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November 28, 2016

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed please find the Exceptions of Duquesne Light Company in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Anthony D. Kanagy

ADK/skr
Enclosure

cc: Honorable Katrina L. Dunderdale
Certificate of Service
Office of Special Assistants (*via e-mail*)

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL and FIRST CLASS MAIL

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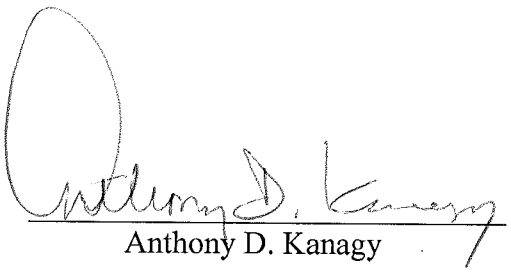

Anthony D. Kanagy

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS OF
DUQUESNE LIGHT COMPANY

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I. INTRODUCTION AND BACKGROUND

On August 4, 2015, Duquesne Light Company ("Duquesne Light" or the "Company") filed the above-captioned Petition to Modify its Smart Meter Plan along with its Amended Smart Meter Plan ("Amended SMP"). The filing included Duquesne Light's Direct Testimony. In the Amended SMP, the Company proposed, in part, to install an Advanced Distribution Management System ("ADMS") to achieve enhanced outage communication, outage restoration and voltage monitoring capabilities. The ADMS consists of both an Outage Management System ("OMS") and a Distribution Management System ("DMS"), which are explained in more detail in Section IV(A)(2) below. The Company also proposed to accelerate its smart meter deployment schedule by one year and updated its smart meter cost estimates. The Company filed its proposed ADMS project in order to comply with the Pennsylvania Public Utility Commission's ("Commission") May 6, 2013 Order directing Duquesne Light to evaluate the cost-effectiveness of including enhanced outage communication, outage restoration and voltage monitoring capabilities in the Company's Smart Meter Plan. *Petition of Duquesne Light Company for Approval of its Final Smart Meter Procurement and Installation Plan*, Docket No. M-2009-2123948, Order entered May 6, 2013 ("*Duquesne Light 2013 Smart Meter Order*").

The Office of Consumer Advocate ("OCA"), Office of Small Business Advocate ("OSBA") and Citizen Power, Inc. ("Citizen Power") intervened in the proceeding. A prehearing conference was held on October 13, 2015 before Administrative Law Judge Katrina L. Dunderdale (the "ALJ").

Parties filed several additional rounds of testimony, including Duquesne Light Supplemental Direct Testimony, OCA Direct Testimony, Duquesne Light Rebuttal Testimony, OCA Surrebuttal Testimony and Duquesne Light Rejoinder Testimony.

A hearing was held on February 18, 2016, at which time the parties submitted their testimony and exhibits into the record.

Duquesne Light, OCA and Citizen Power filed Main Briefs on March 17, 2016 and Reply Briefs on April 7, 2016.

On April 11, 2016, the ALJ issued an Interim Order closing the hearing record. On May 4, 2016, a Post-Hearing Order was issued reopening the hearing record and directing the Parties to address certain questions posed by the ALJ.

A Post-Hearing Conference was held on May 24, 2016. At the Post-Hearing Conference, a schedule was established that provided for the submission of supplemental post-hearing testimony and for a Further Hearing.

Duquesne Light submitted Supplemental Direct Testimony on June 6, 2016, and OCA submitted Supplemental Rebuttal Testimony on June 24, 2016.

A Further Hearing was held on June 30, 2016.

Duquesne Light, OCA and Citizen Power filed Revised Main Briefs on July 20, 2016 and Revised Reply Briefs on July 27, 2016.

The ALJ's Recommended Decision ("RD") was issued on November 8, 2016.

On November 21, 2016, Citizen Power filed a Petition to Withdraw from this proceeding.

Duquesne Light hereby files Exceptions to the RD.

II. LIST OF EXCEPTIONS

1. THE RD ERRED IN CONCLUDING THAT THE PROPOSED ADMS PROJECT IS NOT COST-EFFECTIVE.

2. THE RD ERRED IN CONCLUDING THAT DUQUESNE LIGHT SHOULD NOT BE PERMITTED TO RECOVER ADMS COSTS THROUGH THE SMC.

3. THE RD ERRED IN CONCLUDING THAT DUQUESNE LIGHT IMPROPERLY FAILED TO SPLIT THE ADMS PROJECT BETWEEN SMART METER AND NON-SMART METER FUNCTIONALITIES.

III. SUMMARY OF EXCEPTIONS

The RD erred in concluding that Duquesne Light's proposed ADMS project is not cost-effective and that Duquesne Light should recover ADMS costs in base rates and not in its SMC. Instead, the Commission should find that Duquesne Light's proposed ADMS project is cost-effective and should allow Duquesne Light to recover ADMS costs in its SMC.

