

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF SMALL BUSINESS ADVOCATE

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March 26, 2010

**HAND DELIVERED**

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

**Re: 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**

Dear Secretary McNulty:

I am delivering for filing today the original plus nine copies of the Supplemental Brief, on behalf of the Office of Small Business Advocate, in the above-captioned proceeding.

Two copies have been served today on all known parties in this proceeding. A Certificate of Service to that effect is enclosed.

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

Sincerely,

A handwritten signature in cursive script that reads "Lauren M. Lepkoski".

Lauren M. Lepkoski  
Assistant Small Business Advocate  
Attorney ID No. 94800

Enclosures

cc: Parties of Record  
  
Robert D. Knecht

SECRETARY'S BUREAU  
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**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 : DOCKET NO. M-2009-2123951  
and Installation Plan :**

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**SUPPLEMENTAL BRIEF  
ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE**

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**Dated: March 26, 2010**

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I. **INTRODUCTION**

Each electric distribution company (“EDC”) with at least 100,000 customers was required to file a smart meter technology procurement and installation plan (“SMIP”) with the Pennsylvania Public Utility Commission (“Commission”) pursuant to Act 129 of 2008. West Penn Power Company d/b/a Allegheny Power (“Allegheny Power,” “West Penn,” or “the Company”) filed its SMIP on August 14, 2009.

## II. PROCEDURAL HISTORY

On August 14, 2009, Allegheny Power filed its SMIP and a Petition for Expedited Approval of its SMIP (“Petition”). In its Petition, Allegheny Power requested two expedited schedules. First, Allegheny Power requested that a Final Commission Order be entered on January 29, 2010, regarding its entire SMIP.<sup>1</sup> Second, Allegheny Power requested that the Commission enter a Final Order approving the “initial phase” of the Company’s SMIP activities and expenditures on an unspecified date in 2009.<sup>2</sup>

The Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and Public Statement on September 25, 2009. Other parties to this proceeding include the Commission’s Office of Trial Staff (“OTS”); the Office of Consumer Advocate (“OCA”); the West Penn Power Industrial Intervenors (“WPPII”); the Commonwealth of Pennsylvania, Department of Environmental Protection (“DEP”); Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively, “Constellation”); and the Pennsylvania Association of Community Organizations for Reform Now (“ACORN”).

On September 28, 2009, Allegheny Power included an expedited proposed procedural schedule in its pre-hearing memorandum submitted to Administrative Law Judge (“ALJ”) Mark A. Hoyer and the other parties.

At the prehearing conference held on September 30, 2009, ALJ Hoyer denied Allegheny Power’s proposed expedited procedural schedule.

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<sup>1</sup> Petition, at 10.

<sup>2</sup> *Id.*, at 11-14.

On September 30, 2009, Allegheny Power filed a Petition for Interlocutory Review and Answer to a Material Question (“Petition for Interlocutory Review”). Specifically, Allegheny Power requested that the Commission review “whether the ALJ’s decision to deny Allegheny Power’s proposed procedural schedules was lawful and appropriate, given the demonstrated need for a phased and expedited review and approval of the Company’s SMIP.”<sup>3</sup> On October 13, 2009, Allegheny Power filed a brief in support of the Petition for Interlocutory Review and the OCA, the OSBA, and the DEP filed briefs in opposition. On October 22, 2009, the Commission denied Allegheny Power’s Petition for Interlocutory Review.

In accordance with the Commission’s prior notice, a technical conference was held on October 5, 2009, in Harrisburg before ALJ Kandace F. Melillo.

The OSBA filed the Direct Testimony of its witness, Robert D. Knecht, on October 16, 2009. The OSBA filed the Surrebuttal Testimony of Mr. Knecht on November 3, 2009.

An evidentiary hearing took place on November 9, 2009, at which the parties submitted their testimony for the record. ALJ Hoyer admitted the testimony and exhibits into the record.

On November 24, 2009, ALJ Hoyer issued Interim Order #1, modifying the litigation schedule and admitting into evidence Allegheny Power Exhibit No. 6, stipulation of facts (executed by Allegheny Power and the OCA).

On December 17, 2009, Allegheny Power filed a Motion to Reopen the Evidentiary Record. On December 18, 2009, Allegheny Power filed a letter seeking to

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<sup>3</sup> Petition for Interlocutory Review, at 2, para. 7.

withdraw the Motion to Reopen the Evidentiary Record. On December 18, 2009, Allegheny Power filed a Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record.

