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March 21, 2011

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, Pa 17120

Re: Petition of West Penn Power Company for Expedited Approval of
Smart Meter Technology Procurement and Installment Plan
Docket No. M-2009-2123951

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Dear Secretary Chiavetta,

Enclosed for filing are an original and three (3) copies of the Order Granting West Penn Power Company's Motion to Admit Written Testimony in Support of Settlement, issued by Administrative Law Judge Hoyer on March 17, 2011, along with copies for the official record of the referenced testimony; namely, WPPC Statement No. 1-S, WPPC Exhibits 1-S and 2-S, and WPPC Statement No. 2-S.

Thank you for your attention to this matter.

Very truly yours,


John F. Povilaitis

Enclosures

cc (w/o enclosures): The Honorable Mark A. Hoyer
All parties of record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of West Penn Power Company :
d/b/a Allegheny Power for Expedited Approval : M-2009-2123951
of its Smart Meter Technology Procurement :
and Installation Plan :

**ORDER GRANTING WEST PENN POWER COMPANY'S MOTION TO ADMIT
WRITTEN TESTIMONY IN SUPPORT OF SETTLEMENT**

On August 14, 2009, West Penn Power Company d/b/a Allegheny Power ("Allegheny Power" or "the Company") filed its Smart Meter Procurement and Installation Plan (SMIP or Smart Meter Plan) pursuant to Section 2807(f) of the Public Utility Code, 66 Pa. C.S. §2807(f), and the Smart Meter Implementation Order entered by the Pennsylvania Public Utility Commission ("Commission") on June 24, 2009 at Docket No. M-2009-2092655.

On February 17, 2011, a Notice scheduling a Further Conference for Thursday, March 10, 2011 was sent to the parties.

On March 9, 2011, counsel for Allegheny Power filed and served the following documents after requesting permission from the undersigned ALJ to do so:

1. The testimony of John C. Ahr, WPPC Statement No. 1-S; and Raymond E. Valdes, WPPC Statement No. 2-S;
2. Joint Stipulation of Position between the Company and the Office of Small Business Advocate ("Stipulation"); and
3. An Amended Joint Petition for Settlement of All Issues submitted on behalf of the Company, the Commission's Office of Trial Staff ("OTS") and the OCA ("Amended Joint Petition"), together with Statements in support.

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The Further Conference was held as scheduled. At the conference, Allegheny Power orally petitioned to withdraw the Joint Petition for Settlement filed on October 21, 2010 in lieu of the fact that an Amended Joint Petition was filed March 9, 2011. No parties objected to the request and the request to withdraw the Joint Petition for Settlement was granted.

Counsel for the Company desires to reopen the record to submit the aforementioned two statements (WPPC Statements Nos. 1-S and 2-S) and the Stipulation. After being served with these documents on March 9, 2011, no other parties expressed a desire to introduce additional evidence or cross examine Raymond E. Valdes or John C. Ahr. No parties requested an additional hearing.

The undersigned ALJ directed counsel for the Company to file a written motion requesting that the aforementioned documents be admitted into the record. No parties attending the Further Conference opposed the Motion. On March 11, 2011, West Penn filed a Motion to Admit Written Testimony in Support of Settlement, requesting admission into the record of the aforementioned two statements (WPPC Statements Nos. 1-S and 2-S) and the Stipulation. The Motion is granted in the ordering paragraphs below.

THEREFORE,

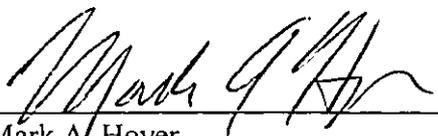
IT IS HEREBY ORDERED:

1. That the Motion to Admit Written Testimony in Support of Settlement filed by West Penn Power Company on March 11, 2011, is granted.
2. That the Testimony of John C. Ahr on behalf of West Penn Power Company in Support of Settlement WPPC Statement No. 1-S, together with WPPC Exhibit 1-S and WPPC Exhibit 2-S, attached thereto, are admitted into the record.
3. That the Testimony of Raymond E. Valdez on behalf of West Penn Power Company in Support of Settlement WPPC Statement No. 2-S, is admitted into the record.

4. That the Joint Stipulation of Position dated March 9, 2011 between West Penn Power Company and the Office of Small Business Advocate is admitted into the record.

5. That West Penn Power Company shall file the evidence admitted in ordering paragraph nos. 2-4 above with the Commission's Secretary's Bureau along with this Order Granting West Penn Power Company's Motion to Admit Written Testimony in Support of Settlement and advise the undersigned Administrative Law Judge in writing that this has been done.

Date: March 17, 2011



Mark A. Hoyer
Administrative Law Judge

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

M-2009-2123951 - PETITION OF WEST PENN POWER COMPANY D/B/A ALLEGHENY POWER
FOR EXPEDITED APPROVAL OF ITS SMART METER TECHNOLOGY PROCUREMENT AND
INSTALLATION PLAN

(REVISED 3/17/11)

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PA PUBLIC UTILITY COMMISSION
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

TESTIMONY OF

JOHN C. AHR

ON BEHALF OF

WEST PENN POWER COMPANY

IN SUPPORT OF SETTLEMENT

WPPC STATEMENT NO. 1-S

Dated: March 9, 2011

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1 Q. **Please state your name and business address.**

2 A. My name is John C. Ahr, and my business address is 800 Cabin Hill Drive, Greensburg,
3 Pennsylvania 15601.

4
5 Q. **Did you provide direct and rebuttal testimony in this proceeding?**

6 A. Yes. I provided Allegheny Power Statement No. 2, and 2-R, on behalf of West Penn
7 Power Company ("West Penn" or "Company") in this proceeding regarding the
8 Company's Smart Meter Technology Procurement and Installation Plan ("SMIP").

9
10 Q. **What is the purpose of your current testimony?**

11 A. The purpose of this testimony is to support the Amended Joint Petition for Settlement of
12 All Issues ("Settlement") in the above-captioned proceeding. The Joint Petitioners to the
13 Settlement are the Company, the Office of Consumer Advocate ("OCA") and the Office
14 of Trial Staff ("OTS").

15
16 The Joint Petitioners have requested that the Pennsylvania Public Utility Commission
17 ("Commission") approve the Settlement as expeditiously as possible.

18
19 The Settlement amends a previous Joint Petition for Settlement filed on October 19, 2010
20 by the Company and the OCA.

21
22 Q. **Have you attached a copy of the Settlement to this testimony?**

1 A. Yes. A copy of the Settlement is attached as WPPC Exhibit 1-S to my testimony.

2

3 **Q. Have other active parties to the proceeding addressed the Settlement?**

4 A. Yes. The active parties in the proceeding who are not Joint Petitioners nevertheless have
5 indicated that they do not oppose the Settlement. With respect to issues raised in the
6 proceeding by the Office of Small Business Advocate (OSBA"), the Company and OSBA
7 have entered into a separate Joint Stipulation of Position ("Stipulation"). The Stipulation
8 evidences the agreement between the Company and OSBA with regard to all outstanding
9 issues between them with respect to the proposed Settlement in the above-captioned
10 proceeding. Subject to all of the provisions of the Stipulation, OSBA does not oppose the
11 Settlement.

12

13 **Q. Have you attached a copy of the Stipulation to this testimony?**

14 A. Yes. A copy of the Stipulation is attached as WPPC Exhibit 2-S to my testimony.

15

16 **Q. Would you briefly summarize the major terms of the Settlement?**

17 A. Yes. The Settlement's core concept is its proposal that the Company will utilize some or
18 all of the 30-month grace period authorized by the Commission's SMIP Implementation
19 Order to reevaluate its back-office systems, system-wide network development and
20 installation plan and perform any needed redesign based on that reevaluation. Following
21 Commission approval of this Settlement, the Company will submit a SMIP that amends
22 the original filing to reflect its intent to utilize the grace period, its decelerated

1 deployment schedule and the other elements of this Settlement. The principal elements
2 of the Company's decelerated deployment schedule are described in Appendix A to the
3 Settlement.

4
5 During the *grace period*, the Company will collect data on low income and vulnerable
6 customers and examine the potential for programs intended to enable low income and
7 vulnerable customers to benefit from smart meter technology.

8
9 After its reevaluation effort, the Company will file a revised SMIP ("Revised SMIP")
10 with the Commission reflecting those efforts, as well as the Company's full-scale
11 deployment plans. The Company currently anticipates filing the Revised SMIP no
12 sooner than June 2012. However, the Company may file its Revised SMIP prior to June
13 of 2012, provided that the analyses described in further detail in paragraphs 15 and 16 of
14 the Settlement are completed and presented as a part of that filing. The Revised SMIP
15 will contain an updated Business Case that presents a cost/benefit analysis in support of
16 the full smart meter deployment schedule. In addition to any other deployment schedule
17 the Company may submit, the Revised SMIP is to include a cost/benefit analysis for
18 deployment of smart meters to at least 90% of the Company's customers no later than
19 December 31, 2018. The requirement to perform these analyses is not an
20 acknowledgement by the Company that a financial cost/benefit analysis is required by
21 Act 129 to be part of a SMIP.

22

1 The Settlement does not preclude any party from raising issues regarding the Revised
2 SMIP, including such issues as the pace of deployment, the cost-effectiveness of the
3 Revised SMIP or the prudence or reasonableness of costs incurred under the Revised
4 SMIP, except for those issues specifically identified in the Settlement.

5
6 Adopting a less rapid smart meter deployment schedule, together with an Amended
7 *Energy Efficiency and Conservation/Demand Response ("EE&C/DR") Plan* which the
8 Company filed with the Commission on September 10, 2010, and was approved by the
9 Commission on January 13, 2011, will allow West Penn and its Pennsylvania customers
10 to avoid certain near term expenditures, as well as provide time for analysis of whether a
11 less costly smart meter deployment can be designed. This new schedule also is more
12 consistent with the deployment plans proposed by the other Pennsylvania electric
13 distribution companies ("EDCs").

14
15 The Settlement greatly reduces the initial SMIP surcharge level to customers from the
16 amount proposed in the original filing on August 14, 2009. However, the Settlement
17 nevertheless provides for an initial deployment of approximately 25,000 smart meters by
18 2013. This deployment of smart meters is compatible with the EE&C/DR Plan approved
19 by the Commission and currently in effect.

20
21 The Settlement resolves the cost allocation and rate design issues that were contested
22 among the parties. It also defers for future recovery through the smart meter surcharge as

1 part of the Revised SMIP filing or base rates certain contested expenses attributable to the
2 Company's previously-contemplated replacement of its Customer Information System
3 ("CIS"). The Settlement also resolves issues with respect to the depreciable lives of
4 smart meter technology and return on equity.
5

6 Further details of the SMIP as proposed in the Settlement are set forth in Appendices to
7 the Settlement, which are part of WPPC Exhibit 1-S.
8

9 **Q. Does the Company view the Settlement and the Stipulation to be in the public**
10 **interest, as a reasonable basis for the implementation of the Company's SMIP, and**
11 **as a reasonable resolution of the issues raised in this proceeding?**

12 A. Yes. The Company views the Settlement and the Stipulation to be reasonable and in the
13 public interest. The Settlement and Stipulation represent a reasonable accommodation of
14 competing interests, and resolves the principal SMIP related issues of disagreement
15 among the parties.
16

17 **Q. Please describe benefits of the Settlement.**

18 A. Among the benefits of the Settlement are lower rates. The initial monthly SMIP
19 surcharge (assuming a smart meter surcharge start date of April 2011) for residential
20 customers will be \$1.93, for small commercial customers will be \$1.93, and the initial
21 monthly SMIP surcharge for large commercial and industrial customers will be \$2.20.
22 These charges reflect an over than 90% reduction in the monthly surcharge to customers.

1 These charges may increase to reflect the Company's full-scale meter deployment plans
2 after the Commission reviews and decides the Revised SMIP filing. However, the
3 Company believes that by decelerating its meter deployment plans, it may ultimately
4 avoid certain near-term expenditures, particularly with respect to the implementation of
5 back-office systems in support of smart metering. The Company believes that the
6 resulting cost savings would benefit all customers in the near term.

7
8 The Settlement also eliminates concerns of some parties who viewed the Company's
9 initial surcharges to be relatively high. The Settlement does not seek approval of all
10 Phases of the SMIP at this time, but only the plan and associated costs relating to SMIP
11 Phases 1 through 4. These Phases are described in Appendix A to the Settlement. The
12 great majority of Phase 1 and 2 costs, necessary to position the Company to deploy any
13 type of smart meter, have already been incurred and are deemed reasonable and prudent
14 under the Settlement. The Settlement specifically identifies disputed costs in the amount
15 of \$5.1 million that are subject to disposition in future proceedings through either a SMIP
16 surcharge or base rate recovery. Phase 3 and 4 costs are still reviewable for prudence and
17 reasonableness in the annual reconciliation proceedings that will be filed to update the
18 SMIP surcharge.

19
20 Further details supporting the Settlement are set forth in the Company's Statement in
21 Support, attached to the Settlement.

22

1 **Q. Has the Commission directed that any additional matters be addressed in**
2 **supporting the Settlement?**

3 A. Yes. On December 8, 2010, the Commission issued a Secretarial Letter directing further
4 proceedings at this docket "to ensure that (1) the impact of the proposed [FirstEnergy
5 Corp Allegheny Energy, Inc] merger on the Plan is fully considered, and (2) the proposed
6 Settlement has adequate support in the record."

7

8 In the time since the Commission issued this directive, it has approved the merger and the
9 merger has closed. In my view, the merger impacts the SMIP in the following manner.

10 Under the original plan, the Company was designing a "stand alone" implementation
11 solution, which bridged West Penn's legacy systems to the systems that are required to
12 enable and support smart meters as they are defined in Act 129 and the Commission's
13 orders implementing that Act. The customer base that would support the smart meter
14 expenditure and the smart meter systems associated with those meters was limited to
15 customers in the West Penn service territory. Under the merger, West Penn's customers
16 can now be the beneficiaries of a Revised SMIP that takes into account the more
17 advanced back office systems that are currently operating for the FirstEnergy companies'
18 Pennsylvania service territory, as well as different economies of scale for the
19 procurement of material to construct needed systems. The costs of the Revised SMIP
20 have not been calculated, because the plan is not yet formulated. However I believe that
21 there will be a favorable cost comparison between the Company's original plan and the
22 cost of a Revised SMIP. In the near term, as set forth above, the new schedule provided

1 for under the Settlement significantly reduces the initial rate impact on customers while
2 allowing the Company time to perform further analysis and study of a SMIP, which will
3 address the numerous issues detailed paragraphs 15 and 16 of the Settlement (benchmark
4 comparisons, cost and savings estimates, smart meter related usage reductions, IHDs
5 etc.), as well as allow time for the collection and analysis of low income customers
6 issues.

