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December 18, 2009

BY HAND

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**RE: Petition of PPL Electric Utilities Corporation for Approval of a Smart Meter
Technology Procurement and Installation Plan
Docket No. M-2009-2123945**

Dear Secretary McNulty:

Enclosed please find the Reply Brief of PPL Electric Utilities Corporation in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Anthony D. Kanagy', is written over a circular stamp or mark.

Anthony D. Kanagy

ADK/skr

Enclosure

cc: Certificate of Service
Honorable Wayne L. Weismandel

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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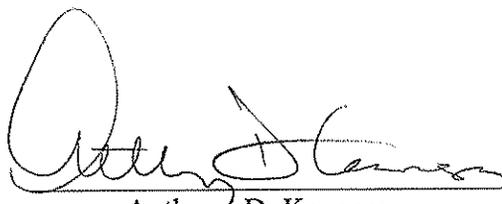
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Approval of a Smart Meter : Docket No. M-2009-2123945
Technology Procurement and Installation :
Plan :

**REPLY BRIEF OF
PPL ELECTRIC UTILITIES CORPORATION**

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I. INTRODUCTION

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby submits this Reply Brief in response to the Main Briefs of the Office of Trial Staff (“OTS”), Office of Consumer Advocate (“OCA”), Department of Environmental Protection (“DEP”), PP&L Industrial Customer Alliance (“PPLICA”) and Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. (collectively “Constellation”).

As indicated in this proceeding, PPL Electric has an advanced meter infrastructure (“AMI”) in place that provides smart meter technology to its customers. This existing system is able to support the capabilities required by the Pennsylvania Public Utility Commission (“Commission”) in its smart meter Implementation Order. *Smart Meter Procurement and Implementation*, Docket No. M-2009-2092655, Implementation Order entered June 24, 2009. Therefore, under its Smart Meter Plan (“Smart Meter Plan” or “Plan”), PPL Electric has proposed a series of evaluations and pilot programs to test applications that enhance and expand upon its existing capabilities. In this proceeding, some parties argue that PPL Electric should do more to implement the capabilities set forth in the Commission’s Implementation Order and other parties argue that the Company should do less. The Company believes that it has set forth a reasonable plan that fully complies with Act 129 and the Commission’s Implementation Order.

One of the primary contested issues in this proceeding involves how the Company proposes to calculate the return component for its smart meter costs. The Company’s proposal is the only proposal that relies on its cost of capital as determined by the Commission in a litigated proceeding. This is consistent with the Commission’s Implementation Order which provides that the return component should be based on the EDC’s weighted cost of capital. Implementation Order, p. 29.

The Company's Main Brief anticipated and responded to many of the arguments presented by the other parties. Therefore, in this Reply Brief, the Company provides further clarification of its position regarding the issues raised by the parties in this proceeding.

II. ARGUMENT

A. PILOT PROGRAM ISSUES.

1. The Feeder Meters Will Directly Support Capabilities Set Forth In The Commission's Implementation Order.

As the Company explained in its Main Brief, the feeder meter pilot program will directly support capabilities set forth in the Implementation Order, including supporting the capability to monitor voltage and communicate outages and restorations. (PPL Electric MB, p. 19). The OCA states that the feeder meter pilot should not be approved because it is not a "customer smart meter capability" and "will not provide information to end users that will assist in conservation or load shifting." (OCA MB, p. 18).

By its argument, the OCA attempts to narrow the scope of smart meter technology to specific customers or end-users. However, this view is contrary to the Commission's broad interpretation of smart meter technology. In its Implementation Order, the Commission stated that the Act 129 requirements are "minimal requirements." Implementation Order, p. 16. In addition, the Commission stated that smart meters have the ability to support "maintenance and repair functions," "system security" and "other programs that increase an EDC's efficiencies and reduce operating costs." Implementation Order, p. 16. These capabilities are not limited to specific customers or end-users and will not necessarily provide information to end users that will assist in conservation or load shifting, as the OCA implies is necessary for smart meter technology. The OCA's attempts to narrowly limit the scope of smart meter technology should not be accepted.

2. The Company's Service Limiting And Pre-Pay Metering Pilot Programs Should Be Approved.

As explained in its Main Brief, the Company proposes to conduct a service limiting pilot program whereby customers can choose an amperage level and limit their service to that level. The Company also proposes to conduct a pre-pay metering pilot that will allow customers to pre-pay for their electric service. (PPL Electric MB, pp. 20-21). The OCA argues that the Company should not be allowed to conduct these pilot programs due to public policy issues surrounding these capabilities. (OCA MB, p. 16). The Company respectfully disagrees with the OCA's conclusions.

