**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held March 2, 2017

Commissioners Present:

 Gladys M. Brown, Chairman, Statement

 Andrew G. Place, Vice Chairman

 John F. Coleman, Jr.

 Robert F. Powelson, Statement

 David W. Sweet, Statement

Petition of Duquesne Light Company P-2015-2497267

for Approval to Modify its Smart Meter

Procurement and Installation Plan

**OPINION AND ORDER**

***TABLE OF CONTENTS***

I. Matter Before the Commission 1

II.Background 2

III.History of the Proceeding 3

IV.Discussion 7

A. Legal Standards 7

B. Duquesne’s Petition 7

C. Positions of the Parties 9

D. ADMS Project Approval Issue 11

1. Positions of the Parties 11

2. ALJ’s Decision 16

3. Exceptions and Replies 18

4. Disposition 25

E. ADMS Cost Recovery 26

1. Positions of the Parties 26

2. ALJ’s Decision 30

3. Exceptions and Replies 31

4. Disposition 36

F. Recovery of Bill Ready Costs 36

1. Positions of the Parties 36

2. ALJ’s Decision 37

3. Exceptions and Replies 38

4. Disposition 43

G. Incremental Advanced Metering Infrastructure (AMI) Project Costs 44

1. Positions of the Parties 44

2. ALJ’s Decision 45

3. Disposition 45

H. Allocation of ADMS Costs 46

1. Positions of the Parties 46

2. ALJ’s Decision 47

3. Exceptions and Replies 48

4. Disposition 49

V.Conclusion 50

VI.Ordering Paragraphs 51

**BY THE COMMISSION:**

# I. Matter Before the Commission

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Duquesne Light Company (Duquesne or the Company) and the Office of Consumer Advocate (OCA) filed on November 28, 2016, to the Initial Decision of Administrative Law Judge (ALJ) Katrina L. Dunderdale issued on November 8, 2016, relative to the above-captioned proceeding. On December 8, 2016, Replies to Exceptions were submitted by Duquesne and the OCA. For the reasons stated below, we shall deny the Exceptions and adopt the ALJ’s Initial Decision.

# II. Background

On October 15, 2008, House Bill 2200 was signed into law as Act 129 with an effective date of November 14, 2008. Among other requirements, Act 129 specifically directed that within nine months of its effective date, electric distribution companies (EDCs) were to file, with the Commission for approval, a smart meter technology procurement and installation plan (SMP). 66 Pa. C.S. § 2807(f)(1). On June 24, 2009, the Commission issued its Smart Meter Procurement and Implementation Order at Docket No. M-2009-2092655 (*Implementation Order*)*,* which established the standards that EDCs must meet for providing smart meter technology to customers and also provided guidance for meeting those standards.

On August 14, 2009, Duquesne filed its Initial Smart Meter Procurement and Installation Plan (Initial SMP) with the Commission. The Commission entered an Order on May 11, 2010, approving Duquesne’s Initial SMP, with certain modifications. Thereafter, on June 29, 2012, Duquesne filed its Petition for Approval of its Final Smart Meter Plan. As a result, by Order entered on May 6, 2013, the Commission granted Duquesne’s Petition to implement its Final SMP with certain modifications, at Docket No. M-2009-2123948, as required by Act 129. That Order directed Duquesne to make a compliance filing providing data supporting whether or not the inclusion of communication of outages and restoration and voltage monitoring capabilities were cost effective. Duquesne submitted its Compliance Filing on August 2, 2013, and the Commission approved the Compliance Filing by Order entered January 9, 2014.[[1]](#footnote-1)

# III. History of the Proceeding

Duquesne filed the instant Petition on August 4, 2015, seeking approval to modify its SMP. The Petition seeks to implement changes to its approved SMP for the purpose of enhancing outage communication and voltage monitoring capabilities, and to recover the costs associated with those changes through the Smart Meter Charge (SMC).

On August 24, 2015, Answers to the Petition were submitted by the OCA and Citizen Power, Inc. (Citizen Power). On September 4, 2015, the Office of Small Business Advocate (OSBA) filed a Notice of Intervention. Thereafter, on October 14, 2015, the ALJ issued a Prehearing Order and issued a Hearing Notice scheduling the matter for evidentiary hearings on February 17, 2016, through February 19, 2016.

On January 21, 2016, Duquesne filed a Motion for Protective Order. On January 22, 2016, the ALJ issued the requested Protective Order due to the presence of proprietary and/or confidential information.

On February 18, 2016, the ALJ conducted an initial evidentiary hearing, wherein the Parties agreed to waive cross-examination of the written testimonies served previously. During this hearing, the ALJ admitted the written testimonies of Duquesne and OCA into the record.

On March 17, 2016, Main Briefs (M.B.) were filed by Duquesne, the OCA and Citizen Power. Reply Briefs (R.B.) were filed by Duquesne, the OCA and Citizen Power on April 7, 2016. The record was closed on April 11, 2016, upon the issuance of the Interim Order Closing the Record.

Subsequently, on May 4, 2016, the ALJ issued a Post-Hearing Order which reopened the record and scheduled a call-in telephonic post-hearing conference for May 17, 2016, at which time the Parties were ordered to be prepared to discuss and agree to a revised litigation schedule. The ALJ stated that more cost information was needed to further evaluate Duquesne’s smart meter costs and directed Duquesne to answer the following four questions:

1. How much of the reasonable and prudent costs of the installation of the [Outage Management System (OMS)] and [Advanced Distribution Management System (ADMS)] relate to the voltage monitoring and outage communications capabilities and how much are related to providing the multitude of other functionalities?
2. How much of those costs should be recovered through the [Smart Meter Charge (SMC)]?
3. Does Duquesne Light need to have a full-blown OMS and ADMS to provide the voltage monitoring and outage communication capabilities, or could those be provided through other means, or a more scaled-back process?
4. Without opining on the overall benefits of the systems, should rate payers be required to pay the costs of the OMS and ADMS on a full and current basis through the SMC, or are the non-smart meter functionality portions of those costs more appropriately recovered through base rates over a number of years?  The other EDCs required to implement smart meters already had sophisticated OMS that were paid through base rates.  Should Duquesne Light rate payers now be required to pay for such an upgrade outside of the normal base rate process just to add two additional functionalities to their smart meters?

 The ALJ also directed the Company and the OCA to discuss whether information marked as “Confidential” was properly characterized in certain written testimonies. At the request of the Parties, the date of the post-hearing conference was moved to May 24, 2016.

On May 24, 2016, the ALJ conducted a post-hearing conference wherein the Parties considered the issues raised in the May 4, 2016 Order, agreed to suspend the litigation schedule, and established a further litigation schedule. Lastly, the Parties discussed whether information in previously-admitted written statements was properly characterized as “Confidential.”

Subsequently, on May 25, 2016, the ALJ issued the Second Post-Hearing Order which suspended the litigation schedule, directed Duquesne to respond to the four enumerated inquiries, provided all Parties with an opportunity to serve supplemental direct and/or supplemental rebuttal written testimony, and directed the Parties to appear at a further evidentiary hearing on June 30, 2016.

On June 30, 2016, the ALJ conducted the Further Hearing at which all Parties were present. Duquesne and the OCA presented additional written testimony which was admitted into the record. During this hearing, Duquesne requested the opportunity to submit a brief and, possibly, a reply brief. The other Parties agreed and a briefing schedule was agreed to by the Parties. Thereafter, on July 1, 2016, the ALJ issued the Third Post-Hearing Order which established a briefing schedule and ordered that each Party filing a Main Brief and/or Reply Brief was presumed to have rescinded any Main Brief/Reply Brief previously filed in this proceeding. On July 20, 2016, Main Briefs were filed by Duquesne, the OCA and Citizen Power. On July 27, 2016, Reply Briefs were filed by these same Parties.

On August 15, 2016, the ALJ issued the Fourth Interim Order which closed the record. On November 8, 2016, the Commission issued the ALJ’s Initial Decision that granted Duquesne’s Petition, in part, and denied it, in part.

On November 21, 2016, Citizen Power filed a Petition to Withdraw from this proceeding pursuant to the Rules of Practice and Procedure at 52 Pa. Code § 5.94. Citizen Power explained that it has temporarily suspended their legal advocacy operations effective October 31, 2016, due to funding shortages. Citizen Power further explained that the OCA actively participated in this proceeding and had addressed the issues on which Citizen Power was concerned. As such, Citizen Power requested that the Commission grant its Petition to Withdraw.

Exceptions to the Initial Decision were filed by Duquesne and the OCA on November 28, 2016. Replies to Exceptions were received on December 8, 2016, from Duquesne and the OCA.

# IV. Discussion

We note that any issue that we do not specifically address has been duly considered and will be denied without further discussion. It is well settled that the Commission is not required to consider, expressly or at length, each contention or argument raised by the parties. *Consolidated Rail Corporation v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); *see also*, *generally*, *University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

##  A. Legal Standards

As the proponent of a rule or order, the Company has the burden of proof in this proceeding in accordance with Section 332(a) of the Public Utility Code (Code), 66 Pa. C.S. § 332(a). Courts have held that “[a] litigant’s burden of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible.” *Samuel J. Lansberry, Inc. v. Pa. PUC*, 578 A.2d 600 (Pa. Cmwlth. 1990), *alloc. denied,* 529 Pa. 654, 602 A.2d 863 (1992). That is, the Company’s evidence must be more convincing, by even the smallest amount, than that presented by the other Parties. *Se‑Ling Hosiery, Inc. v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950). Additionally, this Commission’s decision must be supported by substantial evidence in the record. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established. *Norfolk & Western Ry. Co. v. Pa. PUC,* 489 Pa. 109, 413 A.2d 1037 (1980).

##  B. Duquesne’s Petition

 In its Petition to modify its SMP, Duquesne proposed to install an ADMS to achieve enhanced communication, outage restoration and voltage monitoring capabilities, and to recover Bill Ready costs through the Company’s SMC. The Company stated that it had conducted a study of the costs and benefits of implementing enhanced outage communications and voltage monitoring capabilities and that based on the results of the study, it is proposing the implementation in its Petition. Duquesne explained that it had issued a Request for Proposal (RFP) to conduct a comprehensive study of these costs and benefits and chose DNV GL as the vendor to complete the requested study. Petition at 1-11.

