extend the book life of this category of asset since the Company believes it was already proposed at the maximum duration that could reasonably occur.[98]

Since book lives are integral to the calculation of the capital cost impact to the SMT Surcharge, an extension of the book lives would result in a surcharge that is lower in magnitude as compared to the originally filed SMT Surcharge rates.[99] This is not to imply that the originally proposed book lives were incorrect, but that the Company has determined this was an area in which a longer than average book life could be proposed in an attempt to address other parties concerns and reduce the impact of the SMT Surcharge.[100]

The Company agrees to use of the foregoing adjusted service lives in connection as part of these alternative plans.

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[98] AP Statement No. 3-SDT, p. 5.
[99] AP Statement No. 3-SDT, pp. 5-6.
[100] The Company is not proposing any change to the tax lives in the originally filed SMIP. Id., p. 6.

VI. CONCLUSION

By developing and submitting two additional Smart Meter alternative deployment schedules, Allegheny Power has provided two further options for the ALJ's and the Commission's consideration. These plans provide the benefit of lower SMT surcharge estimates, however at a higher overall plan cost than the Company's original proposal and with some greater risk that EE&C/DR Plan mandated reductions can be met, especially with respect to the 100,000 Smart Meter alternative plan. Therefore, the Company requests that the original SMIP be approved and its secondary preference is that the 375,000 Smart Meter alternative plan be adopted.

Respectfully Submitted,

Dated: March 26, 2010

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EXHIBIT REV-1

Smart Meter Technology ("SMT") Surcharge

WEST PENN POWER CO.
d/b/a Allegheny Power
Smart Meter Technology ("SMT") Surcharge

Full Deployment in 5-Years

Originally Filed SMT Surcharge Rates:

Tariff Classification	SMT Surcharge $ / month Feb 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Sch 10	$ 5.86	$ 14.34	$ 15.57	$ 15.77
Schs 20, 22, 23 & 24	$ 5.94	$ 13.90	$ 14.57	$ 14.20
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 5.94	$ 13.90	$ 14.57	$ 14.20
Street Lighting	$ 0.27	$ 1.40	$ 1.28	$ 1.15

SMT Surcharge Rates adjusted in accordance with OSBA 1-ph/3-ph separation:

Tariff Classification	SMT Surcharge $ / month Feb 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Sch 10	$ 5.86	$ 14.34	$ 15.57	$ 15.77
Schs 20, 22, 23 & 24	$ 5.94	$ 13.86	$ 14.51	$ 14.14
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 6.22	$ 15.12	$ 16.42	$ 16.24
Street Lighting	$ 0.27	$ 1.40	$ 1.28	$ 1.15

WEST PENN POWER CO.
d/b/a Allegheny Power
Smart Meter Technology ("SMT") Surcharge

Alternative Deployment of 100,000 Meters by mid-2012

Tier 1:
(Base amount without Smart Metering and IHD)

Tariff Classification	SMT Surcharge $ / month			
	June 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Sch 10	$ 6.21	$ 9.14	$ 8.75	$ 8.23
Schs 20, 22, 23 & 24	$ 6.20	$ 9.12	$ 8.72	$ 8.20
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 6.20	$ 9.12	$ 8.72	$ 8.20
Street Lighting	$ 0.25	$ 0.95	$ 0.84	$ 0.76

Tier 2:
(Incremental amount for Smart Meter)

Tariff Classification	SMT Surcharge $ / month			
	June 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Sch 10	$ 2.35	$ 2.35	$ 2.35	$ 2.35
Schs 20, 22, 23 & 24	$ 4.07	$ 4.07	$ 4.07	$ 4.07
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 5.84	$ 5.84	$ 5.84	$ 5.84
Street Lighting	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Incremental amount for opt-in IHD:

Tariff Classification	June 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Any eligible customer	$ 3.86	$ 3.86	$ 3.86	$ 3.86

WEST PENN POWER CO.
d/b/a Allegheny Power
Smart Meter Technology ("SMT") Surcharge

Alternative Deployment of 375,000 Meters by mid-2012

Tier 1:
(Base amount without Smart Metering and IHD)

Tariff Classification	SMT Surcharge $ / month June 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Sch 10	$ 6.37	$ 9.23	$ 8.60	$ 7.93
Schs 20, 22, 23 & 24	$ 6.36	$ 9.21	$ 8.58	$ 7.91
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 6.36	$ 9.21	$ 8.58	$ 7.91
Street Lighting	$ 0.25	$ 0.95	$ 0.84	$ 0.76

Tier 2:
(Incremental amount for Smart Meter)

Tariff Classification	SMT Surcharge $ / month June 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Sch 10	$ 1.93	$ 1.93	$ 1.93	$ 1.93
Schs 20, 22, 23 & 24	$ 3.77	$ 3.77	$ 3.77	$ 3.77
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 5.69	$ 5.69	$ 5.69	$ 5.69
Street Lighting	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Incremental amount for opt-in IHD:

Tariff Classification	June 2010 thru May 2011	June 2011 thru May 2012	June 2012 thru May 2013	June 2013 thru May 2014
Any eligible customer	$ 3.96	$ 3.96	$ 3.96	$ 3.96

EXHIBIT REV-2

Impact of Allegheny Power's Proposed SMT Surcharge on Residential Customers in 2014

Impact of Allegheny Power's Proposed SMT Surcharge on Residential Customers In 2014

Customer Charges ($/month) - Residential Rate Schedule	Existing Rates ($/month)	SMT Impact		% Impact in Exhibit JRH-13	Decrease vs Exhibit JRH-13
		$/month	% Impact		
Existing at 0 kWh/month	$5.00				
Original Deployment		$15.77	315%	315%	0%
Original Deployment (21% fixed and 79% volumetric)		$3.31	66%	not provided	
375k Deployment without Smart Meter (volumetric)		$0.00	0%	159%	-159%
375k Deployment with Smart Meter (fixed and volumetric)		$1.93	39%	197%	-158%
100k Deployment without Smart Meter (volumetric)		$0.00	0%	165%	-165%
100k Deployment with Smart Meter (fixed and volumetric)		$2.35	47%	212%	-165%
Existing at 500 kWh/month	$48.95				
Original Deployment		$15.77	32%	34%	-2%
Original Deployment (21% fixed and 79% volumetric)		$9.54	19%	not provided	
375k Deployment without Smart Meter (volumetric)		$3.97	8%	17%	-9%
375k Deployment with Smart Meter (fixed and volumetric)		$5.90	12%	21%	-9%
100k Deployment without Smart Meter (volumetric)		$4.12	8%	18%	-10%
100k Deployment with Smart Meter (fixed and volumetric)		$6.47	13%	23%	-10%
Existing at 1,000 kWh/month	$92.88				
Original Deployment		$15.77	17%	not provided	
Original Deployment (21% fixed and 79% volumetric)		$15.77	17%	not provided	
375k Deployment without Smart Meter (volumetric)		$7.93	9%	not provided	
375k Deployment with Smart Meter (fixed and volumetric)		$9.86	11%	not provided	
100k Deployment without Smart Meter (volumetric)		$8.23	9%	not provided	
100k Deployment with Smart Meter (fixed and volumetric)		$10.58	11%	not provided	

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	:	
Procurement and Installation Plan	:	Docket No. M-2009-2123951

PROPOSED FINDINGS OF FACT, PROPOSED CONCLUSIONS OF LAW AND PROPOSED ORDERING PARAGRAPHS

I. PROPOSED FINDINGS OF FACT

A. Background

1. West Penn Power Company d/b/a Allegheny Power ("Allegheny Power" or the "Company") is a Pennsylvania public utility and Pennsylvania corporation authorized to provide electric service in southwestern, south-central and northern Pennsylvania.