On December 18, 2009, the OSBA filed its Main Brief pursuant to the procedural schedule set forth in Interim Order #1. The OSBA's Main Brief addressed the issues of revenue requirement, in-home displays for the non-residential class (both single and three-phase), cost allocation, and cost recovery.

The Commission issued a Secretarial Letter on December 23, 2009, that directed the parties to file answers to Allegheny Power's Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record by January 4, 2010.

On January 4, 2010, the OCA, the OTS, the OSBA, and ACORN filed answers.

On January 5, 2010, the OSBA filed its Reply Brief. The Reply Brief responded to arguments raised in the Main Briefs of the OCA, the Company, and WPPII.

The Commission issued a Secretarial Letter on January 13, 2010, that waived the Implementation Order's requirement that an Initial Decision be rendered in this matter on or before January 29, 2010. The remaining issues in Allegheny Power's Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record were remanded to the ALJ for disposition. Those remaining issues included, but were not limited to, developing a procedural schedule and scope of the issues to be addressed in the reopening of the evidentiary record.

A further prehearing conference was held on January 26, 2010. At the prehearing conference, the parties agreed that two issues raised in the Company's original filing, *i.e.*, cost allocation and rate design, would not be re-litigated through the

supplemental testimony and briefs. Instead, the ALJ was to decide those issues on the briefs already submitted by the parties. The supplemental testimony and briefs would address only the alternative deployment schedules the Company proposed.<sup>4</sup>

ALJ Hoyer issued a Further Prehearing Order on January 26, 2010.

On January 29, 2010, Allegheny Power filed its Supplemental Direct Testimony.

On March 2, 2010, the OSBA filed the Supplemental Direct Testimony of Mr. Knecht. Also on March 2, 2010, the OCA filed its Supplemental Direct Testimony.

On March 12, 2010, the Company filed its Supplemental Rebuttal Testimony. Also on March 12, 2010, the OSBA filed the Supplemental Rebuttal Testimony of Mr. Knecht.

On March 16, 2010, a further evidentiary hearing was held at which the parties submitted their supplemental testimony for the record. The OSBA and the OCA also submitted a Joint Stipulation for the record. ALJ Hoyer admitted the Joint Stipulation, and the testimony and exhibits into the record.

This Supplemental Brief is being filed in accordance with the Further Prehearing Order issued on January 26, 2010, and to respond to the Company's Supplemental Direct and Rebuttal Testimony.

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<sup>4</sup> Hearing Transcript at 319 and 322-323.

### **III. DESCRIPTION OF ALTERNATIVE PLANS**

In its case-in-chief, Allegheny Power proposed to deploy smart meters across its service territory over a five-year period. Specifically, Allegheny Power proposed to deploy approximately 450,000 smart meters starting in 2010 and continuing through mid-2012. The remaining 275,000 smart meters would be deployed from mid-2012 through the end of 2014. Under Allegheny Power's original deployment schedule, all customers would receive in-home displays.<sup>5</sup>

In Allegheny Power's Supplemental Direct Testimony, Allegheny Power proposed two alternative deployment schedules. The first alternative deployment schedule would reduce the deployment of smart meters and in-home displays to 375,000 by mid-2012.<sup>6</sup> Under this deployment schedule, smart meters and in-home displays would be provided to customers without their having elected to receive smart meters or to participate in a smart meter program or rate offering.<sup>7</sup> Allegheny Power would begin deployment in 2010 and continue deployment through 2017.<sup>8</sup>

The second alternative deployment schedule Allegheny Power would deploy 100,000 meters to residential, small commercial and industrial ("Small C&I") and large commercial and industrial ("Large C&I") customers by mid-2012.<sup>9</sup> Under Allegheny

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<sup>5</sup> AP Statement No. 1-SDT, at 4.

<sup>6</sup> AP Statement No. 1-SDT, at 5.

<sup>7</sup> *Id.*

<sup>8</sup> Allegheny Power would also target 60,000 in-home displays to customers who requested them and to those customers who are required to have in-home displays to participate in Allegheny Power's Energy Efficiency & Conservation ("EE&C") Programs; target a deployment of 30,000 programmable communicating thermostats ("PCTs") to those customers participating in the PCT demand response program; and install smart meters for all customers requesting service for new construction. *See* AP Statement No. 1-SDT, at 5-6.

