

COMMONWEALTH OF PENNSYLVANIA



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March 1, 2010

**HAND DELIVERED**

James J. McNulty, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

**Re: Duquesne Light Company Smart Meter Procurement and Installation Plan  
Docket No. M-2009-2123948**

Dear Secretary McNulty:

Enclosed for filing are the original and nine (9) copies of the Reply Exceptions, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sharon E. Webb".

Sharon E. Webb  
Assistant Small Business Advocate  
Attorney ID No. 73995

Enclosures

cc: Cheryl Walker Davis  
Office of Special Assistants

Robert D. Knecht

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF DUQUESNE LIGHT :  
COMPANY FOR APPROVAL OF :  
SMART METER PROCUREMENT : DOCKET NO. M-2009-2123948  
AND INSTALLATION PLAN :**

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**REPLY EXCEPTIONS  
ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE**

**Sharon E. Webb  
Assistant Small Business Advocate  
Attorney ID No. 73995**

**For: William R. Lloyd, Jr.  
Small Business Advocate  
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**Office of Small Business Advocate  
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**Dated: March 1, 2010**

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## **I. INTRODUCTION**

Each electric distribution company (“EDC”) with at least 100,000 customers was required to file a smart meter technology procurement and installation plan (“SMIP”) with the Pennsylvania Public Utility Commission (“Commission”) pursuant to Act 129 of 2008. Duquesne Light Company (“Duquesne” or “Company”) filed its SMIP on August 14, 2009.

The Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and Public Statement on September 25, 2009. Other parties to this proceeding include the Commission’s Office of Trial Staff (“OTS”); the Office of Consumer Advocate (“OCA”); the Duquesne Industrial Intervenors (“DII”); Citizen Power; the Commonwealth of Pennsylvania, Department of Environmental Protection (“DEP”); Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively, “Constellation”); and the Pennsylvania Association of Community Organizations for Reform Now (“ACORN”).

The OSBA filed a pre-hearing memorandum and participated in the pre-hearing conference on October 7, 2009, before Administrative Law Judge (“ALJ”) Robert P. Meehan. In accordance with the Commission’s prior notice, a technical conference was held on October 27, 2009, in Harrisburg before ALJ Louis G. Cocheres.

The OSBA filed the Rebuttal Testimony of its witness, Robert D. Knecht, on November 6, 2009.

An evidentiary hearing took place on November 17, 2009, at which the parties submitted their testimony for the record. ALJ Meehan admitted the testimony and exhibits into the record.

The OSBA filed its Main Brief on December 8, 2009, pursuant to the procedural schedule set forth in the October 7, 2009, Prehearing Order of ALJ Meehan. Duquesne, OCA, OTS, DII, Constellation, Citizen Power, and DEP also filed Main Briefs.

The OSBA filed its Reply Brief on December 22, 2009. The OSBA's Reply Brief was filed in accordance with the Prehearing Order and to respond to arguments raised in the Main Briefs of other parties. Duquesne, OCA, OTS, Constellation, DEP, ACORN, DII, and Citizen Power also filed Reply Briefs. The Commission issued ALJ Meehan's Initial Decision ("ID") on January 28, 2010.

On February 17, 2010, the OSBA, OCA, OTS, DEP, DII, and Citizen Power submitted Exceptions to the ID of ALJ Meehan.

The OSBA submits the following Reply Exceptions to the Exceptions of the OCA and Citizen Power.

## **II. BACKGROUND**

### **A. Duquesne's Proposal**

Duquesne has proposed to segregate its customers into two rate class groups for the purposes of SMIP cost allocation and cost recovery. The first rate class group is comprised of Residential customers and those small commercial and industrial ("Small C&I") customers who take service through a single-phase meter. The second rate class group is comprised of large commercial and industrial ("Large C&I") customers and

those Small C&I customers who take service through a poly-phase meter.<sup>1</sup> No party's briefs explicitly opposed this division of the customers into these two rate class groups.

