BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of Modifications to its SmartMeter™ Program and Increased Revenue Requirements to Recover the Costs of the Modifications (U39M).	A.11-03-014, (Filed March 24, 2011)
And Related Matters.	A.11-03-015 A.11-07-020

OPENING BRIEF
OF THE DIVISION OF RATEPAYER ADVOCATES

ROBERT W. HAGA
Attorney for the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (415) 703-2538
E-mail: robert.haga@cpuc.ca.gov

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

CPUC DECISION

CPUC RULES

STATUTES

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of Modifications to its SmartMeter™ Program and Increased Revenue Requirements to Recover the Costs of the Modifications (U39M).	A.11-03-014, (Filed March 24, 2011)
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I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 13.11 of the Commission's Rules of Practice and Procedure and by order of the Administrative Law Judge, the Division of Ratepayer Advocates (DRA) submits this post hearing Opening Brief on the Applications consolidated in this proceeding to enable customers to opt-out of advanced meter installation ("Opt-Out Proceeding"). The Division of Ratepayer Advocates ("DRA") only addressed the opt-out cost estimates of the four Investor-Owned Utilities ("IOUs"), which are Pacific Gas and Electric Company ("PG&E"), Southern California Gas Company ("SoCalGas"), Southern California Edison Company ("SCE"), and San Diego Gas and Electric Company ("SDG&E"). DRA does not take a position on how the opt-out costs should be allocated or on the community opt-out issues.[1]

[1] DRA is not taking a position on several of the issues posed in the Scoping Ruling. This does not mean that DRA endorses all of those positions and the associated cost estimates presented by the IOUs. DRA does not necessarily deem reasonable those cost items that it does not discuss here.

A. Summary of Recommendations

DRA recommends that the Commission adopt DRA's cost estimates. The estimates of the IOUs are overstated and should be reduced. The following table shows the IOUs' and DRA's estimates for each utility:

Opt-Out Costs

	PG&E	SoCalGas	SCE[2]	SDG&E
IOU	$43.1 million	$29.9 million	$20.8 million/ $18.6 million	$1.5 million
DRA	$27.2 million[3]	$13.4 million	$17.8 million/ $15.6 million	$1.4 million

1. <u>Costs Associated with the Initial Fees</u>

DRA recommends the Commission:

- Disallow PG&E's and SDG&E's analog meter purchase costs as the IOUs are still recovering their costs for the analog meters. SCE and SoCalGas have not asked for meter cost recovery in this Opt-Out proceeding.
- Disallow PG&E's request for cost recovery relating to field visits to the "unable to complete" (UTC) customer sites for smart meter installations. Including these costs would add hundreds of dollars to each Opt-Out customer's initial fees or millions of dollars to the costs borne by non-participants. These costs are part of PG&E's authorized smart meter deployment budget, which included a contingency allowance of hundreds of millions of dollars to cover unforeseen deployment problems.

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[2] The higher number reflects monthly meter reading while the smaller number reflects quarterly meter reading. All the numbers reflect SCE's errata update.

[3] This estimate did not remove PG&E's analog meter costs that were already purchased and recorded. If it were, the total number would have been $25.7 million.

- Disallow SoCalGas' cost for inspecting and tagging analog meters for Opt-Out participants. This task can be combined with other functions (e.g., meter reading), thereby avoiding an additional $24 initial charge per Opt-Out customer.
- Reduce SoCalGas' and SCE's initial fees by removing exit costs.
- Disallow $938,373 in PG&E's Information Technology costs. PG&E has not adequately demonstrated why its IT costs of implementing its Opt-Out program should be so much greater than SDG&E's, and most of the implementation costs are not dependent on the number of Opt-Out customers.

2. **Costs Associated with the Monthly Fees**

DRA recommends the Commission:

- Direct the IOUs, especially SoCalGas and SCE, to develop innovative solutions to reduce meter reading costs to mitigate monthly fees. In section II.B.1.e. of this opening brief, DRA provides a few potential methods to reduce monthly fees, such as reading meters bi-monthly in conjunction with the level payment plan. DRA recommends that the Commission order the utilities to study the different meter reading approaches and to report back to the Commission. The Commission also should seek specific legislation, if necessary, to allow for less frequent meter reading for customers that are choosing to retain their analog meters.
- Correct PG&E's meter reading costs to properly reflect the fact that the incremental cost of reading a second meter for dual commodity customers is negligible.
- Disallow SCE's disconnect and reconnect fees in the monthly Opt-Out fee. Such costs only should apply to customers who fail to make the required payments, triggering the disconnection process.

3. **Costs Associated with the Exit Fees**

DRA recommends the Commission:

- Disallow exit fees but direct the IOUs to track the associated costs for reassessment in the next GRC. All the IOUs intend to collect initial fees when the customer first signs up for the Program and to charge an initial fee again whenever they move to another location within their service territory. As proposed, the exit fees are variously charged when the customer moves or as part of the initial fee. At this time, there is little or no data to support exit fees.

II. OPT-OUT COSTS

A. Initial Fees

1. Meter Purchase Cost Recovery

The Commission should reject PG&E and SDG&E's requests to recover analog meter purchase costs in the Opt-Out Program. The IOUs have been replacing analog meters with smart meters over the past several years, and none have entirely completed deployment. The number of removed analog meters is many times the number needed to supply Opt-Out customers, and customers are still paying for analog meters in rates as well as paying for the new Smart Meter costs.

a. The Commission Should Reject PG&E's Meter Purchase Cost Requests.

PG&E requested $1.74 million[4] for purchasing analog meters[5] for Opt-Out customers. Both DRA and TURN recommend that the Commission disallow the IOUs' requests for analog meter costs.[6]

i. PG&E's Request Would Result in Duplicative Cost Recovery.

Granting PG&E's analog meter purchase requests would amount to double cost recovery. The ratepayers are paying $74 million for these "retired" analog meters each year through 2016 during the transition to SmartMeters.[7] In D.11-05-018, the

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[4] Exh. PG&E-1, p. 3-2, Table 3-1.

[5] Analog meters refer to the old electromechanical meters or analog meters.

[6] Exh. DRA 1, pp. 1-7 & 2-2 through 2-4. Exh. TURN 1, p. 12.

[7] Exh. DRA 1, p. 2-3, footnote 4 "PG&E's response to DRA-10 confirms that PG&E is receiving about $74 million for these analog meters. The same data request response also indicates that analog gas meters were not retired at all. They were modified by adding a smart meter module to convert them to smart

Commission allowed PG&E to accelerate its analog meter depreciation over the next six years due to the replacement of smart meters.

> *The undepreciated balance of electromechanical electric meters replaced by SmartMeters, amounting to $340,966,000, shall be amortized over the six-year period 2011 through 2016. The applicable rate of return on the unamortized balance shall be 6.3%. As part of Pacific Gas and Electric Company's test year 2014 general rate case, the applicable rate of return used for the retired electromechanical meters for the years 2014 through 2016 may be modified to reflect the most recent authorized returns for long-term debt, preferred stock, and a recalculated return on equity equal to the average of the most recent long-term debt rate and otherwise applicable return on equity. Whether the remaining balance should be amortized on a levelized or declining basis may be addressed at that time.*

To require ratepayers to pay for analog meter purchase costs through the Opt-Out proceeding results in ratepayers paying for the analog meters twice, once through the GRC and again through the Opt-Out proceeding. This is on top of the several hundred million dollars that ratepayers already are paying for the smart meters.[8] It is not reasonable to require ratepayers to pay for prematurely retired analog meters, smart meters, and newly purchased analog meters to replace the unwanted meters. PG&E can request in the 2017 GRC cost recovery for any new analog meter needs beyond 2016 when the recovery of analog meter is completed as currently authorized by the Commission.

