

COMMONWEALTH OF PENNSYLVANIA



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December 8, 2016

Rosemary Chiavetta, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg.  
400 North Street  
Harrisburg, PA 17101

Re: Petition of Duquesne Light Company for  
Approval to Modify its Smart Meter  
Procurement and Installation Plan  
Docket No. P-2015-2497267

Dear Secretary Chiavetta:

Enclosed for filing is the Office of Consumer Advocate's Reply Exceptions to the Initial Decision in the above-referenced proceeding.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

/s/ David T. Evrard  
David T. Evrard  
Assistant Consumer Advocate  
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Enclosure

cc: Honorable Katrina L. Dunderdale, ALJ  
[ra-OSA@pa.gov](mailto:ra-OSA@pa.gov) (e-mail only)  
Certificate of Service  
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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light Company for :  
Approval to Modify its Smart Meter : Docket No. P-2015-2497267  
Procurement and Installation Plan :

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REPLY EXCEPTIONS OF  
THE OFFICE OF CONSUMER ADVOCATE

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## I. INTRODUCTION

Act 129 of 2008 (Act 129) took effect on November 14, 2008. Among its provisions, the Act required that within nine months of its effective date all electric distribution companies (EDCs) with more than 100,000 customers had to file with the Pennsylvania Public Utility Commission (Commission) a Smart Meter Technology Procurement and Installation Plan (Smart Meter Plan or Plan). 66 Pa.C.S. § 2807(f)

On June 24, 2009, the Commission issued its *Implementation Order*<sup>1</sup> which established the standards that the EDCs' Smart Meter Plans must meet. Among other things, the *Implementation Order* established standards related to the functions that smart meters must be capable of performing. The Commission stated that it considered the smart meter capability requirements set forth in Act 129 to be minimal requirements. The Commission noted that the smart meter technology is capable of supporting "more than demand response and pricing programs." *Implementation Order* at 16. Accordingly, the Commission identified nine additional smart meter functions that it directed the EDCs to support through their upgraded technology, beyond those mandated by Act 129. However, the Commission recognized that some of these additional functions may prove not to be cost-effective, that is, that their costs may exceed the benefits they provide. The Commission therefore directed that the EDCs' Smart Meter Plans identify the costs of meeting each of the nine additional functions it had specified, less any operating or capital cost savings. The Commission stated that "to the extent that an EDC or another party demonstrates that a particular Commission imposed requirement is not cost-effective, the Commission will have the option of waiving a particular requirement for that EDC or all EDCs." *Id.* at 31.

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<sup>1</sup> Smart Meter Procurement and Installation, Docket No. M-2009-2092655 (Order entered June 24, 2009) (*Implementation Order*).

The instant proceeding involves two of the nine additional functions specified by the Commission, *viz.*, (1) the ability to monitor voltage at each meter and report data in a manner that allows an EDC to react to the information, and (2) the ability to communicate outages and restorations.

On August 4, 2015, Duquesne Light Company (Duquesne or Company) filed the instant Petition for Approval to Modify its Smart Meter Procurement and Installation Plan (Petition) in which it proposed installation of an Advanced Distribution Management System (ADMS) to provide the two additional functionalities of voltage monitoring and outage communication. The ADMS consists of two components, an Outage Management System (OMS) which would provide the communication capability with regard to outages and restorations and a Distribution Management System (DMS) that would provide the capability of voltage monitoring. With regard to the ADMS, the case has centered on two primary issues: (1) whether the ADMS passes the cost-effectiveness test prescribed by the *Implementation Order*; and (2) whether the costs of ADMS should be recovered through Duquesne's Smart Meter Charge (SMC) or through its base rates.

On November 8, 2016, the Initial Decision (I.D.) of Administrative Law Judge Katrina L. Dunderdale was issued. In the I.D., the ALJ determined that the ADMS did not meet the test of cost-effectiveness and also determined that if Duquesne proceeded with the project, the recovery of the costs of ADMS should be considered in Duquesne's base rates. On November 28, 2016, Duquesne filed Exceptions to the I.D. addressing both of these points. The OCA now offers these Reply Exceptions in response to Duquesne.

