

[12.1] Draft Orders Diverge by More than \$40 Million in PG&E AMI Proceeding

Pacific Gas & Electric would be authorized to spend either \$7 million or \$49 million on preparations for an advanced-metering system, depending on which of two draft decisions the California Public Utilities Commission chooses.

One decision, by Administrative Law Judge Michelle Cooke, would authorize only the smaller amount. A competing decision by CPUC President Michael Peevey would grant PG&E the full amount the utility requested earlier this year [A05-03-016].

PG&E filed the request in March, seeking permission to spend up to \$49 million on predeployment costs associated with a program to install smart meters for its customers. The meters would allow real-time tracking of energy use, as well as two-way communication between the meter and the utility and customer. At the time, PG&E had not yet detailed what its advanced-metering infrastructure (AMI) project would look like. But like San Diego Gas & Electric and Southern California Edison, which are also working on AMI projects, PG&E asked to recover from ratepayers money it wanted to spend in advance of project approval and eventual launching.

In June, the commission ruled that PG&E and SDG&E could spend a limited amount of money on predeployment of AMI projects. But first they would have to prove that their programs met "minimum functionality criteria" [Res. E-3937].

Based on PG&E's due diligence and other research, ALJ Cooke found that the utility's proposed AMI project would meet the minimum functionality criteria required in a May ruling by Peevey. However, in her draft decision issued August 19, Cooke found that most of the activities PG&E proposed ratepayers fund as predeployment would "provide limited value to ratepayers if the commission ultimately decides AMI should not be pursued." Quoting from PG&E's reply brief, Cooke noted that PG&E's predeployment activities are "not simply analysis or research and development" but "are an integral part of its actual AMI project."

Those activities include installing software and hardware to send and receive data from the AMI system, developing interfaces between PG&E's existing systems and the AMI system and system design work to ensure accurate billing. Such activities are required to implement the AMI project, but should not be funded by ratepayers prior to a commission decision that AMI should be pursued, Cooke ruled. Instead, she would authorize only activities that benefit ratepayers regardless of whether the commission decides to pursue AMI, as well as testing of "minimum meter functionality" needed before committing to a large-scale deployment.

'It would be unreasonable for the commission to commit ratepayer funding to these activities.'

Cooke concluded that the costs and activities PG&E identified might be perfectly reasonable for launching an AMI project. But she agreed with The Utility Reform Network and the Office of Ratepayer Advocates, which argued that the activities PG&E requested \$49 million for were overly broad in scope and would waste ratepayer money if the commission ultimately decided not to approve the utility's AMI program. "[I]t would be unreasonable for the commission to commit ratepayer funding to these activities at this time without having a record on the full project," Cooke wrote.

In his alternate decision, Peevey agreed that calling the activities in PG&E's application predeployment activities "is somewhat of a misnomer," as they are part of launching the utility's AMI project. Nevertheless, Peevey approved of PG&E's idea to proceed with the AMI project while the commission is still reviewing its formal application.

PG&E has been engaged in AMI activities for more than a year, including soliciting and reviewing vendor bids, and should be allowed to continue its work, rather than have to wait for a commission decision on its full project, Peevey wrote. And since PG&E is pursuing an AMI project at the encouragement of the CPUC, the utility should be able to recover its requested costs from ratepayers, he said.

"It would be unfortunate to slow PG&E's progress now and, in essence, punish them for being further ahead in their effort, simply because their requested expenditures do not meet a strict definition of 'predeployment,'" Peevey concluded.

In June, PG&E filed its formal AMI project proposal with the CPUC to install 9.3 million automated meters for almost all of its electric and gas customers, at an estimated cost of \$1.46 billion. The project would include remote meter reading for all electric and core gas meters, interval billing capability for all electric customers, installation of a communications infrastructure to transmit data, and integration of the AMI system with PG&E's other systems, such as billing and outage management [A05-06-028] (see CEM No. 828 [22]).

Last month, the CPUC authorized SDG&E to spend \$3.4 million for its AMI predeployment costs and \$5.9 million in "bridge funding" to begin installing advanced meters throughout its service territory [D05-08-018] (see CEM No. 837 [11.1]).

The CPUC could make a decision on PG&E's AMI predeployment funding as early as October 6 [Cassandra Sweet].

[12.2] Utility Shareholders May See Long-Overdue Energy-Efficiency Awards

California's large investor-owned utilities could collectively receive more than \$315 million in shareholder awards for energy-efficiency programs administered between 1995 and 2003.

A September 12 draft decision by Administrative Law Judge Meg Gottstein approved 90 percent of the claims for shareholder incentives, noting that the \$315 million amount is \$37 million lower than the actual claims.