The RD acknowledges that the proposed ADMS project is cost-effective if customer benefits are included in the cost/benefit analysis. Customer benefits include such benefits as decreased manufacturing costs, decreased food spoilage and decreased hotel bills, among others, resulting from reduced outage time. Duquesne Light presented two independent studies, the DNV GL study and the ICE Model, which supported estimated customer savings of $6 million per year from implementing the ADMS project. The RD proposes to ignore the results of both independent studies and not consider customer benefits in the cost-benefit analysis. Duquesne Light disagrees with the RD's recommendation to disregard customer benefits. The Commission should consider customer benefits in the cost benefit analysis and find that the proposed ADMS project is cost-effective.

The RD also erred in recommending that Duquesne Light recover ADMS costs in base rates as opposed to its SMC. The Company is proposing the ADMS to implement enhanced outage communication, outage restoration and voltage monitoring capabilities as required by the Commission's *Smart Meter Implementation Order*. The ADMS is the solution to achieve the above-referenced smart meter requirements. The Commission has authorized EDCs to recover smart meter costs through smart meter charges. The ADMS costs are smart meter costs, and as

such, Duquesne Light should be authorized to recover these costs in its SMC. Moreover, if Duquesne Light were to recover ADMS costs in base rates, it would be authorized by Act 129 to include a deferral of these costs for future base rate recovery on a current basis with a carrying charge, which would have the same effect as recovering the ADMS costs through the SMC.

The RD's reasons for denying ADMS cost recovery in the SMC but allowing recovery through base rates appears to be based on cost allocation concerns and the idea that other EDCs have recovered ADMS costs in base rates. These are not valid reasons for denying Duquesne Light recovery of ADMS costs through the SMC. As to cost allocation, ADMS costs can be allocated to customer classes on the same basis whether they are recovered in the SMC or in base rates. In addition, all EDCs had unique circumstances with respect to smart meter functionalities. The fact that some EDCs had more advanced ADMS systems before Act 129 was enacted should not impact Duquesne Light's ability to recover its ADMS costs that are necessary to meet the Act 129 standards in its SMC. Moreover, other EDCs have recovered ADMS upgrade costs in their respective SMCs.

Duquesne Light proposed its ADMS project in order to comply with the Act 129 smart meter requirements and should be permitted to recover ADMS costs in its SMC.

IV. EXCEPTIONS

A. THE RD ERRED IN CONCLUDING THAT THE PROPOSED ADMS PROJECT WAS NOT COST-EFFECTIVE.

1. Introduction.

The RD recommends that the Commission deny Duquesne Light's proposal to recover ADMS costs through the Company's Smart Meter Charge ("SMC") because, according to the RD, Duquesne Light did not demonstrate that the proposed ADMS project was cost-effective.

(RD at 42-43.) Duquesne Light respectfully disagrees with the RD's conclusions that the ADMS project is not cost-effective and that ADMS costs should not be recovered in the SMC.

2. Summary Of The Proposed ADMS Project.

Duquesne Light's proposed ADMS project consists of two components. The first component is the OMS and the second component is the DMS.

The OMS is intended to replace the Company's current Outage Analysis System ("OAS") that is used to monitor system outages. The Company has relied on the OAS for many years to track and restore outages. Through the current OAS, the Company receives calls from customers regarding outages. The calls are placed into a mainframe system for analysis. The OAS then provides a print-out to the Company's distribution operations center regarding outages, and the Company's distribution system operators dispatch crews to outages based upon that method. (Tr. 67-68.)

The proposed OMS will use the newly installed smart meters to provide much more accurate and timely outage monitoring, outage restoration and outage communication to customers. As part of the proposed OMS project, the Company will first install an electrical model. The electrical model will provide an electronic map of the electric distribution system from each substation breaker to each smart meter. (Duquesne Light Exh. No. 1, p. 12.) The OMS will then be able to identify each smart meter that is out of service (based upon the last gasp technology in the smart meters), and provide the Company with the precise location of outages. (Duquesne Light Amended SMP, p. 31.) Use of the OMS will significantly enhance the Company's outage communication and restoration capability because the Company will generally be aware of outages before the customer calls the Company. (Duquesne Light St. No. 2, p. 8.) Duquesne Light will be able to get to outages faster and anticipates that the OMS will reduce the average duration of outages by 5 minutes, which will create substantial cost savings

for customers as discussed below. (Duquesne Light St. No. 2, p. 7.) The Company has proposed to install the OMS to comply with the Commission's directives in the *Smart Meter Implementation Order*[1] for Duquesne Light to include enhanced outage restoration and communication capabilities in the Company's Smart Meter Plan, if these capabilities were cost-effective.[2] Without the OMS project, the Company will not be able to provide customers with real-time notifications of outages or when power will be restored.