7

8 **Q. Is there support in the record for this Settlement?**

9 A. Yes. The Settlement strikes a balance between the Company's proposal to deploy large
10 numbers of smart meters during the grace period, and OCA's recommendation that
11 deployment be postponed and the grace period be utilized to find ways to reduce the
12 SMIP's cost and identify in more detail the impact of smart meters on low income
13 customers. These positions were fully supported by expert testimony in the form of my
14 Direct Testimony, AP Statement No. 2, and the testimony of OCA witnesses J. Richard
15 Hornby and Nancy Brockway, OCA Statement No. 1 and OCA Statement No. 2
16 respectively. The Settlement adopts an approach which utilizes the grace period to
17 develop a Revised SMIP that could be less expensive and allows further study of cost
18 issues and impacts on customers. It also allows the Company to design a smart meter
19 solution that integrates the resources of the newly merged Company. Rather than no
20 deployment of smart meters or a widescale deployment of smart meters during the grace
21 period, the Settlement calls for the Company to encourage customer requests so that an
22 estimated 25,000 smart meters are deployed between 2010 and 2013.

1 Q. Does this conclude your additional testimony?

2 A. Yes.

WPPC Exhibit I-S

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

AMENDED JOINT PETITION FOR SETTLEMENT OF ALL ISSUES

I. INTRODUCTION

West Penn Power Company ("West Penn" or the "Company"), the Office of Consumer Advocate ("OCA") and the Office of Trial Staff ("OTS") ("Joint Petitioners") hereby join in this Amended Joint Petition for Settlement ("Settlement") and hereby respectfully request that the Pennsylvania Public Utility Commission ("Commission") approve the Settlement as set forth below.¹

The Joint Petitioners have agreed to a settlement of the issues in the above-captioned proceeding. The Joint Petitioners have agreed to make all reasonable efforts to obtain approval of this Settlement promptly so that the Company's Smart Meter Technology Procurement and Installation Plan ("SMIP") can be finalized. The Settlement provides for a further SMIP filing no sooner than June 2012 (the "Revised SMIP") that will finalize the Company's plans for the full deployment of smart meters to West Penn's Pennsylvania customers, consistent with Act 129 and the Commission's Order relating to smart meter implementation. Further details of the SMIP as proposed in this Settlement are set forth in Appendices to this Settlement. The Joint Petitioners request expedited approval of this unopposed Settlement by the Commission.

¹ Constellation New Energy, Inc. and Constellation Energy Commodities Group, Inc. (together "Constellation"), the Department of Environmental Protection ("DEP") and the Office of Small Business Advocate ("OSBA") have indicated they do not oppose this Settlement. As part of a stipulation reached with West Penn in its amended Energy Efficiency & Conservation Plan proceeding, at Docket No. M-2009-2093218, the West Penn Power Industrial Intervenor ("WPPII") withdrew their objections to the Joint Petition for Settlement filed October 19, 2010. WPPII does not object to this Amended Joint Petition for Settlement.

II. BACKGROUND AND PROCEDURAL HISTORY

1. The Company is an electric public utility authorized to provide electric service in southwestern, south-central and northern Pennsylvania. The Company serves approximately 715,000 customers in Pennsylvania in an area of about 10,400 square miles with a population of approximately 1.5 million. The Company's headquarters are in the City of Greensburg, Westmoreland County, Pennsylvania.

2. Act 129 of 2008 ("Act 129")² 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, the Company filed its EE&C/DR Plan with the Commission. The Company filed amended EE&C/DR Plans with the Commission on December 21, 2009 and April 29, 2010. The Company's EE&C/DR Plan was approved by the Commission in Orders entered on October 23, 2009, March 1, 2010 and June 23, 2010 at Docket No. M-2009-2093218. The Company filed an amended EE&C/DR Plan with the Commission on September 10, 2010. Modifications of this filing were achieved by stipulation and an amended Plan was approved by the Commission on January 13, 2011.

3. Act 129 also requires that EDCs with at least 100,000 customers in Pennsylvania file implementation plans with the Commission to address the installation of smart meters and associated smart meter technology. On August 14, 2009, the Company filed its SMIP with the Commission. The Company's SMIP addressed the filing requirements of Act 129 and the SMIP filing requirements of the Commission. The originally filed SMIP was intended to be compatible with the Company's previously filed EE&C/DR Plan.

² Act 129 became effective November 14, 2008.

³ Act 129 requires a 1% reduction in energy consumption by May 31, 2011, a 3% reduction in energy consumption by May 31, 2013, and a 4.5% peak demand reduction by May 31, 2013.

4. The OTS filed its Notice of Appearance on August 20, 2009. The OTS subsequently filed Comments on September 25, 2009. On September 1, 2009, the OCA filed its Notice of Intervention and Public Statement in this matter. The OCA subsequently filed Comments on September 25, 2009. West Penn Power Industrial Intervenors (“WPPII”) filed a *Petition to Intervene* dated September 16, 2009. The Pennsylvania Department of Environmental Protection (“DEP”) filed a *Petition to Intervene* dated September 18, 2009. The Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and Comments and a Public Statement on September 25, 2009. Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc. (collectively, “Constellation”) filed a *Petition to Intervene* on September 25, 2009. Citizen Power, Inc. (“Citizen Power”) filed a *Petition to Intervene* on September 25, 2009.⁴ The Pennsylvania Association of Community Organizations for Reform Now (“ACORN”) filed a *Petition to Intervene and Comments* on September 25, 2009.⁵

5. On November 9, 2009, an evidentiary hearing before the ALJ was held in Harrisburg, Pennsylvania.

6. On December 18, 2009, West Penn, the OTS, the OCA, the OSBA, DEP, WPPII, ACORN and Constellation filed Main briefs. On January 5, 2010, West Penn, the OTS, the OCA, the OSBA, WPPII and ACORN filed Reply briefs. Neither DEP nor Constellation filed a Reply brief. Also on December 18, 2009, West Penn filed a *Petition to Modify a Prior Commission Order and to Re-open the Evidentiary Record*. The OCA, the OTS, the OSBA and ACORN subsequently filed Answers to the *Petition*.

7. On January 13, 2010, West Penn’s *Petition to Modify a Prior Commission Order and to Re-open the Evidentiary Record* was granted by Secretarial Letter. The Commission

⁴ The *Petition to Intervene* of Citizen Power was denied by *Prehearing Order* dated October 5, 2009.

⁵ On April 7, 2010, ACORN filed a letter withdrawing its appearance in this proceeding. No responses to the request were filed.

waived the requirement that an Initial Decision be rendered in this matter on or before January 29, 2010 and remanded the remaining issues in the Petition for disposition by the ALJ.

8. On March 16, 2010, a further hearing was held in this case. On March 26, 2010, West Penn, the OCA, the OSBA and the DEP filed Supplemental Main briefs.

9. On May 6, 2010, the ALJ issued an Initial Decision.

10. On May 13, 2010, West Penn filed a Petition to Stay the Exceptions Period in this proceeding, so that parties may consider the impact on West Penn's proposed SMIP given the proposed merger of its parent company, Allegheny Energy, Inc., with FirstEnergy Corp.⁶ On May 14, 2010, the Secretary of the Commission issued a letter advising that the Answer period to the Petition to Stay would be shortened to May 18, 2010. On May 18, 2010, the OSBA filed an Answer opposing the Petition to Stay. West Penn timely filed a Reply to "New Matter" raised by the OSBA. The OCA filed a letter supporting the West Penn Petition. No other Party filed an Answer to the Petition.

11. On May 21, 2010, the Commission's Secretary issued a letter advising that the Commission was exercising its authority under 52 Pa. Code § 1.2(a) and (c) and 52 Pa. Code § 5.533(a) to stay the filing of Exceptions, to permit the Commission to consider the Petition and the Answer thereto filed by the OSBA, at a June, 2010 Public Meeting.

12. In an Order entered July 21, 2010, the Commission granted a Stay of the Exceptions period for ninety (90) days.

13. On September 10, 2010, West Penn filed a Petition to Amend its current EE&C/DR Plan and an amended EE&C/DR Plan ("Amended EE&C/DR Plan"), which was

⁶*Joint Application of West Penn Power Company d/b/a Allegheny Power, Trans-Allegheny Interstate Line Company and FirstEnergy Corp. for a Certificate of Public Convenience under Section 1102(a)(3) of the Public Utility Code approving A change of control of West Penn Power Company And Trans-Allegheny Interstate Line Company, Docket Nos. A-2010-2176520, A-2010-2176732, (Filed May 17, 2010). The merger subsequently has been approved, and has closed.*

docketed at M-2009-2093218. Answers to the Amended EE&C/DR Plan were filed by The Penn State University, OSBA and WPPII. Stipulations on the Amended EE&C/DR Plan were reached between the Company and OSBA, WPPII and Pennsylvania Communities Organizing for Change (“PCOC”). By Order entered January 13, 2011, the Commission concluded that proceeding.

14. On October 19, 2010, West Penn and OCA filed a Joint Petition for settlement of this proceeding. Objections to the settlement were filed by OTS, OSBA and WPPII. West Penn replied to those objections.⁷ OTS challenged the Company’s response to its Answer to the Joint Petition. As part of this settlement, resolution of the matter is considered moot. On December 8, 2010, the Commission issued a Secretarial Letter directing further proceedings at this docket “to ensure that (1) the impact of the proposed [FirstEnergy Corp Allegheny Energy, Inc] merger on the Plan is fully considered, and (2) the proposed Settlement has adequate support in the record.”

III. SETTLEMENT

15. West Penn agrees that it will decelerate the deployment of smart meters from the schedule originally proposed by West Penn or the modified West Penn Plan approved by the ALJ. Consistent with this Settlement, the Company proposes, among other matters, to utilize some or all of the 30-month grace period authorized by the Commission to reevaluate its back-office systems, system-wide network development and installation plan and perform any needed redesign based on that reevaluation.⁸ Following its reevaluation effort, the Company will file a

⁷ After the Joint Petition for settlement was filed, PCOC Petitioned to intervene in this proceeding and submitted an Answer in support of the settlement. OTS opposed the granting of this intervention. OTS submitted correspondence indicating that it would normally oppose the Company and OCA responses to its Answer to PCOC’s Petition to Intervene. Given that the proceeding has been assigned to the Office of Administrative Law Judge for further proceedings, OTS withdrew its opposition to PCOC’s intervention.)

⁸ The grace period is the 30-month interval provided by the Commission in its Implementation Order during which the obligation to deploy smart meters is stayed if the EDC requires that time to plan and prepare for deployment. Following Commission approval of this Settlement, the Company will submit in compliance a SMIP that amends

revised SMIP (“Revised SMIP”) with the Commission reflecting those efforts, as well as the Company’s full-scale deployment plans. The Company currently anticipates filing the Revised SMIP no sooner than June 2012. However, the Company may file its Revised SMIP prior to June of 2012, provided that the analyses described below in paragraph 16 are completed and presented as a part of that filing. The Revised SMIP will contain an updated Business Case that presents a cost/benefit analysis in support of the full smart meter deployment schedule. In addition to any other deployment schedule the Company may submit, the Revised SMIP shall include a cost/benefit analysis for deployment of smart meters to at least 90% of the Company’s customers no later than December 31, 2018. Nothing in this Settlement is intended to preclude any party from raising issues regarding the Revised SMIP, including such issues as the pace of deployment, the cost-effectiveness of the Revised SMIP or the prudence or reasonableness of costs incurred under the Revised SMIP, except for those issues specifically identified in this Settlement. Adopting a less rapid smart meter deployment schedule together with the Amended EE&C/DR Plan filed on September 10, 2010 will allow West Penn and its Pennsylvania customers to avoid certain near term expenditures, as well as provide time for analysis of whether a less costly smart meter deployment can be designed.

16. During the grace period, the Company will complete at least the following analyses of the costs and benefits of smart meter deployment that will be included in its revised SMIP filing:

a. develop a benchmark comparison of the costs of its proposed network development and installation plan to those approved for several comparable companies;

the original filing to reflect its intent to utilize the grace period, its decelerated deployment schedule and the other elements of this Settlement. The Company will then supplement that filing with its Revised SMIP filing targeted for 2012. The principal elements of the Company’s decelerated deployment schedule are described in Appendix A to this Joint Petition

- b. conduct an updated and full analysis, similar to the analysis described in Appendix B hereto, of savings in distribution service capital and operating costs;
- c. estimate improvements in distribution system reliability in terms of costs savings, such as increased efficiency in responding to outages;
- d. estimate savings in supply costs, including capacity and energy costs (not limited to those programs that are part of the EE&C/DR Plan);
- e. estimate the likely participation and electricity usage reductions of customers in response to the programs and rate offerings enabled by smart meters (not limited to those programs that are part of the EE&C/DR Plan);
- f. evaluate the merits of deploying IHDs, in conjunction with the deployment of smart meters.

The requirement to perform these analyses is not an acknowledgement by West Penn that a financial cost/benefit analysis is required by Act 129 to be part of a SMIP.

17. Between 2010 and 2013, and in support of the EE&C/DR Plan and the analyses required in paragraphs 15 and 16 above, the Company estimates that it can deploy approximately 25,000 smart meters to support customer requests and the Amended EE&C/DR Plan offerings, provided, however, that such installations will be in response to customer requests, such that the actual number of meters installed during this timeframe may vary from the Company's current estimate. The Company will promote and encourage customer requests for smart meters in order to achieve the deployment of the estimated 25,000 meters, and will submit to interested parties, as part of its reports regarding the status of its EE&C/DR Plan and programs, information on

progress toward the achievement of that goal. Deployment and support of the estimated 25,000 meters will not require that the Company replace its existing customer information system ("CIS"). However, within the costs associated with activities defined as Phase 3 in the accompanying Appendix A, the Company will implement a new meter data management system and make certain other modifications to its existing infrastructure that are necessary to the deployment and support of these customer requests and the EE&C/DR Plan offerings.