The cost allocation dispute in this proceeding is limited to the allocation to the rate class groups of so-called "common costs," *i.e.*, "costs for infrastructure to collect, back haul, store and bill the customer, all of which are required to implement the Plan and make the smart meter fully functional regardless of meter type."<sup>2</sup> Duquesne has proposed to allocate these common costs to the two rate class groups based on the number of meters in each group.<sup>3</sup> The OSBA supported this proposal.

According to the Commission's Implementation Order, common costs "should be allocated among the appropriate classes *using reasonable cost of service practices.*"<sup>4</sup> Duquesne has classified these costs as "customer-related" and has proposed to allocate them to each rate class group through an unweighted customer allocator, *i.e.*, on the basis of the relative number of meters in each rate class group.<sup>5</sup> OSBA witness Mr. Knecht concluded that Duquesne's proposal for allocating the common costs is "within the range of normal cost allocation practice for these costs."<sup>6</sup>

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<sup>1</sup> OSBA Main Brief, at 3. *See also* OSBA Statement No. 1, at 2, citing Duquesne Petition, Exhibit D, at 9, lines 1-12, and Duquesne's response to OSBA I-1. (The referenced interrogatory response is attached to OSBA Statement No. 1 in Exhibit IEC-R-2.)

<sup>2</sup> OSBA Main Brief, at 3, *citing* Duquesne Petition, Exhibit D, at 9.

<sup>3</sup> *Id.*

<sup>4</sup> OSBA Main Brief, at 4, *citing Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (Order entered June 24, 2009) ("Implementation Order"), at 32 (emphasis added).

<sup>5</sup> OCA Main Brief, at 29. *See also* Duquesne Petition, Exhibit D, at 9.

<sup>6</sup> OSBA Main Brief, at 5. *See also* OSBA Statement No. 1, at 5.

## **B. OCA's Proposal**

In testimony and in briefing, the OCA opposed Duquesne's proposal and recommended an alternative.<sup>7</sup> Specifically, instead of allocating the common costs on the basis of the relative number of customers in each rate class group, the OCA proposed to allocate 50% of the common costs on the basis of the relative energy consumption by each rate class group and 50% of the common costs on the basis of the relative coincident peak of each rate class group.<sup>8</sup> The OCA's proposal would effectuate a dramatic reduction in the share of the common costs allocated to the Residential and Small C&I customers in the single-phase meter rate class group and a dramatic increase in the share of the common costs allocated to the Small C&I and Large C&I customers in the poly-phase meter rate class group.<sup>9</sup>

The OCA's proposal flows from the conclusion of its witness, Dr. Dale E. Swan, that common costs should be allocated on the basis of the "benefits" produced by the SMIP.<sup>10</sup> However, the General Assembly mandated the deployment of smart meters to *all* customers over a 15-year period of time, regardless of how many of those customers will actually be able to save money by using those smart meters to adjust their consumption profiles.<sup>11</sup> Because Duquesne will incur smart meter costs to fulfill this mandate, the costs should be allocated on the basis of traditional cost of service principles

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<sup>7</sup> In its Main Brief, Citizen Power supported the OCA's position. However, Citizen Power presented no testimony of its own and, instead, relied on the testimony presented by the OCA. Furthermore, Citizen Power presented no arguments that differ significantly from the arguments presented by the OCA.

<sup>8</sup> OCA Main Brief, at 36. *See also* OCA Statement No. 3, at 8-9.

<sup>9</sup> OSBA Main Brief, at 3. *See also* OCA Statement No. 1, Ex. DES-1.

<sup>10</sup> OCA Main Brief, at 31. *See also* OCA Statement No. 3, at 6-7.

<sup>11</sup> OSBA Main Brief, at 4. *See also* Section 2807(f)(2) of the Public Utility Code, 66 Pa. C.S. § 2807(f)(2).

rather than on the basis of a theoretical notion of which customers are more likely to use smart meters to reduce their electric bills.

Relying on the testimony of Dr. Swan, the OCA argued that Large C&I customers in the poly-phase meter rate class group are more likely to be able to reduce their electric bills through the use of smart meters than are Residential customers in the single-phase meter rate class group.<sup>12</sup> However, the OCA offered no evidence that Small C&I customers in the poly-phase meter rate class group will be better able (or even as able) to shift their loads off peak than customers in the single-phase meter rate class group will be. The OCA also offered no evidence that larger customers within the single-phase meter group will be better able to shift their loads off-peak than will smaller customers within the single-phase meter group.

