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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

REPLY BRIEF
OF THE DIVISION OF RATEPAYER ADVOCATES

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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 Reply 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").

A. Summary of Recommendations

In addition to the recommendations presented in the Opening Brief, DRA urges that the Commission adopt TURN's definition of incremental costs, which is based on asking whether the "nature of the costs and the activities with the costs in certain categories" are genuinely new. The General Rate Case (GRC) construction allows the investor owned utility (IOU) substantial flexibility to adjust its operation so that it can be effective and efficient. Permitting costs that are "incremental" to those already approved within the same categories covered by the GRC obviates the need for the tradeoffs allowed by the GRC in adjusting operations to meet a set budget, removing the incentive to be efficient. Also, permitting incremental costs substantially increases the regulatory burden of assuring that utilities are not asking for the same costs twice.

In this light, DRA supports adopting TURN's recommendation to disallow PG&E's request for:

- $383,861 in customer communication costs;
- $1,239,604 in customer inquiry costs;
- $3,323,175 in program management costs.

DRA also supports adopting TURN's recommendation to disallow SCE's request for:

- $1 million in customer service representative training costs;
- $838,400 in customer communication costs.

These costs are included in the initial fees proposed by the two utilities.

In addition, DRA recommends the following Opt-Out cost adjustments that it articulated in its opening brief:

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

   - Disallowing PG&E's and SDG&E's legacy meter purchase costs as the IOUs are still recovering significant costs for the legacy meters. SCE and SoCalGas have not asked for meter cost recovery in this Opt-Out Proceeding.

   - Disallowing PG&E's request for costs relating to field visits to the "unable to complete" (UTC) customer sites for smart meter installations. Including this cost 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 smart meter deployment – especially since PG&E has already been granted a contingency allowance of hundreds of millions of dollars to cover unforeseen deployment problems.

- Disallowing $938,373 in PG&E's IT 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 given that most of the implementation costs are not dependent of the Opt-Out rate.

- Disallowing SoCalGas' cost for inspecting and tagging legacy meters for Opt-Out participants. This task can be combined with other functions (e.g., meter reading), thereby avoiding the inclusion of an additional $24 in the initial charge per Opt-Out customer.

- Reducing SoCalGas' and SCE's initial fees by removing exit costs.

2. <u>Costs Associated with the Monthly Fees.</u>

- Directing the IOUs, especially SoCalGas and SCE, to develop innovative solutions to reduce meter reading costs to mitigate monthly fees.

- Correcting 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.

- Excluding SCE's disconnect and reconnect fees from the monthly Opt-Out fee. Such costs only should apply to customers who fail to make the required payments, triggering the disconnection process.

3. <u>Costs Associated with the Exit Fees.</u>

- The Commission should disallow the exit fees in this proceeding as the IOUs have failed to show those costs are incremental to the Opt-Out customers. The IOUs may choose to track any exit costs in order to make a showing in their next GRC, however, the Commission need not and should not order the IOUs to track such costs.

II. OPT-OUT COSTS

B. The Commission should Deny PG&E's Request to Pay Wellington for Field Visits as Part of the Opt Out Costs.

In its Opening Brief, DRA urges the Commission deny PG&E's request to include the Wellington Energy Inc. (WEI) field visits costs in the Opt-Out Program costs because 1) the primary goal for WEI field visits is to install smart meters, 2) PG&E's contractual arrangement with WEI includes costs that are more than adequate to cover up to three field visits and other customer contacts; and 3) the Advanced Meter Infrastructure funding provides hundreds of millions of dollars for contingencies, and this funding can cover these additional WEI (if they are additional) visits, which amount to no more than 2 percent of the contingency fund.[1] DRA will not repeat the arguments from the Opening Brief that support these three recommendations. In this Reply, however, DRA rebuts PG&E's characterization of the WEI field visits as being required by the Commission's Opt-Out decision and PG&E's tariffs.[2]

1. PG&E Incorrectly Characterizes Field Visits As an Opt-Out Program Requirement.

PG&E is incorrect in stating that the field visits for Opt-Out customers are required by the Commission and should be charged to the Opt-Out Program. There are no such requirements in the Commission's Opt-Out decision (D.12-02-014) adopted for PG&E.