 Duquesne explained that the proposed ADMS is an integrated system with a common user interface that provides the operator with the ability to analyze the distribution network and includes outage management functionality, Supervisory Control and Data Acquisition (SCADA) functionality, and Advanced Distribution Applications functionality such as real time load flow analysis, Volt/VAR Optimization, fault analysis, and switching order solutions. According to Duquesne, implementation of ADMS will be a multi-year and multi-million dollar project that will improve accuracy, timeliness and consistency of outage and restoration information provided to customers and stakeholders. Duquesne asserted that the system is also expected to reduce manual outage analysis, response times and customer outage duration. Further, Duquesne maintained that ADMS provides enhanced load balancing, fault location isolation, service restoration, interactive Volt/VAR optimization and voltage regulation and conservation. Petition at 11.

 Next, Duquesne explained that it must implement certain foundational systems to achieve the proposed functionality. First, the Company stated that it must develop an electrical model which is necessary as it connects the customer to the grid and models the electrical connectivity from the substation breaker all the way to the meter. Additionally, Duquesne claimed that it must replace its current Outage Analysis System (OAS)[[2]](#footnote-2) with an Outage Management System (OMS). Duquesne explained that an OMS uses the electrical model to automatically determine what protective device has operated during a power outage and then automatically groups all customers affected by this device together. Petition at 12. Finally, Duquesne proposed to accelerate its smart deployment schedule by one year so that its residential meters will be fully deployed by the end of 2018 and commercial and industrial meters by the end of 2019.

 Duquesne projected that these changes will increase the overall cost of its original SMP from $203 million to $319 million. The Company stated that $54 million of this projected increase will be for the completion of smart meters and supporting technology, and $7 million is needed to implement Bill Ready billing. The $55 million balance of the increase represents the projected cost of the ADMS project. Petition at 16‑17.

##  C. Positions of the Parties

Duquesne requests that its modified SMP be approved because (1) the customers’ savings were reliably quantified when Duquesne provided detailed distribution system data to DNV GL, and DNV GL used this Company-specific information to calculate customer savings on a circuit by circuit basis;[[3]](#footnote-3) (2) the estimate of customer savings calculated by DNV GL is supported by a second model – the Interruption Cost Estimate (ICE) calculator – and based upon these two independent models, implementing the ADMS will provide substantial customer savings that have been reliably quantified; (3) the savings should not be ignored simply because the DNV GL model uses a proprietary calculation and it would have been unfair to force DNV GL to release the details of the proprietary model because it would give their competitors the ability to duplicate the model; (4) Duquesne provided considerable detail to the OCA regarding what factors DNV GL considered in estimating customer benefits in order to address their concerns about the proprietary DNV GL model;[[4]](#footnote-4) and (5) Duquesne supported its level of estimated savings through the publicly available ICE calculator and provided all of the data inputs that were used for the ICE calculator as an exhibit to its testimony.[[5]](#footnote-5)

 The OCA asserted that Duquesne failed to meet its burden of proving the ADMS project as proposed is cost-effective. The OCA pointed out that the Commission, in its *Implementation Order*, reserved the right to waive the requirement for any of the nine additional smart meter capabilities it imposed if that capability was shown to be cost-ineffective. The OCA maintained that in this proceeding, the ADMS project (proposed as a means of meeting two of the nine additional capabilities) has been shown to be demonstrably cost-ineffective and the Commission should reject the project. According to the OCA, unless Duquesne can return with a cost-effective alternative proposal for implementing the outage communication and voltage monitoring capabilities, the Commission should waive these requirements for Duquesne under the Smart Meter requirements. However, the OCA recommended that should the Commission not reject the ADMS project, the recovery of the project’s costs should be sought through a base rate case and not Duquesne’s SMC. Also, the OCA submitted that the costs of Bill Ready functionality are properly recovered from Electric Generation Suppliers (EGSs) who are the overwhelming beneficiaries of this capability.

Citizen Power agreed with the OCA that Duquesne failed to demonstrate that its ADMS project is cost-effective. Citizen Power urges the Commission to reject that aspect of the Petition. In the alternative, Citizen Power recommended that if the Commission does determine that the ADMS is cost-effective, Duquesne should be required to recover the associated costs through base rates.

##  D. ADMS Project Approval Issue

###  1. Positions of the Parties

#### Duquesne asserted that the Commission directed EDCs to adopt enhanced abilities to communicate outages and restorations, and to monitor voltage as part of the Smart Meter program. According to Duquesne, in its Implementation Order, the Commission required EDCs to evaluate the cost effectiveness of these capabilities. Duquesne noted that the Commission thought these capabilities would further facilitate the consumer’s ability to control their electric use and costs, but reserved the authority to waive these requirements if they were not cost effective. Duquesne M.B. at 9-11, 18-19 (citing Implementation Order at 17, 31).

Duquesne opined that the OMS will create substantial benefits for customers and for the Company. Duquesne asserted that the OMS is expected to produce savings of approximately $300,000 per year due to reduced phone calls at the Company’s call center and increased effectiveness during and after storm events. Also, Duquesne submitted that based upon the DNV GL societal benefits, the OMS is estimated to create customer savings of approximately $6 million per year due to a reduction in outage time. Duquesne stated that there are also numerous other safety and other non-quantifiable benefits associated with implementing the OMS. Duquesne M.B. at 12.

Duquesne noted that the ICE calculator, which is a publicly available model that was developed for the U.S. Department of Energy to calculate societal or customer cost savings of reduced outage time, determined that the range of annual customer savings in 2013 was $4 million but would increase to approximately $6 million by 2039. However, Duquesne recommends using the DNV GL study because the customer benefits are calculated based upon more specific information about the Company’s distribution system. Duquesne M.B. at 15.

Next, Duquesne submitted that the DMS component of the ADMS enhances the Company’s voltage monitoring functions and will provide significant benefits. Duquesne estimated that the Volt/VAR optimization using real time smart meter data is expected to achieve an electric system benefit of $2 million per year in capacity demand reduction once the DMS is fully implemented and utilized. Duquesne explained that the capacity demand reduction will be passed on to customers through reduced power costs. Duquesne also submitted that the transformer loading analysis using smart meter real time usage data is expected to achieve a benefit of $285,000 per year due to asset management savings and overtime savings. Duquesne M.B. at 12.

Duquesne estimated that the OMS is expected to cost approximately $42 to $51 million, and it is expected that benefits will exceed costs in approximately seven to nine years. Additionally, Duquesne estimated that the DMS is expected to cost approximately $3.8 to $4.4 million, and it is expected that benefits will exceed costs in less than two years. Therefore, the total projected cost of the ADMS project is estimated by the Company to be between $46 to $56 million. Duquesne asserts that the ADMS system is cost effective and should be approved. Duquesne M.B. at 22.

The OCA recounted that the Commission’s *Implementation Order* at 30 directed that an EDC’s smart meter technology should support nine functions in addition to those mandated by Act 129. The OCA stated that due to its concern that some smart meter technological functions or capabilities might not be cost-effective, the Commission directed that each SMP filing include cost data that quantifies the costs to meet the minimum requirements set forth in Act 129, as well as the individual incremental costs of each added function, less any operating and capital cost savings.  The OCA noted that the Commission further stated that if an EDC or other party demonstrates that a Commission-imposed smart meter function is shown not to be cost-effective, the Commission would retain the option of waiving that particular requirement for the affected EDC. OCA M.B. at 8 (citing *Implementation Order* at 31).

 Accordingly, it is the OCA’s view that the ADMS project is not cost-effective and should not move forward as a smart meter project. The OCA asserted that as a cost-ineffective project, the Commission should waive the requirement for these functionalities for Duquesne. The OCA stated that in evaluating the costs and benefits of the ADMS project, the Company combined the estimated costs of the OMS ($42.2 - $51.6 million) with those of the DMS ($3.8 - $4.4 million) to reach a total of $46 - $56 million. The OCA pointed out that Duquesne also stated that the Company would incur ongoing operating costs of $5 to $6 million during the implementation phase of the project. Next, the OCA explained that over the projected twenty-year life of the ADMS system, Duquesne expected the benefits to total $46.3 million ($300,000 x 20 years of OMS benefits plus $2.285 million x 20 years of DMS benefits). According to the OCA, the amount of expected benefits exceeds the lower end of the total cost estimate by only $300,000, and only if the $5 to $6 million of ongoing operating costs associated with the implementation phase are not considered. OCA M.B. at 9-10.

 The OCA identified three issues with regard to Duquesne’s cost/benefit analysis: (1) whether the benefits (other than societal) would actually exceed the ADMS’ costs prior to the end of the project life; (2) how certain ongoing Operating and Maintenance (O&M) costs were not included but should have been included in Duquesne’s analysis; and (3) the $6 million in alleged annual societal benefits are too uncertain to be utilized as part of the cost-benefit analysis. OCA M.B. at 11.

 Regarding the first issue, the OCA questioned whether the ADMS project would be completed at the low end of its projected cost range which would allow projected benefits to exceed the projected costs. The OCA pointed to a statement in Duquesne witness Karcher’s Direct Testimony noting that the estimate for OMS was given in a range due to uncertainty about the cost at the current stage of development and that greater accuracy will not be achieved until the project is competitively bid. OCA M.B. at 11.

 Secondly, the OCA is concerned because Duquesne did not include the ongoing project O&M costs as part of the cost-benefit analysis. Instead, the OCA claimed that Duquesne compared implementation costs only, not ongoing costs, to benefits. The OCA argued that the *Implementation Order* required Duquesne to include deployment and operating costs including “a breakdown of all incremental and any associated potential operational and maintenance cost savings for each functionality and configuration. The cost-benefit analysis should reflect the incremental ongoing O&M costs that will be incurred during the period in which benefits are derived; otherwise, the cost-benefit analysis is not accounting for the required incremental costs to achieve those benefits and does not follow the requirements of the *Implementation Order*.” OCA M.B. at 11-12 (quoting OCA St. No. 1 at 12) (internal quotations omitted).