In its Main Brief, the OCA argued that it is “inappropriate to allocate the exact same dollar level of these [common] costs to an individual 500 kWh per month residential customer as to the largest industrial or commercial customer on the Duquesne system.”<sup>13</sup> However, the OCA failed to discuss the impact of its cost allocation proposal on Small C&I customers in the GS/GM rate classes, who can be in either the single- or the poly-phase rate class group and who consume far less electricity than the largest *Large C&I* customers.<sup>14</sup>

Furthermore, the OCA assumes that the principal reason for mandating the deployment of smart meters is to save ratepayers money.<sup>15</sup> In making that assumption,

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<sup>12</sup> OCA Main Brief, at 30. *See also* OCA Statement No. 3, at 6-7.

<sup>13</sup> OCA Main Brief, at 30.

<sup>14</sup> OCA Statement No. 3, Exhibit DES-1.

<sup>15</sup> OCA Main Brief, at 30. *See also, e.g.,* OCA Statement No. 3S, at 7.

the OCA ignores the fact that smart meters are expected to result in environmental benefits which will accrue to all citizens, regardless of how much electricity they use and regardless of whether their electric bills go down—or go up—as a result of smart meters.

**C. OSBA’s Alternative**

Although the OSBA supported Duquesne’s cost allocation proposal, the OSBA recognized that the Commission may be persuaded by the OCA’s argument against allocating the common costs solely on a customer basis. Therefore, the OSBA also offered Mr. Knecht’s cost-based alternative to Duquesne’s approach, *i.e.*, allocate the common costs in proportion to the allocation of the meters costs.<sup>16</sup> Mr. Knecht’s alternative would provide some relief to the Residential and Small C&I customers in the single-phase meter rate class group without causing the dramatic shift in costs to the Small and Large C&I customers in the poly-phase meter rate class group which would be effectuated by the OCA’s proposal.

**D. ALJ’s Recommendation**

ALJ Meehan recommended approval of the OSBA’s alternative proposal for allocating common costs and recommended rejection of both Duquesne’s proposal and the OCA’s proposal. The OCA, Citizen Power, DII, and the OSBA each excepted to the ALJ’s recommendation. The arguments in the exceptions of the OCA and Citizen Power substantially track the arguments presented by the OCA in testimony and in briefs.

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<sup>16</sup> OSBA Main Brief, at 14. *See also* OSBA Statement No. 1, at 5.

### III. REPLY EXCEPTIONS

#### A. **REPLY TO THE OCA'S EXCEPTION NO. 4 AND TO CITIZEN POWER'S EXCEPTION: The ALJ was correct in rejecting the OCA's approach to the allocation of smart meter common costs. (ID at 15-20)**

##### 1. **Allocation of Common Costs**

The OSBA supports Duquesne's common cost allocation proposal. What Duquesne has characterized as "common costs" are what the Commission has labeled as "costs that provide benefit across multiple classes." According to the Commission, such costs "should be allocated among the appropriate classes *using reasonable cost of service practices.*"<sup>17</sup> (emphasis added)

Section 2807(f)(7) of the Public Utility Code, 66 Pa. C.S. §2807(f)(7), states that "[a]n electric distribution company may recover reasonable and prudent costs of providing smart meter technology" through base rates or "through a reconcilable automatic adjustment clause under section 1307."

With regard to the allocation of these costs among the rate class groups, the Commission has offered the following guidance:

The Commission will require that all measures associated with an EDC's smart metering plan shall be financed by the customer class that receives the benefit of such measures. In order to ensure that proper allocation takes place, it will be necessary for the utilities to determine the total costs related to their smart metering plans, as discussed in E.1. Once these costs have been determined, we will require the EDC to allocate those costs to the classes whom derive benefit from such costs. 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

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<sup>17</sup> *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (Order entered June 24, 2009) ("Implementation Order"), at 32.

allocated among the appropriate classes using reasonable cost of service practices.<sup>18</sup>