2. The Company serves approximately 713,000 customers in Pennsylvania in an area of about 10,400 square miles with a population of approximately 1.5 million.

3. The Company is a wholly owned subsidiary of Allegheny Energy, Inc. Allegheny Power and Allegheny Energy, Inc., have their corporate headquarters in the City of Greensburg, Westmoreland County, Pennsylvania.

4. Act 129 of 2008 ("Act 129")[1] requires electric distribution companies ("EDCs") with at least 100,000 customers in Pennsylvania to adopt a plan to reduce energy consumption and demand in their service territories.

5. As an EDC, Allegheny Power filed its Energy Efficiency and Conservation and Demand Response ("EE&C/DR") Plan with the Pennsylvania Public Utility Commission ("Commission") in June of 2009.

6. The EE&C/DR Plan measures, programs, and rate offerings will enable Allegheny Power customers to adjust their energy usage with the aim of reducing overall consumption and decreasing peak demand for electricity.

7. Allegheny Power's EE&C/DR Plan was approved by the Commission, with minor modifications, on October 23, 2009 at Docket No. M-2009-2093218.

[1] Act 129 became effective November 14, 2008.

8. Act 129 requires Allegheny Power, as an EDC with at least 100,000 customers in Pennsylvania, to file a Smart Meter implementation plan with the Commission to address the installation of Smart Meters and associated Smart Meter technology.

9. The Commission issued its Smart Meter Implementation Order on June 24, 2009 at Docket No. M-2009-2092655 ("Implementation Order").

10. The Company uses the term "Smart Meter" and related technology as defined by Act 129 and the Commission's Implementation Order discussed herein.

11. On August 14, 2009, Allegheny Power filed its Smart Meter Technology Procurement and Installation Plan ("SMIP") with the Commission.

B. SMIP Contents and Development Process

1. There are six basic components of Allegheny Power's SMIP; (1) In-Home Technologies; (2) Smart Meters; (3) Communications Network; (4) Back Office Systems; (5) Customer Interface; and (6) System and Security Management. AP Statement No. 2, p. 6.

2. In-Home Technologies will provide customers with near real-time information about electricity consumption and price. Each Smart Meter provided will have an in-home device ("IHD') that displays price and consumption, thereby providing customers with price and consumption information that is easy to read and readily accessible. In doing so, IHDs will allow customers to make informed decisions on consumption that will, in turn, allow them to conserve energy and save money. SMIP, Section 2.4.2.

3. Smart Meters connect the home to the electric system. Smart Meters identify consumption in far greater detail than conventional meters and also communicate the information back to the utility. Currently, the Company has no Smart Meters in place. SMIP, Section 2.4.3.

4. The Communications Network connects the Smart Meters to a central data collection point in the utility's operations center. The network is bi-directional and uses wired and wireless communications for retrieving usage data many times a day, plus outage, restoration, theft and power quality alarms in near real-time. The Company's Communications Network will not support Smart Meter data traffic without an upgrade. SMIP, Section 2.4.4.

5. Back-Office Systems include the Customer Information System ("CIS") that is a necessary component to utilize Smart Meters. These systems collect, store, process, and manage information generated by users. The Company's current CIS is not capable of supporting Smart Meters. SMIP, Section 2.4.5.

6. The Customer Interface consists of the hardware, software, and security required to provide near real-time energy consumption information to customers and authorized third parties. The interface will occur via IHDs, an Interactive Voice Response System ("IVR"), or a Web Portal. SMIP, Section 2.4.6.

7. System and Security Management encompasses a large set of systems, protocols, and processes to keep the utility's system secure. Smart Meters will require the Company to implement new security systems. SMIP, Section 2.4.7.

8. The Company's EE&C/DR Plan and SMIP are fundamentally interrelated, as the use of smart meter technology underpins many of the programs, measures and rate offerings in the EE&C/DR Plan.

9. Specifically, nine of the 22 programs/rate offerings in Allegheny Power's EE&C/DR filing depend directly on the installation of Smart Meters and Smart Meter Infrastructure. The programs are: (i) Residential Efficiency Rewards Rate; (ii) Programmable Controllable Thermostat (PCT) Program; (iii) Pay Ahead (Smart) Service Rate; (iv) Customer Load Response Program; (v) Distributed Generation Program; (vi) Contracted Demand Response Program; (vii) Critical Peak Rebate (CPR); (viii) Time of Use (TOU) with Critical Peak Pricing Rate; and (ix) Hourly Pricing Option (HPO) Rate. The Contracted Demand Response program was a to-be-deployed Program if such a program were needed.

10. With the exception of the Contract Demand Response Program, which the Commission directed to be implemented, and the Distributed Generation Program, which is currently in the process of being revised, these EE&C/DR Plan programs have already been approved by the Commission with full awareness of their reliance on the rapid deployment of Smart Meters.

11. The Company's Customer Management Group was responsible for the development of the SMIP and submission of the SMIP for regulatory approval. AP Statement No. 1, pp. 4-5.

12. On a going-forward basis, the Company's Customer Management Group will also be responsible for the measurement and evaluation of the plan. AP Statement No. 1, p. 4.

13. Implementation of the SMIP is the responsibility of the Distribution Operations group that reports to the Vice President, Distribution. AP Statement No. 1, p. 4.

14. Following issuance of Act 129, Allegheny Power, through a competitive bid process, engaged EDS, an HP Company, to assist in research and analysis to develop a reasonable and prudent smart metering infrastructure plan that would meet all of the Act 129 requirements. AP Statement No. 2, p. 5; SMIP, p. 15.

15. EDS is a world-recognized technology and consulting firm with a dedicated smart metering practice. AP Statement No. 2, p. 5; SMIP, p. 15.

16. Regarding public input on its SMIP, Allegheny Power held 14 stakeholder meetings at various locations from Camp Hill, Pennsylvania to Greensburg, Pennsylvania and points in between. AP Statement No. 1, pp. 5-7.

17. These meetings occurred from April 8, 2009 through August 6, 2009. AP Statement No. 1, pp. 5-7.

18. No major issues or concerns with the plan were identified in the stakeholder process. AP Statement No. 1, p. 7.

C. Smart Meter Technology and Infrastructure Deployment

1. 450,000 Meter Plan (Company's Original Proposal)

1. Under Allegheny Power's original proposed SMIP, Smart Meter installations are proposed to begin in early 2010 and be completed by the end of 2014. AP Statement No. 2, p. 6.

2. After retention of a system integrator to support Company implementation efforts, detailed planning for Smart Meter trial installations to evaluate field technology must commence in early 2010, including detailed design of the Local Area Network ("LAN") and the Wide Area Network ("WAN"), which are types of communications networks. AP Statement No. 2, pp. 8-9.

3. Work must also commence on the Meter Data Management System ("MDMS"), the Enterprise Service Bus ("ESB") and the Customer Information System ("CIS"). AP Statement No. 2, pp. 8-9.

4. The ESB allows different portions of the smart meter system to effectively communicate with each other, while MDMS, among other things, is a "universal translator" that supports consumption measurement and various rate structures such as time of use, real time and critical peak pricing. SMIP, p. 48.

5. The new CIS system will allow implementation of required tasks in the areas of bill calculations and production, rates management, usage management, meter management, work management and customer account management. SMIP, p. 116.

6. Actual installation of Smart Meters is proposed to commence in 2010 with 90,000 Smart Meters deployed by the end of the year; another 310,000 Smart Meters deployed in 2011; and another 231,000 smart meters installed in 2012. AP Statement No. 2, p. 9.

7. This installation schedule through 2012 is intended to complement and implement the EE&C/DR Plan programs approved by the Commission that require the availability of Smart Meters. AP Statement No. 2, p. 10.

