

Decision 06-12-016 December 14, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U-902-E) for Adoption of an Advanced Metering Infrastructure Deployment Scenario and Associated Cost Recovery and Rate Design.

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

**OPINION REGARDING SAN DIEGO GAS & ELECTRIC COMPANY'S
PETITION FOR MODIFICATION OF DECISION (D.) 05-08-018**

On September 1, 2006, San Diego Gas & Electric Company (SDG&E) filed a Petition for Modification of Decision (D.) 05-08-018, the "Decision Approving Settlement On Pre-Deployment Costs," in connection with SDG&E's Advanced Metering Infrastructure (AMI) proceeding.

SDG&E seeks the following modifications to D.05-08-018:

1. An extension of the pre-deployment and bridge funding periods to year-end 2007;
2. Authority to begin limited information technology (IT) system, system integration and prime services Phase 1 activities in the event that a final AMI decision is delayed beyond March 2007, and approval to recover related expenditures;
3. Authority to establish a new balancing account to track AMI project deployment costs and recovery of these costs in rates.

We will grant SDG&E's requested extension of pre-deployment and bridge funding. All other aspects of the petition are denied.

1. Background

On March 15, 2005, SDG&E filed Application (A.)05-03-015 seeking Commission approval of the company's AMI deployment proposal and associated cost recovery and rate design (the Application). The Application, in part, requested authority to spend \$50.3 million for AMI project pre-deployment activities.

In a May 9, 2005 Ruling, Assigned Commissioner Grueneich directed SDG&E to provide supplemental testimony describing its pre-deployment plan along with a month by month description of all required tasks and costs. On May 25, 2005, SDG&E served supplemental testimony presenting a revised plan reducing pre-deployment expenditures from \$50.3 million to \$9.3 million.

SDG&E entered into a settlement agreement with other parties regarding the scope of pre-deployment activities. The settlement (approved by the Commission in D.05-08-028) authorized SDG&E to spend \$3.4 million for activities during a pre-deployment period extending from September 2005 through March 2006, and an additional \$5.9 million in bridge funding to be spent from March 2006 through the end of that year.

SDG&E developed and issued five Requests for Proposals (RFP) on October 20, 2005. SDG&E filed a motion on October 20, 2005, requesting an extension of the procedural schedule that would allow SDG&E to submit testimony reflecting the RFP results and still provide adequate time for the Commission to issue its final decision before year-end 2006. The motion was approved by Administrative Law Judge (ALJ) Cooke on November 18, 2005. SDG&E served its updated testimony on March 28, 2006.

On April 28, 2006, the Commission's Division of Ratepayer Advocates (DRA) and the Utility Consumer Action Network (UCAN) filed a joint motion

seeking additional time for intervenors to analyze and review SDG&E's updated testimony. In its response, SDG&E requested authorization to roll over the unspent pre-deployment funds into 2007.

In a May 19, 2006 Administrative Law Judge (ALJ) Ruling, ALJ Gamson granted the DRA/UCAN request for an additional procedural delay, pushing a final decision to no earlier than February 2007. The Ruling neither accepted nor denied SDG&E's request to adjust the pre-deployment and bridge funding periods. Instead, the Ruling instructed SDG&E to file a Petition for Modification of D.05-08-018 by September 1, 2006, if it wished to roll over the pre-deployment/bridge funding into 2007. Given that the final decision would not be issued until February 2007 or later, the Ruling stated that "it may be reasonable to allow roll over of unspent 2005/6 bridge funds into 2007." (Ruling, p. 4.)

SDG&E filed its Petition for Modification on September 1, 2006. DRA filed its opposition on October 24, 2006.¹ SDG&E filed its response on November 1, 2006.

2. DRA's Position

DRA does not object to SDG&E's request to roll over previously approved pre-deployment funding, as these costs have already been found reasonable and parties have already had the opportunity to address those costs and activities.

DRA opposes SDG&E's other two requests. DRA claims approval of the IT funding and new balancing account would be unreasonable as the Commission

¹ DRA received two extensions of time to file its response, originally due September 16, 2006.

has not found, nor is there a record that demonstrates, those costs to be reasonable. DRA states that approximately \$50 million in funding for new activities cannot simply be granted on the basis of SDG&E's Petition. DRA argues SDG&E's main justification for its request is an unsubstantiated fear that a decision in the instant proceeding will be delayed beyond March 2007.