Duquesne's common costs include infrastructure costs such as meter data management system costs, network costs, and administrative costs.<sup>19</sup> Costs of this nature "are classified as 'customer-related,' and are allocated to each class based on a weighted or unweighted customer allocator."<sup>20</sup> Duquesne has classified these costs as "customer-related" and has proposed to allocate them to each rate class group through an unweighted customer allocator, *i.e.*, on the basis of the relative number of meters in each rate class group.<sup>21</sup> OSBA witness Mr. Knecht concluded that Duquesne's proposal for allocating the common costs is "within the range of normal cost allocation practice for these costs."<sup>22</sup> DII witness Richard Baudino reached a similar conclusion, *i.e.*, that "[t]o the extent common costs cannot be directly assigned, . . . they should be allocated on the basis of the number of meters since they are customer-related costs."<sup>23</sup>

## **2. OCA's Common Cost Allocation Proposal**

The ALJ properly rejected the OCA's proposal to allocate the common costs based upon each rate class' contribution to peak demand and energy consumption.<sup>24</sup> The essence of the OCA's argument is that the SMIP will reduce electricity costs for

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<sup>18</sup> *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (Order entered June 24, 2009) ("Implementation Order"), at 32.

<sup>19</sup> OSBA Main Brief, at 9, *citing* Duquesne Exhibit D-R, at 6.

<sup>20</sup> OSBA Main Brief, at 9, *citing* OSBA Statement No. 1, at 5.

<sup>21</sup> OSBA Main Brief, at 9, *citing* Duquesne Exhibit D-R, at 6.

<sup>22</sup> OSBA Main Brief, at 10, *citing* OSBA Statement No. 1, at 5.

<sup>23</sup> OSBA Main Brief, at 10, *citing* DII Statement No. 1, at 8.

<sup>24</sup> OCA Main Brief, at 30. *See also* OCA Exceptions, at 15.

ratepayers, that ratepayers who use more electricity will “benefit” more from these reduced costs than will ratepayers who use less electricity, and that the ratepayers who “benefit” more from these reduced costs should pay a larger share of the SMIP costs than the ratepayers who “benefit” less. The OSBA explained in its Main Brief that the OCA’s cost allocation is not cost-based, as required by the Implementation Order.<sup>25</sup>

As did its briefs, the OCA’s exception relies on the testimony of Dr. Dale E. Swan.<sup>26</sup> Dr. Swan assumes that the principal reason for mandating the deployment of smart meters is to save ratepayers money.<sup>27</sup> In making that assumption, Dr. Swan ignores the fact that smart meters are expected to result in environmental benefits which will accrue to all citizens, regardless of how much electricity they use and regardless of whether their electric bills go down—or go up—as a result of smart meters.

As noted in the OSBA’s Main Brief, the OCA’s witness acknowledged the environmental benefits when he testified that “[t]he preamble to Act 129 of 2008 states that the features of the Act are intended to promote the ‘. . . availability of adequate, reliable, affordable, efficient and *environmentally sustainable electric service* at the least cost, taking into account any benefits of price stability over time *and the impact on the environment.*’”<sup>28</sup>

Similarly, in its Main Brief, the OCA again recognized that in addition to reducing energy costs, one purpose of Act 129 is to produce environmental benefits.<sup>29</sup>

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<sup>25</sup> OSBA Main Brief, at 4.

<sup>26</sup> **OCA Exeptions No. 4, at 15 and 16,**

<sup>27</sup> OCA Main Brief, at 30. *See, e.g.*, OCA Statement No. 3S, at 7. *See also* ID at 15.

<sup>28</sup> OSBA Main Brief, at 12. *See also* OCA Statement No. 3, at 2. (emphasis added)

<sup>29</sup> OCA Main Brief, at 30.

Environmental benefits will flow to all customers, regardless of how much electricity they use. Nevertheless, the OCA based its cost allocation proposal on the assumption that the *only* purpose of Act 129 is to reduce energy costs. Therefore, even if the Commission agrees with the OCA that the common costs should be allocated on the basis of “benefits” rather than “costs,” the OCA’s allocation proposal ignores the environmental “benefits.”

Despite its reliance on OCA witness Dr. Swan’s statement that “we need to *carefully* assess the extent to which the various customer classes will reap these benefits,” the OCA failed to quantify, or to provide a comprehensive assessment of, the benefits for each class.<sup>30</sup> For example, the OCA did not explain how a restaurant which relies upon its lunch, Happy Hour, and dinner patrons will be able to shift its load to off-peak hours and manage to continue in business. Instead, the OCA simply assumed that restaurants and retail establishments will be able to shift their load to off-peak periods as (or more) readily as (than) residential customers will be able to shift their use of dishwashers, washing machines, and dryers to the evening hours or weekends.<sup>31</sup>

Furthermore, the OCA apparently has taken no account of offsetting costs (*e.g.*, shift differentials or overtime) that Small C&I ratepayers might have to incur in order to cut their electricity costs by shifting load off-peak. This is a difficult analysis to do, which was the point of OSBA witness Mr. Knecht’s testimony that trying to measure benefits “can lead to a morass of conflicting interpretations as to (a) what the benefits of the SMIP are (*e.g.*, load management, conservation, environmental benefits, price

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<sup>30</sup> OCA Main Brief, at 32, *citing* OCA Statement No. 3, at 3 (emphasis added).

<sup>31</sup> OCA Main Brief, at 34. *See also* OCA Statement No. 3, at 6.

reductions), and (b) which customers and customer classes receive these benefits.”<sup>32</sup> This difficulty may explain why the OCA has not tried to perform a complete benefits analysis. However, it is unreasonable to argue (as the OCA does) that the common costs should be allocated on the basis of the relative benefits to each rate class group but then fail even to attempt a realistic analysis of those benefits.

Therefore, the ALJ was correct in rejecting the OCA’s approach to common cost allocation. As noted by ALJ Meehan, “The OCA’s proposal...is both theoretical and speculative as to which and how customers in the various classes will ‘benefit’ from the SMP, and...is not based on reasonable cost of service practices....”<sup>33</sup>

### 3. *Lloyd v. Pennsylvania Public Utility Commission*

On page 18 of its Exceptions, the OCA asserts that the decision in *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), supports the implementation of the OCA’s proposed cost allocation, and that the ALJ erred in accepting DII’s argument that *Lloyd* requires rejection of the OCA’s proposal. In the ID, ALJ Meehan quoted with approval DII’s Main Brief, wherein DII argued that the *Lloyd* decision shows that the “Commonwealth Court and the Commission have clearly held that a utility’s cost of providing service must be the guiding principle – or ‘polestar’ – in utility ratemaking.”<sup>34</sup>

According to the OCA, the decision in *Lloyd* does not support DII’s argument that allocating common costs on the basis of “benefits” would violate cost of service

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<sup>32</sup> OSBA Main Brief, at 13-14. See also OSBA Statement No. 1, at 3-4.

<sup>33</sup> ID, at 19.

<sup>34</sup> ID, at 18, quoting DII Main Brief, at 5-6.

principles.<sup>35</sup> Furthermore, the OCA seeks support for its own cost allocation proposal by pointing to “another section of the *Lloyd* decision [which] upholds the allocation of Sustainable Energy Fund (SEF) costs to all classes of distribution customers on the basis that all ratepayers benefit from the Fund’s activities.”<sup>36</sup> (citations omitted) The OCA goes on to state the following about the *Lloyd* decision:

In the face of an argument by industrial customers that the SEF provides no demonstrable benefits to ratepayers, the Court stated: ‘What the core of that argument ignores is that the General Assembly has specifically authorized the public service programs such as SEF be funded.’ The Court noted that the purpose of SEF is ‘to promote the development and use of renewable energy and clean energy technologies, energy conservation and efficiency which promote clean energy.’ Act 129, which established the smart metering program, likewise seeks to further the availability of adequate, reliable, affordable, efficient and environmentally sustainable electric service at the least cost, taking into account the benefits of price stability over time and the impact on the environment.<sup>37</sup> (citations omitted)

However, regardless of whether or not *Lloyd* supports DII’s argument in the instant proceeding, *Lloyd* does not support the OCA’s common cost allocation proposal.

