

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**PETITION OF WEST PENN POWER COMPANY
d/b/a ALLEGHENY POWER**

West Penn Power Company d/b/a Allegheny Power (“Allegheny Power” or “the Company”) hereby files its Smart Meter Technology Procurement and Installation Plan (“SMIP” or “Plan”) with the Pennsylvania Public Utility Commission (“Commission”) pursuant to Section 2807(f) of the Public Utility Code (“Code”), 66 Pa.C.S. §2807(f), and the Implementation Order entered by the Commission on June 24, 2009 at Docket No. M-2009-2092655. Allegheny Power requests that the Commission expeditiously approve the Company’s SMIP, including full and current recovery via reconcilable surcharge of reasonable and prudent costs regarding the Plan. In support of its Petition Allegheny Power submits as follows:

Introduction

1. Allegheny Power is a public utility and Pennsylvania corporation authorized to provide electric service in southwestern, south-central and northern Pennsylvania. Allegheny Power serves approximately 715,000 customers in Pennsylvania in an area of about 10,400 square miles with a population of approximately 1.5 million. Allegheny Power is a wholly

owned subsidiary of Allegheny Energy, Inc. Allegheny Power and Allegheny Energy, Inc., have their corporate headquarters in the City of Greensburg, Westmoreland County, Pennsylvania.

2. Governor Edward Rendell signed Act 129 of 2008 (“Act 129”) on October 15, 2008, to be effective November 14, 2008. Act 129 requires electric distribution companies (“EDCs”) with at least 100,000 customers in Pennsylvania to adopt a plan to reduce energy consumption and demand in their service territories.

3. On June 30, 2009, Allegheny Power filed with the Commission its Energy Efficiency and Conservation (“EE&C”) and Demand Response (“DR”) filing, which provides Allegheny Power customers with robust energy conservation and efficiency tools enabling customers to reduce their consumption and demand with opportunity to save money. The measures, programs, and rate offerings described in the Company's EE&C and DR filing will help customers adjust their energy usage with the aim of reducing overall consumption and decreasing peak demand for electricity.

4. Act 129 also requires EDCs with at least 100,000 customers in Pennsylvania to file SMIPs with the Commission. The Commission entered an Implementation Order on June 24, 2009 at Docket No. M-2009-2092655 (“SMIP Implementation Order”), which establishes standards that the EDC Plans must meet.

5. As stated in Allegheny Power's Petition in support of its EE&C and DR filing, the Company's EE&C and DR filing and its plan for implementing smart meters and smart meter infrastructure are fundamentally interrelated. The interrelation lies in the fact that the Company's Plan to meet fully the Act 129 consumption and demand reduction requirements depends directly upon implementation of its SMIP, as the use of smart meter technology underpins many of the EE&C and DR programs, measures and rate offerings in the EE&C and

DR filing. A crucial tool in effectuating a customer change in behavior that will lead to reductions in electricity consumption and demand is providing customers with information on how they use their energy in conjunction with energy prices. Smart meters and smart meter infrastructure is the vehicle through which customers will receive such information.

6. As discussed in more detail below, Allegheny Power will meet the smart meter requirements of Act 129 and the standards established in the Commission's SMIP Implementation Order through implementation of its SMIP. These requirements relate to smart meter deployment process, smart meter technology capability, and access to smart meter data information.

7. The attorneys representing Allegheny Power in this proceeding authorized to accept service are:

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Allegheny Power's SMIP

8. To meet the Company's demand reduction targets mandated by Act 129, it is necessary to install smart meters and associated smart meter technology, with installation of smart meter technology beginning in 2009.

Basic components of Allegheny Power's SMIP are:

- (i) **Home Area Network and In Home Devices**, which connect and control appliances, thermostats, hybrid vehicles, home generation, etc;
- (ii) **Smart Meter**, which connects the Home Area Network to the electric system using standard wireless communications and a multi-supplier standard. A smart meter takes readings at small intervals (15-60 minutes) and transmits them to utility core systems. A smart meter also has remote connect/disconnection capability;
- (iii) **Network**, which connects the smart meters to the utility core systems using secure collectors, microwave, and fiber communications;
- (iv) **Core Systems**, which collect, store, process, and manage information generated by users, Home Area Networks, and smart meters. The Core Systems also will calculate and issue bills;
- (v) **Customer Interface**, which provides the ability for customers and authorized third parties to interact and better manage their electric usage via In Home Devices, an Interactive Voice Response System, or a web portal.
- (vi) **Security**, encompassing a set of systems, protocols and processes to allow Allegheny Power to provide secure advanced meter technology.

9. Smart metering and associated equipment will be installed under the Company's Plan to convey energy consumption and price information to customers to enable them to better control their monthly energy consumption and better control their monthly electricity costs. Smart metering infrastructure will educate consumers on their energy usage and the true cost of electricity and will enable customers to monitor and effectuate changes in their electricity usage

to manage their energy bills. This dynamic – customer-driven demand response – creates economic benefits for individual customers and places significant downward pressure on regional wholesale capacity and energy prices. Providing customers access to timely information on their electricity usage enables them to link the consumption decision to real time, real life activities.

10. In addition to operational savings, smart metering investments will result in a wide range of specific benefits, including the following:

- Increased utility energy efficiency and demand response participation;
- Expanded product offerings from competitive retailers;
- Avoided capacity costs;
- Avoided energy costs;
- Enablement of demand side energy technologies;
- Facilitation of the development of revolutionary technologies like plug-in-hybrid electric vehicles and/or on-site generation;
- Conservation effect on energy usage from direct feedback;
- Accelerated adoption of more efficient devices and technologies;

Phased Smart Meter Deployment

11. Allegheny Power's SMIP meets the smart meter deployment requirements in Act 129 and the SMIP Implementation Order. Act 129 requires Allegheny Power to furnish smart meter technology: (i) upon request from a customer that agrees to pay the cost for the meter; (ii) in new construction; and (iii) a system-wide deployment in accordance with a depreciation

schedule not to exceed 15 years.¹ The Commission re-enforced these requirements in its SMIP Implementation Order.² Although the SMIP Implementation Order allows for a 30-month grace period during which the EDCs are not required to install smart meters, nothing in the order precludes an EDC from using a more timely and responsive deployment schedule.³ Allegheny Power's deployment schedule and process in its SMIP complies with the deployment requirements that smart meters be available upon customer request, for new construction, and in accordance with a system-wide deployment. Allegheny Power's proposal to begin smart meter installations during the grace period is justified because of the need to meet the Act 129 consumption and demand reduction requirements. The Company's EE&C and DR programs, measures, and rate offerings depend heavily on smart meter technology and, thus, the two plans are fundamentally interrelated. Specifically, nine of the 22 programs/rate offerings in Allegheny Power's EE&C and DR filing depend directly on the installation of smart meters and smart meter infrastructure in order to be viable.⁴ Allegheny Power's current meter network is not capable of supporting the nine programs.

12. The interrelation of the Act 129 consumption and load reduction requirements and smart meter technology is further evident with the implementation schedules for both. The EE&C plans are to have been filed by July 1, 2009, with approval within 120 days. During that interval, the EDCs are to file their SMIPs. By the end of the applicable generation rate period (which for Allegheny Power is December 31, 2010), the EDCs are to file time-of-use rates and

¹ 66 Pa.C.S. §2807(f)(2).

² SMIP Implementation Order, pp. 9, 12-13, 14.

³ SMIP Implementation Order, pp. 7-8.

⁴ The programs are: (i) Residential Efficiency Rewards Rate; (ii) Programmable Controllable Thermostat (PCT) Program; (iii) Pay Ahead (Smart) Service Rate; (iv) Customer Load Response Program; (v) Distributed Generation Program; (vi) Contracted Demand Response Program; (vii) Critical Peak Rebate (CPR); (viii) Time of Use (TOU) with Critical Peak Pricing Rate; and (ix) Hourly Pricing Option (HPO) Rate.

real-time-price plans, with approval by the Commission of the rates within six months.⁵ Allegheny Power submits that a symmetrical implementation of its EE&C and DR filing and its SMIP is the most effective and economical method to achieve the Act 129 conservation and efficiency goals and the smart meter goals. Act 129 assumes integration between smart meter implementation and achievement of reduced energy consumption and peak demand reduction.

13. Allegheny Power does not require a 30-month grace period to ensure that its smart meter deployment best meets the needs of its service territory, while at the same time, ensuring that it operates in a cost and time effective manner. Rather, Allegheny Power's SMIP is directly responsive to the needs of its customer and will operate in a cost effective and time-effective manner. In addition, customers will not be unreasonably burdened with the higher rates necessary for the Company to commence recovery of SMIP costs. Rather, the installation of smart meters in accordance with Allegheny Power's Plan is necessary to ensure that the Company's customers have access to the tools that will enable them to reduce their consumption and demand with concomitant opportunity to save money.

Smart Meter Capabilities

14. Allegheny Power's Plan fully complies with the smart meter capability requirements established in Act 129 and the SMIP Implementation Order. The statutory minimum requirements in Code Section 2807(g) include providing customers with direct access to pricing and consumption information, enabling time-of-use and real-time price programs, and remote programming capability. Additional requirements established by the Commission include among other things: (i) bidirectional data communications capability; (ii) remote disconnection and reconnection; (iii) ability to provide 15-minute or shorter interval data to

⁵ 66 Pa. C.S. § 2807(f)(5).

customers; (iv) a minimum of hourly reads delivered at least once per day; and (v) ability to upgrade these minimum capabilities as technology advances and becomes economically feasible.⁶ The Commission also established two optional smart meter capabilities regarding memory capacity and supporting pre-payment.

15. The Company's proposed smart meter technology meets both the statutory minimum capability requirements and the Commission's mandatory and optional capability requirements. Among other things, Allegheny Power's smart meters will allow direct customer access to pricing and consumption information, will enable time-of-use and real-time price programs, and will have remote programming capability. Allegheny Power's smart meter technology will have all the necessary capabilities and functionalities for customers to intelligently control their electric usage and cost.

Security and Access to Smart Meters and Data

16. Allegheny Power's SMIP meets the meter and data access requirements established in Act 129 and the SMIP Implementation Order. Act 129 requires EDCs to provide third parties, including electric generation suppliers ("EGSs") with direct access to meters and electronic meter data. In addition, the SMIP Implementation Order requires that third party access to smart meters and their data be open, non-discriminatory, non-proprietary, and two-way. The Order also provides for full electronic access to customers and their representatives to meter data upon customer consent. The Company's Plan meets these meter and data access requirements. As discussed in Section 2.7, Allegheny Power's SMIP will provide eligible third parties with open, non-discriminatory, non-proprietary, two-way access to the meters and meter data. At the same time, Allegheny Power's SMIP has the necessary protections in place to guard

⁶ SMIP Implementation Order, pp. 16-17.

against unauthorized access to meters and meter data and the Company's Plan strikes the appropriate balance by providing sufficient access without compromising security.

Cost Recovery Mechanism

17. Act 129 permits an EDC to recover reasonable and prudent costs of providing smart meter technology, to include: (i) annual depreciation and capital costs over the life of the technology and (ii) the cost of any system upgrades required to enable the use of smart meter technology, incurred after November 14, 2008, less operating and capital costs savings realized by the EDC from the installation and use of the smart meter technology. Under Section 2807(f)(7) of the Code an EDC may recover smart meter technology costs through base rates (including a deferral for future base rate recovery of current basis with carrying charges as determined by the Commission) or on a full and current basis through a reconcilable automatic adjustment clause under Section 1307 of the Code.

18. The Company's proposed cost-recovery mechanism is described in Section 4 of its Plan. Allegheny Power proposes to recover all reasonable and prudent costs for the installation and use of smart meter technology through a line-item surcharge on customers' monthly bill. The surcharge will reflect the net impact of capital costs, operating and maintenance costs (including administrative costs), and any resulting offsetting benefits. In accordance with the SMIP Implementation Order, Allegheny Power has provided the requisite supporting cost information including a quantification of the costs to deploy and operate smart meter technology and the individual incremental costs for deploying and operating the requisite smart meter technology capabilities.

19. Allegheny Power has developed a reconcilable adjustment clause tariff mechanism, entitled SMT Surcharge, in accordance with Code Section 1307 designed to recover, on a full and current basis from each customer class, all prudent and reasonable smart meter costs, including the annual cost consequences of capital and operating and maintenance costs relating to smart meters, less operating and maintenance savings realized from the installation and use of smart meter technology. The Company will follow the surcharge and reconciliation timeline described in Section 4 of its Plan and Code Section 1307(e). Allegheny Power will submit to the Commission by January 30 of each year for a change in surcharge rates for the upcoming June 1. The change to surcharge rates will be based on a forecasted revenue requirement for the twelve-month period of the upcoming June and running through May of the following year, along with an annual reconciliation mechanism for prior year revenues and costs.

Request for Expedited Consideration

20. The Commission's Smart Meter Implementation Order provides that Initial Decisions concerning EDCs Smart Meter Implementation Plans shall be issued on or before January 29, 2010. In the normal course of litigated Commission proceedings, and depending on various procedural events, a Commission Final Order may follow the Initial Decision by about two months. Allegheny Power requests a more expedited timeframe so that a Final Commission Order is obtained by January 29, 2010. The reason for the request is that the Company will be making substantial expenditures for smart meter implementation in the fourth quarter of 2009 and the first quarter of 2010. Such expenditure will precede Commission approval. If review and approval cannot be obtained by that date, timely implementation of the SMIP may not be achieved and fulfillment of the EE&C and DR mandates is jeopardized. The Company

respectfully requests that its SMIP and related tariff filings be approved by Final Order by January 29, 2010, so that the Company can meet its consumption and demand side reduction targets and commence timely recovery of its SMIP costs.

