**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held June 5, 2014

Commissioners Present:

Robert F. Powelson, Chairman

John F. Coleman, Jr., Vice Chairman

James H. Cawley

Pamela A. Witmer

Gladys M. Brown

Joint Petition of Metropolitan Edison

Company, Pennsylvania Electric Company, M-2013-2341990

Pennsylvania Power Company and West Penn M-2013-2341991

Power Company For Approval of Their M-2013-2341993

Smart Meter Deployment Plan M-2013-2341994

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the Revised Smart Meter Deployment Plan (Revised Deployment Plan) of Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power) and West Penn Power Company (West Penn) (collectively, the Companies or FirstEnergy) filed on March 19, 2014, pursuant to the Commission’s March 6, 2014, Opinion and Order (March 6 Order). In accordance with the Commission’s Secretarial letter issued on April 16, 2014, Administrative Law Judge (ALJ) Elizabeth H. Barnes certified the record in this proceeding on May 15, 2014. For the reasons stated below, we shall approve the Revised Deployment Plan proposed by FirstEnergy consistent with this Opinion and Order.

**I. Background**

On October 15, 2008, Act 129 was signed into law and was codified as part of the Public Utility Code (Code), 66 Pa. C.S. § 2806.1, *et seq*. Act 129 became effective on November 14, 2008, and required Electric Distribution Companies (EDCs) with at least 100,000 customers to present a Smart Meter Technology Procurement and Installation Plan (SMP Plan) to the Commission for approval. 66 Pa. C.S. § 2807(f). Specifically, Section 2807(f)(2) directed EDCs to furnish smart meter technology as follows: 1) upon request from a customer that agrees to pay the cost of the smart meter at the time of the request; 2) in new building construction; and 3) in accordance with a depreciation schedule not to exceed fifteen years. 66 Pa. C.S. § 2807(f)(2).

The Commission issued an Order on June 24, 2009, to establish standards and provide guidance for implementing the requirements of Act 129.[[1]](#footnote-1) Pursuant to Section 2807(f) of the Code, 66 Pa. C.S. § 2807(f), Met-Ed, Penelec and Penn Power (collectively, the FirstEnergy Companies) filed their Joint Petition for Approval of Smart Meter Technology Procurement and Installation Plan (2009 SMP) on August 14, 2009. By Order entered on June 9, 2010, the Commission approved the 2009 SMP of the FirstEnergy Companies with modifications. The Commission noted that these Companies expected to file their full Deployment Plan by April 2012.[[2]](#footnote-2)

Also on August 14, 2009, West Penn filed a Smart Meter Implementation Plan (WPP SMP) separately from the three FirstEnergy Companies. During the Commission’s review of the WPP SMP, Met-Ed’s, Penelec’s and Penn Power’s ultimate corporate parent, FirstEnergy Corp., and West Penn’s corporate parent, Allegheny Energy, Inc., announced their intent to merge. As a result, the WPP SMP filing was reassessed. On June 30, 2011, the Commission approved a Joint Petition for Settlement of All Issues (WPP Settlement) regarding the WPP SMP. *Petition of West Penn Power Company for Expedited Approval of its Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123951 (Order entered March 9, 2011).[[3]](#footnote-3) In the WPP Settlement, West Penn agreed to file its full Deployment Plan as part of its revised WPP SMP with the Commission by June 2012.

**II. History of the Proceeding**

On May 25, 2012, the Companies requested an extension for the filing of their Smart Meter Deployment Plan to the end of 2012, in order to evaluate new smart meter technologies. The Commission granted that request by Secretarial Letter dated June 28, 2012.

On December 31, 2012, the Companies filed a Joint Petition for approval of their Smart Meter Deployment Plan (Deployment Plan), in which they requested that the Commission: (1) find that their proposed Deployment Plan satisfies the requirements of Act 129 and the Commission’s *Implementation Order*; (2) approve the Companies’ proposed procurement and deployment of approximately 2.1 million smart meters, over 98% of which should be installed by the end of 2019; (3) authorize the Companies to continue to recover smart meter costs through their previously approved Smart Meter Technologies Charge (SMT‑C) Riders, including $5.1 million of costs incurred by West Penn in anticipation of the installation of smart meters; and (4) authorize the Companies to create a regulatory asset for their investment in their existing meters (Legacy Meters) to be replaced by smart meters.