18. Prior to May 31, 2013, the Company will not deploy In Home Devices ("IHDs")⁹ to customers in support of the EE&C/DR Plan.

19. The Joint Petitioners recognize that the Company made expenditures between 2009 and 2010 in support of the development of a smart meter deployment plan. These costs are related to activities defined as Phase 1 and Phase 2 activities in the accompanying Appendix A. To date, the Company has expended approximately \$45.1 million, of which the parties agree that \$40 million can be recovered in the smart meter surcharge. Consistent with a separate stipulation reached between the Company and OSBA, no party to this proceeding other than OSBA may challenge the recoverability of the \$40 million of Phase 1 and 2 costs in a future proceeding. The \$40 million will be recovered via a levelized surcharge over a 5.5-year period beginning with the smart meter surcharge start date. The levelized surcharge will not include interest on over-collections or under-collections. In order to allow for full recovery of the costs associated with the deployment of its Smart Meter Plan, the Company may include \$5.712 million in interest charges. As a result of the unintended delay in the recovery of expended funds, recovery of the costs reflecting the interval between when Phase 1 and 2 costs were incurred and when the timely recovery of those costs are presumed to occur is appropriate. Such interest charges will

⁹ IHDs include three types of technologies: the in home display device which conveniently provides consumption and price information to the customer, the programmable thermostat and the digital control unit.

be amortized for recovery over a 5.5-year period coincident with the recovery of the \$40 million of Phase 1 and 2 costs. The additional \$5.1 million represents certain costs related to the CIS system that the Joint Petitioners dispute should be recovered through the smart meter surcharge. The Company may file for recovery of these disputed amounts in its next distribution base rate case and/or as part of the smart meter surcharge in connection with its Revised SMIP filing. All parties reserve all rights to continue to dispute the reasonableness of recovery of the \$5.1 million in disputed charges and to oppose any recovery of these costs.

20. Reasonable and prudent costs associated with the activities defined in Appendix A as Phase 3 (EE&C/DR enablement), estimated to be \$26.7 million, the activities defined in Appendix A as Phase 4 (Regulatory), estimated to be \$250,000, and an additional \$1 million for additional Phase 2 design expenses can be included in the smart meter surcharge. Collection of the operation and maintenance (O&M) expenses of these phases, estimated to total \$11 million, will occur in the year the O&M expense is projected to be incurred. The capital costs of these phases are estimated to total \$16.9 million and will be collected through an annualized rate based upon an annual revenue requirement that includes the effect of the book life depreciation described in paragraph 24 below, the return on equity described in paragraph 25 below, accumulated deferred income taxes, the Company's capital structure, and Allowance for Funds Used During Construction ("AFUDC") that will accrue during the period between the Company's incurrence of the capital costs and the capital in-service date. The smart meter surcharge will be reconciled through annual true up filings in which projected costs for the next year, and reconciliations of past cost projections, are submitted to the Commission for review of reasonableness and prudence. Reconciliation of the \$40 million of Phase 1 and Phase 2 costs will result in an adjustment (positive or negative as the case may be) to the deferral balance, with

the deferral levelized over the remainder of the 5.5-year levelization period. Reconciliation of capital costs and all other O&M costs will be collected in the smart meter surcharge for the upcoming year. As such, the levelized smart meter surcharge will be updated through annual filings, and ultimately will include costs approved by the Commission for Phase 5, which will be described in detail in the Revised SMIP regulatory filing completed in Phase 4. Based on the cost collection described above, the following smart meter surcharges will result for Phases 1 through 4 actual and estimated expenditures (assuming a smart meter surcharge start date of April 2011 and excluding the effect of annual reconciliation filings on the smart meter surcharge):

Tariff Classification	SMT Surcharge (\$/kWh residential; \$/month non-residential)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sch 10	\$ 0.00193	\$ 0.00195	\$ 0.00197	\$ 0.00142	\$ 0.00138	\$ 0.00101	\$ 0.00016	\$ 0.00016	\$ 0.00014	\$ 0.00013
Schs 20, 22, 23 & 24	\$ 1.93	\$ 2.13	\$ 2.12	\$ 1.59	\$ 1.53	\$ 1.17	\$ 0.35	\$ 0.32	\$ 0.29	\$ 0.27
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	\$ 2.20	\$ 2.66	\$ 2.63	\$ 2.05	\$ 1.96	\$ 1.55	\$ 0.70	\$ 0.64	\$ 0.59	\$ 0.54
Street Lighting	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

For a typical West Penn residential customer using 1,000 kwh per month, the monthly charge would be \$1.93 during 2011.

21. The Company may seek recovery of the costs of its full deployment plan, including costs associated with the analyses required by paragraphs 15 and 16 of this Joint Petition, as part of the Revised SMIP filing. All parties reserve their rights to make any and all arguments regarding this claim.

22. Any additional funds that the Company expends between the filing of this Amended Joint Petition and the time that it files its Revised SMIP for a new CIS may not be included in the smart meter surcharge at this time. However, the Company may propose recovery of costs for a new CIS in a distribution base rate case and/or as part of its Revised SMIP. All parties reserve all rights to oppose any such claims. Costs incurred as part of the modifications to existing infrastructure to support the estimated 25,000 smart meter deployment,

as described in Paragraph 17 of this Amended Joint Petition, are permitted to be recovered through the smart meter surcharge.

23. The cost allocation underlying the surcharge rates in Paragraph 20 reflects the Company's proposal in this proceeding. Costs specific to each customer class were allocated directly to that class and general costs were allocated based on the number of customer connections. For metering costs, the cost allocation reflects: (a) 100% single-phase metering costs for Tariff No. 39 Schedule 10; (b) a customer class representative blending of single-phase metering and poly-phase metering costs for Tariff No. 39 Schedules 20, 22, 23 and 24; and (c) 100% poly-phase metering costs for Tariff No. 39 Schedules 30, 40, 41, 44, 46, 86 and Tariff No. 37. The smart meter surcharge will be a single, non-tiered, non-volumetric surcharge for all nonresidential customers served under Tariff No. 39 Schedules 20, 22, 23 and 24 that is separate and distinct from a single, non-tiered, non-volumetric surcharge for all nonresidential customers served under Tariff No. 39 Schedules 30, 40, 41, 44, 46, 86 and Tariff No. 37. For residential customers served on Tariff No. 39, Schedule 10, the surcharge will be on a cents per kilowatt-hour basis.

24. The depreciation book lives to be used in the calculation of the smart meter surcharge revenue requirement for the following capital asset types are as follows:

- | | | |
|----|--------------------|----------------------------------|
| a. | Smart Meters | 15 years |
| b. | Hardware | 5 years |
| c. | Software (non-CIS) | 10 years |
| d. | Software (CIS) | 10 years |
| e. | In-Home Devices | TBD (if deployed beyond EE&C/DR) |

25. A return on equity of 10% shall be used in the calculation of the smart meter surcharge revenue requirement until such time as West Penn is authorized to implement a new

return on equity as part of a distribution base rate case or a different return on equity is authorized as part of the Revised SMIP proceeding.

26. During the grace period, the Company will collect and provide non-confidential data to interested parties on its low income and vulnerable customers, including elderly head of households and households that have been identified as having a disabled person who requires electricity as a medical necessity, including but not limited to, households where medical certifications have been obtained under Sections 56.111-56.131 of the Commission's regulations. Such data shall include customers' load shapes and usage characteristics, to the extent that such customers are identified. The Company's assessment should include a granular analysis of the load shapes and usage characteristics of a sample of customers, to the extent that there is sufficient data to perform a granular analysis.

27. The Company agrees to review the data collected on low income and vulnerable customers with the interested parties during the grace period to examine the potential programs for low income and vulnerable customers intended to enable them to benefit from smart meter technology.

28. The Company reaffirms its commitment that it will not use the remote disconnect feature of its smart meter system for involuntary termination. If the Company proposes as part of its Revised SMIP to use the remote disconnect feature for involuntary termination, prior to doing so, it will work collaboratively with the interested parties to address compliance with Chapter 14 and Chapter 56 and to address the issues presented by use of the technology for remote disconnection. As part of the collaboration, the Company will consider and discuss with the interested parties the use of a pilot program to identify the issues and policy implications from the use of the remote disconnect feature for involuntary termination. The Company also

agrees to meet with the interested parties to share and review the results of any pilot program that may be conducted.

29. The Company will provide periodic briefings to keep interested stakeholders informed and will collaborate with the interested stakeholders to receive input on the development of the Revised SMIP. Briefings and meetings will occur at least semi-annually until the Revised SMIP regulatory filing is made.

30. The Joint Petitioners agree that, notwithstanding any other terms of the Settlement, in the event that Company monitoring of the EE&C/DR Plan indicates that sufficient progress toward achievement of Act 129 energy and demand target reductions is not being achieved, the Company may propose amendments to the EE&C/DR Plan and/or SMIP, including the costs of these plans, that will allow the targets to be met. All parties reserve their rights in any proceeding that considers any proposed amendments.

31. The OCA agrees to withdraw its appeal of the Company's EE&C/DR Plan before Commonwealth Court at docket No. 28 C.D. 2010 upon a Final Commission Order approving this Settlement.

32. The Company's initial EE&C/DR Plan approved by the Commission by Order entered October 23, 2009 was premised on the Company deploying a large number of smart meters by 2012. This Settlement decelerates that deployment of smart meters. The Company filed an amended EE&C/DR Plan on September 10, 2010 at Docket No. M-2009-2093218 that amends plan programs to account for a reduced number of smart meters being available. That proceeding was concluded by final Commission Order adopted and entered January 13, 2011.

33. The Company's Revised SMIP will continue to comply with the Commission's Smart Meter capability requirements, and the Company intends to provide customer and third-

party access to meter data. The Company will follow the Commission standards and protocols for access to meter data that will prevent unauthorized access, protect the security of the Company's system, and protect customer privacy.

IV. THE SETTLEMENT IS IN THE PUBLIC INTEREST

34. This Settlement was achieved by the Joint Petitioners after an extensive investigation of the Company's SMIP filing, including informal and formal discovery and filing of direct and rebuttal testimony by certain of the Joint Petitioners. The Settlement is lawful and supported by the record of this proceeding.

35. The Joint Petitioners have submitted, along with this Settlement Petition, Statements in Support of the Settlement setting forth the basis upon which they believe the Settlement is lawful, supported by the record, fair, just and reasonable and therefore in the Public Interest. The Joint Petitioners' Statements in Support are attached hereto as Attachments 1, 2 and 3.

V. CONDITIONS OF SETTLEMENT

36. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission modifies the Settlement, then any Joint Petitioner may elect to withdraw from this Settlement and may proceed with litigation and, in such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an order modifying the Settlement.

37. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated these proceedings.

38. This Settlement is proposed by the Joint Petitioners to settle all issues in the current proceedings. The Settlement is made without any admission against, or prejudice to, any position which any Joint Petitioner may adopt in the event of any subsequent litigation in these proceedings.

39. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

40. The Commission's approval of the Settlement shall not be construed to represent approval of any Joint Petitioner's position on any issue, except to the extent required to effectuate the terms and agreements of the Settlement in these and future proceedings involving the Company.

41. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise, and does not necessarily represent the position(s) that would be advanced by any Joint Petitioner in these proceedings if they were fully litigated.

42. This Settlement is being presented only in the context of these proceedings in an effort to resolve the proceedings in a manner which is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of this Settlement. This

Settlement does not preclude the Joint Petitioners from taking other positions in proceedings of other public utilities, or any other proceeding.

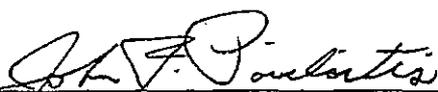
43. A copy of the Amended Joint Petition has been served upon the active parties to the proceedings.

44. All parties to this proceeding either support the Amended Joint Petition or do not object to its approval by the Commission. Expedited approval of the Settlement by the Commission is requested so that West Penn can comply with its Act 129 responsibilities in a timely manner.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request that the Commission approve on an expedited basis this unopposed Settlement including all terms and conditions herein.

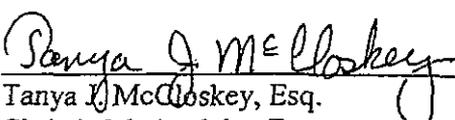
Dated: March 9, 2011

Respectfully submitted,

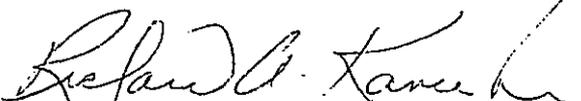


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Appendix A

Appendix A
Principal Elements of Amended SMIP

Phase 1: Study (2009): This phase, which was completed in 2009, includes the research and analysis work completed by Hewlett-Packard to assist the Company in developing a reasonable and prudent smart meter infrastructure. Activities in this Phase included gathering high level technical requirements, evaluating potential systems designs and vendors and analyzing the costs of various components. During Phase 1, the Company developed its original SMIP, worked to support the ensuing regulatory proceedings and underwent a process to select a third party system integrator.

Phase 2: Design (2009 - 2012): This phase, which is currently in process, includes the work completed to date with respect to the documentation of technical requirements, identification, design and documentation of business processes, change management and other analysis and design necessary to the implementation of smart meter-related technology and related back-office systems. These efforts are prerequisites to any implementation of smart meter technology by the Company.

Phase 3: EE&C/DR Enablement (2010 - 2013): This phase includes the deployment of approximately 25,000 smart meters during the grace period and the deployment of technology to support customer requests and the demand response rate offerings and programs in the revised EE&C/DR Plan.

Phase 4: Regulatory (2012): This phase includes the regulatory filing of a Revised SMIP and the support necessary during the procedural schedule.

Phase 5a: Field Testing (2013 – 2015): This phase includes business process assessment and the deployment and field testing of approximately 15,000 additional smart meters.

Phase 5b: Infrastructure Build Out (2013 – 2016): This phase includes the deployment of the Field Area Network (WAN and LAN) and implementation of various back office systems.

Phase 5c: Architecture Certification (2016): This phase consists of the end to end solutions architecture certification via deployment of approximately 50,000 additional smart meters.

