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February 19, 2015

VIA FEDERAL EXPRESS

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v. Metropolitan Edison Company
Docket Nos. R-2014-2428745 and M-2013-2341990

Dear Secretary Chiavetta:

Enclosed for filing is the **Reply Brief on behalf of Metropolitan Edison Company ("Reply Brief")** in the above-referenced docket. In addition to the hard copy, enclosed we have provided a CD containing a PDF of the Reply Brief.

As evidenced by the enclosed Certificate of Service, copies of the Reply Brief are being served on all parties, the presiding officers and their technical advisors.

Very truly yours,

Anthony C. DeCusatis

Anthony C. DeCusatis

ACD/tp
Enclosures

c: Per Certificate of Service

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION **v.** **METROPOLITAN EDISON COMPANY**	**Docket Nos. R-2014-2428745** **M-2013-2341990**

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REPLY BRIEF OF METROPOLITAN EDISON COMPANY

Before Administrative Law Judges
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February 19, 2015

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I. INTRODUCTION

Metropolitan Edison Company ("Met-Ed" or the "Company") files this Reply Brief in response to the Main Brief of Citizens for Pennsylvania's Future ("PennFuture") concerning the scope and pricing of Met-Ed's proposed new light emitting diode ("LED") street lighting service offering. The Company's LED service offering is the sole contested issue in this proceeding. All other issues have been resolved among the parties to this case by the terms of the settlement set forth in the Joint Petition for Partial Settlement of Rate Investigation ("Joint Petition") filed on February 3, 2015.[1]

PennFuture is the only party contesting the Company's proposed LED service offering. Additionally, no potential customers, specifically municipalities, intervened in this case to challenge the Company's LED service offering, nor did they voice any informal opposition to the Company's proposal. To a very large extent, the arguments advanced by PennFuture were fully addressed in the Company's Main Brief, and an extensive reanalysis is, therefore, not necessary.[2] Accordingly, this Reply Brief will address the principle errors and misstatements in PennFuture's Main Brief with references to the expanded discussion in the appropriate portions of the Company's Main Brief.

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1 The following parties joined in the Settlement: the Company, the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Bureau of Investigation and Enforcement ("I&E"), the Met-Ed Industrial Users Group ("MEIUG"), the Environmental Defense Fund ("EDF"), Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, "Walmart"), and the International Brotherhood of Electrical Workers Local 777 ("IBEW"). The Pennsylvania Rural Electric Association and the Allegheny Electric Cooperative (collectively, "PREA/AEC") and Noble Americas Energy Solutions LLC ("Noble Americas") did not oppose the Settlement. The Pennsylvania State University ("PSU") and the Coalition for Affordable Utility Services and Energy Efficiency In Pennsylvania ("CAUSE-PA") did not sign the Joint Petition because they did not participate actively, through the submission of testimony or other evidence, in this proceeding. However, they both have submitted letters of non-opposition and support for the Settlement, which are appended to the Joint Petition, expressing their views that the Settlement is in the public interest. PennFuture did not join in the Settlement based upon the sole issue of PennFuture's disagreement with Met-Ed's proposed rate for LED lighting.

2 The Company notes that certain information provided in the "Background" section of the PennFuture Main Brief, such as the number of the Company's proposed tariff and the identity of certain intervenors, is incorrect. Both the Joint Petition and the Company's Main Brief provide accurate procedural histories.

II. SUMMARY OF ARGUMENT

Met-Ed's proposed LED street lighting offering will provide interested customers a new and meaningful opportunity to obtain LED street lighting service from Company-owned and maintained LED street lighting facilities. The Company's proposal is reasonable, supported by substantial record evidence, and conforms to the Pennsylvania Public Utility Commission's (the "Commission's") tariff and tariff filing requirements. PennFuture, while critical of certain elements of Met-Ed's proposal, did not provide any concrete recommendations that could be used to revise the rates, terms and conditions of service in the Company-proposed rate schedule, nor did it present for the Commission's consideration any alternative LED service offering. Instead, PennFuture makes the vague request that any service offering approved by the Commission "be consistent with market actualities." PennFuture Main Brief, p. 10. As a consequence, if the Commission were to give any credence to PennFuture's criticisms and decline to approve the Company's proposed service offering, customers would have no opportunity to obtain LED service through Company-owned facilities.

III. PENNFUTURE'S CRITICISMS OF THE COMPANY'S LED SERVICE PROPOSAL HAVE NO MERIT AND SHOULD BE REJECTED

As explained in the Company's Main Brief, the proposed LED street lighting offering was developed in response to existing street lighting customers' expressions of interest in exploring LED street lighting options. The Company proposes to recover the distribution cost of the new service through a fixed monthly charge for each LED fixture. In designing the monthly charge, the Company employed an innovative approach to "levelize" charges over the estimated life of the LED fixtures. Levelizing the fixture charges reduces the up-front rates for the initial, ten-year contract term and, in that way, creates price signals designed to increase customer acceptance of the new service. *See* Company Main Brief, pp. 5-6.