In its Main Brief, the OCA claims that further investigation of the risks of these programs should be evaluated before they are piloted. (OCA MB, p. 17). As indicated in its testimony, the Company intends to work with the interested stakeholders to develop these pilot programs. (PPL Electric St. No. 2-R, pp. 11-17). These pilot programs will be completely voluntary, so if customers do not want to participate, they do not have to participate. The OCA also states that it is concerned by the Company's lack of analysis regarding these programs. (OCA MB, p. 17). However, the point of the voluntary pilot programs is to create an opportunity to analyze potential issues. In other words, the Company needs to conduct the pilot programs in order to be able to better analyze the issues associated with providing these capabilities, along with the benefits and costs.

Under the Implementation Order, the Commission has clearly allowed EDCs to include service limiting and pre-pay metering pilot in their smart meter plans. Implementation Order, p. 18. Therefore, the Company should be permitted to conduct these completely voluntary pilot programs.

3. The OCA Misconstrues The Benefits Of The Remote Disconnect/Reconnect Capability.

Under its Smart Meter Plan, the Company has proposed to conduct a remote disconnect/reconnect pilot program to evaluate the benefits of this smart meter capability. Remote disconnect/reconnect is one of the specific capabilities required under the Implementation Order. Implementation Order, p. 16.

In its Main Brief, the OCA states that the primary benefit of the remote disconnect/reconnect capability is the avoidance of electricity consumption from meters when properties are vacant. (OCA MB, p. 14). Therefore, the OCA argues that the Company should quantify these costs prior to conducting the pilot program. The Company disagrees with the OCA's assessment of this issue. As explained by the Company's witness, Mr. Godorov, a remote disconnect/reconnect program has many other potential benefits including: (1) eliminating the need to dispatch personnel to disconnect and reconnect meters; (2) automating the disconnection/reconnection process; and (3) supporting emergency load reductions. (PPL Electric St. No. 2-R, p. 7).¹ Moreover, in the Implementation Order, the Commission stated that "... the Commission will require that smart meters have a capability to remotely disconnect and reconnect service as it provides the ability to increase safety, efficiency and cost benefits." Implementation Order, p. 18. For these reasons, the Company should not be required to gather cost savings data before conducting the pilot program. However, pursuant to the OCA's request, the Company will work with the collaborative group to develop procedures for the pilot program and will evaluate both the benefits and costs of this capability under its pilot program.

¹ The OCA did not dispute these benefits in its surrebuttal testimony, yet in its Main Brief still claims that the primary benefit of the pilot is avoiding unbillable energy costs.

4. The Company Will Work With Interested Stakeholders To Develop Additional Details For The Direct Access To Pricing Information Pilot Program.

Under this pilot program, the Company proposes to test different ways to provide customers direct access to and use of price and consumption information through in-home displays (“IHDs”), automatic text messages and e-mails. (PPL Electric Ex. No. 2, Attachment 3, p. 3-3). In its Main Brief, the OCA states that the Company has not provided sufficient detail to evaluate the best means of communication for particular customer segments or identified lower tech options and that the Company should work with stakeholders to develop additional details. (OCA MB, p. 10). As with the other pilot programs, the Company will work with collaborative participants to develop additional details regarding the pilot design.

5. The Company’s Automatic Control of Consumption Pilot Program Should Be Approved.

In this proceeding, the Company proposes to conduct a pilot program to test its ability to control end-use customer equipment through the Company’s AMI system. (PPL Electric Ex. No. 2, Attachment 3, p. 3-6). As explained by Mr. Krall, the primary objective of this pilot program is to determine the costs and capabilities of this technology, which has the potential to provide substantial benefits, including allowing customers to shed load during peak pricing periods and allowing the Company to shed load during emergency events. (PPL Electric St. No. 1-R, p. 4). The Company notes that this is one of the minimum capability requirements set forth in the Implementation Order. Implementation Order, pp. 29-30.

In its Main Brief, the OCA states that the Company has similar load control programs available under its EE&C plan. Therefore, the OCA states that the Company should demonstrate that a new load control program will have benefits above the EE&C program, that the program

be determined to be cost-effective, reach a different population than the EE&C program, and not duplicate efforts and create confusion with mixed marketing campaigns. (OCA MB, p. 13).