Phase 5d: Full Scale Deployment (TBD): This phase consists of the full scale deployment of smart meters to be completed by 2022. However, the Company may choose to complete the deployment sooner, subject to Commission approval, if cost effective, or otherwise deemed beneficial and consistent with safe and reliable operations and prudent utility practices.

Appendix B

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Application of Nevada Power Company d/b/a NV Energy seeking acceptance of its Triennial Integrated Resource Plan covering the period 2010-2029, including authority to proceed with the permitting and construction of the ON Line transmission project.

Docket No. 09-07003

VOLUME 16 OF 26

TECHNICAL APPENDIX

DEMAND SIDE PLAN

ITEM	DESCRIPTION	PAGE NUMBER
DSM-24	M&V Sure Bet Hotel	2
DSM-25	M&V Residential High Efficiency AC	69
DSM-26	M&V Pool Pumps	126
DSM-27	M&V 80 Plus	148
DSM-28	M&V Energy Plus	172
DSM-29	ASD Quantification of Operational Savings	187
DSM-30	ASD Technical Project Plan (REDACTED)	191
DSM-31	ASD October 27 th , 2009, Correspondence from DOE	284
DSM-32	DOE Assistance Agreement	286

DSM-29

Advanced Service Delivery

Operational Financial Summary (Nevada Power Only)

Source: NV Energy FP&A Department - ASD Financial Analysis Case 2 - Nevada Power Only

Year	Benefits (\$MM)	Nevada Power Modeling Assumptions	
2011	8.7	a. Stranded Cost recovery not included	
2012	25.4	b. Disc Rate used 8.58%	
2013	27.9	c. AFUDC not included	
2014	28.8		
2015	29.6		
2016	30.4		
2017	31.3	Results	
2018	32.2	Cost to the customer (PWRR)	\$166MM
2019	33.2	Present Value of Benefits	<u>\$276MM</u>
2020	34.1	Net Cost to Customer (assuming 100% of benefits realized)	<u>(\$110) MM</u>
2021	37.4		
2022	34.9		
2023	35.3		
2024	36.4		
2025	37.4		
2026	38.5		
2027	39.7		
2028	40.8		
2029	42.0		

Advance Service Delivery

Operational Benefit Categories (Nevada Power Only)

	Steady State	Short Term	One Time
Meter Reading			
Elimination of On-cycle manual meter reading expenses - labor, supervision, contractors, General & Administrative (overhead), vehicles, software upgrades, hand-helds, uniforms, recruitment costs, facilities	\$ 7,271,675	\$ -	\$ -
Reduced injuries & claims (by employees & customers)	\$ 99,511	\$ -	\$ -
Elimination of Route planning software costs	\$ 24,000	\$ -	\$ -
Salvage value of meter reading equipment	\$ -	\$ 36,600	\$ -
Existing meter reading system annual maintenance costs	\$ 88,000	\$ -	\$ -
Existing meter reading system software upgrade costs	\$ -	\$ -	\$ 2,500,000
	\$ 7,483,186	\$ 36,600	\$ 2,500,000
Revenue Protection			
Reduction in meter failure field trips (assumption that new meters have fewer failures)	\$ 503,022	\$ -	\$ -
Faster detection of and collection on theft (EOT) Steady State	\$ 3,400,000	\$ -	\$ -
Faster detection of and collection on theft (EOT) During deployment period	\$ -	\$ 1,925,000	\$ -
	\$ 3,903,022	\$ 1,925,000	\$ -
Load Research			
Reduction in IT support of Lodestar Billing Expert	\$ 206,617	\$ -	\$ -
	\$ 206,617	\$ -	\$ -
Distribution (Electric and Gas), Substation, and Transmission Planning			
Improved Transformer Load Management	\$ 294,531	\$ -	\$ -
Defer T&D system capacity requirements	\$ 1,213,860	\$ -	\$ -
Reduction in number of load profile meters (electric and gas) required	\$ 24,000	\$ -	\$ -
	\$ 1,532,391	\$ -	\$ -
Credit, Collections			
Reduction in uncollectables charge offs due to aggressive cut-off for non-pay	\$ 573,250	\$ -	\$ -
Reduction in short-term interest charges due to aggressive cut-off for non-pay	\$ 4,602	\$ -	\$ -
Reduced customer communications cost for collections	\$ 17,640	\$ -	\$ -
	\$ 597,492	\$ -	\$ -
Billing			
Reduction in billing labor	\$ 753,715	\$ -	\$ -
Improve cash flow for existing Summary Billing customers	\$ 596,860	\$ -	\$ -
Improved cash flow	\$ 1,633,831	\$ -	\$ -
Reduced consumption on inactive meters - electric and gas	\$ 65,847	\$ -	\$ -
	\$ 3,050,253	\$ -	\$ -
Meter Operations			
Reduction in Field Services Work	\$ 6,804,345	\$ -	\$ -
Salvage value of replaced meters	\$ -	\$ 232,500	\$ -
Avoided purchase of existing AMR/AMI modules	\$ 150,000	\$ -	\$ -
Avoided meter capital - Failures	\$ 116,250	\$ -	\$ -
Avoided meter capital - Growth	\$ 534,750	\$ -	\$ -
Avoided capital cost for new load profile sampling meters	\$ -	\$ 47,468	\$ -
	\$ 7,605,345	\$ 279,968	\$ -
Total Benefits	\$ 24,378,307	\$ 2,241,568	\$ 2,500,000

Definitions- Steady State-is the expected annualized benefits once full deployment is complete. Annual benefits are the expected benefits estimated to be achieved during a particular year. Benefits are escalated by 3% annually. Short Term- is a benefit that will be achieved during deployment of the solution. One-time - is benefit that will be achieved within a particular year during the life of the business case and will not be repeated.

Source: The Enspira Solutions, Inc benefits model is used to quantify the operational benefits that can be achieved by implementing the ASD solution Enspira began with a comprehensive list of O&M, revenue, avoided capital expenditure, and working capital based benefits and met with each potentially impacted NV Energy business group to determine which benefits to include in the model. The model utilizes NV Energy information about labor, asset utilization, and cash flow and industry benchmarks to calculate each benefit. Quantified benefits are differentiated by NV Energy operating unit and classified according to the time frame which they will occur. The model documents data sources and calculations to provide a defensible justification for each benefit. The source file for operational benefits included the NV Energy IRP filing is *AMI Potential Benefits - Inputs and Calculations v18.xls*.

The Enspira Solutions, Inc. total cost of ownership (TCO) model is used to quantify the NV Energy and vendor partner capital and O&M costs required to implement the ASD solution. Enspira began with a comprehensive list of typical costs associated with each element of a smart grid deployment. The model uses pricing obtained during the vendor procurement process and known NV Energy costs to calculate each ASD solution cost. Quantified costs are differentiated by ASD solution system element and incurred over the deployment period and operating life of the ASD solution. The model documents data sources and calculations to provide a defensible justification for each cost. The source file for costs included in the NV Energy IRP filing is *NV Energy Business Case Cost Model 110309.xls*.

Printing the sources is impractical because the volume of data renders the spreadsheets unwieldy and unreadable in printed. The Company is willing to share executable copies of the source files, *AMI Potential Benefits - Inputs and Calculations v18.xls* and *NV Energy Business Case Cost Model 110309.xls*, with parties to the proceeding pursuant to an appropriate confidentiality agreement because (a) the models contain information that is subject to third-party confidentiality obligations and (b) proprietary information.

West Penn Power Company Statement in Support of Settlement

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**STATEMENT OF WEST PENN POWER COMPANY IN SUPPORT OF
SETTLEMENT**

**TO THE CHAIRMAN, VICE CHAIRMAN AND COMMISSIONERS OF THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION:**

I. Introduction

West Penn Power Company ("West Penn" or the "Company"), the Pennsylvania Office of Consumer Advocate ("OCA") and the Office of Trial Staff ("OTS"), collectively with the Company, the "Joint Petitioners", have joined in an Amended Joint Petition for Settlement of All Issues (the "Settlement") in the above-captioned proceeding and have requested that the Pennsylvania Public Utility Commission (the "Commission") approve the Settlement as expeditiously as possible. All parties to the proceeding either support the Settlement or do not object to its approval by the Commission. The Settlement's core concept is its proposal that the Company utilize the grace period provided under the Commission's June 2009 implementation order (the "Implementation Order") and postpone full-scale smart meter deployment and the final design of its Smart Meter Technology Procurement and Installation Plan ("SMIP") until the Commission reviews a revision to the Company's originally-filed SMIP (the "Revised SMIP"). The Company currently anticipates filing the Revised SMIP no sooner than June 2012, or perhaps prior thereto if additional analyses and planning performed during the grace

period have been completed. This new schedule will significantly reduce the initial rate impact on customers while allowing the Company to perform further analysis and study of an appropriate SMIP, including the review of costs associated with back office and smart meter implementation.

The Settlement sets out a multi-step process that commits the Company to a detailed Revised SMIP filing and greatly reduces the initial SMIP surcharge level to customers. Additionally, though the Company's detailed full-scale meter deployment plan and schedule will be the subject of planning and analysis during the grace period and is therefore reserved for the Revised SMIP, the Settlement nevertheless permits an initial deployment of an estimated 25,000 smart meters between 2010 and 2013.

The Settlement resolves the currently pending dispute over cost allocation and rate design issues that were contested among the parties. It also defers any potential for recovery through the smart meter surcharge of certain expenses attributable to the Company's previously-contemplated replacement of its Customer Information System ("CIS") to the Revised SMIP. The Settlement also resolves issues with respect to the depreciable lives of smart meter technology and return on equity.

During the grace period, the Company will collect data on low income and vulnerable customers and examine the potential for programs intended to enable low income and vulnerable customers to benefit from smart meter technology. The Settlement also includes a requirement that OCA withdraw its appeal of the Commission's prior order dated October 23, 2009 approving the Company's initial Energy Efficiency and Conservation/Demand Response ("EE&C/DR") Plan.

II. Benefits of the Settlement

Lower Rates - The Company presented to the ALJ three alternative smart meter deployment plans. The ALJ recommended Commission adoption of the plan that required the deployment of 375,000 smart meters by mid-2012. As noted in the ID, that deployment plan would have resulted in a monthly SMIP surcharge for residential customers electing not to request an associated in-home device of \$11.16, a monthly SMIP surcharge for small commercial customers of \$12.37, and a monthly SMIP surcharge for large commercial and industrial customers of \$14.90.

In contrast, under the Settlement, the initial monthly SMIP surcharges would reflect an over 90% reduction in the monthly surcharge to customers. These charges will increase to reflect the Company's full-scale meter deployment plans after the Commission reviews and decides the Revised SMIP filing. However, the Company believes that by decelerating its meter deployment plans, it may ultimately avoid certain near-term expenditures, particularly with respect to the implementation of back-office systems in support of smart metering, that it would be required to incur under the ID recommended SMIP but may be able to forego. The Company believes that the resulting cost savings would benefit all customers in the near term.

Cost inputs, cost allocation and rate design – The Settlement resolves issues of depreciable book lives and return on equity to be used in the calculation of the SMIP surcharge for capital items. Smart meters are to be depreciated over 15 years, while other hardware and software components are given shorter depreciable lives (5 years and 10 years, respectively). In addition, the Settlement resolves the currently pending issues of

cost allocation and rate design that were previously the subject of litigation in this and other Companies' SMIP filings.

On balance, the Settlement offers the concrete and substantial benefit of a significantly lower initial SMIP surcharge, and the opportunity to design a lower cost Revised SMIP.

Record Support and Lawfulness - The proposed Settlement has record support and contains no unlawful provisions. The major differences between the SMIP recommended in ALJ Hoyer's ID and the Settlement are the changes in smart meter deployment schedule and the enormous reduction in the initial SMIP surcharge. Both of these differences are supported in the record of this case. Moreover, the Company has submitted the testimony of two witnesses, Mr. Ahr (WPPC St. No. 1-S) and Mr. Valdes (WPPC St. No. 2-S), specifically on the merits of the Settlement terms. The costs that initially are permitted recovery in the SMIP surcharge by the Settlement are a subset of the overall costs proposed for recovery as part of the Company's presentation to ALJ Hoyer. These costs are modest in comparison to the overall estimated Pennsylvania costs of Allegheny Power's SMIP as approved by the ALJ.

III. Conclusion

The Settlement proposed by the Joint Petitioners is balanced, supported by the law and the evidentiary record and promotes the public interest. The Commission should approve it in full and without modification.

WHEREFORE, West Penn respectfully requests that the Commission approve the Settlement reached by the Parties.

Dated: March 9 , 2011


John F. Povilaitis
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Office of Consumer Advocate Statement in Support of Settlement

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

OFFICE OF CONSUMER ADVOCATE'S
STATEMENT IN SUPPORT
OF THE AMENDED SETTLEMENT

The Office of Consumer Advocate (OCA) hereby files this Statement to express its support of the Amended Joint Petition for Settlement (Amended Settlement or Settlement) in the above-captioned proceeding. The OCA was a signatory to the initial Joint Petition for Settlement (Initial Joint Petition or Initial Settlement) and submitted a comprehensive Statement in Support regarding the initial Joint Petition. Since the filing of the initial Joint Petition, certain amendments were made to the initial Joint Petition that allowed all parties to the proceeding to either join in a settlement or express their non-opposition to a settlement of the proceeding. The OCA welcomes the support, or non-opposition, of all parties to this proceeding and submits that such support will further assist West Penn Power Company (West Penn) in developing and implementing a reasonable Smart Meter Implementation Plan.¹

¹ Since this proceeding began, Allegheny Energy, along with its operating subsidiary Allegheny Power Company d/b/a West Penn Power Company, was acquired by the FirstEnergy Corporation. West Penn is now returning to the use of West Penn Power Company as its corporate name. The Amended Settlement, and this Statement in Support, will utilize the name West Penn Power Company.

The amendments to the initial Joint Petition are not extensive and impact only a few portions of the OCA's original Statement in Support. In particular, the amendments make changes to some of the cost recovery provisions of the initial Joint Petition and to the provisions regarding West Penn's Energy Efficiency and Conservation Plan (EE&C Plan). As to the cost recovery provisions, the primary change is to reduce the recovery period for certain costs. This change results in a higher surcharge for customers in the early years as compared to the initial Joint Petition, but a lower surcharge in the later years and a lower interest expense charged to customers. Importantly, under the Amended Joint Petition, the surcharge amounts remain far below the level proposed by the Company in its initial Plan.