## II. LIST OF REPLY EXCEPTIONS

1. The I.D. correctly determined that the proposed ADMS Project was not cost-effective. (I.D. at 30-44)
2. The I.D. correctly determined that if Duquesne proceeds with implementation of the ADMS, recovery of the costs of the project should be sought in a base rate proceeding and not obtained through the Smart Meter Charge. (I.D. at 44-53)

## III. REPLY EXCEPTIONS

### A. THE I.D. CORRECTLY DETERMINED THAT THE PROPOSED ADMS PROJECT WAS NOT COST-EFFECTIVE.

#### 1. Introduction

The I.D. found that the cost of the ADMS did not meet the cost-effectiveness requirement established by the Commission's *Implementation Order*. In particular, the I.D. determined that the \$6 million of "societal" or "soft" benefits projected by Duquesne to result from the implementation of ADMS should not be considered when performing a cost-benefit analysis of the system because these benefits are "too tenuous and too obscure." I.D. at 43. Further, the I.D. found that Duquesne's cost-benefit analysis was deficient in that it failed to account for ongoing operating and maintenance charges that would be incurred over the life of the ADMS. On this point, the I.D. states, "When all costs are added up, it [becomes] painfully obvious that the functionalities (though highly beneficial on first appearance) are not cost effective." *Id.* Duquesne has excepted to the I.D.'s decision on this point. Duquesne Exc. at 4-16. The OCA, however, strongly agrees that the ADMS is not cost-effective, precisely for the reasons identified in the I.D., and urges the Commission to accept the determination of the I.D.

#### 2. The ADMS Is Not Cost-Effective

The testimony and briefs in this case describe in detail the dollar value of the costs and benefits of the ADMS as projected by the Duquesne. For purposes here, the OCA

offers the following summary. The cost of the ADMS will range from \$46 million to \$56 million, plus ongoing Operating and Maintenance (O&M) costs of \$5 million to \$6 million during the implementation phase of the project, through 2020. Duquesne St. No. 2 at 15-16. Duquesne estimates that the ADMS will produce \$46.3 million in what the OCA will term “hard” benefits, that is, projected cost savings directly tied to Duquesne’s electrical system. Duquesne St. No. 2 at 16. In addition, the Company estimates that the OMS will yield \$6 million of annual “societal” benefits to customers as a result of an expected reduction of five minutes in the average duration of power outages. Duquesne St. No. 2 at 7. The Company also identifies other non-quantifiable benefits it expects will result from implementing the ADMS. Duquesne St. No. 2 at 8-9; Duquesne St. No. 2-R at 9. Focusing, however, on just the hard benefits and comparing them with the cost of the project (the \$46 million to \$56 million, plus the \$5 million to \$6 million in implementation phase operating costs), it is apparent that costs will exceed benefits. Further, as described in the Direct Testimony of OCA witness Sherwood, Duquesne did not include in its cost-benefit analysis the *ongoing* incremental Operating and Maintenance (O&M) costs that it will incur throughout the life of the ADMS project (beyond implementation phase through 2039). OCA St. No. 1 at 13-14, Exhs. SLS-2, SLS-3; OCA M.B. at 11-13. These costs range from \$3.203 million in 2021 to \$4.582 million in 2039. The total O&M costs for the life of the project, as calculated by Ms. Sherwood, equal \$78.455 million. OCA St. No. 1 at 13, Exh. SLS-2. Of that amount, \$5.590 million represents the incremental O&M costs to be expended by the Company during the implementation phase. *Id.* Ms. Sherwood explained her rationale for including these costs in the cost-benefit analysis as follows:

The *Implementation Order* [at 30] requires that “the deployment and operating costs to be presented shall include a breakdown of all incremental and any associated potential operational and maintenance cost savings for each functionality and configuration.” The cost-benefit

analysis should reflect the incremental ongoing O&M costs that will be incurred during the period in which benefits are derived; otherwise, the cost-benefit analysis is not accounting for the required incremental costs to achieve those benefits and does not follow the requirements of the *Implementation Order*. The Company is projecting that the ADMS will generate enough benefits to surpass costs by the conclusion of 2039; however, this comparison excludes costs that will be incurred through 2039, but are beyond the implementation period.