The DMS is the second component of the proposed ADMS project. The DMS will enhance the Company's voltage monitoring capability. The DMS manages distribution system functionality such as Volt/VAR optimization, transformer loading, fault location and switching solutions. (Duquesne Light St. No. 2, p. 12.) Volt/VAR optimization will allow the Company to reduce demand on its system which will create cost savings for customers, as discussed in more detail below. The Company has proposed to implement the DMS to meet the Commission's directives in the *Smart Meter Implementation Order* for Duquesne Light to include enhanced voltage monitoring capabilities in the Company's Smart Meter Plan.[3]

3. The ADMS Project Will Provide Substantial Benefits For Customers And The Company.

The proposed ADMS project will provide substantial and significant tangible benefits for customers. These benefits are explained at pages 14-18 of the Company's Main Brief, and summarized below.

The OMS will allow the Company to fully utilize the newly installed smart meters for outage restoration and communication. Duquesne Light will be aware of outages and locations

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[1] *Smart Meter Procurement and Installation*, Docket No. M-2009-2092655, Order entered June 24, 2009 ("*Smart Meter Implementation Order*"), pp. 16, 30.

[2] The Commission stated in the *Smart Meter Implementation Order* that it retained its discretion to waive these requirements if they were not cost-effective. (*Smart Meter Implementation Order*, p. 30.)

[3] See Footnote 2 above. The Commission retained the discretion to waive this requirement if it was not cost-effective.

of outages sooner with the OMS. Therefore the Company will be able to dispatch outage restoration crews earlier and prioritize crews to larger outages, which will reduce outage time. (Duquesne Light St. No. 2, p. 7.) The Company estimated that the average duration of outages will decrease by 5 minutes with the OMS, which produces significant savings for customers. No party in this proceeding disputed that Duquesne Light's proposed ADMS project would reduce average outage time by 5 minutes. In addition, the OCA's witness, Ms. Sherwood, admitted at the hearing that the proposed ADMS project would reduce average outage time and that other utilities have experienced reduced outage time when they implemented ADMS projects. (Tr. 177.)

Duquesne Light presented the results of two independent studies as evidence of estimated customer savings. Duquesne Light's consultant, DNV GL, performed a comprehensive study of the Company's distribution system to estimate savings that will be achieved by a reduction in average outage time of 5 minutes. The study evaluated Company specific data, such as number of circuits at different voltages, current circuit miles, capacitor information, voltage regulators, and number of customers. (Duquesne Light St. No. 2-R, p. 4.) Using this Duquesne Light specific data, the study estimated societal benefits, or actual cost savings to customers, of approximately $6 million per year from reduced outage time. These cost savings are due to reductions in time for re-start of manufacturing plant shut-downs, lost production time, lost sales, food spoilage, hotel costs and other items. (Duquesne Light St. No. 2-R, p. 4.)

The Company also presented results from a separate model, the Interruption Cost Estimate ("ICE") calculator, that was developed for the U.S. Department of Energy to estimate cost savings for customers due to reduced outage time. (Duquesne Light St. No. 2-R, p. 6.) The ICE calculator is designed to estimate interruption costs and benefits associated with reliability

improvements in the U.S. The range of annual customer savings estimated by the ICE calculator is approximately $4 million in 2023 increasing to approximately $6 million in year 2039. (Duquesne Light St. No. 2-RJ, pp. 2-3.) Duquesne Light recommended using the DNV GL study because the customer benefits are calculated based upon more specific information about the Company's distribution system.

In this proceeding, the OCA challenged the results of the two independent models used by Duquesne Light to estimate customer cost savings. The OCA argued, and the RD recommended, that the Commission completely ignore the results of the DNV GL model because it relies on proprietary formulas to estimate benefits. The RD states that Duquesne Light did not show how 5 minutes of improved service time has an added value benefit of $6 million for customers. (RD at 42.) Duquesne Light disagrees with the RD's conclusions.

As the Company explained in its Main Brief, the Company provided detailed distribution system data to DNV GL, and DNV GL used this Company specific information to calculate customer savings on a circuit by circuit basis. (Duquesne Light MB, p. 15; Duquesne Light St. No. 2-R, p. 6.) The DNV GL model estimated customer savings of $6 million per year based on a 5 minute reduction in average outage time. In addition, the estimate of customer savings calculated by DNV GL is supported by a second non-proprietary model, the ICE calculator. The ICE calculator estimates customer savings of $4 million per year in 2023 increasing to $6 million in 2039. It is clear based upon these two independent models that there will be substantial customer savings from implementing the OMS component of ADMS. (Duquesne Light MB, p. 20.)

The RD recommends that the Commission ignore the DNV GL results because DNV GL's formulas are proprietary. The fact that the DNV GL model uses a proprietary calculation

does not mean that the savings should be ignored. If DNV GL were to release the details of the model, their competitors would be able to duplicate the model. (Duquesne Light St. No. 2-R, p. 5.) Therefore, DNV GL was not willing to release its formulas. In order to address these concerns about the proprietary DNV GL model, Duquesne Light provided considerable detail to parties regarding what factors DNV GL considered in estimating customer benefits. (See Exhibit JK 1-R.) In addition, the Company supported its level of estimated savings through the publicly available ICE calculator and provided all of the data inputs that were used for the ICE calculator as an Exhibit to its testimony. (See Exhibit JK 2-R, which is attached to Duquesne Light St. 2-R.) The ICE model results conclusively demonstrate the reasonableness of the DNV GL results.

