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October 19, 2010

VIA HAND DELIVERY
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
400 North Street – 2nd Floor
Commonwealth Keystone Building
Harrisburg, Pennsylvania 17120

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

Dear Secretary Chiavetta:

Attached is an original and three (3) copies of a Joint Petition for Settlement on behalf of West Penn Power Company d/b/a Allegheny Power and The Office of Consumer Advocate, Joint Petitioners in the above-referenced proceeding. The Settlement is not unanimous, therefore the Commission may receive Answers to the Joint Petition for Settlement. Allegheny Power requests that an expedited Answer period for responses to the Joint Petition for Settlement be adopted by the Commission and promptly communicated to the parties. In the event the Commission decides that a hearing on the Settlement should be conducted, Allegheny Power also requests that the hearing and any associated procedural steps are expedited as well to assist with timely disposition of this proceeding. Copies of this filing have been served on all parties to this case as indicated in the attached Certificate of Service.

Thank you for your consideration of these requests.

Very truly yours,

John F. Povilaitis

JFP/ck
Enclosures

c. Certificate of Service
The Honorable Mark A. Hoyer
The Honorable James H. Cawley, Chairman
The Honorable Tyrone J. Christy, Commissioner
The Honorable Robert F. Powelson, Commissioner
The Honorable Wayne E. Gardner, Commissioner
The Honorable John F. Coleman, Jr., Commissioner
Cheryl Walker Davis, Office of Special Assistants

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

JOINT PETITION FOR SETTLEMENT

I. INTRODUCTION

West Penn Power Company d/b/a Allegheny Power ("Allegheny Power" or the "Company") and the Office of Consumer Advocate ("OCA") ("Joint Petitioners") hereby join in this Joint Petition for Settlement ("Settlement") and hereby respectfully request that the 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 later than June 2012 (the "Revised SMIP") that will finalize the Company's plans for the full deployment of smart meters to Allegheny Power'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.

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

[1] Constellation New Energy, Inc. and Constellation Energy Commodities Group, Inc. (together "Constellation") and the Department of Environmental Protection ("DEP") have indicated they do not oppose this Settlement.

approximately 1.5 million. The Company's corporate 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 29, 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.

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.

4. The Commission's Office of Trial Staff ("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

[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.

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, Allegheny Power, the OTS, the OCA, the OSBA, DEP, WPPII, ACORN and Constellation filed Main briefs. On January 5, 2010, Allegheny Power, 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, Allegheny Power 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, Allegheny Power's Petition to Modify a Prior Commission Order and to Re-open the Evidentiary Record was granted by Secretarial Letter. The Commission 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, Allegheny Power, the OCA, the OSBA and the DEP filed Supplemental Main briefs.

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

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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.

10. On May 13, 2010, Allegheny Power filed a Petition to Stay the Exceptions Period in this proceeding, so that parties may consider the impact on Allegheny Power's proposed SMIP given the proposed merger of Allegheny Power's 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. Allegheny Power timely filed a Reply to "New Matter" raised by the OSBA. The OCA filed a letter supporting the Allegheny Power 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, Allegheny Power 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 docketed at M-2009-2093218. To date, Answers to the Amended EE&C/DR Plan have been filed by The Penn State University, the OSBA and WPPII.

III. SETTLEMENT

14. Allegheny Power agrees that it will decelerate the deployment of smart meters from the schedule originally proposed by Allegheny Power or the modified Allegheny Power

[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).

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.[7] Following its reevaluation effort, the Company will file a 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 15 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 Allegheny Power 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.

[7] 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 a SMIP that amends 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.

15. 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;

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 Allegheny Power that a financial cost/benefit analysis is required by Act 129 to be part of a SMIP.

16. Between 2010 and 2013, and in support of the EE&C/DR Plan and the analyses required in paragraphs 14 and 15 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.

17. Prior to May 31, 2013, the Company will not deploy In Home Devices ("IHDs")[8]to customers in support of the EE&C/DR Plan.

18. 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. The $40 million will be recovered via a levelized surcharge over a 10-year period beginning with the smart meter surcharge start date, with interest (at the statutory rate, currently 6%) on any deferred amounts, to more closely match cost recovery to the deployment of the smart meters. The additional $5.1 million represents certain costs related to the CIS system that the Joint Petitioners dispute should be

[8] 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.