On February 7, 2013, Petitions to Intervene were filed by Direct Energy Services, LLC (Direct) and collectively on behalf of the Met-Ed Industrial Users Group, the Penelec Industrial Customer Alliance, the Penn Power Users Group, and the West Penn Power Industrial Intervenors (collectively, the Industrial Customer Groups). The following day, the Office of Consumer Advocate (OCA) submitted Comments and an Answer to the Joint Petition. On February 14, 2013, the Office of Small Business Advocate (OSBA) filed a Notice of Intervention.

An evidentiary hearing was held in Harrisburg on May 8, 2013, at which time the Companies’ witnesses were presented for oral rejoinder and cross examination and the OCA witness was presented and cross-examined. Also, the Companies and Direct submitted a document entitled “Joint Stipulation of Position,” that was admitted as Direct Energy Hearing Exhibit 1, and was intended to resolve certain notification issues raised by Direct. Finally, and by agreement of the Parties, the record was held open to allow the Companies to submit copies of a table that originally appeared in the OCA’s surrebuttal testimony, but was later removed and replaced by the OCA at the May 8, 2013 hearing (Joint Petitioners’ Cross Examination Exhibit 2). This late exhibit was filed on May 13, 2013. Main Briefs were filed on May 24, 2013, by the Companies and the OCA and Reply Briefs were filed on June 3, 2013, by the same Parties. The record was closed on June 3, 2013.

By Recommended Decision issued on November 8, 2013, ALJ Barnes recommended that the Companies’ Petition be adopted as modified and directed the Companies to file an amended Plan within 120 days of the Commission’s Order.

Exceptions to the Recommended Decision were filed by the Companies and the OCA on December 2, 2013. Replies to Exceptions were filed by the Companies and the OCA on December 12, 2013.

In our *March 6 Order*, we adopted the Recommended Decision of ALJ Barnes, with modifications. In response to a request by FirstEnergy to accelerate the smart meter deployment schedule in the Penn Power system we directed that:

…if the Companies feel strongly about implementing this accelerated Penn Power deployment schedule, then they should promptly submit an amended Plan, with proper supporting documentation, with the Commission to properly provide the opportunity for all affected Parties, as well as this Commission, to fully evaluate and comprehend this proposal. If the Companies decide to pursue an accelerated deployment, they must file an amended Plan within thirty days of the entry of this Opinion and Order, stating their case more fully and in more detail. 52 Pa. Code § 5.93(a). Thereafter, the Commission will schedule an expedited procedural schedule so that the amended Plan could be decided within ninety days of the entry of the instant Opinion and Order.

*March 6 Order* at 43.

Subsequently, on March 19, 2014, the Companies submitted their Revised Deployment Plan, which was filed to serve both as a compliance filing with respect to the *March 6 Order* and as explanation and support for the modification of the Original Deployment Plan filed on December 31, 2012. On March 31, 2014, the OCA filed Exceptions in response to the Revised Deployment Plan filing pursuant to 52 Pa. Code § 5.592. The Companies filed a response to the OCA’s Exceptions on April 7, 2014.

On April 16, 2014, the Commission issued a Secretarial Letter wherein the Companies’ Revised Deployment Plan was referred to the Office of Administrative Law Judge for the development of an evidentiary record on an expedited basis in order to permit consideration of this matter at the Public Meeting of June 5, 2014. The Secretarial Letter further directed the presiding officer to establish a procedural schedule that enabled the preparation of an order certifying the record to the Commission on or before May 15, 2014. Additionally, the Secretarial Letter directed the Bureau of Technical Utility Services to review and prepare a public meeting recommendation on the limited scope of compliance with the *March 6 Order*, but not the Revised Deployment Plan. We also considered compliance with the *March 6 Order* during our June 5, 2014, Public Meeting.

As a result, an evidentiary hearing was held on May 7, 2014, at which time the Companies’ witnesses were presented for cross examination and the OCA witness was presented and cross-examined. A transcript of this evidentiary hearing was filed on May 8, 2012, consisting of pages 144 through 226.

Main Briefs were filed on May 14, 2012, by FirstEnergy, the Industrial Customer Groups and the OCA.