The OCA also disputed the results of the ICE model arguing that the ICE model was outdated and did not rely on Duquesne Light specific data. (RD at 38.) This is no basis to reject the ICE model. Duquesne Light presented the ICE model as support for the DNV GL estimates. The results from both models provide substantial evidence that customers will experience significant savings from implementing the OMS component of ADMS.

Importantly, the OCA admitted in this proceeding that customers will experience benefits with reduced outage time. (Tr. 177.) OCA also admitted that ADMS systems have reduced outage times for other utilities. (Tr. 177.) These facts are undisputed. Further, neither the OCA nor any other party in this proceeding presented any independent analysis of benefits customers will experience from the ADMS. The DNV GL results combined with the ICE model results provide substantial evidence that customers will experience savings of approximately $6 million per year with the ADMS. This evidence should not be ignored, especially when no other party presented contrary results but simply criticized Duquesne Light's evidence. The OCA failed in meeting its burden of presenting contrary evidence, and Duquesne Light clearly met its

evidentiary burden of demonstrating that the OMS will provide estimated cost savings for customers of $6 million per year.

Duquesne Light also presented evidence that it will achieve an additional estimated savings of $300,000 per year due to increased efficiencies during and after storm events and due to reduced call volume at its call center. (Duquesne Light St. No. 2, p. 7; Duquesne Light MB, pp. 15-16.) These savings were undisputed in this proceeding.

Duquesne Light also provided a list of non-quantifiable benefits from the OMS. The Company explained that these benefits could result in savings, but were not included in the cost-benefit analysis. The list of these benefits was provided in Exhibit JK 3-R and is as follows:

- Operations improvements
  - Operators can manage the distribution system from one computer application as opposed to multiple computer applications as managed presently
  - Better estimates provided by improved situational awareness
  - Ability to see where the crews are in the field, increasing safety
  - Improved prioritization of restoration efforts
  - Improved employee experience with enhanced ability to analyze and respond to trouble
  - Ability to show restorations made at points other than switchable devices (cuts and Jumpers) and capture reliability indices from those temporary devices
  - Reduced paper used in control room
  - Improved disaster recovery abilities and business continuity
- Field
  - Minimize dispatch time with ability to verify outages and restorations with AMI
  - After mobile implementation field crews will be able to manage the event from their truck i.e. arrive time, updated estimates, the restoration time, create follow-up work etc.
  - Reduction in being dispatched to locations where there isn't any trouble.
- CSR improvements
  - One system is used to enter customer trouble information
  - Information is returned to the CSR if an existing outage includes exists for the customer on the call
  - Estimates provided to the CSR from the OMS including crew status such as unassigned, assigned, enroute, arrived, etc.

- The CSR will have access to historical outage information
- Damage Assessment
  - Improved storm response by mobilizing Damage Assessment more quickly
  - Ability to capture information into the OMS, aiding in getting an appropriate crew and equipment to the restoration the first time
  - Ability to determine need for mutual assistance sooner - DLC will be able to obtain crews located closer to DLC territory and will be able to determine more quickly if DLC crews can be made available to other utilities for mutual assistance
  - Ability to manage foreign crews in the OMS
- Reporting
  - Automatic reporting of customer counts based on electrical model connectivity
  - Recognize repeat trouble calls relating to the same outage from an address more quickly
  - Reliability reports automatically generated; limited manual intervention required to finalize
  - Reports available to customers and DLC employees of trouble conditions
- Safety
  - Awareness of crew locations will promote safer work practices
  - Crews respond faster to reported hazards
  - As-operated condition of the distribution network is visible to more employees
  - Awareness of consumer owned generations location on the distribution network
- Customer Satisfaction
  - Awareness of the outage before the customer calls in due to AMI and SCADA interface
  - Improved estimated restoration times
  - Improved restoration times in a storm
  - More precise reflection of customers affected by a device outage allowing for improved communication to customers on outage and restoration
  - Provide DLC the ability to pro-actively notify customers
  - Provide the capability for DLC to reach out to the customers after an event with an explanation of the outage
- Media
  - Ability to provide more granular view of outage and estimated restoration data
  - Ability for DLC to know where the crews are and what they are working on for "live" updates from the news stations
  - DLC can better manage the public's perception and align with the media

- DLC will be able to more quickly respond to calls from the Media with information about events

- Maintenance and Capital Improvement Programs
  - The OMS will provide additional details for outage causes that can drive maintenance and capital replacement programs.

(See Duquesne Light St. No. 2-R, Exh. 3-R.)

No party in this proceeding disputed that the OMS would provide these benefits. However, the RD fails to consider these benefits, stating as follows:

> Duquesne Light proved there will be non-quantifiable benefits to customers from implementation of the OMS but did not provide any explanation, except its bold assertion, to prove that these benefits would be "significant."

(RD at 42.)