<sup>9</sup> AP Statement No. 1-SDT, at 6.

Power's 100,000 smart meter deployment schedule, the Company would deploy smart meters across its service territory over a ten-year period.<sup>10</sup> From 2010 through the end of 2014, smart meters would be deployed only to customers who requested a smart meter, requested to participate in a smart meter program or rate offering, or requested service due to new construction.<sup>11</sup> From 2015 through 2019, Allegheny Power would deploy smart meters to the remaining customers in its service territory.<sup>12</sup>

Under the alternative deployment plans, Allegheny Power proposed an alternative two-tiered approach for its Smart Meter Technology ("SMT") Surcharge.<sup>13</sup> The first tier costs (which are costs that include items such as infrastructure, communications, and related electric distribution system upgrades needed to enable smart meter technology) 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.<sup>14</sup> The second tier costs (the costs of the smart meter itself) would be collected from only those customers who have a smart meter.<sup>15</sup> The second tier would be differentiated by costs associated with residential, non-residential single-phase, and non-residential three-phase meters.<sup>16</sup>

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<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> AP Statement No. 3 SDT, at 9.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> Allegheny Power also proposed to collect the in-home display costs in a monthly charge for each customer who chooses to have an in-home display installed. The monthly charge would go into effect when the in-home display is installed. *See* AP Statement No. 3 SDT, at 10.

#### **IV. SUMMARY OF THE ARGUMENT**

Allegheny Power's Supplemental Direct Testimony raised two issues of concern for the OSBA. First, the Company proposed an alternative two-tiered approach for the SMT Surcharge.<sup>17</sup> OSBA witness Mr. Robert Knecht raised concerns about the Company's proposal to collect the smart meter costs (second tier costs) from only the customers who had smart meters installed. Specifically, Mr. Knecht proposed that the Company collect the costs of the smart meters from all of the Company's customers, whether or not those customers had yet received a smart meter.<sup>18</sup> In the Supplemental Rebuttal Testimony of Mr. Raymond Valdes, the Company agreed with Mr. Knecht's proposal.<sup>19</sup> Therefore, the OSBA's first concern has been resolved.

Second, Company witness Mr. Valdes provided an estimate of the SMT Surcharge for the Rate 20 rate class group under both alternative deployment schedules.<sup>20</sup> OSBA witness Mr. Knecht testified that he could not determine why the estimated surcharge for customers in the Rate 20 rate class group is so much higher than the surcharge for the residential customers, when two-thirds of the customers in the Rate 20 rate class group are taking single-phase service (the same service that the residential customers are taking).<sup>21</sup>

In his Supplemental Rebuttal Testimony, Mr. Valdes offered two approaches to address Mr. Knecht's concern. The first approach is to maintain the Company's cost

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<sup>17</sup> AP Statement No. 3-SDT, at 9.

<sup>18</sup> OSBA Statement No. 3, at 5-6.

<sup>19</sup> AP Statement No. 3-SRT, at 6.

<sup>20</sup> AP Statement No. 3-SDT, at 10 and Exhibit REV-1.

<sup>21</sup> OSBA Statement No. 3, at 3-4.

estimate for single-phase non-residential turnkey installation costs and any differential in the per unit estimate for single-phase metering, and allow the reconciliation procedure to adjust the surcharge downward if the estimated cost differential *does not* materialize.

The second approach is to match the single-phase non-residential turnkey installation cost per unit to the single-phase residential turnkey installation cost per unit, and remove the remaining differential in the per unit estimate for single-phase metering. Under the second approach, the reconciliation procedure would adjust the surcharge upward if the estimated cost differential *does* materialize.<sup>22</sup> The OSBA favors Mr. Valdes' second approach.

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<sup>22</sup> AP Statement No. 3-SRT, at 3-5.

**V. ARGUMENT**

**A. Alternative Plans**

**1. Company Proposal**

**a. 375,000 Meters**

The OSBA will not be addressing the Company's proposal to reduce the deployment of smart meters and in-home displays to 375,000 by mid-2012.

**b. 100,000 Meters**

The OSBA will not be addressing the Company's proposal to reduce the deployment of smart meters to 100,000 by mid-2012.

**2. OCA Proposal**

The OSBA will not be addressing the OCA's proposed deployment schedule.