On May 15, 2014, ALJ Barnes issued an Order Certifying Record to the Commission identifying the documents that comprise the evidentiary record in this proceeding.

# III. Discussion

## A. Legal Standards

In this proceeding the Companies seek approval of their plan to accelerate the deployment of smart meters and, as such, have the burden of proving that the Petition complies with the applicable legal requirements. Act 129 allows an EDC to recover all reasonable and prudent costs of providing smart meter technology. However, an EDC must provide sufficient support to demonstrate that all such costs are reasonable and prudent with respect to its smart meter plan. *Implementation Order* at 29. In the *Implementation Order*, we concluded that consistent with Section 315(a) of the Code, 66 Pa. C.S. § 315(a), the burden of proof shall be on the EDC. *Id.* Section 315(a) provides, in relevant part:

Reasonableness of rates.—In any proceeding upon the motion of the [C]ommission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

*Id.* It is well established that the evidence necessary to meet this burden must be substantial. *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

Before addressing the Issues, we note that any issue or discussion that we do not specifically delineate shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. [Consolidated Rail Corp. v. Pa. PUC, 625 A.2d 741 (Pa. Cmwlth. 1993);](file://C:\research\buttonTFLink?_m=69761b6202cb4178e2a6e6fe02f5751b&_xfercite=%3ccite%20cc=%22USA%22%3e%3c!%5bCDATA%5b2000%20Pa.%20PUC%20LEXIS%2067%20%5d%5d%3e%3c\cite%3e&_butType=3&_butStat=242&_butNum=5&_butInline=1&_butinfo=%3ccite%20cc=%22USA%22%3e%3c!%5bCDATA%5b625%20A.2d%20741%5d%5d%3e%3c\cite%3e&_fmtstr=FULL&docnum=5&_startdoc=1&_startchk=1&wchp=dGLSzS-lSlbz&_md5=ad2b02d95c2a9216e83b92a3570d4785) *also* see, generally, [University of Pennsylvania v. Pa. PUC, 485 A.2d 1217 (Pa. Cmwlth. 1984).](file://C:\research\buttonTFLink?_m=69761b6202cb4178e2a6e6fe02f5751b&_xfercite=%3ccite%20cc=%22USA%22%3e%3c!%5bCDATA%5b2000%20Pa.%20PUC%20LEXIS%2067%20%5d%5d%3e%3c\cite%3e&_butType=3&_butStat=242&_butNum=6&_butInline=1&_butinfo=%3ccite%20cc=%22USA%22%3e%3c!%5bCDATA%5b485%20A.2d%201217%5d%5d%3e%3c\cite%3e&_fmtstr=FULL&docnum=5&_startdoc=1&_startchk=1&wchp=dGLSzS-lSlbz&_md5=9b1cc8319afd12440738bb82d74455ef)

**B. Revised Smart Meter Deployment Plan**

**1. Positions of the Parties**

**a. FirstEnergy**

Originally, FirstEnergy proposed a smart meter deployment schedule that contemplated the deployment of 98.5 percent of all smart meters by the end of 2019. This original deployment schedule contemplated a three-year Solution Validation Stage wherein the Companies would first create a test lab in Penn Power’s service territory by installing 60,000 meters before the end of 2016. FirstEnergy M.B. at 4.

According to FirstEnergy, during the period between the submission of briefs in June 2013, and the issuance of the ALJ’s Recommended Decision in November 2013, it determined that it could prudently accelerate the smart meter deployment schedule. FirstEnergy states that the Revised Deployment Plan is based upon the most current available information and sets forth a plan that will accelerate the installation of smart meters, with all of Penn Power’s 170,000 customers receiving smart meters by the end of 2015 and approximately 98.5 percent of all Pennsylvania FirstEnergy customers receiving smart meters no later than mid-2019. Therefore, deployment of 98.5 percent of all smart meters would be completed six months earlier under the Revised Deployment Plan as compared to the Original Deployment Plan. *Id.* at 4-5.