As an initial matter, the Company addressed these issues in its rebuttal testimony, and the OCA did not dispute this in its surrebuttal testimony or at the hearing in this proceeding. As explained by Mr. Krall, the load control programs under the EE&C plan will be conducted by Conservation Service Providers (“CSPs”) and employ technologies and capabilities that are different than the ones that will be employed by the Company in this pilot program. (PPL Electric St. No. 1-R, p. 5). The Company should be permitted to test its ability to control customers’ consumption under its Smart Meter Plan. Moreover, the purpose of the pilot program is to determine whether the Company’s ability to control customers’ consumption is cost-effective and to evaluate the benefits of this capability. The Company is required by the Commission’s Implementation Order to support the capability of controlling customers’ consumption and should be permitted to conduct this pilot program. Implementation Order, pp. 16, 30. As with all of its pilot programs, the Company will meet with interested stakeholders to develop additional pilot program details for this pilot program.

6. The Company Is Evaluating Ways To Enhance Its Ability To Collect And Provide 15-Minute Data.

Under its Pilot Program, the Company is evaluating methodologies to enhance its ability to collect and provide 15-minute data to customers. (PPL Electric Ex. No. 2, Attachment 3, pp. 3-8). This pilot will evaluate both the benefits and costs of providing this function to customers.

In its testimony, Constellation argues that the Commission should find that it is in the public interest to provide 15-minute interval data access to small C&I customers. (Constellation MB, p. 12). PPL Electric believes that it is premature to make this conclusion in this proceeding. PPL Electric’s pilot program will evaluate both the costs and benefits of providing this function

in order to determine if further implementation of this capability is reasonable. Moreover, in the Implementation Order, the Commission stated as follows: “We stress, however, that the ability to provide 15-minute or shorter interval data does not mean that EDCs must collect that data on all customers at all times.” Implementation Order, pp. 19-20. This supports PPL Electric’s approach to analyze the benefits and costs of providing this capability to customers. In addition, PPL Electric notes that it provides meter pulses to EGSs or third parties which gives these entities real-time access to interval data. (PPL Electric St. No. 1-R, p. 13).

In its Main Brief, Constellation also states that the Implementation Order provides that 15-minute data should be available on a daily basis and that PPL Electric proposes to make such data available in a 48-hour basis. (Constellation MB, p. 12). Contrary to Constellation’s argument, PPL Electric’s position is consistent with the Commission’s Implementation Order when the Commission stated as follows:

We accept that this data [validated usage data] should be made available to customers or their designated third-parties within 48 hours, but we adopt this as a minimum standard, at least initially.

Implementation Order, p. 23. Therefore, the Company’s approach complies with the Implementation Order. Moreover, as stated above, the Company can provide pulse data on a near real-time basis.

For the reasons stated above, the Commission should deny Constellation’s request to require PPL Electric to provide 15-minute data to all small and large C&I customers on an hourly or daily basis in this proceeding.

7. PPL Electric Generally Agrees With OCA’s Position Regarding A Collaborative Process With One Exception.

In this proceeding, PPL Electric agreed with OCA’s proposal to conduct a collaborative process to develop additional pilot program details. (PPL Electric St. No. 2-R, p. 2). In the

OCA's Main Brief, the OCA states that the pilot program design should incorporate the means to obtain cost and benefit information, and that this information should be obtained on a customer class basis. (OCA MB, p. 8). The OCA also states that cost and benefit information should be broken down by category. (OCA MB, p. 8). The Company agrees with the OCA's comments on these issues, and the Company will attempt to obtain this information, to the extent reasonably possible, under its pilot programs.

The OCA also states the Company should consider additional details prior to further implementing the capabilities evaluated under the pilot programs, including the data that is to be collected, methodologies for selecting participants and control groups, the collection of baseline data and the presentation of results. (OCA MB, p. 9). Again, the Company believes that these requests are reasonable and will attempt to collect this data to the extent possible and present the data to collaborative participants.