8. After 2012, the SMIP proposes continued installation of Smart Meters with 703,603 Smart Meters installed by the end of 2013, and deployment completed in 2014 with a total of 725,248 Smart Meters installed. AP Statement No. 3, p. 25.

9. The sequence of the proposed deployment is based on customer density. SMIP, p. 42.

10. Smart Meter deployment will focus first on areas of highest customer density, to ensure that the largest number of customers can be connected to the communications network as early as possible. SMIP, p. 42.

11. The Company's customer meter density map and SMIP Table 8, which classifies the Company's service territory in terms of concentrations of customers from above 500 per square mile to under 10 per square mile, illustrates how installation will move from higher concentrations of customers to lower concentrations, to bring the benefits of Smart Meters to the most customers as soon as possible. SMIP, Figure 4; SMIP, Table 8.

12. For the deployment of In Home Devices ("IHDs"), the Company considered both a "proactive inclusion" approach (distribution to all service territory customers unless they opt out of receiving one), and a "reactive inclusion" approach (distribution to only customers who request a device).

13. The term "IHD" when used by the Company includes three types of technologies: (1) the in-home display; (2) the programmable thermostat; and (3) the load control device. AP Statement No. 5-RJ, p. 9.

14. To maximize achievement of the Act 129 legislated energy and peak reduction targets, the Company opted for a proactive inclusion approach, with installation contractors installing the IHDs.

15. This non-discriminatory approach ensures all customers have access to their usage data and pricing information, even if they do not make use of the Internet and the associated Web Portal that the Company will establish for customers. SMIP, p. 44.

16. Programmable Communicating Thermostats ("PCTs") are necessary to implement the very important Commission approved PCT Program that is part of the EE&C/DR Plan.

17. These devices automate demand response through direct load control of central air conditioners for residential, small commercial and industrial and governmental/non-profit customers. SMIP, p. 21.

18. Smart metering and associated equipment will provide communications to the thermostat, providing direct load control, and customer response to energy prices can be either automated or manual. SMIP, p. 21.

19. The PCT-based demand response program targets 13 percent of residential customers. SMIP, p. 44.

20. Deployment of the Communications Network necessary to enable smart metering will start with meters in the highest density areas initially, where the greatest cost efficiency and EE&C/DR results are expected. SMIP, p. 46.

21. Back Office Systems and Customer Facing Systems must be upgraded to properly manage and process data flows from Smart Meters. SMIP, p. 48.

22. These systems, which have the capability to manage pricing information, include Automated Data Collection Systems ("ADCS"), CIS, MDMS, and an upgraded Outage Management System and Work Order Management System (which must be integrated with MDMS). AP Statement No. 3, pp. 23-25.

23. If the General Assembly had not passed Act 129, Allegheny Power would not be replacing its CIS at this point in time. AP Statement No. 3-R, p. 5.

24. The Customer Interface must also be deployed. This provides customers and third parties such as curtailment service providers ("CSPs") with access to Smart Meter information, which is necessary to change customer behavior. SMIP, p. 49.

25. In addition to accessing usage data via their IHD, in Allegheny power's view, customers and third parties will use the Internet and telephone to access usage information. Internet and telephone upgrades are therefore part of the SMIP, as well as Electronic Data Interface ("EDI") to provide authorized commercial operators such as CSPs access to smart meter data. SMIP, p. 49.

26. For accessing usage data by telephone, the Company will upgrade its existing Interactive Voice Response System ("IVR"). SMIP, p. 49.

27. To provide access to data via the Internet, the Company will implement a Web Portal system to provide customers, CSPs and other authorized parties access to usage data from Smart Meters. SMIP, p. 49.

28. Smart Meter usage data will be stored in the new MDMS system (which also manages communication to and from the smart meters) and acts as a new data "warehouse" that customers can access through the Web Portal or the IVR system. SMIP, p. 49.

29. Early in the project, the Company will install a new Identity Management System that will ensure that only recognized customers and authorized third parties, such as CSPs, can access Smart Meter usage data. SMIP, p. 49.

30. By February 2011, the Company hopes to have implemented its new CIS and integrated it with the MDMS, a Data Warehouse and with Web Portal, IVR and EDI access to Smart Meter usage data for customers and authorized third parties. AP Statement No. 3, p. 24.

2. Company 375,000 Meter Plan

1. Under the first alternative plan presented by the Company in the supplemental phase of this proceeding, approximately 375,000 Smart Meters would be deployed by mid-2012. AP Statement No. 1-SDT, p. 5.

2. Smart Meters would be provided to customers without their having elected to receive a Smart Meter or participate in a Smart Meter program. The overall deployment would begin in 2010 and continue through 2017 in a progressive and controlled manner. Smart Meters would also be installed for all customers requesting service for new construction. AP Statement No. 1-SDT, pp. 5-6.

3. This deployment option achieves the projected energy and demand savings under the EE&C/DR Plan and still achieves many of the procurement and deployment efficiencies projected in the original deployment plan. AP Statement No. 1-SDT, p. 5.

4. The 375,000 deployment plan targets 60,000 IHDs for only those customers that request one or to those customers for whom installation of an IHD is essential to participate in a relevant EE&C/DR program, including Residential Efficiency Rewards, Critical Peak Rebate, Time of Use with Critical Peak Pricing, Hourly Pricing Option, and Pay Ahead Smart Service. The 375,000 meter schedule also targets a deployment of approximately 30,000 PCTs to those customers that participate in the PCT demand response program. AP Statement No. 1-SDT, pp. 5-6.

5. The deployment of 375,000 meters is the minimum number of meters needed to obtain a sufficient level of customer participation in EE&C/DR programs and rate offerings for the Company to meet its Act 129 energy reduction requirements, and the 375,000 plan provides an acceptable level of risk in regards to achieving EE&C/DR Plan objectives. AP Statement No. 2-SDT, pp. 8-9.

6. With the exception of the deployment timetable, the other tasks and milestones required to be completed by the Company would be completed in the same order and timeframes as indicated in the original SMIP. This is because in order to have functional Smart Meters, the other tasks and milestones of the original SMIP still need to be completed during the initial deployment period, regardless of the number of Smart Meters deployed. AP Statement No. 1-SDT, p. 12.

7. The back office systems, either new or upgraded, necessary to enable Smart Meter technology under any alternative deployment schedule and cannot be partially installed in phases so that they are fully built over the same time it takes to deploy all the Smart Meters. AP Statement No. 1-SRT, pp. 5-11.

3. Company 100,000 Meter Plan

1. Under the second alternative deployment schedule proposed by the Company in the supplemental phase of this case, 100,000 Smart Meters would be deployed to residential, small C & I, and large C & I customers by mid-2012. AP Statement No. 1-SDT, p. 6.

2. The 100,000 deployment through 2012 is set up to support the approved EE&C/DR programs and to achieve the mandated energy and demand reduction goals of Act 129. To maximize customer participation, the opt-in deployment through 2012 would be targeted in higher customer density areas of the Company's service territory. Initially, the targeted areas would be in western Pennsylvania near Pittsburgh where customer density is greatest. AP Statement No. 1-SDT, pp. 7-8.

3. Smart Meters would be deployed to all 715,000 Company customers over a ten-year period. But, for the first 5-year period (through the end of 2014), Smart Meters would be deployed only to customers that request a Smart Meter, request to participate in a Smart Meter program or rate offering ("opt-in" customers), or to customers that request service due to new construction. AP Statement No. 1-SDT, p. 6.

4. For the second 5-year period (through the end of 2019), Smart Meters would be deployed on a planned and controlled basis to all remaining customers in the Company's service territory and to those that request service due to new construction. AP Statement No. 1-SDT, pp. 6-7.