**3. Surcharge and Cost Issues**

**a. Two-Tiered SMT Surcharge**

If one of Allegheny Power's alternative deployment approaches (375,000 or 100,000 meters) is adopted, Allegheny Power proposed an alternative two-tiered approach for its SMT Surcharge.<sup>23</sup> According to Allegheny Power witness Mr. Raymond Valdes, the first tier costs (which are costs that include items such as infrastructure, communications, and related electric distribution system upgrades needed to enable smart meter technology) would be applied to all customers regardless of whether they have a smart meter, and would be differentiated by residential, non-residential, and street -

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<sup>23</sup> AP Statement No. 3-SDT, at 9.

lighting customers.<sup>24</sup> The second tier costs (the costs of the smart meter itself) would be collected from only those customers who have a smart meter.<sup>25</sup>

Allegheny Power also proposed to collect the in-home display costs in a monthly charge for each customer who chooses to have an in-home display installed. The monthly charge would go into effect when the in-home display is installed.<sup>26</sup>

OSBA witness Mr. Robert Knecht disagreed in part with the Company's two-tiered approach. Specifically, Mr. Knecht disagreed with collecting the smart meter costs (second tier costs) from customers only after they have received a smart meter. As Mr. Knecht testified:

Because IHDs [in-home displays] are fully optional in the West Penn [Allegheny Power] alternative plans, it is reasonable to establish a separate charge for those devices. That is, only customers who affirmatively desire an IHD will pay for the device.

However, the same logic does not apply fully to smart meters. Deployment of smart meters to all customers is not optional – it is required by Pennsylvania law. While it is true that a significant share of the meters costs in the early years of West Penn's alternative scenarios are related to customers who have affirmatively opted for a smart meter, there will be many customers who are involuntarily assigned meters. As a result of West Penn's deployment plan, customers in more densely populated areas are more likely to be involuntarily given a smart meter than *customers in more remote areas*.

Because the deployment of smart meters is mandated by law, imposing the same charge on all customers, regardless of whether an individual customer has had a smart meter installed, is more consistent with cost causation and more equitable. All customers must have a smart meter installed eventually, and the deployment schedule for many

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<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> AP Statement No. 3-SDT, at 10.

customers will not be voluntary. Moreover, simply because a customer has a meter installed does not mean that the customer will be able to benefit from the smart meter's capabilities. For example, many small businesses are unable to significantly shift their loads from on-peak to off-peak periods, because they must operate when their customers want to eat and shop. Applying the same charge to all customers better reflects the mandatory nature of these costs.

In addition, to my knowledge, none of the other Pennsylvania EDCs has, at least as yet, proposed that smart meters charges go into effect only after a smart meter has been installed on a customer's premises.<sup>27</sup>

Mr. Valdes addressed the OSBA's concern by testifying in Supplemental Rebuttal Testimony that "... aside from differing opinions regarding how to best reflect cost causation, the Company does not object to the socialization of such smart metering costs across respective customer classes."<sup>28</sup> In short, Mr. Valdes agreed to adopt Mr. Knecht's proposal. Therefore, the OSBA requests that the Commission order the Company to collect the smart meter costs (tier two costs) from each Allegheny Power customer, whether or not the customer has yet received a smart meter.

**b. Cost of Single-Phase Smart Meters**

The Main Brief filed by the OSBA in the instant proceeding discussed Allegheny Power's original proposal to aggregate the Company's individual rate classes into three general rate class groups for purposes of allocating and recovering SMIP costs, *i.e.*, residential, non-residential, and street lighting.<sup>29</sup> The OSBA objected to Allegheny

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<sup>27</sup> OSBA Statement No. 3, at 6-7.

<sup>28</sup> AP Statement No-3 SRT, at 6.

<sup>29</sup> OSBA Main Brief at 12-15.