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.

19. 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 begin in the year projected to be incurred and will be amortized over the remainder of a 7-year period (through 2017) with interest (at the statutory rate, currently 6%). 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 23 below, the return on equity described in paragraph 24 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 10-year levelization period. Reconciliation of the

$11 million of additional Phases 2, 3 and 4 O&M 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 7-year levelization period. Reconciliation of capital 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 (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	$ 0.00096	$ 0.00120	$ 0.00132	$ 0.00129	$ 0.00125	$ 0.00116	$ 0.00111	$ 0.00082	$ 0.00080	$ 0.00079
Schs 20, 22, 23 & 24	$ 1.02	$ 1.42	$ 1.51	$ 1.46	$ 1.41	$ 1.30	$ 1.24	$ 0.95	$ 0.92	$ 0.90
Schs 30, 40, 41, 44, 46, 86 & Tariff 37	$ 1.22	$ 1.95	$ 2.02	$ 1.93	$ 1.84	$ 1.69	$ 1.59	$ 1.27	$ 1.22	$ 1.17
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 $0.96 during 2011.

20. The Company may seek recovery of the costs of its full deployment plan, including costs associated with the analyses required by paragraphs 14 and 15 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.

21. Any additional funds that the Company expends between the filing of this 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 16 of this Joint Petition, are permitted to be recovered through the smart meter surcharge.

22. The cost allocation underlying the surcharge rates in Paragraph 18 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.

23. 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)

24. A return on equity of 10% shall be used in the calculation of the smart meter surcharge revenue requirement until such time as Allegheny Power 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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.

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

31. The Company's current EE&C/DR Plan approved by the Commission is 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 begins the process of amending current plan programs to account for a reduced number of smart meters being available. This settlement does not bind any party to any position relative to the amended EE&C/DR Plan filing currently before the Commission; however, the parties recognize that changes to the EE&C/DR Plan are required to meet the requirements of Act 129 and that timely Commission approval of an amended

EE&C/DR Plan is required for the Company to meet its goals. The settling parties reserve all rights and arguments as to whether the proposed changes in the EE&C/DR Plan are reasonable and/or appropriate changes to the Plan.

32. 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

33. 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.

34. 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 and 2.

V. CONDITIONS OF SETTLEMENT

35. 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.

36. 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.

37. This Settlement is proposed by the Joint Petitioners to settle all issues in the current proceedings. If the Commission does not approve the Settlement and the proceedings continue, the Joint Petitioners reserve their respective rights to file exceptions and reply exceptions. 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.

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

39. 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.

40. 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.

41. 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.

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

43. The Settlement is not unanimous; therefore the Commission may receive Answers to the Joint Petition for Settlement. Allegheny Power requests that an expedited Answer period for responses to the Joint Petition for Settlement be adopted by the Commission and promptly communicated to the parties. In the event the Commission decides that a hearing on the Settlement should be conducted, Allegheny Power also requests that the hearing and any associated procedural steps are expedited as well to assist with timely disposition of this proceeding.

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

Dated: October 19, 2010

Respectfully submitted,

John F. Povilaitis, Esq.
W. Edwin Ogden, Esq.
On behalf of West Penn Power Company
800 North Third Street, Suite 101
Harrisburg, PA 17102

and

John L. Munsch, Esq.
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800 Cabin Hill Drive
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On behalf of West Penn Power Company

Tanya J. McCloskey, Esq.
Christie M. Appleby, Esq.
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101-1923
On behalf of Office of Consumer Advocate

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

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TECHNICAL APPENDIX

DEMAND SIDE PLAN

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)
2011	8.7
2012	25.4
2013	27.9
2014	28.8
2015	29.6
2016	30.4
2017	31.3
2018	32.2
2019	33.2
2020	34.1
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

Nevada Power
Modeling Assumptions

a. Stranded Cost recovery not included

b. Disc Rate used 8.58%

c. AFUDC not included

Results

Cost to the customer (PWRR)	$166MM
Present Value of Benefits	$276MM
Net Cost to Customer (assuming 100% of benefits realized)	($110) MM

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	$ 6,602	$ -	$ -
Reduced customer communications cost for collections	$ 17,640	$ -	$ -
	$ 597,492	$ -	$ -
Billing			
Reductiton 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 Enspiria Solutions, Inc. benefits model is used to quantify the operational benefits that can be achieved by implementing the ASD solution. Enspiria 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 defendable 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 Enspiria 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. Enspiria 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 defendable 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 impratical 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.