5. The 100,000 deployment option targets 100,000 IHDs for only those customers that request an on or to those customers for whom installation of an IHD is essential to participate in a relevant EE&C/DR program including Residential Efficiency Rewards, Critical Peak Rebate, Time of Use with Critical Peak Pricing, Hourly Pricing Option, and Pay Ahead Smart Service. The 100,000 meter schedule also targets a deployment of 30,000 PCTs to those customers that participate in the PCT demand response program. AP Statement No. 1-SDT, p. 9.

6. Compared to Allegheny Power's original proposed Smart Meter deployment schedule and the 375,000 Plan, the 100,000 Plan adds risk to the Company's ability to obtain sufficient customer participation levels in EE&C/DR programs and rate offerings that are necessary to meet the Act 129 energy reduction goals. AP Statement No. 2-SDT, pp. 6-7.

7. With the exception of the deployment timetable, the other tasks and milestones required to be completed by the Company would be completed in the same order and timeframes as indicated in the original SMIP. This is because in order to have functional Smart Meters, the other tasks and milestones of the original SMIP still need to be completed during the initial deployment period, regardless of the number of Smart Meters deployed. AP Statement No. 1-SDT, p. 12.

8. The back office systems, either new or upgraded, necessary to enable Smart Meter technology under any alternative deployment schedule and cannot be partially installed in phases so that they are fully built over the same time it takes to deploy all the Smart Meters. AP Statement No. 1-SRT, pp. 5-11.

D. Smart Meter Capabilities

1. Act 129 and the Commission's Implementation Order establish capability requirements for Smart Meters.

2. Specifically, the Commission's Implementation Order outlines 14 Smart Meter capabilities that are required: (1) Bidirectional data communications capability; (2) Remote disconnection and reconnection; (3) Ability to provide 15-minute or shorter interval data to customers, EGSs, third-parties and the regional transmission organization ("RTO") on a daily basis, consistent with the data availability, transfer and security standards adopted by the RTO; (4) A minimum of hourly reads delivered at least once per day; (5) On-board meter storage of meter data that complies with nationally recognized non-proprietary standards such as ANSI C12.19 and C12.22 tables; (6) Open standards and protocols that comply with nationally recognized non-proprietary standards, such as IEEE 802.15.4; (7) Ability to upgrade these minimum capabilities as technology advances and becomes economically feasible; (8) Ability to monitor voltage at each meter and report data in a manner that allows EDC to react to the information; (9) Remote programming capability; (10) Communicate outages and restorations; (11) Ability to support net metering of customer-generators; (12) Support automatic load control by EDC, customer and third-parties, with customer consent; (13) Support time-of-use and real-time pricing programs and (14) Provide customer direct access to consumption and pricing information.

3. In the Implementation Order, the Commission designated the service limiting capability and the prepaid service capability as optional capabilities. As optional capabilities, an EDC cannot employ them unless approved by the Commission and unless they are consistent with the regulations governing such programs.

4. The Company's SMIP supports the provision of all 14 required Smart Meter capabilities. AP Statement No. 3-R, pp. 3-5.

5. In contrast, the Company's current systems, including its CIS, are not capable of supporting 13 of the 14 Smart Meter capability requirements. AP Statement No. 3-R, pp. 3-5.

6. And, the lone remaining capability – on-board meter storage of data – is not applicable because the functionality resides in the meters themselves not the system. AP Statement No. 3-R, p. 4.

7. The Company's Smart Meters will support remote disconnection and reconnection functionalities, as required by the Commission's Implementation Order. AP Statement No. 3-R, p. 3.

8. Allegheny power will use remote disconnection for voluntary disconnection of service only. AP Statement No. 8-R, p. 12.

9. A voluntary disconnection occurs when the customer requests disconnection such as when the customer is moving. In any event, if Allegheny Power pursues remote disconnection for nonpayment, it will not implement such a program without first conducting a pilot program and/or obtaining approval from the Commission. AP Statement No. 8-R, pp. 12-13.

10. Prior to using remote disconnection, the Company will review the process to ensure that a property is vacant and will obtain appropriate information from the customer to minimize the possibility of disconnections occurring in error. AP Statement No. 8-R, p. 13.

11. The Company's Smart Meters will support prepayment service, as permitted under the Commission's Implementation Order.

12. Participation in Allegheny Power's prepayment service program is completely voluntary on the customer's part. AP Statement No. 8-R, p. 14.

13. Allegheny Power's proposed pre-payment service program has already been approved by the Commission as part of its approval of Allegheny Power's EE&C/DR Plan.

E. Smart Meter Data Access, Security, and Privacy

1. The Company's SMIP complies fully with the Smart Meter and data access requirements of Act 129 and the Implementation Order.

2. Allegheny Power's SMIP affords customers and authorized third parties with direct but secure access to consumption and pricing information that will allow them

to better manage and conserve their energy with a concomitant opportunity to save money with their electric bills.

3. In particular, the Company's SMIP allows for direct but secure access to consumption and pricing information via IHDs, the IVR, or from the Internet via a Web Portal. Additionally, Allegheny Power will provide access via EDI transaction capability for authorized commercial entities. SMIP, pp. 82-85.

4. Allegheny Power will provide 15-minute data for any customer that desires it, on an hourly or daily basis for the previous 24-hour period. AP Statement No. 2-R, p. 7; SMIP, pp. 83, 111.

5. The Company supports providing monthly updates on the number of meters. However, the Company does not support providing validated aggregate customer consumption data, by customer class, for every hour of day. AP Statement No. 2-R, pp. 8-9.

6. Allegheny Power has designed its Smart Meter architecture to fully address security and privacy considerations. SMIP, pp. 86-91.

7. In developing its SMIP, Allegheny Power performed a thorough review of the state of technologies and standards for Smart Meter security and, the Company has incorporated the relevant technologies and standards into its SMIP.

8. Specifically, the SMIP will provide physical and software security at each point of vulnerability, and all Allegheny Power Smart Meter infrastructure components will meet or exceed industry and North American Electric Reliability Council Critical Infrastructure Protection ("NERC/CIP") requirements and will be adaptable. AP Statement No. 3-R, pp. 12-14.

9. Allegheny Power's SMIP fully complies with and makes full use of existing security standards, which are sufficiently developed to provide the necessary security to protect customer and Company data. AP Statement No. 3-R, pp. 12-14.

10. Evolving standards pose a low risk to the Company's SMIP because the standards are unlikely to replace products proposed in the SMIP. Nevertheless, Allegheny Power's SMIP is designed to allow for the incorporation of developing security standards, as deemed necessary. AP Statement No. 3-R, pp. 12-14.

11. Allegheny Power's SMIP fully complies with and makes full use of existing privacy standards from the NIST, which has documented principles for standards for several areas related to personally identifiable information. While the Company continues to monitor the development of standards in these areas, the Company's SMIP adequately addresses the areas of NIST concern over the protection of personally identifiable information. AP Statement No. 3-R, pp. 17-19.

12. And, as with cyber security standards, the Company's Smart Meter architecture is designed to be flexible and, where appropriate, take advantage of new products and standards that develop regarding privacy. AP Statement No. 3-R, pp. 19-21.

F. Costs and Benefits

1. Through 2014, total SMIP costs are projected to be $620 million, with the portion applicable to Pennsylvania being $580 million. AP Statement No. 4, p. 4.

2. This amount consists of approximately $444 million in capital expenditures, $111 million in operation and maintenance ("O&M") expenses and $24.6 million in depreciation expenses for existing meters, also included as O&M. AP Statement No. 5-R, p. 6.

3. The total Pennsylvania SMIP costs reflect only 48 percent of the total system revenue requirements for the CIS upgrades. The balance of such CIS-related costs is being allocated to service areas outside of Pennsylvania. AP Statement No. 5-R, pp. 4, 12.