Power's original proposal.<sup>30</sup> Subsequently, Allegheny Power aggregated the Company's individual rate classes into four general rate class groups, *i.e.*, residential, non-residential (single-phase), non-residential (three-phase), and street lighting.<sup>31</sup> The OSBA accepted Allegheny Power's revised rate class grouping.<sup>32</sup>

In Allegheny Power's Supplemental Direct Testimony, Allegheny Power witness Mr. Valdes prepared an estimate of the SMIP Costs, which he presented in Exhibit REV-1. Mr. Valdes testified that the estimate took into account dividing the rate classes into four rate class groups (as explained in the above paragraph) and took into account the 100,000 and 375,000 alternative deployment schedules.<sup>33</sup> According to Exhibit REV-1, under the 375,000 alternative deployment scenario, the customers in the Rate 20 rate class group would pay a surcharge of \$3.77 per month; however, the residential customers would pay a surcharge of \$1.93 per month. A similar differential would occur under the 100,000 alternative deployment scenario.<sup>34</sup>

OSBA witness Mr. Knecht took issue with Mr. Valdes' calculation of the surcharge for customers in the Rate 20 rate class group. Specifically, Mr. Knecht could not determine why the surcharge for customers in the Rate 20 Rate Class group is so much higher than the surcharge for the residential customers, when two-thirds of the customers in the Rate 20 rate class group are taking single-phase service (the same service that the residential customers are taking).

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<sup>30</sup>OSBA Main Brief, at 12-15, and OSBA Statement No. 1, at 5-6.

<sup>31</sup> OSBA Main Brief, at 12-15, and Allegheny Power Statement No. 4-R, at 5.

<sup>32</sup> OSBA Main Brief, at 12-15, and OSBA Statement No. 2, at 2.

<sup>33</sup> AP Statement No. 3 SDT, at 10-11.

<sup>34</sup> Exhibit REV-1.

As Mr. Knecht testified:

First, about two-thirds of the customers in the Rate 20 rate class group take single-phase service, while one-third take three-phase service. In contrast, all residential customers take single-phase service. Because three-phase meters are more costly than single-phase meters, it is not surprising that the average charge for the Rate 20 rate class group is higher than that for residential.

However, that factor is not sufficient to explain the entire difference presented by West Penn. For reasons that are not clear to me, West Penn's workpapers indicate that the cost for single-phase Rate 20 rate class group meters is considerably higher than that for single-phase residential meters. A comparison of weighted average monthly meters costs over the 2010-2014 period for West Penn's alternative scenarios is shown in Table IEC-SD2 below.

<b>Table IEC-SD2</b>		
<b>Weighted Average Smart Meters Cost</b>		
<b>Average Monthly Revenue Requirement, 2010-2014</b>		
	<b>375,000 Planned Deployment</b>	<b>100,000 Opt In Deployment</b>
Residential Single Phase	\$1.82	\$2.21
Non-Residential Single Phase	\$2.66	\$3.02
Average Rate 20 Rate Class Group	\$3.54	\$3.83
Non-Residential Three-Phase	\$5.36	\$5.50
Note that these costs exclude gross receipts taxes, which must be added to develop West Penn's proposed smart meters charges. Source: Valdes Workpapers, IEC calculations.		

Table IEC-SD2 indicates that the average cost of Rate 20 rate class group smart meters is \$1.60 to \$1.70 higher than that for residential customers. Of that difference, approximately half is due to the averaging effect of including the higher-cost three-phase meters. The remainder of the difference is due to the assumption that

commercial class single-phase meters are more costly than residential single-phase meters.<sup>35</sup>

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In response to an interrogatory, West Penn asserts that the difference is driven by 'the per unit estimates for the turnkey installation cost and any differential in the per unit estimate for the metering cost.' [citation omitted]

Unfortunately, that explanation only confirms that the costs are higher -- it does not provide any rationale as to why the installation costs are higher. At this writing, it is not clear to me why single-phase smart meter costs would be higher for commercial customers than for residential customers. Other Pennsylvania EDCs conclude that the primary cost difference for installed meters cost is the difference between single-phase and three-phase service. For example, in its proposed SMIP, Duquesne Light distinguishes costs only between single-phase and three-phase service. Unlike West Penn's submission, Duquesne Light assigns the same meters costs to all single-phase customers.<sup>36</sup>

In Allegheny Power's Supplemental Rebuttal Testimony, Mr. Valdes responded to Mr. Knecht's concerns. Specifically, Mr. Valdes testified:

Although the Company believes that its cost estimates are valid, it does recognize that such costs at this time are [sic] still estimates. Therefore, there are two approaches that can be taken to address this issue. The first approach is to maintain the Company's existing cost estimate for single-phase non-residential turnkey installation costs and any differential in the per unit estimate for single-phase metering, and allow the reconciliation procedure to adjust the surcharge downward if the estimated cost differential doesn't materialize. The second approach is to match the single-phase non-residential turnkey installation cost per unit to the single-phase residential turnkey installation cost per unit, and remove the remaining differential in the per unit estimate for single-phase metering. Under the second approach, the reconciliation procedure would adjust the surcharge upward if the estimated cost differential did in fact materialize. Since the Company has proposed an

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<sup>35</sup> OSBA Statement No. 3, at 3-5.