 The OCA asserted that the cost for the ADMS project rises from Duquesne’s initial estimate of $46 million to $56 million up to nearly $125 million over the project’s life, when the ongoing O&M costs are included in the analysis. Comparing this estimated cost to the projected non-societal benefits of $46.3 million, the OCA asserted that the cost of the project substantially outstrips the objective benefits Duquesne has identified. The OCA further noted that according to its analysis, even if the $6 million of societal benefits are utilized in the evaluation, benefits will not exceed costs until the year 2034. OCA M.B. at 13.

 Concerning the third issue, the OCA questioned whether the societal benefits should be relied upon at all to justify the ADMS project costs based on the theory that societal benefits should not be used in a cost-benefit analysis if those benefits cannot be quantified reliably. The OCA opined that determinations of cost-effectiveness should be based on quantifiable operational improvements as the savings produced by these improvements offset costs that are included within rates. The OCA asserted that the $2.285 million in annual savings related to the OMS and the $300,000 in annual savings related to the DMS reflect reductions in costs that will flow to the customer either directly or indirectly through the rates they pay the Company. However, the OCA claimed that the same cannot be said for the societal benefits estimated by the Company as these savings exist outside of the ratemaking function. The OCA averred that as non-system benefits, these cost savings should not be included as part of the cost-effectiveness evaluation utilized by the Commission. OCA M.B. at 13-14.

Citizen Power argued that an analysis of the benefits and costs provided by Duquesne does not demonstrate that the ADMS Project is cost effective. First, Citizen Power stated that the Commission did not specify what type of cost/benefit analysis should be performed and that there are many instances where the Commission does not take societal benefits into account when looking at the cost-effectiveness of a proposal. Also, Citizen Power opined that even taking societal benefits into account, the cost effectiveness is unclear as the combined cost of the ADMS project and the ADMS Run Operations could be as high as $62 million, while the quantifiable benefits, many of which are far into the future, are only estimated at $46.3 million. According to Citizen Power, it is uncertain whether a conservative estimate of $4 million per year in societal benefits exceeds the estimated ongoing costs of $2.8 million per year of operating and maintaining ADMS by a large enough margin to justify the cost. Citizen Power M.B. at 7-8.

###  2. ALJ’s Decision

 The ALJ concluded that the ADMS project was not cost effective. The ALJ stated that the OCA was correct that when determining cost effectiveness and making a cost-benefit analysis that extends over a period of many years, Duquesne should have included ongoing project O&M costs, in addition to the costs to upgrade current equipment, upgrade the new equipment, and deal with routine obsolescence. According to the ALJ, when all costs are added up, it becomes obvious that the functionalities are not cost effective. The ALJ stated that the cost to create the electric model, implement the ADMS, including the OMS and DMS, and cover incremental O&M costs through 2039 will total over $78 million, not $56 million as averred by Duquesne. Thus, the ALJ concluded that these costs exceed the benefits to be enjoyed by the Company and the consumers over the useful life of the functionality. I.D. at 43.

 Additionally, the ALJ found persuasive the OCA’s argument that the estimated soft benefits should not be included within the cost benefit analysis because including soft benefits is not an industry-wide standard. The ALJ stated that without the soft benefits included, the proposed costs would not accrue a benefit until after the hardware and software life expectancies have expired. The ALJ further asserted that even if the soft benefits were included in the cost benefit analysis, the estimate of soft benefits provided by DNV GL was too tenuous and obscure because Duquesne failed to explain why it could not reveal the factors and materials used by DNV GL in the creation of its estimate. The ALJ noted that Duquesne could have provided this information under the terms of the Protective Order that had been issued earlier but it chose not to divulge the supporting confidential information. Thus, the ALJ concluded that “without knowing what DNV GL looked at, considered and weighed, its final estimation is without foundation or weight.” I.D. at 43.

The ALJ noted that contrary to Duquesne’s contentions, the Commission’s *Implementation Order* only required EDCs to analyze the cost effectiveness of OMS and DMS functionalities, but did not require that they implement these functionalities. In addition, the ALJ pointed out that the *Implementation Order* does not require that cost recovery for the OMS and DMS functionalities be incorporated into the SMC, but rather, the EDC may choose to incorporate it into the SMC. I.D. at 41.

 The ALJ reiterated that by including both the hard and soft benefits in the cost benefit analysis, Duquesne’s plan to implement the ADMS will not become cost effective until at least 2034. However, the ALJ stated that when excluding the soft benefits, the ADMS will never become cost effective prior to its obsolescence, as evidenced by the fact that by 2039 the cumulative benefits will be $46 million while the cumulative costs will total $125 million, not including the O&M costs. I.D. at 42 (citing OCA Exhibit SLS-3).

With regard to Duquesne’s use of ICE, the ALJ noted that while ICE is an industry-acceptable standard, its calculation of $4 million carries limited weight because it is based on old data and data collected outside of the Mid-Atlantic region. However, the ALJ was of the opinion that using the estimate from the ICE calculator is better than no estimate. Therefore, she concluded that if soft benefits are considered in the cost-benefit analysis, the lower ICE calculator should be used. I.D. at 42-44.

 In conclusion, the ALJ determined that soft benefits should not be included when making the cost-benefit analysis for the changes to the smart meter charge. She noted that those soft benefits, as they occur, will not be lost as a benefit for the customers. According to the ALJ, those benefits eventually will be captured and incorporated into the customers’ bills as a lower charge in the next base rate case, just as other EDCs in Pennsylvania have done. The ALJ opined that Duquesne can quantify and validate the savings in the context of a rate base proceeding “instead of estimating them based on tenuous calculations shrouded in mystery and uncertainty.” I.D. at 44.

###  3. Exceptions and Replies

 In its Exceptions, Duquesne asserts that the ALJ erred in concluding that the proposed ADMS project was not cost-effective. Duquesne maintains that its proposed ADMS project will provide substantial and significant tangible benefits for customers. First, Duquesne submits that the OMS will allow the Company to fully utilize the newly installed smart meters for outage restoration and communication. Duquesne states that the Company will be aware of outages and locations of outages sooner with the OMS and will be able to dispatch outage restoration crews earlier and prioritize crews to larger outages, which will reduce outage time. Duquesne estimates that the average duration of outages will decrease by five minutes with the OMS, which produces significant savings for customers. Duquesne avers that no Party in this proceeding disputed this Company estimate. Duquesne Exc. at 4-7.

 Next, Duquesne explains that it presented the results of two independent studies as evidence of estimated customer savings. According to Duquesne, its consultant, DNV GL, performed a comprehensive study of the Company’s distribution system to estimate savings that will be achieved by a reduction in average outage time of five minutes. Duquesne asserts that the study evaluated Company specific data and estimated cost savings to customers of approximately $6 million per year from reduced outage time. Duquesne states that it also presented results from a separate model, the ICE calculator, which was developed for the U.S. Department of Energy to estimate cost savings for customers due to reduced outage time. Duquesne explains that the ICE calculator is designed to estimate interruption costs and benefits associated with reliability improvements in the U.S. Duquesne states that the range of annual customer savings estimated by the ICE calculator is approximately $4 million in 2023 increasing to approximately $6 million in the year 2039. However, Duquesne recommends using the DNV GL study because the customer benefits are calculated based upon more specific information about the Company’s distribution system. Duquesne opines that it is clear based upon these two independent models that there will be substantial customer savings from implementing the OMS component of ADMS. Duquesne Exc. at 7-8.

 In response to the ALJ’s recommendation that the DNV GL results cannot be relied on because its formulas are proprietary, Duquesne states that this does not mean that the savings should be ignored. Duquesne opines that if DNV GL were to release the details of the model, their competitors would be able to duplicate the model. As such, Duquesne avers that DNV GL was not willing to release its formulas. Duquesne explains that to address these concerns it provided considerable detail to the Parties regarding what factors DNV GL considered in estimating benefits and further supported its level of estimated savings through the publicly available ICE calculator. Duquesne claims that the ICE model results conclusively demonstrate the reasonableness of the DNV GL results. Duquesne Exc. at 8-9.

 In response to the ALJ’s criticism of the ICE model, that it was outdated and did not rely on Duquesne specific data, the Company avers that this is no basis to reject this model. Duquesne posits that it presented the ICE model as support for the DNV GL estimates and maintains that the results from both models provide substantial evidence that customers will experience significant savings from implementing the OMS. Duquesne submits that it is undisputed that customers will experience benefits with reduced outage time and that neither the OCA nor any other Party in this proceeding presented any independent analysis of benefits customers will experience from the ADMS. Duquesne maintains that the DNV GL results combined with the ICE model results provide substantial evidence that customers will experience savings of approximately $6 million per year. Also, Duquesne states that it presented evidence that it will achieve an additional estimated savings of $300,000 per year due to increased efficiencies during and after storm events and due to reduced call volume at its call center. Duquesne Exc. at 9-10.

 Furthermore, Duquesne submits that it also provided a list of non-quantifiable benefits from the OMS which could result in savings, but were not included in the cost-benefit analysis. Duquesne states that no Party in this proceeding disputed that the OMS would provide these benefits, but the ALJ failed to consider them. Duquesne disagrees with the ALJ’s conclusion that it failed to demonstrate that these non-quantifiable benefits are significant. Duquesne opines that the significance of the non-quantifiable benefits is self-evident and does not require further explanation. The Company explains that it did not attempt to quantify these benefits because they are difficult to accurately quantify. However, Duquesne opines that it is appropriate for the Commission to consider these many benefits in determining whether to approve the OMS project. Duquesne Exc. at 10-13 (citing Duquesne Exh. JK 3-R).