Significantly, the issue in *Lloyd* dealt with whether all customers should have to pay SEF costs and not with the allocation of those costs among the customer classes. Specifically, the Court in *Lloyd* simply rejected an argument that SEF funding should come through generation rates and not through distribution rates. It did not address (indeed, did not have before it) the question of allocation of SEF costs among the rate classes.<sup>38</sup>

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<sup>35</sup> OCA Exceptions, at 18.

<sup>36</sup> OCA Exceptions, at 18.

<sup>37</sup> *Id.*

<sup>38</sup> *Lloyd*, 904 A.2d at 1027.

Here, by contrast, no one challenges whether all customers should pay SMIP common costs. Rather, the challenge is over how those costs should be allocated among the classes, an issue which was not before the Court in *Lloyd*. Therefore, OCA's reliance on *Lloyd* is misplaced.

#### **4. Citizen Power's Exception**

In its Main Brief and Exception, Citizen Power adopted the OCA's position regarding cost allocation.<sup>39</sup> Because Citizen Power relied on the testimony of OCA witness Dr. Swan and offered no independent analysis, the OSBA's response to the OCA's Exceptions, in effect, responds to the arguments of Citizen Power.

#### **5. Recovery of Costs within Rate Class Groups**

Once the Commission determines how meters costs and common costs will be allocated between the two rate class groups, it will be necessary for the Commission to determine how those costs will be recovered within each rate class group.

Because the OSBA supports Duquesne's proposal to allocate both meters and common costs among the rate class groups on a per customer basis, the OSBA also supports Duquesne's proposal to recover the costs allocated to the single-phase meter rate class group via a customer charge and to recover the costs allocated to the poly-phase meter rate class group via a customer charge. Therefore, the OSBA filed no testimony solely on the cost recovery issue.

However, if the Commission accepts the OCA's proposal to allocate the common costs between the two rate class groups on the basis of energy demand and overall consumption, then meters costs should be recovered within each rate class group via a

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<sup>39</sup> Citizen Power Main Brief, at 7. *See also* Citizen Power Exception, at 2.

customer charge and common costs should be recovered within each group via a per kWh charge.<sup>40</sup>

As illustrated in Table I in the OSBA's Main Brief at 14, the OCA's proposal would increase the poly-phase rate class group's share of the common costs dramatically. Therefore, because the OCA's cost allocation proposal would dramatically increase the total amount charged to the poly-phase rate class group, the result would be an unreasonably high customer charge.<sup>41</sup>

OCA witnesses Dr. Swan and Mr. Thomas Catlin assert (*incorrectly*) that customers who use more energy should be assigned a higher cost responsibility (and, therefore, should pay higher SMIP charges) than customers who use less energy.<sup>42</sup> However, if the Commission agrees with this argument by Dr. Swan and Mr. Catlin (*which the Commission should not do*), then consistency dictates that customers within each rate class group who use more energy should pay higher SMIP charges for common costs than customers within each rate class group who use less energy.<sup>43</sup>

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<sup>40</sup> Mr. Knecht opined that a combination of a per-kWh energy and a per-kW demand charge for recovery of common costs would be necessary to be consistent with Dr. Swan's cost allocation proposal, particularly for customers in the poly-phase rate class group. OSBA Statement No. 1, at 6-7. In surrebuttal, Dr. Swan agreed with Mr. Knecht, at least in theory, but suggested that a "perfect mapping" of costs and rates was not necessary. OCA Statement 3S, at 11-12. The OSBA proposes that, *if and only if the Commission adopts the OCA cost allocation philosophy*, simplicity should trump accuracy and a simple per-kWh charge should be used to recover common costs for both rate class groups.

<sup>41</sup> OSBA Statement No. 1, at 6.

<sup>42</sup> OCA Statement No. 3, at 6, and OCA Statement No. 2, at 11.

<sup>43</sup> Significantly, no party has argued that the meters costs vary from customer-to-customer within a rate class group. For example, no party has disputed that a single-phase smart meter for a Residential customer costs the same as a single-phase meter for a Small C&I customer, regardless of the energy use by each customer. Therefore, meters costs should be recovered only through a customer charge. In that way, larger customers within each rate class group will not implicitly be paying more for their meters than will the smaller customers within the rate class group.