<sup>36</sup> OSBA Statement No. 3, at 4-5.

annual reconciliation procedure, the Company can agree to the second approach since any cost differential that may materialize would be relatively short term exposure. The second approach results in cost reduction instead of a shifting of costs, which means the cost estimate for single-phase residential and three-phase non-residential remains unaffected. I have attached a revision to Exhibit REV-1 from my supplemental direct testimony (labeled Exhibit REV-1R) which lists the SMT Surcharge for the 100,000 and 375,000 meter alternative deployment schedules, as adjusted for the second approach. All values in Exhibit REV-1R are identical to Exhibit REV-1, except the Tier 2 portion of the Smart Meter Technology ('SMT') Surcharge for Schedules 20, 22, 23 and 24 is reduced by approximately 60 cents.<sup>37</sup>

The OSBA agrees with Mr. Valdes' second approach as described in the above paragraph, since it is similar to Mr. Knecht's proposal that "the Commission direct West Penn [to] modify its plan and its estimated tariff charges such that the smart meters costs for all single-phase customers are the same."<sup>38</sup>

#### **4. Other Issues**

The OSBA will not be addressing any "other issues."

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<sup>37</sup> AP Statement No. 3-SRT, at 4-5.

<sup>38</sup> OSBA Statement No. 3, at 5.

**B. Revenue Requirement**

**1. Company Proposal**

The OSBA's position with regard to revenue requirement remains the same as stated in its Main Brief, even under the alternative deployment schedules.<sup>39</sup> In his Supplemental Direct Testimony, OSBA witness Mr. Knecht provided the following updated comparison of the total estimated costs for Allegheny Power's SMIP (including the two alternative deployment plans) with the costs for the SMIPs of the other Pennsylvania EDCs.

<b>Table IEc-SD1 Comparison of EDC Costs</b>			
	<b>SMIP Cost (\$mm)</b>	<b>Customers (000)</b>	<b>Unit Cost (\$/customer)</b>
West Penn Original	\$694	734	\$945
West Penn 375,000 Planned Deployment	\$610	734	\$831
West Penn 100,000 Opt In Deployment	\$658	734	\$895
PPL	\$ 62	1,400	\$ 44
PECO	\$500-\$550	1,566	\$319-\$351
Duquesne Light	\$152-\$262	579	\$263-\$453
First Energy	\$330-\$400, plus O&M	1,300	\$254-\$308 plus O&M
<b>Sources:</b> West Penn: Workpapers of Raymond Valdes, IEc calculations. The customer count represents non-lighting customers in 2014. Cost estimates are scaled back from totals for out-of-Pennsylvania costs proportionate to the original filing. PPL – Docket No. M-2009-2123945, Plan at pages 1, Plan Attachment 2. Note that the reported costs are incremental costs only; PPL has already installed smart meters and is recovering costs in base rates. PECO – Docket No. M-2009-2123944, Plan at page 3 and Exhibit ABC-2. Duquesne Light – Docket No. M-2009-2123948, Plan at pages 1 and 14. First Energy – Docket No. M-2009-2123950, Plan at pages 5 and 9. <sup>40</sup>			

<sup>39</sup> See OSBA Main Brief, at 10-11.

<sup>40</sup> OSBA Statement No. 3, at 2.

As Mr. Knecht testified:

In general, West Penn's forecasts for its total capital costs in the alternative scenarios are of similar magnitude to those in the original filing – the only difference is the timing as to when those costs are incurred. The major change in the alternative scenarios is that, unlike the original filing, IHDs are not mandatory for all residential customers. By substantially reducing the deployment of IHDs, the overall capital costs of the SMIP are modestly reduced.

As was the case in my direct testimony, I am advised by OSBA counsel that, based on the figures in Table IEc-SD1, it is OSBA's conclusion that West Penn must present a convincing explanation as to why its proposed programs are prudent, in that they are so much more costly than the programs of the other EDCs. Without such an explanation, OSBA concludes that West Penn's program should either be rejected or be subjected to a rigorous *ex post* prudence review.<sup>41</sup>

## **2. Rate of Return**

The OSBA will not be addressing rate of return.