PennFuture criticized certain elements of the Company's proposal, namely: (1) the selection, cost, sizes and estimated useful life of LED fixtures (PennFuture Main Brief, pp. 5-6 and 8); (2) the non-fixture – principally, installation – costs (PennFuture Main Brief, p. 7); (3) the manner in which the Company's class cost of service study allocated costs to the street lighting class (PennFuture Main Brief, p. 7); and (4) as the culmination of all of the foregoing, the per-fixture distribution rate proposed by the Company (*see* PennFuture Main Brief, pp. 5-8). Notably, in advancing those contentions, PennFuture discussed and cited only the direct testimony of its witnesses, Patrick Gormley and George Woodbury. It made no attempt to engage or address – indeed it did not even acknowledge – the comprehensive response to Messrs. Gormley and Woodbury set forth in the rebuttal testimony of the Company's witnesses, Christopher D. Ciccone and Hillary E. Stewart (Met-Ed Statement Nos. 8-R and 5-R, respectively). As explained below and in the Company's Main Brief, the Company's fixture selection, cost estimates, and distribution rates are fully supported by record evidence and, therefore, its proposed LED service offering should be approved.

A. The Company's Selection Of LED Fixtures And Estimates Of Installation Costs Are Reasonable And Well Supported.

PennFuture asserts that the Company has selected LED fixtures that are not the least expensive equipment that can be found on the market, are not available in the sizes identified by the Company, and have a useful life longer than the fifteen-year estimate used to develop the Company's proposed rate. *See* PennFuture Main Brief, pp. 5-8. As explained below, each of PennFuture's contentions is either incorrect or is based on a flawed and erroneous analysis.

At the outset, the legal standard for addressing these issues must be repeated. Simply stated, a utility is entitled to exercise its reasonable judgment in choosing how it will meet its obligation to furnish safe, reliable and efficient service to its customers, including the selection of equipment used to provide that service. The extensive Commission and appellate authority establishing and repeatedly affirming that standard is discussed in the Company's Main Brief (p. 8). In this case, Met-Ed used a reasonable, prudent and totally transparent method to select LED fixtures. Specifically, the GE Evolve series lighting was selected based on the outcome of a rigorous competitive procurement process conducted in May-June of 2014. The Company's proposed fixture sizes are available as part of the GE Evolve series and were selected after carefully considering the input of potential customers and analyzing the LED offerings of Baltimore Gas & Electric, Duquesne Light, and Progress Energy. Moreover, and contrary to PennFuture's contentions, the wattage of the LED lights that would be installed under the proposed offering will be entirely within the discretion of the customer. *See* Company Main Brief, p. 9.

In determining the fifteen-year useful life of the selected fixtures, the Company's engineers carefully considered the potential average life of the components of the LED street light in addition to the average life of the LEDs themselves. Significantly, PennFuture witness Woodbury admitted that the Company's service life estimate is within the range of service life estimates used by the utility industry of between 15-35 years. *See* Company Main Brief, pp. 8-10.

PennFuture also contends that the Company's estimate of installation costs is too high. However, that criticism was based entirely on an anecdotal comparison to the price allegedly charged by a private contractor to the City of Pittsburgh (PennFuture Main Brief, p. 7).

Apparently, PennFuture and its witness believe that the per-fixture contract installation price to replace all of the fixtures in a city the size of Pittsburgh can be meaningfully compared to the per-fixture installation cost for groups of fixtures of as few as twelve (the minimum allowed under the Company's proposed service offering). The size and economy-of-scale differences between those markedly different kinds of projects render PennFuture's comparison meaningless.

Furthermore, just as the selection of LED fixtures is within the reasonable management discretion of the Company and is not subject to second-guessing or micromanaging either by the Commission or by PennFuture (*see* Company Main Brief, pp. 8-10), so too is the manner in which LED fixtures are to be installed and maintained. The Company has, in fact, fully supported its cost estimates, which are based on a reasonable approach to installing and maintaining LED street lighting. Thus, in addition to describing what each cost-category of its proposal encompasses, the Company explained that its estimates were based on using utility employees and utility installation equipment, not private contractors. Those estimates also properly reflect maintenance cost savings and the economies of scale appropriate for the installation projects the Company will encounter given its service territory, its customer base and the requirement that a minimum of twelve lights be replaced at one time. It is certainly reasonable for the Company to use its existing, well-trained and proficient union work force to install LED street lights, because that is the very same work force the Company currently uses to install and maintain all of its other forms of street lighting. *See* Company Main Brief, pp. 10-11.

B. The Company's Cost Of Service Study Methodology Is Consistent With Commission Precedent And Broader Industry Standards.