 Next, Duquesne avers that the DMS component of the proposed ADMS project will also provide significant benefits for customers. First, Duquesne states that the Volt/VAR functionality of the DMS is expected to achieve an electric system benefit of $2 million per year in capacity demand reduction, which will result in reduced power costs for customers. Second, Duquesne points out that the transformer loading functionality of the DMS is expected to reduce costs by approximately $285,000 per year due to Asset Management and overtime savings. In addition, Duquesne asserts that the DMS will enhance fault location, which will reduce the time needed to find damage to the distribution system when the trouble location is otherwise unknown. Duquesne Exc. at 13.

 Duquesne also contends that the ALJ erred in excluding consideration of soft or customer benefits as estimated by both the DNV GL study and the ICE Model from the cost-benefit analysis. Duquesne explains that soft benefits are benefits experienced by customers that are not part of utility rates, *i.e.*, customer savings for increased production time or food spoilage from reduced outages. Duquesne points out that the ALJ recognized that if these soft benefits are included in the cost-benefit analysis, the proposed ADMS project would be cost effective. Duquesne asserts that there is no dispute in this proceeding that customers will experience benefits from the ADMS project due to reduced outage time. Duquesne maintains that the ALJ’s conclusion that it is not industry standard to include customer benefits in evaluating the cost-effectiveness of a smart meter program is unsubstantiated and is based upon statements made by the OCA with respect to energy efficiency and conservation (EE&C) programs, not with implementing smart meter programs. Duquesne claims that it is appropriate to exclude customer benefits from evaluating the cost-effectiveness of EE&C programs because the statute limits the evaluation to costs associated with supplying energy.[[6]](#footnote-6) According to Duquesne, there is no such statutory prohibition for considering customer benefits for smart meter functionalities. Duquesne Exc. at 13-14.

 Finally, Duquesne claims that the Commission’s *Implementation Order* takes a broad view of smart meter functionalities and requires EDCs to include these functionalities in their smart meter plans. Duquesne notes that the Commission reserved the authority “to waive” the additional smart meter functionalities if they were not cost-effective. Duquesne further notes that the Commission, on page 31 of the *Implementation Order*, also stated that it had the option to waive a requirement if it is not cost-effective. Based upon this language from the *Implementation Order*, Duquesne opines that the Commission desires that EDCs implement all of the smart meter functionalities identified therein. Therefore, Duquesne posits that the Commission should take a broader view of cost savings in discerning whether smart meter functionalities are cost-effective as opposed to the factors that the Commission considers when approving an EE&C program. Duquesne cites to the *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 No. M-2013-2341990, *et al*. (Order entered June 25, 2014) at 16, where the Commission considered the potential for additional operating savings in approving the FirstEnergy Companies’ accelerated smart meter deployment plan. Duquesne Exc. at 15-16.

 In its Replies to Exceptions, the OCA states that the ALJ correctly determined that the proposed ADMS project was not cost-effective. The OCA states that the cost of the ADMS will range from $46 to $56 million, plus ongoing O&M costs of $5 to $6 million during the implementation phase of the project, through the year 2020. The OCA provides that the Company estimated that the ADMS will produce $46.3 million in what the OCA terms “hard” benefits, that is, projected cost savings directly tied to Duquesne’s electrical system. In addition, the OCA asserts that the Company estimated that the OMS will yield $6 million of annual “societal” benefits to customers as a result of an expected reduction of five minutes in the average duration of power outages. The OCA also points out that the Company identified other non-quantifiable benefits it expects will result from implementing the ADMS. OCA R. Exc. at 3-4 (citing Duquesne St. No. 2 at 7, 15-16).

 The OCA opines that if focusing on just the hard benefits and comparing them with the cost of the project (the $46 to $56 million, plus the $5 to $6 million in implementation phase operating costs), it is apparent that costs will exceed benefits. Furthermore, the OCA maintains that Duquesne did not include in its cost-benefit analysis the ongoing incremental O&M costs that it will incur throughout the life of the ADMS project beyond the implementation phase through 2039. According to the OCA, these costs range from $3.203 million in 2021 to $4.582 million in 2039. The OCA provides that the total O&M costs for the life of the project equals $78.455 million. The OCA cited the following rationale for including these costs in the cost-benefit analysis:

The *Implementation Order* [at 30] requires that “the deployment and operating costs to be presented shall include a breakdown of all incremental and any associated potential operational and maintenance cost savings for each functionality and configuration.” The cost-benefit analysis should reflect the incremental ongoing O&M costs that will be incurred during the period in which benefits are derived; otherwise, the cost-benefit analysis is not accounting for the required incremental costs to achieve those benefits and does not follow the requirements of the *Implementation Order.* The Company is projecting that the ADMS will generate enough benefits to surpass costs by the conclusion of 2039; however, this comparison excludes costs that will be incurred through 2039, but are beyond the implementation period.

OCA R. Exc. at 4-5 (quoting OCA St. No. 1 at 12).

 The OCA explains that when one adds the $46 to $56 million identified by Duquesne as the installed cost of ADMS to the $78.455 million in incremental O&M costs, the total costs of the project of between $124.5 and $134.5 million dwarfs the projected hard benefits of $46.3 million. The OCA maintains that if the ADMS can be found to be cost beneficial at all, it can only be done through inclusion of the claimed $6 million of annual “societal” benefits in the analysis and ignoring the incremental O&M costs. The OCA argues that these societal benefits should not be considered in the cost-benefit analysis and does not believe that they could be reliably quantified. Moreover, the OCA opines that these benefits do not offset costs that are included in customers’ rates and they are not benefits realized by all customers. OCA R. Exc. at 5-6.

 Next, the OCA asserts that in order for benefits to be included in a cost-benefit analysis, they should be based on quantifiable operational improvements that offset costs that are incorporated in the rates customers pay. The OCA points out that this is true of the hard benefits that Duquesne cites for both the OMS and DMS as the $2.285 million in annual savings related to the OMS and the $300,000 in annual savings related to the DMS reflect reductions in costs that will flow to the customer either directly or indirectly through rates. However, the OCA avers that this is not true for the societal benefits the Company cites as these savings exist outside of the ratemaking function. According to the OCA, costs related to lost production time, food spoilage, hotel stays are not things that all customers pay for in their rates. As non-system benefits, the OCA states that these cost savings should not be included as part of the cost-effectiveness evaluation conducted by Duquesne or by the Commission. OCA R. Exc. at 6‑7.

 Next, the OCA submits that the estimated societal benefits of the DNV GL and ICE models presented by the Company are ultimately too speculative to warrant inclusion in a rigorous cost-benefit analysis of the ADMS project. The OCA points out that even Duquesne’s own study recognized that the $6 million of societal benefits as being “soft” and difficult to quantify. Also, the OCA reiterates that the $6 million of societal benefits was the result of DNV GL’s use of proprietary formulas to calculate the benefit figure. The OCA noted that the Commission has traditionally not recognized claims of societal benefits in other contexts, such as the analysis of the cost-effectiveness of EE&C Programs. OCA R. Exc. at 9 (citing *EE&C Order*). According to the OCA, without inclusion of these benefits in the evaluation, ADMS cannot possibly be found to be cost-effective. Therefore, the OCA states that in the absence of a cost-effective proposal, the Commission should exercise its authority to waive the “additional” capabilities of outage and restoration communication and voltage monitoring for Duquesne. OCA R. Exc. at 7-9.

 Finally, in response to the assertions made in Duquesne’s Exceptions that the OCA failed to meet its burden of presenting contrary evidence by not offering an independent analysis of societal benefits, the OCA submits that it is under no such burden in this proceeding. The OCA asserts that as the proponent of a Commission order in this case, the burden of proof rests and remains on the Company to show that the ADMS is cost-effective. OCA R. Exc. at 9-10 (citing66 Pa. C.S. § 332(a)). The OCA states that the only burden on it is to come forward with evidence to rebut the assertion that “societal benefits” are hard benefits worthy of inclusion in a cost-benefit analysis. The OCA posits that it is under no obligation to produce its own independent analysis of potential societal benefits. The OCA submits that it has met its burden of going forward with the evidence. OCA R. Exc. at 9-10.

###  4. Disposition

 Upon our review of the evidence of record, we shall adopt ALJ Dunderdale’s well-reasoned conclusion that the Duquesne-proposed ADMS project is not cost effective as submitted in this proceeding. We conclude that Duquesne has failed to meet its burden of proving that this project is in the public interest at this time. In reaching this determination, we are in agreement with the position of the ALJ that the projected soft benefits identified by Duquesne are speculative and should not be included within the cost-benefit analysis of the ADMS project. Furthermore, we are also in agreement with the ALJ that the ongoing, projected O&M costs as identified by the OCA should have been included within any cost-benefit analysis of this project.

 It is important to note that in our *Implementation Order,* the Commission did not require EDCs to implement the functionalities which Duquesne’s OMS and DMS are designed to accomplish, only to analyze their cost effectiveness. We specifically stated in our *Implementation Order* that while we believed that the smart meter capabilities we delineated will further facilitate the consumer’s ability to control their electric use and costs, we were aware that the costs of some of the added capabilities may exceed any benefit they may provide. As such, we reserved the authority to waive the requirement for any of the Commission imposed requirements to the extent that an EDC or another party demonstrates that a particular requirement is not cost effective. Therefore, based upon the record within this proceeding and our conclusion that Duquesne failed to demonstrate that its proposed ADMS project is cost effective, at this time we shall waive the additional Commission-imposed capabilities of outage and restoration communication and voltage monitoring for Duquesne. However, Duquesne is not precluded from future development of these smart meter related capabilities, and seeking cost recovery in a base rate case, after demonstrating that such investments are prudent, as more fully discussed below.

 Accordingly, we shall deny the Exceptions filed by Duquesne on this issue and adopt the ALJ’s determination that the ADMS project proposed by Duquesne is not cost effective.

