



COMMONWEALTH OF PENNSYLVANIA

August 7, 2014

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P. O. Box 3265
Harrisburg, PA 17105-3265

**Re: Petition of PPL Electric Utilities Corporation for Approval of Its Smart
Meter Technology Procurement and Installation Plan
Docket No. M-2014-2430781**

Dear Secretary Chiavetta:

I am delivering for filing today the Prehearing Memorandum, on behalf of the Office of Small Business Advocate, in the above-captioned proceeding.

Two copies have been served today on all known parties in this proceeding. A Certificate of Service to that effect is enclosed.

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

Sincerely,

A handwritten signature in black ink that reads "Steven C. Gray". The signature is written in a cursive style with a large initial 'S' and 'G'.

Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosure

cc: Parties of Record
Robert D. Knecht

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities Corporation :
For Approval of a Smart Meter : **Docket No. M-2014-2430781**
Technology Procurement and Installation :
Plan :

**PREHEARING MEMORANDUM
OF THE OFFICE OF SMALL BUSINESS ADVOCATE**

I. INTRODUCTION

The Office of Small Business Advocate (“OSBA”) is authorized to represent the interests of small business customers of utility services before the Pennsylvania Public Utility Commission (“Commission”) pursuant to the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 – 399.50 (“the Act”). In order to discharge this statutory duty, the Small Business Advocate deems it necessary to participate as a party to this proceeding. Representing the OSBA in the above-referenced matter is Assistant Small Business Advocate Steven C. Gray. Please address all correspondence in that matter as follows:

Steven C. Gray, Esq.
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300 North Second Street, Suite 1102
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II. FILING BACKGROUND

PPL Electric Utilities Corporation (“PPL” or the “Company”) filed a Petition for Approval of Its Smart Meter Technology Procurement and Installation Plan (“*Petition*”) with the Commission on June 30, 2014. The OSBA filed an Answer and Notice of Intervention on August 6, 2014.

III. IDENTIFICATION OF WITNESS AND TENTATIVE ISSUES

Assisting in the development and presentation of the OSBA’s case in this proceeding will be:

Mr. Robert D. Knecht
Industrial Economics Incorporated
2067 Massachusetts Avenue
Cambridge, MA 02140
(617) 354-0074
(617) 354-0463 – Fax
rdk@indecon.com

The OSBA will participate in this proceeding to assure that the interests of small business customers are adequately represented and protected.

After an initial review of the materials submitted by PPL, the OSBA has identified the following list of issues that it will evaluate in this proceeding:

1. To its credit, beginning in 2002, PPL invested in meters, meter reading, and data management systems that meet most of the legislated requirements for smart meters and which have provided certain operating cost savings that are presumably reflected in current rates. Ratepayers have been and are continuing to pay for a return of and on these assets. In its *Petition*, PPL proposes to implement a Phase 2 Smart Meter Plan (“SMP”) with an estimated price tag of \$449.3 million, which will replace virtually all existing meters as well as various

network, communications, and IT systems. Furthermore, PPL will continue to install the “prior generation” meters with the power line carrier capability (“PLC”) while the new system is being implemented. These newly installed “prior generation” meters will also need to be replaced as part of the proposed SMP. The only obvious purpose of the proposed SMP is to meet the legislated requirement to provide “direct access to and use of price and consumption information.” The Commission has concluded that PPL currently does not comply with this requirement. The OSBA will investigate whether such a massive investment program in the near term is the most cost effective means for meeting this single legislated requirement.

2. In its *Petition*, PPL declines to provide any estimate of purported cost savings associated with this massive investment, and proposes only that any such savings will be passed back to ratepayers through the base ratemaking process. In effect, PPL proposes to pass on all of the costs of the program through the Smart Meter Rider, but will not pass on any savings unless required to do so in a future base rates proceeding. This is not an equitable approach to utility ratemaking.

3. PPL proposes to defer costs associated with the SMP that are incurred before the Commission approves the plan, and recover them over a three-year period. The OSBA will review this proposal for reasonableness.

4. The Company admits that it is experiencing a meter failure rate that is four times the industry standard, presumably for meters that were installed beginning in 2002. It is unclear why ratepayers should be required to pay for both the continuing costs and replacement costs for meters of such poor reliability.

5. PPL proposes to include some \$67.2 million in costs related to repair of meter bases. The OSBA is not convinced that the repair of meter bases is related to the SMP, and will

evaluate whether these costs should be more properly recovered in base rates or disallowed entirely.

6. PPL proposes to recover the costs for the stranded assets of its existing smart meter infrastructure through regular base rates until its next base rates case, at which time it will request accelerated depreciation for the stranded assets. In light of the nature of these assets, and in light of the Company's assertions that these assets are being replaced as obsolete (or at least obsolescent), it is unclear why these costs should be charged to ratepayers at all, as they appear to be related to assets that are not useful and will no longer be used.

7. To recover SMP costs from Small Commercial and Industrial ("Small C&I") customers, the Company proposes to impose a flat per-customer monthly charge on all customers. In effect, PPL will impose the same charge per customer on a Rate GS-1 5 kW small business customer as on a 500 kW Rate GS-3 customer. The OSBA will investigate whether the smart metering requirements for all customers within the Small C&I rate class group are, in fact, equal.

8. The Company proposes an annual reconciliation scheme for revenue-cost differences, with interest computed at the residential mortgage lending rate. The OSBA is concerned that the proposed interest rate may overstate PPL's short term cost of capital, and therefore is concerned that the proposed reconciliation mechanism may create an economic incentive for PPL to under-forecast its costs and earn interest from ratepayers in excess of its cost of capital.

9. PPL proposes to cost out its capital investments in the SMP at its full regulated weighted average cost of capital. As proposed by the *Petition*, these costs are fully reconcilable. Consequently, the risk faced by the Company associated with these costs would appear to be

substantially lower than that of an average PPL investment. As such, the proposed cost of capital may be overstated.

10. At the time of this writing, it is widely reported that a “Russian cybergang” has stolen up to 1.2 billion usernames and passwords from at least 420,000 websites. The OSBA will investigate whether the *Petition’s* cybersecurity proposals are sufficient in an era of aggressive, international cyber terrorism.

The OSBA reserves the right to pursue additional issues as they arise throughout the proceeding.

IV. SERVICE OF DOCUMENTS

The OSBA requests that all parties serve a hard copy of any document filed upon the OSBA and the OSBA witness identified above. In addition to hard copies of pleadings and briefs, the OSBA requests hard copies of responses to discovery propounded by the OSBA or any other party.

V. SETTLEMENT

The OSBA notes its willingness to enter into settlement discussions at the appropriate phase of this proceeding.

VI. DISCOVERY

The OSBA does not anticipate asking for any modifications to the normal discovery times if the procedural schedule set forth in Administrative Law Judge (“ALJ”) Colwell’s July 8, 2014, First Prehearing Order is adopted.

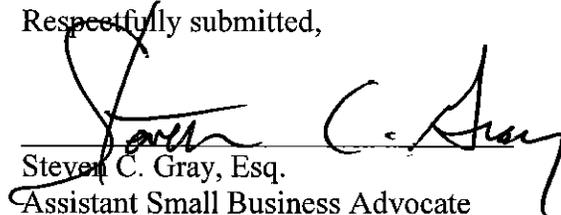
If this proceeding is afforded the expedited treatment requested by the Company (something that the OSBA strenuously opposes), then responses to discovery requests must be expedited as well. The OSBA will be prepared to discuss that eventuality at the prehearing conference.

VII. HEARING AND BRIEFING SCHEDULE

At the time of this writing, the OSBA is unaware of any discussions among the parties regarding a possible procedural schedule. However, the procedural schedule set forth in ALJ Colwell's July 8, 2014, First Prehearing Order is acceptable to the OSBA.

The OSBA respectfully requests that the evidentiary hearings take place in Harrisburg.

Respectfully submitted,



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Dated: August 7, 2014

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CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Prehearing Memorandum, on behalf of the Office of Small Business Advocate, by e-filing, e-mail, and/or first-class mail (unless otherwise indicated) upon the persons addressed below:

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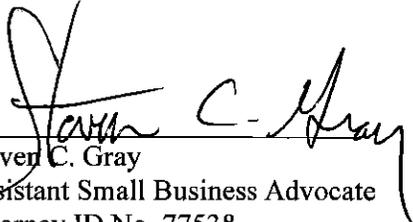
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Dated: August 7, 2014


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