Duquesne Light disagrees with the RD's conclusion that it failed to demonstrate that these non-quantifiable benefits are significant. Duquesne Light believes that the significance of the non-quantifiable benefits is self-evident. For example, the safety benefits include being able to see where crews are in the field, thus allowing crews to respond faster to hazards and providing better awareness of customer owned generation. Other benefits include improved prioritization of restoration efforts, the ability to get the correct crew and equipment to the restoration site the first time, the ability to determine the need for mutual assistance sooner, more accurate reporting of outages, improved restoration time and better communication with customers and the media. It is evident without further explanation that these benefits are significant. Moreover, no party in this proceeding disputed that the OMS would provide these benefits.

Duquesne Light did not attempt to quantify these benefits because they are difficult to accurately quantify. However, Duquesne Light believes that it is appropriate for the

Commission to consider these many benefits in determining whether to approve the OMS project.

The DMS component of the proposed ADMS project will also provide significant benefits for customers. The Volt/VAR functionality of the DMS is expected to achieve an electric system benefit of $2 million per year in capacity demand reduction, which will result in reduced power costs for customers. (Duquesne Light MB, pp. 18.) The transformer loading functionality of the DMS is expected to reduce costs by approximately $285,000 per year due to Asset Management and overtime savings. (Duquesne Light MB, p. 18; Duquesne Light St. No. 2, p. 13.) In addition, the DMS will enhance fault location. This will reduce the time needed to find damage to the distribution system when the trouble location is otherwise unknown. (Duquesne Light St. No. 2, p. 13.) The DMS will also improve safety by allowing the Company to better identify where distributed energy resources are located and if they are operating. (Duquesne Light St. No. 2-R, Exh. JK 3-R.)

4. The ADMS Project Is Cost-Effective.

The RD recommended that the ADMS project not be approved, because according to the RD, the proposed ADMS project is not cost-effective. The RD finds that the ADMS project is not cost-effective because the RD excludes soft or customer benefits estimated by both the DNV GL study and the ICE Model from the cost-benefit analysis. (RD at 42.) Soft benefits are benefits experienced by customers that are not part of utility rates, i.e., customer savings for increased production time or food spoilage from reduced outages.

The RD recognized that if these soft benefits (or customer benefits) are included in the cost benefit analysis, the proposed ADMS project would be cost effective. (RD at 42.) Duquesne Light respectfully contends that the RD erred in excluding consideration of customer benefits.

As an initial matter, there is no dispute in this proceeding that customers will experience benefits from the ADMS project due to reduced outage time. At the hearing, the OCA's witness, Ms. Sherwood, agreed that customers would experience benefits with reduced outage time and that ADMS systems have reduced outage times for other utilities. (Tr. 177.)

Nevertheless, the RD cites several reasons for ignoring "soft" or customer benefits. First, the RD states that including soft benefits is not an industry-wide standard. Next the RD states that the DNV GL estimate of customer benefits should be ignored because the results were too tenuous and too obscure. The RD also discounts the separate, independent ICE calculator because it uses demographics outside of the mid-Atlantic region and uses old dates. (RD at 43.)

The RD's conclusion that it is not industry standard to include customer benefits in evaluating the cost-effectiveness of a smart meter program is unsubstantiated. This conclusion in the RD is based upon statements made by the OCA's witness with respect to Energy Efficiency Programs, not with respect to implementing smart meter functionality to enhance Smart Meter Programs. (Tr. 159.) It is appropriate to exclude customer benefits from evaluating the cost-effectiveness of EE&C programs because the statute limits the evaluation to costs associated with supplying electricity. *Energy Efficiency and Conservation Implementation Order*, Docket No. M-2008-2069887, Order entered January 16, 2009, pp. 15-16. There is no such statutory prohibition for considering customer benefits for smart meter functionalities.

Moreover, as discussed in Section IV(A)(3) above:

- The RD erred in dismissing the results of the DNV GL study;
- The Company provided the results of the ICE Model to serve as a check on the DNV GL model and to address parties' concerns about the proprietary nature of the DNV GL formulas;
- The OCA prevented no estimate of customer savings; and

- The Company was conservative in its estimate of benefits because it did not include or attempt to quantify the numerous benefits that are listed in Section IV(A)(3) above.

It is undisputed in this proceeding that the ADMS project is cost-effective if the "soft" or customer benefits are included in the cost-benefit analysis. (RD at 42; OCA Exh. SLS-3.) It is unreasonable to exclude the soft or customer benefits when: (1) all parties agree that the ADMS project will produce customer benefits through reduced outage time, (2) Duquesne Light presented 2 independent studies estimating customer benefits, and (3) neither the OCA nor any other party presented an independent calculation of customer benefits.

For these reasons, the Commission should include customer benefits in the ADMS cost/benefit analysis, conclude that the ADMS project will provide significant monetary benefits for customers, and find that the ADMS meets the cost/benefit test.