FirstEnergy explains that the total estimated nominal cost of the Revised Deployment Plan is the same as that included in the Original Deployment Plan, which includes the installation of 110,000 additional meters in Penn Power’s service territory by the end of 2015, the completion of much of the smart meter and information technology (IT) infrastructure needed throughout the FirstEnergy Pennsylvania footprint during the shortened Solution Validation Period, and the acceleration of the commencement of the Full-Scale Deployment Phase by one year. However, the Companies will spend approximately $47 million more in capital during the period 2014 through 2019, with a significant portion of this amount occurring in the first three years of deployment and corresponding decreases occurring in later years.[[4]](#footnote-4) As a result of accelerating this spend, FirstEnergy notes that there will be cost shifts among the years, thus impacting both the overall net present value (NPV) of the Revised Deployment Plan and the surcharges to be imposed under Rider SMT-C.[[5]](#footnote-5) According to FirstEnergy, these cost shifts, along with the estimated increase in realized operational cost savings of $12 million were reflected in the modeling of the Revised Deployment Plan. *Id.* at 6-7.

After reflecting the acceleration in spending and the anticipated acceleration of savings in the four cost savings categories identified by the Companies in the Original Deployment Plan, FirstEnergy asserts that the Revised Deployment Plan has a NPV that is $48.1 million more than the Original Deployment Plan when the Companies’ Weighted Average Cost of Capital (WACC) is used as the discount rate and no other potential savings are taken into account.[[6]](#footnote-6) However, the Companies explain that the Revised Deployment Plan is $8 million less than the Original Deployment Plan on an NPV basis when the customers’ discount rate of 0.37 percent, which represents the average return an individual could earn on a one-year certificate of deposit (CD), is used.[[7]](#footnote-7) Finally, the Companies note that by using a customer discount rate of 2.67 percent, which reflects the current yield on a ten-year U.S. Treasury note, the NPV of the cost of the Revised Deployment Plan is only $13 million more than the NPV of the Original Deployment Plan.[[8]](#footnote-8) However, FirstEnergy asserts thatthis relatively minor cost differential is completely eliminated if the estimated savings from only one of the many potential benefits categories – the estimated savings from time of use rates offered by Electric Generation Suppliers (EGSs) – is factored into the analysis. FirstEnergy asserts that if this potential savings is factored into the analysis, the NPV of the Revised Deployment Plan is $630,000 less if the 2.67 percent interest rate is used as the discount factor, and $23 million less if the interest rate on the one year CD is used. *Id.* at 7-9.

FirstEnergy explains that the disparity between itself and the OCA regarding the Revised Deployment Plan is their differing views on the discount factor that should be assumed when assessing the two plans on a NPV basis. FirstEnergy asserts that the Revised Deployment Plan can be adopted at little or no additional cost to the customer, assuming the use of a reasonable discount factor that reflects the customer’s opportunity cost for the money it otherwise would not spend during the first several years of the deployment schedule. FirstEnergy asserts that the OCA did not perform an independent NPV comparison of the two plans as it adopted all of the Company’s assumptions except for one, the discount rate. FirstEnergy criticized the OCA’s election to use a nine percent discount factor which was not income tax adjusted, was supposed to be used to assess federal government projects, and reflected a rate for the private sector. According to FirstEnergy, the nine percent discount rate simply does not reflect a residential customer’s opportunity cost of the extra amount per month that the customer would pay during the first several years of deployment if the Revised Deployment Plan is implemented. *Id.* at 9-10.

**b. Office of Consumer Advocate**

The OCA contends that FirstEnergy’s proposal to accelerate smart meter deployment will increase the costs of smart meters, as well as the associated rates to ratepayers, for a modest advancement in the actual deployment of smart meters. According to the OCA, the Companies have failed to show that the Revised Deployment Plan is reasonable or that it will provide benefits that justify its increased costs and rates. The OCA argues that the Companies’ position, that the Revised Deployment Plan on a NPV basis will be less costly to ratepayers, is based on a fundamentally flawed analysis that uses a discount rate unsupported by economic theory or experience in other jurisdictions. The OCA opines that when an economically justified discount rate is used to analyze the Revised Deployment Plan, the result illustrates that the NPV costs, as well as the rates to ratepayers over the life of the plan, are significantly higher than under the Original Deployment Plan. OCA M.B. at 7.

