

Decision 11-03-042 March 24, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Adoption of an Advanced Metering Infrastructure Deployment Scenario and Associated Cost Recovery and Rate Design.

Application 05-03-015
(Filed March 15, 2005)

ORDER APPROVING PETITION FOR MODIFICATION

1. Summary

San Diego Gas & Electric Company (SDG&E) filed a Petition for Modification of Decision (D.) 07-04-043 on September 9, 2010. SDG&E requests that the Commission modify D.07-04-043 so as to clarify the accounting rules and regulatory procedures that should apply to SDG&E's Advanced Metering Infrastructure deployment project for the period beyond December 31, 2011, until such time as the project is completed and a final reconciliation of project costs, benefits, revenues, and account balances recorded in SDG&E's Advanced Metering Infrastructure balancing account can be prepared and presented to the Commission for disposition. The Petition is granted.

2. Background

Decision (D.) 07-04-043 approved San Diego Gas & Electric Company's (SDG&E's) Advanced Metering Infrastructure deployment project. The project encompasses the deployment of approximately 1.4 million electric meters which can, among other things, deliver and measure energy usage on a time-differentiated basis via an associated communications infrastructure. Key terms

of the project were established by a settlement reached among certain parties to this matter.¹ In approving the settlement, the Commission authorized SDG&E to establish its Advanced Metering Infrastructure Balancing Account (AMIBA).² The balancing account provided the regulatory mechanism by which SDG&E would record and reconcile:

- Operating and maintenance costs attributable to the Advanced Metering Infrastructure project;
- Capital costs, including depreciation expense, property taxes, income taxes, and return on investment, related to the Advanced Metering Infrastructure project;
- Revenues billed and received to offset the revenue requirements attributable to the costs of the Advanced Metering Infrastructure project;
- Credits related to the annual project benefits adopted by the Commission in its order; and,
- Miscellaneous entries related to amortizations of over- and under-collections in the balancing account and related interest accruals.

Finding of Fact 3 in D.07-04-043 states: “SDG&E has a clear plan for implementing its AMI Project. The plan involves identifying vendors based on

¹ D.07-04-043 required SDG&E to submit its vendor contracts to the Commission for later review and certification. The terms of those contracts were to be negotiated to reflect the terms of the settlement and the Commission’s decision. Significantly, the settlement and Commission decision addressed the range of functionalities SDG&E’s advanced metering infrastructure should be capable of delivering. Having negotiated the appropriate contracts with its vendors to include specifications reflecting these functionalities, SDG&E filed and received Commission approval of those contracts through an advice letter filing. *See* Commission Resolution E-4201 (SDG&E Advice Letter 2016-E), issued November 6, 2008.

² *See* SDG&E Advice Letter 1897-E, filed May 14, 2007, in compliance with D.07-04-043.

its RFPs, negotiating contracts with selected vendors, and performing the needed work between 2007 and 2010. This plan also applies to the Settlement Agreement.” Under the settlement approved by the Commission in D.07-04-043, SDG&E was expected to complete the Advanced Metering Infrastructure deployment project by the end of 2011 at a cost of \$572 million, with costs and revenues recorded in the Advanced Metering Infrastructure balancing account not to exceed \$617 million. (D.07-04-043 at 13.)

The AMIBA was established by Advice Letter 1897-E. That Advice Letter indicated that the balancing account mechanism would be used to “update the [Advanced Metering Infrastructure] revenue requirement annually by advice letter until the costs and benefits of the [Advanced Metering Infrastructure] system can be incorporated into the next rate case.”³ Advice Letter 1897-E indicated that the AMIBA would be used to record and reconcile costs, benefits and revenues “if there are other unforeseen causes to delay the inclusion of the [Advanced Metering Infrastructure] costs and benefits in a revised revenue requirement beginning in 2012.”

3. The Petition

SDG&E proposes to amend Ordering Paragraph 5 of D.07-04-043 to read as follows:

5. SDG&E shall establish the Advanced Metering Infrastructure Balancing Account (AMIBA) by an advice letter no later than 30 days from the effective date of this decision, and record costs up to \$617 million. *The AMIBA shall remain in effect until such time as SDG&E completes the deployment of its Advanced Metering Infrastructure system and the final costs and benefits of the Advanced*

³ See SDG&E Advice Letter 1897-E at 4.

Metering Infrastructure system can be reported in an SDG&E general rate case. (Italicized language added to Ordering Paragraph 5.)

