

From: Cherry, Brian K  
Sent: 6/24/2010 1:14:16 PM  
To: 'mpl@cpuc.ca.gov' (mpl@cpuc.ca.gov)  
Cc:  
Bcc:  
Subject: Fw: MD Commission rejects BGE's smart grid application

Mike - thought I'd share with you this perspective by one of our consultants on SmartGrid in Maryland.

**From:** Bottorff, Thomas E  
**To:** Darbee, Peter; Johns, Christopher; Burt, Helen; Salas, Edward A (ET); Park, Hyun; Kline, Steven L.; Lavinson, Melissa A; Cherry, Brian K; Tang, Andrew; Dasso, Kevin; Bober, Christopher; Lokey, Felecia K; Pruett, Greg S.; Bedwell, Ed; Kauss, Kent; Allen, Meredith; [Redacted]; Hertzog, Brian; Parnell, Renee; Loduca, Janet C.; Zigelman, Jacob; [Redacted]; Cooper, Shawn; Rosenberg, Rand; Affonsa, Deborah; Yura, Jane; Corey, Jana  
**Sent:** Thu Jun 24 09:00:08 2010  
**Subject:** FW: MD Commission rejects BGE's smart grid application

Thought you'd appreciate this perspective from Ahmad Faruqui, who testified in BGE's case. PTR refers to a Peak Time Rebate tariff, which allows customers to benefit if they limit use during critical periods, but imposes no additional charges upon them if they don't. It's a can't-lose, only-win pricing option.

Tom

**From:** Faruqui, Ahmad [mailto:Ahmad.Faruqui@brattle.com]  
**Sent:** Thursday, June 24, 2010 8:42 AM  
**To:** Bottorff, Thomas E  
**Subject:** RE: MD Commission rejects BGE's smart grid application

Yes to the first question. The business case did not factor in any TOU benefits. It rested on PTR being offered universally and assumed a certain fraction of the folks (about 75%) would be aware that PTR was in effect on critical days. The load impacts were derived from their two-year long pricing pilot which was given an award by one of the industry trade associations for excellence in design. TOU was only being offered to educate customers about the time-varying nature of electricity rates and to incent solar, DG and PHEVs....the company had stated several times that it would be more willing to drop the TOU program if the Commission so desired. They had also suggested replacing the cost tracker mechanism with a regulatory asset treatment model. The Commission was not very communicative. It took them seven months to say no and all they did, in the end, was do a cut and paste of the Briefs filed by the parties that were adverse to BGE. It could have been done in seven days, maybe even in seven hours. It is so political out there! Some people call it the People's

Republic of Maryland....

As for your second point, I believe they view this as Round 1 and will refile. Apparently their commission had also rejected their DSM filing earlier and when the company refiled to account for the criticisms, they accepted. Seems like a strange way to communicate to me. Gives regulation a bad name.

Here is another article that might interest you.

<http://www.nytimes.com/cwire/2010/06/23/23climatewire-mds-veto-of-advanced-meter-deployment-stuns-95998.html>

**Ahmad Faruqi, Ph. D.**  
Principal

**The Brattle Group**  
353 Sacramento Street, Suite 1140  
San Francisco, CA 94111  
Voice: 415.217.1026  
Fax: 415.217.1099  
Cell: 925.408.0149

Cambridge | San Francisco | Washington | Brussels | London

**From:** Bottorff, Thomas E [mailto:TEB3@pge.com]  
**Sent:** Thursday, June 24, 2010 8:35 AM  
**To:** Faruqi, Ahmad  
**Subject:** RE: MD Commission rejects BGE's smart grid application

Ahmad,  
Does this mean that BGE could have made the business case based on little to no voluntary participation by customers on TOU?

Will BGE resubmit this any time soon?  
Tom

**From:** Faruqi, Ahmad [mailto:Ahmad.Faruqi@brattle.com]  
**Sent:** Tuesday, June 22, 2010 8:08 PM  
**To:** Bottorff, Thomas E; [Redacted]  
**Subject:** MD Commission rejects BGE's smart grid application

Not the smartest move but fairly typical of the state of play. No one wants to pay for the smart grid. Everyone wants the benefits as long as someone else pays for it. The MD Commission stated in its order that it was hoping that the smart grid would pay for itself through improvements in the distribution system and not want any of the benefits to be contingent on behavioral changes by customers. BGE's business case, which we supported through expert testimony, involved projections of changes in customer behavior as peak-time rebates were introduced and as demand response benefits were monetized in the PJM market. Backing up the business case was solid empirical evidence from a two-year pilot with dynamic pricing. The mandatory TOU rates were not even included by BGE in the cost-benefit analysis and the company had indicated it was ready to drop them. That did not prevent them from becoming the center piece of the rejection argument which rested entirely and verbatim on the alarmist points made by the consumer advocates.