The one area that the Company disagrees with OCA regarding the collaborative process concerns the number of collaborative meetings per year. The Company believes that it is reasonable to conduct two collaborative meetings per year with interested stakeholders and does not believe that three meetings are necessary. (PPL Electric St. No. 2-R, p. 2). Therefore, the Company requests that the Commission deny the OCA's request for three collaborative meetings per year to discuss pilot program issues or leave this issue for the discretion of the parties, with a minimum of two meetings per year.²

² As a point of clarification, both the OTS and OCA state that PPL Electric's estimated costs of conducting the pilot programs is \$16.4 million. (OTS MB, p. 5; OCA MB, p. 5). This was the number that was included in the Company's original filing. However, the Company corrected its estimate of pilot program costs in this proceeding and explained that the estimated costs of the pilot programs was \$5.0 million. See PPL Electric St. No. 2-R, p. 3.

B. DEP ISSUES.

As an initial matter, DEP submitted no testimony in this proceeding. Despite a lack of testimony, however, DEP has submitted a Main Brief wherein DEP argues that the Company's Smart Meter Plan does not meet the minimum requirements of Act 129 or the Commission's Implementation Order. (DEP MB, p. 5). Therefore, DEP argues that the Company's Smart Meter Plan should be rejected as a whole. DEP mischaracterizes Act 129 and the Commission's Implementation Order. The Company's Smart Meter Plan meets the requirements of Act 129 and the Commission's Implementation Order and should be accepted.

DEP argues that the Company's AMI does not meet the requirements of Act 129 or the Implementation Order because the Company does not propose to provide Home Area Networks ("HANs") to all customers. (DEP MB, p. 4). Neither Act 129 or the Commission's Implementation Order require EDCs to install HANs to all customers.

Under Act 129, EDCs are required to provide customers with direct access to and use of consumption and pricing information. 66 Pa.C.S. 2807(g). PPL Electric provides this information to customers through its website and is evaluating ways to enhance this capability in this proceeding. (PPL Electric Ex. No. 2, p. 7). DEP argues that Act 129 requires a HAN or similar device to provide this function to customers. (DEP MB, p. 8). Act 129 does not mention HANs. DEP's conclusion requires a factual basis to support it, and DEP has provided no factual basis to support this conclusion in this proceeding. As indicated above, DEP has provided no testimony in this proceeding. Therefore, DEP's argument should be denied. The Company had no opportunity to challenge this argument or to present evidence regarding the costs of installing a HAN for all customers.

DEP also cites the Commission's Implementation Order as support for its argument that EDCs must install HANs for all customers. (DEP MB, p. 7). In the Implementation Order, the Commission stated as follows:

[T]he Commission will require EDC smart meters to have a capability to provide raw near-time consumption data through a HAN or similarly capable method of open protocols.

Implementation Order, p. 23. Based upon this provision, the Implementation Order does not specifically require HANs but also provides for similarly capable methods of open protocols. The Company's website and provision of consumption data through meter pulses meet this criteria. (PPL Electric Ex. No. 2, p. 7). In addition, the Company has proposed a pilot program to study the costs and benefits of enhancing its ability to provide this function, including through HANs or other methodologies. (PPL Electric Ex. No. 2, Attachment 3, p. 3-3). DEP has presented no evidence in this proceeding that the Company does not meet this requirement. For the reasons stated above, DEP's arguments should be denied.

1. The Company's AMI Meets The Definition Of Smart Meter Technology In Act 129.

In its Main Brief, DEP argues that the Company's AMI system does not meet the statutory definition of smart meter technology. As explained below, the Company's AMI and Smart Meter Plan fully complies with Act 129.

Act 129 defines "smart meter technology" as follows:

(g) Definition. – As used in this section, 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. The technology shall provide customers with direct access to and use of price and consumption information. The technology shall also:

(1) Directly provide customers with information on their hourly consumption.

- (2) Enable time-of-use rates and real-time price programs.
- (3) Effectively support the automatic control of the customer's electricity consumption by one or more of the following as selected by the customer:
 - (i) the customer;
 - (ii) the customer's utility; or
 - (iii) a third party engaged by the customer or the customer's utility.

66 Pa. C.S. § 2807(g).

As explained in this proceeding, PPL Electric's AMI and Smart Meter Plan meet these requirements as follows:

- PPL Electric's existing AMI is capable of bidirectional communication. (PPL Electric Ex. No. 2, p. 6).
- PPL Electric's existing AMI records electricity usage on at least an hourly basis. (PPL Electric Ex. No. 2, p. 7).
- PPL Electric's existing AMI provides customers with direct access to and use of price and consumption information. (PPL Electric Ex. No. 2, p. 7).
- PPL Electric's AMI directly provides customers with information on their hourly consumption. (PPL Electric Ex. No. 2, p. 7).
- PPL Electric's AMI enables the Company to offer time-of-use ("TOU") rates and real-time price programs. (PPL Electric Ex. No. 2, p. 8).
- PPL Electric's AMI supports the automatic control of consumption by the customer, by PPL Electric or by a third party. (PPL Electric Ex. No. 2, p. 8).