SDG&E contends it filed Application 05-03-015 with the expectation that the costs and revenue requirements associated with the Advanced Metering Infrastructure project would ultimately be reflected in its Test Year 2010 general rate case filing. At the time it filed its Advice Letter 1897-E, however, SDG&E was seeking a two-year delay in the filing of its next general rate case, a proposal the Commission eventually approved.⁴

SDG&E states that it is currently preparing the filing that will become the Test Year 2012 general rate case. In doing so, SDG&E claims that it will be unable in that general rate case to provide a *final* reconciliation of the costs, benefits, revenues, and account balances recorded in the AMIBA due to project delays. However, SDG&E states that it intends to include in that general rate case an *interim* reconciliation of those costs, revenues, benefits, and the disposition of the Advanced Metering Infrastructure balancing account balances (currently an over-collection). This interim reconciliation will address the costs, revenues and benefits of the Advanced Metering Infrastructure expected to be deployed as of December 31, 2011.

SDG&E's justification for the modifications requested is that there are changed facts and circumstances. The SDG&E Advanced Metering Infrastructure program was expected to begin deployment in 2008 and to

⁴ See Re Application of San Diego Gas & Electric Company (U902M) for Authority to Update Its Gas and Electric Revenue Requirement and Base Rates Effective on January 1, 2008, D.08-07-046 in Application 06-12-009 at 3, 12, 35, 46.

complete all installations during 2010. However, due to the negotiation of new vendor agreements, the deployment period began later than originally planned.

SDG&E now expects to deploy virtually all of its smart meters by year-end 2011. However, SDG&E now expects that three elements of the Advanced Metering Infrastructure deployment project will not be completed by December 31, 2011, so that there will be about 28,000 meters, out of the 1.4 million electric meters planned, that will not be installed by year-end 2011.

First, SDG&E will be unable to install about half of the 33,000 complex-billing meters⁵ authorized for the Advanced Metering Infrastructure Project because of a delay in the full implementation of the associated billing systems and software supporting these meters. SDG&E expects complex-billing capability to be available and operational during the first quarter of 2011. Once this capability is operational, SDG&E expects to install about one-half of these meters by the end of 2011 and the remaining half during 2012.

Second, another 11,500 smart meters will not be installed until after December 31, 2011. In some cases, SDG&E claims it has been unable to access the meter location and encountered difficulty in removing the existing meter and installing the new smart meter. In other cases, SDG&E claims certain meter installations have proven to require enhanced communications, e.g., radio-frequency range extenders, pole-top mounted cell relays and external antennae to reach meters located in challenging environments. SDG&E expects deployment of these last meters during 2012.

⁵ A "complex-billing meter" is necessary for customers with time-sensitive rates.

Finally, SDG&E's Advanced Metering Infrastructure project includes the installation of approximately 34,000 programmable communicating thermostats for small and medium commercial and industrial customers. These thermostats will provide customers with the ability to participate in time-sensitive demand-response projects SDG&E will be implementing in the near term. Under the program approved by D.07-04-043, SDG&E originally planned to install all of these thermostats by the end of 2011.

As a precursor to commencing deployment, SDG&E says it collaborated with the state's other utilities and interested stakeholders and developed certain Home Area Network standards, including standards for communications links between smart meters and Home Area Network devices, including programmable communicating thermostats. (*See* D.07-04-043 at 95.) Rather than deploy currently available thermostats that may be obsolete soon after installation, SDG&E chose to delay the deployment of the Advanced Metering Infrastructure thermostats until such time as the newer technologies become available. SDG&E now says it will be selecting a vendor for a limited (1000-installation) pilot to be conducted during the first half of 2011. Based on the results of the pilot program, SDG&E now expects mass deployment later in 2011 and continuing into 2012, assuming the commercial availability of suitable technologies in the quantities required.

No party filed a response to SDG&E's Petition for Modification of D.07-04-043.

4. Timeliness of the Petition

Rule 16.4(d) of the Commission's Rules of Practice and Procedure requires that parties filing petitions for modification of a decision, where such petition is filed more than one year after the effective date of the relevant decision, explain

why the petition could not have been filed within that one-year period. SDG&E claims it could not have filed the instant Petition within one year of the effective date of D.07-04-043 since neither the facts and circumstances of the deployment delays could have been known to it nor could SDG&E have known that it would not be able to provide a final reconciliation of its Advanced Metering Infrastructure costs, benefits, revenues and account balances within that one-year period.

SDG&E claims it has been diligently pursuing the deployment of its Advanced Metering Infrastructure and only a small fraction of the overall project will be subject to installation delays beyond December 31, 2011. SDG&E contends it only recently became aware of its inability to perform the ratemaking reconciliation for the Advanced Metering Infrastructure project it had expected to make in its upcoming Test Year 2012 general rate case. Therefore, SDG&E contends it could not have anticipated the types of delays it has encountered within the one-year time period described in Rule 16.4(d).

SDG&E has stated a reasonable basis in fact for the timing of this Petition. We conclude that SDG&E has justified why it could not have filed this Petition within one year after D.07-04-043.

