

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

REPLY BRIEF OF CITIZEN POWER, INC.

Theodore Robinson
Staff Attorney
PA Attorney I.D. #203852
E-mail: robinson@citizenpower.com

Citizen Power
2121 Murray Avenue
Pittsburgh, PA 15217
412-421-7029
412-421-6162 (fax)

Dated: December 22, 2009

TABLE OF CONTENTS

I. INTRODUCTION.....3
II. ARGUMENT.....5
III. CONCLUSION.....6

I. INTRODUCTION

Citizen Power, Inc. (“Citizen Power”) hereby submits this Reply Brief in response to the Main Briefs of Duquesne Light Company (“DLC”), Duquesne Industrial Intervenors (“DII”), and the Office of Small Business Advocate (“OSBA”).

Under Act 129 of 2009 (“Act 129”), DLC was required to develop a Smart Meter Technology Procurement and Installation Plan (“SMPI Plan”), which it filed on August 14, 2009. 66 Pa. C.S. § 2807(f)(2). DLC is allowed to recover reasonable and prudent costs to provide smart meter technology, less any operational and capital cost savings realized, through either base rates or a reconcilable automatic adjustment clause. 66 Pa. C.S. § 2807(f)(7). In Docket M-2009-2092655, the Pennsylvania Public Utility Commission (“Commission”) issued its Smart Meter Procurement and Installation Implementation Order on June 24, 2009 (“Installation Order”) after reviewing numerous comments from interested parties. In the Installation Order, the Commission made three main statements regarding allocation of the SMPI Plan’s costs: (1) “all measures associated with an EDC’s smart metering plan shall be financed by the customer class that receives benefit of such measures”; (2) “any costs that can be clearly shown to benefit solely one specific class should be assigned wholly to that class”; and (3) “costs that provide benefit across multiple classes should be allocated among the appropriate classes using reasonable cost of service practices.” Installation Order at 32.

One of the main issues of contention in this proceeding is the method of allocating SMPI Plan costs. DLC, in their Petition for Approval of their SMPI Plan, proposed that the costs of the meters themselves would be assigned to the class of customers who actually would be using those meters. DLC Exh. D at 9. Citizen Power agrees that this is a proper interpretation of the

Installation Order because the main benefit of the meters themselves, if any, are enjoyed by the customers actually using the meters. However, as described by the Direct Testimony of Duquesne Witness Pfrommer, the Smart Meter Revenue Requirement (“SMRR”) for common costs, such as “infrastructure to collect, back haul, store and bill the customer”, will be allocated to SMRR for each meter type based on the number of meters. DLC Exh. D at 9. This methodology is Citizen Power’s main point of contention with the SMPI Plan.

II. ARGUMENT

Common Costs Should Be Assigned To A Customer Class In A Manner That Is Roughly Proportional To The Benefits Received.

The main question at hand is how should DLC recover costs, such as common costs, that provide benefit across multiple classes. The Commission’s Installation Order is clear that SMPI Plan costs should be allocated to the class that receives the benefits of such costs using reasonable cost of service practices. Installation Order at 32. However, the parties seem to interpret the meaning of this statement differently. Specifically, there is a question of whether costs should be assigned to a customer class in a manner that is roughly proportional to the benefits received by that customer class.

In the Installation Order, the Commission stated “all measures associated with an EDC’s smart metering plan shall be financed by the customer class that receives benefit of such measures.” Installation Order at 32. Applying this mandate to costs that predominately benefit a specific customer class, such as the cost of the meters themselves, results in those costs being allocated to the customer class that which receives the benefit. However, the SMPI common costs provide benefits across multiple classes and therefore must be treated differently. Some parties advocated in their Main Briefs to allocate these common costs on a per meter basis

without any further analysis of what benefits each customer class is receiving. DLC, in their Main Brief, stated that “Duquesne’s position is that the common costs should be allocated based upon cost causation, using reasonable cost of service practices. This is appropriate because all of the functions of the common infrastructure (collect, back haul, store and maintain data) are required equally for each meter, *regardless of the benefits realized* or the size of the customer.” [emphasis added] DLC MB, pgs. 22-23. DII emphasized that cost of service should be the guiding principal in ratemaking without acknowledging that the Installation Order tied the allocation of costs to the benefits received. DII MB, pg. 6. Similarly, OSBA stated that their witness, Mr. Knecht, found that the cost allocation plan for the common costs was within the range of normal cost allocation practices. OSBA MB, pg. 4.