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meters. Therefore, PG&E basically should remove the module (if they already received the module) for customers who decided to opt out. There is no need to buy new gas analog meters."

[8] Id.

ii. PG&E Disposed of Millions of Analog Meters and Should not Benefit Because of its Poor Decisions.

TURN recommends that the Commission disallow PG&E's meter purchase costs because PG&E did not adequately plan to save and reuse its analog meters as did the other utilities.[9] PG&E argues that it had determined that it is more cost-effective to buy new analog meters for its Opt-Out Program than to refurbish old analog meters. PG&E made this determination in December 2011.[10]

However, PG&E disposed of millions of analog meters before performing this cost-benefit analysis. PG&E started its SmartMeter installation deployment in 2007[11] and has been discarding the analog meters by giving them away to a recycling center.[12] PG&E also stated that it started encountering SmartMeter challenges in 2009.[13] And yet, PG&E did not consider a cost-benefit assessment of retaining the analog meters until December 2011. This does not demonstrate an adequate planning process.

PG&E asserts that its cost-benefit analysis demonstrates that purchasing new analog meters is more cost-effective than to refurbish the old ones[14]. However, its cost-effectiveness study relied on a very high labor rate of $75 to $90/hr.,[15] based on using PG&E's meter repair shop staff.[16] In answering to DRA counsel's cross examination, PG&E admitted that it did not consider alternative lower cost solutions.[17] PG&E projected the new analog meter costs to be $28 and $60 for electric and gas analog

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[9] Exh. TURN 1, p. 12.

[10] Exh. PG&E 2, p. 1-7.

[11] Exh DRA 8, p. 12.

[12] Exh. DRA 1, p. 2-3.

[13] Id., p. 2-4.

[14] Exh. PG&E 2, p. 1-7.

[15] Exh. DRA 9, p. 2.

[16] Exh. PG&E 2, p. 1-7.

[17] PG&E/Phillips 2 TR 224 lines 9-17.

meters,[18] respectively. DRA noted that, if it were really necessary to purchase analog meters, the market offers much more economic choices. PG&E suggested that it could only resell its analog meter at a value of $1/meter. SCE provided information that analog meters may be purchased for $12.65/unit.[19] All the evidence strongly disproves PG&E's cost-benefit analysis (which was conducted after millions of analog meters already had been discarded). PG&E should not now profit from its decisions to continue to dispose of all analog meters after 2009, and its failure to consider lower-cost options to re-use analog meters. Accordingly the Commission should disallow PG&E's request for analog meter repurchase costs.

b. SoCalGas and SCE Properly Do Not Include Meter Purchase Costs in Their Applications.

SoCalGas has not proposed to purchase analog meters as part of the Opt-Out Program. This is consistent with DRA's recommendation.

SCE states, in its Prepared Testimony, that it currently is retaining an inventory of analog meters in anticipation of customers electing to opt out of the Smart Meter Program. Therefore, SCE is not purchasing analog meters for Opt-Out customers at this time.[20] DRA agrees that the Opt-Out costs should not include any analog meter purchase costs.

c. The Commission Should Disallow Analog Electric Meter Purchase Costs for SDG&E in the Opt-Out Proceeding.

DRA recommends disallowing SDG&E's analog meter costs of $61,802, noting that SDG&E has been granted $85 million for the undepreciated cost of analog meters in its ratebase.[21] In its rebuttal testimony, SDG&E made two main arguments. First, it

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[18] Exh. PG&E 5, WP 3-2.

[19] Exh. DRA 10, p. 10.

[20] Exh. SCE 1, p. 14

[21] Exh. DRA 1, p. 5-3.

stated that only $27,934 is associated with analog electric meters,[22] while the rest is allocated to gas meters and meter Opt-Out tags.[23]

The second point is:

> *[T]he status of SDG&E's rate treatment of analog meters is an open matter before this Commission in SDG&E's TY 2012 General Rate Case, A.10-12-005. Consequently, pending the Commission's final decision in proceeding A.10-12-005, the $27,934 for analog meter costs should remain in the Opt-Out charges.* [24]

It appears that both DRA and SDG&E agree that the approval of analog meter costs is dependent on the resolution of the GRC TY 2012. To avoid the potential for cost duplication, DRA continues to recommend that the Commission disallow analog electric meter purchase costs for SDG&E in the Opt-Out proceeding.

2. Meter Exchange Cost Recovery

a. The Commission Should Reject PG&E's Meter Exchange Cost Associated with Wellington Field Visits.

PG&E originally requested that $11 million be charged to the Opt-Out Program to pay for field visits,[25] conducted by Wellington Energy Inc. (WEI).[26] These visits would occur at a projected 250,000 UTC meter sites. The objective of the visits is to either complete the SmartMeter installation or to clearly identify that the customer "truly" does not want a SmartMeter. In its rebuttal testimony, PG&E revised its WEI costs down to

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22 Exh. SDG&E 4, p. CS-2.

23 Regarding the first point, it appeared that SDG&E needed to revise its IT system in order to accommodate easily adding/removing smart meter gas modules. (See DRA 2, p.1) SDG&E did not provide convincing evidence to justify such cost recovery. It is unclear why the system was not developed when the mass deployment required adding a smart meter module. For this reason, DRA continues to recommend disallowance of both gas and electric analog meter purchase costs.

24 Exh. SDG&E 4, p. CS-2

25 Exh. DRA 13, PG&E Workpapers 3-3.

26 Wellington Energy is PG&E's SmartMeter installation vendor. Exh. PG&E 2, p. 2-2.

approximately $6 million.[27] This appears to suggest that there are 237,561 UTC meters,[28] but that only 141,150 UTC meters[29] require WEI field visits. PG&E's new evidence in the rebuttal casts doubt on the reasonableness of funding any further visits to the UTC meter sites, as discussed below.

i. The Primary Goal for WEI Field Visits is to Install SmartMeters Which Is Not Related to the Opt-Out Program.

In its rebuttal testimony, PG&E identified three UTC categories. The first category consists of customers on a Do-Not-Install (UNI) list and includes 101,771 UTC meters,[30] which represent 71 percent of PG&E's revised WEI field visits. For this category, PG&E claimed that all of them require one extra WEI field visit and desires to charge these costs to the Opt-Out Program. PG&E defines Category 2 as: Other "access"-based UTCs, who are customers that have not explicitly communicated their preference, but have not provided reasonable access to the meters, and for which PG&E's SmartMeter™ Program has made multiple attempts to contact. Category 3 is considered "Future access-based UTCs," of which new meter installation attempts would be made through 2013. PG&E explained that Category 3 is a forecast of an additional number of Do-Not-Install UTCs and other access-based UTCs (i.e., Categories 1 and 2 above) that derive from prospective installation efforts. For the second and third categories, PG&E proposed to charge 29 percent of the WEI visits to the Opt-Out Program costs.

PG&E defines the UNI customers as those who effectively refused installation of SmartMeters previously[31]. PG&E asserted that it plans to make an additional field visit to each UNI customer and it proposed that the Opt-Out Program cover the costs

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[27] Exh. PG&E 4, WP 3-3R.

[28] Exh. PG&E 2, p. 2-5, Table 2-1.

[29] Id., p. 2-7, Table 2-2.

[30] Exh. PG&E 2, p. 2-7, Table 2-2.