4. The SMIP cost estimates are reasonable and prudent.

5. SMIP cost estimates were developed, based on sound informational technology architectural practices in combination with the Company's sound internal procurement policies and practices

6. In assembling cost information, Allegheny Power employed a three part process.

7. First, the Company developed a comprehensive cost estimate with the assistance of EDS, an HP Company that provided specific and detailed costs for smart metering and related infrastructure. AP Statement No. 4, pp. 4-5.

8. Second, the Company utilized the industry-recognized AMI model published by McKinsey & Company to reflect the costs specific to smart metering, related infrastructure and the associated benefits. AP Statement No. 4, pp. 4-5.

9. A comprehensive cost estimate was also prepared for the additional informational technology requirements necessary to support the deployment of Smart Meters. AP Statement No. 4, pp. 4-5.

10. As the third step of the cost estimate process, Allegheny Power reviewed a large number of candidate technologies and vendors. AP Statement No. 4, pp. 5-6.

11. Only products with major market presence and experience were consulted in preparing cost estimates. The candidates were not evaluated for final selection, but for

suitability and to obtain prices for estimating the total cost of the SMIP. AP Statement No. 4, pp. 5-6.

12. A formal procurement process open to qualified bidders will be employed to complete the design after Commission approval of the SMIP. AP Statement No. 4, pp. 5-6.

13. Only technologies and vendors that: (i) completely meet technical and business requirements, (ii) have compelling expertise and a proven track record and (iii) provide the most value added at a competitive cost will be selected. AP Statement No. 3. p. 31.

14. No party in the proceeding has submitted evidence specifically challenging the accuracy and reasonableness of the Company's cost estimates.

15. Nor has any party proposed an alternative estimate of costs for a SMIP that deploys Smart Meters on a basis comparable to the Company's proposal, and as effectively helps achieve the Act 129 energy and peak reductions.

16. Public interest and customer benefits resulting from the Company's SMIP implementation are numerous and significant.

17. In terms of customer benefits, the demand response that the SMIP will facilitate opens the door to lower prices for the Company's customers in the future. AP Statement No. 5, pp. 18-20.

18. With Smart Meters, customers will get information on their electricity usage that they have never had before and get it in a timely, accurate, and secure manner such that it acts as feedback to reinforce their energy management efforts. AP Statement No. 5, pp. 18-20.

19. Customers will have price and rate options that will stimulate them to be more efficient energy consumers. AP Statement No. 5, pp. 18-20.

20. Even where customers are not on time-differentiated rates, they may reduce their electricity usage by more than ten percent just as a result of being more informed and understanding better how and when they are using electricity. AP Statement No. 5, pp. 18-20.

21. Smart Meter technology will play a key role in the overall development of the "Smart Grid" and Advanced Metering Infrastructure ("AMI"). AP Statement No. 5, p. 8.

22. Smart Meters, feeding into a Smart Grid and an AMI, add value to utility customers and to society at large in the form of energy efficiency, fewer outages, more efficient utility operations and less carbon. AP Statement No. 5, pp. 7-21.

23. Demand response and its enabling technologies offer many different benefits in many different areas. AP Statement No. 5, pp. 18-20.

24. In terms of reliability, a reduction in peak electricity demand reduces the threat of outages. AP Statement No. 5, pp. 18-20.

25. In terms of electricity markets, demand response and smart metering technologies allow dynamic demand reductions to be deployed instead of resorting to additional power production, with the result being lower wholesale prices, which all customers pay one way or the other. Reductions in peak demand serve as a means of mitigating market power of suppliers, which can otherwise occur when demand increases unconstrained during peak periods due to consumers not paying prices anywhere near the cost of producing the electricity during that critical peak period. AP Statement No. 5, pp. 18-20.

26. In terms of addressing climate change and other environmental issues, demand response can make important contributions, including enhancement and reinforcement of customer energy efficiency, the generally accepted cornerstone of emission reduction policies. AP Statement No. 5, pp. 18-20.

27. Demand response technologies and practices will not only lead to greater energy efficiency, but also, to greater accountability of reductions, something that will be increasingly important under any policy, including those being promulgated by the current Obama Administration where emissions are constrained and reduction-based offsets are proposed to be monetized. AP Statement No. 5, pp. 18-20.

28. Indeed, the smart electricity meter envisioned in Allegheny Power's SMIP, may prove to be a "green" meter, as it helps improve overall energy efficiency and track energy savings. AP Statement No. 5, pp. 18-20.

29. In the case of NOx and ozone, demand response holds out the potential to be a dynamic emissions tool that can be used to reduce power plant productions (and emissions) precisely when they contribute the most to non-attainment. AP Statement No. 5, pp. 18-20.

30. In terms of quantifying customer benefits, the Company's SMIP will result in customer savings of $27 million in avoided capacity costs (by shaving off peak loads by about 3.2 percent by 2012); approximately $109-226 million of avoided capacity and energy costs as a result of IHDs, depending on the percentage reduction in annual energy consumption from the use of these devices; and, environmental benefits from CO_2 savings of between $13-50 million. AP Statement No. 6-R, pp. 7-16.

31. Furthermore, after adjusting for the rural character of the Company's territory and other readily ascertainable differences, the Company's SMIP has cost/benefit

attributes that are comparable to programs in other states. AP Statement Nos. 6-R, pp. 16-26; 6-RJ, pp. 8-9.

32. Allegheny Power's Smart Meter costs are generally comparable to the cost of Smart Meters specified or deployed by other utilities, especially when factoring the Company's telecommunications requirements and the rural and hilly terrain in its Pennsylvania service territory. AP Statement No. 5-R, pp 6-8.

33. In sum, in the short to medium term, SMIP benefits include, but are not limited to, reductions in carbon emissions, reductions in customer O&M costs, improvements in service reliability, and significant benefits in the form of energy savings, energy conservation and demand response. AP Statement No. 5-R, pp. 15-16.

G. Low-Income Impact

1. The SMIP will enable Allegheny Power customers, including low-income customers, to mitigate costs in three ways: (1) through offsetting benefits from participation in SMIP-related programs; (2) through participation in the relevant financial assistance programs and (3) through the proposed variable rate design.

2. The SMIP will enable Allegheny Power customers, including low-income customers, to mitigate SMIP costs, first, through savings on their electric bills resulting from participation in SMIP-related programs and rate offerings. AP Statement No. 8-R, pp. 4-5.

3. The fundamental purpose of the SMIP is to provide all customers with timely access to their energy usage and price information, which will allow customers, including low-income customers, to take control of and manage energy usage with a concomitant opportunity to save money. AP Statement No. 8-R, pp. 4-5.

4. Indeed, the energy savings benefits from the SMIP will offset most or all of the SMIP surcharge cost for residential customers, including low-income customers. AP Statement No. 5-RJ, p. 6.

5. Typical results with the programs of the nature in the SMIP show an average energy savings of 15 percent. AP Statement No. 5-RJ, p. 6.

6. Assuming an average residential customer bill of $100 and an average consumption of 1,000 kWh on the Company's current default rate, a 15 percent reduction in usage across Allegheny Power's service territory would produce an average savings of $15.00 per customer. AP Statement No. 5-RJ, p. 6.

7. Consequently, a $15.00 per month savings would offset 95 percent of the SMIP surcharge cost for that customer, even at its highest proposed level of $15.77. AP Statement No. 5-RJ, p. 6.

8. This analysis is fully applicable to low-income customers, given that the average monthly usage of an Allegheny Power low-income customer is just shy of 1,000 kWh per month and is comparable to the monthly usage of the Company's other residential customers. AP Statement No. 8-RJ, p. 3.

9. And, the $15.00 per month savings amount is conservative, as it does not account for participation in the Company's Commission-approved EE&C and DR programs and rate offerings, which would provide for even more cost savings for low-income customers. AP Statement No. 5-RJ, p. 6.