When PG&E filed its advice letter (AL) 3278-G/4006-E to implement the Opt-Out Program, PG&E cited Ordering Paragraph 2 of D.12-02-014 in its compliance filing. This ordering paragraph states:

> Within 15 days of the effective date of this order, Pacific Gas and Electric Company (PG&E) shall file a Tier 1 advice letter in compliance with General Order 96-B. The advice letter shall be served on the service list in Application 11- 03-014. The advice letter shall include tariff sheets to modify PG&E's SmartMeter Program to include an opt-out option for customers who do not wish to have a wireless SmartMeter installed at their location and to implement a SmartMeter Opt-Out Tariff. The Advice Letter filing shall:
>
> a. Establish procedures for residential customers to select the option to have an analog meter if they do not wish to have a wireless SmartMeter.

[1] DRA OB pp. 11-13.

[2] PG&E OB, pp.5-6.

b. Establish procedures to inform customers that a SmartMeter opt-out option is available. A customer currently on the delay list shall be informed that the customer will be scheduled to receive a wireless SmartMeter unless the customer elects to exercise the opt-out option.

c. Adopt the following interim fees for residential customers selecting the opt-out option:

For Non-CARE and Non-FERA Customers: Initial Fee $75.00, Monthly Charge $10.00/month

For CARE and FERA Customers: Initial Fee $10.00, Monthly Charge $5.00/month

d. Establish new two-way electric and gas Modified SmartMeter Memorandum Accounts to track revenues and costs associated with providing the SmartMeter opt-out *option.*[3]

Nowhere in the above-cited ordering paragraph did the Commission specifically direct a field visit requirement. Nor did the Commission require field visits in any other part of that decision.[4] Further, any field visits contemplated in the first phase of this proceeding were solely for the purpose of installing SmartMeters™, not to confirm Opt-Out status. PG&E's advice letter tariff language for both gas and electric meters confirms that the field visits are **for purpose of installing smart meters**:

Pursuant to Decision 12-02-014, a customer must affirmatively elect to opt-out of the SmartMeter™ Program, and shall default to SmartMeter™-based utility service absent such an election. **If PG&E makes a field visit to a customer's residence for purposes of installing a SmartMeter™** and the customer does not provide reasonable access to PG&E to install a SmartMeter™ after being provided notice of eligibility for service under this Opt-Out Program and not electing to opt-out, the customer shall be deemed to have elected service under this Opt-Out Program.[5]

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[3] Exh PG&E 1, Appendix A.

[4] *See* D.12-02-014, *mimeo* at pp. 25-26 where the Commission discusses PG&E's estimated costs and defers all cost consideration to the second phase of the proceeding that is currently under consideration.

[5] Original *Cal. P.U.C. Sheet No.* 29535-G, *Advice Letter No:* 3278-G *Issued by Date Filed* February 16, 2012, and revised *Cal. P.U.C. Sheet No.* 31331-E, *Advice Letter No:* 4006-E *Issued by Date Filed* February 16, 2012 (emphasis added).

PG&E is misguided in claiming that the WEI field visits are an Opt-Out program requirement when the goal of the visits is to install SmartMeters^{TM}.

2. Aglet is Correct that Cost Issues in PG&E's Tariff Are Subject to the Commission's Deliberation in this Phase of the Opt-Out Proceeding.

In its Opening Brief, Aglet stated that, when it protested PG&E's Smart Meter Opt-Out memorandum account tariffs, the Energy Division noted that the Commission deferred discussion of these cost issues to Phase 2 of PG&E's Opt-Out Proceeding.[6] Accordingly, PG&E cannot argue that the tariff language, regardless of what it says, is dispositive. What is to be included as Opt-Out costs is not a settled issue, and it is clear the Commission's intent was that any such costs be addressed in this proceeding. Therefore, PG&E's reliance on its tariff, to argue for counting WEI field visits as part of the Opt-Out program, has no merit.

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

In its opening brief, PG&E stated that its average $5 meter reading cost per meter is based on its actual costs for reading all remaining analog meters within its system during the January through June 2012 period. It added that these reads include both single and dual-commodity premises.[7] However, this does not address DRA's recommendation that meter reading costs should be based on the number of customers rather than the number of meters given that the incremental costs of reading a second meter on the same customer premise is almost zero. PG&E's response to DRA's data request, as shown below, supports DRA's adjustments to PG&E's meter reading costs:

> The $5.00 unit cost per meter-read is based on actual meter reading expenses incurred during the first six months of 2012, as noted on page 3-6 of Chapter 3, Metering. These actual costs include the labor for the meter reader and supervision,

[6] Aglet Opening Brief, pp. 6-7.