As to West Penn's EE&C Plan, the Amended Joint Petition recognizes that issues regarding the EE&C Plan have now been fully resolved by a final Commission Order. The resolution of the issues regarding the EE&C Plan will allow West Penn to move forward in deploying its energy efficiency and demand response programs.

Through this Statement in Support, the OCA details its reasons for requesting Commission approval of the Amended Joint Petition for Settlement. The OCA submits that, for the reasons detailed below, the Amended Settlement serves the interests of West Penn's ratepayers and is in the public interest.

I. INTRODUCTION

The Office of Consumer Advocate (OCA), a signatory to the Amended Joint Petition for Settlement supports the Amended Settlement and urges the Commission to promptly approve the Amended Settlement. Critically, the Amended Settlement calls for West Penn Power Company (West Penn or the Company) to modify its schedule for the full deployment of smart meters in its service territory from that proposed in this case and to utilize some or all of

the 30-month grace period authorized by the Commission to evaluate its deployment plans and conduct further analyses before filing a Revised Smart Meter Implementation Plan (Revised SMIP) for full deployment of smart meters. Under the Amended Settlement, the large surcharges contained in West Penn's original Plan, projected to exceed \$15 per month for residential customers by 2012, will be reduced to around \$1.93 per month in 2011 and \$1.95 per month in 2012 for a residential customer using 1,000 kwh per month as the Company continues efforts to determine the most cost-effective means of meeting the smart meter requirements of Act 129.

The Amended Settlement results in West Penn's Smart Meter Plan being consistent with that of other Pennsylvania electric distribution companies that are utilizing the Commission-approved 30-month grace period to develop long-term smart meter deployment plans. The OCA submits that the Amended Settlement provides the necessary time for the Company to develop a revised Smart Meter Implementation Plan that reflects the results of further analysis, the results of a pilot deployment of at least 25,000 meters by 2013, and experience gained as smart meter deployments move forward in Pennsylvania and elsewhere. For these reasons, and the reasons discussed below, the OCA urges adoption of the Amended Settlement.

II. BACKGROUND

On August 14, 2009, West Penn filed its Smart Meter Procurement and Installation Plan (SMIP or Smart Meter Plan) pursuant to Section 2807(f) of the Public Utility Code and the Smart Meter Implementation Order entered by the Pennsylvania Public Utility Commission on June 24, 2009 at Docket No. M-2009-2092655. The matter was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Mark

A. Hoyer for investigation. On September 1, 2009, the Office of Consumer Advocate filed its Notice of Intervention and Public Statement in this matter. On September 25, 2009, the OCA filed Comments in response to West Penn's SMIP.

A prehearing conference was held and a procedural schedule was adopted. In accordance with the procedural schedule, the Office of Consumer Advocate (OCA) submitted the testimonies of its expert witnesses, J. Richard Hornby², Nancy Brockway³, and Matthew I. Kahal⁴ in this matter. On October 16, 2009, the OCA submitted the Direct Testimonies of J. Richard Hornby (OCA St. No. 1) and Nancy Brockway (OCA St. No. 2). On November 3, 2009, the OCA submitted the Surrebuttal Testimonies of J. Richard Hornby (OCA St. No. 1-S); Nancy Brockway (OCA St. No. 2-S); and Matthew I. Kahal (OCA St. No. 3-S). Evidentiary hearings were held on November 9, 2009. Briefs were filed on December 18, 2009 and Reply Briefs were filed on January 5, 2010.

² J. Richard Hornby is a Senior Consultant at Synapse Energy Economics, Inc. and has previously presented expert testimony and provided litigation support in approximately 100 proceedings in over thirty jurisdictions in the United States and Canada, including Pennsylvania. Mr. Hornby's work at Synapse specializes in planning, market structure, ratemaking, and gas supply/fuel procurement in the electric and gas industries. His experience in energy efficiency measures and policies began thirty years ago. OCA St. 1 at 1-2; see also, OCA St. 1 at Exhibit JRH-1

³ Nancy Brockway is a principal of NBrockway & Associates, a firm providing consulting services in the areas of energy and utilities. Ms. Brockway has served as a Commissioner on the New Hampshire Public Utilities Commission, an expert witness on consumer and low-income utility issues for the National Consumer Law Center, and as Director of the Multi-Utility Research and Analysis with the National Regulatory Research Institute (NRRRI). While at NRRRI, Ms. Brockway wrote a study on the impact of advanced metering structure and related options on residential consumers. Ms. Brockway specializes in issues relating to the role of regulation in the protection of consumers and the environment. OCA St. 2 at 1-2; see also, OCA St. 2 at Exhibit NB-1.

⁴ Matthew I. Kahal is an independent consultant retained in this case by Exeter Associates, Inc., an economic consulting firm. Mr. Kahal was a co-founder of Exeter Associates, Inc. and for the past 25 years, Mr. Kahal has presented testimony on electric utility integrated planning; plant licensing; environmental issues; mergers; financial issues, including performing cost of capital and financial studies; electric utility restructuring; power supply markets and competition issues in more than 340 separate regulatory cases. His testimony has addressed a variety of subjects including fair rate of return, resource planning, financial assessments, load forecasting, competitive restructuring, rate design, purchased power contracts, merger economics and other regulatory policy issues. OCA St. 3-S at 1-3; see also, OCA St. 3-S at Appendix A.

On December 18, 2009, West Penn filed a Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record. West Penn requested permission to extend the Recommended Decision due date and to allow for consideration of modifications to its SMIP in the areas of: Smart Meter deployment, In-Home Device (IHD) deployment, asset book lives, return on equity and the SMT surcharge amount. The OCA filed an Answer supporting the Company's request and its efforts to modify its SMIP in a manner that would be beneficial to customers. On January 13, 2010 West Penn's Petition was granted by Secretarial Letter. A further prehearing conference was held on January 26, 2010 in order to establish a procedural schedule for the Supplemental filing.

On January 29, 2010, West Penn submitted the Supplemental Direct Testimony of John Ahr, Edward Miller, and Raymond Valdes. On March 2, 2010, the OCA submitted the Supplemental Direct Testimonies of J. Richard Hornby (OCA St. No. 1-Supp) and Nancy Brockway (OCA St. No. 2-Supp) for the Supplemental phase of this proceeding. The Company submitted Supplemental Rebuttal Testimony on March 12, 2010.

The parties agreed to waive cross examination of all witnesses. A hearing was held on March 16, 2010 for the purposes of moving testimony and exhibits into the record. Supplemental Briefs were filed on March 26, 2010. On May 6, 2010, an Initial Decision was issued by ALJ Hoyer.

On May 13, 2010, West Penn requested a Stay of the Exceptions Period. The Commission granted this request and provided the parties until October 19, 2010 to discuss a possible resolution of this matter.

Throughout this proceeding, the OCA and its witnesses have opposed the Company's original Smart Meter Plan on numerous grounds. The OCA witnesses testified that the costs of West Penn's originally proposed Plan, and the installed cost per meter under the Plans, was extraordinarily high compared to other smart meter deployment plans. The Company's original Plan had an installed cost per meter of \$600 as compared to other smart meter deployment plans that have an average installed cost per meter of around \$250. OCA M.B. at 4; OCA St. 1 at 15. The Company's original SMIP had a benefit to cost ratio of only 0.19, meaning that the cost of the Plan exceeded the benefits by more than five times. OCA St. 1 at 17, Exh. JRH-4. The OCA witnesses identified a number of critical concerns with the proposed deployment, including the failure to establish that the deployment plan was the most cost-effective alternative, the proposal to deploy in-home devices (IHDs) to all residential customers, inclusion of costs for upgrading and replacing the customer information system (CIS) that is used to support normal utility operations, the lack of specific plans to address potential issues relating to low income customers, and the lack of analysis or research to gauge customer response to the smart meter initiatives. The OCA witnesses also raised issues regarding the cost recovery mechanism proposed by the Company and the allocation of the costs to the rate classes.

In response to the concerns regarding the originally proposed deployment plan, the OCA made the following key recommendations.

- ◆ As to the deployment Plan, West Penn should use the 30-month grace period provided in the Commission's Order to identify ways to reduce the Plan's cost and maximize its benefits to customers in order to develop a more cost-effective means of full deployment. The following should be undertaken in support of this effort:
 - quantify both the generation service and distribution service benefits of its deployment strategy over a fifteen year period and reflect these benefits in the SMIP

- *eliminate the universal deployment of IHDs (in-home device/display)*
 - *remove the costs of modernizing its Customer Information System from its SMIP*
 - *remove certain Information Technology Costs that primarily support normal distribution system operations from its SMIP and provide justification for those IT Costs that remain in the SMIP*
 - *conduct customer-focused research to anticipate likely customer responses towards various smart meter initiatives*
 - *identify the impacts on low income and potentially vulnerable customers and design initiatives to deal with issues faced by such customers under the SMIP Plan*
 - *develop all necessary procedures for security and privacy*
 - *return to the Commission with a modified full deployment Plan that more closely adheres to Act 129 and the Smart Meter Implementation Order, addresses the issues presented by the parties in this proceeding, and can be shown to be a reasonable and cost-effective means of meeting the requirements of Act 129.*
- ◆ *As to its proposed Smart Meter Technology Surcharge, the following modifications are necessary:*
- *A 10.1% Return on Equity should be used in calculating the revenue requirements included in the surcharge*
 - *The depreciable life of the meter assets should be 15 years for the purposes of the surcharge*
 - *The stranded cost claim of \$24 million should be removed from the Smart Meter Surcharge*
 - *The \$98 million in capital cost and the \$8 million in O&M costs associated with the IHDs should be removed from the Surcharge*
 - *The portion of the Information Technology costs related to capital and O&M expense for the Enterprise Service Bus, the Work Management System, the Geographic Information System and the Outage Management System should be removed from the surcharge*
 - *The PUC assessment fee should be removed from the surcharge*

- ◆ A cost of service study should be filed with the modified Plan that develops detailed allocation factors for the revenue requirements and for allocation of costs among the corporate affiliates. The joint and common cost allocator within that study should reflect energy and demand usage, as these costs are being incurred to reduce energy usage and peak demand.
- ◆ For residential customers, the Smart Meter Technology surcharge should be collected primarily on a volumetric basis

OCA M.B. at 13-14.

In response to the Company's alternative plans in the second phase of the proceeding, OCA witness Hornby also recommended a potential alternative that was more measured than the Company's proposal. At the heart of Mr. Hornby's alternative was a smaller immediate deployment of smart meters that could be implemented within the Company's existing infrastructure while further analysis and assessment was conducted. The key features of this alternative plan were as follows:

- ◆ Smart meters and communication network: The Company would deploy smart meters and the communication network in the geographic segment of its service territory with the highest customer densities in 2010 and 2011. All customers in that geographic area would receive a smart meter. The Company would continue to conduct field testing of smart meters and communications networks.
- ◆ Back Office Systems, Customer Interface and System Management: The Company would support the deployment of the first group of new meters with its existing back office systems and would reassess its plans for new back office systems, customer interfaces and system management/security and submit revised plans based on its experience in 2010 and early 2011.
- ◆ In Home Displays: IHDs would only be provided to customers who request one and the Company would recover the costs of the IHDs from the customer who requests to receive one.
- ◆ Completion of full deployment over service territory: Subject to the review of the 2010 results, full deployment could be accomplished over a 10 year time frame.
- ◆ New Low Cost Direct Load Control Program: A new low cost direct load control program would be developed and offered to residential and small commercial customers throughout the service territory in advance of full deployment of smart meters. This new low cost direct load control program would be a key element in

the "back up" plan for West Penn's EE&C/DR Plan and would allow participation in the EE&C/DR programs of customers who do not yet have a smart meter.

- ◆ EE&C Plan Programs for customers with smart meters (Programmable Controllable Thermostat (PCT) program and TOU rates): The Company would target its efforts to enroll customers in the geographic region with smart meters and place primary emphasis on enrolling participants into its Programmable Controllable Thermostat (PCT) program with cost recovery for the installed PCTs through the EE&C Plan charge. The Company should also file a proposal for pilot time of use and dynamic pricing programs for customer with smart meters.
- ◆ SMT: The SMT charge would apply to all customers to recover the costs of deploying smart meters and any necessary investment in the communications network. A uniform SMT charge would be assessed to all customers within each class.
- ◆ Review of 2010 deployment and customer response: In the Fall of 2011, the Company would submit an assessment of its initial deployment and customer response through a filing with the Commission that would include, among other things, a proposal regarding further investments in upgraded or additional back office systems, identification of systems that should be recovered in base rates and those that should be allocated to its sister companies, and a full deployment plan.

OCA St. 1-Supp at 24-29.

In accordance with the Commission's directives in its Order entered July 21, 2010 granting the Stay of the Exceptions period, the OCA continued to engage in discussions with the Company in an attempt to resolve the issues raised by the OCA with the Company's proposed Plans. An initial Settlement was achieved through these discussions that addressed the key issues and recommendations presented by the OCA. After a comment period on the initial Settlement, and further discussions among the parties, an Amended Settlement was achieved that addressed additional issues presented by the proceeding. All parties to the proceeding either support or do not oppose the Amended Settlement. For the reasons explained below, the OCA supports the Amended Settlement and urges its adoption.

III. STATEMENT IN SUPPORT

- A. A Revised SMIP That Slows The Initial Pace Of Deployment, Allows For Further Analysis And Removes Controversial Proposals Will Better Serve Consumers And The Goals Of Act 129. (Amended Joint Petition, ¶¶15, 16, 18, 29, 33)

From the commencement of this proceeding, the OCA expressed its strenuous objections to West Penn's original proposed Smart Meter Implementation Plan (SMIP) that called for the rapid deployment of 725,248 smart meters over a short time frame at an estimated cost of \$580 million to Pennsylvania ratepayers. For residential customers, West Penn's original SMIP called for a surcharge that would have increased rates for residential customers by \$5.86 per month beginning in February of 2010. The residential surcharge was to increase to \$14.34 per month in June of 2011, further increase to \$15.57 per month in June of 2012, and then increase to \$15.77 per month by June of 2013. By June of 2013, residential customers using 500 kwh per month would have seen an increase of 34% over 2009 monthly bills and customers using 1,000 kwh per month would have seen an increase of 18%, solely to cover the smart meter surcharge. OCA M.B. at 1, OCA St. 1 at 26-27. Over the four years and four months of the initial surcharge period identified by the Company, the OCA calculated that every West Penn residential customer would have paid at least \$641 just to cover the amount of the proposed Smart Meter surcharge. See, AP Exh. 1, SMIP Plan at 98.

