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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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In the Matter of the Application of Ohio)	
Edison Company, The Cleveland Electric)	
Illuminating Company, and The Toledo)	
Edison Company for Approval of Ohio)	Case Nos. 09-1820-EL-SSO
Site Deployment of the Smart Grid)	09-1821-EL-GRD
Modernization Initiative and Timely)	09-1822-EL-EEC
Recovery of Associated Costs)	09-1823-EL-AAM

REPLY COMMENTS OF THE KROGER CO.

I. INTRODUCTION

On January 13, 2010, several parties in this proceeding, including The Kroger Co., submitted comments on the Application of Ohio Edison Company ("OE"), The Cleveland Electric Illuminating Company ("CEI") and Toledo Edison ("TE") (collectively "FirstEnergy") for the deployment of Smart Grid and AMI technologies and associated cost recovery ("Application"). The Kroger Co. respectfully submits the following replies to comments filed in this proceeding. Lack of reply to a particular comment, neither indicates The Kroger Co.'s opposition or support of that particular comment.

II. REPLY COMMENTS

A. FirstEnergy's Cost Recovery Mechanism Should Not be a Flat Energy Charge, but Instead Should be Based on Standard Principles of Cost Allocation.

The Kroger Co. agrees with Staff's recommendation that AMI deployment should be recovered by a fixed monthly charge, rather than an energy charge as proposed by FirstEnergy.¹

¹ Staff Comments at 21.

The cost to install AMI has no relationship to the amount of electricity each customer consumes; it is a per-customer fixed expense. Recovering AMI installation based on a kWh charge will disproportionately allocate the cost of installation to customers that consume large amounts of electricity. A fixed customer charge is also consistent with the recovery of AMI deployment with other electric utilities in Ohio.²

A flat energy charge is also inappropriate for recovery of the deployment of Smart Grid technologies. Smart Grid deployment represents an attempt to upgrade the distribution system, and consequently, associated costs should be allocated to customer classes consistent with standard principles of distribution cost allocation. Specifically, Smart Grid deployment costs should be classified as demand-related and/or customer-related, depending on the cost item being recovered. In no case should these costs be classified as “energy-related.” Once Smart Grid deployment costs are properly allocated to customer classes, these costs should be recovered through class-specific charges that allow each customer class to recover its allocated costs without inter-class or intra-class subsidization. For demand-billed customer classes, the demand-related portion of these costs should be recovered through a demand charge.

FirstEnergy has offered no justification to recover costs of Smart Grid and AMI deployment via a flat energy charge. In addition, a flat energy charge for such recovery has absolutely no basis in cost causation. If the Commission approves FirstEnergy’s Application, the Commission must modify the proposed cost recovery mechanism so that the charges for Smart Grid and AMI deployment are appropriately allocated to customers on the basis of standard principles of distribution cost allocation. Specifically, FirstEnergy’s cost recovery mechanism for AMI deployment must be a fixed monthly customer charge. The cost of Smart Grid

² See Kroger Comments at 4. Both Duke Energy and Dayton Power and Light will recover the cost of AMI deployment via a fixed monthly customer charge.

deployment must be allocated among all customer classes appropriately, and a demand component must be included in the cost recovery for customer classes whose distribution rates contain a demand component.

B. OE and TE Customers Should Not be Required to Pay for Smart Grid Investments Only Made in the CEI Service Territory.

The Kroger Co. agrees with OCC's comment that OE and TE customers should not be required to pay for Smart Grid investments made only in CEI's territory. FirstEnergy has proposed that all of its Smart Grid deployment occur in the CEI service territory and will therefore most directly affect CEI customers.³ However, FirstEnergy proposes to collect the costs of the limited program equally from the customers of all three companies.⁴ In its Comments in Response to the Office of Ohio Consumers' Counsel Comments, FirstEnergy justifies allocating the charges equally to all three companies because "lessons learned from the project will be applicable across the system."⁵ OE and TE customers may also benefit in some small way from the lessons learned from other utilities across the country that have already deployed Smart Grid technology. However, it would be absurd to invoice OE and TE customers for these "benefits." As with all distribution system upgrades, the customers in the system where the upgrades are made must pay for the investment to upgrade that system. If the Commission approves FirstEnergy's Application, the Application must be modified to require only CEI customers be charged for the Smart Grid investment made in the CEI territory.

³ OCC comments at 7.

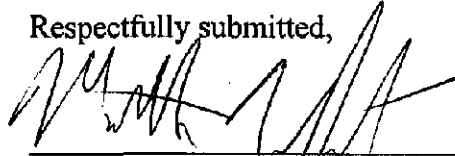
⁴ Application at 4.

⁵ FirstEnergy Response to OCC Comments (12/21/2009) at 8.

III. CONCLUSION

Before approving FirstEnergy's Application, The Kroger Co. respectfully requests that the Commission modify FirstEnergy's Application in accordance with the recommendations made herein.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply Comments of The Kroger Co. was served upon the following parties of record or as a courtesy, via U.S. Mail postage prepaid, express mail, hand delivery, or electronic transmission, on January 20, 2010.

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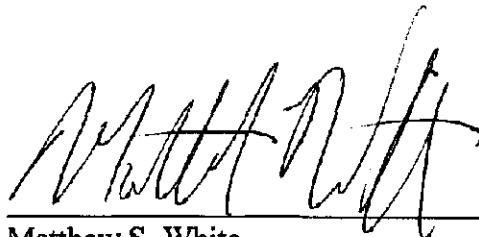
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