5. The Commission Should Take A Broad View Of Benefits In The Cost-Benefit Analysis.

The Commission's *Smart Meter Implementation Order* takes a broad view of smart meter functionalities and requires EDCs, as an initial matter, to include these functionalities in their smart meter plans. Therein, it reserved the authority "to waive" the additional smart meter functionalities if they were not cost-effective. (*Id.* at 17.) In addition, on page 31, the Commission again noted that it had the option to waive a requirement if it is not cost-effective.[4] Based upon this language from the *Smart Meter Implementation Order*, it is the Company's belief that the Commission desires that EDCs implement all of the smart meter functionalities identified therein. Therefore, the Commission should take a broader view of cost savings in discerning whether smart meter functionalities are cost-effective as opposed to the factors that

[4] This language in the *Implementation Order* suggests that the Commission could approve an additional smart meter requirement even if it were not cost-effective. This is not necessary for the proposed ADMS project because Duquesne Light has provided substantial evidence demonstrating that the proposed ADMS project is cost-effective.

the Commission considers when approving an EE&C program. (See *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company For Approval of Their Smart Meter Deployment Plan*, Docket No. M-2013-2341990, et al., Order entered June 25, 2014, p. 16, where the Commission considered the potential for additional operating savings in approving the FirstEnergy Companies' accelerated smart meter deployment plan.)

B. THE RD ERRED IN CONCLUDING THAT DUQUESNE LIGHT SHOULD NOT BE PERMITTED TO RECOVER ADMS COSTS THROUGH THE SMC

1. ADMS Costs Are Smart Meter Costs.

The Commission's *Smart Meter Implementation Order* clearly defined enhanced outage communication, outage restoration and voltage monitoring capabilities as desired smart meter capabilities. *Smart Meter Implementation Order*, p. 16. In the *Smart Meter Implementation Order*, the Commission stated its position that the "smart meter capability requirements set out in Act 129 are minimal requirements." *Implementation Order*, p. 16. The Commission further stated:

> Therefore, the Commission directs that a covered EDC's smart meter technology must support the following capabilities:
>
> * * *
>
> 8. Ability to monitor voltage at each meter and report data in a manner that allows EDC to react to the information.
>
> * * *
>
> 10. Communicate outages and restorations.

(*Implementation Order*, p. 16, emphasis provided.) In addition, the Commission's *2013 Smart Meter Order* required Duquesne Light to evaluate whether including enhanced outage

communication, outage restoration and voltage monitoring in the Company's Smart Meter Plan was cost effective.[5] (*2013 Smart Meter Order*, p. 15.)

Duquesne Light is proposing to implement the ADMS project to enhance its outage communication, outage restoration and voltage monitoring capabilities pursuant to the *Smart Meter Implementation Order* and the Duquesne Light *2013 Smart Meter Order*. It is clear that the proposed ADMS project costs are smart meter costs.

2. The Commission Has Authorized EDCs to Recover Smart Meter Costs Through Automatic Adjustment Clauses.

The RD recommends that the Company not be permitted to recover ADMS costs through its SMC. (RD at 59.) However, the RD specifically states that it is not recommending that the ADMS project be denied, but that "Duquesne Light should implement the ADMS through base rates."[6] The RD's conclusion that Duquesne Light should recover ADMS costs in base rates and not through the SMC is contrary to Commission precedent and to Act 129 of 2008.

If the Commission approves the ADMS project, Duquesne Light should be permitted to recover ADMS costs in the SMC. Act 129 of 2008 governs recovery of smart meter costs and provides as follows:

> An electric distribution company may recover smart meter technology costs:

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[5] As explained above, the Commission's default position is that outage restoration and communication and voltage monitoring capabilities should be included as part of EDCs' smart meter plans. The Commission retained the option to waive these requirements if they are not cost-effective, but clearly can require EDCs to implement these functionalities even if they are not cost-effective. (*Smart Meter Implementation Order*, p. 31.) As explained herein, Duquesne Light has demonstrated that its proposed ADM's project is cost-effective.

[6] The RD's logic is inconsistent in finding that the ADMS project is not cost-effective and therefore denying cost recovery through the SMC but then also recommending that Duquesne Light implement the ADMS project in a base rate proceeding. The overall cost effectiveness does not change if the ADMS project costs are recovered through the SMC or through base rates. The RD's conclusion appears to be based on the idea that costs can be more appropriately allocated in a base rate proceeding. (RD at 60.) Concerns over cost allocation provide no basis for denying cost recovery through the SMC. If the Commission determines that ADMS costs should be allocated to customer classes on a different basis than other smart meter costs, they can be so allocated in the SMC.

> (i) through base rates, including a deferral for future base rate recovery of current basis with carrying charge as determined by the communication; or
>
> (ii) on a full and current basis through a reconcilable automatic adjustment clause under Section 1307.

66 Pa. C.S. § 2807(f)(7).

Act 129 gives EDCs the discretion to determine how to recover smart meter costs. Duquesne Light has elected to recover smart meter costs on a full and current basis through its SMC, which is a reconcilable automatic adjustment clause under Section 1307. In addition, the Commission has expressly authorized Duquesne Light and all other EDCs in Pennsylvania to recover their smart meter costs through reconcilable automatic adjustment clauses under Section 1307. *See Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123948, Order entered May 11, 2010, p. 14; *Petition of PECO Energy Company for Approval of Smart Meter Technology Procurement and Installation Plan,* Docket No. M-2009-2123994, Order entered May 6, 2010, pp. 17-18; *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, pp. 37-28; *Petition of PPL Electric Utilities Corporation for Approval of Smart Meter Technology Procurement and Installation Plan,* Docket No. M-2209-2123945, Order entered June 24, 2010, pp. 10-11.

The RD's conclusion that Duquesne Light should recover ADMS costs in base rates and not in the SMC is contrary to Act 129 and Commission precedent. As explained previously, the ADMS will enhance the Company's ability to communicate outages, conduct restorations and monitor voltage. The Commission has determined that these enhanced functionalities are smart meter capabilities and has directed EDCs to include this technology in their smart meter plans.

Implementation Order, pp. 16, 30. EDCs are permitted under Act 129 to recover smart meter costs through automatic adjustment clauses. 66 Pa. C.S. § 2807(f)(7). In addition, the Commission has authorized Duquesne Light to recover its smart meter costs through an automatic adjustment clause. *Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and Installation Plan,* Docket No. M-2009-2123948, Order entered May 11, 2010, p. 14.

3. The Fact That Other EDCs May Have Recovered Certain ADMS Costs In Base Rates Is Not Relevant To Determining Whether Duquesne Light Can Recover ADMS Costs In The SMC.

The RD justifies denying ADMS cost recovery through the SMC on the basis that other EDCs have recovered ADMS costs through base rates. (RD at 44, 60.) This is not a valid basis for denying ADMS cost recovery for Duquesne Light through the SMC.

The OCA's Testimony states that it is "standard practice" for recovering ADMS costs in base rates. (OCA St. No. 1, p. 16; OCA St. No. 1-R (Supplemental), p. 3.) However, OCA presented no detail about the level of ADMS costs incurred by other EDCs and to what extent that EDCs recovered ADMS costs in base rates or in their respective smart meter charges. Moreover, the OCA admits that other EDCs in Pennsylvania have recovered "costs associated with supplemental outage and voltage management upgrades through the SMC." (OCA St. No. 1-R (Supplemental), p. 4.) Duquesne Light must upgrade its outage restoration, outage communication and voltage monitoring capabilities to comply with the Commission's smart meter requirements. For these reasons, Duquesne Light should be permitted to recover these system upgrade costs in its SMC.

All EDCs in Pennsylvania had implemented different levels of meter functionality at the time that Act 129 was enacted. Duquesne Light had an automated meter reading system that was read remotely. PPL Electric Utilities Corporation had an automated meter reading system that

was able to read meters hourly over the electric lines. The FirstEnergy EDCs' meters were read by a meter reading workforce. (Duquesne Light St. No. 2-C, pp. 11-12.) All of these various systems had to be replaced by smart meter technology. In the *Implementation Order*, the Commission recognized that each EDC had unique circumstances. (*Smart Meter Implementation Order*, p. 9.) Duquesne Light had implemented an OAS system before Act 129 was enacted to meet its service requirements for outage restoration and communication. Duquesne Light's proposal to implement the ADMS project is a direct response to Act 129 and the *Smart Meter Implementation Order* requirements. Therefore, Duquesne Light should be permitted to recover ADMS costs in its SMC.

Another example of the unique circumstances of each EDC relates to Customer Information Systems ("CIS"). Some EDCs did not need to substantially upgrade their CIS to provide smart meter functionalities. Others, like West Penn Power, needed to substantially upgrade its CIS to provide smart meter functionality. The Commission allowed West Penn Power to recover its CIS costs in its SMC over OCA's objections. (*FirstEnergy Company's Smart Meter Order* entered March 6, 2014, pp. 33-34.)

The RD's recommendation to deny Duquesne Light's recovery of ADMS costs on the basis that other EDCs have recovered certain ADMS costs in base rates is not supported and should be rejected.

4. ADMS Costs Are Not Normal Operating Costs For Duquesne Light.

In this proceeding, the OCA argued that Duquesne Light should not be permitted to recover ADMS costs through the SMC because, according to OCA, ADMS costs are normal, ongoing costs that are typically recovered in base rates. (RD at 51.) The Commission should not accept this argument.

The ADMS project is not a normal cost of doing business for Duquesne Light. (Duquesne Light RB, pp. 11-12.) Duquesne Light currently provides outage communication services to customers through its OAS. Duquesne Light has used its OAS for many years to provide service to customers, and OCA's witness, Ms. Sherwood, testified that the OAS meets the Company's normal and reasonable service requirements under the Public Utility Code. (Tr. 175.) Duquesne Light's proposal to install the ADMS system is a direct response to the Commission's *Smart Meter Implementation Order* and subsequent Order in Duquesne Light's 2013 Smart Meter proceeding directing the Company to perform additional cost-benefit analysis of outage communication, outage restoration and voltage monitoring functionality. *Petition of Duquesne Light Company for Approval of Its Final Smart Meter Procurement and Installation Plan*, Docket No. M-2009-2123948, Order entered May 6, 2013.