Even under West Penn's subsequently revised proposal to deploy 375,000 smart meters by mid-2012, residential customers who received a smart meter would pay \$8.56 per month while residential customer who did not receive a smart meter in the initial deployment would pay a surcharge of \$6.21 per month in the first year. OCA Supplemental Brief at 3. These surcharges would increase to a level of \$9.86 to \$10.58 per month by the 2013-2014 time frame. OCA Supplemental Brief at 3. By contrast, the Amended Settlement would impose an

initial surcharge in 2011 of 1.93 mills/kwh, or approximately 96¢ per month for a residential customer using 500 kwh per month and 1.93¢ per month for a residential customer using 1,000 kwh per month. In 2012, the residential surcharge would increase to about \$1.95 per month for a residential customer using 1,000 kwh per month.

In light of the concerns raised by the OCA witnesses as described above, and the proposals made by the OCA in the proceeding, the OCA continued to engage in discussions with the Company to address the concerns of the OCA with the Smart Meter Implementation Plans forwarded by the Company. The OCA and the Company agreed upon a proposed approach to the development of a full scale smart meter deployment plan. The approach agreed upon and contained in the initial Settlement and the Amended Settlement reflects many of the recommendations of the OCA's witnesses, as well as the Commission's own guidance regarding these Plans. Importantly, as a first step, the Settlement calls for a slower initial deployment of smart meters and the use of the "grace period" provided by the Commission for further analysis and development of a full scale deployment plan that is supported by robust cost/benefit analyses and guided by experience now being gained. The Company will then file a Revised SMIP for the full scale deployment of smart meters by June of 2012.⁵ This approach brings West Penn's plan into alignment with the approach used by other similarly situated EDCs in Pennsylvania such as Duquesne Light Company and the FirstEnergy Companies (Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company).⁶ Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and

⁵ The Settlement makes clear that the Revised SMIP will continue to comply with the Commission's Smart Meter capability requirements, the customer and third party access requirements to meter data, and the Commission's standards and protocols to prevent unauthorized access, protect security, and protect customer privacy. Amended Joint Petition, ¶33.

⁶ By contrast, PPL Electric Utilities already has a type of smart meter deployed and PECO Energy Company received a \$200 million federal grant to fund accelerated deployment

Installation Plan, Docket No. M-2009-2123948, *slip op.* at 4-6, 29 (Order entered May 11, 2010) and 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, *slip op.* at 12-14 (Order entered June 9, 2010).

The Commission, in its Smart Meter Implementation Order, provided a 30-month grace period to the EDCs so that the EDCs could assess, plan, and design their full meter deployment. As the Commission explained:

The Commission agrees that some flexibility must be provided in the design and installation of a smart meter network, as some EDCs face greater logistical challenges than others do. Therefore, the Commission has established a period of up to 30 months for each EDC to assess its needs, select technology, secure vendors, train personnel, install and test support equipment and establish a detailed meter deployment schedule consistent with the statutory requirements. This grace period will commence upon approval of an EDC's smart meter plan. This will afford each EDC more time and flexibility in the design and development process to ensure that it can meet the demands and challenges unique to each service territory.

Smart Meter Procurement and Installation, Docket No. M-2009-2092655, *slip op.* at 9 (Order entered June 24, 2009)(Smart Meter Implementation Order). As noted, Pennsylvania EDCs that do not already have a form of smart meter, or that have not received ARRA stimulus funding to support their efforts, have made use of the 30-month grace period provided by the Commission to develop a full deployment strategy. West Penn and its customers will also now be able to benefit from this 30-month grace period. Amended Joint Petition, ¶15.

The Settlement also calls for West Penn to use some or all of this grace period to conduct further analysis and research, complete testing, and further assess its needs in preparing a full scale deployment plan. Among the analyses that will be developed are a full cost/benefit analysis of the savings in distribution service capital and operating costs, estimates of

improvements in distribution system reliability that can be expected, estimates of supply cost savings, estimates of participation in rate programs enabled by smart meters, and benchmark comparisons to other smart meter deployments. Amended Joint Petition, ¶16. These analyses, and others, will provide a better base from which to assess the various approaches to full deployment of the smart meters. In addition, the Company has committed to provide periodic briefings to the interested stakeholders to keep them informed and to collaborate with the interested stakeholders to receive input on the development of the Revised SMIP. Amended Joint Petition, ¶29.

Further, as part of the Settlement, the Company has agreed that it will not pursue the universal deployment of in-home devices to customers at this time. Amended Joint Petition, ¶18. This portion of the Company's Plan was controversial and costly, adding nearly \$100 million to the overall cost of the Plan. OCA St. 1 at 4-5, 15-18. The Company has agreed to further analyze the merits of in-home devices provided by the Company before proceeding further with such a proposal. Amended Joint Petition, ¶16.f. This provision will eliminate a source of controversy while allowing for further assessment of experience now being gained with the use of such devices.

The OCA submits that the Settlement provisions that call for the use of some or all of the 30-month grace period to conduct further analysis, collaborate with interested stakeholders, and develop a Revised SMIP for full scale deployment of Smart Meters are reasonable and in the public interest. The Settlement will allow the time needed for further analysis and the development of a less costly smart meter plan that has a greater chance of customer acceptance and success.

- B. The Continued Near Term Deployment of 25,000 Meters By 2013. With Additional Meter Deployment Thereafter, Will Provide Necessary Experience To

Develop A Full Deployment Plan. (Amended Joint Petition, ¶17, Appendix A, Phase 5)

While the Settlement slows down the initial pace of deployment proposed by West Penn, the Settlement calls for an estimated 25,000 smart meters to be deployed before May of 2013 in support of the EE&C/DR Plan or upon customer request. Amended Joint Petition, ¶17. This deployment can be accommodated within the Company's existing customer information system, although some modifications and a new meter data management system will be necessary to support certain rate offerings and demand response programs. Amended Joint Petition, Appendix A, Phase 3. The Company has also agreed to promote and encourage customer requests for smart meters during this time period and to provide reports to interested parties on its progress toward achievement of the goal. It is also important to note that after 2013, the Company intends to continue deployment of an additional 65,000 meters for the purposes of field testing and end-to-end solutions architecture certification as it builds out its infrastructure. Amended Joint Petition, Appendix A, Phase 5.

The OCA submits that the deployment of the estimated 25,000 meters will be beneficial to both the Company and customers. The deployment of the meters to customers participating in the EE&C/DR Plan or requesting a meter will allow the Company to gather important information on the operation of the meters and customer response to the smart meters from customers who are engaged in the process. In addition, customers receiving the smart meter will have the opportunity to reduce energy usage and demand as part of the energy efficiency and demand response programs included in the EE&C/DR Plan. In addition, by accommodating this deployment within the Company's existing systems, and with minimal additional cost, the burden on ratepayers is minimized.

In addition, the Company's commitment to promote and encourage customer requests should help to ensure that the deployment of the estimated 25,000 meters is achieved. The OCA will also commit to assisting the Company and interested parties in these efforts to encourage participation in the energy efficiency and demand response programs that can be beneficial to the customer. Achievement of the meter deployment will assist the Company in meeting its energy efficiency and demand reduction goals under Act 129. Without meeting these goals, the Company faces the prospect of significant penalties under Act 129. 66 Pa.C.S. §2806.1(f).

The OCA supports the deployment of smart meters before 2013 that can be accommodated within the Company's existing infrastructure and that can be used by the requesting customer to provide energy usage reductions or efficiencies for the customer. The Settlement provides a means for these goals to be met.

C. The Cost Recovery Provisions Of The Amended Settlement Are A Reasonable Resolution Of The Issues Presented By The Revised SMIP. (Amended Joint Petition, ¶¶19, 20, 22, 23, 24, 25)

Through a series of provisions, the initial Settlement provided for the recovery of some of the costs that have been incurred in preparation for smart meter deployment. In addition, the initial Settlement resolved several cost recovery issues regarding the revenue requirement determination for the smart meter surcharge, including issues regarding the depreciation book lives for capital asset types and the return on equity to be used in the smart meter surcharge. The initial Settlement also confirmed that the cost allocation and rate design contained in the surcharge are in accord with the Company's proposals in the proceeding. The Amended Settlement continues these provisions but makes certain changes to the amortization

period for recovery of various costs and limits the interest expense associated with the Phase 1 and 2 cost recovery. Amended Joint Petition, ¶19.

The result of these provisions and the amendments is that the initial surcharge levels for the customer classes will be reduced significantly from the Company's original proposal. For residential customers, the 2011 surcharge will be 0.193¢/kwh, or for a West Penn customer using 1,000 kwh pre month, the surcharge amounts to \$1.93 per month. This contrasts to the Company's original proposal for a surcharge of \$14.34 per month beginning in June of 2011 or its subsequent alternative proposal of a surcharge of \$6.21 per month in the first year. For the commercial and industrial classes, similar reductions in the monthly surcharges will result from the Settlement. For Rate Schedules 20, 22, 23 and 24, the 2011 surcharge will be \$1.93 per month in the Amended Settlement as compared to the \$13.90 proposed surcharge for June of 2011 in the original plan. For Rate Schedules 30, 40, 41, 44, 46, 86 and Tariff 37, the surcharge under the Amended Settlement for 2011 will be \$2.20 per month, while under the Company's original proposal, the June 2011 surcharge would have been \$13.90 per month.

The OCA submits that the cost recovery provisions of the Settlement are reasonable and provide additional benefits to all customers. First, the Settlement recognizes that the Company expended \$45.1 million in 2009 and 2010 in support of the development of a smart meter deployment plan. The settlement also recognizes, however, that expenditures in 2009 and 2010 related to the replacement of the Company's Customer Information System (CIS) were the subject of dispute as to the appropriateness of the inclusion of such costs in a smart meter surcharge. See, OCA St. 1 at 4-5, 15-18. As a result, the \$5.1 million incurred in 2009 and 2010 in support of the replacement of the CIS will not be included for recovery in the smart meter surcharge. Amended Joint Petition, ¶19. While the Company retains the right to request

recovery of the \$5.1 million in CIS costs, all parties reserve their rights to dispute these charges or to oppose recovery of these costs. Additionally, Paragraph 22 makes it clear that any additional funds expended between now and the filing of a Revised SMIP cannot be included in the smart meter surcharge at this time. Amended Joint Petition, ¶22. These provisions eliminate a source of controversy in the case while allowing for recovery of costs expended in support of only the smart meter deployment.

Paragraph 19 of the Amended Joint Petition also provides for the recovery of the \$40 million in 2009 and 2010 expenditures through a levelized surcharge over a 5.5 year period. The use of a 5.5 year recovery period for these planning and initial development costs reduces the interest expense paid by customers. The shorter amortization period, while resulting in a higher surcharge for the initial period, will result in a much lower surcharge in the later years.

The Settlement also recognizes that the Company will incur costs between 2010 and 2013 to deploy and support the 25,000 smart meters to be used in conjunction with the EE&C/DR Plan and to make its regulatory filing in 2012. Amended Joint Petition, ¶20. These costs are estimated to be \$26.7 million for the 25,000 smart meter deployment, and an additional \$1.25 million for the regulatory filing and additional design expenses. The Settlement allows for the recovery of the reasonable and prudent costs of these activities through the smart meter surcharge. It is important to note that since these costs have not yet been expended, the Settlement contemplates that cost recovery of these expenditures will be subject to review for reasonableness and prudence.

In addition, in accordance with the surcharge design, the capital portion of these costs, estimated to be \$16.9 million, will be based on an annual revenue requirement determination that utilizes the book life depreciation and return on equity components contained

in the settlement. The Company has agreed to use a return on equity of 10% in calculating the revenue requirement of the surcharge. Amended Joint Petition, ¶25. In the OCA's view, a return on equity of 10% better reflects economic conditions and the reduced risk of the use of a surcharge. See, OCA St. 3-S. The Company has also agreed to depreciation book lives that are longer than those proposed by the Company in the case. For example, the Company has agreed to a depreciation book life of 15 years for the smart meters and 10 years for certain software applications. Amended Joint Petition, ¶24. These depreciation book lives are more reasonable for the types of assets being deployed.

The revenue requirement procedures contained in the Settlement are consistent with the procedures proposed by the Company in its filing and updated in its Rebuttal Testimony to address issues raised by the parties. The OCA submits that the cost recovery provisions provide for full and timely cost recovery of the costs expended in support of smart meter deployment. In addition, these provisions remove certain expenditures that were controversial without impacting any party's rights to forward arguments in support of or in opposition to any future claims. The Settlement also removes controversy regarding the cost allocation proposal by specifying the cost allocation in accordance with the Company's proposal that had been accepted by most parties. Finally, the Settlement allows the Company to proceed with additional expenditures in support of its 25,000 meter deployment, but allows all parties to review these expenditures for reasonableness and prudence. The OCA submits that the Settlement reaches a fair balance on these cost recovery issues.

D. The Settlement Provides Important Provisions To Address Issues Presented By Smart Meter Deployment For Low Income And Vulnerable Customers.
(Amended Joint Petition, ¶¶26, 27, 28)

Through the Settlement, the Company has agreed to several provisions that should assist and protect low income customers. First, the Company has agreed to collect specific data on low income and vulnerable customers regarding customer usage characteristics and load shapes. This data will provide information on low income and vulnerable customers to conduct a more thorough assessment of their usage of electricity to better guide the parties in developing potential programs that will bring the benefits of smart meter technology to these customers. As OCA witness Brockway testified in this proceeding, low income and vulnerable customers can be placed at great risk if smart meter deployment and program design proceeds without consideration of the particular needs of these customers. OCA St. 2 at 31-35; OCA St. 2-S at 17-18. The lack of specific data regarding customer usage, however, can make it difficult to assess appropriate programs for low income customers. Through the Company's efforts, and its agreement to meet with the interested parties to review the data collected and examine potential programs, a better understanding as to how best to use smart meter technology to benefit low income and vulnerable customers can be developed.