[7] PG&E OB, p.5.

> materials, vehicle cost, and facilities (Meter Reading Office) costs. **As noted above, no additional costs would be added to the $5.00 unit cost per individual meter-read; however, for a dual-commodity customer, the labor cost would be slightly higher for the time needed for the meter reader to read the second meter at the customer's residence**. PG&E has not performed a study or prepared an estimate of the cost for reading the meters for a dual-commodity customer….[8]
>
> 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**.[9]

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.

D. The Commission Should Adopt TURN's Incremental Cost Definition and Disallow the Costs that Cannot Be Considered Truly Incremental.

The IOUs claim that the costs that they request in this proceeding are incremental because they have not requested money for the Opt-Out Program in other prior applications.[10] Both TURN and Aglet object to this definition.

Aglet argues that the IOUs make no effort to show how Opt-Out Programs will change spending elsewhere in the company.[11] Aglet further notes that the IOUs have not shown that actual, overall operational budgets will increase from what was authorized in general rate cases or other proceedings due to the Opt-Out Program.[12]

DRA joins TURN and Aglet in finding IOUs' incremental cost definition problematic. Traditionally, the Commission adopts a revenue requirement in a GRC that

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[8] Exh. DRA 11, pp.1-2.

[9] Exh. DRA 11, p.2, emphasis added.

[10] See Exh. Aglet-1, p.4 citing the IOUs' testimony or data request responses.

[11] Aglet OB, p.5.

[12] Aglet OB, p.5.

is intended to fund all of the costs of providing service and operating the utility system during the period covered. The general concept of test year ratemaking is to authorize a rate level based on a reasonable forecast of various revenues and costs. Once rates are set, the utility has the discretion and responsibility to spend its funds in the most cost effective manner to provide safe and reliable service. Therefore, the IOUs have substantial flexibility to allocate their funds to meet the overall operational needs.

TURN is correct that the utility never performs the work exactly as forecasted in a rate case. Thus, a cost is not incremental merely because the associated tasks were not explicitly assumed in developing the rate case forecast.[13] Aglet presented some convincing examples to demonstrate that it is difficult to prove that the Opt-Out Program costs are incremental.[14] Aglet also notes that IOUs appear to use existing staff to perform the activities for the Opt-Out Program.[15]

TURN proposes to determine whether a cost is incremental by considering whether providing the incremental service requires the utility to actually spend more money than it previously forecasted.[16] TURN demonstrates that, by using such method, many of the IOUs' Opt-Out costs can be covered by revenues already authorized in the GRC. For example, TURN explained that PG&E has substantial surplus revenues to cover the customer communication and inquiry costs projected for Opt-Out Program:

> [I]n 2011 PG&E spent a total of $23 million for all customer communications activities, even though it had forecast about $68 million for those activities. Even accounting for the 30% reduction in costs for Customer Care, PG&E still spent less than 50% of the costs in the budget category including customer communications than it had received in the rate case settled.[17]

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[13] TURN OB, pp.5-6.

[14] Aglet OB, p.5.

[15] *Id.*

[16] TURN OB, pp.5-6.

[17] TURN OB, p.6, citations omitted..

Under the GRC ratemaking paradigm, the utility keeps this unspent funding as an incentive to be more efficient. Accordingly, the utility is motivated to call "incremental" any task that is minutely different from what was assumed in the GRC. The Commission should reject the utilities' contention that activities not explicitly included in a GRC should be determined to be "incremental," unless the utilities also accept the flip-side to their argument that the utilities should be required to provide refunds for all dollars not spent on activities as described in the GRC. The Commission should reject the utilities' arguments that they need discretion in how they spend GRC money, and then seek incremental dollars at every opportunity.

Given the nature of the activities involved in this circumstance, DRA finds TURN's approach reasonable. Because DRA supports TURN's method to assess the incremental costs for the Opt-Out Program, DRA also agrees with TURN's recommendations to disallow the costs that cannot be considered truly incremental as shown in its Opening Brief. These include TURN's adjustments on PG&E's customer communication, customer inquiries,[18] and TURN's adjustments on SCE's CSR training costs and customer communication costs.[19]

E. Exit Fee Proposals Are Not Supported By the Record

1. <u>SCE Mischaracterizes DRA's Exit Fee Position in Its Attempt to Deviate from Its Cost Causation Principles</u>

As DRA stated in its Opening Brief, exit costs should be excluded only during the current program cycle. They should be excluded in order to properly identify whether or not these costs are material. This determination needs to be made before loading these highly uncertain (and in SCE's case, inflated) costs onto all Program participants. DRA also had a concern that Opt-Out exit costs could easily be mixed with GRC smart meter costs. In its Opening Brief, SCE deems DRA's argument as "without merit."[20] DRA's

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[18] TURN OB, p.14, Table 3.