OCA St. No. 1 at 12 (footnotes omitted).

When one adds the \$46 million to \$56 million identified by Duquesne as the installed cost of ADMS to the \$78.455 million in incremental O&M costs identified by Ms. Sherwood, the total costs of the project – between \$124.5 million and \$134.5 million – dwarf the projected hard benefits of \$46.3 million.

Indeed, the I.D. concurred with the OCA that the ongoing O&M costs should have been included in the analysis. The ALJ stated that “when determining cost effectiveness and making a cost-benefit analysis that extends over a period of years, [Duquesne] should have included ongoing project O&M costs, in addition to the costs to upgrade current equipment, upgrade the new equipment, and deal with routine obsolescence.” I.D. at 43.

Thus, if the ADMS can be found to be cost beneficial at all, it can only be done through inclusion of the claimed \$6 million of annual “societal” benefits in the analysis and ignoring the incremental O&M costs. Throughout this case, the OCA has argued against consideration of the societal benefits in the cost-benefit analysis. OCA witness Sherwood expressed concern over whether these societal benefits could be reliably quantified. OCA M.B. at 13; OCA St. No. 1 at 14. Moreover, these benefits do

not offset costs that are included in customers' rates and they are not benefits realized by all customers.

Duquesne, however, asserts that these benefits *have* been reliably quantified. Duquesne M.B. at 20-21; Duq. Exc. At 6-10. It maintains that based on detailed distribution system data it provided to its consultant DNV GL, the consultant, using a proprietary model, generated the estimate of \$6 million of annual societal benefits, which reflects savings resulting from an anticipated 5-minute reduction in average outage duration. Duquesne St. No. 2 at 7. Duquesne further maintains that the DNV GL estimate is supported by the results of a second model which Duquesne employed, the Interruption Cost Estimate (ICE) Calculator, which purports to calculate interruption savings from reliability improvements. Duquesne Exc. At 7-9; Duquesne M.B. at 20; Duquesne St. No. 2-R at 6. Using this model, Duquesne estimated societal benefits of \$4.2 million three years after implementation of OMS, rising to \$5.7 million at the end of 19 years, assuming a 2% annual inflation rate. Duquesne St. No. 2-R at 7.

The OCA's response to Duquesne's position is covered extensively in its Main Brief. OCA M.B. at 13-17. The points will be abbreviated here. First, the OCA submits that in order for benefits to be included in a cost-benefit analysis, they should be based on quantifiable operational improvements that offset costs that are incorporated in the rates customers pay. This is true of the hard benefits that Duquesne cites for both the OMS and DMS. The \$2.285 million in annual savings related to the OMS and the \$300,000 in annual savings related to the DMS reflect reductions in costs that will flow to the customer either directly or indirectly through the rates they pay Duquesne.

This is not true, however, for the societal benefits Duquesne cites. These savings exist outside of the ratemaking function. Costs related to lost production time, food spoilage,

hotel stays during outages are not things that all customers pay for in their rates. As non-system benefits, these cost savings should not be included as part of the cost-effectiveness evaluation conducted by Duquesne, and ultimately, the Commission.

As OCA witness Sherwood testified at the Further Evidentiary Hearing, these societal savings should be considered only as added benefits, not as part of a formal cost-benefit analysis. Tr. At 159-160.

Second, the OCA notes that the Cost Benefit Analysis performed by DNV GL itself, identifies the \$6 million of societal benefits as being difficult to quantify. Specifically, under the heading Methodology and Approach in the Cost Benefit portion of the study, it states as follows:

In addition to the hard benefits that will be explained in sections 4.1 and 4.3 of this study, the ADMS implementation has the potential to deliver soft benefits that are *difficult to estimate in value*.

