

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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In the Matter of the Application of San  
Diego Gas & Electric Company (U 902-E)  
for Adoption of its Smart Grid Deployment  
Plan.

Application 11-06-006  
(Filed June 6, 2011)

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And Related Matters

Application 11-06-029  
Application 11-07-001

**PROTEST OF THE UTILITY REFORM NETWORK**

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## **PROTEST OF THE UTILITY REFORM NETWORK**

Public Utilities Code Section 8364 required each “electrical corporation” to develop and submit a smart grid deployment plan to the California Public Utilities Commission (Commission) for its approval. The Commission further addressed the requirements and purposes for these deployment plans in D.10-06-047. The three separate applications submitted by San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) were consolidated, first by an e-mail ruling issued July 14, 2011 by the assigned Administrative Law Judge, and subsequently memorialized in a written ruling issued July 25, 2011. The e-mail ruling also set August 4, 2011 as the due date for protests or responses to the applications.

Pursuant to Rule 2.6 of the Commission’s Rules of Practice and Procedure, The Utility Reform Network (TURN) submits this protest to each utility’s application.

### **I. Grounds for Protest**

The SDG&E application asks the Commission to find that its Smart Grid Deployment Plan achieves compliance with SB 17 and D.10-06-047, and should be accepted “as a policy guide for future investments.”<sup>1</sup> PG&E similarly asks for a finding of compliance with the statute and prior Commission decision, and approval of the plan “as providing reasonable policy guidance for future PG&E Smart Grid investments, projects and initiatives to be reviewed in future Commission proceedings.”<sup>2</sup> SCE describes its plan as setting forth “provisional guidance about the smart grid investments that SCE is considering over the next ten years,” but with the recognition that technologies and cost and benefit estimates associated with any particular

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<sup>1</sup> SDG&E Application, p. 7.

<sup>2</sup> PG&E Application, p. 5.

technology are likely to change in the future. Therefore SCE makes clear that its plan does not seek approval in this proceeding of any project described therein, and that it will seek such approval in its general rate cases (GRCs) or special applications.<sup>3</sup> Within this context SCE simply asks the Commission to approve its Deployment Plan.<sup>4</sup>

TURN's position regarding these applications depends in large part on how the Commission intends to rely on the applications and the Smart Grid Deployment Plan submitted by each of the major electric utilities, and what "approval" of the plan means for purposes of review of the more specific proposals for Smart Grid projects and programs.

TURN recommends that the Plans be treated as illustrative in nature, setting forth a range of possible programs or efforts that might be part of a utility's Smart Grid activities, but without any determination of whether a specific program or effort is reasonable for purposes of rate recovery of the associated costs. As a result of its current review, the Commission may well identify elements of each plan that it wishes to call out as warranting further development or explanation at this time, or that merits consideration and perhaps emulation by the other utilities. But there would be nothing in the final decision here that would predetermine any outcome or create any presumption of reasonableness when the Commission is presented with specific utility proposals for Smart Grid projects and must determine whether to permit rate recovery of the costs of any such project. To the extent the Commission adopts an approach consistent with treating the Plans as illustrative but not determinative of any reasonableness issues, TURN would likely not object to the initial categorization of "quasi-legislative" or the determination that hearings are unnecessary.

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<sup>3</sup> SCE Application, p. 5.

<sup>4</sup> *Id.*, p. 3.

On the other hand, should the Commission intend to have this proceeding result in any ruling or decision that might serve to create a presumption of reasonableness or otherwise impact cost recovery through rates in any separate proceeding addressing specific proposals for Smart Grid projects, TURN submits that the appropriate categorization is “rate setting” and evidentiary hearings will be necessary. The utility-submitted Smart Grid Deployment Plans broadly describe billions of dollars of investment already made that the utilities deem “smart grid” related (largely in the form of advanced metering infrastructure (AMI) spending), hundreds of millions (and perhaps billions) of dollars for near-term additional spending that is already included in pending GRC applications, and billions more that could be the subject of future requests within the next decade. The Plans also allude to additional costs that would be required for implementation but are not identified or estimated in the Plans. All of these costs are very real and very front-loaded, while many of the benefits are most courteously described as “soft” and likely to arrive at some less well-defined point in the future, if at all. Therefore the Commission should limit its review of these Plans to the matters necessary to conclude the broad survey of the current state of Smart Grid plans, and to identifying additional information that the utilities would need to provide in proceedings that seek approval of specific spending proposals for specific Smart Grid programs or projects.