3. Discussion

a. Roll over of Pre-deployment Funds

When the Commission issued D.05-08-018, the procedural schedule anticipated a final decision before year-end 2006. Parties to the settlement adopted in the decision also assumed that the Commission would issue a final decision on SDG&E's AMI application before the end of 2006. Due to procedural schedule changes, a 2006 final decision is no longer possible. The current schedule anticipates that the Commission will issue a final decision in March 2007.

As a result, SDG&E has modified its pre-deployment schedule. SDG&E says it now expects to conclude pre-deployment activities, including field tests of vendor products and services, by year-end 2007, far later than the schedule contemplated at the time the Commission issued D.05-08-018.

Given the size and scope of SDG&E's AMI project, SDG&E and DRA agree that SDG&E should be allowed to 1) extend the current pre-deployment period (currently scheduled to end December 2006) through December 31, 2007; and 2) roll over (to 2007) any unspent pre-deployment funds remaining as of December 2006, with authority to continue recovering these expenditures through the previously authorized Advanced Metering Infrastructure

Memorandum Account (AMIMA)² account until and unless the account is replaced by a new AMI balancing account as described below.

SDG&E estimates it will have spent \$7.2 million of its authorized bridge funding and pre-deployment budget of \$9.3 million by the end of 2006. SDG&E's authorization to recover expenses accrued from pre-deployment activity will expire on December 31, 2006. Unless this authorization is extended, SDG&E states that it may stop pre-deployment activities at year-end. This would be an undesirable result given our pending consideration of the overall AMI application. We will grant SDG&E's request to roll over remaining previously approved pre-deployment funding through December 2007.

b. SDG&E Request for Pre-approval of \$49.3 Million for IT and other Activities

We will deny SDG&E's Petition on this issue. As discussed below, SDG&E's petition prejudices an issue that we will address in considering the overall case in A.05-03-015, unnecessarily assumes a procedural delay, and inappropriately seeks funding for part of its AMI Project separate from consideration of the overall project.

If SDG&E receives Commission approval for its AMI project in A.05-03-015, it is scheduled to begin IT system and system integration work in March 2007. SDG&E claims it cannot begin IT work without assurance that the Commission will permit recovery of the associated costs. SDG&E seeks Commission authorization to purchase its meter data management system

² On April 27, 2005 SDG&E filed Advice Letter (AL) 1689-E/1524-G requesting that the Commission approve a new AMIMA to record pre-deployment costs incurred as a result of AMI prior to the Commission's approval of this application. In Resolution E-3937, the Commission approved this advice letter, effective June 30, 2005.

(MDMS) package and begin system integration work by March 1, 2007 if, and only if, the Commission does not issue a final decision by March 2007 as anticipated.

SDG&E says if the Commission does not issue a final decision on its AMI application by March 2007, SDG&E will not have the funding to begin information systems, systems integration, and prime services/program management activities on March 1, 2007 as planned. SDG&E says it would then be forced to stop most project activity. SDG&E claims that delay beyond March 2007 will force SDG&E to disband project teams, both internal and external, until project funding is authorized in the final decision. SDG&E claims it may then be forced to issue new RFPs because the vendors' contractual obligations to honor price quotes expire and vendor proposals become dated, potentially setting back the project back by three or more months.

SDG&E claims the Commission has given every indication that it will approve some level of AMI deployment in the SDG&E service territory. However, SDG&E's application was protested by DRA and UCAN, and seven days of evidentiary hearings were held. In briefs, DRA and UCAN continue to oppose SDG&E's proposal.

While we have indicated our interest in AMI technology, we have made no decisions regarding the specific SDG&E application before us. SDG&E's request in the petition for modification goes far beyond the pre-deployment activities already approved, effectively seeking to begin the major work associated with its main AMI project before receiving approval for that project. We do not intend to prejudge the outcome of our upcoming final decision in A.05-03-015. We will decide the case on its merits.

SDG&E uses the rationale of potential procedural delay to justify its petition. The proceeding schedule calls for a proposed decision to be on the Commission's March 1, 2007 Agenda for the Commission's consideration.³ The proceeding is on schedule. Briefs were filed October 27, 2006 and Reply Briefs were filed on November 10, 2007 according to the schedule. It is the current intent of the Commission to adhere to this schedule. We will not now approve funding predicated on SDG&E's unsubstantial concern that the schedule may slip in the future.

SDG&E claims a \$49.3 million investment to purchase and install the AMI IT systems would not be "stranded" even if the Commission ultimately rejects SDG&E's AMI deployment proposal, because the MDMS would benefit customers with or without AMI. SDG&E claims a new MDMS that is integrated into the company's legacy systems would pave the way for better customer service today and act as a foundation for the eventual migration of customers to an AMI-like environment. For example, SDG&E claims it could use the MDMS when installed to process billing information from commercial and industrial customers.