ATTACHMENT 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

STATEMENT IN SUPPORT
OF THE
OFFICE OF CONSUMER ADVOCATE

I. INTRODUCTION

The Office of Consumer Advocate (OCA), a signatory to the Joint Petition for Settlement (Joint Petition or Settlement) in the above-captioned proceeding strongly supports the Settlement and urges the Commission to promptly approve the Settlement. Critically, the Settlement calls for West Penn Power d/b/a/ Allegheny Power (Allegheny Power 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 Settlement, the large surcharges contained in Allegheny Power's original Plan, projected to exceed $15 per month for residential customers by 2012, will be reduced to around $1.00 per month for the typical residential customer as the Company continues efforts to determine the most cost-effective means of meeting the smart meter requirements of Act 129.

The Settlement results in Allegheny Power'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 meter deployment plans. The OCA submits that the 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 strongly urges adoption of the Settlement.

II. BACKGROUND

On August 14, 2009, Allegheny Power 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 Allegheny Power'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 Hornby[1], Nancy Brockway[2], and Matthew I.

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[1] 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.

Kahal [3] 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.

On December 18, 2009, Allegheny Power filed a Petition to Modify a Prior Commission Order and to Reopen the Evidentiary Record. Allegheny Power 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 Allegheny Power'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.

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2 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 (NRRI). While at NRRI, 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.

3 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 January 29, 2010, Allegheny Power 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, Allegheny Power 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 Allegheny Power'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:

- Allegheny Power 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

- Allegheny Power should 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 Allegheny Power'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 has 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. A Settlement was achieved through these discussions that addresses the key issues and recommendations presented by the OCA. For the reasons explained below, the OCA supports the 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. (Joint Petition, ¶¶14, 15, 17, 28, 32)

From the commencement of this proceeding, the OCA expressed its strenuous objections to Allegheny Power'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, Allegheny Power'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 Allegheny Power 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 Allegheny Power'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 present Settlement would impose an initial surcharge of less than 1 mill/kwh, or approximately 48¢ per month for a residential customer using 500 kwh per month and 96¢ 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 have been able to agree upon a proposed approach to the development of a full scale smart meter deployment plan. The approach agreed upon in the 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.[4] This approach brings Allegheny Power'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).[5] Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and 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

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4 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. Joint Petition, ¶32.

5 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.

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. Allegheny Power and its customers will also now be able to benefit from this 30-month grace period. Joint Petition, ¶14.

The Settlement also calls for Allegheny Power 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. Joint Petition, ¶15. 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. Joint Petition, ¶28.

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. Joint Petition, ¶17. 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. Joint Petition, ¶15.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. (Joint Petition, ¶16, Appendix A, Phase 5)

While the Settlement slows down the initial pace of deployment proposed by Allegheny Power, 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. Joint Petition, ¶16. 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. 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, the 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. 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. <u>The Cost Recovery Provisions Of The Settlement Are A Reasonable Resolution Of The Issues Presented By The Revised SMIP And The Settlement</u>. (Joint Petition, ¶¶18, 19, 20, 21, 22, 23)

Through a series of provisions, the Settlement provides for the recovery of some of the costs that have been incurred in preparation for smart meter deployment. In addition, the Settlement resolves 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 Settlement also confirms that the cost allocation and rate design contained in the surcharge are in accord with the Company's proposals in the proceeding.

The result of these provisions is that the initial surcharge levels for the customer classes will be reduced significantly from the Company's proposal. For residential customers, the 2011 surcharge will be 0.096¢/kwh, or for a typical Allegheny Power customer using 1,000 kwh pre month, the surcharge amounts to 96¢ 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 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 $1.02 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 Settlement for 2011 will be $1.22 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. Joint Petition, ¶18. 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 21 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. Joint Petition, ¶21. 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 18 of the Joint Petition also provides for the recovery of the $40 million in 2009 and 2010 expenditures through a levelized surcharge over a 10 year period, with interest on the unamortized balance. The use of a 10 year recovery period for these planning and initial development costs will better match these development costs to the actual smart meter deployment. Better matching the costs and benefits of the smart meters will better enable customers to mitigate any rate impacts.

