

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ID#4674

ENERGY DIVISION

RESOLUTION E-3937

June 30, 2005

R E S O L U T I O N

Resolution E-3937. This Resolution approves Pacific Gas and Electric's (PG&E) and San Diego Gas and Electric's (SDG&E) request to establish Advanced Metering Infrastructure Memorandum Accounts (AMIMA) to record the incremental Advanced Meter Infrastructure (AMI) pre-deployment Capital-related and Operational and Maintenance expenses.

By SDG&E Advice Letter (AL) 1689-E/1524-G filed on April 27, 2005. And PG&E Advice Letter (AL) 2632-G/2664-E filed on May 13, 2005

SUMMARY

This resolution approves both SDG&E's and PG&E's request to establish new Advanced Metering Infrastructure Memorandum Accounts (AMIMA) to record pre-deployment costs incurred as a result of Advanced Metering Infrastructure (AMI) pre-deployment efforts prior to the Commission's approval of SDG&E's AMI Application (A.)05-03-015 and PG&E's AMI Application (A.)05-03-016.

This resolution grants SDG&E's and PG&E's request to establish AMIMA accounts provided:

1. The recorded costs are limited exclusively to AMI "pre-deployment" activities defined broadly as "start-up and design work";
2. The recorded pre-deployment AMI investment is understood to be made at shareholder risk until the Commission finds that such investment meets the minimum functionality criteria specified in the February 19, 2004 Rulemaking in (R.)02-06-001 and reiterated in the May 9 and May 18 2005 Assigned Commissioner Rulings (ACRs);
3. The recorded pre-deployment AMI investment is subject to reasonableness review.

BACKGROUND

SDG&E and PG&E have filed Advanced Metering Infrastructure applications that include pre-deployment activities and associated costs

The Commission issued Rulemaking (R.) 02-06-001 on June 6, 2002 to begin a process to assess ways to implement programs and tools to enable utilities to meet demand response targets. Pursuant to a July 21, 2004 ALJ Ruling, both PG&E and SDG&E (utilities) filed Advanced Metering Infrastructure preliminary business cases in October, 2004. On March 15, 2005, SDG&E filed a filed final AMI Business Case Analysis, including SDG&E Application (A.) 05-03-015. PG&E filed an updated AMI Business Case Analysis as part of (A.)05-03-016. Both utilities believe it imperative that certain critical path AMI activities commence and continue beginning as early as July 1, 2005, pending review of the utility Applications.

SDG&E expects that the design/startup expenses (pre-deployment costs) to be in excess of \$40 million. Furthermore, SDG&E suggests that the Commission decision on AMI investment be considered in two phases. The first phase would address the proposed pre-deployment plans and costs and the second phase would address the feasibility and merits of full AMI implementation.

PG&E expects that its design/startup expenses (pre-deployment costs) to be in excess of \$49 million. Like SDG&E, PG&E suggests that the Commission provide an initial decision on the proposed pre-deployment plans and costs, and a latter decision addressing the cost-effectiveness and merits of full AMI deployment.

The utilities have been directed to demonstrate the functionality of their proposed AMI systems in order for pre-deployment costs to be approved

Assigned Commissioner Rulings (ACRs) were issued on May 9 and May 18 to provide guidance in regards to the pre-deployment plans and costs. The ACRs concluded that three primary issues must be decided before pre-approving any utility's proposed deployment of AMI: first, a finding that that proposed AMI systems meet established functionality criteria; second, the proposed AMI investment provides sufficient operational benefits to ratepayers; and third, that utilities have an effective plan for integrating AMI investment into its operating systems to ensure the full range of expected customer benefits.

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The ACRs further concluded that in order to approve expenditure of ratepayer funds in advance of findings on the second and third points, i.e. for pre-deployment, the Commission must, at a minimum, be confident that the proposed AMI investment meets the functionality criteria as specified in a February 19, 2004 ACR. To this end, the ACRs ordered supplemental utility testimony that specifically addresses how its proposed technology/deployment plan meet the functionality criteria set forth in the February 2004 ruling. The ACRs also stated that the amount of pre-deployment costs should be minimized, and thus signaled to the utilities and the stakeholders the focus of their anticipated testimony. In short, the approach outlined in the ACRs creates a process by which the Commission can determine whether utility selected technology meets functionality criteria, followed by Commission authorization of a modest amount of ratepayer funds for pre-deployment activities while the merits of full deployment are considered.