However, SDG&E stated at the September 11, 2006 pre-hearing conference in this proceeding that the funds it seeks through this petition are part of the overall AMI project costs, and that if this petition is approved, SDG&E's AMI application should be reduced by the \$49.3 million sought in the petition.⁴ We

³ During evidentiary hearings, ALJ Gamson clarified that he anticipated that the proposed decision will be on the Commission's March 1, 2007 Agenda. See Transcript, p. 904. No party objected to this minor change.

⁴ PHC, Transcript, p. 45.

ultimately may or may not approve the overall AMI project. We have been presented no clear reason to approve a part of the project without consideration of the overall project – a task we shall undertake in the near future.

SDG&E claims funding the AMI system prior to a final decision on the full deployment proposal is not without precedent. In D.05-09-044, the Commission authorized PG&E to spend \$49 million in capital for pre-deployment activities. In doing so the Commission noted that “it is reasonable for PG&E to expect some assurance of recovery for its costs, given that the Commission has encouraged PG&E to move forward with [the AMI] project...” (D.05-09-044, p. 12.)

SDG&E’s analogy to D.05-09-044 is not fully appropriate. If SDG&E was seeking pre-deployment funds for the first time here, the PG&E decision would be directly on point (notwithstanding that PG&E’s \$49 million pre-deployment request was in support of an AMI project over twice the size of SDG&E’s AMI project). But we have already granted pre-deployment funding to SDG&E in D.05-08-018 (the decision SDG&E seeks to modify here). In that decision, SDG&E’s original request for pre-deployment funds was for \$50.3 million. SDG&E modified its own request to \$9.3 million and then entered into a settlement for that amount for bridge and pre-deployment funds. SDG&E essentially is now asking us to reinstate its original proposal. No party involved in the settlement supports SDG&E; one settling party (DRA) opposes SDG&E.

c. Balancing Account Treatment of AMI Expenses

Finally, SDG&E is seeking permission to recover system and system integration expenses through a balancing account. SDG&E proposes to replace its existing AMI memorandum account that currently records pre-deployment costs with a new AMI balancing account (AMIBA). SDG&E proposes to record actual operation and maintenance and capital-related costs in AMIBA and to

make annual adjustments to reflect any variances from the Commission-approved annual AMI revenue requirement.

There is no need to consider this portion of SDG&E request, as we are not authorizing the underlying \$49.3 million capital project. To the extent that a new balancing account may be appropriate, we will consider this in our decision on the overall AMI proposal.

4. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with § 311 of the Pub. Util. Code and Rule 14.2(a) of the Commission's Rules of Practice and Procedure. Comments were filed on December 4, 2006 by SDG&E.

5. Assignment of Proceeding

Dian M. Grueneich is the assigned Commissioner and David M. Gamson is the assigned ALJ in this proceeding.

Findings of Fact

1. In D.05-08-018, SDG&E received \$9.3 million in pre-deployment and bridge funding periods to year-end 2006.
2. The Commission has not issued an order in A.05-03-015 regarding the merits of SDG&E's AMI application.
3. The Commission currently intends to consider a proposed decision in SDG&E's AMI proceeding in March 2007.
4. In this Petition, SDG&E requests authority to spend \$49.3 million in IT and other AMI-related expenses that are also part of its case on the merits in this AMI application.

Conclusions of Law

1. Because there will not be a final Commission decision on SDG&E's AMI application before the end of 2006, it is reasonable to allow SDG&E to extend the period for use of pre-deployment and bridge funds previously authorized in D.05-08-018 until December 31, 2007.

2. Granting SDG&E's Petition for Modification, beyond extension of pre-deployment and bridge funding, is unreasonable and would prejudice the Commission's decision in SDG&E's AMI case, A.05-03-015.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's (SDG&E) September 1, 2006 Petition for Modification of Decision (D.) 05-08-018 is granted in part and denied in part as set forth below.

2. D.05-08-018 is modified to extend SDG&E's current advanced metering infrastructure pre-deployment period through December 31, 2007, and to roll over to 2007 any unspent pre-deployment funds remaining as of December 2006. SDG&E is authorized to continue recovering these expenditures through its Advanced Metering Infrastructure Memorandum Account.

3. All other aspects of SDG&E's petition for modification of are denied.

This order is effective today.

Dated December 14, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners