

COMMONWEALTH OF PENNSYLVANIA



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June 1, 2015

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

RE: Petition of PPL Electric Utilities  
Corporation for Approval of Its Smart Meter  
Technology Procurement and Installation  
Plan  
Docket No. M-2014-2430781

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Reply Exceptions, in the above-referenced proceeding.

Copies have been served upon all parties of record as shown on the attached Certificate of Service.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Christy M. Appleby".

Christy M. Appleby  
Assistant Consumer Advocate  
PA Attorney I.D. # 85824

Enclosures

cc: Honorable Susan D. Colwell, ALJ  
OSA [ra-OSA@pa.gov](mailto:ra-OSA@pa.gov)  
Certificate of Service

186854

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation :  
For Approval of its Smart Meter Technology : Docket No. M-2014-2430781  
Procurement and Installation Plan :

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REPLY EXCEPTIONS  
OF THE  
OFFICE OF CONSUMER ADVOCATE

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Dated: June 1, 2015

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## I. INTRODUCTION

On April 30, 2015, the Office of Administrative Law Judge issued the Initial Decision (I.D.) of Administrative Law Judge (ALJ) Susan D. Colwell in the above-captioned proceeding. Exceptions were filed to the I.D. on May 20, 2015 by PPL Electric Utilities (PPL or Company), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), and the PP&L Industrial Customer Alliance (PPLICA). The OCA files these Reply Exceptions in response to PPL's Exceptions.

Specifically, the OCA replies to the Company's Exceptions regarding the ALJ's approval for a tracking mechanism of eight cost savings categories to be flowed through PPL's smart meter surcharge. PPL Exc. at 3-9; I.D. at 39-43. The OCA has provided extensive discussion of these issues in its Main Brief and Reply Brief in this proceeding. OCA M.B. at 31-39; OCA R.B. at 14-17. The OCA submits that the ALJ reached the right conclusions on these issues in her Initial Decision. The OCA also replies to the Company's alternative savings calculation proposal that was raised for the first time in the Exceptions to the Initial Decision. Lastly, the OCA replies to PPL's proposal to expand its ability to remotely terminate customers

## II. REPLY EXCEPTIONS

**OCA Reply to PPL Exception A:** The ALJ Was Correct In Her Determination that the Company Should Account for Cost Savings and Benefits in the Smart Meter Surcharge as Required by Act 129 and the Commission's Implementation Order. (PPL Exc. at 3-9; I.D. at 39-43; OCA M.B. at 31-39; OCA R.B. at 14-17)

In her Initial Decision, ALJ Colwell found that the Company is required to track savings in at least eight identified categories and that the savings should be flowed through the Company's Smart Meter surcharge (SMC) rider filings. I.D. at 43. In its Exceptions, PPL

proposes to use its SMC to recover the costs for its second generation smart meter deployment and to reflect any savings or deployment of its second generation smart meters in future base rates. PPL Exc. at 3-9. PPL argues: (1) that PPL has already reflected the savings to customers in base rates and any additional savings from implementing the Company's Smart Meter Plan will be difficult to quantify; (2) the categories identified in FirstEnergy are not appropriate for PPL to quantify; and (3) avoided capital costs should not be included in the savings measures to be tracked. PPL Exc. at 3-9. In the alternative, for the first time in Exceptions, PPL proposes an alternative cost savings proposal. PPL Exc. at 9. The OCA submits that Act 129 and the Commission's Implementation Order require that any savings be included as an off-set to the costs. 66 Pa. C.S. § 2807(f)(7); Re: Smart Meter Procurement and Installation, Docket No. M-2009-2092655, Implementation Order at 16, 29-30 (June 24, 2009) (Implementation Order). The ALJ correctly determined in her Initial Decision that the statute requires the quantification and flow-through of cost savings in the SMC, and the Initial Decision on this issue should be adopted.

First, in its Exceptions, PPL argues that the first generation smart meter savings have already been reflected in base rates and will not be experienced with the second generation smart meters. PPL Exc. at 3-5. The Company argues additional savings from implementing the second generation smart meters will be difficult to quantify, and therefore, the Company should be able to continue its prior methodology for the recovery of costs through base rates. PPL Exc. at 3. The OCA submits that PPL's proposal and its Exceptions ignore the requirements of Act 129 and the Commission's direction in the Implementation Order.

Act 129 and the Commission's Implementation Order require that any savings that result from the smart meter deployment be incorporated into the smart meter surcharge as an off-set.