Duquesne St. No. 2A, JTK Exh. 4 at 1. (emphasis added) The study goes on to list a variety of soft benefits, but relevant here is the fact that the list includes the following:

Reduced societal impacts in the amount of approximately \$6 million per year from reduced costs of outages to Duquesne Light consumers. Some examples of societal impacts are lost production time and food spoilage due to loss of electric power.

*Id.*, JTK Exh. 4 at 2. Hence, even Duquesne's own study recognizes the \$6 million of societal benefits as being "soft" and difficult to quantify.

Third, Duquesne explained that the \$6 million of societal benefits was the result of DNV GL's use of proprietary formulas to calculate the benefit figure. Duquesne St. No. 2-R at 4-5; Duq. Exc. At 8-9. Because the formulas used by the consultant could not be disclosed, Duquesne presented an alternative estimate of societal benefits based on a publicly available

model for calculating benefits of reduced outage time. This model is called the Interruption Cost Estimate (ICE) Calculator, developed for the U.S. Department of Energy. *Id.* At 6-7. Using the ICE calculator, Duquesne estimated societal benefits of \$4.2 million three years after OMS implementation, rising to \$5.7 million at the end of 19 years, assuming a 2% annual rate of inflation. *Id.* At 7.

OCA witness Sherwood examined the ICE calculator and found that it has certain shortcomings with regard to estimating benefits for Duquesne's customers. First, the ICE model relies upon no value of service studies from customers in the Mid-Atlantic or Northeast regions of the country. Second, the value of service studies it uses were conducted over a period from 1989 through 2012, but more than half of the studies are more than fifteen years old. OCA M.B. at 16; OCA St. No. 1-S at 2-3. Such shortcomings call into question the ICE model's ability to accurately estimate outage savings for the Duquesne service territory over the life of the ADMS project.

In testimony and in its Exceptions, Duquesne argues that it offered the results of the ICE model as a way to demonstrate that the societal benefits projected by the DNV GL study are reasonable, essentially that the ICE model serves as a "check" on the DNV GL results. Duquesne St. No. 2-RJ at 2; Duquesne Exc. At 14. As noted in its Brief, the OCA views this differently. Rather than providing a "check" on the DNV GL results, the OCA submits that the limitations of the ICE model serve to reinforce the fact that the reliable calculation of societal benefits is quite difficult to accomplish. OCA M.B. at 17.

The OCA submits that the estimated societal benefits of the DNV GL and ICE models are ultimately too speculative to warrant inclusion in a rigorous cost-benefit analysis of

the ADMS project.<sup>2</sup> As noted earlier, without inclusion of these benefits in the evaluation, ADMS cannot possibly be found to be cost-effective. On these points the I.D. agrees. The I.D. is critical of the DNV GL study stating that it “used unknown variables and applied unknown calculations....that cannot be validated,” and therefore, “should not be used to determine any soft cost savings.”<sup>3</sup> I.D. at 42. The I.D. is skeptical too of the ICE model stating that “its calculation of \$4 million is based on old data collected outside the Mid-Atlantic region, so the calculation carries only limited weight.” The I.D. concluded that the “soft” or “societal” benefits should not be included when performing a cost-benefit analysis related to implementation of the ADMS. The OCA submits that substantial evidence exists on the record to support adoption of this position in the Commission’s Final Order. Further, in the absence of a cost-effective proposal, the Commission should exercise its authority to waive the “additional” capabilities (as set forth in the *Implementation Order*) of outage and restoration communication and voltage monitoring for Duquesne.

Finally, the OCA wishes to respond to the assertions made in Duquesne’s Exceptions and Brief that the OCA failed to meet its burden of presenting contrary evidence by not offering an independent analysis of societal benefits. Duquesne Exc. At 9; Duquesne M.B. at 21. The OCA submits that it is under no such burden in this proceeding. As the proponent of a Commission order in this case, the burden of proof rests and remains on the Company to show

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<sup>2</sup> In its Main Brief, the OCA also noted that the Commission has traditionally not recognized claims of societal benefits in other contexts, such as the analysis of cost effectiveness of energy efficiency programs. *See, Energy Efficiency and Conservation Program*, Docket No. M-2008-2069887 (Order entered January 16, 2009). OCA M.B. at 17.

<sup>3</sup> Elsewhere, the I.D. characterizes DNV GL’s societal benefit estimate as “too tenuous and too obscure.”

that ADMS is cost-effective. 66 Pa.C.S. § 332(a).<sup>4</sup> The only burden on the OCA is to come forward with evidence to rebut the assertion that “societal benefits” are hard benefits worthy of inclusion in a cost-benefit analysis. It is under no obligation to produce its own independent analysis of potential societal benefits. The OCA submits that it has met its burden of going forward with the evidence.

**B. THE I.D. CORRECTLY DETERMINED THAT IF DUQUESNE PROCEEDS WITH IMPLEMENTATION OF THE ADMS, RECOVERY OF THE COSTS OF THE PROJECT SHOULD BE SOUGHT IN A BASE RATE PROCEEDING AND NOT OBTAINED THROUGH THE SMART METER CHARGE.**

**1. Introduction**

The OCA has taken the position that if Duquesne goes forward with implementation of the ADMS, the costs of the project should not be recovered through Duquesne’s Smart Meter Charge (SMC), as sought by the Company, but rather should be sought in a base rate case. OCA M.B. at 17-23. The I.D., although not recommending that the Commission waive the two additional capabilities at issue in this case, nevertheless determines that if ADMS is implemented, the costs of the system should be recovered through base rates and not through the SMC. I.D. at 53, 60. The I.D. specifically states:

However, seeking ADMS cost recovery through the Smart Meter Charge is the incorrect pathway for Duquesne Light to pursue. As modeled by other EDCs, Duquesne Light should implement the ADMS through base rates. In base rates, the costs attributable to the various rate classes can be investigated, evaluated and appropriately allocated. Through base rates, the benefits can be quantified and validated using publicly available and discernible calculation methods.

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<sup>4</sup> While the burden of going forward with the evidence may shift back and forth during a proceeding, the burden of proof never shifts. The burden of proof always remains on the party seeking affirmative relief from the Commission. *Milkie v. Pa. PUC*, 768 A.2d 1217 (Pa. Cmwlth. 2001).

I.D. at 60. Duquesne excepted to the I.D.’s decision on this point. Duquesne Exc. At 16-22. For all of the reasons set forth below, the OCA submits that the I.D. reaches the proper conclusion and urges the Commission to rule in the same manner.

2. ADMS Costs Do Not Meet the Definition of Smart Meter Technology Costs and Are Therefore Recoverable Only In a Base Rate Proceeding and Not Through the Smart Meter Charge

In its Briefs and Exceptions, Duquesne argues that the OCA’s position that cost recovery should be sought in a base rate proceeding is contrary to Act 129.<sup>5</sup> Specifically, Duquesne asserts that EDCs are permitted under Section 2807(f)(7) of the Public Utility Code to recover smart meter costs through automatic adjustment clauses. Duquesne also states that the ADMS will allow the Company to communicate outages and restorations and monitor voltage, and that the Commission has defined these functionalities as “smart meter technology” in the *Implementation Order*. Duquesne M.B. at 24; Duquesne Exc. at 16-19.

The OCA disagrees that ADMS meets the definition of smart meter technology as provided in Act 129. That Act defines “smart meter technology,” in part, as follows:

...the term “smart meter technology” means technology, including metering technology and network communications technology capable of bidirectional communication, that records electricity usage on at least an hourly basis, *including related distribution system upgrades to enable the technology*.