10. These programs include Programmable Controllable Thermostat Program, Residential Efficiency Rate, Pay Ahead Smart Service Rate, Time of Use with Critical Peak Pricing Rate and Hourly Pricing Option. AP Statement No. 8-R, pp. 5-6.

11. Allegheny Power's low-income customers are not exclusively low-usage customers, and low-income customers will take advantage of opportunities to conserve energy.

12. This is evident with the average annual electric usage of low-income customers participating in the Company's Low Income Usage Reduction Program ("LIURP"), which is 11,558 kWh per year and is comparable to that of the Company's other residential customers. AP Statement No. 8-RJ, p. 3.

13. This is evident with the total annual kWh savings of low-income customers participating in the Company's LIURP Program, which has increased from 1,125 average kWh savings in 2006 to 3,147 kWh savings in 2008. AP Statement No. 8-RJ, pp. 3-4.

14. A comparison of Allegheny Power's rates to those of the other EDCs in Pennsylvania and the Commission's own low-income-related data support that Allegheny Power's low-income customers will not be overwhelmed by SMIP costs.

15. Allegheny Power's residential electric charges are significantly below a straight average of electric utility residential service charges in Pennsylvania from 2006-present. Consequently, customers, including low-income customers, have benefited for years from the Company's historically low rates. AP Statement No. 4-R, pp. 12-13.

16. And, the Commission's 2008 Bureau of Consumer Services ("BCS") Report on Universal Service Programs and Collections Performance shows that of all the major EDCs in Pennsylvania, Allegheny Power has the fewest low-income customers with the lowest arrears. AP Statement No. 8-R, pp. 6-8.

17. Besides the opportunity to conserve and offset SMIP costs, Allegheny Power's low-income customers also can seek financial assistance through the Company's Customer Assistance Program ("CAP") and other low-income assistance programs outlined in Exhibit RS-3.

18. Allegheny Power has committed during the SMIP surcharge collection period to maintaining its history of working with low-income customers to meet their payment needs. AP Statement No. 8-R, p. 6; AP Statement No. 8-RJ, p. 5.

19. The Company monitors on a monthly basis CAP enrollment numbers, confirmed low-income arrears, all residential arrearages based on 30, 60, 90, and 120 days in arrears, and the number of service terminations. AP Statement No. 8-RJ, p. 5.

20. Allegheny Power does not have a limit on the number of eligible customers that can enroll in CAP and is committed to providing the necessary assistance, if the Company's monitoring efforts show that such additional assistance is necessary. AP Statement No. 8-RJ, p. 5.

21. CAP and LIRUP funding is currently adequate to address any future low-income assistance needs that may result from the SMIP. AP Statement No. 8-RJ, pp. 4-6.

22. The SMIP surcharge will not adversely impact customers who are enrolled in CAP at the time the SMIP surcharge is implemented. AP Statement No. 8-RJ, p. 5.

23. This is because the monthly payment of a CAP customer is based on a percentage of the customer's household income and thus, absent a demonstrated ability to afford any increase based on a change in household income, a CAP customer's monthly bill will be unaffected by the SMIP surcharge. AP Statement No. 8-RJ, p. 5.

24. And, for any Allegheny Power customers who become payment troubled as a result of the SMIP or for some other reason, Allegheny Power has committed to monitor the situation and will provide additional low-income assistance, as-needed. AP Statement No. 8-RJ, p. 5.

25. The third aspect of the SMIP that will serve to mitigate the customer bill impact is the proposed variable rate design.

26. Under this proposal, the SMIP surcharge will be comprised of a 21 percent fixed customer charge and a 79 percent volumetric energy charge. AP Statement No. 4-R, pp. 10-11.

27. The variable rate design will mitigate the cost impact with lower usage customers by virtue of the fact that the less a residential customer uses, the lower the volumetric energy charge and, ultimately, the lower the SMIP surcharge will be.

H. Cost Allocation and Rate Design

1. 450,000 Plan (Company's Original Proposal)

1. Allegheny Power seeks to recover SMIP costs on a full and current basis via a separately stated non-bypassable line-item bill surcharge entitled "SMT Surcharge." AP Statement No. 4, pp. 7-8.

2. The SMT Surcharge will be reconciled annually in accordance with Code Section 1307. AP Statement No. 4, pp. 7-8.

3. Allegheny Power proposes to allocate SMIP costs to the various customer classes based upon costs specific to a customer class and general costs that are allocated across multiple customer classes. AP Statement No. 4, pp. 10-11.

4. Where possible, the Company proposes to directly assign the revenue requirement specific to a particular customer class to that customer class. AP Statement No. 4, p. 11.

5. This direct assignment includes meter costs. AP Statement No. 4-R, p. 14.

6. Regarding common costs not related to the CIS replacement, the Company proposed to allocate them between the Residential and Non-Residential class, based on the number of customer connections, while CIS cost were proposed to be allocated among the three customer classes also based on the number of customer connections. AP Statement No. 4, p. 11.

7. The Company proposes to allocate SMIP costs among four customer classes: (i) Residential; (ii) Small Commercial and Industrial; (iii) Medium and Large Commercial and Industrial; and (iv) Street Lighting. AP Statement No. 4-R, pp. 6-8.

8. The Company did not use a Cost of Service ("COS") study to allocate SMIP costs, which are future costs.

9. Nor did it use a COS study for rate design purposes.

10. A COS Study is used to identify existing costs using a historical period but is not used to determine regulatory treatment of future costs. AP Statement No. 4-RJ, pp. 12-13.

11. Consequently, SMIP costs would not be reflected in a COS Study, and a COS Study would not provide any additional value to the Company's cost allocation or rate design with its SMIP. AP Statement No. 4-RJ, pp. 12-13.

12. In allocating costs and with its rate design, the Company did consider customer bill impacts, as evidenced by its proposed variable rate design and its proposed alternative regarding the number of customer classes to which SMIP costs are to be allocated.

13. And, Allegheny Power's historically low rates need to be considered as part of the equation on customer bill impacts, which further supports that the allocation of SMIP costs to residential customers is reasonable. AP Statement No. 4-R, pp. 12-13.

14. The Company's cost allocation properly reflects SMIP benefits.

15. SMIP costs and benefits are non-volumetric in nature, regardless of how SMIP costs are actually being recovered (i.e., a fixed charge versus a variable rate). AP Statement No. 4-R, p. 20.

16. As non-volumetric, SMIP benefits do not change with changes in energy consumption, and the energy and demand savings that are alleged to not be properly reflected in the Company's cost allocation will flow directly to customers who reduce consumption and indirectly to all customers in the form of lower generation service costs. AP Statement No. 4-R, p. 20.

17. SMIP Network and IT costs are allocated entirely to Pennsylvania because these systems will be used exclusively for the benefit of Pennsylvania customers. AP Statement No. 4-RJ, pp 11-12.

18. These systems provide no additional benefit to MD or WV customers and therefore, the Company was correct to allocate these costs to Pennsylvania only. AP Statement No. 4-RJ, pp 11-12.

19. In contrast, Allegheny Power was correct to allocate a portion of the CIS replacement costs to MD and WV customers because CIS is a billing system that will be used by Allegheny Power's sister operating companies in those areas. AP Statement No. 4-RJ, pp 11-12.

20. Allegheny Power has proposed an alternative rate design where the SMT Surcharge is a combination of a fixed customer charge and a volumetric energy charge for residential customers. AP Statement No. 4-R, pp. 10-11.

21. Specifically, the Company proposed in rebuttal testimony to collect from residential customers 21 percent of SMIP costs as a fixed customer charge and 79 percent as a volumetric charge. AP Statement No. 4-R, p. 10.