The utilities seek memorandum accounts to record their pre-deployment costs

On April 27, 2005 SDG&E filed Advice Letter (AL) 1689-E/1524-G requesting that the Commission approve a new Advanced Metering Infrastructure Memorandum Account (AMIMA) to record pre-deployment costs incurred as a result of AMI prior to the Commission's approval of SDG&E's AMI Application A. 05-03-015. SDG&E states that pre-deployment efforts require incurring costs to meet the schedule set forth in the application. These new AMI project costs were not reflected in the 2004 Cost of Service approved in D. 04-12-015. Therefore, SDG&E is requesting authority to establish a new AMI memorandum account to record the costs associated with the pre-deployment efforts. Specifically, the purpose of the AMIMA is to record the Capital-related, Operating and Maintenance (O&M) expenses incurred as a result of AMI pre-deployment in years 2005 and 2006, and activities necessary to develop SDG&E's AMI project Application. SDG&E will request recovery of the balance in the AMIMA through the proposed AMI balancing account as outlined in SDG&E's A.05-03-015.

In Advice Letter (AL) 2632-G/2664-E (filed on May 13, 2005) PG&E requests authority to establish two new memorandum accounts (AMIMA-E for electric and AMIMA-G for gas) to record costs associated with the AMI project in order to preserve the ability to obtain future rate recovery in A. 05-03-016. While SDG&E seeks authority to record the expected costs directly related to its pre-deployment activities during 2005 and 2006, PG&E seeks broad authority to record all AMI project related expenses.

NOTICE

Notice of PG&E 2632-G/2664-E and SDG&E AL 1689-E/1524-G was made by publication in the Commission's Daily Calendar. PG&E and SDG&E states that a copy of their AL was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

PG&E's Advice Letter 2632-E/2664-G and SDG&E Advice Letter 1689-E/1524-G were protested by The Utility Reform Network (TURN) on May 18, 2005 and May 23, 2005 respectively.

SDG&E filed its reply to TURN's protest on May 25, 2005 and PG&E filed its reply to TURN's protest on May 24, 2005.

DISCUSSION

Energy Division recommends granting SDG&E's and PG&E's request to establish Advanced Metering Infrastructure Memorandum Accounts (AMIMA) for the purpose of recording pre-deployment Capital-related and Operating and Maintenance (O&M) expenses in years 2005 and 2006, incurred as a result of the AMI project prior to the Commission's approval of SDG&E's AMI Application (A.) 05-03-015 and PG&E's AMI Application (A.)05-03-016.

Energy Division has carefully reviewed the May ACRs and concludes that the establishment of memorandum accounts prior to Commission's approval of PG&E's and SDG&E's AMI application does not conflict with any of the specific rulings issued to date. However, the intention of the May ACRs is clear: approval of ratepayer funds for pre-deployment AMI expenditures is dependent upon an affirmative finding from the Commission that the proposed AMI systems meet the functionality criteria set forth in the Joint Commissioner and ALJ's Ruling issued February 19, 2004. PG&E is authorized to establish two new AMIMA accounts and, like SDG&E, is authorized to record to AMI pre-deployment activities only for years 2005 and 2006.

Energy Division concludes that AMI pre-deployment expenses recorded in the AMIMA are subject to disallowance should the Commission find that the minimum functionality criteria set forth in the February 19, 2004 Ruling in R.02-06-001 are not met.

The May ACRs provides a procedural path by which the utilities can seek approval for expenditure of ratepayer funds for AMI pre-deployment activities. Should the utilities decide to record pre-deployment costs prior to a Commission decision on the functionality of their proposed AMI systems, such investments are made at shareholder risk. Specifically, pre-deployment costs recorded in the memorandum accounts that were not found by the Commission to have met the minimum functionality criteria will be disallowed. Furthermore costs that meet the minimum functionality criteria would be subject to reasonableness review. Utility expenditures directly related to full-scale AMI implementation cannot be recorded in AMIMAs.

TURN protested both the SDG&E and PG&E advice letters on the grounds that the requested memorandum accounts have not been authorized by statute or Commission order.

TURN argues that R.02-06-001 did not authorize the spending or recording of the proposed pre-deployment costs. TURN instead finds that those costs were proposed in A. 05-03-015 and A. 05-03-016 respectively, which are currently pending before the Commission. Therefore, TURN argues, there is no justification for authorizing a memorandum account in advance of a resolution of A.05-03-015 and A.05-03-016.

The establishment of memorandum accounts by the utilities simply allows the utilities to book their pre-deployment costs. There is no guarantee of cost recovery via the establishment of these accounts, and thus any costs recorded in advance of a decision on the functionality of the proposed systems are made entirely at shareholder risk.