66 Pa. C.S. §2807(g). (emphasis added)

The OCA submits that ADMS costs are not “smart meter technology” costs under this definition. As previously explained, the ADMS consists of an Outage Management System and a Distribution Management System. These systems utilize the bidirectional communication

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<sup>5</sup> To be clear, the OCA’s position is that the ADMS costs do not qualify for special recovery under the Smart Meter Charge. The OCA submits that the ADMS costs are the type of costs that are incurred in the normal course of business to provide safe, adequate and reliable service. If Duquesne moves forward with the project, the Company will have the opportunity to seek recovery of its reasonable and prudent costs in a future base rate proceeding.

and data production capabilities *of the* smart meter technology to better manage Duquesne's distribution system, but they are *not* necessary to enable the technology. Only the costs of distribution system upgrades that *enable* metering and network communication technology can be recovered through the Smart Meter Charge.<sup>6</sup> Duquesne's testimony at the Further Evidentiary Hearing establishes that the ADMS is not needed to enable the smart meters. The smart meters are capable of working with Duquesne's existing outage monitoring system, the Outage Analysis System (OAS). Specifically, Duquesne witness Karcher responded to ALJ Dunderdale as follows:

JUDGE DUNDERDALE: What if Duquesne Light did not have OMS and DMS as proposed and its roll-out for Smart Meters continued?

[Mr. Karcher]: We would continue to operate through the OAS today. Eventually that system would need to be upgraded somehow. It's pretty old.

Tr. at 98.<sup>7, 8</sup>

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<sup>6</sup> In its Exceptions, Duquesne makes the point that Section 2807(f)(7) of the Public Utility Code gives it the discretion to determine how smart meter costs are recovered, either through base rates or through its SMC. Duquesne notes that it has elected to recover its ADMS costs through its SMC. Duquesne Exc. at 18. As noted, however, the OCA maintains that the ADMS costs do not qualify as smart meter technology costs in the first place.

<sup>7</sup> In its Testimony, Main Brief and Exceptions, Duquesne cites two previous Commission decisions for the proposition that other EDCs have had to implement additional business requirements to meet the smart meter requirements of Act 129 and in both cases, the Commission permitted cost recovery through smart meter automatic adjustment clauses. Duquesne St. No. 2C at 11-12; Duquesne M.B. at 26-27; Duquesne Exc. at 19-20. A careful reading of both decisions, however, shows that they are distinguishable from Duquesne. In Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of Their Smart Meter Deployment Plan, Docket Nos. M-2013-2341990, et. al., Order entered March 6, 2014, the costs at issue involved expenditures that were necessary to *initiate* smart meter deployment in West Penn Power's territory. ADMS costs are not needed to initiate smart meter deployment.

Similarly, in Petition of PPL Electric Utilities Corporation for Approval to Modify its Smart Meter Technology Procurement and Installation Plan and to Extend its Grace Period, Docket Nos. P-2012-2303075 and M-2009-2123945, Order entered August 2, 2012, the costs that were approved for recovery through PPL's smart meter charge all related to enhancements that would enable PPL to meet the smart meter functionalities specified in Act 129, not the additional capabilities set forth in the Implementation Order, as is the case here.

<sup>8</sup> If Duquesne elects to install ADMS for other operational reasons, as was the case with its upgraded Customer Care and Billing system, it should seek recovery through the traditional base rate process.

The OCA has taken the position in this proceeding that installation of the OMS and DMS are not exclusively driven by the provisions of the *Implementation Order*, but that they represent upgrades to systems that should occur in the regular course of doing business as a public utility. OCA M.B. at 17-21; OCA R.B. at 8-9. Duquesne maintains the opposite. It argues that the OAS has met the Company's service obligations under the Public Utility Code and that Duquesne is under no obligation to implement an OMS *but for* the requirements of the *Implementation Order*, which imposes requirements above and beyond Duquesne's existing capabilities. The Company argues that because the Commission requires implementation of ADMS to meet the requirements of the *Implementation Order*, it should be permitted to recover its costs through the SMC. Duquesne M.B. at 25-26; Duquesne Exc. at 21.

In its Main Brief, the OCA highlighted a number of points that arose at the Further Evidentiary Hearing which serve to undercut Duquesne's arguments. In particular, Duquesne witness Karcher testified that OAS is approximately 20 years old and would need to be upgraded at some point. OCA M.B. at 18-19; Tr. at 98. Duquesne witness Pfrommer agreed that part of the cost of upgrading to the OMS (from OAS) and adding the DMS is just the cost of doing business as an EDC and part is in addition to that. OCA M.B. at 19-20; Tr. at 145-146, 148. Duquesne witness Karcher indicated that upgrading to the OMS has value apart from being connected to the smart meters. OCA M.B. at 20-21; Tr. at 75.