**A. The Commission Should Require That Each Smart Grid Deployment Plan Provide For Identification And Inclusion Of All Related Costs When A Utility Presents Specific Projects or Programs For Approval, Consistent With The Emphasis on Cost-Effectiveness in SB 17.**

When the Legislature enacted SB 17 in 2009, seven of the ten separately identified characteristics of a “smart grid” referred to cost-effectiveness.<sup>5</sup> None of the utilities’ Smart Grid

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<sup>5</sup> Public Utilities Code Section 8360 states, “It is the policy of the state to modernize the state's electrical transmission and distribution system to maintain safe, reliable, efficient, and secure electrical service,

Deployment Plans purports to demonstrate cost-effectiveness of any particular project or proposal that might be pursued in the future. TURN is not criticizing the plans for the absence of such a showing, as it is consistent with the general lack of detail about any particular project or proposal. Of greater concern at this juncture is the fact that each plan describes costs that the utility suggests should be omitted from the cost-effectiveness determination at the time it is made. The Commission should address these proposed omissions now and make absolutely clear that the costs in question may well be part of that cost-effectiveness determination once the utility presents more specific projects or proposals for Commission consideration and approval.

TURN submits that the Commission needs to identify and consider the full panoply of costs associated with Smart Grid projects and proposals in order to accurately assess the cost-effectiveness of each such project or proposal. The Smart Grid Deployment Plans generally

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with infrastructure that can meet future growth in demand and achieve all of the following, which together characterize a smart grid:

(a) Increased use of cost-effective digital information and control technology to improve reliability, security, and efficiency of the electric grid.

(b) Dynamic optimization of grid operations and resources, including appropriate consideration for asset management and utilization of related grid operations and resources, with cost-effective full cyber security.

(c) Deployment and integration of cost-effective distributed resources and generation, including renewable resources.

(d) Development and incorporation of cost-effective demand response, demand-side resources, and energy-efficient resources.

(e) Deployment of cost-effective smart technologies, including real time, automated, interactive technologies that optimize the physical operation of appliances and consumer devices for metering, communications concerning grid operations and status, and distribution automation.

(f) Integration of cost-effective smart appliances and consumer devices.

(g) Deployment and integration of cost-effective advanced electricity storage and peak-shaving technologies, including plug-in electric and hybrid electric vehicles, and thermal-storage air-conditioning.

(h) Provide consumers with timely information and control options.

(i) Develop standards for communication and interoperability of appliances and equipment connected to the electric grid, including the infrastructure serving the grid.

(j) Identification and lowering of unreasonable or unnecessary barriers to adoption of smart grid technologies, practices, and services.” (Emphasis added)

describe costs that are real and front-loaded, while the greater share of the benefits are forecasted and therefore subject to deferral and delay. It is clear that California consumers will pay higher rates under the utilities' plans to spend billions on "smart grid" equipment and programs. On the other hand, even if the benefits appear in the promised amount and within the predicted time frame, they may not serve to reduce rates.<sup>6</sup> And a very significant defect of each plan is the lack of any criteria that would allow a meaningful review of whether the benefits will actually occur.

There appear to be at least two broad categories of costs that the utilities may not have included in the cost-benefit analysis as presented in the Smart Grid Deployment Plans. TURN urges the Commission to direct the utilities to identify and estimate those costs to the best of their ability at this time and, more importantly, to identify, estimate and include those costs in any future showing seeking to establish that a particular program or project is cost-effective.