However, this methodology of allocating common costs as proposed by DLC and supported by DII and OSBA does not comply with the Installation Order. The Commission was clear that the SMPI Plan should be paid for by those classes receiving the benefits of the Plan. Installation Order at 32. This implies that there should be a rough correlation between the benefits received and the costs allocated. Therefore, once it is determined that certain common costs benefit the customer classes in differing degrees, it is necessary to design the cost allocation methodology to take these discrepancies into account in order to comply with the Installation Order. DLC identified a discrepancy in the smart meter benefits that would be received by different customer classes in its application for Federal assistance under the American Recovery and Reinvestment Act. OCA MB, pg. 33. DLC should have taken this into account in their proposed cost allocation. Instead, DLC proposed in its SMPI Plan that the common costs should be allocated on a per meter basis. DLC Exh. D at 9. The implication of mechanically applying a per meter formula to allocate common costs is that any difference in the

degree of benefit gained by each customer class because of the SMPI Plan is not addressed, even if the difference in benefits is substantial. This is clearly in opposition to the language of the Installation Order which suggests that costs allocation should follow the benefits received by each customer class.

DLC is not required by the Installation Order to simply use a cost of service practice to allocate the common costs, but instead to use a cost of service practice that provides that “measures associated with an EDC’s smart metering plan shall be financed by the customer class that receives benefit of such measures.” Installation Order at 32. The per meter methodology proposed by DLC would allocate 96% of the common costs to single-phase meter customers while those customers only consume 37% of the energy at the meter and account for no more than 47% of the peak demand. DLC Exh.WVP-2 and Exh. DES-1. This proposal does not result in each customer class financing the common costs based upon their benefits received. The Office of Consumer Advocate (“OCA”) has proposed an alternative; that the common costs of the SMPI Plan be allocated between the single-phase meter group and the multi-phase meter group based upon “the arithmetic average of the percentage shares of each group’s energy at meter and each group’s contribution to Duquesne’s annual single coincident peak.” OCA St. 3 at 9. This methodology would correctly align the common costs paid by each customer group with the energy and capacity savings enjoyed by each customer group.

III. CONCLUSION

Citizen Power believes that DLC’s SMPI Plan is generally in compliance with 66 Pa. C.S. § 2807(f) and (g). However, Citizen Power respectfully submits that the SMPI Plan

should not be approved by the Commission without implementing the cost allocation mechanism proposed by the OCA for the SMPI Plan common costs.

Respectfully Submitted,

By: /s/ Theodore S. Robinson
Theodore S. Robinson (PA Bar # 203852)
Citizen Power
2121 Murray Avenue
Pittsburgh, PA 15217
(412) 421-7029 (phone)
(412) 412-6162 (fax)

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the Main Brief of Citizen Power, Inc. upon the participants listed below, in accordance with the requirements of § 1.54 (relating to service by a participant).

Dated this 22nd day of December, 2009.

SERVICE BY E-MAIL and FIRST CLASS MAIL

Gary A Jack, Esquire
Kelly L. Geer, Esquire
Duquesne Light Company
16th Floor
411 Seventh Avenue
Pittsburgh, PA 15219
Counsel for: *Duquesne Light Company*

Pamela Polacek, Esquire
Shelby A. Linton-Keddie, Esquire
Barry A. Naum, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
Counsel for: *Duquesne Industrial
Intervenors*

Sharon E. Webb
Assistant Small Business Advocate
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101
Counsel for: *Office of Small Business
Advocate*

George Jugovic, Assistant Counsel
Commonwealth of Pennsylvania
Department of Environmental Protection
400 Waterfront Drive
Pittsburgh, PA 15222-4745
Counsel for: *Department of Environmental
Protection*

Scott Perry, Assistant Counsel
Aspassia V. Staevska, Assistant Counsel
Commonwealth of Pennsylvania
Department of Environmental Protection
RCSOB, 9th Floor
400 Market Street
Harrisburg, PA 17101-2301
Counsel for: *Department of Environmental Protection*

David T. Evrard, Assistant Consumer Advocate
Tanya J. McCloskey, Senior Assistant Consumer Advocate
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Counsel for: *Office of Consumer Advocate*

Harry S. Geller, Esquire
John C. Gerhard, Esquire
Julie George, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101-1414
Counsel for: *Pennsylvania Association of Community Organizations for Reform Now*

Divesh Gupta
Constellation NewEnergy
111 Market Place
Suite 500
Baltimore, MD 21202
Counsel for: *Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc.*

Administrative Law Judge Robert P. Meehan
1103 Pittsburgh State Office Building
300 Liberty Avenue
Pittsburgh, PA 15222

Christopher A. Lewis, Esquire
Christopher R. Sharp, Esquire
Melanie J. Tambolas, Esquire
Blank Rome LLP
One Logan Square
Philadelphia, PA 19103
Counsel for: *Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc.*

Charles Daniel Shields, Esquire
Adeolu A. Bakare, Esquire
Office of Trial Staff
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

By: /s/ Theodore S. Robinson
Theodore S. Robinson (PA Bar #203852)
Citizen Power
2121 Murray Avenue
Pittsburgh, PA 15217
(412) 421-7029 (phone)
(412) 412-6162 (fax)