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. Joint Petition, ¶19. 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. Joint Petition, ¶24. 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. Joint Petition, ¶23. 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 expense amounts to be incurred between now and 2013 will also be amortized over the remainder of a seven year period (by 2017), again to better match the expenses to the full scale meter deployment.

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 while better matching the deployment costs with the potential benefits of the smart meter deployments. 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. (Joint Petition, ¶¶25, 26, 27)

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 many 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 the 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. <u>The Settlement Preserves All Parties' Rights To Address Issues Presented By The Amended EE&C/DR Plan</u>. (Joint Petition, ¶31)

As noted throughout this proceeding, Allegheny Power proposed an aggressive deployment of smart meters because it had elected to rely on the deployment of smart meters to meet the near-term (20110-2013) 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 Allegheny Power's EE&C/DR Plan proceeding, the Commission cautioned Allegheny Power 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: 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)

Allegheny Power filed an Amended EE&C/DR Plan that is less dependent on smart meters in September of this year and the Amended Plan is now pending before the Commission. The Settlement calls for Allegheny Power 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 Settlement, however, recognizes that issues regarding the Amended EE&C/DR Plan are not decided by the Settlement and that all parties reserve their rights to address all issues regarding the Amended EE&C/DR Plan, including whether the Amended Plan is the optimal response to the deceleration of the deployment of smart meters. The Settlement provides in relevant part:

> This settlement does not bind any party to any position relative to the amended EE&C/DR Plan filing currently before the Commission; however the parties recognize that changes to the EE&C/DR Plan are required to meet the requirements of Act 129 and that timely Commission approval of an amended EE&C/DR Plan is required for the Company to meet its goals. The settling parties reserve all rights and arguments as to whether the proposed changes in the EE&C/DR Plan are reasonable and/or appropriate changes to the Plan.

The Commission has established a process for the full consideration of any amendments or changes to the EE&C/DR Plan. In that process, all parties can make the necessary arguments as to whether the amendments to the EE&C/DR Plan are reasonable and appropriate in light of the slower pace of meter deployment.[6]

[6] There are many ways to achieve the energy efficiency and demand response goals required by Act 129. As OCA witness Hornby testified, programs such as a new low cost direct load control program for residential customers in addition to the programs enabled by the smart meters could be considered. OCA St. 1-Supp. at 24-29. The Settlement is not intended to prejudge any of these issues.

III. CONCLUSION

For the reasons set forth above, the OCA urges the Commission to adopt the Settlement. The 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: October 19, 2010
134933

ATTACHMENT 2

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

STATEMENT OF WEST PENN POWER COMPANY D/B/A ALLEGHENY POWER IN SUPPORT OF SETTLEMENT

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

I. *Introduction*

West Penn Power Company d/b/a Allegheny Power ("Allegheny Power" or the "Company") and the Pennsylvania Office of Consumer Advocate ("OCA" and, together with the Company, the "Joint Petitioners"), have joined in a 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.[1] 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

[1] The Settlement is not unanimous. Therefore, the Commission may receive Answers to the Joint Petition for Settlement. Allegheny Power requests that an expedited Answer period for responses to the Joint Petition for Settlement be adopted by the Commission and promptly communicated to the parties. In the event that the Commission decides to conduct a hearing on the Settlement, Allegheny Power also requests that the hearing and any associated procedural steps be expedited as well to assist with timely disposition of this proceeding.

the Revised SMIP in June 2012, with the benefit of additional analysis and planning performed during the grace period. This new schedule, which is more consistent with the deployment plans proposed by the other Pennsylvania electric distribution companies ("EDCs"), 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 potential for cost savings associated with back office and smart meter implementation in light of the proposed merger between Allegheny Power's parent company, Allegheny Energy, Inc., and FirstEnergy Corp (the "merger").

The Settlement sets out a five Phase SMIP 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 provides for an initial deployment of approximately 25,000 smart meters by mid-2012, as well as the installation of an additional 15,000 smart meters between 2013 and 2015, and an additional 50,000 smart meters by 2016.

The Settlement resolves the 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.[2] The Settlement also resolves issues with respect to the depreciable lives of smart meter technology and return on equity.

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[2] The Company also may seek recovery of these expenses in a future base distribution rate case.

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.

The Settlement is not unanimous, but it greatly reduces the issues on which Exceptions would have been filed if settlement had not been pursued and drastically reduces the SMIP related issues of disagreement among the parties. OCA, the party that most intensely litigated this proceeding, supports this Settlement and with good reason. The core principles of the Company's litigation position and OCA's litigation position are still intact, and the Settlement has been reached through reasonable accommodation of competing interests. Allegheny Power submits the following Statement in Support of the Settlement.

II. Background

On May 6, 2010, Administrative Law Judge Mark M. Hoyer issued an Initial Decision (the "ID") in this proceeding. In response to the Company's request to stay the Exception process, 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 the ID, to permit the Commission to consider, during a June 2010 public meeting, the Company's Petition and the Answer in opposition thereto filed by the Office of Small Business Advocate ("OSBA"). In an Order entered July 21, 2010, the Commission granted a Stay of the

Exceptions period for ninety (90) days so that the parties could pursue settlement discussions.

During this 90 day period, the Company has diligently worked toward achieving a settlement of this SMIP docket with the parties and has achieved a full settlement with OCA. The Company respectfully requests that the Commission approve the proposed Settlement because of the significant benefits that the Settlement provides as an alternative to the ID.

III. 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 surcharge for residential customers will be $0.00096 per kilowatt-hour (which is $0.96 per month for an average residential customer using 1,000 kilowatt-hours). The initial monthly SMIP surcharge for small commercial customers will be $1.02, and the initial monthly SMIP surcharge for large commercial and industrial customers will be $1.22. These charges reflect an over than 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 forego in the event that its parent company completes the proposed Merger. The Company believes that the resulting cost savings would benefit all customers in the near term.

In the litigation of this proceeding, OCA, OSBA and The Pennsylvania Department of Environmental Protection ("DEP") all opposed approval of the Company's SMIP alternatives based on, they argued, the relatively high initial surcharges associated with those alternatives. The Settlement eliminates that issue because it does not seek approval of the SMIP's total cost at this time, but only the costs relating to Phases 1 through 4 of the SMIP. These Phases are described in Appendix A of the Joint Petition for Settlement. The great majority of Phase 1 and 2 costs have already been incurred and are deemed reasonable and prudent under the settlement. These costs were necessary to position the Company to deploy smart meters and were subject to litigation in this proceeding where no party presented any evidence that these costs were not reasonable or prudent.[3] Under the Settlement specifically identified disputed costs in the amount of $5.1 million are subject to disposition in future proceedings. Phase 3 and 4 costs are still reviewable for prudency and reasonableness in the annual reconciliation proceedings that will be filed to update the SMIP surcharge.

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

[3] Certain parties argued that the Company's costs were high relative to other EDC's, but no evidence was presented showing that Allegheny Power's costs could have been lower given the requirements of Act 129.

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

The Settlement proposes that non-capital cost items from Phases 1 through 4 be amortized and the surcharge for such items be levelized over a fixed collection period of 7 and 10 years. The Company's agreement to amortize and levelize these costs requires the collection of interest at the statutory rate. The Commission has discretion to allow such interest charges, given the size the amortizations. Moreover, Act 129 provides support for the allowance of interest on the amortizations. If the costs are recovered through base rates, the Act makes allowance for a deferral of the costs with carrying charges, i.e. interest. If recovery occurs through the smart meter surcharge, as provided by the Settlement, the recovery is to be "full" and current. To accomplish the levelization of the rate, a delay in cost recovery is required. Allowance of interest for that delay provides the Company with the full recovery of costs contemplated by the Act. In addition, due to the need to recover capital costs, Allowance for Funds Used During Construction ("AFUDC") will accrue during the period between the Company's incurrence of the capital costs and the capital in-service date. Allowance of AFUDC is consistent with Act 129's mandate that electric utilities recover smart meter costs on a "full and current" basis through a reconcilable automatic adjustment clause.