### **1. Baseline or Platform Costs**

The first category includes costs of "baseline" or "platform" infrastructure that the utilities describe as essential to the development of Smart Grid-related projects or programs. For example, PG&E's plan describes "Smart Grid Baseline Projects" that directly leverage the integration of communications and advanced control technologies.<sup>7</sup> PG&E anticipates a combined cost of \$1.426 billion for the "remaining spend" on such baseline projects.<sup>8</sup> PG&E describes some of these as "foundational and supporting investments . . . without which

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<sup>6</sup> See, for example, SDG&E Smart Grid Deployment Plan, Executive Summary p. 8 ["The majority of benefits derive from societal and 'soft' benefits such as maintaining or improving reliability in the face of a more complex grid, avoided costs, reduction of commodity cost, environmental and others, and so they minimally reduce operating costs and are not projected to significantly impact rates, although customers who leverage Smart Grid technologies and data will have the capabilities they need to manage and reduce their bills."]

<sup>7</sup> PG&E Smart Grid Deployment Plan, p. 63.

<sup>8</sup> *Id.*, at 70.

individual Smart Grid projects and programs are infeasible or cost-ineffective.”<sup>9</sup> However, the costs of such “Baseline Projects” appear to be excluded from the initial assessment of cost-effectiveness in the Smart Grid Deployment Plan.

Similarly, SCE distinguishes between “platform” and “incremental” infrastructure investments associated with Smart Grid projects or programs. According to SCE, such “investments in platform infrastructure that will enable smart grid capabilities is a critical step in bringing about a smart grid. As these investments support many capabilities, and in most cases also support core utility functions, SCE does not apply a direct cost/benefit analysis to each of these investments.”<sup>10</sup>

These “baseline” or “platform” investments raise a number of issues that the Commission will need to address:

- To the extent the utility seeks approval of these investments in the near term, such as in a general rate case (GRC), the Commission will need to determine the level of showing necessary to demonstrate that the investment meets the SB 17 cost-effectiveness requirements. In the near-term, this is more likely to be an issue addressed in utility-specific GRCs.
- The Smart Grid Deployment Plans presume a world in which the utilities achieve perfect prescience, such that all of their “baseline” or “platform” investments to support Smart Grid as presently envisioned will continue to be used and useful throughout the life of those investments. The utilities might be proven correct in this regard. However, the Smart Grid might evolve in ways very different than they currently anticipate, a point raised in each of the plans. None of the plans acknowledge this potential for stranded investment.
- When the Commission is presented with a proposal for a specific Smart Grid project or program, either in a future GRC or in a special application, the Commission will need to determine the appropriate treatment of such “baseline” or “platform” costs in the analysis of the costs of the specific project or program. There may be circumstances that warrant the exclusion of such costs, but there may also be circumstances that will warrant inclusion of at least some portion of those costs. The utilities’ Smart Grid Deployment Plans simply exclude those costs.

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<sup>9</sup> *Id.*, at 13.

<sup>10</sup> SCE Smart Grid Deployment Plan, p. 130.

- The treatment of such “baseline” or “platform” costs may also have implications for the Commission’s desire to “promote innovation and competition among companies developing new products and services.”<sup>11</sup> The utility could have an undue competitive advantage if it is permitted rate recovery of “baseline” or “platform” costs where some portion of those costs would also have to be incurred by the unregulated innovators and competitors.

The Commission should direct the utilities to identify and quantify all such “baseline” or “platform” costs that support a specific project or program that is proposed in the future, and to clearly and explicitly describe the proposed treatment of those costs for purposes of calculating the cost-effectiveness of project or program.