In the OSBA's view, cost recovery should flow from cost allocation. Therefore, if the Commission determines (*incorrectly*) that common costs should be allocated on the basis of peak demand and energy, then the cost recovery method within rate class groups should reflect that determination. Under those circumstances, it would be both inappropriate and inequitable to require the smallest Small C&I customer in the poly-phase meter rate class group to pay exactly the same monthly charge as the largest Large C&I customer in that rate class group.

**B. REPLY TO THE OCA'S EXCEPTION NO. 5: As an alternative to the Company's Cost Allocation Proposal, the ALJ was correct in adopting the OSBA's proposal for allocating common costs over the OCA's proposal.**

In its Exception No. 5, the OCA argues that the ALJ erred in adopting the OSBA's alternative cost allocation proposal because the OSBA's proposal is not (in the OCA's opinion) consistent with reasonable cost of service practices.<sup>44</sup> The OCA then sets forth essentially the same arguments as it presented in Exception No. 4 in support of its own cost allocation proposal.<sup>45</sup> The OSBA has addressed those arguments (above) in its reply to the OCA's Exception No. 4.

As OSBA witness Mr. Knecht testified, Duquesne's proposal to allocate the common costs on a per meter basis is "within the range of normal cost allocation practice for these costs." However, in recognition that the Commission may be persuaded by the OCA's argument against allocating the common costs on a customer basis, Mr. Knecht proposed a cost-based alternative to Duquesne's approach, *i.e.*, allocate the common

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<sup>44</sup> OCA Exception No. 5, at 27.

<sup>45</sup> *Id.*

costs in proportion to the allocation of the meters costs. Mr. Knecht's alternative would provide some relief to the Residential and Small C&I customers in the single-phase meter rate class group without the dramatic increase in costs proposed by the OCA for the Small C&I and Large C&I customers in the poly-phase meter rate class group.<sup>46</sup>

Mr. Knecht's alternative builds on the fact that no parties oppose Duquesne's proposal to allocate the cost of each meter to the rate class group for which that meter is purchased and installed. Rather than requiring a decision on whether common costs should be allocated on the basis of number of customers, on the basis of energy consumption, or on the basis of some hybrid of those two approaches, Mr. Knecht's alternative offers a simple solution, *i.e.*, let the common costs follow the meters costs. Furthermore, as Mr. Knecht testified, this alternative would also be consistent with reasonable cost of service practices.<sup>47</sup>

As explained in OSBA Exception No. 1, the Commission should approve Duquesne's proposal for allocating common costs. However, for the reasons stated herein above, if the Commission rejects Duquesne's proposal, the Commission should approve the OSBA's alternative.

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<sup>46</sup> OSBA Statement No. 1, at 5.

<sup>47</sup> OSBA Statement No. 1, at 5.

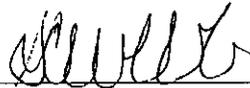
IV. CONCLUSION

For the reasons set forth herein, the OSBA respectfully requests that the Commission deny OCA's Exceptions No. 4 and 5, and also the Exception of Citizen Power.

However, if the Commission ultimately rejects Duquesne's proposal, the OSBA respectfully requests that the Commission approve the OSBA's alternative, which would allocate the common costs between the rate class groups in the same proportion that the meters costs are allocated.

Furthermore, if the Commission adopts the OCA's proposal to allocate the common costs on the basis of energy consumption, then the OSBA respectfully requests that the Commission order the recovery of meters costs within each rate class group via a customer charge and recovery of the common costs within each rate class group via a per kWh charge.

Respectfully submitted,



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March 1, 2010

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light Company :  
For Approval of its Smart Meter : Docket No. M-2009-2123948  
Procurement and Installation Plan :

**CERTIFICATE OF SERVICE**

I certify that I am serving two copies of the Reply Exceptions, on behalf of the Office of Small Business Advocate, by e-mail and first-class mail (unless otherwise noted) upon the persons addressed below:

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