## **3 Asset Lives**

The OSBA will not be addressing asset lives.

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<sup>41</sup> OSBA Statement No. 3, at 2-3.

**VI. CONCLUSION**

For the reasons set forth above, the OSBA respectfully requests that the Commission subject Allegheny Power's SMIP to an *ex post* prudence review due to the level of Allegheny Power's SMIP costs (under the original and the alternative deployment schedules) compared to other EDCs.

The OSBA also respectfully requests that the Commission order Allegheny Power to set the initial SMT Surcharge for the Rate 20 rate class group by making the estimated cost of non-residential single-phase meters the same as the Company's estimated cost for the single-phase residential meters.

The OSBA further respectfully requests that the Commission order Allegheny Power to collect the costs of the smart meters (tier two costs) from all Allegheny Power customers and not from just the customers who have received a smart meter.

Respectfully submitted,



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Dated: March 26, 2010

**APPENDIX I**

**PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW**

**RECEIVED**

**MAR 26 2010**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

## PROPOSED FINDINGS OF FACT

1. The Commission's Implementation Order requires that smart meter costs that are shown to benefit solely one class be assigned to that class. Implementation Order, at 32.

2. The Commission's Implementation Order requires that smart meter costs that benefit multiple classes be allocated among the appropriate classes based upon reasonable cost of service practices. Implementation Order, at 32.

3. Allegheny Power has proposed four rate class groups for the allocation of smart meter costs: residential, non-residential (single phase), non-residential (three-phase), and street lighting. Allegheny Power Statement No. 4R, at 5.

4. Allegheny Power has proposed that the costs of smart meters (and any other SMIP costs that can be directly assigned) be directly assigned to the rate class group for which Allegheny Power incurs the costs. Allegheny Power Statement No. 4R, at 11.

5. Allegheny Power has proposed that the joint and common costs be allocated among the rate class groups by the relative number of customers in each group. Allegheny Power Statement No. 4, at 11.

6. The OCA has proposed that Allegheny Power "present the results of a Cost of Service Study and an analysis of bill impacts before the Company is allowed to recover any costs from residential customers via a fixed monthly surcharge." OCA Statement No. 1, at 33.

7. The OCA has generally suggested that joint and common costs should be allocated among the rate class groups on the basis of peak demand and energy

consumption, but it has not offered a specific proposal in this proceeding. OCA Statement No. 2, at 35.

8. Smart meters are expected to result in environmental benefits which will accrue to all citizens. OCA Statement No. 1S, at 5.

9. Allegheny Power's overall SMIP costs charged to Pennsylvania ratepayers are estimated to be \$580 million. Allegheny Power Statement No. 4, at 4.

10. Under its original filing, Allegheny Power is proposing both to incur and recover a higher amount of SMIP costs than any other Pennsylvania EDC, both in total and on a per-customer basis. OSBA Statement No. 1 at 2.

11 . Allegheny Power's capital and O&M costs associated with in-home technologies will be assigned entirely to the residential class. SMIP, at 96.

12. In the event a non-residential (both single-phase and three-phase) customer requests in-home technologies, Allegheny Power will have to submit a filing to the Commission regarding how the costs would be collected. Hearing Transcript, at 251-252.

13. In Allegheny Power's Supplemental Direct Testimony, Allegheny Power estimated the costs of the Smart Meter Technology ("SMT") Surcharge. In so doing, Allegheny Power estimated that the costs for the Rate 20 rate class group single-phase meters will be higher than the costs for the residential single-phase meters. AP Statement No. 3 SDT, at 10-11 and Exhibit REV-1. However, in Allegheny Power's Supplemental Rebuttal Testimony, Allegheny Power has agreed to set the costs of the SMT Surcharge for the Rate 20 rate class group by making the estimated cost of non-residential single-

phase meters the same as the Company's estimated cost for residential single-phase meters. AP Statement No. 3-SRT, at 4-5 and Exhibit REV-1R.

14. In Allegheny Power's Supplemental Direct Testimony, Allegheny Power proposed an alternative two-tiered approach for the SMT Surcharge. The first tier would be the base amount of the SMT Surcharge and would include all cost items except costs associated with the smart meters and in-home displays. The first tier 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. The second tier of the SMT Surcharge would collect costs associated with the smart meter and would only apply to the customers that have a smart meter. AP Statement No. 3-SDT, at 9. In Allegheny Power's Supplemental Rebuttal Testimony, the Company has agreed to collect the second tier costs (smart meter costs) from all customers and not from just the customers who have received a smart meter. AP Statement No-3 SRT, at 6.

