



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE  
REFER TO OUR FILE

February 26, 2010

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Re: 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

Dear Mr. McNulty:

Enclosed for filing, please find an original and nine (9) copies of the **Reply Exceptions** of the Office of Trial Staff (OTS) in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, copies are being served on all active parties of record.

Sincerely,

Carrie B. Wright  
Prosecutor  
Office of Trial Staff  
PA Attorney I.D. #208185

Enclosure  
CBW/edc

cc: Parties of record  
Chairman Cawley  
Vice Chairman Christy  
Commissioner Pizzingrilli  
Commissioner Gardner  
Commissioner Powelson  
Chief Counsel Pankiw  
Director Davis

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Joint Petition of Metropolitan Edison :  
Company, Pennsylvania Electric :  
Company and Pennsylvania Power : Docket No. M-2009-2123950  
Company for Approval of Smart :  
Meter Technology Procurement and :  
Installation Plan :**

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**REPLY EXCEPTIONS  
OF THE  
OFFICE OF TRIAL STAFF**

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**FEB 26 2010**

**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

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Dated: February 26, 2010

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## I. INTRODUCTION

The Procedural History has been presented in detail in the Office of Trial Staff (“OTS”) Main Brief and need not be repeated. OTS MB, pp. 2-3. Instead, OTS offers a summary of the status of this proceeding to this point.

The interested parties to this proceeding filed Comments with the Commission Secretary on September 25, 2009, and the proceeding was subsequently fully litigated. Main Briefs were filed on December 11, 2009, and Reply Briefs followed on December 31, 2009. On January 28, 2010, Administrative Law Judge (“ALJ”) Susan D. Colwell issued her Initial Decision (“ID”). On February 17, 2010, the parties filed Exceptions to the ID. OTS hereby provides this Reply Exception in response to one of the Exceptions filed by Joint Petitioners, the three FirstEnergy jurisdictional electric distribution companies (collectively “FirstEnergy,” “FirstEnergy Companies” or “Companies”).

The Companies except to the ALJ’s recommendation that accepted the OTS recommendation that assessment period costs be capitalized over the life of the asset rather than being expensed to allow quicker dollar-for-dollar recovery as proposed in their Joint Petition. ID, pp. 46.

For the reasons stated herein and in the OTS Main and Reply Briefs, the Companies’ Exception to the ID regarding assessment period costs should be denied by the Commission.

## II. REPLY EXCEPTION

### **FirstEnergy's Exception To The ALJ's Recommendation That Assessment Period Costs Be Capitalized Should be Denied.**

**Initial Decision, pp. 44-46.**

**FirstEnergy Exceptions, pp. 6-8.**

**OTS Main Brief, pp. 20-22.**

**OTS Reply Brief, pp. 21-23.**

At pages 44-46 of the ID, the ALJ discusses the issue of recovery of start-up and assessment period costs and concludes on page 46 that “the assessment period costs should be capitalized over the life of the smart meter technology to which such costs relate.” ID, pp. 46. As noted, FirstEnergy excepts to this recommendation and attempts to provide support for its argument that assessment period expenses should be expensed and thereby recovered on a current basis. FE Ex., pp. 6-8.

In the subsection of FirstEnergy's Exception entitled “Current Recovery of Assessment Period Costs,” the Companies seem to confuse assessment period costs with research and development costs. FE Ex., pp. 6-8. OTS submits that these assessment period costs are infrastructure development and rebuild implementation costs which will provide benefits over an extended period of time, a characteristic that, for ratemaking purposes, traditionally results in such expenditures being capitalized and amortized over the useful life. The identified expenses to be incurred are not research and development efforts that may not necessarily be recouped unless expensed in the manner suggested by the Companies. By virtue of the existence of the Companies' smart meter surcharge

rider, such costs will be recovered and the only question is whether expensing or capitalizing them is the appropriate ratemaking treatment. As pointed out by OTS, such costs represent part of the infrastructure development for the Companies' distribution system and, therefore, represent plant improvements. As such, the general ratemaking principle applied to plant improvement costs is to capitalize these costs over the useful life of those related items. OTS MB, pp. 21-22; OTS RB, pp. 20-21. Investment in the physical plant is recovered from those who reap the benefit. The number of customers and entities within FirstEnergy's service territory is fluid; therefore, the capital improvement expenditures should not be recovered only from those customers that exist at the moment. As such, adherence to this generally accepted ratemaking principle is warranted in the instant case.

Further, the Companies point out what they refer to as a "fundamental defect" in the OTS recommendation. FE Ex., pp. 7. They state that the issue of whether the Companies will be allowed to recover a return on, as well as a return of, assessment period costs remains unresolved as it was not addressed by OTS or the ALJ. FE Ex., pp. 7. Such criticism is mere semantics. OTS submits that the recommended capitalization inherently includes the return on and return of such assets and this nexus was discussed at length in other OTS recommendations in this proceeding where capitalization was an issue. OTS Stmt. No. 1-SR, pp. 16, and OTS Stmt No. 1, pp. 31. This is a fundamental ratemaking principle.

The Companies also state that "the starting point of the recovery period has not been identified." FE Ex., pp. 7. OTS repeatedly acknowledged the

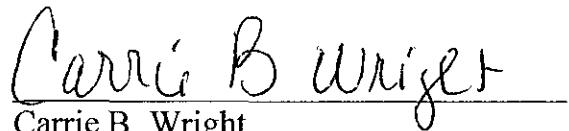
appropriate recovery period and identified it as being over the useful life of the related technology. OTS St. No. 1 pp. 30, OTS St. No. 1-SR pp. 15-16, OTS MB pp. 21, and OTS RB pp. 23. Therefore, OTS believed it to be intuitive that the starting point of the recovery period would be when the meter was placed into service. Therefore, to be clear, the intent of the OTS recommendation was that the starting point of the recovery period be the point at which the meter was placed into service.

In conclusion on the subject of recovery of assessment period costs, OTS submits that the Companies' exception that attempts to put forth support for its argument that assessment period expenses should be recovered on a current basis should be denied by the Commission. Rather, as argued in the OTS briefs and exceptions, the ALJ's recommendation that FirstEnergy capitalize assessment period costs and recover them over the useful life of the meter should be accepted. The evidence on the record clearly supports the OTS position, and we submit that the Commission should incorporate that recommended component into its final Order.

### III. CONCLUSION

For the reasons stated herein and in the OTS Main and Reply Briefs, the Company's Exception should be denied. The Commission should recognize that the record evidence supports the recommendation by OTS and ALJ Colwell that assessment costs be capitalized rather than expensed.

Respectfully submitted,



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Company, Pennsylvania Electric : Docket Nos. M-2009-2123950  
Company and Pennsylvania Power :  
Company :

**CERTIFICATE OF SERVICE**

I hereby certify that I am serving the foregoing **Reply Exceptions** dated February 26, 2010, either personally, by first class mail, electronic mail, express mail and/or by fax upon the persons listed below, in accordance with the requirements of § 1.54 (relating to service by a party):

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