The Company has also reaffirmed its commitment that it will not use the remote disconnect feature of the smart meter system for involuntary termination. The OCA submits that the use of the remote disconnect feature for involuntary termination raises significant issues that have yet to be addressed by the Commission. The Company's commitment ensures that these features will not be utilized until these issues can be fully addressed.

The Company has also agreed to work collaboratively with the parties to address these issues if it determines to propose the use of the remote disconnect feature for involuntary

terminations as part of its Revised SMIP. The Company has agreed to address compliance with Chapter 14 and Chapter 56 in the collaborative process and to consider a pilot program to identify compliance issues and policy issues related to the use of the remote disconnect feature for involuntary termination if it seeks to propose such use. This collaborative process will allow the parties to work through many issues before any proposal might be made by the Company.

The OCA submits that the provisions of the Settlement that are designed to address issues related to the deployment of smart meter technology to low income and vulnerable customers will provide critical information that can be used to properly design beneficial programs for these customers. The provisions will also provide necessary protections for customers.

E. The Settlement Recognizes That Issues Presented By The Amended EE&C/DR Plan Have Now Been Resolved. (Amended Joint Petition, ¶32)

As noted throughout this proceeding, West Penn proposed an aggressive deployment of smart meters because it had elected to rely on the deployment of smart meters to meet the near-term (2010-2013) demand reduction requirements of Act 129. As the OCA noted in its testimony and briefs in both the EE&C/DR Plan proceeding and the smart meter proceeding, this strategy differed radically from other EDCs' approach to meeting the energy efficiency and demand reduction requirements of Act 129. In West Penn's EE&C/DR Plan proceeding, the Commission cautioned West Penn that it may need to develop an alternative EE&C/DR Plan that was less dependent upon the rapid deployment of smart meters. The Commission stated:

Allegheny's reliance on the rapid deployment of smart meters and the associated network infrastructure does add an element of increased risk to its [EE&C] Plan. As Allegheny bears the sole risk of significant penalties if it fails to meet the mandated targets, we will not direct Allegheny to eliminate the proposed programs

that rely on smart meter deployment, except where otherwise directed in this Opinion and Order. In recognizing this increased risk, the Commission strongly encourages Allegheny to develop an alternate "back-up" plan that is less reliant on smart meter deployment. Such an alternate plan would be a readily available option that can be implemented on short notice, after Commission approval, should any unforeseen circumstances delay or disrupt Allegheny's smart meter deployment. The Commission will closely monitor this element of Allegheny's Plan during the annual plan reviews and its review and monitoring of Allegheny's Smart Meter Procurement and Installation Plan.

Petition of West Penn Power Company d/b/a Allegheny Power for Approval of its Energy Efficiency and Conservation Plan, Docket No. M-2009-2093218, *slip op.* at 21 (Order entered October 23, 2009)(EE&C Plan Order)

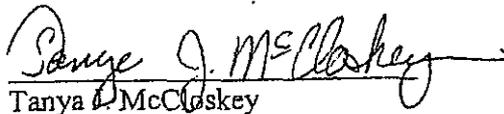
West Penn filed an Amended EE&C/DR Plan that is less dependent on smart meters in September of 2010. The Settlement calls for West Penn to deploy an estimated 25,000 smart meters to residential customers in support of its Amended EE&C/DR Plan between now and 2013.

The initial Settlement recognized that issues regarding the Amended EE&C/DR Plan were not decided by the Settlement and that all parties' rights to address all issues regarding the Amended EE&C/DR Plan, including whether the Amended Plan was the optimal response to the deceleration of the deployment of smart meters, were preserved. The Amended Settlement now recognizes that the Commission has entered a Final Order resolving all issues raised regarding the EE&C Plan changes.

III. CONCLUSION

For the reasons set forth above, the OCA urges the Commission to adopt the Amended Settlement. The Amended Settlement mitigates the immediate impacts on customers of the Company's Plans and it provides a reasonable means for the Company to analyze and develop a full scale smart meter deployment plan.

Respectfully Submitted,



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Dated: March 8, 2011

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Office of Trial Staff Statement in Support of Settlement

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF AMENDED
JOINT PETITION FOR SETTLEMENT**

TO ADMINISTRATIVE LAW JUDGE MARK A. HOYER:

The Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor, Richard A. Kanaskie, hereby respectfully submits that the terms and conditions of the foregoing *Amended Joint Petition For Settlement Of All Issues* (“Amended Joint Petition” or “Settlement Agreement”) are in the public interest and represent a fair and just balance of the interests of West Penn Power Company (“West Penn” or “Company”) and its customers. The Office of Trial Staff is of the opinion that the terms and conditions of the Amended Joint Petition are in the public interest. In support of this position, OTS offers the following enumerated comments:

I. INTRODUCTION

1. The Office of Trial Staff is charged with representing the public interest in Commission proceedings having an impact on customer rates. The OTS representation of the public interest includes balancing the interests of ratepayers, utilities and the welfare of the Commonwealth. OTS initially filed its Notice of Appearance in this proceeding on August 20, 2009 in order to carry out its charge because West Penn’s

Smart Meter Implementation Plan involves significant costs and a recovery mechanism designed to recoup those costs solely from its ratepayers. As such, OTS has evaluated the Company's Plan with an emphasis on the cost recovery proposal and the subsequent ratemaking impact. OTS has remained active in this proceeding and concentrated its evaluation on the Company's proposed cost recovery mechanism including alternatives presented in the original agreement between the Company and the OCA. The Amended Joint Petition addresses the concerns raised by OTS and provides a reasonable resolution to all matters in this proceeding. OTS is satisfied that the resulting settlement agreement adequately protects the public interest and should be approved.

Since the Commission issued its Secretarial Letter on December 8, 2010, directing that further proceedings be held in this matter, the parties to this Settlement Agreement have conducted extensive Discovery and have engaged in numerous settlement conferences. As a result, and in accordance with the Commission's policy encouraging settlements over costly and time consuming litigation,¹ OTS, West Penn and the Office of Consumer Advocate ("OCA") (collectively "Joint Petitioners") have agreed upon the terms embodied in the foregoing Settlement Agreement. OTS has examined the Company's amended Smart Meter Technology Procurement and Installation Plan ("Plan") with an emphasis on the cost recovery proposal and subsequent ratemaking impact of the proposal. The request for approval of the Amended Joint Petition is based on the OTS conclusion that the amendments made to the Plan presented in the original Settlement Agreement now allows it to meet all regulatory standards necessary for approval. The Settlement Agreement

¹ See, 52 Pa. Code §5.231.

presented in this proceeding satisfies the legal standard for approval thereby supporting its adoption. “The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”² The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”³ The Settlement Agreement in the instant proceeding protects the public interest in that a review of the submitted record evidence in conjunction with the supplemental testimony to be submitted demonstrates that compromises are evident throughout the Amended Joint Petition. The terms and conditions of the Settlement Agreement begin on page five (5) and the submitted and contemplated testimony provides sufficient evidence to support the adoption of each provision.

II. DISCUSSION

2. OTS adopts and incorporates the Background and Procedural History presented in the *Amended Joint Petition for Settlement Of All Issues*.⁴

3. OTS recommends adoption of the terms and conditions presented in the *Amended Joint Petition for Settlement Of All Issues*.⁵ The terms and conditions are presented in averments fifteen (15) through thirty-three (33) and represent all issues necessary for resolution as a result of this contested proceeding. The issues of fact and

² *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

³ *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

⁴ *Amended Joint Petition for Settlement*, pp. 2-5.

⁵ *Id.*, pp. 5-14.

law raised by the Office of Trial Staff in its Answer to the original Joint Petition have been satisfied through Discovery and settlement discussions with the Company.

4. OTS has not challenged the programs or proposals that West Penn considers integral to the success of its Smart Meter Plan. Rather, OTS maintains that the Company's proposed Cost Recovery Mechanism required modification to ensure adequate protection to ratepayers while enabling the Company to recover all of the appropriate costs associated with the implementation of its Plan in a timely manner.

It is not disputed that Act 129 permits electric distribution companies ("EDC") to recover the reasonable and prudent cost of implementing smart meter technology either through base rates or through a reconcilable automatic adjustment clause under Section 1307 of the Public Utility Code.⁶ The Amended Plan satisfies the requirements of Act 129 and offers the necessary protections for ratepayers.

5. Of particular interest to the Office of Trial Staff and the focus of its challenge in this proceeding was the proposal to levelize the recovery of the costs already expended for Phase 1 and Phase 2 activities. OTS is of the opinion that the deficiencies of the original filing have been addressed and the levelized surcharge proposed in the Amended Joint Petition is in the public interest and should be approved. Ratepayers will be protected by allowing a more gradual increase in their rates to reflect the additional costs of funding these programs. In addition, the cost recovery proposal adheres to the provisions in the Public Utility Code in that the Company will be permitted full and current recovery of the costs to implement its Smart Meter Plan. Furthermore, ratepayers

⁶ 66 Pa.C.S.A. § 2807(f)(7)(ii).

are protected from unnecessary charges as the prospective rates will not reflect any interest associated with the levelized recovery plan. The recognition of \$5.712 million in interest is solely to compensate the Company for the value of funds that have been expended, but not yet included in rates. The recovery of this amount is based on the calculation of the costs to carry the \$40 million that is referenced in the Joint Petition for recovery in the levelized surcharge. The original Joint Petition contained a provision which had the effect of allowing for the recovery of interest on a planned under-collection. OTS calculated the impact of collecting interest on a planned under-collection to be approximately an additional \$10 million. If the unilateral interest provision from the original Joint Petition had not been challenged, the Commission would have been faced with endorsing the collection of interest on a predetermined under-collection. OTS is of the opinion, as stated in our Answer to the Joint Petition, that such a provision is not in the public interest.⁷ By eliminating the possible precedent setting provision of allowing for the addition of interest on planned under-collections, the Settlement Agreement presented in the Amended Joint Petition now satisfies the public interest. Although a levelized recovery plan mitigates price spikes, it cannot violate the public interest by unduly penalizing ratepayers. OTS maintains that an additional \$10 million in interest charges to be borne by ratepayers is an unnecessary penalty. This provision that allowed for the collection of interest on a planned under-collection is especially egregious

⁷ The signatories to the original Joint Petition for Settlement submitted October 19, 2010 consisted of West Penn and the Office of Consumer Advocate. Although no correspondence from any intervening party was included, footnote 1 of the original Joint Petition represented that Constellation New Energy, Inc. and Constellation Energy Commodities Group, Inc. (collectively "Constellation") and the Department of Environmental Protection ("DEP") did not oppose the agreement.

when one considers that no interest is being provided to ratepayers for Company over-collections. The substantial record in the underlying Act 129 proceedings demonstrates that, while the Company has over-collected through a levelized cost recovery plan, there are no provisions allowing for the addition of interest. OTS is satisfied that removing the interest component from what can be considered a planned under-collection offers adequate protections to all parties. As such, a levelized recovery plan, without interest, is in the public interest and should be adopted.

6. The cost recovery and corresponding rate impact of the provisions contained in averments twenty (20) through twenty-five (25) are consistent with provisions found in other Commission approved plans and their adoption in this proceeding is appropriate. Inherent in these provisions are the necessary ratepayer protections allowing for adoption of the Amended Joint Petition. Further delay of the implementation of the Smart Meter programs and related cost recovery mechanism is unnecessary as all objectionable provisions have been remedied. Of paramount importance at this stage is the implementation of the proposals contained in the Amended Joint Petition without delay.

7. Resolution of the provisions contained in the Amended Joint Petition by settlement rather than litigation will avoid the substantial time, expense and uncertainty involved in continuing to formally pursue them in this proceeding.

8. OTS further submits that acceptance of the foregoing Settlement Agreement will negate the need for any Direct and Cross-Examination of witnesses, the preparation of Main Briefs, Reply Briefs, Exceptions and Reply Exceptions, and the

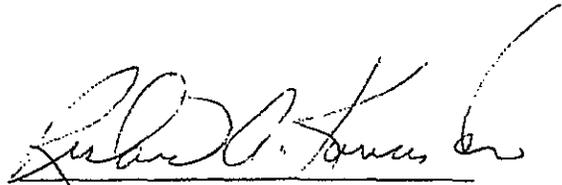
filing of possible appeals on the issues contained herein. As discussed above, the avoidance of further delay in the implementation of the Company's Smart Meter Plan by resolution through settlement of this proceeding best serves the interests of West Penn, its ratepayers and the active parties.

9. The Settlement Agreement is conditioned upon the presiding ALJ's Recommendation and the subsequent Commission approval of all the terms and conditions contained therein. In the event the ALJ does not recommend, or the Commission fails to grant such inclusive approval, or the terms and conditions of the Settlement Agreement are otherwise modified, it may be withdrawn by OTS, the Company or any other signatory as provided therein.

10. OTS' agreement to settle this case is made without any admission or prejudice to any position that OTS might adopt during subsequent litigation in the event the Settlement Agreement is rejected by the Commission or otherwise properly withdrawn by any of the parties.

11. If the ALJ recommends that the Commission adopt the Settlement Agreement as proposed, OTS has agreed to waive the filing of Exceptions with respect to the issues contained herein. However, OTS does not waive its rights to file Exceptions with respect to any modifications to the terms and conditions of the Settlement Agreement that may be proposed by the ALJ in his Recommended Decision. OTS also reserves the right to file Reply Exceptions to any Exceptions that may be filed by West Penn, the OCA or any active party on any matter.

WHEREFORE, the Commission's Office of Trial Staff represents that it supports the *Amended Joint Petition for Settlement Of All Issues* as being in the public interest and respectfully requests that Administrative Law Judge Mark A. Hoyer recommend, and the Commission subsequently approve the foregoing Settlement Agreement, including all terms and conditions therein.