Amended EE&C/DR Plan Concerns - The Company expects that there will be opposition to the proposed Settlement, but the Commission should note that the foregoing major accomplishments of the Settlement are not the main subject of the opposition.

The Company anticipates that parties will object to approval of the proposed Settlement on the basis that its slower deployment of smart meters requires revision of the Company's current approved EE&C/DR Plan. Those revisions are necessary because nine of the currently-approved Allegheny Power EE&C/DR programs assume the *widespread availability of smart meters. The Company notes that, in the original* approval of the Company's EE&C/DR Plan, the Commission requested and urged the Company to develop an EE&C/DR Plan less reliant on the rapid deployment of smart meters. The Amended EE&C/DR Plan filed by Allegheny Power on September 10, 2010 at Docket No. M-2009-2093218 (the "Amended EE&C/DR Plan") relies significantly less on smart meters and reflects proposed changes to the EE&C/DR programs that synchronize the programs to the level of smart meters available under the terms of this Settlement.

Specifically, the Company anticipates that parties will object to the Settlement because of perceived "cost shifting" that those parties argue will result from the related changes to the Company's EE&C/DR Plan necessitated by the proposed decelerated meter deployment schedule. The current EE&C/DR Plan assumed large numbers of residential customer smart meters would be deployed by mid-2012 to enable a portfolio of residential smart meter related EE&C/DR programs and, therefore, more of the costs associated with the Company's smart meter related EE&C/DR programs would be borne by residential customers. In the Amended EE&C/DR Plan, the Company is proposing a new mix of programs available to customers. Under the Amended EE&C/DR Plan, equilibrium in the availability of programs is restored; simply, expanded programs and additional measures are directed toward C&I customers, *as compared to the current approved EE&C/DR Plan*. Appropriately, to the extent that expanded programs under the Amended EE&C/DR Plan are targeted to provide C&I customers with increased opportunities for energy savings, C&I customers will be assessed the associated costs, in the same manner in which residential customers must bear the cost of programs that are intended to accrue to the benefit of residential customers. This is not "cost shifting" that discriminates unfairly against C&I customers. C&I customers will not pay for programs that benefit other classes, but only for the programs from which they might in fact derive benefit. The Amended EE&C/DR Plan that is consistent with this Settlement matches programs, their benefits and the costs of those programs to the customers who enjoy the availability of those programs.

The Settlement should not be rejected on the basis of its potential impact on the Company's EE&C/DR Plan for at least four reasons. First, recent experience with EE&C/DR programs indicates that several programs for C&I customers are exceeding expectations for customer interest or have the opportunity to be expanded to incorporate additional measures and, therefore, provide greater opportunity for achieving additional energy/demand reduction results. Accordingly, regardless of the outcome of the SMIP proceeding and the pace of the Company's smart meter deployment, the Company would be proposing to make expanded EE&C/DR Programs available to C&I customers, and the costs associated with those programs would be attributable to C&I customers.

Second, a change in the focus of EE&C/DR program availability to C&I customers is not an unfair "shifting" of costs to those customers, but a restoration of balance between residential and C&I focused programs compared to the current plan, as discussed above.

Third, as illustrated by Attachment 1, the proportion of the EE&C/DR Plan budget that is allocated to C&I customers under the Company's Amended EE&C/DR Plan compares very favorable to those customers' proportionate shares of the budgets associated with EE&C/DR plans proposed by other EDCs that have been approved by the Commission. In fact, Attachment 1 demonstrates that three other EDC's EE&C/DR Plan have a higher allocation of its total budget to non-residential customers than Allegheny Power's proposed Amended EE&C/DR Plan. For these reasons, the Company contests any suggestion that C&I customers would receive an "unfair" allocation of costs under its Amended EE&C/DR Plan.