[31] Id., pp. 2-6 & 2-7.

associated with this extra field visit.[32] However, PG&E's witness stated that these customers' intent was clear that they expressed that they do not want SmartMeters.[33] PG&E has clearly understood those customers' intent as it has not made any attempt to install SmartMeters in the UNI situations:

> *Q: So, this grouping is for customers that as of February 1st of this year PG&E has not made any attempt to install SmartMeters?*
>
> *A: That is correct.* [34]

The reason for not visiting these customers has to be that these customers had made very clear their intentions that they do not want SmartMeters, and thus, PG&E did not attempt to have its vendor visit these customers at all since the SmartMeter Opt-Out Program started in February 2012. Even if it were necessary to visit these customers, PG&E's SmartMeter installation program already includes field visits and installation costs for all residential customers, including the UNI customers. PG&E's own rebuttal testimony supports how such costs should have been treated:

> *To date, how has PG&E accounted for the costs of these multiple attempts to contact customers and install SmartMeters™?*
>
> *The cost of these multiple attempts has been and will continue to be charged to the SmartMeter™ Balancing Account. PG&E does not propose to change this process, nor does it propose to "allocate" any past costs to the SmartMeter™ Opt-Out Program.*[35]

To now ask for additional rate recovery for a field visit to these UTC sites as part of the Opt-Out Program is unreasonable. For the same reason, PG&E should not be

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[32] Id., pp. 2-6 & 2-7.

[33] PG&E/Meadows 3 TR 434 lines 21-25.

[34] PG&E/Meadows 3 TR 436 lines 14-17.

[35] Exh. PG&E 2, p. 2-3, emphasis added.

allowed to include WEI visits associated with physical access problems in the Opt-Out Program costs because they are part of the multiple WEI visits provided for in the original SmartMeter deployment funding.

ii. The Commission Approved Hundreds of Millions for Contingency to Cover Unanticipated SmartMeter Infrastructure Implementation Difficulties and Should Not Approve More in This Proceeding.

In its rebuttal testimony, PG&E asserted that the UTC customer list prior to February 2012[36] was a result of customers desiring meter choices when no such choices existed:

> *The SmartMeter™ challenges that began in PG&E's service territory in 2009 (and that have followed in other utilities' service territories across the country since then) were the result of customers desiring meter choice when no such choice existed. And because there was no Delay List prior to April 2011 and no Opt-Out Program prior to February 2012 (i.e., during the very time that PG&E deployed the majority of its gas and electric SmartMeters™), many customers denied PG&E and WEI access to their premises or refused installation of a SmartMeter™. In short, refusing installation or preventing reasonable access to the meters was the only way to "choose" prior to PG&E's creation of its Delay List in April 2011, and the only way to "Opt-Out" prior to the Commission's approval of the Opt-Out Program in February 2012. And so many PG&E customers did just that.* [37]

DRA previously demonstrated that additional WEI field visit costs are clearly SmartMeter installation costs, and the Commission should not require ratepayers to pay for additional visits in this proceeding. If such additional visits are to be recovered from

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[36] Prior to Feb 2012 would be the first UTC category that consists of 101, 771 meters for WEI field visits.

[37] Exh. PG&E 2, p. 2-4.

ratepayers PG&E should file a petition to modify its SmartMeter program implementation. That is the appropriate proceeding for PG&E to justify its costs to "confirm" customers' intent. Additional field visit costs should not be borne by ratepayers in this proceeding as PG&E has had ample time and resources to confirm the customers' intent given PG&E's acknowledgement that problems started back in 2009. It is likely that PG&E thought its SmartMeter contingency costs were adequate to cover such implementation challenges. This is not a surprising assumption because the Commission approved $128.8 million in contingency allowance[38] to cover cost overruns as part of its $1.68 billion initial advanced meter (or smart meter) infrastructure ("AMI") build out as well as $49 million[39] in its AMI upgrade case.

PG&E also was given another $100 million (which is 5.3 percent of the total project costs) on top of the $1.68 billion for recovery without subject to reasonableness review as described in D.07-07-027 and quoted below:

> *In addition to the risk-based allowance included in the deployment cost forecast, PG&E and DRA stipulated (Ex. 28) to project cost recovery even if the Commission adopted a different revenue requirement than agreed to between PG&E and DRA. The stipulation includes:*
>
> *1. $1.6846 billion of project costs would be deemed reasonable and recovered in rates without any after-the-fact reasonableness review.*
>
> *2. 90% of up to $100 million in project costs beyond the $1.6846 billion, if any, would also be deemed reasonable and recovered in rates without any after-the-fact reasonableness*

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[38] "As a part of the project costs, PG&E included what it described as a Risk-Based Allowance or a contingency of $128.8 million. If one part of the project exceeds budget then there is a process for project managers to draw-down" or authorize the use of the contingency to complete the project. In effect, by approving the proposed budget, the Commission explicitly allows PG&E the discretion to spend $128.8 million to address delays, overruns or other unforeseen contingencies as a part of the reasonable costs of the project. DRA supports the contingency." Exh. DRA 1, p. 2-6 citing D.07-07-027.

[39] Exh. DRA 8, p.13, total contingency allowance is $178 million, which consists of 129 million from the original AMI, plus 49 million from AMI upgrade.

review. The remaining 10% will be absorbed by PG&E's shareholders.

3. Costs in excess of $100 million over the $1.6846 billion will be recoverable only if approved by the Commission in a reasonableness review.

So, in total, PG&E effectively was given $268 million in contingency allowance,[40] which represents 13% of the AMI project costs. A large portion of the AMI project costs were related to installing smart meters for all residential customers. With such generous allowance to mitigate unforeseeable events, PG&E should not be allowed to charge another $6 million in WEI field visits to the Opt-Out Program. The $6 million request is merely about 2% of the total contingency allowances and should be rejected.

iii. PG&E Overstates Potential WEI Opt-Out Costs.

In addition to the issue that the WEI costs should have been counted as part of SmartMeter Infrastructure costs, it appears that PG&E over-states these costs. For instance, PG&E would still charge WEI costs to the Opt-Out Program even if WEI successfully installs SmartMeters for many of the UNI list. This was confirmed for the first category, the 101,771 meters, by PG&E's witness:

Q: If they accept a SmartMeter, the cost of that visit is still charged to the Opt-Out customers?

A: For these customers that is our proposal, yes.[41]

Furthermore, for customers with dual meters, they would be charged two WEI field visits even though the meters are on the same address, and WEI does not have to do

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[40] $129 million + 49 million + 90 million = $268 million. Note, the $90 million is not technically called a "contingency allowance" in the AMI deployment proceedings, but it differs only in that PG&E has to give up $10 million in order to obtain this additional $90 million.

[41] PG&E/Meadows 3 TR 442 lines 18-22, referring to Exh. 2, Table 2-2.

two visits for those customers. However, PG&E would charge customers based on the number of meters rather than the number of sites.

> *A: Well, I wouldn't say double. These are meters, not locations. There is no double count of meters in this list. Multiple meters could be present at a single location.*
>
> *Q: And no matter how many meters they do with that visit, they are going to charge you for that – for the total number – times the total number of meters that are at that location?*
>
> *A: That is my understanding.*[42]

Finally, there is another issue that PG&E has territories in which it has not yet deployed AMI.[43] PG&E counted 29 percent of WEI field visits as future access-based UTCs (Category 3) for new smart meter installation attempts through 2013 as Opt-Out costs.[44] It is not clear whether these future access-based UTCs are part of the service areas that are awaiting AMI implementation. PG&E cannot reasonably request the WEI visits be counted toward Opt-Out costs.