Request for Early Commission Approval of Initial Phase SMIP Activities

21. Allegheny Power’s SMIP is designed to enable smart meter related EE&C programs proposed to meet Act 129’s mandated energy consumption and peak demand reductions in 2011 and 2013. Allegheny Power must commence work to begin modifications to systems required to support both the EE&C programs and the Smart Meter capabilities required by programs needed to meet the Act 129 energy and peak reduction targets. Specific planning, procurement and design activities must be completed in 2009, and early 2010, to achieve the target reductions since certain components have a 6 to 18-month lead time associated with their development.

22. The following table details the 2009 and early-2010 activities and expenditures contemplated in Allegheny Power’s SMIP:

Smart Meter System Component	Activity	Estimated 2009 and Jan. 2010 expenditures (in millions \$)
In Home Devices Meters Network	Plan and begin construction of test meter and LAN field trials and smart meter lab	6.3
Back Office Applications	Requirements Definition, Selection and Design Activities for the following applications <ul style="list-style-type: none"> ▪ Enterprise Service Bus ▪ Meter Data Management System 	5.2
	Planning, business process blueprinting and design of Customer Information System Modernization	17.4

Security	Requirements Definition, Selection and Design Activities for the Identity Management System	0.3
Program Management	Selection and Procurement of CIS Systems Integrator	0.8
	Act 129 planning and filing preparation	2.4
	Selection and Procurement of Smart Meter Systems Integrator	0.5
	Smart Meter Program Management and Systems Integration	0.5
	Plan business process redesign	0.4
Total 2009 Planned Expenditures		33.8

The activities outlined above are essential structural components to the effective and efficient implementation of Smart Meter Technology as defined in Act 129. In particular:

- Meters / Network / In Home Device – As described in this section and SIP Section 2.4, this field trial activity is required to test and validate the selected Smart Meters and Communications Network before starting the full deployment. This progression will support the legislated requirements while mitigating risk. After successful field trials, the full deployment of Smart Meters across the Company’s Pennsylvania territory will begin in 2010.

- Back Office Applications – The specific functions of the Meter Data Management System, Enterprise Service Bus and Customer Information System are more fully described in Section 2.4. As documented there, each is an essential component to Allegheny Power’s overall smart meter technology system required by Act 129. Each application has an approximate 12 to 18-month lead time to properly procure, design, test and implement.

- Security – The 2009 security activities support the activities being performed in the Meters / Network / In Home Device areas. Specifically, the planning of the field trials will require design of specific elements of the model to ensure a secure network.

- Program Management – Due to the long implementation time for the CIS modernization project and the need for the new CIS to be in production in early 2011, Allegheny Power conducted an evaluation and selection of process in 2009 for a CIS Systems Integrator. Also in 2009, to prepare the filings required by Act 129, Allegheny Power contracted external consultants to assist the Company’s team in planning and preparing the two filings. Given the complexity of the SMIP, Allegheny Power plans to hire an expert systems integrator to assist execution. The associated expenditures in 2009 will be for procurement assistance from an expert consultant who will assist in the development of an RFP and selection of a Systems integrator. The Smart Meter Program Management and Systems Integration expenditure is the estimated cost of the selected systems integrator’s services for January 2010. Additionally, long lead time smart metering business process redesign will be initiated in 2009. Both activities will be required to meet the Smart Meter requirements of Act 129.

23. The preliminary tasks outlined above are core implementation steps that must be taken regardless of which smart meter or smart meter vendors are ultimately selected. The major cost components of the plan remain in the future and will not begin until the Commission has reviewed and approved all elements of the SMIP. Although Allegheny Power requests review and approval of these estimated costs, the surcharge to collect these costs would not operate until

final Commission approval of the SMIP is obtained. Therefore, accelerated Commission review and approval of these steps and expenditures is reasonable and should be provided.

Public Notice

24. Allegheny Power requests that the Commission provide public notice of Allegheny Power's SMIP filing in the Pennsylvania Bulletin. Allegheny Power will also provide public notice by such other means as the Commission may direct.

WHEREFORE Allegheny Power respectfully requests that the Pennsylvania Public Utility Commission enter an Order approving Allegheny Power's Smart Meter Technology Procurement and Installation Plan; and further:

Allegheny Power requests that the Commission and Presiding Officer establish an expedited procedural schedule providing for a Final Commission Order by January 29, 2010;

Allegheny Power requests that the Commission enter an Order approving the initial phase of the Company's SMIP activities and expenditures in 2009;

Allegheny Power requests that the Commission provide public notice of Allegheny Power's Smart Meter Technology Procurement and Installation Plan through publication in the Pennsylvania Bulletin and/or by such other means as the Commission may direct; and

Allegheny Power requests that the Commission take such additional action consistent with this Petition, with the proposed Smart Meter Technology Procurement and Installation Plan, and with the public interest.

Respectfully submitted,



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