The OCA submits that while the total amount of expenditures in nominal terms of the two plans may be the same, this comparison of nominal dollars does not measure the impact of the significant acceleration of capital investments under the Revised Deployment Plan relative to the Original Deployment Plan. The OCA states that to measure the impact on both ratepayers and shareholders, a NPV analysis must be conducted as this analysis accounts for the time value of money. While the Companies and the OCA agree as to the need for the NPV analysis, the OCA avers that it does not agree on the discount rate to be applied. According to the OCA, when the NPV analysis is conducted using the Companies’ WACC, the Revised Deployment Plan would increase costs by $48.1 Million over the Original Deployment Plan. Furthermore, the OCA asserts that, while the costs to customers will increase on a NPV basis under the Companies’ analysis, it is important to note that shareholders will have higher NPV earnings under the Revised Deployment Plan due to the $47 million increase in capital investment though the year 2019. *Id.* at 11-12.

Next, the OCA contends that the Companies’ use of a 0.37 percent discount rate, which is based on the rate of a one-year CD, is improper for two reasons. First, the OCA claims that this rate is without foundation as the Companies admitted that they performed no analysis or customer surveys to arrive at this rate. Second, the OCA states that the Companies ignored the impact of the Revised Plan on ratepayers through 2019, when most of the accelerated spending and cost recovery will occur. According to the OCA, even if the 0.37 percent discount rate is used, the NPV cost to ratepayers through 2019 is 6.6 percent higher under the Revised Deployment Plan than under the Original Deployment Plan. *Id.* at 13-14.

The OCA then notes that the Companies, in Supplemental Rebuttal Testimony, recognized the issues with using the 0.37 percent discount rate and proposed using a 2.67 percent discount rate, which was based on the interest rate for the current ten-year U.S. Treasury note. While the OCA states that it does not agree with the use of the 2.67 percent discount rate, ratepayers would experience a significantly higher ($13 million) overall NPV cost for the Revised Deployment Plan based on this rate. As a result, the OCA opines that the Companies’ analyses of the revised Deployment Plan do not support their position that ratepayers will be better off under the Revised Deployment Plan. According to the OCA, the Companies’ analyses demonstrate that on a NPV basis, the Revised Deployment Plan will increase costs to ratepayers in both the short term and the long term. *Id.* at 14-15.

The OCA avers that based on its analysis of the Company’s Revised Deployment Plan, it is proper to use the Companies’ model and a discount rate of nine percent. The OCA maintains that a nine percent discount rate is consistent with the weighted average cost of capital of between 8.17 to 11.29 percent that the Companies used to prepare NPV analyses from their perspective. Further, the OCA asserts that the nine percent discount rate is within the range of discount rates used to analyze smart meter deployment plans across the country. The OCA referred to its Cross-Examination Exhibit 2, which provided the assumptions used in the discount rate calculations for the smart grid project cost-benefit analysis for eight other companies, including West Penn’s original smart meter deployment plan at Docket No. M-2009-2123951, prior to its merger with the FirstEnergy Companies. The discount rates from the referenced OCA exhibit range from 6.69 per cent to 8.954 per cent.

The OCA submits that the discount rates used for these other companies show the reasonableness of its use of a nine percent discount rate. According to the OCA, when a nine percent discount rate is used, the NPV cost of the Revised Deployment Plan is twelve percent higher through 2019 than the Original Deployment Plan, and the NPV net cost of the Revised Deployment Plan through 2032 is 7.6 percent higher. *Id.* at 16-18.

Lastly, the OCA states that the NPV analyses conducted in this proceeding quantifies the future costs and benefits of the Revised Deployment Plan and that these costs and benefits are inputs into the revenue requirements that are the basis of the rates charged to customers. The OCA notes that on a NPV basis, ratepayers would pay eighteen percent more in revenue requirements from 2013 to 2032 and forty-six percent more in revenue requirements from 2013 to 2019, while the Companies’ shareholders will have higher NPV aggregate earnings under the Revised Deployment Plan. The OCA opines that the increased rates charged to ratepayers through the SMT-C riders for the rather minor level of accelerated smart meter deployment proposed by the Companies are not reasonable. The OCA points out that for residential customers, SMT-C rates will be higher by amounts ranging from $0.95 per month to $3.39 per month. However, according to the OCA, the Revised Deployment Plan will only accelerate the deployment of smart meters to all customers by six months to the middle of 2019 as compared to the end of 2019 under the Original Deployment Plan. As a result, the OCA’s position is that the Commission should reject the Companies’ Revised Deployment Plan and direct the Companies to proceed with the Original Deployment Plan as already approved by the Commission in the *March 6 Order. Id.* at 18-24.

**c. Industrial Customer Groups**

The Industrial Customer Groups state that the Companies’ Revised Deployment Plan is just and reasonable, and as such should be approved by the Commission. The Industrial Customer Groups allege that the Revised Deployment Plan advances the goals of Act 129 by ensuring that customers will be charged based on their individual meter data at an earlier time than under the Companies’ Original Deployment Plan. Additionally, the Industrial Customer Groups aver that an expedited deployment of smart meters will reduce the use of estimated meter data, which will, in turn, reduce a number of customer charges such as unaccounted-for-energy costs. The Industrial Customer Groups note that customers may reduce their costs further by altering their usage behavior after the expedited deployment of smart meters. According to the Industrial Customer Groups, as the Revised Deployment Plan is an improvement to the Companies’ Original Deployment Plan, they recommend its adoption. Industrial Customer Groups M.B. at 3-6.

**2. Disposition**

Based upon our review of the evidence of record, we conclude that FirstEnergy has met its burden of proof to establish that its Revised Deployment Plan is reasonable and in the best interest of its customers. While the Parties provided disparate positions on the appropriate NPV analysis, we note that the use of a higher discount rate based on corporate costs of capital results in a higher cost for the Plan, since the benefits of the plan are discounted more heavily. On the other hand, the use of a lower discount rate, based on money market or U.S. Treasury bond returns, results in a lower cost for the Plan, since the long term benefits of smart meters are discounted less. While well intentioned Parties can all agree to disagree about appropriate discount rates, what is clear in this case, as provided by the Companies, is that only a fraction of the benefits of this revised Plan have been captured in this analysis.

First, this analysis does not factor in other non-operating cost savings that customers may receive sooner through the Revised Deployment Plan. The non-operating cost savings benefits are those that may benefit customers, but may not necessarily reduce an electric distribution company’s operating costs. Examples of these types of potential sources of benefits are listed in an October 2013 report entitled “Smart Grid Economic and Environmental Benefits – A Review and Synthesis of Research on Smart Grid Benefits and Costs” (“Report”), prepared by the Smart Grid Consumer Collaborative (“SGCC”), which studied fifteen utilities’ smart meter/smart grid projects that were partially funded through the U.S. Smart Grid Investment Grant program funds. The Report lists as potential sources of non-operating cost savings the following: (1) Integrated Volt/Var Control; (2) Remote Meter Reading, which is incorporated into the Companies’ savings analysis; (3) Time Varying Rates; (4) Prepayment and Remote Disconnect; (5) Revenue Assurance; (6) Customer Energy Management; (7) Service Outage Management; (8) Fault Location and Isolation; and (9) Renewable Generation Integration.

Similarly, the Industrial Customer Groups identified other non-operating cost savings by averring that an expedited deployment of smart meters will reduce the use of estimated meter data, which will, in turn, reduce a number of customer charges such as unaccounted-for-energy costs. The Industrial Customer Groups note that customers may reduce their costs further by altering their usage behavior after the expedited deployment of smart meters. Indeed, these were some of the benefits we identified in approving the recent rulemaking Amending Regulations Regarding Standards for Changing a Customer’s Electricity Generation Supplier. *Rulemaking to Amend the Provisions of 52 Pa. Code, Chapter 57 Regulations Regarding Standards For Changing a Customer’s Electricity Generation Supplier*, Docket No. L-2014-2409383 (Order entered April 3, 2014).

Second, not all potential operating cost savings for the Companies were included in this analysis. The Companies only quantified four cost savings categories that they believed were measureable, verifiable and would allow the Companies to realize actual cash savings through the deployment of smart meters: (1) Meter Reading; (2) Meter Services; (3) Back Office; and (4) Contact Center. Each of these savings categories can be measured through metrics known today. Other categories were also analyzed for inclusion, but were ultimately not selected because they could not meet the parameters described, according to the Companies.