For all the reasons set forth above, the Commission should deny PG&E's WEI field visit costs as part of the Opt-Out Program costs.

b. The Commission Should Substantially Reduce PG&E's Meter Exchange Installation Costs.

For customers who already have a smart meter and decide to opt out, PG&E would have to remove the smart meter and replace it with the analog meter. DRA noted that PG&E's cost estimates for this task (i.e., exchanging a smart meter to an analog meter) are several times that of the other California IOUs, as shown below:[45]

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[42] PG&E/Meadows 3 TR 440 lines 10-20

[43] PG&E/Meadows 3 TR 436 lines 20-25.

[44] This is Category 3 of the UTCs.

[45] Exh. DRA 1, p. 2-8, Table 2-2.

Exchange Smart Meter back to Analog meter Unit Cost ($)

	Electric	Gas
PG&E	128	117
SCG		32
SCE	39	
SDG&E	43	43

In its rebuttal testimony, PG&E argued that its estimates were based on its actual data:

> *No. PG&E's forecast of the costs to physically remove a SmartMeter™ already in place and install an analog meter is based on the actual costs incurred for this activity for the period February through June 2012, as noted on workpaper, page WP 3-3. PG&E began its Opt-Out Program in advance of the other utilities and therefore has more actual cost information than the other utilities. PG&E believes it is more reasonable to rely on its recorded data to develop a forecast of PG&E's costs in the remainder of 2012 and 2013 than to rely on estimates from other utilities.*[46]

It is unclear why PG&E's and SCE's costs are so different because the two utilities illustrated very similar activities to complete a meter exchange. PG&E's list is described as:[47]

- Processing customer Opt-Out requests and field order
- Daily dispatching
- Ensuring adequate inventory for daily installation
- Travelling to customer premises
- Interaction with customer

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[46] Exh. PG&E 2, p.2-8.

[47] Exh. DRA 1, p.2-9.

- Removing smart meter
- Tagging the meter
- Logging the new meter information to system

SCE appears to perform similar tasks:[48]

- Travelling to customer site
- Removing existing smart meter
- Installing analog meter
- Accounting for total time at customer site[49]
- Reading the meter information into system.

Even if PG&E truly incurred such high costs, it is unjust and unreasonable for PG&E's customers to pay for costs several times that of other IOUs'. DRA recommends using the average of the other three IOUs' installation costs (which would be $39/meter) as a proxy for PG&E's cost.

c. The Commission Should Disallow SoCalGas' Proposal to Include $24 in Its Initial Fee for Inspecting and Tagging Opt-Out Analog Meters.

SoCalGas proposes to include in its initial fee for opt out customers who do not have a smart meter module a $24 cost to inspect and tag their meter. This cost should be disallowed for two reasons. First, it increases SoCalGas' initial fee by almost 24 percent.[50] Second, this high cost effectively can be avoided by having field staff, who already perform other tasks, tag the meter rather than dispatching field staff only for this purpose. Indeed, Witness Petersila testified that SoCalGas already is experimenting with

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[48] Id.

[49] Assume this would have included some customer interaction.

[50] Exh. DRA 1, p. 3-3, Table 3-1, under no module installed scenario, the tag is $24 and SoCalGas' total initial is $126, without the tag, the initial is $102. 24/102 is 24%.

having meter readers tag Opt-Out customers' meters upon receiving a request from that customer to opt out.[51]

In addition, because a customer cannot be enrolled in the Opt-Out program until the surrounding neighborhood has had smart meter modules deployed,[52] the customer should have ample opportunity to request that a Smart Meter module not be installed. A meter reader will likely visit such residences multiple times before modules are deployed in that area, and the incremental time required to tag a meter as Opt-Out after reading it should be negligible. Moreover, SoCalGas asserts that it plans to make a conscious effort, in its outreach plans, to notify customers that a smart meter module will be installed and of each customer's opportunity to opt out if they so choose.[53] With the combination of effective outreach plans and field visits to complete Smart Meter deployment, as well as multiple meter readings throughout the deployment duration, SoCalGas should be able to complete the meter tagging without adding this additional cost to Opt-Out customers.

Mr. Petersilia explained that, in the event that a SoCalGas employee visits a customer's site with the intention of installing a smart module, and the customer only then informs the installer that he or she wants to opt out, SoCalGas had planned on instructing the customer to call SoCalGas, after which a subsequent visit would be made to tag the meter.[54] If SoCalGas conducts its deployment carefully, as they have in the Cerritos-Lakewood area,[55] there should be very few customers who fall into this category. For those who do fall into this category, DRA sees no reason why these customers require another visit simply to tag their meter as Opt-Out, when there will be a SoCalGas employee at the location at the time of notification of wanting to opt out. Even

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[51] SoCalGas/Petersilia 1 TR 77 lines 23-28.

[52] Exh. DRA 6, response to question 02.

[53] Exh. DRA 3, 4 and 5.

[54] SoCalGas/Petersilia 1 TR 76 line 22 – 77 line 4.

[55] SoCalGas/Petersilia 1 TR 72 lines 3-13.

for a subsequent visit, it can be combined with other tasks. Therefore, neither situation warrants a charge of $24 within each Opt-Out customer's initial fee.

3. The Commission Should Disallow $983,373 of PG&E'S Requested Information Technology Costs.

DRA recommends that the Commission adopt, as a starting point, DRA's recommendation to disallow $938,373 in PG&E's Information Technology (IT) costs.[56] PG&E justifies its generous IT budget based on its "… unique business requirements, including the company's rate schedules, customer programs, tariff provisions, customer population size, territory size, geographic conditions, and other factors."[57] It adds that "These IT systems are necessarily complex."[58]

PG&E's projected IT costs, however, are 20 times greater than SDG&E's, even though both PG&E and SDG&E are subject to the same regulatory rules that govern the companies' rate schedules, customer programs, and tariff provisions. The effects of population size, territory size, geographic conditions, and other factors cannot alone account for PG&E's notably high IT expenditures. PG&E has not adequately explained why its IT costs are so high and why less expensive alternatives were not considered. PG&E has also failed to explain why its costs are so much greater than the comparable work projected by SDG&E. PG&E's only attempt to justify its costs is to cite PG&E's higher number of projected Opt-Out customers, noting that the "difference in volume alone could be a factor in the approach taken to modify IT systems."[59] Yet, in its oral testimony, PG&E also stated that, in a hypothetical situation where the number of Opt-Out customers was nearly tripled, the costs would not change. Specifically, PG&E said

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[56] Exh. DRA 1, 2A-1, Table 2A- 1.

[57] PG&E Rebuttal, page 3-2 line 31—page 3-3 line 3.

[58] Id.

[59] Exh. PG&E 2, page 3-3, lines 11—12.

that "if the program as we have implemented scales to 150,000, there would be no significant incremental IT costs."[60]

a. PG&E Mischaracterized DRA's Position Regarding Additional Network Devices.

On page 3-9 of its rebuttal testimony, PG&E misrepresents DRA's testimony. It asserts that "DRA and Aglet support PG&E's $5.53 million funding request for installing additional network devices to ensure that electronic mesh network communications are not impaired as a result of the removal of SmartMeters™ due to the Opt-Out program." In actual fact, DRA specifically noted that it is unable to complete a detailed audit of all IT costs in this proceeding, and asked that its recommended disallowances be considered along with those of the other intervenors as the Commission weighs the reasonableness of PG&E's unsupported IT cost estimates.[61] PG&E acknowledged that its claim of DRA support for additional funding to enhance its network "was an oversight"[62] and should not be considered.