As demonstrated above, PPL Electric's AMI and Smart Meter Plan fully comply with Act 129.

2. The Company's AMI and Smart Meter Plan Meet The Requirements Of The Commission's Implementation Order.

As explained in this proceeding, PPL Electric's AMI supports all of the capabilities listed in the Commission's Implementation Order. (Tr. 92). PPL Electric's explanation of how it meets the Implementation Order requirements are set forth on pages 6-32 of the Plan. (PPL Electric Ex. No. 2). PPL Electric has proposed pilot programs to test and enhance its capabilities

and will further implement those programs to additional customers if they provide benefits and are cost-effective. PPL Electric's Plan meets the requirements of Act 129 and the Commission's Implementation Order.

3. PPL Electric's AMI Provides Customers With Direct Access To And Use Of Price And Consumption Information.

As explained in its Plan, the Company provides customers with direct access to and use of price and consumption information in several ways, including the Company's website which provides pricing information and allows customers to analyze their usage patterns. (PPL Electric Ex. No. 7). In addition, under its Plan, the Company proposes a pilot program using in-home displays ("IHD"), near real-time e-mails and text messages to customers. (PPL Electric Ex. No. 2, Attachment 3, p. 3-3). In addition, the Company will conduct a home area network pilot trial incorporating IEEE 802.15.4 Zigbee communications to evaluate the costs and benefits of providing HANs to customers. (PPL Electric Ex. No. 2, Attachment 3, p. 3-10).

In its Main Brief, DEP argues that the Company's website does not provide customers with direct access to price and consumption information and that only a HAN can provide this capability. (DEP MB, p. 8). PPL Electric disagrees with DEP's conclusion regarding the Company's website. DEP has presented no evidence in this proceeding to support its conclusion. The Company's website provides actual day-ahead and real-time pricing information to consumers, including historical day-ahead and real-time prices. The website also performs bill calculations, calculates savings and provides trend information. (PPL Electric Ex. No. 2, p. 7). In addition, the Company provides real-time consumption information through pulse data. Moreover, as stated above, PPL Electric is specifically evaluating its capability to provide HANs to customers. (PPL Electric Ex. No. 2, Attachment 3, 6C(4)). PPL Electric will evaluate the

benefits and costs of providing this function to customers under its pilot program and will propose a further implementation of this program if the pilot is successful.

4. PPL Electric AMI Enables Time-Of-Use Rates And Real-Time Price Programs For All Customers.

In its Main Brief, DEP argues that the Company's AMI does not enable Time-of-Use ("TOU") rates and real-time price programs for all customers. As explained in the Smart Meter Plan, the Company's existing AMI system is capable of offering TOU rates and Real-Time Price programs to customers. (PPL Electric Ex. No. 2, p. 8). In fact, the Company has filed a TOU program for residential and small C&I customers that is currently being litigated before the Commission. *PPL Electric Utilities Corporation Supplement No. 71 to Tariff Electric Pa. P.U.C. No. 201 Proposed Time-of-Use Rate Option*, Docket No. R-2009-2122718. Moreover, the Company is offering a real-time default service option for large C&I customers starting January 1, 2010. (PPL Electric Ex. No. 2, p. 8). The Company's AMI clearly enables TOU rates and Real-Time price programs for all customers.

In its Main Brief, DEP also argues that the Company has no plans to offer real-time pricing programs to residential customers. (DE MB, p. 8). This is not an appropriate issue for this proceeding. PPL Electric filed its TOU program at Docket No. R-2009-2122718, and if DEP wanted to make this argument, it should have been presented at that proceeding. Moreover, DEP never raised this issue on the record in this proceeding and should not be permitted to do it for the first time in its Main Brief.

5. The Company's AMI Supports The Automatic Control Of Customers' Electricity Consumption By Either The Customer, The EDC Or Third Parties.