##  E. ADMS Cost Recovery

###  1. Positions of the Parties

Duquesne argued that the Commission should permit it to recover ADMS costs through its SMC because this project will enable the Company to meet the smart meter technology requirements set forth in the Commission’s *Implementation Order* of communicating outages and restorations and monitoring voltage. Duquesne asserted that Act 129 gives the Company the discretion to determine how to recover these smart meter costs and explained that it has elected to recover smart meter costs on a full and current basis through its SMC, which is a reconcilable automatic adjustment clause under Section 1307 of the Code, a practice the Commission expressly authorized. Duquesne stated that it does not have this new technology at the moment and asserted that it should be permitted to implement this technology as other EDCs in Pennsylvania already have it. According to Duquesne, the Commission, in its *Implementation Order* at 9, noted that each EDC had different capabilities and implementation challenges. As such, Duquesne argued that it should not be penalized for having to install a new ADMS system to meet the *Implementation Order* requirements. Duquesne M.B. at 22-24.

The OCA first noted that Duquesne does not require Commission approval to upgrade its outage management system just as it did not require prior Commission approval to upgrade its Customer Care and Billing System. According to the OCA, these types of systems are part of a utility’s normal business operations and upgrading or replacing them is something that occurs in the regular course of doing business, particularly in the face of technological advancements. That said, however, the OCA further asserted that Duquesne would need to meet the statutory requirements for recovery through the SMC, a special recovery mechanism established as part of Act 129, if the Company seeks to recover the costs of the upgrade through that charge. The OCA opined that Duquesne has not met this burden. OCA M.B. at 17-18.

Next, the OCA claimed that the record evidence revealed that some portion, perhaps a large portion, of ADMS costs are unrelated to the costs of establishing the voltage monitoring and outage communication capabilities recommended by the Commission in its *Implementation Order*. The OCA further asserted that the ADMS is a cost-ineffective means of achieving these additional functionalities.[[7]](#footnote-7) According to the OCA, these ADMS costs are costs incurred in the normal course of business to provide safe, adequate and reliable service. OCA M.B. at 21 (citing Tr. at 144-148).

The OCA argued that Duquesne is attempting to bootstrap normal operating investment and expenses incurred in the ordinary course of business and recovered through base rates into smart meter costs recoverable through a special mechanism that accelerates recovery and limits opportunity to explore issues of reasonableness and prudence. According to the OCA, it is mere fortuity that the SMC is available at the time Duquesne proposed to make these needed upgrades to its systems. OCA M.B. at 21.

Next, the OCA cited to Section 2807(f)(7) of the Code which addresses the recovery of costs of providing smart meter technology. The OCA noted that the definition of “smart meter technology” is provided within Section 2807(g) which states, in part:

. . . the term “smart meter technology” means technology, including metering technology and network communications technology capable of bidirectional communication, that records electricity usage on at least an hourly basis, including related electric distribution system upgrades to enable the technology.

66 Pa. C.S. § 2807(g).

The OCA explained that under this definition, only the costs of distribution system upgrades that enablemetering and network communication technology can be recovered through the SMC. The OCA opined that the ADMS is not needed to enable the smart meters as they are capable of working with the existing OAS. Rather, the OCA maintained that this upgrade is a cost of doing business, that is, a cost an EDC must incur to provide safe, reliable and adequate service. OCA M.B. at 22.

The OCA argued the ADMS should not be recovered through the SMC and that if Duquesne goes forward with this project, it should instead seek recovery in a base rate proceeding, because the Company already receives revenues in base rates to pay for outage and distribution management. According to the OCA, any costs associated with the upgrades to these systems should remain in base rates because this is the standard practice for recovering these types of costs. The OCA explained that through base rates, operating efficiencies and associated cost reductions that accrue as a result of the investment in the ADMS will eventually flow back to customers. The OCA pointed out that, at this time, soft benefits cannot be quantified nor is the longevity of the soft benefits quantifiable at this time. However, the OCA posited that recovering the costs of the ADMS project as part of the base rates will allow for the forecasted soft benefits to be captured through base rates, over the same time period that the costs of the project are being collected through base rates. OCA M.B. at 22-23.

Citizen Power questioned the cost recovery of the proposed ADMS Project through the SMC, which allocates common costs on a per meter basis as opposed to recovering ADMS costs in base rates. Citizen Power claimed that there exists a requirement that “all measures associated with an EDC’s smart metering plan shall be financed by the customer class that receives the benefit of such measures.” Citizen Power M.B. at 9 (quoting *Implementation Order* at 32). Citizen Power submitted that if a customer class receives a negligible amount of benefits from a measure, it should not be required to contribute toward the financing of such measure. Citizen Power opined that the benefits from the reduced call volume and storm efficiency accrue directly to Duquesne and therefore the associated costs are not recoverable. Citizen Power asserted that in this case, using base rates would be much more appropriate from the standpoint that rates should be prudent and reasonable. According to Citizen Power, Duquesne’s proposed method of cost recovery would allocate approximately ninety percent of the costs to the residential class. However, Citizen Power claimed that based on the estimated value of reliability improvement derived from the ICE calculator, less than two percent of the societal benefits would accrue to the residential class. Citizen Power opined that this extreme divergence between costs and benefits points to the propriety of allocating ADMS costs to base rates. Citizen Power M.B. at 9-10 (citing OCA St. 1-S at 4; and Duquesne Exh. JK 2-R at 2).

###  2. ALJ’s Decision

In her Initial Decision, the ALJ found that Citizen Power’s argument was persuasive given the unquantifiable nature of estimating societal or soft benefits. The ALJ found that these soft benefits cannot be used to calculate the cost effectiveness, especially since ninety percent of the costs for OMS and DMS will be borne by residential customers who will only see two percent of the benefits from these new functionalities. The ALJ pointed out that Duquesne admitted it cannot quantify these benefits now. According to the ALJ, soft benefits can be quantified better after the fact and therefore can be better recovered through a base rate proceeding when the reliability and relative costs per customer class are routinely investigated and managed. I.D. at 53.

 The ALJ stated that her decision on this issue would be different if the costs of implementing these two functionalities (through the implementation of the ADMS and after creating the electric model) were not so high. However, the ALJ asserted that the Commission’s mandate was clear when it ordered Duquesne to determine if the smart meter functionalities were cost effective. The ALJ stated that if cost effective, the Commission wanted Duquesne to add the functionalities and seek cost recovery through the SMC. Unfortunately, the ALJ concluded that the proposed implementation is not cost effective. While the availability of these functionalities could be very useful, the ALJ averred that their implementation, and therefore cost recovery, cannot be made through the SMC due to a failure of the Company to show cost effectiveness. Additionally, the ALJ maintained that the other large EDCs in Pennsylvania have implemented similar versions of the OMS and DMS but sought recovery through their respective base rates. I.D. at 53.

###  3. Exceptions and Replies

In its Exceptions, Duquesne states that the Commission’s *Implementation Order* clearly defined enhanced outage communication, outage restoration and voltage monitoring capabilities as desired smart meter capabilities. Duquesne Exc. at 16 (citing *Implementation Order* at 16). In addition, Duquesne states that the Commission’s Order at *Petition of Duquesne Light Company for Approval of Its Final Smart Meter Procurement and Installation Plan*, Docket No. M-2009-2123948 (Order entered May 6, 2013)(*2013 Smart Meter Order*) at 15, required the Company to evaluate whether including enhanced outage communication, outage restoration and voltage monitoring in the Company’s Smart Meter Plan was cost effective. Duquesne maintains that it is proposing to implement the ADMS project to enhance its outage communication, outage restoration and voltage monitoring capabilities pursuant to the *Implementation Order* and the Company’s *2013 Smart Meter Order.* According to Duquesne, the ALJ’s conclusion that the Company should recover ADMS costs in base rates and not through the SMC is contrary to Commission precedent and to Act 129 of 2008. Duquesne Exc. at 16-17.

 Next, Duquesne explains that Act 129 provided EDCs the discretion to recover smart meter technology costs through base rates or on a full and current basis through a reconcilable automatic adjustment clause under Section 1307. Duquesne asserts that it has elected to recover such costs on a full and current basis through its SMC, which is a reconcilable automatic adjustment clause under Section 1307. Duquesne further asserts that the Commission has expressly authorized it and all other EDCs in Pennsylvania to recover their smart meter costs through reconcilable automatic adjustment clauses under Section 1307. Duquesne Exc. at 17-18 (citing *Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123948 (Order entered May 11, 2010) at 14; *Petition of PECO Energy Company for Approval of Smart Meter Technology Procurement and Installation Plan,* Docket No. M-2009-2123944 (Order entered May 6, 2010) at 17-18; *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123950(Order entered June 9, 2010) at 27-28; *Petition of* *PPL Electric Utilities Corporation for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123945 (Order entered June 24, 2010) at 10-11).

 Next, Duquesne states that the ALJ’s justification for denying ADMS cost recovery through the SMC on the basis that other EDCs have recovered ADMS costs through base rates is not a valid basis. While Duquesne notes that the OCA claims it is “standard practice” for recovering ADMS costs in base rates, the OCA presented no detail about the level of ADMS costs incurred by other EDCs and to what extent that EDCs recovered ADMS costs in base rates or in their respective smart meter charges. Furthermore, Duquesne notes that the OCA admitted that other EDCs in Pennsylvania have recovered “costs associated with supplemental outage and voltage management upgrades through the SMC.” Duquesne Exc. at 19 (quotingOCA St. No. 1-R at 4). Duquesne avers that it must upgrade its outage restoration, outage communication and voltage monitoring capabilities to comply with the Commission’s smart meter requirements and as such, should be permitted to recover these system upgrade costs in its SMC. Duquesne Exc. at 19-20.

Duquesne explains that all EDCs in Pennsylvania had implemented different levels of meter functionality at the time that Act 129 was enacted. Duquesne notes that it has an automated meter reading system that was read remotely, that PPL had an automated meter reading system that was able to read meters hourly over the electric lines and that the FirstEnergy EDCs read meters via a meter reading workforce. According to Duquesne, all of these various systems had to be replaced by smart meter technology and the Commission had recognized that each EDC had unique circumstances in its *Implementation Order.* Duquesne maintains that it had implemented an OAS system before Act 129 was enacted to meet its service requirements for outage restoration and communication. Duquesne opines that its proposal to implement the ADMS project is a direct response to Act 129 and the *Implementation Order* requirements and the Company should be permitted to recover ADMS costs in its SMC. Duquesne Exc. at 20.

