BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Authority to Increase Revenue Requirements to Recover the Costs to Upgrade its SmartMeter™ Program (U 39 E).	Application 07-12-009 (Filed December 12, 2007)

COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE DATA PROVIDED BY PG&E'S DATA ON THE COSTS OF A TEMPORARY SUSPENSION

I. INTRODUCTION AND SUMMARY

At the Prehearing Conference (PHC) held on August 18, 2010, Administrative Law Judge (ALJ) Sullivan ordered PG&E to provide cost data in support of its statements "that a moratorium [of PG&E's SmartMeter deployment] at this time would be costly."[1] The data was to be provided by Wednesday, August 25, and parties were given until August 27 to comment.[2] The Division of Ratepayer Advocates (DRA) has reviewed the information and calculations provided by PG&E. DRA's comments can be summarized as follows:

1. The impacts of a suspension, as calculated by PG&E, are considerably smaller than the projected net benefits of the entire Advanced Metering Infrastructure (AMI) program (as found in the Commission decisions approving first, PG&E's original AMI proposal and second, its upgrade request). Thus, a short delay will not significantly impact the business case for the program.
2. PG&E's calculations are premised on many assumptions which are subject to debate, but it is premature to have this debate less than a week before the investigation report prepared by the Structure Group (Structure Report) is issued.
3. The Structure Report is an important milestone, and its findings could justify a suspension.

[1] August 18, 2010 PHC Transcript, p. 34.

[2] Id.

4. PG&E has assumed, for purposes of its cost estimates, that the Commission's investigation will show that there are no major problems that need to be resolved, and that a suspension would not be justified in hindsight. If the Structure Report indicates problem areas, PG&E should provide additional data to aid the Commission in determining if a suspension is justified.
5. PG&E should be liable for overruns caused by its own mismanagement, notwithstanding a cost overrun provision in the Commission's decision protecting PG&E from liability for the costs of delays caused by government action.

These conclusions are explained in the following section.

II. DISCUSSION

A. The costs of a brief suspension, as calculated by PG&E, are considerably smaller than the projected net benefits of the entire AMI program. Thus, a short delay will not have a material impact on the business case for the program.

Moratorium Costs:

According to PG&E's calculations, total moratorium costs (in a worst case scenario) would be about $20 million per month. The moratorium would reduce the AMI net benefits on a net present value (NPV) basis.

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Project Benefits:

The projected net benefits are:

- In the Original Business Case: \$104 million (as found in D.06-07-027);
- In the Upgrade Business Case: \$31 million (as found in D.09-03-026);
- \$392.5 million increase in net benefits to be achieved by implementing dynamic pricing on an opt-out basis (rather than opt-in).[3]

The total net benefits are \$528 million. Thus there are enough net benefits to suspend the program for two years, which is not likely to be necessary.[4]

B. PG&E's calculations are premised on many assumptions which are subject to debate, but it is premature to have this debate less than a week before the Structure Report is issued.

DRA has reviewed PG&E's calculations and believes that the results are generally "in the ballpark" if one assumes, as PG&E does, that its AMI system is operating properly. However, DRA does not support relying on the figures provided at this time because they rely heavily on assumptions which can significantly change the results, and

[3] In D.06-07-026, the Commission adopted Scenario 1(e) in Table 1-1 of Exhibit PG&E 4-1S. It assumes all dynamic rate programs are offered on an opt-in basis. Similar rate design policy was carried over into the AMI upgrade proceeding. However, the Commission, in D.07-08-045, adopts policy of making dynamic pricing on an opt-out basis for all classes. The opt-out scenario in Exhibit PG&E 4-1S (A.05-06-028) is Scenario 4, and it shows benefits of \$1.370 billion. Scenario 4 assumes an avoided cost of \$85/kW-yr., and scenario 1 (e) assumes \$52/kW-yr. So, as explained in footnote 9 of Ex. PG&E-4, the \$1.370 must be reduced proportionally, arriving at \$904.2 million. Scenario 1 (e), which is built into PG&E's business case, assumed opt-in for all customers, and a demand response benefit of \$338 million. So the difference between opt-out and opt-in is \$566.2 million. From these one must subtract the incremental costs of PG&E's opt-out dynamic rate programs: A.09-22-022 (\$123.4 million), A.10-02-028 (\$32.7 million), and A.10-08-005 (\$141.0 million). These amounts total to \$173.7 million. Subtracting these from \$566.2 million, one arrives at \$392.5 million. All these numbers are PG&E's estimates except for the \$123.4 million (D.10-02-032), and they have not been verified by DRA or by the Commission.