22. This 21/79 percent split is the existing proportional split between the residential distribution fixed charge and volumetric charge. AP Statement No. 4-R, p. 10.

2. 375,000 and 100,000 Meter Plans

1. Under the Company's alternative plans, IHD costs are not collected through the SMT surcharge. Rather, they are collected through the dynamic rate offerings Allegheny Power will be filing with the Commission by mid-2010, as outlined in the approved EE&C/DR filing. Since IHDs would only go to customers on an opt-in basis, customers who do not opt-in will not have any IHD related cost responsibility. AP Statement No. 3-SDT, p. 10.

2. Also, the IHD charge also includes the costs of PCTs in the same charge. AP Statement No. 3-SRT, p. 7.

3. As an example of the SMT Surcharge reduction the alternative plans achieve under the 375,000 Plan (for the period June 2011 through May 2012), the original plan monthly surcharge for residential customers with Smart Meters would decline from $14.34 to $11.16 if the customer elected not to request an IHD. AP Statement No. 3-SDT; Exhibit REV-1, pp. 1, 3.

4. Regardless of whether one Smart Meter or 450,000 smart meters are deployed, tasks associated with the smart meter solution architecture areas of In Home Technologies, Communications Network, Back Office Systems, Customer Interface and Systems Management and Security are still required for a functional smart meter solution. Deleting CIS and all back office systems from the surcharge prevents the Company from meeting the requirements of Act 129. AP Statement No. 1-SRT, pp. 11-12.

5. CIS costs are appropriately allocated to Allegheny Power's sister companies in other jurisdictions, since CIS is a billing system that is, and continues to be, used by all Allegheny Power regulated utility companies. AP Statement No. 3-SRT, p. 7.

6. Other back office systems are only allocated to Pennsylvania since these new costs are necessary to implement the SMIP and are unique to Pennsylvania. However, the Company continues to agree that if Smart Meter technology begins in other jurisdictions, the back office costs should be allocated to other jurisdictions. Allegheny Power Statement No. 3-SRT, p. 7.

7. Allegheny Power's rural, hilly terrain presents particular communications architecture and engineering challenges where it is more costly for the Company to establish a highly reliable communications network. This holds true, regardless of the number of meters deployed. AP Statement No. 1-SRT, p. 5.

I. Revenue Requirement

1. 450,000 Meter Plan (Company Original Proposal)

1. The SMT Surcharge is designed to collect a revenue requirement consisting of a return of and on capital costs, based on the Company's pre-tax cost of capital; forecasted incremental O&M costs as incurred, which are offset by forecasted savings associated with deployment of the Company's proposed SMIP; and costs associated with depreciation of the Company's existing meters. AP Statement No. 4, p. 8.

2. The rate of return on common equity compensates shareholders for the use of their capital to finance the plant and equipment necessary to provide utility service. AP Statement No. 7-R, p. 5.

3. Investors commit capital only if they expect to earn a return on their investment commensurate with returns available from alternative investments with comparable risks. AP Statement No. 7-R, p. 5.

4. The requested return for purposes of the SMT Surcharge incorporates the weighted effect of debt and equity, and a return on equity ("ROE") of 11.5 percent from the Company's last authorized ROE in Docket No. R-942986. AP Statement No. 4, p. 9.

5. The Company proposes to update its allowed return to be representative of financing costs on a going-forward basis. AP Statement No. 4, p. 8.

6. An 11.5 percent ROE represents a conservative estimate of investors' required rate of return for the Company, based on recent analyses using data contemporaneous with the filing of the Company's SMIP. AP Statement No. 7-R; 7-RJ, Exhibit WEA-1.

7. An 11.5 percent ROE was derived from an analyses conducted on behalf of Allegheny Energy's other two operating utilities (Monongahela Power Company or "MPC", and The Potomic Edison Company or "PE") in a September 2009 proceeding before the West Virginia Public Service Commission ("West Virginia Testimony"). AP Statement No. 7-R; 7-RJ, Exhibit WEA-2.

8. Like the Company, both MPC and PE are electric utilities owned by Allegheny Energy and, as wholly-owned subsidiaries, all three operating companies obtain common equity capital solely from their parent. AP Statement No. 7-R, pp. 8-9.

9. As a result, investors' required rate of return for MPC and PE provides a direct guide to a fair ROE for the Company. Moreover, the analyses and conclusions contained in the West Virginia Testimony were prepared contemporaneously with the filing of the Company's SMIP, and are representative of current capital market conditions. AP Statement No. 7-R, pp. 8-9.

10. Like MPC and PE, the Company is currently assigned a corporate credit rating of "BBB-" by Standard & Poor's Corporation ("S&P") and a long term rating of "Baa3" by Moody's Investor Services, Inc. ("Moody's"). Similarly, Fitch Ratings Ltd. ("Fitch") has assigned an issuer default rating of "BBB-" to all three companies. These long-term issuer ratings assigned by S&P, Moody's, and Fitch represent the lowest rung on the ladder of the investment grade scale. AP Statement No. 7-R, pp. 8-9.

11. The fact that the credit ratings are identical for all three of these utilities provides objective evidence that the ROE analyses and conclusions presented in the West Virginia Testimony are directly applicable to the Company's SMIP and SMT Surcharge. AP Statement No. 7-R, pp. 8-9.

12. Unfavorable capital market conditions can pose significant challenges with respect to a utility's ability to raise capital on reasonable terms. AP Statement No. 7-R, pp. 10-11.

13. For the Company, these concerns are magnified by the fact that its credit standing remains relatively weak. AP Statement No. 7-R, pp. 10-11.

14. In a recent report by S&P ranking U.S. regulated utilities from strongest to weakest, the Company ranked 153 out of the total 178 companies with investment grade credit ratings. In other words, only 25 companies in the utility industry with investment grade ratings have a weaker credit profile. AP Statement No. 7-R, pp. 10-11.

15. Because the Company's ratings are at the very bottom of the investment grade barrel, there is no backstop in the event of renewed turmoil in the capital markets and reduced flexibility to respond to other challenges, such as a continuation of poor economic conditions or increased capital outlays. AP Statement No. 7-R, pp. 8-9.

16. Moreover, the negative impact of declining credit quality on a utility's capital costs and financial flexibility becomes more pronounced as debt ratings move down the scale from investment to non-investment grade. AP Statement No. 7-R, pp. 11-12.

17. With the Company's credit ratings poised on the precipice between investment grade and junk bond status, the stakes associated with an inadequate rate of return are increased dramatically. In turn, the need for supportive regulation and an adequate ROE may never have been greater. AP Statement No. 7-R, pp. 11-12.

18. The Company's ROE should not be based on Quarterly Earnings Reports

19. While periodic monitoring reports, such as the Quarterly Earnings Report, may provide regulators and other stakeholders with a limited snapshot of certain financial measures, this information does not substitute for a detailed evaluation of the risks and required returns specific to the Company and other risk-comparable companies.

20. Moreover, there are considerable limitations associated with the formulistic approach that is inherent to calculations such as those published in the Quarterly Earnings Report, versus the type of in-depth analyses underlying the Company's ROE request.

21. In fact, the Commission has recognized the considerable limitations associated with the data contained in the Quarterly Earnings Reports, and the dangers of extrapolating this information beyond the boundaries of an informational filing.

22. Applying a ROE of 10.1 percent would result in an inconsistency where two portions of the Company's rate base have two different ROEs.

23. Using another Pennsylvania utility's ROE and applying to Allegheny Power for purposes of SMIP cost recovery is inappropriate because it does not take into account Allegheny Power's financial risks and capital structure.

24. SMIP forecasted capital costs will be depreciated/amortized over the estimated useful book lives of the investment. AP Statement No. 4, pp. 8-9.