5. Discussion

Although D.07-04-043 does not order or direct SDG&E to complete the deployment of its Advanced Metering Infrastructure by the end of 2011, the decision and the settlement upon which the decision is based provide a reasonable expectation that deployment would be completed within that time. SDG&E has now shown that a percentage of the program will not be completed by the end of 2011.

We agree with SDG&E that the project delays described in this Petition, although relatively minor, constitute a change in facts and circumstances of the type described in Rule 16.4(b) that would warrant the modification of D.07-04-043.

In D.06-07-027 at 51, regarding Pacific Gas and Electric Company's (PG&E's) Advanced Metering Infrastructure application, the Commission stated: "We find PG&E's proposed balancing account mechanism, with a per meter benefit credit, to be reasonable because PG&E recovers its new AMI-related costs on an actual basis and it ensures ratepayer benefits are captured as meters are activated." SDG&E requests that it be permitted to keep its AMIBA open until completion of the full deployment of SDG&E's Advanced Metering Infrastructure equipment and systems approved in D.07-04-043, at which time an accurate final reconciliation of the costs, benefits, revenues, and account balances can be reported to the Commission.

SDG&E plans to include in its upcoming Test Year 2012 general rate case an interim reconciliation of the costs, benefits, revenues, and account balances through December 31, 2011. Under SDG&E's current plan, only the costs, benefits, revenues, and disposition of the account balances associated with the equipment and systems whose deployment has been delayed would be recorded to the Advanced Metering Infrastructure balancing account beginning on January 1, 2012 (or the effective date of any general rates the Commission might approve in SDG&E's Test Year 2012 general rate case). Entries recorded to the Advanced Metering Infrastructure balancing account on or after January 1, 2012, will be limited to those assets deployed after December 31, 2011.

Consistent with the Commission's policy in D.06-07-027 that customer rates accurately reflect the actual costs, benefits and revenues related to the

deployment of Advanced Metering Infrastructure equipment and systems, we will adopt the modifications proposed by SDG&E. Because the delays in implementation are relatively minor, SDG&E's proposed accounting changes will not significantly affect rates. Instead, this modification will simply ensure alignment of when costs are incurred and when they are recovered.

6. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Gamson in this matter grants the relief requested in an uncontested matter. Therefore, pursuant to Rule 14.6(c)(2) it is reasonable to waive the period for public review and comment.

7. Assignment of Proceeding

This proceeding is assigned to Commissioner Michael R. Peevey and ALJ David Gamson. ALJ Gamson is the Presiding Officer.

Findings of Fact

1. Under the settlement approved by the Commission in D.07-04-043, SDG&E was expected to complete the Advanced Metering Infrastructure deployment project by the end of 2011.
2. SDG&E now expects to deploy all but 28,000 out of 1.4 million meters in the Advanced Metering Infrastructure deployment project by year-end 2011.
3. SDG&E will not install approximately 34,000 programmable communicating thermostats for small and medium commercial and industrial customers until after the end of 2011.
4. SDG&E did not determine that parts of the Advanced Metering Infrastructure deployment project would be delayed past the end of 2011 until more than one year after the issuance of D.07-04-043.

5. Because the delays in implementation are relatively minor, SDG&E's proposed accounting changes will not significantly affect rates. Instead, this modification will simply ensure alignment of when costs are incurred and when they are recovered.

6. No party filed a response to SDG&E's Petition for Modification of D.07-04-043.

Conclusions of Law

1. SDG&E has shown that it could not have filed this Petition within one year of the issuance of D.07-04-043, as required by Rule 16.4(d) of the Commission's Rules of Practice and Procedure.

2. The project delays described in this Petition, although relatively minor, constitute a change in facts and circumstances of the type described in Rule 16.4(b) that would warrant the modification of D.07-04-043.

3. SDG&E's proposal to extend balancing account treatment of costs is consistent with the Commission's policy in D.06-07-027 that recovery of Advanced Metering Infrastructure related costs on an actual basis ensures ratepayer benefits are captured as meters and other Advanced Metering Infrastructure elements are activated.

4. The modifications to D.07-04-043 proposed by SDG&E are reasonable.

5. It is reasonable to waive the period for public review and comment on the Proposed Decision, pursuant to Rule 14.6(c)(2).

IT IS ORDERED that:

1. Ordering Paragraph 5 of Decision 07-04-043 is modified to read:

SDG&E shall establish the Advanced Metering Infrastructure Balancing Account (AMIBA) by an advice letter no later than 30 days from the effective date of this decision, and record costs up to \$617 million. *The AMIBA shall remain in effect until such time as*

SDG&E completes the deployment of its Advanced Metering Infrastructure system and the final costs and benefits of the Advanced Metering Infrastructure system can be reported in an SDG&E general rate case. (Italicized language added to Ordering Paragraph 5.)

2. Application 05-03-015 is closed.

This order is effective today.

Date March 24, 2011, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK FERRON

Commissioners