[4] The projected dynamic pricing benefits are based on fairly optimistic assumptions about how customers will react to dynamic pricing. Actual benefits may be much smaller given how public perceptions towards PG&E's Smart Meters have been affected by the widely reported suspicions that the meters (or some other element(s) of the system) in the system are flawed. To the extent that a suspension contributes to customer acceptance of opt-out dynamic rates, it should be considered by the Commission in determining whether to order a suspension. The impact of customer acceptance on the associated demand response benefits has not been quantified by any party or by the Commission.

are subject to debate. For example, a major cost of suspending the project is retaining the entire project management office (PMO) intact during the suspension (as shown in PG&E's Table 1 of its June 23, 2010 supplemental response to DRA's data request). DRA recently sent PG&E a follow-up data request asking for the specific contracts associated with consultants and other contract labor associated with the PMO. There may not be suspension penalties associated with many of those contracts, and thus there may be opportunities for reducing the suspension costs in some areas. Review of the requested contracts will be necessary to make this determination.

Another example is shown in PG&E's Table 1 of its June 9, 2010 data response to DRA. There, two scenarios are shown associated with different levels of demand response. In Scenario 2, the PVRR of delayed benefits is $30.5 million with a three-month suspension. In calculating this figure, PG&E assumed that deployment rates were reduced for 6 months after the suspension begins (3 month suspension + 3 months of start-up time), and thus it removed the benefits from these delayed meters in 2010. However, PG&E fails to add the benefits back, at the end of the program, 6 months of benefits, as it should since meters installed 6 months later should last 6 months longer, on average. Correcting this oversight reduces the PVRR from $30.5 million to $25.8 million.

PG&E also assumed that all monthly per-meter benefits begin accruing immediately when the meter is installed. In Scenario 2, the total per-meter benefit is $2.83 per month, which includes $.88 for DR benefits. Since home area network (HAN)-enabled equipment such as programmable communicating thermostats (PCTs) are not yet available, and enrollment into opt-in tariffs has been much lower than was anticipated when the AMI program was adopted, most of these DR benefits are not available in the baseline case, and therefore would not be delayed by a short suspension. Removing the DR benefits reduces the PVRR further to $19.3 million. Finally, PG&E assumes that deployment for both gas and electric meters will be suspended. If only electric meters were delayed, the PVRR would be $14.3 million.

DRA provides these calculations to highlight that there will be points of disagreement in the calculation of the cost of a suspension, and that the impact of different assumptions and calculation methods has a significant impact. However, it is premature to engage in a debate of such details at this time.

C. The Structure Report is an important milestone, and its findings could justify a suspension.

Suspending PG&E's AMI program would add costs to those approved in the original AMI proceedings, and delay realization of the claimed program benefits, ***but only if it is eventually proven that PG&E's AMI system is working correctly and requires no significant modifications.*** In other words, PG&E has attempted to quantify the costs of a suspension only for this best-case scenario. Yet other scenarios, not considered by PG&E, are possible. Accordingly, DRA wishes to make clear that the comments it submits today on PG&E's calculations are for the limited purpose of assisting the Commission in determining the costs of an immediate temporary suspension.

There is the possibility of other outcomes based on the findings of the Structure Group and DRA investigations. It may be determined, for example, that PG&E is responsible for deploying a fatally flawed system. In this worst-case scenario, a suspension would *reduce* slightly the potentially significant additional costs of repairing a flawed AMI system after it has been deployed. The more likely outcome will be a finding of flaws that can be resolved, and parties will debate before the Commission who should pay for further modifications to the AMI system. This debate will likely also address the costs resulting from a suspension, if there is one, using ex post data. Release of the Structure Report in less than a week should be an important indicator of which outcomes — best-case, worst case, or in the middle — are most probable. This information will help reduce the uncertainty that parties correctly ascribe to any cost impacts calculated at this time. Now that release of the report is imminent, the Commission should wait for the release and initial analysis of this report before determining if a suspension is warranted.

D. PG&E assumes the CPUC investigation will show that there are no major problems with its AMI deployment, and that a suspension will not be justified in hindsight. If the Structure Report identifies problems, the Commission will need additional data from PG&E.

PG&E has provided an estimate of cost of a suspension of deployment that does not consider potential benefits of a suspension. That is, it has not provided an estimate of the costs that would be avoided if a suspension prudently delays installation of faulty meters that would require additional costs to correct. These costs will not be known until the Commission investigation is completed. DRA recommends that the Commission considers the results of the Structure Report before considering what additional information PG&E should provide relating to issues or problems identified in the report.

E. PG&E should be liable for cost overruns caused by its own mismanagement.

PG&E should be held responsible for any cost overruns resulting from its mismanagement of its AMI project in excess of the $100 million threshold adopted in Decision 06-07-027. Although the cost overrun provision in that decision protects PG&E from liability for costs of delay resulting from government action, that provision does not encompass action taken by the Commission (such as temporary suspension) in response to unforeseen and serious problems with the deployment, which are within the sole power of PG&E to address and avoid.

III. CONCLUSION

PG&E has provided cost estimates that appear reasonable if one accepts its assumptions, some of which DRA disagrees with. Most importantly, PG&E has not addressed the potential cost impacts of not suspending deployment, in the event major corrections to the project are needed. It is therefore not possible, on the basis of the data provided by PG&E, to weigh the costs of suspension against the costs of corrections after equipment has been installed. The Structure Report should shed light on the nature of the problems with PG&E's AMI deployment. If it indicates major problems, then that balancing will need to be done, and PG&E should be ordered to provide the necessary information.

Respectfully submitted,

/s/ KAREN PAULL

KAREN PAULL

Attorney for the
Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone No.: (415) 703-2630
Fax: (415) 703-4432
E-mail: kpp@cpuc.ca.gov

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of "**COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES ON THE DATA PROVIDED BY PG&E'S DATA ON THE COSTS OF A TEMPORARY SUSPENSION**" to the official service list in **A.07-12-009** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **August 27, 2010** at San Francisco, California.

/s/ NELLY SARMIENTO
Nelly Sarmiento

Service List
A.07-12-009

sdpatrick@semprautilities.com
mdjoseph@adamsbroadwell.com
william.sanders@sfgov.org
kpp@cpuc.ca.gov
pfa@cpuc.ca.gov
karpiak@rwglaw.com
nsuetake@turn.org
cjn3@pge.com
epoole@adplaw.com
bkc7@pge.com
dbyers@landuselaw.com
kpowell@loganpowell.com
CCassman@abc-law.com
Dana.Mcrae@co.santa-cruz.ca.us
JBarisone@abc-law.com
kpowell@loganpowell.com
JPereyda@Technet.org
mrw@mrwassoc.com
julien.dumoulin-smith@ubs.com
zango@zimmerlucas.com
rmason@rwbaird.com
wharrison@rwbaird.com
RPrince@SempraUtilities.com
klatt@energyattorney.com
case.admin@sce.com
janet.combs@sce.com
CManson@SempraUtilities.com
RGiles@SempraUtilities.com
ericd@silverspringnet.com
pwyrod@silverspringnet.com
rkoss@adamsbroadwell.com
austin.yang@sfgov.org
ctd@cpuc.ca.gov
theresa.mueller@sfgov.org
srovetti@sfwater.org
tburke@sfwater.org
bfinkelstein@turn.org
cjw5@pge.com
DNG6@pge.com
KAF4@pge.com
LDRi@pge.com
rrh3@pge.com
BKallo@rwbaird.com
cem@newsdata.com
CJGF@pge.com
jmrb@pge.com
saw0@pge.com
regrelcpuccases@pge.com
ehw2@pge.com
SWF5@pge.com
chris@emeter.com
service@spurr.org
rschmidt@bartlewells.com
pforkin@daystartech.com
jeff.francetic@landisgyr.com
sandi@emfsafetynetwork.org
rogerl47@aol.com
bschuman@pacific-crest.com
ag2@cpuc.ca.gov
agc@cpuc.ca.gov
bsk@cpuc.ca.gov
cjb@cpuc.ca.gov
crv@cpuc.ca.gov
joc@cpuc.ca.gov
kkm@cpuc.ca.gov
lwt@cpuc.ca.gov
mjd@cpuc.ca.gov
rhd@cpuc.ca.gov
wtr@cpuc.ca.gov
scl@cpuc.ca.gov
tcr@cpuc.ca.gov
tjs@cpuc.ca.gov
wmp@cpuc.ca.gov