 Next, Duquesne asserts that the ADMS project is not a normal cost of doing business for the Company as alleged by the OCA. Duquesne explains that its current OAS which it has used for many years to provide service to customers meets the Company’s normal and reasonable service requirements under the Code. Installing the ADMS system is a direct response to the Commission’s smart meter orders. Also, Duquesne points out that the OCA raised a similar argument in West Penn’s smart meter proceeding, arguing that West Penn should not be permitted to recover CIS costs in its SMC because CIS costs are normal operating costs.[[8]](#footnote-8) However, Duquesne states that the Commission denied this argument finding that the CIS costs are a recoverable cost of compliance with smart meter implementation and are recoverable through West Penn’s smart meter surcharge. According to Duquesne, its proposed ADMS project is a smart meter project to comply with the smart meter mandates of Act 129. Duquesne Exc. at 20‑22.

In its Replies to Exceptions, the OCA states that the ALJ correctly determined that if Duquesne proceeds with implementation of the ADMS, recovery of the costs of the project should be sought in a base rate proceeding and not obtained through the smart meter charge. First, the OCA submits that ADMS costs do not meet the definition of smart meter technology as provided in Act 129. The OCA states that this Act defines “smart meter technology” under 66 Pa. C.S. § 2807(g). The OCA asserts that ADMS costs are not “smart meter technology” costs under this definition as both the OMS and DMS systems utilize the bidirectional communication and data production capabilities of the smart meter technology to better manage Duquesne’s distribution system, but they are not necessary to enable the technology. According to the OCA, only the costs of distribution system upgrades that enable metering and network communication technology can be recovered through the SMC. The OCA avers that Duquesne’s testimony at the Further Evidentiary Hearing established that the ADMS is not needed to enable the smart meters as they are capable of working with Duquesne’s existing outage monitoring system, the OAS. OCA R. Exc. at 10-12 (citing Tr. at 98).

 The OCA posits that installation of the OMS and DMS are not exclusively driven by the provisions of the *Implementation Order*, but that they represent upgrades to systems that should occur in the regular course of doing business as a public utility. The OCA points out that a Duquesne witness testified that the OAS is approximately twenty years old and would need to be upgraded at some point. OCA R. Exc. at 13 (citing Tr. at 98). The OCA avers that another Duquesne witness agreed that part of the cost of upgrading to the OMS from OAS and adding DMS is just the cost of doing business as an EDC and part is in addition to that. *Id.* (citingTr. at 145-146, 148). The OCA maintains that this same witness revealed that Duquesne’s impetus for installing the ADMS is being driven not just by the Commission’s *Implementation Order,* but by the need simply to upgrade key systems as part of the cost of doing business as a public utility. As such, the OCA submits that the costs of implementing the ADMS are really costs that would be incurred by Duquesne in the ordinary course of business and recovery of these costs should be sought through a base rate proceeding where all issues can be thoroughly examined. OCA R. Exc. at 13-14.

 The OCA submits that Duquesne is essentially proposing to bootstrap normal operating investment and expenses incurred in the ordinary course of business and typically recovered through base rates into smart meter costs recoverable through the SMC which allows for accelerated recovery and limits opportunity to explore issues of reasonableness and prudence. According to the OCA, it is mere fortuity that the SMC is available at the time Duquesne proposes to make needed upgrades to its systems. OCA R. Exc. at 14.

 Finally, the OCA posits that because the cost-effectiveness of ADMS can only be established by relying on the difficult to quantify and speculative societal benefits and because these benefits represent such a significant portion of the claimed overall benefits of the project and cannot be reflected as a savings offset in the surcharge, seeking recovery through base rates is appropriate as it would allow for the potential recovery of only those costs found to be reasonable and prudent. OCA further contends that it would better coincide with the period over which the benefits materialize, to the extent that they do, and would ensure that cost recovery from the rate classes and the benefits of the system are properly aligned. The OCA explains that based on the results of Duquesne’s application of the ICE calculator there was an imbalance between the cost recovery of ADMS and the expected benefits by rate class because at the conclusion of the ADMS project life, more than half of the benefits would be from “societal” benefits. Also, the OCA explains that according to Duquesne’s ICE calculator results, only 1.5 percent of the societal benefits will accrue to the residential class. However, the OCA points out that recovery through the SMC would impose ninety percent of ADMS costs on the residential class. Therefore, the OCA strongly supports the reasoning of the ALJ that points to this disparity as a reason to support base rate recovery for ADMS costs. The OCA opines that questions of cost allocation among rate classes are best and most comprehensively addressed in the context of a base rate case. The OCA submits that front-loading the costs of the ADMS through the SMC in the face of the uncertainty of the benefits from the project, would not meet the just and reasonable standard of ratemaking. OCA R. Exc. at 15.

###  4. Disposition

 Upon our review of the evidence of record, the Exceptions and Replies, thereto, and based upon our prior determination that Duquesne’s proposed ADMS project is not cost effective, we shall adopt the determination of the ALJ that the costs of this ADMS project are not recoverable through Duquesne’s SMC. We are in agreement with the ALJ’s conclusion that the soft benefits estimated by the Company can be quantified better after the fact and therefore can be better recovered through a base rate proceeding when the reliability and relative costs per customer class are routinely investigated and managed. However, based upon the evidence provided in this proceeding, the proposed implementation was not proven to be cost effective and recovery through the SMC would not be reasonable or in the public interest.

Accordingly, we shall deny the Exceptions filed by Duquesne on this issue and adopt the ALJ’s decision that denies cost recovery of the proposed ADMS project through Duquesne’s existing SMC.

##  F. Recovery of Bill Ready Costs

###  1. Positions of the Parties

Duquesne proposed to recover the costs for implementing Bill Ready functionality through its SMC. Duquesne explained that Bill Ready is the billing process whereby an EDC provides the EGS with usage data, receives back the total calculated EGS charges, and places those EGS charges on the joint EDC/EGS bill to the customer. According to Duquesne, Rate Ready is the billing practice whereby the EDC receives the EGS rate and the EDC calculates the EGS charges to be included on the joint EDC/EGS bill to customers. Duquesne contended that the Commission directed EDCs to include the Bill Ready functionality as part of their smart meter plans because of the Commission’s belief that Bill Ready capabilities facilitate time-of-use (TOU) and real- time (RT) pricing. Duquesne M.B. at 28-29 (citing *Smart Meter Procurement and Installation Final Order*, Docket No. M-2009-2092655 (Order entered December 6, 2012) (*Final Implementation Order*) at 10). Duquesne maintained that implementing the Bill Ready functionality is part of its SMP, and the Company should be permitted to recover costs for implementing the Bill Ready functionality through its SMC. Duquesne M.B. at 28-29.

The OCA recommended that the costs to implement Bill Ready billing be recovered from the EGSs and not from Duquesne’s customers. The OCA asserted that this position is based on the recognition that EGSs are the principal beneficiaries of this functionality. Citing to OCA St. No. 1 at 18, the OCA explained that presently, Duquesne offers only Rate Ready billing. According to the OCA, being able to provide Bill Ready billing facilitates the ability of EGSs operating in Duquesne’s territory to offer a greater range of products to their customers. The OCA opined that a substantial portion of Duquesne’s customer base will derive no benefit from the Bill Ready functionality. Furthermore, the OCA argued that Duquesne ignores all of its non-shopping customers when it seeks recovery of these costs from all of its customers, whether shopping in the supply market or not. The OCA also maintained that not all customers who do shop will avail themselves of the special rates offered by the EGSs, because many customers now prefer to remain on fixed rates that do not vary by time of use. According to the OCA, fundamental fairness in ratemaking requires that these costs should be borne by the entities that are the predominant beneficiaries of this capability and that in this proceeding, those predominant beneficiaries are the EGSs. OCA M.B. at 23-24.

###  2. ALJ’s Decision

The ALJ concluded that it is appropriate and reasonable to recover these Bill Ready costs through the SMC as she found that Duquesne is correct that it was not required to do a cost-benefit analysis. In addition, the ALJ averred that although Bill Ready benefits EGSs, not EDCs, there is some benefit to customers. She explained that with Bill Ready, some suppliers will be able to offer competitive rates that may save customers money. Also, she stated that the Bill Ready functionality will enable the suppliers to implement TOU and other similar rates. According to the ALJ, to the extent Duquesne has customers who are willing to risk having variable rates, this functionality may encourage customers to shop and to reduce consumption. I.D. at 56.

Next, the ALJ explained that Bill Ready is a billing function that is not a smart meter function, *per se*, and in that regard is not related to providing smart meters or smart meter technology to customers. However, she noted that Bill Ready is a functionality that uses smart meter capability and was cited by the Commission in the *Final Implementation Order*. The ALJ stated that the Commission indicated that the costs of the Bill Ready functionality are related to customers who have smart meters, and she found that Duquesne is correct to include this functionality in its modified SMP, especially since no mechanism currently exists for the Company to bill the suppliers. I.D. at 56.

###  3. Exceptions and Replies

In its Exceptions, the OCA states that the $7 million cost of implementing Bill Ready billing should not be imposed on customers as Duquesne proposed, but rather should be borne by EGSs, who are the principal beneficiaries of an EDC’s implementation of the Bill Ready billing functionality. The OCA explains that Bill Ready billing enables EGSs to take interval data from customers’ smart meters and calculate the generation and transmission charges for special pricing programs that they may offer and then forward those charges to the EDC for inclusion on the EDC bill rendered to the customer. The OCA explains that presently Duquesne offers only Rate Ready billing under which EGSs provide their rates to the EDC and the EDC calculates customer bills using the EGS supplied rate. According to the OCA, it is clear that being able to provide Bill Ready billing will facilitate the ability of EGSs operating in Duquesne’s territory to offer a greater range of products to attract more customers. As such, the OCA asserts that EGSs are clearly the principal beneficiaries of this functionality and should bear the costs of its implementation and continuation. OCA Exc. at 1-2.

