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VIA HAND DELIVERY

James J. McNulty, Secretary
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400 North Street, 2nd Floor
Harrisburg, PA 17120

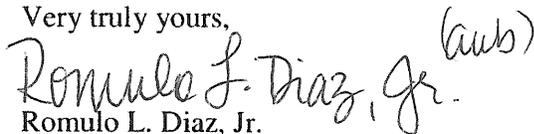
Re: Reply Comments of PECO Energy Company On Staff's Draft Implementation Order and Questions Regarding Smart Meter Procurement and Installation Plans, Docket No. M-2009-2092655

Dear Secretary McNulty:

Pursuant to the March 30 and April 9, 2009 Secretarial Letters issued in this docket, enclosed for filing are original and fifteen copies of the Reply Comments of PECO Energy Company on Staff's Draft Implementation Order and Questions Regarding Smart Meter Procurement and Installation Plans. The Reply Comments are also being sent to the Commission's Act 129 e-mail account.

Please do not hesitate to contact me should you have any questions.

Very truly yours,


Romulo L. Diaz, Jr.

Associate General Counsel

/ads

Enclosures

Via Electronic Mail

cc: ra-Act129@state.pa.us

reading (“AMR”) system throughout its service territory, which already provides substantial benefits to its customers. PECO intends to undertake a careful analysis of opportunities to leverage its current system to develop a prudent and cost-effective smart meter network system in compliance with Act 129. PECO remains concerned about any requirement to deploy smart meters before the underlying support structure for smart meters is complete. For example, a requirement to install smart meters on new construction during the grace period and before the completion of the supporting network could result in a metering service that is less capable than PECO’s current AMR metering service. Finally, PECO again emphasizes that Act 129 permits cost recovery for smart meter technology by way of both automatic adjustment clause **and** base rate mechanisms. Considering the great cost associated with smart meter deployment and the express statutory authority of cost recovery mechanisms, the Commission should resist *a priori* efforts to restrict EDC’s choices for cost recovery.

II. PECO’S REPLY COMMENTS ON STAFF’S DRAFT IMPLEMENTATION ORDER AND QUESTIONS

A. Smart Meter Deployment

1. Network Development and Installation Grace Period

As noted in its earlier comments, PECO commends Staff’s recognition that full deployment of the smart meter network involves more than installation of metering hardware. PECO underscores the need for a network development and installation grace period to facilitate a prudent deployment of smart meter technology to PECO’s service territory.

The Energy Association of Pennsylvania commented that an 18-month grace period beginning with plan approval may not be sufficient to both develop and install the underlying smart meter network, which is a necessary predicate to later smart meter deployment.¹ The

¹ Comments of the Energy Association of Pennsylvania, at 2.

Energy Association further suggests that the 18-month grace period should begin with Commission approval of the EDC choice of smart meter vendor. PECO agrees that the grace period should begin no earlier than the Commission's approval of an EDC's negotiated contracts with smart meter equipment vendors following the Commission's approval of the EDC's plan for smart meter deployment. Relating the grace period to negotiated-contract approval will give the Commission and EDCs the flexibility needed to develop smart meter plans tailored to EDC capabilities and circumstances, whether building upon an already deployed advanced meter system or building a smart meter system from the ground.

PECO agrees with the Office of Consumer Advocate ("OCA") that Act 129 requires smart meter technology to be furnished in accordance with a depreciation schedule not to exceed 15 years (66 Pa.C.S. § 2807(F)(2)(iii)). OCA asks for Commission clarification as to whether the 15-year depreciation begins upon plan approval or following the 18-month grace period.² PECO believes the 15-year depreciation period should begin when the capital investment is placed in service. For the underlying infrastructure, the depreciation period begins upon installation, and for the meter, depreciation begins upon installation of the meter after the grace period.

In its comments on cost recovery, Duquesne Light Company ("Duquesne") noted that some EDCs have implemented AMR systems or partial deployment of smart meters prior to November 14, 2008.³ Duquesne recommended that the Commission address the issue of the "remaining life of existing meters and other AMR system components that are replaced by the smart meter mandate."⁴ PECO joins Duquesne's recommendation. PECO has remaining value in undepreciated AMR assets in terms of meters and supporting equipment. In order to enable

² Comments of the Office of Consumer Advocate, at 5.

³ Comments of Duquesne Light Company, at 6.

⁴ *Id.*

recovery of the value of the undepreciated AMR assets, the Commission either must allow a smart meter deployment timeline that permits full depreciation of those assets or accelerate depreciation of the stranded AMR assets.

2. Customer Request

As proposed by Staff in the Draft Order, EDCs would not be required to install smart meters until after the Commission-approved grace period.⁵ However, after the allotted grace period, each EDC must provide a smart meter upon customer request as provided by Act 129. PECO agrees with Staff's conclusion that customers should pay only for the incremental cost of providing them with a smart meter ahead of system-wide deployment. By charging a customer only for the incremental cost of early installation of a smart meter, there should be no remaining concern that a customer might pay twice for the same technology through direct purchase of a smart meter and again through a surcharge or base rate increase.