As explained in the Plan, PPL Electric's current AMI supports the automatic control of electricity consumption by the customer, PPL Electric or third parties. (PPL Electric Ex. No. 2,

p. 8). The Company's existing AMI system is capable of communicating through the AMI to control the consumption of end-use equipment with upgrades that are part of the Company's pilot programs. (PPL Electric Ex. No. 2, p. 8). As part of its load control pilot program, the Company will install load control devices on customer equipment that can be controlled by the customer or by PPL Electric. (PPL Electric Ex. No. 2, Attachment 3, p. 3-6). Customers can also allow third parties to control their usage. In addition, under the Company's EE&C Plan, the Company has proposed a load control program whereby third parties control customers' consumption. (PPL Electric St. No. 1-R, p. 5). The Company's AMI system clearly supports the automatic control of consumption by customers, PPL Electric or third parties as is required by Act 129.

In its Main Brief, DEP argues that only a HAN "can support the ability to choose the price points at which their smart appliances respond to price signals provided by the utility." DEP MB, p. 10. The Company disagrees with the statement. It is to be noted that DEP provided no testimony in the proceeding to support this conclusion. In addition, customers can automatically control their consumption without a HAN through many methods, including by installing load control devices on their equipment. (PPL Electric Ex. No. 2, Attachment 3, 6B(6); Tr. 98-99). Moreover, PPL Electric has proposed a pilot program to evaluate the benefits and costs of providing HANs to customers.

6. PPL Electric's AMI Provides The Functions Required By Act 129 And The Implementation Order.

In its Main Brief, DEP argues that the Company's AMI is not capable of providing the functions required by Act 129 and the Implementation Order. (DEP MB, p. 11). The Company disagrees with this conclusion. As explained in Section IIB(1) above, the Company's AMI provides all of the functions required by Act 129 for smart meter technology. Moreover, in the

Implementation Order, the Commission explained its position that the Act 129 requirements were minimal requirements and that EDCs' smart meter systems must be capable of providing additional functions. Implementation Order, p. 16. As the Company explained in this proceeding, its AMI system is capable of providing these functions, and the Company is testing ways to enhance its ability to provide these functions to customers. (PPL Electric Ex. No. 2, pp. 11-12; Tr. 93).

7. PPL Electric's Plan Provides The Required Smart Meter Technology To All Metered Customers.

At the end of its Brief, DEP states that the Company's Smart Meter Plan does not provide smart meter technology after the 30 month grace period, to all customers upon request, in all new building construction, and throughout its service territory within 15 years of the date of plan approval. (DEP MB, p. 12). DEP's argument is based upon its general conclusion that the Company's AMI is not smart meter technology and that PPL Electric must provide HANs to all customers. For the reasons stated above, DEP's arguments that the Company is required to provide a HAN to all customers is incorrect. The Company's Smart Meter Plan filing complies with Act 129 and the Commission's Implementation Order.

C. COST RECOVERY ISSUES.

1. The Return On Smart Meter Investment Should Be Based On the Company's Cost Of Capital As Determined By The Commission.

In this proceeding, the Company proposed to use the capital structure, debt costs and return on equity from its last fully litigated base rate proceeding to recover the return component on its smart meter technology capital costs. (PPL Electric St. No. 3, p. 7). As explained in the Company's Main Brief, this is consistent with the Commission's Implementation Order which provides that the return component should be based on the EDC's weighted cost of capital. Implementation Order, p. 29.

The OCA agrees with the Company on this issue provided that the Company's most recent fully litigated base rate proceeding is less than three years old. However, if the Company's most recent base rate proceeding is more than three years old, the OCA proposes that the Commission establish a generic proceeding for establishing return on equity ("ROE") for smart meter charges. (OCA MB, p. 23; OCA St. No. 2, p. 5). Recognizing that the Commission has not established a generic proceeding to determine ROE, the OCA proposes that the Company be required to use an initial ROE of 10.1%, which is the ROE approved by the Commission for Metropolitan Edison Company ("Met-Ed") and Pennsylvania Electric Company ("Penelec") in Met-Ed and Penelec 2006 rate case. *Pa. P.U.C. v. Metropolitan Edison Company and Pennsylvania Electric Company*, Docket Nos. R-00061366, et al., Order entered January 11, 2007.

There are several problems with the OCA's proposal to rely on an ROE established in a generic proceeding. First, the Implementation Order requires that the return component be based on the individual EDC's weighted cost of capital. The OCA's alternative approach does not rely on PPL Electric's weighted cost of capital but rather relies on an industry average. Second, the Commission has not determined that it intends to establish an industry-wide ROE through a generic proceeding. If the Commission intended to do this, it is likely that the Commission would have stated it in the Implementation Order as opposed to stating that the return component should be "based on the EDC's weighted cost of capital."