Here is a pretty bold editorial in the local paper which essentially says the Emperor has no clothes.

Ahmad

Ahmad Faruqui, Ph. D.  
Principal

**The Brattle Group**  
353 Sacramento Street, Suite 1140  
San Francisco, CA 94111  
Voice: 415.217.1026  
Fax: 415.217.1099  
Cell: 925.408.0149

Cambridge | San Francisco | Washington | Brussels | London

[www.baltimoresun.com/news/opinion/bs-ed-smart-meters-20100622,0,7179138.story](http://www.baltimoresun.com/news/opinion/bs-ed-smart-meters-20100622,0,7179138.story)

**baltimoresun.com**

## **Dumb decision on smart meters**

**Our view:** PSC's rejection of BGE's smart grid proposal puts a pending federal grant at risk and raises concerns that regulators are being too cautious in charting the state's energy future

3:57 PM EDT, June 22, 2010

Considering the potential of smart meters to promote residential energy conservation, it would be difficult for even the most hardened skeptic of Baltimore Gas and Electric Co. to be pleased with the Maryland Public Service Commission's rejection of the program. If a so-called smart grid is a critical part of this nation's energy future, the state's chief regulator has just ensured that Baltimore-area utility customers stay securely anchored to the past—a more vulnerable position than the PSC seems to realize.

What did BGE want? To install smart meters in every business and home to keep track of how much energy is being used and wirelessly transmit that information to a central office. With that kind of monitoring available, customers could voluntarily cut back on peak summer days at an average potential savings of \$100 per year.

But the benefits transcend those rebates. They give customers a powerful incentive to conserve and allow BGE to make smarter decisions about how electricity is distributed. There would be less waste, better real-time information on power outages, more accurate billing, and, if the utility's estimates are correct, meter-aided conservation would keep everyone's rates lower by reducing the need to build additional capacity.

BGE's proposal had controversial elements and was, admittedly, built on a lot of assumptions. Customers would be expected to pay for smart meters (their \$200 cost would have amounted to less than \$1.50 a month on bills). The new technology is not without problems (California's Pacific Gas & Electric has had recent difficulties with its version). And the utility's own investment in the program was relatively modest and risk-free, a point that that seems to have really stuck in the PSC's craw.

Although the PSC's staff recommended conditional approval of smart meters, the commission proved sympathetic to arguments that the elderly and poor would be adversely affected. The PSC also objected to dynamic pricing (rates that are higher in peak periods but lower in off-times), though BGE officials say that's only an optional feature of the program.

Yet none of these concerns justify the commission's labeling smart metering "untenable" and its benefits a long way off. BGE's pilot program demonstrated the upside—98 percent of participants saved money—and those savings would have been available to everyone in two years. Smart meters are still relatively new, but we are unaware of any place in this country where utility investors, and not customers, are footing the final bill for them.

By rejecting the proposal outright (albeit leaving open the chance to "revisit" the matter if BGE wants to try again), the PSC also casts doubt on the \$200 million in federal stimulus funds that would have helped offset the program's cost. That's an opportunity that BGE and Maryland may not see again. While, as the commission noted, that grant shouldn't drive the decision-making, it should not have been ignored either.

Would BGE have stood to profit from smart meters? Absolutely. To expect a for-profit company to make decisions that are not in its financial interest is foolish and naïve. But as

business opportunities go, this was hardly a boon to the utility or its parent, Constellation Energy Group. After all, Constellation makes its money by selling (and trading) more power, not less.

Company officials aren't sure what, if anything, to do next. But surely this has to be seen as a setback to Gov. Martin O'Malley's Empower Maryland energy initiative and his stated desire to reduce energy consumption by 15 percent by 2015 and drastically lower greenhouse gas emission. A compromise ought to be negotiated and before the federal grant slips away.

Under Mr. O'Malley, the PSC has demonstrated a willingness to squeeze Constellation and BGE for rebates and other ratepayer perks where possible. Can it also loosen its grip when doing so serves the best interests of customers? BGE estimates that customers are missing out on \$15 million in energy savings every month the program is delayed. The PSC can quibble over details and cost-benefit analyses, but as the 2-year-old pilot project demonstrated, smart meter customers will conserve if given the opportunity and the incentive.

Copyright © 2010, [The Baltimore Sun](#)

\*\*\*\*\*

IMPORTANT NOTICE FROM THE BRATTLE GROUP: This message, and any attachments, are intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential, and exempt from disclosure under applicable law. Any unauthorized dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error please notify me immediately by return email and immediately delete the original and all copies of the message and any attachments to it. Note also that nothing in this message is intended to constitute an electronic signature or otherwise to satisfy the requirements for a contract unless an express statement to the contrary is included in the message.

Please ensure you have adequate virus protection before you open or use attachments.

The Brattle Group does not accept any liability for viruses.

\*\*\*\*\*