OCA states that residential customers should not be required to pay the full incremental cost of the smart meter at the time of installation.⁶ Instead, OCA suggests that the customer pay the incremental cost on a monthly basis through a tariffed program. However, Act 129 clearly states that a customer requesting smart meter technology must “pay the cost of the smart meter at the time of the request.”⁷

There will be incremental costs associated with early adopters of smart meters ahead of scheduled deployments. It is PECO's position that early adopters should pay for the incremental cost of early installation, and that such cost should be recoverable at the time of early installation. It is important to note that the incremental cost of installation does not include the cost of the supporting network or the cost of the meter, as those costs will be recovered through

⁵ Draft Order, at 5.

⁶ Comments of the Office of Consumer Advocate, at 6.

⁷ 66 Pa.C.S. § 2807(f)(2)(I) (emphasis added).

other cost-recovery vehicles from the entire customer base. Further, incremental installation costs should be recoverable from the requesting customer as a lump sum, rather than an increase to the individual's customer charge, consistent with Act 129.

3. New Construction

As contemplated in the Draft Order, EDCs would not be required to deploy smart meters in new construction during the approved network grace period.⁸ However, EDCs would be required to install smart meters in new construction that is begun after the network grace period. OCA suggests that the Commission should not delay the installation of smart meters in new construction without good cause, meaning there should be no grace period for installing smart meters in new construction.⁹ OCA states that smart meters should be able to provide the necessary meter and billing information even if the meters are not able to perform as true smart meters due to the lack of supporting network infrastructure.¹⁰

For EDCs that have deployed AMR systems – like PECO – a smart meter that is not yet connected to a communicating infrastructure would be incapable of delivering automatic meter readings to the company and would require manual reading. This means new requirements for meter readers, trucks and administrative office staff to manually input meter reads into the company's billing system, thus creating a significant incremental cost—subject to cost recovery, for installation of smart meters in new construction before the network is complete. While PECO anticipates that more cost-efficient interim solutions will be available to customers from its current AMR system, PECO believes that requiring that “each covered EDC . . . include in its smart meter plan a proposal for deployment of smart meters in new construction” is appropriate and adequate.

⁸ Draft Order, at 6.

⁹ Comments of the Office of Consumer Advocate, at 7.

¹⁰ *Id.*

B. Smart Meter Capabilities

PECO reemphasizes that Act 129 defines the functional requirements for smart meters deployed in Pennsylvania. EDCs across Pennsylvania arrive at the statutorily imposed mandate to deploy smart meters from very different starting points, and face significant cost implications and logistical challenges in deploying smart meters system-wide. For these reasons, PECO urges the Commission to establish minimum functionality requirements for smart meters that are strictly aligned to Act 129. By aligning the minimum capability requirements of smart meters with Act 129, the Commission will give the EDCs flexibility to propose additional capabilities to its smart meter system based on cost effectiveness and the metering environment in which the EDC currently operates.¹¹

C. Access to Smart Meters and Data

PECO continues its support of the idea expressed in the Draft Order that the “true usefulness of smart meters is to provide information to empower customers to control their electric use.”¹² That usefulness, however, comes from readily available consumption and price data. That information can be provided in a timely fashion without providing customers and third parties direct access to the meter.

Direct access to smart meters by customers and third parties raised concerns by commenters relative to system security,¹³ as well as customer confidentiality.¹⁴ PECO agrees that direct access to the smart meter by customers and third parties presents a security risk to the

¹¹ PECO notes that both OCA and Citizen Power express concerns about the remote connection and disconnection capability for smart meters. PECO believes that the technical ability to remotely connect and disconnect meters could result in cost savings for customers. PECO’s Off Peak (OP) rate is built upon older technology and faces technological obsolescence, and was grandfathered in earlier proceedings. The remote connect/disconnect capability of smart meters may be a solution and fulfill Act 129 requirements.

¹² Draft Order, at 10.

¹³ See, e.g., Comments of Duquesne Light Company, at 4.

¹⁴ See Comments of the Office of Consumer Advocate, at 12; Comments of Citizen Power, at 2; Comments of Industrial Energy Consumers of Pennsylvania, at 4.

network, and this risk may be avoided by making clear the distinction between affording direct access to consumption **data** versus direct access to the **meter**.

Citizen Power comments that smart meter data should be available through both a HAN and the Internet.¹⁵ Citizen Power also suggests that HAN to an in-home display “should be provided universally.”¹⁶ If the suggestion is for EDCs to provide in-home displays universally as part of the smart meter deployment, PECO notes that the cost would be quite significant with few correlative benefits for customers who do not participate in energy efficiency/pricing programs. And again, the focus of Act 129 is on providing data – not devices – to customers, and such data may be provided in ways other than or in addition to an in-home display. The decision to provide in-home displays for customers participating in pricing programs should be made by the EDCs, following an appropriate cost-benefit analysis, subject to Commission approval.