In addition, the OCA's proposal to rely on the Met-Ed/Penelec ROE of 10.1% as an initial ROE has several flaws. For one, it is not based on PPL Electric's weighted cost of capital but the cost of capital for the Met-Ed and Penelec companies. The Commission has held that it is appropriate to consider an individual utilities' customer service and management performance

in establishing the appropriate ROE. *Pa. P.U.C. v. West Penn Power Co.*, 83 Pa. PUC 628, 675 (December 29, 1994); *Pa. P.U.C. v. Aqua Pa, Inc.*, 236 PUR 4th 218, 247 (August 5, 2004). In addition, the appropriate ROE cannot be determined without also looking at the individual EDC's capital structure because an EDC is more risky if it has more debt. Moreover, the Med-Ed/Penelec ROE is a low ROE, as compared to PPL Electric's Commission-allowed ROE, and is based on the specific conditions of the Met-Ed and Penelec Companies as set forth in that case.

Another reason is that the Met-Ed/Penelec ROE proposed by OCA does not even meet the OCA's three-year test. The Met-Ed/Penelec case was decided by the Commission on January 11, 2007. By the time that the Commission issues a final decision in this case, it will be later than January 11, 2010, which is the three-year anniversary of the Met-Ed/Penelec case. Therefore, the Med-Ed/Penelec decision will be more than three years old when PPL Electric begins to recover its smart meter costs.

The Company's last fully litigated rate case was decided by the Commission on December 22, 2004. *Pa. P.U.C. v. PPL Electric Utilities Corporation*, Docket No. R-00049255, Order entered December 22, 2009. This is approximately 5 years ago. The Company believes that this is a reasonable time period and reflects data that has been fully vetted and approved by the Commission for PPL Electric. In addition, the Company notes that PPL Electric's ROE of 10.7 is lower than the ROE of 11.00 established by the Commission in 2008 for Aqua Pennsylvania. (OTS Ex. No. 1-SR, Attachment C, p. 11).

Likewise, the OTS recommendation regarding cost of capital cannot be accepted because it too does not rely on PPL Electric's weighted cost of capital. Instead, the OTS proposes to pick and choose different data points to determine the Company's cost of capital. The OTS proposes that the Commission rely on the Fixed Utility Service ("FUS") Quarterly Earnings Report ("FUS

Reports”) to establish a return on common equity and capital structure. As explained in the Company’s Main Brief, there are several problems with using the FUS reports to determine the appropriate ROE for smart meter costs. These include:

- The FUS Reports’ Discounted Cash Flow returns and equity cost rates for electric utilities have been inconsistent and volatile.
- The FUS Reports are only intended to be used for informational purposes and not to establish ROEs on capital structure for EDCs.
- The OTS witness was not qualified to testify as to how the FUS Report data was developed.
- The FUS Reports are not necessarily representative of PPL Electric’s ROE or capital structure as determined by the Commission.

(PPL Electric MB, pp. 13-15).

With regard to the cost of debt and preferred stock, the OTS proposes that the Company rely on its latest quarterly financial report to obtain these cost rates. (OTS MB, p. 13). The primary problem with this approach from the OTS is that it does not rely on consistent data points to determine cost of capital. In other words, the OTS picks and chooses different data points, some that reflect the Company’s costs and some that do not. The Company believes that its proposed approach, which relies on data from a single adjudicated PPL Electric-specific proceeding is the most reasonable approach presented in this proceeding.

2. The OTS’ One-Sided Interest Proposal Should Not Be Accepted.

In this proceeding, the Company proposes to calculate interest on over and under-collections under its smart meter cost recovery mechanism and to refund interest on over-collections and recover interest on under-collections. (Tr. 142).

The OTS argues that the payment of interest should be one-sided such that the Company should be required to refund interest on over-collections but not be permitted to recover interest on under-collections. (OTS MB, p. 16). OTS cites several reasons why the application of

interest should be one-sided. First, the OTS states in its Main Brief that "... the Commission's current application of the residential mortgage rate in over/under collections in existing cost recovery mechanisms is already established as one directional." (OTS MB, p. 16). However, the OTS ignores undisputed record evidence that the Company has multiple Commission-approved cost recovery mechanisms that use the residential mortgage rate as the interest rate, and all of these mechanisms provide for two-directional interest. (Tr. 142-143). The OTS also argues that the smart meter cost recovery mechanism allows for recovery of carrying costs through a return component. (OTS MB, p. 16). Contrary to OTS' assertions, the return component is not recovering carrying costs. Carrying costs are associated with the time value of money. (Tr. 183). The return component is not associated with the time value of money, but recovers a return on investment. It is the interest on both over and under-collections that reflects the time value of money. The Company should not be denied recovery of carrying charges for the time value of money just because it is allowed a return component on its capital investment.