The OCA suggested in its testimony that the Companies should have looked for potential cost savings in other areas including: (1) revenue protection; (2) improved cash flow; (3) avoided capital costs; and (4) future purchases of traditional meters. Each of these areas was reviewed by the Companies. However, the Companies asserted that valid estimates of realizable savings in these areas cannot be made at this time. While there may be potential savings in these or other areas, given the Companies’ proposed meter deployment schedule, it may take years to determine if, in fact, the Companies will realize any savings in these areas and, if so, the amount of that savings. Until the meters are installed and data can be studied, it may be difficult to more accurately access these savings. That said, we find it compelling that, in addition to the savings clearly identified by the Companies in their plan, there is the potential for additional operating cost savings in a number of areas.

Third, this Commission has already observed the benefits of early deployment. We find that the use of Penn Power as a case study may help the Companies identify other more cost effective meter deployment strategies that can then be leveraged by FirstEnergy’s other operating companies. If deployment and operational savings prove very positive, FirstEnergy may also be in a position to further accelerate smart meter deployment, thus enabling an option to enhance customer savings even more.

And finally, it should also be noted that Act 129 uses the language “not to exceed 15 years.” An EDC is encouraged to expedite the deployment process if it will provide increased customer benefits in a cost-effective manner. Again, the primary goal of the EDC deployment plan should be to implement a deployment and installation schedule that best balances the overall efficiency and timeliness of the smart meter installations with the costs incurred. Given the clear advantages that accelerated smart meter deployment will provide to both the Companies and their customers, we shall approve FirstEnergy’s Plan as submitted.

Accordingly, we shall direct FirstEnergy to implement its Revised Deployment Plan and not pursue their Original Deployment Plan.

# IV. Conclusion

For the reasons set forth above, we shall approve the Revised Smart Meter Deployment Plan submitted by FirstEnergy, consistent with this Opinion and Order. FirstEnergy is directed to implement its Revised Deployment Plan, subject to any modifications contained in our companion Compliance Order adopted today at this docket; **THEREFORE,**

**IT IS ORDERED:**

1. That the Revised Smart Meter Deployment Plan submitted on March 19, 2014, by Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company is approved.

2. That Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company be required to fully investigate and track all sources of potential savings, including, but not limited to, theft reduction, revenue enhancement, avoided capital costs and distribution operations, and flow-through these savings to their customers in future SMT-C rider filings. 

3. That the Smart Meter Deployment Plan as proposed by the Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company for Approval of their Smart Meter Deployment Plan filed on December 31, 2012, in the above-captioned matter is adopted as modified by this Opinion and Order and as may be modified by the companion Compliance Order adopted June 5, 2014, at this docket.

 **BY THE COMMISSION,**

Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: June 5, 2014

ORDER ENTERED: June 25, 2014

1. *In Re: Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (Order entered June 24, 2009) *(Implementation Order).* [↑](#footnote-ref-1)
2. *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 (Order entered June 9, 2010). [↑](#footnote-ref-2)
3. The Commission adopted the Initial Decision of the ALJ and approved the WPP Settlement by Order entered June 30, 2011, at Docket No. M-2009-2123951. [↑](#footnote-ref-3)
4. Met-Ed/Penelec/Penn Power/West Penn Statement No. 4-S (Fitzpatrick Supp.) at 5-6, OCA Statement No. 1-S (Hornby Supp.) at 16; Exh. GLF-3SR; Exh. GLF-4SR. Comparing the two plans, $51 million more capital will be spent through the Revised Deployment Plan in 2014; $49 million more in 2015; $40 million more in 2016; $7 million less in 2017; $28 million less in 2018; and $60 million less in 2019. [↑](#footnote-ref-4)
5. Met-Ed/Penelec/Penn Power/West Penn Statement No. 4-S (Fitzpatrick Supp.) at 4. [↑](#footnote-ref-5)
6. Met-Ed/Penelec/Penn Power/West Penn Statement No. 4-S (Fitzpatrick Supp.) at 6, 8. [↑](#footnote-ref-6)
7. *Id*. at 6, 8 and 9. [↑](#footnote-ref-7)
8. Met-Ed/Penelec/Penn Power/West Penn Statement No. 4-SR (Fitzpatrick Supp. Reb.) at 5, 7. [↑](#footnote-ref-8)