15. In Allegheny Power's Supplemental Direct Testimony, Allegheny Power proposed two alternative deployment schedules. Under Allegheny Power's alternative deployment schedules, Allegheny Power is still proposing both to incur and recover a higher amount of SMIP costs than any other Pennsylvania EDC, both in total and on a per-customer basis. OSBA Statement No. 3, at 2-3.

## PROPOSED CONCLUSIONS OF LAW

1. The costs of the smart meters themselves must be assigned to the rate class groups for which Allegheny Power incurs those costs. Implementation Order, at 32.
2. Any non-meter SMIP costs that can be directly assigned to a rate class group for which Allegheny Power incurs those costs must be directly assigned. Implementation Order, at 32.
3. Joint and common costs related to smart meters must be assigned to the rate class groups based upon standard cost causation principles. Implementation Order, at 32.
4. Allegheny Power's proposal to allocate the joint and common costs among the rate class groups on the basis of the relative number of customers in each group would result in just, reasonable, and not unduly discriminatory rates for the non-residential (both single-phase and three-phase) customers, thereby complying with Sections 1301 and 1304 of the Public Utility Code, 66 Pa. C.S. §§ 1301 and 1304.
5. The OCA's proposal to allocate the joint and common costs among the rate class groups on the basis of energy consumption would result in unjust, unreasonable, and unduly discriminatory rates for the non-residential (both single and three-phase) customers, thereby violating Sections 1301 and 1304 of the Public Utility Code, 66 Pa. C.S. §§ 1301 and 1304.
6. Given the magnitude of Allegheny Power's SMIP costs in comparison to other EDCs, Allegheny Power's SMIP can not be approved without a requirement that the Company's SMIP be subjected to *ex post* prudence review. Section 2807(f)(7) of the Public Utility Code, 66 Pa. C.S. §2807(f)(7).

**APPENDIX II**

**PROPOSED ORDERING PARAGRAPHS**

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**MAR 26 2010**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

## PROPOSED ORDERING PARAGRAPHS

THEREFORE, IT IS ORDERED:

**(If the Commission Approves Allegheny Power's Cost Allocation Proposal)**

1. That Allegheny Power's SMIP shall be subjected to *ex post* prudence review.
2. That the meters costs (and any other SMIP costs that can be directly assigned) shall be directly assigned to the rate class group for which Allegheny Power incurs those costs.
3. That the joint and common costs shall be allocated among the rate class groups on the basis of the relative number of customers in each group.
4. That the meters costs and the joint and common costs within the non-residential (both single-phase and three-phase) rate class groups shall be recovered via a customer charge.
5. That the initial costs of the Rate 20 rate class group (single-phase) meters shall be set by using the Company's estimated cost for residential single-phase meters as the estimated cost for non-residential single-phase meters.
6. That the smart meter costs shall be collected from all of Allegheny Power's customers and not just from those who have received a smart meter.

**(If the Commission Approves the OCA's Cost Allocation Proposal)**

1. That Allegheny Power's SMIP shall be subjected to *ex post* prudence review.
2. That the meters costs (and any other SMIP costs that can be directly assigned) shall be directly assigned to the rate class group for which Allegheny Power incurs those costs.
3. That the joint and common costs shall be allocated among the rate class groups on the basis of energy.
4. That the meters costs (and any other directly assigned costs) within the non-residential (both single-phase and three-phase) rate class groups shall be recovered via a customer charge and the joint and common costs within each of those rate class groups shall be recovered via a per kWh charge.
5. That the initial costs of the Rate 20 rate class group (single-phase) meters shall be set by using the Company's estimated cost for residential single-phase meters as the estimated cost for non-residential single-phase meters.
6. That the smart meter costs shall be collected from all of Allegheny Power's customers and not just from those who have received a smart meter.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**CERTIFICATE OF SERVICE**

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

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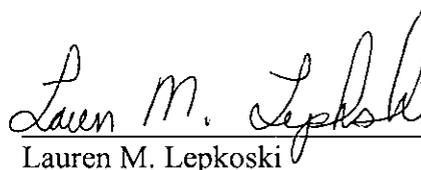
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