3. The Commission Should Deny OTS' Proposal For Quarterly Review And Adjustment Of Smart Meter Costs.

In this proceeding, the Company proposed an annual review and reconciliation of its smart meter technology cost recovery mechanism, with annual rate adjustments on June 1 of each year. (PPL Electric St. No. 3-R, p. 9). The OTS, however, proposes that rates be reviewed and adjusted quarterly, with rate adjustments on January 1, April 1, July 1 and October 1 of each year. (OTS MB, p. 10).

The OTS proposal should be denied for several reasons. First, the Commission's Implementation Order provides for an annual review and reconciliation of smart meter costs. Implementation Order, p. 31. The OTS proposal contradicts the Implementation Order. Second, as explained by Mr. Kleha, the Company's smart meter plan costs are relatively small and not

difficult to predict. (PPL Electric St. No. 3-R, p. 9). Therefore quarterly adjustments are not necessary.

The Commission also should not accept the OTS proposal to adjust rates on July 1 of each year. The Company's EE&C rider will be adjusted on June 1 of each year, and the Company believes that it is appropriate to minimize rate adjustments, when possible, to avoid customer confusion. Therefore, the Company believes it is better to adjust the ACR and the smart meter surcharge on the same date. (PPL Electric St. No. 3-R, p. 9).

D. THE COMPANY HAS ACCEPTED PPLICA'S PRIMARY COST ALLOCATION PROPOSAL AND THEREFORE PPLICA'S ALTERNATIVE PROPOSAL SHOULD NOT BE ACCEPTED.

In this proceeding, PPLICA proposed two alternative methods for allocating feeder meter costs to large C&I customers. As its primary proposal, PPLICA argued that the Company should divide the large C&I class into two subclasses (Primary and Transmission) and calculate the surcharge separately for each subclass. (PPLICA St. No. 1, p. 6; PPLICA St. No. 1-S, p. 2). As an alternative proposal, PPLICA argued that the Company should recover smart meter plan costs from large C&I customers on a customer charge basis. (PPLICA St. No. 1, p. 6; PPLICA St. No. 1-S, p. 3).

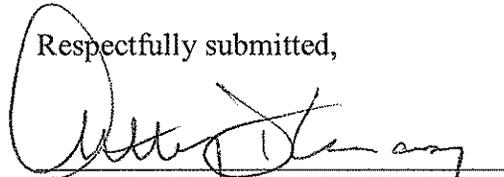
At the hearing in this proceeding, the Company accepted PPLICA's primary proposal to divide the large C&I customers into two subclasses and not to allocate feeder meter costs to transmission customers. (Tr. 168-169). However, now that the Company has accepted PPLICA's primary proposal to divide the large C&I class into two subclasses, PPLICA now argues that the Commission should also accept its alternative proposal to collect costs from large C&I customers on a customer charge basis. (PPLICA MB, p. 8). PPLICA should not be permitted to continue to argue for its alternative proposal in this proceeding in its Main Brief after the Company has accepted PPLICA's primary proposal.

Moreover, as explained by Mr. Kleha, it is not appropriate to recover smart meter costs from large C&I customers on a customer charge basis. The Smart Meter Plan is putting programs in place that will allow customers to reduce peak demand and usage over time. (Tr. 151). Therefore, it is appropriate to recover Smart Meter Plan costs on a demand basis.

III. CONCLUSION

As explained in this proceeding, PPL Electric already has installed a smart meter system in its service territory that supports the capabilities required in the Commission's Implementation Order. Therefore, under its Smart Meter Plan, the Company proposes to study, test and pilot applications that enhance and expand upon the capabilities of the Company's existing smart meter system. The Company's Smart Meter Plan meets the requirements of Act 129 and the Implementation Order. PPL Electric, requests that its Plan be approved as filed, subject to the modifications agreed to by the Company in this proceeding.

Respectfully submitted,



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