B. Monthly Costs

1. <u>Meter Reading Costs</u>

a. The Commission Should Adopt DRA's Meter Reading Cost of $4.45 Million for PG&E.

The Commission should reject PG&E's $6.88 million estimate for meter reading as its calculations are not reasonable. The Commission should adopt DRA's meter reading cost of $4.45 million. PG&E acknowledged that the cost to read two meters at one premise, in cases where the customer with dual commodity service has enrolled in

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[60] PG&E/Rich. 2 TR 282 lines 5—7.

[61] DRA 1, page 2A-8, lines 2-4.

[62] PG&E/Rich. 2 TR 277 line 3.

the Program, is only slightly higher than the cost to read one meter.[63] However, its workpaper showed that the meter reading costs were calculated by multiplying the cost to read a single meter by the number of meters that are expected to be in the Opt-Out Program.[64] DRA's cost estimate recalculated the expense to be the product of the cost to read a single meter and the number of customers enrolled rather than the number of meters enrolled.[65]

b. SoCalGas' Projected Meter Reading Costs Are Excessive and Unreasonable and Should Be Reduced.

DRA recommends reducing SoCalGas' total Opt-Out meter reading costs from $25.5 million to $10.6 million. SoCalGas' proposed monthly Opt-Out fee consists entirely of its manual meter reading costs. SoCalGas has estimated the Opt-Out meter reading cost based on the average of the salaries of an energy technician and a meter reader, multiplied by 25 minutes per read for the Smart Meter deployment period (2012-2017).[66] The energy technician salary is more than 50 percent higher than that of a meter reader. DRA noted, in its Prepared Testimony, that SoCalGas' meter reading fee is extremely high when compared to that of the other IOUs, as shown in the following table:[67]

[63] Exh. DRA 11 which is PG&E's response to DR DRA-004-Q05c: "Generally, once the meter reader has arrived at an individual customer's residence and has located and read the first meter, the time needed to read the second meter for a dual-commodity customer would be minimal in most instances."

[64] Id, p. 2-9.

[65] Id., p. 2-10.

[66] Exh. SCG1 p. 16.

[67] Exh DRA 1 p. 3-6, Table 3-2.

IOU Monthly Meter Reading Cost/Charge Estimates

	SCE	SoCalGas	SDG&E		PG&E	
	Single	Single	Single	Dual	Single	Dual
per meter read costs	$12.84	$24.00	$8.54	$9.04	$5.00	$5.00

DRA based its calculation of SoCalGas' meter reading cost on the salary of SoCalGas' own meter readers rather than using an average of the salaries of a meter reader and an energy technician. It multiplied this salary by the average time per meter read of the other IOUs. This calculation results in an overall meter reading cost per read under $10, but DRA recommends rounding up to $10.[68]

DRA also suggested that the IOUs develop innovative solutions, such as considering joint meter reading with neighboring IOUs or outsourcing to reduce their meter reading costs. In addition, DRA proposed the use of a balanced payment plan approach for all the IOUs. The latter is discussed in more detail below.

In its Rebuttal testimony, SoCalGas responded to DRA's proposal to reduce its meter reading cost request by arguing that

> *SoCalGas based its monthly fee on the conditions it expects to encounter once advanced meters have been installed and saturate any particular geographic area.*[69]
>
> *SoCalGas intends to complete all installations in a given geographic area before moving on to the next area. As a result, SoCalGas does not expect to retain a meter reading work force in areas in which installations have been completed.*[70]

DRA, however, finds SoCalGas' argument to be inconsistent with other information on the record. Specifically, SoCalGas is employing part-time and

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[68] Exh. DRA 1 p. 3-8, lines 3-6.

[69] Exh SCG 2 p. 3, lines 17-18 .

[70] Id., lines 21-23 and p. 4, line 1.

transitional meter readers to read some meters for its current population, and will retain at least some of this staff until 2017.[71] Furthermore, these part time meter readers receive a salary significantly less than those of either the meter readers or the energy technicians that SoCalGas proposes to perform its Opt-Out reads.[72] DRA sees no reason why SoCalGas cannot continue to employ these part time, transitional meter readers to make the Opt-Out Program much more cost-effective.

c. SCE's Projected Meter Reading Costs Should Be Reduced.

SCE also proposes a relatively high meter reading cost ($13/month) compared to PG&E and SDG&E. (See IOU Monthly Meter Reading Cost Table above.) The reason for this is that it proposes to use only field representatives to perform meter reads, the salary of which is similar to a SoCalGas energy technician and much higher than a meter reader's salary[73]. DRA recommends reducing SCE's meter reading fees to $10 to be more comparable to that of PG&E and SDG&E's.

d. The Commission Should Ensure SDG&E Reduces the Monthly Fee When One-Time Costs Are Fully Recovered.

SDG&E has proposed to include part of its initial back office costs to support the Opt-Out Program in its monthly fee along with meter reading costs.[74] While not necessarily opposed to this assignment, DRA urges the Commission to ensure that ongoing monthly fees meant to recover one-time costs are eliminated once these costs are fully recovered.

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[71] SoCalGas/Patrick 1 TR 87 line 15, 1 TR 73 lines 15-21.

[72] Exh. DRA 6, attachment. Max salary is $20/hr and max loader is 31%, which translates to $0.44/min, compared to meter reader salary of $0.74/min. An energy technician's salary is $1.19/min.

[73] Exh. SCE 5 page 9. FSR yearly CIP Position Rate is $154,700 in 2012, or $1.24/min.

[74] Exh. SDG&E 2 page CS-18.

e. Other Options to Reduce Meter Reading Costs.

In addition to the above utility-specific recommendations, DRA made general suggestions to reduce costs that could be implemented by any of the IOUs. Unfortunately, only SCE took DRA's suggestions seriously.

A major suggestion was to read the meters quarterly or bi-monthly rather than monthly. This proposal could be implemented in conjunction with a balanced payment plan where customers pay a levelized amount every month on an estimated basis, which is trued up later based on actual meter reads. SoCalGas and SCE have close to 200,000 customers already on a balanced pay plan. So, there could be potential savings to leverage on such plan and reduce reading frequencies.[75]

SCE responded to DRA's suggestion positively by conducting a cost/benefit analysis of quarterly meter reads. SCE showed that conducting quarterly meter reads would result in an estimated increase in the initial fee of $3/month, but would allow a significant reduction in the monthly fee of $5/month.[76] As the monthly fee will be recurring, the overall cost savings to Opt-Out customers are substantial. For the 30 months duration covered by this proceeding, the Opt-Out customers could save $147.[77]

When asked if SCE were willing to perform quarterly meter reads for the Opt-Out Program, witness Oliva answered, "We think we need to look at it more closely," and discussed some of SCE's concerns with estimating bills over a period of three months.[78]

And, in its rebuttal testimony, SCE stated:

> *[T]he Commission should direct that further analysis be conducted to evaluate bi-monthly or quarterly meter reads,*

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[75] Exh. DRA 1, p. 4-5.

[76] Id., p. 4-6.

[77] $5 * 30 months =$150 monthly savings but have to pay $3 extra for initial.

[78] SCE/Oliva 4 TR 532 lines 8-9.

especially given the restrictions of [PU Code] Section 770(d).[79]

DRA agrees with this suggestion.

SoCalGas addressed DRA's proposal in its Rebuttal saying, "SoCalGas has not had a chance to review in detail how DRA's proposals for less frequent meter reads might work."[80] DRA would encourage SoCalGas and the other utilities to further explore the legislative restrictions, as mentioned above by SCE, to determine whether there is a way to work within them. Further, the Commission may seek specific legislation to allow for less frequent meter reading for customers that are choosing to retain their analog meters.