 Next, the OCA points out that the ALJ recognized that Bill Ready is a billing function that is not a smart meter function, *per se*, and in that regard is not related to providing smart meters or smart meter technology to customers. The OCA states that while the Commission required EDCs to include provisions for Bill Ready billing in their SMPs, it does not necessarily follow that the costs of Bill Ready billing should or must be a smart meter cost, recoverable through the SMC. The OCA also points out that the ALJ noted that “[Bill Ready billing] allows EGSs to take advantage of the TOU and RT Pricing programs. Almost the entire benefit of having Bill Ready functionality is a benefit only the EGSs will enjoy although the cost of the function will be borne entirely by customers.” OCA Exc. at 3 (quoting I.D. at 56). The OCA asserts that despite making these points, the ALJ finds that the cost of the Bill Ready functionality should be carried entirely by customers through the SMC based on two grounds: (1) that although Bill Ready billing benefits EGSs, not EDCs, there is some benefit to customers; and (2) there is not currently a mechanism by which Duquesne could bill the EGSs. The OCA takes exception on both grounds. OCA Exc. at 3.

 Next, the OCA states that while it may be the case that a segment of Duquesne’s customers would benefit from the new EGS rates, it is also true that about thirty to forty percent of Duquesne’s residential and commercial customers shop for generation supply.[[9]](#footnote-9) The OCA points out that not all customers who shop will necessarily avail themselves of the special rates offered by EGSs as a result of Bill Ready billing and may prefer to remain on fixed rates that don’t vary by time of use. As such, the OCA claims that it is most likely that a substantial portion of Duquesne’s customer base will derive no benefit from the Bill Ready functionality. OCA Exc. at 3-4.

 In response to whether there exists a mechanism for billing EGSs for the costs of Bill Ready billing, the OCA states that it is true that none of the charges imposed by Duquesne on EGSs pursuant to its Electric Generation Supplier Coordination Tariff currently provides for such recovery. However, the OCA opines that if the Commission determined that recovering Bill Ready costs from EGSs was more appropriate than seeking it from customers, it could direct the Company either to develop a new charge for that purpose or to modify an existing charge. According to the OCA, one possibility might be to incorporate the costs of Bill Ready billing into the Technical Support and Assistance Charge that is currently imposed by Duquesne on EGSs under its Supplier Tariff. OCA Exc. at 4 (citing Duquesne Light Company Electric Generation Supplier Coordination Tariff at 42).

 Finally, the OCA states that Duquesne is coming late to implementing Bill Ready functionality as all the other major EDCs had this capability in place at the time the Commission issued its *Final Implementation Order* in December of 2012. In fact, the OCA avers that some of the EDCs appear to have had Bill Ready billing in place prior to the passage of Act 129 and the imposition of smart meter mandates on the EDCs. According to the OCA, for these EDCs, the costs of Bill Ready billing are recovered through existing rates. The OCA asserts that it is not aware of any other EDC that recovers such costs through their SMC and that Duquesne’s insistence to do so is unique among the EDCs. Therefore, the OCA submits that Bill Ready costs are not smart meter costs that should be recovered through the SMC. OCA Exc. at 4.

 In reply, Duquesne first states that the ALJ’s conclusion on this issue is consistent with the *Final Implementation Order* in which the Commission directed EDCs to include Bill Ready functionalities as part of their SMPs. Duquesne notes that the Commission stated within that Order it would be best to promote uniformity and direct that all EDCs subject to the smart meter provisions propose Bill Ready and Dual Billing functionalities as part of their smart meter plans. Duquesne R. Exc. at 1-2 (citing *Final Implementation Order* at 10). Duquesne asserts that the OCA’s argument is not logical as the Commission would not have ordered EDCs to include Bill Ready as part of their smart meter plans if it did not anticipate that EDCs could recover these costs, like all other costs associated with smart meter plans, through the SMC. Duquesne asserts that it included Bill Ready functionality as part of its smart meter plan, and therefore is permitted to recover all smart meter plan costs, including Bill Ready costs, through its SMC. Duquesne R. Exc. at 1-2.

 Next, Duquesne states that the OCA’s position is inconsistent with the Commission’s categorization of Bill Ready and smart meter capability as the Commission adopted a broad view of smart meter functionalities in its *Implementation Order.* Duquesne further states that the Commission recognized in its *Final Implementation Order* that Bill Ready facilitates TOU and RT Pricing. Duquesne asserts that because Bill Ready costs are necessary for effectively implementing TOU and RT capabilities, Bill Ready costs should be recovered through the SMC. According to Duquesne, the OCA does not offer any basis to differentiate Bill Ready from other smart meter functionalities for purposes of recovery through the SMC. Duquesne R. Exc. at 3-4.

 Next, Duquesne states that Bill Ready capability has the potential to benefit all customers contrary to the OCA’s assertions. Duquesne notes that Bill Ready will allow suppliers to offer competitive rates that may save customers money as it facilitates TOU rates which may encourage customers to shop and to reduce consumption. Duquesne opines that these customer benefits provide further support for recovering Bill Ready costs through the SMC. Duquesne further states that the OCA’s argument that customers receive no benefit from Bill Ready is without merit because Bill Ready provides customers with the choice to avail themselves of TOU rate offerings at any time. Duquesne opines that whether customers actually decide to shop or elect TOU rates is irrelevant because facilitating shopping provides alternatives to customers. Duquesne asserts that by directing EDCs to include Bill Ready functionalities in their smart meter plans, the Commission clearly viewed the customer benefits of Bill Ready as justifying the associated cost. Duquesne R. Exc. at 4-5.

 Duquesne further maintains that there is no reasonable mechanism in place to recover Bill Ready costs from EGSs. Duquesne explains that there are several obstacles to recovering these costs from EGSs as this would be a complex process. Duquesne asserts that EGSs enter and exit the market creating uncertainty for recovery and that some EGSs may not want Bill Ready functionality for product offerings, and therefore, would not be willing to pay for Bill Ready costs. Duquesne avers that for the first time in its Exceptions, the OCA introduces a proposal for recovering Bill Ready costs by incorporating them into the Technical Support and Assistance Charge in the Company’s Supplier Tariff. Duquesne requests that the OCA’s cursory suggestion must be rejected because it is untimely and not part of the record in this proceeding. According to Duquesne, the OCA did not introduce a single recommendation as to how the Company could recover Bill Ready costs from EGSs and its attempt to introduce one at this late stage of the proceeding is inappropriate. Duquesne maintains that by waiting until the exception stage, the OCA has deprived it of adequate time to evaluate and respond to its proposal. Duquesne R. Exc. at 5-6.

 Finally, Duquesne states that the OCA’s arguments regarding other EDCs’ Bill Ready functionality are unsubstantiated and irrelevant. Duquesne asserts that the OCA’s assertions regarding cost recovery by other EDCs should not be considered because they are not part of the record in this proceeding. Duquesne opines that the OCA cannot rely on facts that are not part of the record or attempt to introduce new evidence in support of its position at this stage of the proceeding. Also, Duquesne posits that the OCA failed to mention that, while other EDCs had Bill Ready functionality in place, not all EDCs had Rate Ready in place before Act 129’s smart meter deployment requirement. Duquesne cites to PPL Electric Utilities Corporation (PPL), for example, as a utility that did not have Rate Ready in place before it implemented a smart meter plan. Duquesne asserts that following the *Implementation Order*, the Commission directed PPL to implement Rate Ready in addition to Bill Ready. Duquesne R. Exc. at 7 (citing *PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271 (Order entered August 11, 2009)) at 19-21. Thus, Duquesne contends that while other EDCs may have been recovering Bill Ready costs through existing rates, not all EDCs were recovering Rate Ready costs through existing rates. According to Duquesne, the fact that it implemented Rate Ready while others had in place Bill Ready provides no support for the OCA’s argument that Bill Ready costs should not be recovered through the SMC. Duquesne R. Exc. at 6-7.

###  4. Disposition

Based upon our review of the evidence of record, we shall adopt the determination of the ALJ that Duquesne’s cost to implement Bill Ready billing are properly recoverable through the Company’s SMC. We are in agreement with the conclusions of the ALJ that Duquesne was not required to perform a cost-benefit analysis to implement Bill Ready billing and that all customers could potentially benefit from its implementation as suppliers will be able to offer more competitive rates and will enable them to implement TOU and other RT rates. As such we conclude that it is appropriate and reasonable for Duquesne to recover these costs through its existing SMC mechanism. While we are sensitive to the concerns expressed by the OCA that the EGSs will benefit from the implementation of Bill Ready billing, we are in agreement with Duquesne that there is no reasonable mechanism currently in place to recover these costs from EGSs. Also, we agree with Duquesne that the OCA’s suggestion in its Exceptions to introduce a possible mechanism at that late stage of the proceeding is inappropriate and should be rejected.

 Accordingly, we shall deny the Exceptions filed by the OCA on this issue and adopt the decision of the ALJ.

##  G. Incremental Advanced Metering Infrastructure (AMI) Project Costs

### 1. Positions of the Parties

Concerning the costs of the AMI project, Duquesne contended that the AMI project is complex because of the system functionality, testing and operational requirements. Duquesne asserted that it is important to recognize that it is very difficult to accurately forecast costs for such a significant project, especially when the project must be implemented over a number of years. According to Duquesne, the systems that are being implemented are new, complex IT systems that often require more work than anticipated to achieve the necessary functionality. Duquesne opined that the AMI project is required by statute, and the Company should be permitted to recover all of its prudently incurred costs. Duquesne M.B. at 29-30 (citing Duquesne St. No. 3-R at 3-4).

With respect to the $54 million increase in AMI-related costs that are unrelated to ADMS, the OCA took the position that with the exception of the $7 million cost for the Bill Ready functionality, the increase should be approved and permitted to be recovered through the SMC.[[10]](#footnote-10) According to the OCA, these costs will enable Duquesne to complete implementation of the original portion of its smart meter technology program. OCA M.B. at 24-25.