[19] TURN OB, P.24.

[20] SCE Opening Brief p. 3.

argument is addressed in its Opening Brief, and need not be reiterated here. It also is only part of its position regarding exit costs.

SCE also alleges that DRA's exclusion of exit costs is "an attempt to sidestep cost causation principles."[21] This assertion is an incorrect description of DRA's position and more aptly describes SCE's proposal to charge most of its Opt-Out program participants for exit costs that they will not incur. DRA calculates that SCE would collect almost $120 per customer exit through 2014. Yet the only activity that DRA believes should be included in an exit fee is that of a meter exchange, which only costs $40.[22] In addition, many Opt-Out customers opted out prior to receiving a smart meter installation at their location. Thus, if proper cost causation were SCE's primary concern, it should have considered the smart meter costs that SCE avoided by allowing these customers to opt out. These avoided costs should be allowed to offset the costs that these customers incur to restore their premises to smart meter service when they exit the Opt-Out Program. Finally, if SCE is certain that these Opt-Out costs will be incurred, it should by now have provided some data to support exit costs as its Opt-Out Program has been in place since April of 2012.[23] In fact, none of the IOUs have made the showing necessary to justify the exit costs proposed are incremental to its service to the Opt-Out customers. Owing to the large amount of uncertainty and variation between the IOUs' proposed exit-related costs, DRA continues to recommend that they be disallowed for cost recovery in this proceeding.

2. <u>The IOUs Have Not Shown Opt-Out Exit Costs Are Incremental and the Commission Should Reject Exit Cost Claims.</u>

In the Opening Brief, DRA notes that restoring a residence to smart meter service, for whatever reason, is now SCE's normal business operation. For example, when a

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[21] *Id.*

[22] DRA Opening Brief page 29; Exh. SCE 5 pp. 7-8: Total cost of meter exchanges is $510,600/12918 (number of exchanges) = $39.53 per exchange. SDG&E and PG&E have only considered a meter exchange as exit costs.

[23] SCE estimated that 200 Opt-Out customers per month would move out and incur exit costs.

smart meter fails, or a new home is built, a new smart meter is installed. The activities SCE has to undertake are the same in those situations as when an Opt-Out customer ends service. SCE has not shown that there is a difference in the cost or activities necessary to restore smart meter service to an affected residence. Accordingly, the alleged exit costs should be considered part of the GRC-related Smart Meter costs. Aglet points out that it is difficult to demonstrate that Opt-Out Program costs are incremental. Aglet illustrates this point using the meter reading as an example. But the same analogy could be applied to smart meter installations. Aglet states:

> First, until smart meter deployment is completed, meter readers in the field do not know if they are reading analog meters installed as part of the opt out program or analog meters still in the queue for smart meter installation or activation. This is not a trivial issue. There are roughly 600,000 to 700,000 analog meters waiting in the queue for smart meter installation, and hundreds of thousands of activated PG&E smart meters that still require reading by meter readers, compared to PG&E's estimate of 54,000 opt out customers. This evidence casts doubt on any need for PG&E to create new meter reading routes to serve opt out customers. The Commission cannot determine which recorded meter reading costs are truly incremental.[24]

Similarly, it will be difficult to differentiate a smart meter installation to restore an Opt-Out residence back to smart meter operation from an installation onto a new home or one that had a defective smart meter that had to be replaced. The latter two are covered in the GRC and likely to represent the large majority of the activities.

Therefore, the Commission should reject adoption of exit fees because 1) it is difficult to consider the Opt-Out related costs as incremental to the traditional GRC related smart meter installation costs; 2) the costs are likely to be immaterial in contrast to the overall GRC smart meter installation costs for growth and replacement; and 3) the Opt-Out rate projection is highly speculative.

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[24] Aglet OB, pp.5-6, citations omitted.

III. CONCLUSION

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

Respectfully submitted,

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