In general, DRA continues to advocate for the IOUs performing meter readings for the Opt-Out Program on a quarterly or bi-monthly basis, rather than each month, if it will cost them less to do so.

2. The Commission Should Deny SCE's Request to Include Service Disconnection Costs in Monthly Opt-Out Fees.

Service disconnection costs should not be socialized to all Opt-Out program participants, and the Commission should deny SCE's request to include service disconnection costs in monthly Opt-Out fees. To the extent such costs arise, they can be charged to individual customers who trigger the disconnection process through non-payment of bills.

SCE's position on service disconnection costs violates its own stated position on cost causation: those who impose the costs on SCE should pay for them. SCE states repeatedly that it relies on this principle to determine the costs and fees for which Opt-Out Program participants will be responsible.[81] While SCE intends to collect all Program

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[79] Exh. SCE 2 page 21, lines 19-21.

[80] Exh. SCG 2 page 4, lines 9-10.

[81] Exh. SCE 1 p. 8, line 20; SCE Exh. 2 page 5, lines 10-12.

costs from Program participants who cause the costs, it has chosen to spread some of these projected costs onto all participants, regardless of whether or not each customer will impose such costs on the utility.[82] Many of these costs are not practically charged to individual customers, such as customer phone calls and customer contacts in support of the Opt-Out Program. But such is not the case with credit-related service disconnection fees.

DRA has acknowledged that these costs were assumed to largely disappear with the installation of smart meters. Thus, those that will be necessary at Opt-Out customer premises are, in most cases, incremental to the utility's operations in the absence of the Opt-Out Program. Nevertheless, DRA recommended that it would be more consistent with cost-causation principles to charge the individual customers who actually trigger the credit-related disconnection process, as has been done in the past before the introduction of smart meters, rather than charging each customer in the Opt-Out Program a portion of the forecasted costs of this activity.[83] SCE proposes to collect an average of $9 per Opt-Out customer for these activities over the next two years. By way of comparison, the actual cost to disconnect and reconnect an individual customer is about $37.[84] DRA hopes this will be a rare occurrence, and so recommends that the Commission exclude this activity from SCE's monthly fee costs.

III. EXIT FEE COSTS SHOULD BE DENIED WITHOUT PREJUDICE.

DRA recommends the Commission deny the IOUs' exit fee proposals and reassess this issue in the next GRC. In the interim, the exit costs should be tracked in memorandum accounts that each utility would establish. The Exit Fee Table shown below contrasts the four IOUs' exit fee proposals.

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[82] Exh. DRA 14, A03.02, A04.02.

[83] Exh. DRA 1 p. 4-6, lines 23-26.

[84] Exh. DRA 14, A01.05 and A01.06 Total Cost is $225,600÷25,055 participants = $9.00. Workpapers to Exh. SCE 1 Errata pages 10 and 11, cost of disconnect = $19.14 and cost of reconnect = $17.87.

IOU Exit Fee Proposals[85]

PG&E (Single commodity)	Intends to recover exit costs but currently has no data to establish such a fee
PG&E (Dual commodity)	Intends to recover exit costs but currently has no data to establish such as fee
SCE	Built into the initial fee and socialized to all Opt-Out participants
SoCalGas (Smart meter module not installed)	Built into initial fee but allow a credit for the smart meter cost avoided ($22)
SoCalGas (Smart meter module already installed)	Built into initial fee but allow a credit for the smart meter cost avoided ($73)
SDG&E (Single Commodity)	Charged when customer exits ($43.07)
SDG&E (Dual Commodity)	Charged when customer exits ($74.49)

As indicated, all four IOUs have chosen to treat the issue of exit fees differently. PG&E proposed no exit fee for now.[86] SDG&E proposed to charge customers an exit fee equivalent to the cost of a field visit when the customers exit from the Program.[87] Both SoCalGas[88] and SCE[89] embed exit fees into the initial charges though each derived its exit cost differently. As demonstrated in the next sections, the record in this proceeding is not adequate to support an exit fee.

[85] Exh. DRA 1, p. 1-11, Table 1-3.

[86] Exh. PG&E 2, p. 4-2.

[87] Exh. SDG&E 1, p. CS-22.

[88] Exh. SoCalGas 1, p. 9 & p.11, Appendix A-1.

[89] Exh. SCE 1, p. 10.

A. PG&E Supports DRA's Recommendation for No Exit Fees in This GRC Cycle.

PG&E has not proposed an exit fee. It states that it supports DRA's recommendation to track exit costs in the memorandum account until PG&E's next GRC.[90]

B. SCE's Exit Fee Proposal Is Not Supported By the Record.

1. SCE's Exit Fee Proposal Inflates Initial Fee and Contradicts SCE's Cost Causation Principles

SCE suggested recovery of the exit costs through the initial fee:

> *Rather than imposing a separate exit fee to recover the exit costs, SCE proposes recovering the Opt-Out Program termination costs through the initial fee….SCE estimates that this approach would eliminate a $78 exit fee and increase the initial fee by approximately $20.*[91]

DRA opposes this proposal because it substantially inflates the initial fee. In addition, it would be difficult to prevent duplicate smart meter installation costs between the GRC and the Opt-Out Program. In the GRC, SCE has and will routinely request smart meter related capital additions and operations and maintenance (O&M) costs to meet its customer growth and to cover potential meter replacements.[92] It will be difficult to keep these costs separate from the costs to restore smart meter service to residences when the Opt-Out customers move.

In its rebuttal testimony, SCE argued that DRA's recommendation only delays SCE's efforts for proper cost recovery under the cost causation principles.[93] However, SCE's proposal clearly contradicts its own cost causation principle. As with

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[90] Exh. PG&E 2, p.4-2.

[91] Exh. SCE 1, p.10.

[92] Exh. DRA 1, p.4-3.

[93] Exh. SCE 2, p.12.

disconnection fees, the cost is triggered by the activity of a small percentage of customers, and yet SCE proposes to charge everybody for it. Based on SCE's estimates, around 25 percent of Opt-Out customers may turn over before the end of 2014,[94] which suggests that 75 percent of the Opt-Out customers would not exit. However, SCE's proposal would impose 25 percent higher[95] initial costs on the majority of the Opt-Out customers.

SCE also attempts to challenge DRA's duplicative cost concern argument, and used service disconnections and reconnections as examples to show that such costs are distinct activities between the Smart Meter system and the Opt-Out Program such that SCE would be able to track them separately.[96] SCE uses a poor analogy when it compares exit costs to disconnection costs. Disconnections are performed in a distinctly different manner depending on whether customers have smart meters or analog meters in that the former are performed remotely while the latter require truck rolls. Whereas, when smart meter service is restored when an Opt-Out customer exits SCE's system, the activity is no different than had a smart meter been installed onto a new home or had a defective smart meter been replaced. All these scenarios require a visit by an SCE technician to install a smart meter.

Thus, the major duplicative costs are smart meter installation-related costs. DRA notes that the number of Smart Meter installations for the residences of exiting Opt-Out customers would be immaterial when compared to the number of SCE's regular GRC Smart Meter installations to satisfy customer growth and replacement.[97] Therefore, it

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[94] Exh. SCE 5 (SCE errata to workpapers), page 6.

[95] \$20/\$78 = 26%.

[96] Exh. SCE 2, p. 11.