Richard A. Kanaskie
Senior Prosecutor
PA Attorney ID # 80409

Office of Trial Staff
Pennsylvania Public Utility Commission
Post Office 3265
Harrisburg, Pennsylvania 17105-3265

Dated: March 9, 2011

WPPC Exhibit 2-S

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

JOINT STIPULATION OF POSITION

West Penn Power Company (“West Penn” or “Company”) and the Office of Small Business Advocate (“OSBA”) (collectively “the Stipulating Parties”) enter into a Joint Stipulation of Position (“Joint Stipulation”) to resolve their differences with regard to the Amended Settlement filed on or about March 8, 2011 (“Amended Settlement”) in the above-captioned proceeding. *The Parties Stipulate and Agree as follows.*

STIPULATION TERMS

1. West Penn and OSBA jointly stipulate that an adjudication of the accuracy of the SMIP surcharge proposed by the Amended Settlement will be made in the next SMIP surcharge reconciliation proceeding.
2. West Penn and OSBA also jointly stipulate that the estimated SMIP Phase 3 costs related to the deployment of approximately 25,000 smart meters shall be recoverable in the SMIP surcharge, subject to the opportunity of OSBA to challenge the reasonableness of these costs in the annual reconciliation process after these costs have been initially collected from customers.
3. West Penn and the OSBA further jointly stipulate that OSBA shall have the opportunity to challenge the recoverability of the \$40 million in SMIP Phase 1 and Phase 2 incurred costs in the Revised Smart Meter Implementation filing (“Revised

SMIP”) which will be filed with the Pennsylvania Public Utility Commission (“Commission”) on or before June 2012 pursuant to the terms of the Amended Settlement. For purposes of this provision, OSBA agrees that it will not challenge the Company’s recovery of \$5.712 million in interest provided for under paragraph 19 of the Amended Settlement as long as West Penn’s allowed recovery of SMIP Phase 1 and 2 incurred costs is at least \$15 million of the total \$40 million. However, if the disallowance pursued by OSBA exceeds \$25 million, then OSBA may also seek a reduction in interest recovered, with the \$5.712 million scaled downward on a pro-rata basis using a ratio with \$5.712 million as the numerator and \$15 million as the denominator. Pending completion of the Revised SMIP proceeding, the \$40 million in SMIP Phase 1 and Phase 2 costs shall be included in the cost basis for the SMIP surcharge. This opportunity to challenge the recoverability of Phase 1 and 2 costs and interest is provided solely to the OSBA. West Penn reserves all rights to contest any disallowances, including interest disallowances, sought by OSBA or adopted by the Commission under this provision.

4. West Penn and the OSBA jointly stipulate that in consideration of OSBA’s not opposing the implementation of the Amended Settlement at this stage of this proceeding, West Penn will not oppose OSBA’s raising the following issue (“Cost Shift Issue”) in the 2011 EE&C/DR reconciliation proceeding, to be filed no later than March 31, 2011 (“the 2011 EE&C/DR reconciliation proceeding”):

Whether the Company unreasonably imposed additional costs on Small Commercial and Industrial (“Small C&I”) customers in its revised EE&C/DR Plan in excess of the costs that would have been assigned to Small C&I customers in the previously-approved and effective EE&C/DR Plan.

However, West Penn and the OSBA also jointly stipulate that, in the absence of a Petition for Reconsideration or an appeal regarding the terms of Paragraph 18 of the settlement of the merger between FirstEnergy Corp and Allegheny Energy, Inc., OSBA is barred from raising the Cost Shift Issue in the 2011 EE&C/DR reconciliation proceeding.¹ If the OSBA does not raise the Cost Shift Issue in the 2011 EE&C/DR reconciliation proceeding, the Stipulating parties agree that OSBA may not raise the Cost Shift Issue in any subsequent proceeding. West Penn is not barred or limited in any way from opposing the merits of the Cost Shift Issue in the 2011 EE&C/DR reconciliation proceeding by virtue of this stipulation.

5. West Penn and the OSBA jointly stipulate that if the Company uses the Amended Settlement as a justification for why the Company failed to achieve the reductions in consumption mandated by Act 129 and thus avoid penalties under Section 2806.1(f), the OSBA is not foreclosed from challenging the Company's defense by virtue of this Joint Stipulation.

6. The Stipulating Parties submit this Joint Stipulation as evidence of their agreement with regard to all outstanding issues between them with respect to the

¹ Paragraph 18 of the settlement of the FirstEnergy Corp merger with Allegheny Energy, Inc. states as follows: "West Penn will provide a credit equal to the increase in Energy Efficiency & Conservation ('EE&C') costs to Rate Schedules 20, 22, 30 Small and 30 Large and Rate Tariff 37 resulting from West Penn's revised EE&C Plan. For purposes of this settlement, the increase in EE&C costs shall be deemed to be \$6.19 million and shall be allocated to each rate schedule based on the percentage of such rate schedule's share of the total increase in EE&C costs by the rate schedules listed herein." According to the Motions and Statements of the Commissioners, Paragraph 18 of the merger settlement was approved without modification by the Commission on February 24, 2011. The merger closed on February 25, 2011.

proposed Amended Settlement in the above-captioned proceeding. Subject to all of the provisions of this Joint Stipulation, OSBA does not oppose the Amended Settlement.

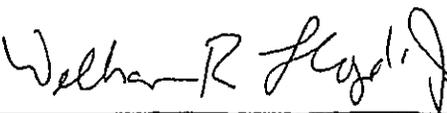
Dated: March 9, 2011

Respectfully Submitted,



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Counsel for the Office of Small Business Advocate

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**TESTIMONY OF
RAYMOND E. VALDES
ON BEHALF OF
WEST PENN POWER COMPANY
IN SUPPORT OF SETTLEMENT
WPPC STATEMENT NO. 2-S**

Dated: March 9, 2011

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1 **Q. Please state your name and business address.**

2 A. My name is Raymond E. Valdes, and my business address is 800 Cabin Hill Drive,
3 Greensburg, Pennsylvania 15601.

4
5 **Q. Did you provide direct, rebuttal and rejoinder testimony in this proceeding?**

6 A. Yes. I provided Statement Nos. 4, 4-R and 4-RJ, as well as Supplemental Direct
7 Statement No. 3-SDT and Supplemental Rebuttal Statement No. 3-SRT, on behalf of
8 West Penn Power Company ("West Penn" or "Company") in this proceeding regarding
9 the Company's Smart Meter Technology Procurement and Installation Plan ("SMIP").

10

11 **Q. What is the purpose of your current testimony?**

12 A. The purpose of this testimony is to support certain data and calculations contained in, or
13 underlying, the Amended Joint Petition for Settlement of All Issues ("Settlement") in the
14 above-captioned proceeding. The Joint Petitioners to the Settlement are the Company,
15 the Office of Consumer Advocate ("OCA") and the Office of Trial Staff ("OTS").

16

17 The Joint Petitioners have requested that the Pennsylvania Public Utility Commission
18 ("Commission") approve the Settlement as expeditiously as possible.

19

20 The Settlement amends a previous joint settlement petition filed on October 19, 2010 by
21 the Company and the OCA.

22

1 **Q. Have you reviewed the Settlement?**

2 A. Yes. A copy of the Settlement is attached to Mr. Ahr's supporting testimony, as WPPC
3 Exhibit 1-S. I assisted in the preparation of the Settlement; more specifically, the data
4 and calculations used in the smart meter surcharge and rate design portions of the
5 Settlement.

6

7 **Q. Have you reviewed the Joint Stipulation of Position ("Stipulation") submitted in this
8 proceeding by the Company and the Office of Small Business Advocate ("OSBA")?**

9 A. Yes. I provided calculations supporting, or underlying, the Stipulation. A copy of the
10 Stipulation is attached to Mr. Ahr's supporting testimony as WPPC Exhibit 2-S.

11

12 **Q. Would you briefly summarize the cost data for purposes of the Settlement and the
13 Stipulation?**

14 A. Yes. For Phases 1 and 2 defined in the Settlement, the Company has expended
15 approximately \$45.1 million, of which \$40 million can be recovered in the smart meter
16 surcharge at this time. Consistent with the Stipulation reached between the Company and
17 OSBA, and consistent with the terms of the Amended Joint Petition for Settlement, no
18 party to this proceeding other than OSBA may challenge the recoverability of the \$40
19 million of Phase 1 and 2 costs in a future proceeding. The \$40 million will be recovered
20 via a levelized surcharge over a 5.5-year period beginning with the smart meter surcharge
21 start date. The Company may recover \$5.712 million in interest charges associated with
22 the interval between when Phase 1 and 2 costs were incurred and when those costs are

1 presumed to be recovered. Such interest charges will be amortized for recovery over a
2 5.5-year period coincident with the recovery of the \$40 million of Phase 1 and 2 costs.

3
4 The additional \$5.1 million represents certain costs related to the Customer Information
5 System (“CIS”) that the Joint Petitioners dispute should be recovered through the smart
6 meter surcharge. The Company may file for recovery of these disputed amounts in its
7 next distribution base rate case and/or as part of the smart meter surcharge in connection
8 with its Revised SMIP filing. All of the parties have reserved all rights to continue to
9 dispute the reasonableness of recovery of the \$5.1 million in disputed charges.

10
11 Reasonable and prudent costs associated with the activities that are defined in Appendix
12 A to the Settlement as Phase 3 costs, estimated to be \$26.7 million, Phase 4 costs,
13 estimated to be \$250,000, and an additional \$1 million for additional Phase 2 design
14 expenses, can be included in the smart meter surcharge. Collection of the operation and
15 maintenance (“O&M”) expenses of these phases, estimated to total \$11 million, will
16 occur in the year such O&M expense is projected to be incurred, and not be amortized.
17 The remaining estimated \$16.9 million of expenditures associated with these phases are
18 capital costs.

19
20 **Q. How are the capital costs collected?**

21 A. The capital costs of these phases, which are estimated to total \$16.9 million, will be
22 collected through an annualized rate based upon an annual revenue requirement that

1 includes the effect of the book life depreciation, the return on equity, accumulated
2 deferred income taxes, the Company's capital structure, and Allowance for Funds Used
3 During Construction ("AFUDC") that will accrue during the period between the
4 Company's incurrence of the capital costs and the capital in-service date.

5
6 The book life depreciation to be used in the calculation of the smart meter surcharge
7 revenue requirement for the following capital asset types are as follows:

- | | | | |
|----|----|--------------------|-------------------|
| 8 | a. | Smart Meters | 15 years |
| 9 | b. | Hardware | 5 years |
| 10 | c. | Software (non-CIS) | 10 years |
| 11 | d. | Software (CIS) | 10 years |
| 12 | e. | In-Home Devices | TBD (if deployed) |

13
14 These book lives reasonably approximate the service lives of the assets and match the
15 book lives proposed in my supplemental direct testimony Statement No. 3-SDT.

16
17 A return on equity of 10% is used in the calculation of the smart meter surcharge revenue
18 requirement until such time as Allegheny Power is authorized to implement a new return
19 on equity as part of a distribution base rate case or a different return on equity is
20 authorized as part of the Revised SMIP proceeding. This equity return is similar to the
21 return recommended by OCA in the record of this proceeding.

22
23 **Q. Please describe the reconciliation of the smart meter surcharge.**

24 **A.** The smart meter surcharge will be reconciled through annual true up filings in which
25 projected costs for the next year, and reconciliations of past cost projections, are

1 submitted to the Commission for review of reasonableness and prudence. Reconciliation
2 of the \$40 million of Phase 1 and Phase 2 costs will result in an adjustment (positive or
3 negative as the case may be) to the deferral balance, with the deferral levelized over the
4 remainder of the 5.5-year levelization period. Reconciliation of the capital cost revenue
5 requirement and all other O&M costs will be collected in the smart meter surcharge for
6 the upcoming year. As such, the levelized smart meter surcharge will be updated through
7 annual filings, and ultimately will include costs approved by the Commission for Phase 5,
8 which will be described in detail in the Revised SMIP regulatory filing completed in
9 Phase 4.

10
11 **Q. What are the smart meter surcharge rates proposed by the Company?**

12 **A.** *The smart meter surcharge will be a single, non-tiered, non-volumetric surcharge for all*
13 *nonresidential customers served under Tariff No. 39 Schedules 20, 22, 23 and 24 that is*
14 *separate and distinct from a single, non-tiered, non-volumetric surcharge for all*
15 *nonresidential customers served under Tariff No. 39 Schedules 30, 40, 41, 44, 46, 86 and*
16 *Tariff No. 37. For residential customers served on Tariff No. 39, Schedule 10, the*
17 *surcharge will be on a cents per kilowatt-hour basis. These terms are consistent with the*
18 *record of this case. Based on the cost collection described above, the following smart*
19 *meter surcharges will result for Phases 1 through 4 actual and estimated expenditures*
20 *(assuming a smart meter surcharge start date of April 2011):*

<u>Tariff Classification</u>	<u>2011 Surcharge Rate</u>
Tariff No. 39, Schedule 10	\$0.00193 /kilowatt-hour
Tariff No. 39, Schedules 20, 22, 23 & 24	\$1.93 /month
Tariff No. 39, Schedules 30, 40, 41, 44, 46, 86 & Tariff No. 37	\$2.20 /month

1 Street Lighting

n/a

2
3
4
5 Street lighting consists of Tariff No. 39, Schedules 51, 52, 53, 54, 55, 56, 57, 58, 59 and
6 71 and are unmetered. For a typical West Penn residential customer using 1,000
7 kilowatt-hours per month, the monthly charge would be \$1.93 during 2011.

8
9 Costs incurred as part of the modifications to existing infrastructure to support the
10 estimated 25,000 smart meter deployment, as described in Paragraph 16 of the
11 Settlement, are permitted to be recovered through the smart meter surcharge.

12
13 **Q. What is the cost allocation methodology used in the determination of the proposed**
14 **smart meter surcharge rates?**

15 **A.** The cost allocation underlying the surcharge rates in the Settlement reflects the
16 Company's proposal in this proceeding. Costs specific to each customer class were
17 allocated directly to that class and general costs were allocated based on the number of
18 customer connections. For metering costs, the cost allocation reflects: (a) 100% single-
19 phase metering costs for Tariff No. 39 Schedule 10; (b) a customer class representative
20 blending of single-phase metering and poly-phase metering costs for Tariff No. 39
21 Schedules 20, 22, 23 and 24; and (c) 100% poly-phase metering costs for Tariff No. 39
22 Schedules 30, 40, 41, 44, 46, 86 and Tariff No. 37.

23
24 **Q. What is your view of the Settlement?**

1 A. In my view, the terms of the Settlement, including the allocation of costs, the calculation
2 of the proposed smart meter surcharge and the proposed reconciliation mechanism, are
3 supported by this Statement and my previous testimony in this proceeding. The
4 Settlement terms are reasonable and sound and I support their adoption by the
5 Commission.

6

7 **Q. Does this conclude your additional testimony?**

8 A. Yes.