D. EDC Cost Recovery

1. Cost Recovery Mechanism

OCA in its comments submits that it is preferable “if the EDCs utilized a base rate mechanism.” Under Act 129, the EDCs are permitted to recover “reasonable and prudent costs of providing smart meter technology.”¹⁷ As noted in PECO’s earlier comments, the Draft Order and Act 129 states that “[a]n EDC may recover smart meter technology costs through (1) base rates, including a deferral for future base rate recovery of current basis with a carrying charge as determined by the Commission; *or* (2) on a full and current basis through a reconcilable automatic adjustment clause under section 1307.”¹⁸ In fact, this is the statutory language of

¹⁵ Comments of Citizen Power, at 3.

¹⁶ *Id.*

¹⁷ 66 Pa.C.S. § 2807(f)(7).

¹⁸ *Id.*; Draft Order, at 12 (emphasis added).

section 2807(f)(7) of Act 129. The Act, therefore, provides discretion for EDCs to determine – subject to Commission approval – the cost recovery vehicle that best accomplishes the statutory mandate that smart meters be deployed system-wide. PECO supports retaining such cost recovery flexibility for EDCs, and notes there are established methodologies to assure there is no double recovery by the EDC.

Duquesne correctly notes that some EDCs have implemented AMR systems and that these EDCs may not realize capital or cost savings at the same level as EDCs who have not implemented AMR systems.¹⁹ PECO agrees with Duquesne that an adjustment for AMR initiatives should be included in the evaluation of the EDC’s smart meter plan.

2. Allocation of Costs to Customer Classes

The Draft Orders states the following about the allocation of costs across customer classes: “Any costs that can be clearly shown to benefit solely one specific class should be assigned wholly to that class. Those costs that provide benefit across multiple classes should be allocated among the appropriate classes using reasonable cost of service practices.”²⁰ This proposed requirement accurately reflects the possibility that smart meter technology and programs could benefit clearly identifiable customer classes, in which case the costs would be appropriately allocated to the customer class that is benefited. Conversely, some benefits will be attributable to building an infrastructure to support system-wide deployment of smart meters, which benefits will inure to many classes, and those classes properly should bear the costs of the benefits extended.

Industrial Energy Consumers of Pennsylvania, et al. (“IECPA”), raises the concern that large commercial and industrial customers may already have installed meter technology that

¹⁹ Comments of Duquesne Light Company, at 6.

²⁰ Draft Order, at 13-14.

could qualify as “smart meter technology” under Act 129, and those customers would have already paid for the meter technology then in use.²¹ IECPA claims that EDCs should not be allowed to recover “any costs” from those classes of customers. IECPA then proposes a change to the Draft Order that exempts those customer classes from all costs of the smart meter program: “Any customer that has previously paid to have a smart meter installed, and any customer class or rate schedule that already has smart meters deployed, should be exempted from paying all costs of the smart meter program.”²²

Given the substantial investments PECO has made in its AMR deployment across its service territory, PECO is sympathetic to concerns that customers with metering systems that already satisfy the requirements of Act 129 should not be forced to pay for additional smart meters and infrastructure deployed across the whole network. It may be that large customers with robust metering and energy management systems will integrate seamlessly into the new smart meter system. However, there is no such assurance. Accordingly, we believe that this issue is best resolved on a case-by-case basis in consideration of final smart meter plans filed by EDCs.

E. Incentives for Accelerated Deployment

Staff asked whether the Commission should provide incentives to EDCs to accelerate their smart meter deployment by giving credit towards the required Energy Efficiency and Conservation Goals.²³ PECO responded that financial incentives such as accelerated depreciation of existing assets would be better mechanisms to encourage accelerated smart meter deployment. Some have commented that incentives are not necessary and seem to suggest that

²¹ Comments of Industrial Energy Consumers of Pennsylvania, et al., at 5.

²² *Id.*

²³ Staff’s Additional Questions Related to Smart Meter Procurement and Installation Plans, question 7.

acceleration of the smart meter deployment schedule is not desirable.²⁴ PECO reiterates that the company has automated meter assets currently deployed across its service territory that remain viable, useful and of value. PECO will need, at a minimum, accelerated depreciation of existing assets and cost recovery for early conclusion of current projects to avoid stranded costs and make it cost effective to accelerate the deployment of smart meters.

CONCLUSION

PECO appreciates the opportunity to reply to comments offered on Staff's Draft Order and questions regarding EDC smart meter deployment and installation plans. PECO believes that the comment process has been helpful in identifying several critical issues that must be resolved by the Commission in its final order. PECO looks forward to working with Staff and the other key stakeholders to resolve the remaining issues in this proceeding.

Respectfully submitted,



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²⁴ Appendix to the Comments of the Office of Consumer Advocate, at 6 (“Additional incentives are not necessary. If it is cost-effective to accelerate the smart meter deployment, the utility should pursue the deployment as a matter of sound utility practice.”); Comments of Citizen Power, at 7 (“Citizen Power does not believe that the Commission should provide an incentive to EDCs to accelerate their smart meter deployment. The costs of the technology involved should decrease over time, giving customers a better return on their investment.”).

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