## 2. Other Omitted Costs

SDG&E’s section on “cost estimates” has a footnoted title, with the footnote explaining that the utility has included capital expenditures and operating and maintenance expenses, but not “additional elements of total costs of projects that are included in rates paid by customers.”<sup>12</sup> PG&E makes a similar disclaimer in describing costs for the “Engaged Consumers” projects, when it describes customer program design and marketing and tariff design as “[k]ey elements that will affect the benefits attributable to [those] projects, but are not factored into the cost analysis.”<sup>13</sup> TURN is concerned that the Commission’s approval of the Smart Grid Deployment Plans here might be interpreted as at least a tacit determination that such exclusion of costs is appropriate for purposes of assessing the cost-effectiveness of Smart Grid programs or projects in a GRC or separate application setting. Like the “platform” or “baseline” costs discussed above, TURN urges the Commission to direct the utilities to identify and quantify all such elements of total costs to utility customers of the specific program or project, and to clearly and

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<sup>11</sup> D.10-06-047, pp. 4 and 36.

<sup>12</sup> SDG&E Smart Grid Deployment Plan, p. 265.

<sup>13</sup> PG&E Smart Grid Deployment Plan, p. 161.

explicitly describe the proposed treatment of those costs for purposes of calculating the cost-effectiveness of project or program.

**B. The Commission Should Direct The Utilities To Present An Alternative Approach That Focuses On The Most Cost-Effective Elements On Their Deployment Plans.**

The utility-submitted Smart Grid Deployment Plans catalogue a universe of Smart Grid-related programs and projects that the utility could pursue if it were given virtually unlimited resources. The Commission would be better informed if it also obtained from each utility a less ambitious plan, one that focuses on those programs that achieve the greatest amount of benefit per dollar spent. TURN submits that such an alternative scenario is appropriate for inclusion and consideration under any circumstances, and is especially appropriate when the state's economy remains mired in a slump that might cause "engaged consumers" to instead be "enraged consumers" in the face of rate increases made in the name of implementing a smarter grid.

The Commission has recent experience with such an approach. In A.08-05-023, PG&E proposed a distribution reliability improvement program that, as presented by the utility, would have spent nearly \$2 billion on capital expenditures over a six-year period. The Commission instead approved \$357 million of expenditures over a four-year period, noting that this 18% of the requested amount could still be expected to deliver up to 68% of the quantifiable reliability improvement benefits. D.10-06-048, p. 2. Here, the Smart Grid Deployment Plans treat each proposed Smart Grid investment as if it were equally necessary in order to meet the objectives of SB 17. The utilities should be directed to supplement their plans with alternative scenarios that describe what they would do differently if the Commission were to limit the approved funding to 25% or 50% of the amount described in their initial plans, and how they would prioritize their spending to achieve the greatest amount of benefits in the face of this lower spending.

## **II. Effect of the Application on the Protestant**

TURN is a non-profit consumer advocacy organization, and has a long history of representing the interests of residential and small commercial customers of California's utility companies before this Commission. TURN's articles of incorporation specifically authorize our representation of the interests of residential customers. To the extent the regulated energy utilities pursue and implement Smart Grid programs and projects, TURN's constituents will certainly bear the burden of higher rates to fund those programs and projects, and might see some amount of direct benefits as well.

## **III. Need for Evidentiary Hearings**

In Resolution ALJ 176-3276 (June 23, 2011) and Resolution ALJ 176-3277 (July 15, 2011), the Commission preliminarily determined that each of the three consolidated applications should be categorized as "quasi-legislative" and that evidentiary hearings will not be necessary. TURN submits that the correctness of this determination depends on how the Commission plans to consider and review the Smart Grid Deployment Plans.

As described earlier, TURN recommends that the Commission limit its review of the Plans to a consideration of whether they illustrate the range of projects and activities that a utility might pursue, as well as a very rough estimate of the costs and benefits that might be incurred or achieved through such projects and activities, but without creating any presumption of reasonableness for any particular project or activity. If the Commission generally agrees with this more limited scope of the issues it will address in this proceeding, there may not be a need for hearings. On the other hand, if the Commission intends to rely in any substantive way on these plans as a showing of the reasonableness or appropriateness of any Smart Grid-related activity for purposes of rate recovery of the associated costs, it needs to adopt a schedule that

permits interested parties time for discovery and preparation of direct testimony, and schedule hearings.

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Respectfully submitted,

By: \_\_\_\_\_/S/\_\_\_\_\_

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