The amount, which includes interest and franchise fees, came out of settlements among utilities and the Office of Ratepayer Advocates [A00-05-002].

Gottstein argued that the energy-efficiency programs tied to the earnings claims have produced savings for ratepayers of more than \$670 million. "The settlements are much less than the savings ratepayers have already received by deferring or avoiding more costly supply-side investments with energy efficiency," she wrote.

Under the decision, shareholder payments would be awarded as follows: Pacific Gas & Electric, \$186 million; Southern California Edison, \$42 million; San Diego Gas & Electric, \$73 million; and Southern California Gas, \$14 million.

The vast majority of shareholder claims fall under the "shared savings" incentive mechanism in place from 1995 to 1997. A minority of claims are for "milestone-based" incentive programs from 1999 to 2001 and for "performance adder" earnings between 1999 and 2003. The settlement agreement calls for amortizing the incentive claims over time with other rate changes in order to minimize or eliminate the need for rate increases.

Gottstein wrote that the award of the shareholder incentives has been delayed for quite some time because of the energy crisis as well as CPUC hearings on how to allocate shareholder awards under the shared-savings mechanism. After a lengthy regulatory process, in 2004 utility applications for shareholder awards under the Annual Earnings Assessment Proceeding were consolidated into a single docket.

No party has protested the settlement agreements among ORA and the utilities. The advocacy group Women's Energy Matters, however, raised a ruckus over a 2004 audit of public-goods-charge-funded energy-efficiency programs by blueCONSULTING. WEM said the audit found "widespread negligence in contract oversight, failure to meet energy savings targets, inflated savings claims, excessive administrative costs and refusal to provide auditors with adequate, timely information," according to Gottstein's decision. The consulting group report, in its own words, reported significant delays in receipt of data and weak oversight in the procurement and vendor-selection process (see CEM No. 809 [11]).

WEM also has argued that utilities should use updated useful-life assumptions for compact fluorescent light bulbs contained in 2005 updates to the Database for Energy Efficient Resources. Gottstein argued that the bulbs have become a large part of energy efficiency, but comprised less than 2 percent of energy savings for pre-1998 work. Even if WEM was correct, she said, PG&E would receive only \$2.6 million less in earnings claims.

As for the blueCONSULTING study, Gottstein argued that energy-efficiency programs have been

'The settlements are much less than the savings ratepayers have already received.'

subjected to a number of reports and studies over the years. A 2004 report from Skumatz Economic Research Associates, for instance, was a third-party review of 54 reports representing 94 studies of energy-efficiency programs prior to 1998. The only adjustment to shareholder claims the report mentioned was a \$399,000 addition for SDG&E.

A California Energy Commission review of 2000-2001 programs recommended only minor adjustments, and another review from SERA, for energy-efficiency programs administered between 1999 and 2001, identified only 6 percent of shareholder claims as being "at risk."

Gottstein agreed with PG&E's assessment that WEM mischaracterized the 2004 blueCONSULTING report, noting that the group never audited whether or not utilities met energy-efficiency targets. BlueCONSULTING, Gottstein wrote, also found that PG&E accounted for administrative costs, supplied information in a timely manner and provided "adequate and reasonable" program oversight.

Gottstein also noted that the blueCONSULTING report, which surveyed energy-efficiency programs for years 1998 through 2002, does not coincide with the time frame for shareholder awards, most of which were handed out for programs administered before 1998.

"We have independent studies directly related to the time frame," Gottstein wrote. "The purpose of the audit was to provide forward-looking recommendations to the CPUC in order to improve the effectiveness of public-goods fund management and expenditures by the utilities."

The CPUC has yet to indicate its future plans for the blueCONSULTING audit [C. R.].

[12.3] PG&E Directed to Include Imports in New Resource-Adequacy Product

A complaint from a small power generator against a big utility over resource adequacy went a long way at the California Public Utilities Commission.

In an August 3 advice letter, Pacific Gas & Electric proposed a new product to procure energy for delivery between 2006 and 2008. Although utilities have been directed to procure 90 percent of their power needs a year in advance, power generators were reluctant to offer such energy to PG&E, saying the definition of resource adequacy is unclear [AL 2695-E] (see CEM No. 838 [12.2]).

As the CPUC is still working out final resource-adequacy rules, PG&E proposed an interim product to procure resource-adequate energy through 2006. The product contained a definition of resource adequacy, general contract provisions, and California Independent System Operator dispatch requirements. However, it excluded energy from imports, dynamic scheduling units, partial units or pooled units.

The import exclusion drew a protest from PPM Energy, a Scottish company with offices in Portland, Oregon. PPM, which operates a 100 MW natural gas peaker north of the California-Oregon border, complained that PG&E's product too broadly excluded imports on the basis that intertie capacity was an unresolved issue.