Fourth and most importantly, this is the SMIP proceeding and not an EE&C/DR Plan proceeding. The outcome of the Company's Amended EE&C/DR Plan is undetermined at this point, and assumptions as to what share of total Act 129 budget costs will be allocated to a particular customer class is premature and not part of this proceeding. The reality is that, with fewer smart meters being deployed under the Settlement, the current EE&C/DR Plan, which assumes a more rapid initial deployment of smart meters, must change for Allegheny Power to meet its Act 129 goals. How it is changed, what programs are adopted and the costs of those programs are to be decided in the EE&C/DR proceeding. The Commission in its June 24, 2010 Secretarial letter has already established a process for reviewing those filings and deciding any contested issues. The Company emphasizes that process should be a timely one to restore to Allegheny Power the ability to meet its Act 129 reduction goals. However, that proceeding, and not this SMIP proceeding, is the appropriate forum for arguments about customers' relative shares of EE&C/DR Program costs.

On balance, the concrete and substantial benefit of the significantly lower initial SMIP surcharge that arises from this Settlement, and the opportunity in the Settlement to design a lower cost Revised SMIP, vastly outweigh the proposed higher costs to C&I customers from the Amended EE&C/DR proceeding. Accordingly, the Commission should reject any allegations of unfair EE&C/DR Plan "cost shifting" due to the Settlement.

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. The OCA's litigated position in this case proposed that the Company delay the major smart meter rollout until further study and design work was completed, utilizing the grace period for this purpose. OCA envisioned a SMIP being submitted after the grace period work was completed for further Commission review. Those elements are now part of the Settlement and are fully supported in the evidentiary record.

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, which approximated $580 million.[4] The record supports a much larger initial surcharge than the Settlement proposes.

In addition, the Settlement terms are consistent with the provisions of Act 129. No element of the proposed Settlement is unlawful.

IV. 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, Allegheny Power respectfully requests that the Commission approve the Settlement reached by the Parties.

Dated: October , 2010

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[4] ID at p. 16, Finding of Fact No. 71.

ATTACHMENT 1

PA Act 129 Utility Program Budget Comparison

Customer Sector	Allegheny Power[1]		Allegheny Power[2]		First Energy[3, 4, 5]		Duquesne Light[6]		PECO[7]		PPL[8]	
	Total Budget	% of Total	Total Budget	% of Total	Total Budget	% of Total	Total Budget	% of Total	Total Budget	% of Total	Total Budget	% of Total
Reidential (Including Low-Income)	$53,890,644	57%	$46,347,284	49%	$125,533,478	65%	$25,735,926	33%	$152,927,888	45%	$132,382,453	30%
Non-Residential Total	$40,345,872	43%	$47,902,708	51%	$68,970,434	35%	$52,447,880	67%	$188,652,737	55%	$314,768,410	70%
Program Total	$94,236,516	100%	$94,249,992	100%	$194,503,912	100%	$78,183,806	100%	$341,580,625	100%	$447,150,863	100%

Notes

1. Allegheny Power's April 29, 2010 Act 129 EE&C/DR Plan Filing (Table 6C, p. 258)
2. Allegheny Power's September 10, 2010 Act 129 EE&C/DR Plan Filing (Table 6C, p. 255)
3. Met Ed's December 2, 2009 Act 129 EE&C/DR Plan Filing (Table 6C, Appendix G, p. 10).
4. Penelec's December 2, 2009 Act 129 EE&C/DR Plan Filing (Table 6C, Appendix G, p. 10).
5. Penn Power's December 2, 2009 Act 129 EE&C/DR Plan Filing (Table 6C, Appendix G, p. 10).
6. Duquesne Light's September 15, 2010 Act 129 EE&C/DR Plan Filing (Table 6C, p. 169)
7. PECO's July 1, 2009 Act 129 EE&C/DR Plan Filing (Table 6C, Appendices A-E). Includes common costs not assigned to specific customer classes.
8. PPL's July 31, 2009 Act 129 EE&C/DR Plan Filing (Table 6C, p. 207)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Roger J. Heasley, hereby state that the facts set forth above are true and correct to the best of my knowledge, information, and belief and that I expect Allegheny Power to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904.

10/18/2010
Date

Roger Heasley

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	:	
And Installation Plan	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing documents in accordance with the requirements of 52 Pa. Code § 1.54 et seq. (relating to service by a participant).

<u>VIA FIRST CLASS AND ELECTRONIC MAIL</u>

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