###  2. ALJ’s Decision

The ALJ concluded that Duquesne’s proposed costs to cover the accelerated deployment of its smart meters are appropriate and reasonable and should be permitted to be recovered through the Company’s SMC. Furthermore, she found that the accelerated deployment of smart meters is a cost neutral event because the increased deployment costs will be offset by the reduced meter installation and management costs.[[11]](#footnote-11) Therefore, the ALJ concluded that the $54 million in additional costs for the AMI program should be approved. According to the ALJ, Duquesne needs to complete the implementation of the program, and accelerated deployment is consistent with the Commission’s stated purposes for the SMP Program in Pennsylvania. I.D. at 58.

###  3. Disposition

No Party excepts to the ALJ’s determination in regard to the incremental AMI costs. Finding the ALJ’s decision to be reasonable, appropriate and in accordance with the record evidence, we shall adopt her position on this issue.

##  H. Allocation of ADMS Costs

###  1. Positions of the Parties

In response to the questions posed by the ALJ in her Post-Hearing Order, Duquesne claimed that the Company must install the entire OMS and ADMS project, as proposed, to receive the full voltage monitoring and outage communication capabilities. Duquesne stated that while the ADMS provides benefits to customers that go above and beyond the outage communication and voltage monitoring capabilities, these additional benefits do not require additional costs. Duquesne averred that it could purchase additional systems for the ADMS that would enhance functionality, but has not done so and is not requesting to recover costs for these systems through the SMC. Duquesne M.B. at 30.

Next, Duquesne cited to the *Implementation Order* at 16 wherein the Commission noted that smart meter technology can support more than the capability requirements set forth in Act 129. Duquesne asserted that while the Commission recognized that smart meter technology would provide many benefits to EDCs and to customers, the Commission did not state that costs to implement smart meter technology should be separated between costs for smart meter technology and costs for ancillary functionalities or benefits. Duquesne maintained that in developing its ADMS project, the Company only included components that relate to outage communication, restoration and voltage monitoring. According to Duquesne, any attempt to segregate the specific functionalities provided by the ADMS between smart meter functionalities and non-smart meter functionalities is inconsistent with the *Implementation Order*. Duquesne opined that it would be nearly impossible to attempt to segregate ADMS functionalities in this manner. Duquesne M.B. at 30-31.

The OCA took the position that there appeared to be an imbalance between the cost recovery of ADMS and the expected benefits by rate class. The OCA pointed out that according to the Company’s ICE calculator results, only 1.5 percent of the societal benefits will be derived by the residential class, but based upon Duquesne’s proposed method of cost recovery, the residential class will be allocated approximately ninety percent of the ADMS costs. The OCA asserted that the existence of this disparity supports its position that recovery of these costs should be sought in a base rate proceeding, where the costs and benefits can be thoroughly examined and issues of cost allocation fully addressed. However, the OCA opined that if the Commission authorizes Duquesne to recover ADMS costs through the SMC, cost allocation under the SMC may need to be addressed to better match costs with benefits. OCA M.B. at 25-26.

###  2. ALJ’s Decision

 The ALJ stated that Duquesne acknowledged at the Further Hearing that less than 100% of the cost of the installation of the ADMS is related to smart meter costs. The ALJ asserted that despite being directed to present evidence that breaks out these costs as a percentage, the Company failed to do so or show how much of the cost of the ADMS, which includes the costs of the OMS and DMS, is actually related to smart meter costs. According to the ALJ, she essentially provided Duquesne a “second bite at the apple” when scheduling the Further Hearing and by specifically directing the Company to present detailed cost evidence. However, she explained that Duquesne’s response to the Post-Hearing Order was to present the same information as presented at the Initial Hearing. In fact, the ALJ claimed that the only new detailed information divulged at the Further Hearing resulted primarily from the questions she asked. I.D. at 59.

 The ALJ posited that Duquesne’s responsibility in this proceeding was to provide convincing evidence that its request for a massive increase in smart meter costs, which subsequently would be borne by all ratepayers, was a justified request. According to the ALJ, Duquesne failed to do so. *Id.*

 However, the ALJ explained that her decision to deny assessing the costs of the ADMS through the SMC is not a denial of the ADMS project. She noted that the functionalities provided by the ADMS, OMS and DMS, as outlined by Duquesne, will provide tools and capabilities that will permit the EDC to improve its reliability, provide more competitive opportunities for customers to save money, will likely decrease consumption and will save money for both Duquesne and its customers. The ALJ asserted, however, that seeking ADMS cost recovery through the SMC is the incorrect way for Duquesne to proceed. I.D. at 59-60.

 The ALJ concluded that as modeled by the other EDCs, Duquesne should implement the ADMS through base rates. She maintained that in base rates, the costs attributable to the various rate classes can be investigated, evaluated and appropriately allocated. Additionally, she opined that through base rates, the benefits can be quantified and validated using publically available and discernible calculation methods. I.D. at 60.

###  3. Exceptions and Replies

 In its Exceptions, Duquesne states that the ALJ erred in concluding that the Company improperly failed to split the ADMS project between smart meter and non-smart meter functionalities. Duquesne claims that all of the reasonable costs of implementing the OMS are related to outage communications and all of the reasonable costs of implementing the DMS are related to voltage monitoring. Duquesne also states that the Company must install the entire ADMS project, as proposed, to achieve the full voltage monitoring and outage communication and restoration capabilities. Duquesne avers that while the ADMS provides benefits to customers that go above and beyond the outage communication, outage restoration and voltage monitoring capabilities, these additional benefits do not require additional costs. Furthermore, Duquesne explains that it could purchase additional system enhancements for the ADMS that would enhance functionality beyond the required smart meter requirements, but has not done so and is not requesting to recover such costs for these systems through the SMC. According to Duquesne, the Company limited its ADMS project to costs that are necessary to implement the required smart meter functionality. Therefore, Duquesne posits that there is no basis to segregate the specific functionalities provided by the ADMS between smart meter and non-smart meter functionalities and avers that the ALJ’s conclusion should not be accepted. Duquesne Exc. at 22-23.

###  4. Disposition

Upon our consideration of the evidence of record, we agree with the ALJ’s conclusion but note that this issue is essentially moot as we have previously concluded that Duquesne’s proposed ADMS project has not been shown to be cost effective in this proceeding. However, it is important to reiterate the ALJ’s statement in her Initial Decision that our determination in this proceeding that the ADMS project has not been proven to be cost effective to permit recovery through the SMC should not be interpreted as a blanket denial of Duquesne’s potential implementation of the ADMS project. We believe there are potential benefits from these capabilities for the customers of Duquesne and we would encourage the Company to consider going forward with this project and seek recovery through a base rate proceeding where the costs and allocations of those costs are more properly evaluated.

 Accordingly, we shall deny the Exceptions filed by Duquesne on this issue and adopt the ALJ’s determination.

# V. Conclusion

We have reviewed the record as developed in this proceeding, including the ALJ’s Initial Decision and the Exceptions and Replies to Exceptions filed thereto. Based on this review, we shall adopt the ALJ’s Initial Decision in its entirety and shall deny the Exceptions filed by Duquesne and the OCA in response to the Initial Decision; **THEREFORE,**

# VI. Ordering Paragraphs

 **IT IS ORDERED:**

1. That the Exceptions filed by Duquesne Light Company on November 28, 2016, to the Initial Decision of Administrative Law Judge Katrina L. Dunderdale issued on November 8, 2016, are denied, consistent with this Opinion and Order.

 2. That the Exceptions filed by the Office of Consumer Advocate on November 28, 2016, to the Initial Decision of Administrative Law Judge Katrina L. Dunderdale issued on November 8, 2016, are denied, consistent with this Opinion and Order.

 3. That the Initial Decision of Administrative Law Judge Katrina L. Dunderdale, issued on November 8, 2016, is adopted.

 4. That the Petition for Approval to Modify the Smart Meter Procurement and Installation Plan filed on August 4, 2015 is denied, in part, in that Duquesne Light Company is not authorized to implement the Automated Distribution Management System because it is not cost effective as proposed.

 5. That the Petition for Approval to Modify the Smart Meter Procurement and Installation Plan filed on August 4, 2015, is granted, in part, in that Duquesne Light Company is authorized to incur costs and implement the Bill Ready functionality and the accelerated deployment of Smart Meters.

 6. That the Petition to Withdraw filed by Citizen Power, Inc. on November 21, 2016, is granted.

7. That the proceeding docketed at P-2015-2497267 be marked closed.

  **BY THE COMMISSION,**

 Rosemary Chiavetta

 Secretary

(SEAL)

ORDER ADOPTED: March 2, 2017

ORDER ENTERED: April 7, 2017

1. Duquesne St. No. 2 at 3. [↑](#footnote-ref-1)
2. The OAS is used to track emergency trouble calls, provides a means to manually group these calls to protective devices and enables real time updating of the interactive voice response (IVR) with useful outage information for customers. [↑](#footnote-ref-2)
3. Duquesne St. No. 2-R at 6. [↑](#footnote-ref-3)
4. Duquesne Exhibit JK 1-R. [↑](#footnote-ref-4)
5. Duquesne Exhibit JK 2-R. [↑](#footnote-ref-5)
6. Duquesne Exc. at 14 (citing *Energy Efficiency and Conservation Program Implementation Order*, Docket No. M-2008-2069887 (Order entered January 16, 2009) (*EE&C Order*) at 15-16). [↑](#footnote-ref-6)
7. OCA argues that Duquesne did not provide a breakdown of ADMS costs that are smart meter-related and those that are not. As indicated in response to the first ALJ question in the Post-Hearing Order, the Company asserted all of the costs of ADMS are smart-meter related. Duquesne St. No. 2C at 5; Tr. at 91-92. [↑](#footnote-ref-7)
8. Duquesne Exc. at 20-21 (citing *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 entered March 6, 2014)at 33-34). [↑](#footnote-ref-8)
9. The OCA references PA OCA Electric Shopping Statistics, October 1, 2016 indicating that 31.6% of Duquesne’s residential customers and 42.2% of its commercial customers were shopping as of that date. OCA Exc. at 3. [↑](#footnote-ref-9)
10. OCA St. No. 1 at 16. [↑](#footnote-ref-10)
11. Duquesne St. No. 1 at 4, 5. [↑](#footnote-ref-11)