The gist of TURN's protest is that the costs recorded in the memorandum accounts are still pending Commission approval, and thus it would be premature to approve the memorandum accounts. However since the recorded costs must pass the functionality threshold as well as undergo a reasonableness review, Energy Division is not convinced that the establishment of the accounts leads to inappropriate recovery of costs from ratepayers. Energy Division in no way suggests that its recommendation to allow the establishment of the AMIMA accounts prejudices its opinions of the utilities' pre-deployment plans or the merits of full-scale AMI implementation.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period may be reduced where the Commission has determined that relief requested is an uncontested matter, as defined in Rule 77.7(f)(2).

FINDINGS

1. On April 27, 2005 SDG&E filed Advice Letter 1689-E/1524-G requesting authority to establish an AMIMA for purposes of recording AMI pre-deployment expenditures for years 2005 and 2006. On May 13, 2005, PG&E filed Advice Letter 2632-G/2664-E requesting authority to establish two new Advanced Memorandum Infrastructure Memorandum Accounts (AMIMA-E for electric and AMIMA-G for gas) for purposes of recording AMI project expenditures.
2. Energy Division has reviewed the PG&E and SDG&E advice letters and recommends establishing AMIMAs for the purpose of recording AMI pre-deployment costs only for years 2005 and 2006.
3. All recorded costs in the AMIMAs must be approved via the Commission's decision on functionality in order to be recovered from ratepayers. Costs recorded in advance of a Commission decision are at shareholder risk.
4. In the event that the Commission finds that the utility investments pass the functionality threshold, the recorded costs will also undergo a reasonableness review prior to recovery from ratepayers.

THEREFORE IT IS ORDERED THAT:

1. PG&E is authorized to establish the AMIMA-E and AMIMA-G memorandum accounts for the purpose of recording AMI pre-deployment costs only for the years 2005 and 2006.
2. SDG&E is authorized to establish a AMIMA for the purpose of recording AMI pre-deployment costs for the years 2005 and 2006.

This Resolution is effective today.

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SDG&E AL 1689-E/1524-G

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 30, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

Resolution E-3937
PG&E AL 2632-G/2664-E
SDG&E AL 1689-E/1524-G
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RESOLUTION E-3937
June 30, 2005

TO: PARTIES TO SAN DIEGO GAS AND ELECTRIC (SDG&E) ADVICE LETTER 1689-E/1524-G AND PACIFIC GAS AND ELECTRIC (PG&E) ADVICE LETTERS 2632-G/2664-E

Enclosed is draft Resolution Number E-3937 of the Energy Division. It is in response to Advice Letters 1689-E/1524-G filed by SDG&E, and Advice Letter 2632-G/2664-E filed by PG&E and will appear on the agenda at the next Commission meeting held at least 30 days after the date of this letter. The Commission may vote on this Resolution at that time or it may postpone a vote until a later meeting. When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

All comments on the draft Resolution are due by June 20, 2005. Comments shall be served on parties, as outlined below.

1) An original and two copies, along with a certificate of service to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

2) Parties to PG&E AL 2632-G/2664-E and SDG&E AL 1689-E/1524-G (attached)

3) All Commissioners

4) Michael Rosauer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

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Comments shall focus on factual, legal or technical errors in the proposed draft Resolution.

Replies to comments on the draft resolution may be filed (i.e., received by the Energy Division) on June 24, 2005, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Late submitted comments or replies will not be considered.

An accompanying declaration under penalty of perjury shall be submitted setting forth all the reasons for the late submission.

Please contact Michael Rosauer of the Energy Division at 415-703-2579 if you have questions or need assistance.

Sincerely,

Bruce Kaneshiro
Program and Project Supervisor
Energy Division

Enclosure: Service List

CERTIFICATE OF SERVICE

CERTIFICATE OF SERVICE

I certify that I have by electronic mail this day served a true copy of Draft Resolution E-3937 on all parties on the PG&E Advice Letter 2632-G/2664-E and SDG&E Advice Letter 1689-E/1524-G service lists or their attorneys as shown on the attached list.

Dated May 31, 2005 at San Francisco, California.

Michael Rosauer

NOTICE

Parties should notify the Energy Division, Public Utilities Commission, 505 Van Ness Avenue, Room 4002 San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number on the service list on which your name appears.

Parties to PG&E Advice Letter 2632-G 2664-E and SDG&E Advice Letter 1689-E/1524-G

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