[97] SCE-04 Volume 4 in A-10-11-015 (SCE 2012 GRC Phase 1), available at http://www3.sce.com/sscc/law/dis/dbattach3e.nsf/0/26CF3D3F2F458E65882577E30023D8C9/$FILE/S04V04.pdf. Table II-8 shows a volume of 225,760 smart meters that will need to be installed in 2013 and 2014 due to customer growth and meter replacement. The 4,800 opt-out exits SCE projects during these two years amounts to 2.13% (4,800 / 225760) of the total GRC projected installations. DRA requests the Commission take official notice of SCE's testimony in A.10-11-015 as it relates to the total number of

would be more efficient for the former to be absorbed in the GRC costs, while reducing the possibility for cost duplication. Further, restoring a residence to smart meter service, for whatever reason, is now SCE's normal business operation, and should be considered part of the GRC-related Smart Meter costs.

SCE's original idea to include exit costs in its initial fee is to lower the system costs and lower the uncollectibles associated with the collection of an exit fee.[98] However, when it inflates the initial fees, it creates exactly the problem that it wants to avoid because Opt-Out customers are burdened with a much higher initial fee and could create additional uncollectibles.

2. SCE's Exit Costs Are Inflated.

SCE's exit costs appear to include many activities that are not related to customer exits. SCE seems to include in its exit costs all the costs that are associated with the Opt-Out program set up activities. These would amount to $78 per Opt-Out customer and would be captured in the initial fee. On top of this, SCE would build into the monthly fees a $40 cost to cover an additional trip to turn off the analog meter so that the analog meter can be installed. As a consequence, SCE's exit fee amounts to approximately $120/exit. This is after accounting for DRA's belief that SCE's program set up costs do not include the capital cost of the smart meter given this was paid for as part of the smart meter deployment.

In comparison, SDG&E would only include the labor cost of one field visit, which for a single commodity customer amounts to $43.[99] It also includes no capital costs associated with the smart meter. SoCalGas' exit fee is composed of a $32.62 installation fee, some of which is offset with a credit for customers who never received a smart

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advanced meters SCE plans to install in 2013 and 2014 pursuant to Rule 13.9 of its Rules of Practice and Procedure and California Evidence Code Section 452.

[98] Exh. SCE 1, p.10.

[99] Exh. SDG&E 2 p. CS-22.

meter.[100] SoCalGas includes capital costs but offsets them either partially or fully depending on whether or not a smart meter was already installed in the home of the Opt-Out customer. Though PG&E would only track the exit costs, it has identified exit costs as being only the labor costs to install a smart meter at a premise where an Opt-Out customer has moved out.

SCE proposes to increase each customer's initial fee by $20 rather than imposing a $78 exit fee on each exiting Opt-Out customer.[101] It does this by socializing the typical annual cost of customer exits onto all Opt-Out participants. Thus, SCE's proposal is to charge an initial fee of $98, composed of $20 plus its proposed $78 initial fee. Note that the proposed exit cost, before it is socialized, is identical to the proposed initial fee.[102] As indicated above, this is highly problematic because many of the initial cost items would occur only when SCE first developed and implemented its Opt-Out Program. The following table lists all the activities identified by SCE as initial costs. They are assumed to be proxies for the exit cost items.

SCE Initial Fee Associated Activities
($ Thousands)

Initial meter swap to analog meter – basic	$ 577.0
Initial meter swap to analog meter – complex	$53.4
Initial Account Processing Time for ESC to Analog Meter	$161.4
Initial Account Processing Time for Analog to Analog Meter	$ 76.1
Initial Processing Opt-Out Postcards	$ 49.2
Initial ESC Meter Change-Out Usage Exceptions Usage	$344.2
One-Time RSO IT Project Management Support	$ 71.9
Initial Employee Training and Implementation Support Costs	$232.2

100 Exh. SCG 3, "Module Installed – Initial Fee."

101 Exh. SCE 1, p. 10.

102 SCE later issued an erratum that lowered the initial fee from $98 to $93, but the original numbers are used in this section for explanation purposes as the exit fee numbers did not change. *See* Oliva/SCE 4 TR 530 lines 3-10.

2012,2013,2014 Customers Call to Enroll	$265.8
JST-Employee Training Development	$530.3
JST-Project Support	$25.9
Initial Impact Assessment	$8.9
Prepare for Change Impact Assessments	$2.5
Develop & Conduct Change Impact & Cross Integration Assessment	$19.5
Provide Business Readiness Support	$28.0

One would presume that activities such as "JST-Employee Training Development," "JST-Project Support," "Initial Impact Assessment," "Develop/Conduct Change Impact/Cross Integration Assessment"[103] are unlikely to occur repeatedly when customers exit the Opt-Out Program. To include these as part of the exit costs is not reasonable.

The problem is exacerbated in that SCE proposes to add a service turn off cost of $40 to the monthly Opt-Out fees as well.[104] SCE states that the service turn offs are for Opt-Out customers that require an exchange of an "analog electromechanical, non-communicating meter to smart meter with most current firmware."[105] It is dubious that SCE would need to send a separate field staff employee merely to turn off the analog meter. This task can be performed by the technician who visits the premise to install the smart meter.

Adding the $78 per projected exit costs to an average of $40 for a Service Turn-Off means that SCE's implied exit cost is almost $120. It seems clear that SCE's exit costs are inflated far beyond those of the other IOUs.[106] Furthermore, none of the IOUs

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[103] Exh. SCE 5 (SCE Errata to workpapers), p. 5.

[104] Exh. SCE 5 pp. 12 and 13. Total costs are ($286,300 + $26,500) = $312,800 divided by total number of turnoffs (7,873) = $39.73.

[105] Exh. SCE-5, p. 12. On this workpaper, SCE calculated the costs based on the number of hours needed and the number of meters to derive the total service turn off costs.

[106] If DRA's understanding of SCE's exit costs are wrong, SCE has failed to justify and explain what activities (and the itemized cost) it truly included in defining the exit costs. If exit charges are allowed, DRA recommends SCE be limited to collect only the costs it identifies are necessary to replace an analog meter with a smart meter when an opt-out customer moves out.

have historical data to properly project the percentage of Opt-Out customers that may exit because the Opt-Out Program is new. This makes it very difficult to socialize the costs to all Opt-Out customers as SCE has done. Yet the dilemma is that SCE's proposed costs are so high that, if they were adopted, they'd have to be socialized. The Commission should reject SCE's proposal to inflate its initial and monthly fees by adding various costs that are either unnecessary or do not appear to be related to customer exits.

C. SoCalGas' Exit Fees Are Inflated and Unreasonable

SoCalGas does not propose to socialize its exit costs. Rather, it builds into its initial fees significant exit costs ($22 or $73/customer) assuming that all of Opt-Out customers eventually will exit. DRA objects to imposing fairly high costs to all Opt-Out customers when many of them may never exit. Moreover, SoCalGas just began its smart meter deployment in October 2012 and expects to complete the project by 2017. Thus the number of Opt-Out customers that actually will exit the program in the time period covered by this proceeding is difficult to predict. But it likely will be a small number of customer and the associated costs could merely be tracked until the next GRC.[107]

SoCalGas' proposed exit fee, built into its initial fee, includes both the labor and capital costs that SoCalGas will incur to install a smart meter module when customers exit as well as a credit for avoiding the smart meter deployment labor and capital costs by participating in the Opt-Out Program. SoCalGas derived two cost estimates depending on whether or not the Opt-Out customer has an analog meter or a smart meter. For a customer who enrolls in the Program at a location that has an analog meter with no module installed, the exit fee and the credit cancel each other out such that the customer

[107] Exh. SCG 1 p. 9, lines 1-5. DRA supports this proceeding covering only until each IOU's next GRC, at which point costs and charges can be revisited. SoCalGas intended to impose fully compensatory charges that would last until it has completed its Advanced Meter program, which is planned to last until 2017.

pays \$22.[108] For customers who have a smart meter module installed, the Opt-Out customer would pay \$73. The difference between the \$22 and the \$73 costs is to account for whether or not a smart meter was installed at the premise as part of the mass deployment. That is, the \$22 assumes that the capital cost of smart meter module is completely offset by the credit because a smart meter was never installed as part of the mass deployment. Whereas the \$73 cost includes a substantially reduced credit because a smart meter module was installed as part of the mass deployment.