25. The estimated useful tax lives are used to determine accumulated deferred income taxes, which is an adjustment to the revenue requirement. AP Statement No. 4, pp. 8-9.

26. The book and tax depreciation lives are based upon input from external sources and internal/external subject matter experts, and are provided below:

Asset Type	Book Life	Tax Life
In Home Technologies	5 years	10 years
Smart Meters	10 years	10 years
Hardware	5 years	5 years
Software (without CIS)	5 years	3 years
Software (with CIS)	7 years	3 years

AP Statement No. 4, pp. 8-9.

27. It is important to note that the United States Internal Revenue Service has set the depreciable tax life of smart electric meters at 10-years.

28. If the Smart Meters last only ten years but are depreciated over fifteen years, the Company would end up with an unrecovered amount of plant that would need

to be recovered over a different time period than the period during which the assets rendered service. AP Statement No. 4-R, pp. 16-17.

29. Allowance-For-Funds-Used-During-Construction ("AFUDC") will be accrued at the Company's post-tax cost of capital when a capital cost occurs prior to its in-service date. AP Statement No. 4, pp. 8-9.

30. Since the Company intends to replace its existing metering over a 5-year period with smart meters, the Company will increase its depreciation expense to a level that will allow it to fully depreciate its existing metering plant over a five-year period from April 2010 through March 2015. AP Statement No. 4, p. 10.

29. This period is similar to the period over which the Company intends to replace its existing metering with Smart Meters and avoids stranding the recovery of its existing metering investment. AP Statement No. 4, p. 10.

31. The Company will recover the additional depreciation expense, which is the amount in excess of the current level, through the SMT Surcharge until such time when the Company files a base rate case with the Commission and new retail base rates are approved. AP Statement No. 4, p. 10.

32. Once new retail base rates go into effect, the Company will roll the additional depreciation expense into its base rates. AP Statement No. 4, p. 10.

33. The Company will use the actual capital structure for purposes of determining the return related to the SMT Surcharge.

34. The Company's reconciliation mechanism will determine *actual* costs incurred through the designated twelve month reconciliation period, which will include *actual* O&M costs and a capital revenue requirement to reflect *actual* capital costs—that is, the most recently available pre-tax cost of capital (which includes use of the current debt costs and preferred stock costs recommended by the OTS), and any changes or updates to depreciation and accumulated deferred income taxes. AP Statement No. 4-R, p. 23.

2. Company 375,000 Meter and 100,000 Meter Plans

1. The Company is willing to accept for purposes of its alternative plans a return on equity of 10.5%, which result in a lower SMT Surcharge. The Company has offered to use a 10.5% return on equity since this value matches the return on equity in PECO Energy Company's Joint Petition for Partial Settlement at Docket No. M-2009-2123944. AP Statement No. 3-SDT, pp. 6-7.

2. For purposes of offering an alternative to the Company's original SMIP, the Company has proposed to extend the book lives of the majority of the assets as follows:

Asset Type	Alternative Book Life	Difference from Original Filing
In Home Technologies	10 years	Additional 5 years
Smart Meters	15 years	Additional 5 years
Hardware	5 years	No change
Software (without CIS)	10 years	Additional 5 years
Software (with CIS)	10 years	Additional 3 years

3. Compared to the original filing, under the alternative the book lives for all capital assets would be extended from three to five years, with the exception of hardware-related capital assets. AP Statement No. 3-SDT, p. 5.

4. Since book lives are integral to the calculation of the capital cost impact to the SMT Surcharge, an extension of the book lives would result in a surcharge that is lower in magnitude as compared to the originally filed SMT Surcharge rates. AP Statement No. 3-SDT, pp. 5-6.

J. Interest

1. The Company's surcharge recovery mechanism will not include a provision for interest on over collections or under collections of its "SMT Surcharge."

2. Over collections of the SMT Surcharge will be credited against the next period's recovery, while under collections would result in an increase in the surcharge in the next period.

3. The Company will not receive interest on top of under collections, nor will customers receive interest on refunds of over collections.

4. Allegheny Power's position is consistent with the Commission's Order approving the Company's EE&C Plan, which held that over and under collections with the EE&C Surcharge would not bear interest in their recovery or refund.

K. Deferral

1. The Company will use deferral accounting appropriately, when its SMT Surcharge recovery varies from the costs actually incurred.

L. Cost Recovery Mechanism Review Process

1. Allegheny Power agrees to a uniform twelve month reconciliation period ending on June 30 of each year.

2. Based on the establishment of this reconciliation period, the annual filing would occur on or before August 1, with the first filing to occur by August 1, 2011. The recommended procedural schedule would include hearings to be held by October 1, followed by the Commission's Order to be issued on or before December 1, with a tariff effective date of January 1 of the following year.

3. Allegheny Power agrees to submit quarterly SMT rate update reports that include calculations for its upcoming quarterly projected SMT recoverable costs and rider revenues, allowing for quarterly rider rate adjustments.

II. Proposed Conclusions of Law

1. The Commission has jurisdiction over the Petition that is the subject of this proceeding, pursuant to 66 Pa.C.S. § 2807.

2. Pursuant to 66 Pa.C.S. § 332(a), the burden of proof in this proceeding is upon the Petitioner West Penn Power Company.

3. West Penn Power Company d/b/a Allegheny Power's Smart Meter Technology Procurement and Installation Plan complies with the Smart Meter capability requirements in Act 129 and the Commission's Implementation Order at Docket No. Docket No. M-2009-2092655.

4. West Penn Power Company d/b/a Allegheny Power's Smart Meter Technology Procurement and Installation Plan complies with the Smart Meter access, security, and privacy requirements in Act 129 and the Commission's Implementation Order issued at Docket No. M-2009-2092655.

5. The proposed deployment schedules associated with West Penn Power Company d/b/a Allegheny Power Smart Meter Technology Procurement and Installation Plan calling for the deployment of 450,000 Smart Meters by mid-2012 do not conflict with Act 129 or the Commission's Implementation Order issued at Docket No. M-2009-2092655 and are otherwise prudent and reasonable.

6. The costs associated with West Penn Power Company d/b/a Allegheny Power Smart Meter Technology Procurement and Installation Plan are prudent and reasonable.

7. West Penn Power Company d/b/a Allegheny Power SMT Surcharge associated with its Smart Meter Technology Procurement and Installation Plan recovers the relevant costs on a full and current basis and is otherwise reasonable and prudent.

III. Proposed Ordering Paragraphs

THEREFORE;

IT IS ORDERED:

1. That the Petition of West Penn Power Company d/b/a Allegheny Power for Approval of its Smart Meter Technology Procurement and Installation Plan, as originally proposed in this proceeding, is granted consistent with this Opinion and Order.

2. That West Penn Power Company d/b/a Allegheny Power's Energy Smart Meter Technology Procurement and Installation Plan, as originally proposed in this proceeding, is approved by this Opinion and Order.

3. That West Penn Power Company d/b/a Allegheny Power be permitted to implement its Smart Meter Technology Procurement and Installation Plan approved by this Opinion and Order.

4. That the Petition of West Penn Power Company d/b/a Allegheny Power for Approval of Recovery of its Smart Meter Costs through a Reconcilable Adjustment Clause entitled "SMT Surcharge" is granted consistent with this Opinion and Order.

5. That West Penn Power Company d/b/a Allegheny Power's SMT Surcharge is approved by this Opinion and Order.

6. That West Penn Power Company d/b/a Allegheny Power be permitted to implement its SMT Surcharge approved by this Opinion and Order.

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 And Installation Plan	: : : :	Docket No. M-2009-2123951

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing documents in accordance with the requirements of 52 Pa. Code § 1.54 et seq. (relating to service by a participant).

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Date: March 26, 2010

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