BEFORE THE PUBLIC UTILITIES COMMISSION OF THE

STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of Modifications to its SmartMeter™ Program and Increased Revenue Requirements to Recover the Costs of the Modifications. (39M)	)))))	Application 11-03-014 (Filed March 24, 2011)

OPENING COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON DECISION MODIFYING PACIFIC GAS AND ELECTRIC COMPANY'S SMARTMETER PROGRAM TO INCLUDE AN OPT-OUT OPTION

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), Southern California Edison Company (SCE) hereby submits its opening comments on the Proposed Decision Modifying Pacific Gas and Electric Company's (PG&E) SmartMeter Program to Include an Opt-Out Option (PD) issued on November 22, 2011.

I.

INTRODUCTION

On March 24, 2011, PG&E filed its opt-out program application (A.11-03-014) seeking Commission approval to modify its SmartMeter Program to include a customer opt-out option and seek recovery of the associated costs to implement its opt-out program. On September 14, 2011, PG&E and other parties participated in a workshop discussing the technical feasibility of various opt-out program options. The Commission subsequently required PG&E to file additional cost information on October 28, 2011. On November 22, 2011, the Commission issued the PD requiring PG&E to provide a smart meter opt-out program with certain requirements.

On July 26, 2011, Joint Applicants[1] filed Application (A.) 11-07-020 to modify Decision (D.) 08-09-039 (SCE's AMI Deployment Decision), and requested that the Commission order SCE to file an application to implement a smart meter opt-out program. In response, the Commission issued D.11-11-006, denying the Joint Applicants' request to modify D.08-09-039, and required SCE to file an opt-out program proposal.[2] In compliance with D.11-11-006, SCE filed its Smart Meter Technological Feasibility and Cost Information Compliance Proposal on November 29, 2011. This proceeding remains open.

Both the PG&E opt-out application and Joint Applicants' opt-out application address similar issues (*e.g.*, technological feasibility, opt-out program metering options, customer fees, and cost recovery). Thus, SCE expects that the Commission's decision regarding PG&E's opt-out application (A.11-03-014) will inform and set precedent for the Commission's decision or ruling regarding SCE's potential opt-out program. As such, SCE provides comments on the PD on issues that may affect SCE's potential opt-out program. Accordingly, SCE submits comments on the following issues:

1. CARE and FERA Fees That Do Not Adequately Support the Commission's Smart Grid Goals
2. CARE and FERA Fees That Are Inconsistent With Current Ratemaking Practices
3. Potential for Opt-Out Process Inefficiencies and Higher Costs
4. Cost Recovery Proposal and Clarification of the Purpose of the Review in the Energy Resource Recovery Account (ERRA) Proceeding

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[1] Joint Applicants currently include Consumers Power Alliance, Public Citizen, Coalition of Energy Users, Eagle Forum of California, Neighborhood Defense League of California, Santa Barbara Tea Party, Concerned Citizens of La Quinta, Citizens Review Association, Palm Spring Patriots Coalition, Desert Valley Tea Party, Menifee Tea Party, Hemet Tea Party, Temecula Tea Party, Rove Enterprises, Inc., Schooner Enterprises, Inc., Eagle Forum of San Diego, Southern Californians for Wired Solutions to Smart Meters, and Burbank Action

[2] D.11-11-006, Ordering Paragraph (OP) 2 at p. 11.

II.

DISCUSSION

SCE supports many aspects of the PD's opt-out program, including access to the Smart Grid through the non-communicating radio-off smart meter that allows the collection of interval data, and opt-outs by individual customers of record only. Interval data provided by the non-communicating smart meter is necessary to support the Smart Grid. As such, the analog meter, which is unable to measure or record interval data, does not support the Commission's Smart Grid goals. Furthermore, the risks and potential downsides to customer self-reads outweigh the cost savings benefits provided by this option.[3] The non-communicating radio-off smart meter and the Investor Owned Utilities' (IOU) manual meter reads are consistent with SCE's November 28, 2011 Smart Meter Technological Feasibility and Cost Information Compliance Proposal. However, SCE provides the following comments and urges the Commission to make the appropriate modifications in its final decision regarding PG&E's opt-out program application.

A. The PD Errs by Providing CARE and FERA Fees That Do Not Adequately Support the Commission's Smart Grid Goals

The Commission has consistently supported the development of California's Smart Grid. For example, as provided in the Commission's Report to the Governor and the Legislature on Smart Grid Plans and Recommendations, the Commission has taken significant steps in developing IOUs' Smart Grid deployment plans, Smart Grid metrics to measure progress, and rules to ensure protection of customer data.[4] In addition, the Commission has advocated for a

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[3] The cost savings associated with customer self reads performed by SCE's customers are \$4/month and \$6/month for SCE quarterly and SCE semi-annual reads, respectively. Risks of customer self reads included process uncertainty, revenue uncertainty, and customer bill impacts from potentially inaccurate meter reads. *See* SCE's Smart Meter Technology Feasibility and Cost Information Compliance Proposal Pursuant to D.11-11-006, November 28, 2011, pp. 18-19.

[4] Report to the Governor and the Legislature on Smart Grid Plans and Recommendations, CPUC Staff, December 2010.

"Smart Customer who is informed, empowered and able to use electricity efficiently and in ways [that] promote environmental goals…,"[5] and the Commission required each IOU to describe in detail how the Smart Grid will benefit customers and help meet environmental laws and policies.[6]

Consistent with the Commission's support of California's Smart Grid, regarding smart meter opt-outs the Commission stated: "The opt-out alternative or alternatives adopted should be technologically feasible, offered at a reasonable cost to those customers opting out and ***consistent with the state's goals to deploy a Smart Grid***."[7] Furthermore, in describing overall customer participation in the Smart Grid, the Commission stated: "***The customer needs to become a participant in the Smart Grid in order for the Smart Grid to become fully functional and beneficial***."[8] The PD's proposed non-communicating smart meter (with interval data collection and billing) supports California's Smart Grid goals.[9]

However, the PD's arbitrarily low opt-out fees may substantially affect the Commission's own Smart Grid goals by providing nearly unrestrained access to the opt-out program. Market research has shown that expected opt-out participation rates increase when customers are charged lower opt-out fees. More specifically, SCE's market research performed in September 2011 provided that 41 percent of residential customers expressed interest in an opt-out program given no information on fees. The participation rate decreased to 2.4 percent assuming a monthly charge of $20. Those rates decreased even lower to 1.4 percent assuming a monthly charge of either $25 or $30.[10] Given these results, a CARE monthly charge of $5 with no initial

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5 D.10-06-047, Finding of Fact (FOF) 21 at p. 125

6 D.10-06-047, OP 3 at p. 139 (emphasis added).

7 D.11-11-006, Conclusion of Law (COL) 2 at p. 10.

8 Report to the Governor and the Legislature on Smart Grid Plans and Recommendations, CPUC Staff, December 2010, at p. 14.

9 The non-communicating meter option will measure interval usage data and allow for participation in time-variant rates, although the hourly usage data could only be available on a monthly basis, consistent with the monthly manual meter reads of interval data. In addition, all Home Area Network functionality (e.g., programmable communicating thermostats, in-home displays, and smart appliances) would not be available through the non-communicating meter.

10 Market research based on survey of 500 SCE customers performed in September 2011. Estimated participation rates are based on an initial fee of $125 and an exit fee of $125.

opt-out fees, as proposed in the PD,[11] could increase the California IOUs' opt-out participation rate substantially. An unintended consequence of these discounted fees could be a substantial increase in the overall participation rate.[12]

A substantial increase in the opt-out participation rates could negatively affect the achievement of California's Smart Grid objectives, as well as the Commission-approved AMI operational, demand response, and conservation benefits. Such impacts could result in an increase in operational costs (*e.g.*, meter reading) and a decrease in Smart Grid-enabled demand response and energy conservation programs (*e.g.*, peak time rebate, critical peak pricing, web presentment tools, tier alerts, Budget Assistant, programmable communicating thermostats, and smart appliances). Furthermore, substantial increases in opt-out rates could negatively impact each IOU's smart meter mesh network. Mitigating mesh network communication gaps could impact each IOU's smart meter opt-out program costs.[13] As such, SCE strongly recommends that the Commission develop an opt-out fee policy that would continue to support the development of California's Smart Grid.

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[11] PD, OP 2 at pp. 43-44.

[12] For example, low-income customers (who were provided discounted opt-out fees) at Central Maine Power (CMP) have opted out of CMP's smart meter program at a rate of four times that of CMP's total residential population. As of November 2011, the cumulative participation rates for CMP's residential and low income residential customers are approximately 1.2 percent and 4.8 percent, respectively. The Maine Public Utilities Commission approved CMP's opt-out program on June 22, 2011. In addition, CMP's low-income customers (i.e., customers eligible for the Low Income Home Energy Assistance Program (LIHEAP)) receive either a 25 percent or 50 percent reduction in the initial and on-going opt-out fees, depending on their income. The standard transmitter-off fees approved by Maine's Public Utilities Commission are $20 for the initial charge and $10.50 for the monthly charge. Thus, income qualified charges are $10 or $15 for the initial charge, and $5.25 or $7.88 for the monthly charge.

[13] For example, for SCE, customer opt out rates as low as 5% in rural areas could have impacts on the overall operation and reliability of SCE's smart meter mesh network. At levels of 8 to 10% Opt-Out in rural areas where the mesh network is less dense, the performance will degrade to unreliable for the customers that are justly enrolled in the Edison SmartConnect™ Program. The impact would require a 1:1 mitigation effort (*i.e.*, for each opt-out customer a pole mounted mitigation device would be required).

B. The PD Errs by Providing a Discount to CARE and FERA Customers That Is Inconsistent With Current Ratemaking Practices

The PD adopts an initial fee of $0 and a monthly charge of $5 for CARE/FERA customers and an initial fee of $90 and a monthly fee of $15 for non-CARE/FERA customers. Thus, in the first year of opt-out, a CARE/FERA customer would receive a 78 percent[14] discount relative to non-CARE/FERA customers. This arbitrary discount represents neither the marginal cost of providing opt-out service, as it substantially exceeds the current CARE discount.[15] Furthermore, the PD's CARE discount appears to be in direct contrast to initial comments provided by Commissioner Peevey in which he stated that opt-out program costs will be paid by opt-out program participants.[16] Consistent with this statement, PG&E's opt-out application and SCE's opt-out proposal included a 20% discount on the initial and monthly CARE fees.

SCE has significant concerns regarding the shifting of these costs to other customers, as rate structures should reflect the costs of providing service to different customers. As stated previously, a CARE monthly charge of $5 with no initial opt-out fees, as proposed in the PD, could inadvertently increase the California IOUs' opt-out participation rate substantially by providing nearly unrestrained access to the opt-out program. On the other hand, current ratemaking practices provide a 20% CARE discount. Thus, similar to CARE discounts on residential rates, providing a 20% CARE discount for opt-out fees is a reasonable approach. As such, the PD should adopt a CARE/FERA opt-out initial fee and on-going monthly fee consistent with the current CARE discount that has already been established by the Commission in previous proceedings.

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[14] 78% = [$90 + ($15 non-CARE charge * 12 months) – ($5 CARE charge * 12 months)]/($90 + ($15 non-CARE charge * 12 months)

[15] Cal. Pub. Util. Code § 739.

[16] At the March, 10, 2011 CPUC Business Meeting, Commission Peevey directed PGE to "prepare a proposal for [CPUC] consideration that will allow some form of opt-out for customers who object to these devices at reasonable cost, to be paid by the customers who choose to opt-out).

C. The PD Inadvertently Creates the Potential for Opt-Out Process Inefficiencies and Higher Costs

The PD allows opt-out program customers to pay the initial fee over a three-month period, and does not allow PG&E to begin collecting these fees until the customer has had the non-communicating smart meter installed at her/his premises.[17] This payment arrangement creates a potential opportunity for process inefficiencies. The PD as written with the delayed payment requirement would allow a customer to participate in the opt-out program for three months without making the full $90 payment. The utility would then be required to install a non-communicating meter without receiving the initial fee. If the customer fails to pay the initial fee at the end of the three months, the utility would need to re-install a communicating smart meter at the customer's premises. The customer could then request to opt out of the smart meter program again, thus restarting this process. This potential situation would require numerous field visits and result in a costly situation for other customers who would be burdened with these additional costs. Furthermore, these costs would be especially burdensome with the proposed CARE/FERA fee structure, as the vast majority of the costs incurred would result in rate increases for other customers.