PennFuture also criticized the manner in which general distribution-related costs (e.g., costs of poles, conductors, and transformers) were allocated among customer classes in the

Company's class cost of service study. Specifically, PennFuture contends that using non-coincident peak ("NCP") demands to allocate demand-related costs overstates the cost of service for the street lighting class because doing so allegedly ignores the "marginal cost" of delivering electricity to street lights. According to PennFuture, street lighting's "marginal cost" is lower than the cost to serve other users of the distribution system because street lighting represents "stable" load and operates primarily "off-peak." *See* PennFuture Main Brief, p. 7.

While criticizing the Company's cost of service study, PennFuture did not present an alternative analysis of the cost of service for the street lighting class. Instead, it made a vague, non-quantified claim that the cost of street lighting distribution service should be reduced because "[f]or street lighting it makes more sense to 'apply considerable judgment' and use a coincidental peak approach or a coincidental peak approach with some percentage allocation based on non coincidental peak." *See* PennFuture Main Brief, p. 7. However, PennFuture has cited no authority for its contention that "marginal cost" is – or should be – the measure of cost of service for ratemaking purposes. Moreover, "stability" of load and off-peak operation are relevant principally to determining the cost of generation. Generation costs are not part of the LED rates at issue, which recover only the cost of delivering power, not generating it. The benefits of load stability and off-peak operation can be realized by street lighting customers in their purchase of unbundled generation service, which is a subject entirely outside the scope of this case.

PennFuture's claim that a "coincident peak" demand factor should be substituted for NCP demand in the Company's cost of service study was forcefully rebutted by the Company's cost of service expert, Hillary E. Stewart. Ms. Stewart explained that NCP demand is universally accepted for allocating distribution demand costs, as evidenced by its endorsement by the

National Association of Regulatory Utility Commissioners ("NARUC") in its *Electric Utility Cost Allocation Manual* (pp. 96-97). Moreover, the use of NCP demand to allocate distribution demand costs has been explicitly approved by this Commission as recently as the last fully litigated electric rate case that the Commission decided.[3] There is no basis in sound cost of service principles or the precedent of this Commission for using a coincident peak allocation for distribution plant. *See* Company Main Brief, pp. 12-13.

C. The Company's Per Fixture Distribution Rate Is Reasonable

PennFuture contends that the Company "begins its analysis with faulty assumptions to arrive at a tariff rate completely out of line with market conditions." *See* PennFuture Main Brief, pp. 8-9. The Company's per fixture distribution rate is the culmination of the Company's selection of LED fixtures, estimation of fixture and non-fixture costs, and allocation of general distribution-related costs. As discussed in detail in the Company's Main Brief and summarized above, each of the inputs into the Company's proposed distribution rate is reasonable and well supported. Moreover, the Company made a special effort to design its proposed LED rates to increase customer acceptance by using an innovative levelizing approach to setting LED charges, as also discussed in detail in the Company's Main Brief.

PennFuture closes its Main Brief by identifying several benefits of LED streetlighting, including benefits to municipalities.[4] *See* PennFuture Main Brief, pp. 9-10. The Company's

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[3] *Pa. P.U.C. v. PPL Elec. Utils. Corp.*, Docket No. R-2012-2290597 (Final Order entered December 28, 2012), p. 106 ("According to PPL, the filed COSS in this proceeding is virtually identical to the methodology adopted by the Commission in its 2010 base rate proceeding using the class maximum non-coincident peak (NCP) demand method, which is based on the highest demand imposed by each class on its distribution system, to allocate its demand-related distribution costs. PPL St. 8 at 19.") *See Id.* at 112 approving and adopting PPL's proposed cost of service study.

[4] As part of this discussion, PennFuture states that "PennElec maintains over 974,000 individual streetlights of varying application and sizes." *See* PennFuture Main Brief, pp. 9-10. Presumably PennFuture intended to discuss the streetlight count for Met-Ed, but this figure is incorrect for both Penelec and Met-Ed. As noted in the Company's Main Brief, Met-Ed has 39,536 fixtures.

proposed LED street lighting offering is intended to provide customers with an opportunity to achieve those benefits by exploring LED street lighting options. Notably, as previously mentioned, no potential customers, specifically municipalities, intervened in this case to challenge the Company's LED service offering, nor did they voice any informal opposition. Moreover, no customer will be able to enjoy the benefits of LED service if the Company's LED service offering is rejected based on PennFuture's meritless criticism.

IV. CONCLUSION

For the reasons set forth above, the criticisms of PennFuture should be rejected and Met-Ed's proposed LED street lighting offering should be approved without modification.

Respectfully submitted,

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Dated: February 19, 2015

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION **v.** **METROPOLITAN EDISON COMPANY**	**Docket Nos. R-2014-2428745** **M-2013-2341990**

CERTIFICATE OF SERVICE

I hereby certify that I served, on behalf of **Metropolitan Edison Company**, on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54, a true and correct copy of the **Reply Brief**.

VIA FEDERAL EXPRESS

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