A colloquy between ALJ Dunderdale and Duquesne witness Pfrommer also revealed that Duquesne's impetus for installing the ADMS is being driven not just by the Commission's *Implementation Order* but by the need simply to upgrade key systems as part of the cost of doing business as a public utility. When questioned by the ALJ whether upgrading to

an OMS is just a cost of doing business as a large EDC or something more, the ALJ and Mr. Pfrommer had the following exchange:

JUDGE DUNDERDALE: So, some of the answer to my question would be, yes, some of it is just the cost of doing business an EDC, and some of it is in addition to?

THE WITNESS: Yes.

JUDGE DUNDERDALE: Because you can still do outage monitoring currently; is that correct?

THE WITNESS: Yes.

Tr. at 145-146. In response to a similar question regarding the DMS, Mr. Pfrommer stated:

JUDGE DUNDERDALE: So, some portion of the DMS is just the cost of doing business, and some portion of the DMS cost is going to be something that we are now adding?

THE WITNESS: I agree with that.

Tr. at 148. The OCA submits that the costs of implementing the ADMS are really costs that would be incurred by Duquesne in the ordinary course of business. As such, recovery of these costs should be sought through a base rate proceeding where all issues can be thoroughly examined.

As discussed in its Main Brief, the OCA submits that Duquesne is essentially proposing to bootstrap normal operating investment and expenses incurred in the ordinary course of business and typically recovered through base rates into smart meter costs recoverable through the SMC which allows for accelerated recovery and limits opportunity to explore issues of reasonableness and prudence. It is mere fortuity that the Smart Meter Charge is available at the time Duquesne proposes to make needed upgrades to its systems. OCA M.B. at 21.

Further, because the cost-effectiveness of ADMS can only be established by relying on the difficult to quantify and speculative societal benefits and because these benefits represent such a significant portion of the claimed overall benefits of the project and cannot be reflected as a savings offset in the surcharge, the OCA submits that seeking recovery through base rates is appropriate because it would allow for the potential recovery of only those costs found to be reasonable and prudent, would better coincide with the period over which the benefits materialize, to the extent that they do, and would ensure that cost recovery from the rate classes and the benefits of the system are properly aligned. In Surrebuttal Testimony, OCA witness Sherwood observed that based on the results of Duquesne's application of the ICE calculator there was an imbalance between the cost recovery of ADMS and the expected benefits by rate class. She noted that at the conclusion of the ADMS project life, more than half of the benefits would be from "societal" benefits. According to Duquesne's ICE calculator results, only 1.5 percent of the societal benefits will accrue to the residential class. However, recovery through the SMC would impose 90 percent of ADMS costs on that class. OCA St. No. 1-S at 4. The I.D. references this disparity at pp. 38 and 53 and points to the disparity (at p. 53) as a reason to support base rate cost recovery for ADMS costs. The OCA strongly supports this reasoning. Questions of cost allocation among rate classes are best and most comprehensively addressed in the context of a base rate case. The OCS submits that front-loading the costs of the ADMS (via the SMC) in the face of the uncertainty of the benefits from the project, would not meet the just and reasonable standard of ratemaking.

### III. CONCLUSION

For all of the reasons set forth herein, the OCA respectfully requests that the Public Utility Commission grant the OCA's Reply Exceptions and adopt the Initial Decision of ALJ Dunderdale, as modified in accord with the OCA's previously filed Exceptions.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

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Approval to Modify its Smart Meter : Docket No. P-2015-2497267  
Procurement and Installation Plan :

I hereby certify that I have this day served a true copy of the Office of Consumer Advocate's Reply Exceptions to the Initial Decision upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code §1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 8<sup>th</sup> day of December 2016

SERVICE BY E-MAIL and FIRST CLASS MAIL

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