To remedy potential process inefficiencies, SCE recommends that the Commission adopt a policy that a customer may only enroll in the opt-out program once per calendar year at the same residence. This condition will eliminate the potential for process inefficiencies, while maintaining the flexibility for customers to pay the initial fee over a three-month period. In addition, if an opt-out customer moves to a new residence within the same calendar year, she/he would still be able to participate in the opt-out program at the new premises, since the condition only prevents multiple opt-out requests at the same location.

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[17] PD at p. 38.

D. <u>The Commission Should Adopt PG&E's Cost Recovery Proposal and Explicitly Clarify the Purpose of the Review in the Energy Resource Recovery Account (ERRA) Proceeding</u>

Given the cost uncertainties surrounding the opt-out program, the PD states that it would be premature to make any determination concerning the reasonableness of PG&E's revenue requirements and directs PG&E to track its costs in a two-way memorandum account and seek recovery of these costs as part of its Energy Resource Recovery Account (ERRA) application. The establishment of this two-way memorandum account solely protects PG&E against retroactive ratemaking claims and offers no guarantee of future cost recovery. In addition, the tracking of costs in memorandum accounts generally results in negative effect on recorded earnings until the time cost recovery is approved (unlike balancing account recovery, which neutralizes the income statement impact)

SCE interprets the PD to allow recovery of all costs found to be reasonable by the Commission. In fact, the PD states: "As such, the costs to implement this program….should be recovered from ratepayers to the extent they are appropriate, reasonable, and not already being recovered in rates."[18] The Commission should therefore reconfirm its long-standing policy that cost-of-service regulated utilities are entitled to recover reasonable costs prudently incurred in complying with Commission decisions and adopt PG&E's cost recovery proposal. The reasons cited by the PD for postponing PG&E's cost recovery—uncertainty in the costs and lack of further reasonableness review—are not proper bases upon which to delay cost recovery. The operation of PG&E's proposed Modified SmartMeter Balancing Accounts (electric and gas) would ensure that no more and no less than actual costs (related to actual participation rates) are ultimately recovered from customers through annual true-ups. Also, all entries in these balancing accounts would be reviewed by the Commission in the annual ERRA proceedings to ensure that all entries to the accounts are stated correctly and are consistent with Commission

[18] PD at p. 30.

decisions. To the extent the Commission disallows certain costs from recovery, the corresponding revenue requirement would be removed from the balancing account(s), with interest.

If the Commission does adopt the PD's two-way memorandum account, then at a minimum, language should be added to the PD explicitly stating that after the Commission verifies the reasonableness of the costs in the annual ERRA proceedings, recovery of all the costs found reasonable will be permitted (shared between both opt-out program participants and all other customers.

The PD also directs PG&E to file a Tier 3 Advice Letter by not later than March 31, 2014, to provide information on the actual revenues collected and costs incurred to provide the opt-out option between January 1, 2012 and December 31, 2013 as compared to the estimated costs and revenue requirement contained in PG&E's application.[19] The PD further states: "[T]his comparison would provide a reasonable review of the actual costs and revenues since PG&E's application contains its projected revenue requirement for the two-year period 2012-2013."[20] SCE interprets the intent of this 2014 Tier 3 Advice Letter to be the provision of a forum for the review and possible revision of the opt-out fees and monthly charges, and not to serve as a vehicle for a second round of reasonableness review of the recorded costs since all recorded costs and revenues will be reviewed in the annual ERRA proceedings. In fact, the PD does ultimately appear to confirm this by stating: "This information, along with the amounts PG&E requests to recover through the ERRA applications, will allow us to assess whether, and to what extent, the fees and monthly charges established in this decision should be revised to appropriately allocate costs between those customers selecting the opt-out option and all residential customers."[21] Thus, the PD should be clarified to state that the purpose of the Tier 3

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[19] PD at p. 34.
[20] PD at p. 35.
[21] PD at p. 36.

Advice Letter is to provide a forum for review and possible revision of the opt-out fees and monthly charges rather than to serve as a second round of reasonableness review.

III.

CONCLUSION

For the foregoing reasons, the Commission should modify the PD to incorporate SCE's recommendations. That is, the Commission should develop an opt-out program that supports the Commission's Smart Grid goals by (1) adopting a CARE fee reflective of a 20 percent discount, (2) establishing a maximum number of opt-out requests for opt-out participants, and (3) clarifying the nature and intent of the opt-out program cost recovery mechanisms and providing stronger assurances of cost recovery.

Respectfully submitted,

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