OCA raised a similar argument in West Penn's smart meter proceeding, arguing that West Penn should not be permitted to recover CIS costs in its SMC because CIS costs are normal operating costs. The Commission denied this argument, stating as follows:

> Based upon our review of the evidence of record, we are persuaded by the Companies argument that the West Penn CIS costs are a recoverable cost of compliance with this Commonwealth's smart meter implementation statutory requirement and are recoverable costs through West Penn's SMT-C Rider surcharge.
>
> * * *
>
> We conclude that the West Penn CIS Costs were a reasonable and prudent cost of a "system upgrade" required by the Company to initiate the use of smart meter technology in its service territory. We are not convinced by the OCA's position that this system upgrade should have been included as a normal cost of doing business. Instead, we adopt the Companies position that that [sic] the $5.1 million of CIS-related costs were an unavoidable expenditure related to the costs West Penn incurred as part of the development of its 2009 plan as West Penn's CIS at the time was not capable of supporting smart meters and that these expenditures

would not have occurred absent the smart metering mandates of Act 129.

(*FirstEnergy Company's Smart Meter Order*, pp. 33-34.)

Duquesne Light's proposed ADMS project is a smart meter project to comply with the smart meter mandates of Act 129 and the *Smart Meter Implementation Order*. Duquesne Light should be permitted to recover ADMS costs in the SMC.

5. If Duquesne Light Were Required To Recover ADMS Costs In Base Rates, It Would Be Entitled To Full Recovery Of All Reasonable Costs, Including Carrying Costs.

Duquesne Light disagrees with the RD's conclusion that it should recover ADMS costs in base rates. (RD at 60.) However, if Duquesne Light were to recover ADMS costs in base rates, the Company would be authorized to defer all ADMS costs for future recovery with a carrying charge. 66 Pa. C.S. § 2807(f)(7). This would have the same effect as if Duquesne Light were recovering ADMS costs in base rates, except that the Company would have to finance the defined costs until they are recovered in base rates. Recovering ADMS costs on a current basis through the SMC with all other smart meter costs is appropriate and reasonable.

C. THE RD ERRED IN CONCLUDING THAT DUQUESNE LIGHT IMPROPERLY FAILED TO SPLIT THE ADMS PROJECT BETWEEN SMART METER AND NON-SMART METER FUNCTIONALITIES

The RD stated that Duquesne Light failed to present evidence that breaks out the percentage of ADMS costs that are related to smart meter costs and the percentage that are not related to smart meter costs. (RD at 59.) At the hearing, Duquesne Light's witness that is responsible for implementing the ADMS testified that all of the reasonable costs of implementing the OMS are related to outage communications and all of the reasonable costs of implementing the DMS are related to voltage monitoring. (Tr. at 91.)

Further, as explained by the Company's witness, Mr. Karcher, in his Supplemental Direct Testimony and at the hearing, the Company must install the entire ADMS project, as proposed, to achieve the full voltage monitoring and outage communication and restoration capabilities. (Duquesne Light St. No. 2C, p. 3; Tr. 91.) While the ADMS provides benefits to customers that go above and beyond the outage communication, outage restoration and voltage monitoring capabilities, these additional benefits do not require additional costs. Moreover, the Company could purchase additional system enhancements for the ADMS that would enhance functionality beyond the required smart meter requirements, but has not done so and is not requesting to recover such costs for these systems through the SMC. (Duquesne Light St. No. 2C, p. 3.)

The Company limited its ADMS project to costs that are necessary to implement the required smart meter functionalities. Therefore, there is no basis to segregate the specific functionalities provided by the ADMS between smart meter and non-smart meter functionalities. (See Duquesne Light MB, pp. 30-31.) The RD's criticism concerning the Company's failure to do so should not be accepted by the Commission.

V. CONCLUSION

WHEREFORE, Duquesne Light Company respectfully requests that the Pennsylvania Public Utility Commission grant the Company's Exceptions and find that:

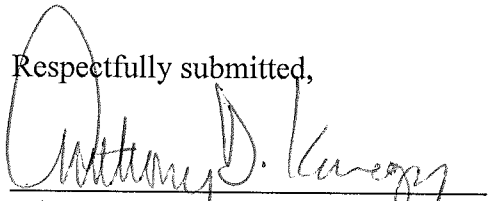
1. Duquesne Light Company's proposed ADMS Project is cost-effective;

2. Duquesne Light Company's proposed ADMS Project is approved;

3. Duquesne Light Company is authorized to recover ADMS Project costs in its Smart Meter Charge; and

4. Duquesne Light Company's Smart Meter Procurement and Installation Plan is approved as filed.

Respectfully submitted,



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Dated: November 28, 2016

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