66 Pa. C.S. § 2807(f)(7); Implementation Order at 30. The OCA submits that the plain language of the Act requires the incorporation of savings into the SMC rider. Act 129 states:

An electric distribution company may recover reasonable and prudent costs of providing smart meter technology under paragraph 2(ii) and (iii), as determined by the commission. This paragraph includes the annual depreciation and capital costs over the life of the smart meter technology and the cost of any system upgrades that the electric distribution company may require to enable the use of the smart meter technology which are incurred after the effective date of this paragraph, less operating and capital cost savings realized by the electric distribution company from the installation and use of smart meter technology. Smart meter technology shall be deemed to be a new service offered for the first time under section 2804(4)(vi). An electric distribution company may recover smart meter technology costs:

- (i) through base rates, including a deferral for future base rate recovery on a current basis with the carrying charge as determined by the commission; or
- (ii) on a full and current basis through a reconcilable automatic adjustment clause under section 1307.

66 Pa. C.S. § 2807(f)(7)(emphasis added). Act 129 creates a formula for the calculation of the annual costs less the operating and capital cost savings. Then, Act 129 allows the Company to recover those costs minus the savings in either a base rate proceeding or through a surcharge such as the SMC. Id. Since the Company is allowed to flow through the costs as they are incurred on a “full and current basis,” then savings must likewise be reflected on a “full and current basis” as they are incurred to properly recover only the net costs.

PPL’s arguments also ignore the Commission’s direction in its Implementation Order on this issue. In the Implementation Order, the Commission directed that the operating and capital cost savings be incorporated into the EDCs’ Plan filings. In its Implementation Order, the Commission stated:

In order to ensure that these additional smart meter functions are cost-effective, we direct that each smart meter plan filing include cost data that quantifies the costs to meet the minimum requirements set forth in Act 129, the costs to meet all of the requirements set forth in Section C above, and the individual incremental costs of each added function, less any operating and capital cost savings.

Implementation Order at 29. The Implementation Order further stated:

The deployment and operating costs to be presented shall include a breakdown of all incremental costs and any associated potential operational and maintenance cost savings for each functionality and configuration.

Implementation Order at 30. The Commission identified some of the potential savings that EDCs should expect to enjoy with the deployment of smart meters. Specifically, the Commission held:

Smart meters have the ability to support maintenance and repair functions, theft detection, system security, consumer assistance programs, customer-generator net metering, and other programs that increase an EDC's efficiencies and reduce operating costs.

Implementation Order at 16.

Here, PPL argues that its savings have already occurred with the deployment of its first generation meters including savings with respect to the elimination of the meter reading work force, a reduction in call center costs, a reduction in costs to obtain special meter reads, and the elimination of costs to manually monitor data quality. PPL Exc. at 4. PPL witness Glenwright, however, acknowledged that additional savings may eventually be achieved for other areas such as improvement in its outage management system, power quality including cost recovery for unaccounted-for energy, reduced meter services support, and customer service including decreased call center volumes. PPL M.B. at 28-29; PPL St. 2 at 15-20.

The OCA submits that PPL must reflect savings as they occur through the SMC to comply with Act 129. While the OCA has acknowledged that there may be fewer additional savings or benefits anticipated from this smart meter deployment, this does not mean that there will not be any additional savings to be anticipated. OCA St. 1 at 12; OCA R.B. at 15. The



OCA submits that it is not proper to ignore the issue or defer it to a base rate proceeding as PPL proposes.

Second, PPL argues that any additional savings from implementing the Company's Plan will be difficult to quantify. PPL Exc. at 5-6. In her Initial Decision, the ALJ adopted the OCA's recommendation to establish a baseline and to track eight categories of costs identified and approved by the Commission in the FirstEnergy Smart Meter proceeding including: (1) meter reading; (2) meter services; (3) back office; (4) contact center; (5) theft reduction; (6) revenue enhancement; (7) avoided capital costs; and (8) distribution operations. I.D. at 43; see also, Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of their Smart Meter Deployment Plan, Docket Nos. M-2013-2341990 et al., Order at 45-46 (June 25, 2014) (FirstEnergy Order). PPL has failed to establish any mechanism to attempt to track or reflect the savings that might develop in contrast to the other EDC Plans and Commission Orders. See, OCA St. 1 at 12. The OCA submits that this is precisely why the Company must establish a baseline and a mechanism to track these eight categories of potential savings and to reflect any savings that might develop in the SMC. Waiting for the next base rate case is not appropriate when costs are being recovered between base rate cases through the SMC. Savings realized must be flowed through as the costs are incurred to meet the statutory standard.

PPL argues in its Exceptions that the FirstEnergy cost savings categories are not appropriate for PPL Electric. PPL Exc. at 6-8. The Company argues that it is differently situated than the FirstEnergy Companies because the FirstEnergy Companies have not yet deployed smart meters and still have the potential for savings for such things as meter readers. PPL Exc. at 7. PPL's own testimony, however, indicates that savings may be achieved in some of the

categories approved for FirstEnergy, such as the contact center, revenue enhancement such as reduced lost and unaccounted-for energy, and some distribution operations such as outage management. PPL St. 2 at 15-20; OCA R.B. at 16-17. Although the remaining savings areas may be more difficult to quantify and not as great as those experienced by FirstEnergy, the OCA submits that the areas should still be tracked and measured. As OCA witness Mudd testified:

Despite the low expectation with respect to the anticipated cost savings associated with the deployment of the RF Mesh system, PPL should be required to provide the same level of analysis and tracking as needed to appropriately pass through savings to the Smart Meter Surcharge.

OCA St. 1 at 8.

PPL further argues that crediting avoided capital costs to customers would prevent the Company from fully recovering its smart meter costs and prevent the Company from the opportunity to earn a fair rate of return on its investment in violation of the United States and Pennsylvania Constitutions. PPL Exc. at 8-9. As the OCA stated in its Reply Brief, it is not the intention to track costs that are not incurred but to track costs that are reflected in base rates that may no longer be necessary. OCA R.B. at 16, fn. 2; PPL Exc. at 8-9. The recovery of avoided capital cost savings were properly approved by the Commission in the FirstEnergy Smart meter proceeding. FirstEnergy Order at 45-46.

In its Exceptions, PPL proposes for the first time an alternative proposal to calculate cost savings. PPL Exc. at 9. PPL's new proposal is as follows:

First, the Company should only be required to flow actual quantifiable smart meter savings through to customers. Second, the savings must reflect a reduction of costs that are currently included in base rates. It is not appropriate to flow savings to customers if the underlying costs are not in base rates, because customers are not paying for the costs. Third, if PPL Electric has already reflected cost savings in base rates, it should not be required to flow those cost savings to customers again through the SMC. This would be double-counting savings to customers.

PPL Exc. at 9.

The OCA submits that PPL's alternative proposal should not be approved. The parties have not had an opportunity to review this proposal. There is no record evidence to support the Company's alternative proposal or any details identified about establishing a baseline. It is also unclear what categories of savings would be included, how the actual, quantifiable savings would be tracked, and how they would be flowed through to customers. Without a baseline, savings categories and a tracking mechanism, the OCA submits that there is no way to flow through savings to customers.

Act 129 clearly identifies the manner in which savings should be applied to the smart meter surcharge. Act 129 states:

This paragraph includes the annual depreciation and capital costs over the life of the smart meter technology and the cost of any system upgrades that the electric distribution company may require to enable the use of the smart meter technology which are incurred after the effective date of this paragraph, less operating and capital cost savings realized by the electric distribution company from the installation and use of smart meter technology.

66 Pa. C.S. § 2807(f) (emphasis added). The plain language of the statute states that the operating and capital cost savings that are realized by the EDC from the installation and use of smart meter technology should be an off-set to the costs of the smart meter technology.

The Company's alternative proposal states that the Company is only required to flow through actual, quantifiable savings to ratepayers. PPL Exc. at 9. While the OCA agrees that actual, quantifiable savings should be flowed through to ratepayers, the key element missing from the Company's alternative proposal is the proposed categories for savings and a mechanism by which these savings can be tracked. The OCA notes that just because a category is difficult to quantify does not mean that the category cannot be quantified. The tracking mechanism is a necessary tool to capture and flow through the savings as they are realized by the Company. The

other EDCs in Pennsylvania, including FirstEnergy, are tracking and flowing savings to customers through the smart meter surcharge, and PPL should be no different. As the OCA discussed in its Main Brief and Reply Brief, the only way to identify savings is to provide a mechanism by which to track them.

For the reasons set forth above and in the OCA's Main Brief and Reply Brief, the OCA respectfully requests that the Commission approve the ALJ's recommendation that PPL establish a baseline, track the identified eight categories of savings, and that such savings should be flowed through the Company's smart meter surcharge. See, OCA M.B. at 31-39; OCA R.B. at 14-17. The OCA recommends that PPL's alternative proposal that has been presented for the first time in Exceptions should be rejected as untimely and incomplete.