But there are two problems with this approach. First, neither the customer charged \$22 nor \$73 is given any credit for avoiding smart meter costs during the time period when they are in the Opt-Out program. That is because the value of the module that is installed when they exit is not reduced to reflect the time value of money. Second, the customer charged \$73 is being treated differently from a customer who was never in the Opt-Out program. This is because the value of the module that is removed when the customer enters the Opt-Out program is reduced because the module is used. But every customer has a used module on their meter whether or not they are part of the Opt-Out program.[109] These problems may be why none of the other IOUs have suggested charging Opt-Out customers for the capital costs associated with smart meters or smart modules that will be needed when they move.

As previously mentioned, because SoCalGas just began its smart meter deployment, DRA opposes exit charges because it is unlikely that SoCalGas will incur material incremental costs from Opt-Out customers moving out between now and

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108 Exh. SCG 1 Appendix A-7. The \$22 amount is the difference in cost between the module installation as part of SoCalGas' initial mass deployment (which was avoided) and the cost of module installation by a Customer Service Field employee (for which a separate visit will be required at some point in the future when that customer moves out). The capital cost of the smart meter module is totally offset by the credit for not receiving a smart meter module as part of the smart meter mass deployment.

109 Exh. SCG 1 Appendix A-7. In addition to the reduction in value because the module is used, SoCalGas intends to charge this customer for the cost of "reharvesting" the used module.

SoCalGas' next rate case.[110] In its Rebuttal Testimony, SoCalGas disagreed with this assertion, stating that it "estimates that 5,400 customers who elect to Opt-Out during the installation will relocate to a premise that has a module installed and will, therefore, need to have a module removed at the new location."[111] DRA agrees that this module removal is a cost attributable to the Opt-Out Program. But SoCalGas will recover this cost through its initial fee when the customers relocate.[112]

SoCalGas goes on to argue that DRA disapproves of "the cost to purchase and install a module *at the vacated premise*… Based on a forecast of 5,400 moves, DRA would disallow almost $400,000 of costs which are likely to be incurred."[113] This is not an accurate calculation because it assumes that a smart meter module already existed at the vacated premise when the customer initially opted out, which is highly unlikely given how early SoCalGas is in its deployment process.

In actual fact, most of the 5,400 likely never received a smart meter, and thus the proper exit cost is $22, not $73. DRA is not clear that 5,400 is the right number as there is no historical basis for such estimate. But even if DRA accepts this number for the sake of argument, the more likely cost is $118,800 in costs ($22 per exit multiplied by 5,400 exits), not the $400,000 figure from SoCalGas' Rebuttal. To DRA's knowledge, SoCalGas has not in fact made a projection of the number of customers who will opt out at a location <u>with a module installed</u> *and will subsequently exit before 2017*. As indicated before, DRA imagines this would be a very small number of customers, and even smaller before the next GRC.

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110 Exh. DRA 1 p. 3-2.

111 Exh. SCG 2 p. 3, lines 5-7.

112 Exh. SCG-1, p. 11, Appendix A-1.

113 Id., lines 9-13, italics added. $73 x 5,400 = $394,200.

IV. OPT-OUT FEES AND CHARGES SHOULD BE AFFORDABLE.

DRA does not take a position on cost allocation. Therefore, DRA is not proposing specific fee levels. However, DRA notes that some of the IOUs' proposed fees are high enough to pose a challenge to the affordability of service for selecting customers. The following table illustrates what the fees would be like if the IOUs' proposed costs were recovered entirely through the Opt-Out fees and were not socialized:

Opt-Out Fees/Costs per Customer (in $)

	Initial		Monthly	
	IOU	DRA	IOU	DRA
PG&E/DRA (Single commodity)	75/527[114]	382	10	7
PG&E/DRA (Dual commodity)	75/715	428	10	7
SCE/DRA	98	82	24	21
SoCalGas/DRA (No module installed)	126	80	24	10
SoCalGas/DRA (Module installed)	179	106	24	10
SDG&E/DRA (Single Commodity)	158	137	12.8	12.8
SDG&E/DRA (Dual Commodity)	189	169	13.3	13.3

The IOU proposed fees shown above for SCE and SoCalGas include an exit fee. The fees shown for DRA do not include exit fees. As explained above, SDG&E would charge the exit fee only when the customer actually exits the program. DRA recommends the Commission deny the IOUs' exit fee proposal. There is inadequate data

[114] PG&E intends to keep the interim fee at $75, but the actual cost is $527 and $715 per customer for single or dual commodity installations respectively.

and record to support an exit fee at this time and the exit fee would only add further burden to the Opt-Out fees.

V. DRA RECOMMENDS THE COMMISSION ADOPT A ONE-WAY BALANCING ACCOUNT FOR THE OPT-OUT PROGRAM COSTS FOR THE THREE IOUS[115]

A one way balancing account either limits expenditures to a spending target or recorded revenue to a revenue target. If the actual expenditures are less than the spending target, the unspent funds are returned to the ratepayers; however, if expenditures exceed the target, the amount over the target is not recoverable through rates and is absorbed by shareholders.[116] This is a common ratemaking approach that the Commission has used on programs such as energy efficiency and AMI. It imposes discipline on the IOUs to effectively manage such program costs. PG&E indicated that it supports such a treatment:

> *PG&E's testimony provides a detailed forecast of Opt-Out Program unit and program costs and an overall revenue requirement that will operate as a "cap" on the actual recorded costs PG&E may recover.*
>
> *PG&E's proposal is fully consistent with traditional cost of service ratemaking, under which the utility forecasts its overall costs and then is at risk for costs that exceed the overall forecast costs. In addition, due to the recorded cost ratemaking methodology proposed by PG&E, PG&E's forecast revenue requirement for the Opt-Out Program, including costs that vary with customer participation, will be "trued up" for actual costs.* [117]

Implementing this ratemaking approach is complicated by the fact that the adopted revenue requirements may not equal to the actual program costs or the revenues directly received from the out-out customers. This is because the projected Opt-Out rate (and the

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[115] DRA/Tan 1 TR 122 lines 7-15.

[116] Resource – an encyclopedia of energy utility terms, 2nd edition, prepared by PG&E. p. 39.

[117] Exh. PGE 2, PP. 5-1 & 5-2.

number of Opt-Out customers) may deviate from the actual participation. Deviations between forecasted and actual participation affect both the revenues received from Opt-Out customers as well as the cost of operating the program.

DRA recommends that the IOUs file advice letters that would lay out the accounting procedure to implement the one-way balancing account treatment. In their advice letter filings, the IOUs should clearly explain how the cap would be determined to address the uncertainty associated with the Opt-Out rate as well as how the revenues collected from both the Opt-Out customers and the non-participants would be recorded and credited against the costs.

VI. CONCLUSION

For the reasons stated herein, the Commission should adopt DRA's recommendations and cost estimates.

Respectfully submitted,

/s/ ROBERT W. HAGA

Robert W. Haga
Attorney for the Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (415) 703-2538
E-mail: robert.haga@cpuc.ca.gov

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