**OCA Reply to PPL Exception B:**

PPL's Exception To The ALJ's Recommendation That The Company Should Be Required To Seek Commission Approval Prior To Using Smart Meters For Involuntary Service Terminations Should Be Denied. (PPL Exc. B at 10; I.D. at 63-66, 72; OCA M.B. at 49-53; OCA R.B. at 21-22)

In her I.D., the ALJ recommended approval of PPL's proposal regarding voluntary remote connection/disconnection, but specified that PPL would be required to obtain Commission approval of any plans to utilize remote disconnect for involuntary terminations, such as for non-payment of bills, prior to PPL implementing remote disconnect for such use.<sup>1</sup> I.D. at 72. In its Exceptions, PPL argues that it should not be required to seek separate Commission approval to use remote disconnect to terminate service for non-payment if PPL is able to comply with the applicable statute, regulation and Commission orders. PPL Exc. at 10. The OCA submits that PPL's Exception should be denied.

PPL's Plan did not include a specific proposal to use remote disconnection for involuntary termination. I.D. at 66. PPL, however, through these Exceptions, seeks the ability to unilaterally amend its plan to use remote termination for involuntary terminations without any further review and approval of the Commission. The OCA submits that any use of remote disconnect beyond those contained in the Plan should be submitted to the Commission for review and approval as an amendment to the Plan, as this would be a significant change to the plan. See OCA M.B. at 51-53; OCA R.B. at 21-22.

Additionally, the OCA argued in this proceeding, the use of remote disconnection for involuntary terminations has significant policy and regulatory implications, and as such, any plan to use remote disconnect in this manner must be thoroughly reviewed prior to implementation.

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<sup>1</sup> The OCA filed Exceptions to the ALJ's Initial Decision, submitting that the ALJ erred in not explicitly finding in the Disposition section of the Initial Decision that PPL is not authorized to use remote disconnect for involuntary terminations, or service limiting and prepayment metering technology as part of this Plan. See OCA Exc. at 18-20.

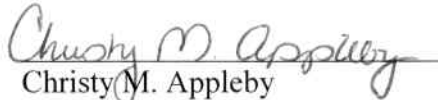
See OCA M.B. at 51-53; OCA R.B. at 21-22. In this proceeding, the OCA presented evidence on the risks associated with service termination on customers, households and communities. See OCA St. 3 at 15-16. The OCA submits that it is not enough for PPL to assert that a plan to use remote disconnect for involuntary termination complies with all applicable statutes, regulations and Commission orders because reasonable minds may disagree as to what consumer protections must be afforded customers if remote disconnect is used for involuntary terminations. Thus, the OCA submits that if the Company develops a plan to use remote disconnect to terminate a customer's service for non-payment, the Company should be required to seek Commission approval, as the Company would be required to do prior to amending part of its its Plan, in order for such plan to be thoroughly reviewed to ensure that the plan complies with the law and Commission orders, and that consumers are adequately protected.

In PPL's Exceptions, the Company indicates that it expects to file a pilot-program for the use of remote disconnect for involuntary service terminations with the Commission in January 2016. PPL Exc. at 10. The Company states that interested parties will have the opportunity to intervene in that proceeding to argue the merits of using remote disconnect for involuntary termination. Id. The OCA submits that PPL's stated plans to file for approval of a pilot program does not address the OCA's concerns in this instant proceeding. The issue before the Commission now is whether PPL should be required to petition to amend its Plan if at some point in the future the Company desires to use remote disconnect for involuntary termination. The OCA asserts that PPL should be required to do so, and respectfully requests that PPL's Exception be denied.

### III. CONCLUSION

As set forth above, the OCA respectfully requests that the Commission approve the ALJ's Initial Decision regarding the calculation of savings and the flow-through of those benefits to the smart meter surcharge. As discussed above and in the OCA's Exceptions, the OCA also recommends that the Order to this proceeding recognize that PPL is not authorized to use involuntary remote disconnection as part of the Plan and that any proposals in the future should be considered an amendment to the instant Plan to be filed with the Commission for review and approval.

Respectfully Submitted,



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CERTIFICATE OF SERVICE

Petition of PPL Electric Utilities Corporation :  
for Approval of Its Smart Meter Technology : Docket No. M-2014-2430781  
Procurement and Installation Plan :  
:

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Reply Exceptions, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 1st day of June 2015.

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