

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 189

In the Matter of)
)
PORTLAND GENERAL ELECTRIC)
COMPANY)
)
Request to Add Schedule 111, Advanced)
Metering Infrastructure (AMI))

**REPLY BRIEF OF
PORTLAND GENERAL ELECTRIC COMPANY, STAFF OF THE
PUBLIC UTILITY COMMISSION OF OREGON, AND THE OREGON
DEPARTMENT OF ENERGY**

February 6, 2008

Portland General Electric Company (“PGE”), Staff of the Public Utility Commission of Oregon (“Staff”), and the Oregon Department of Energy (“ODOE”) submit this reply brief.

I. INTRODUCTION

This docket is, hopefully, coming to an end. After years of working together, such diverse parties as Staff, PGE, the ODOE, NW Natural Company, and Community Assistance Partnership of Oregon (“CAPO”) arrived at a Stipulation with conditions supporting implementation of PGE’s Advanced Metering Infrastructure (“AMI”) project. Only the Citizens’ Utility Board (“CUB”) opposes the Stipulation.

The testimony in this docket is thorough. To a large extent, the parties have already said all that they have to say. CUB raises four objections to the Stipulation. Some are based on an incorrect characterization of the facts and arguments. None are valid objections. We will address them briefly here.

II. CUB OBJECTIONS

A. CUB claims the AMI project is not based on a technology or a commercial market that is established. On the contrary, the testimony in this docket shows that AMI technology is being adopted in many areas of the country. For example, three major California utilities are in various stages of implementing AMI projects. UE 189/Joint/200/Schwartz-Owings-Tooman/2-3. That testimony also identifies other two-way AMI systems being deployed, comprising about 7.8 million meters. The largest of those noted installations is for the 4.3 million customers of the Southern Company, which has entered into an agreement with Sensus Metering Systems, the

vendor chosen for PGE's AMI project, for deployment of the Sensus FlexNet AMI technology.¹

In response, CUB offers argument but little fact. CUB's arguments regarding the market for AMI meters and technology are not supported.²

CUB also appears to misunderstand the Joint Testimony filed in support of the Stipulation. That testimony addressed the lack of a standard protocol for communication with smart appliances. UE 189/Joint/200/Schwartz-Owings-Tooman/11-12. The testimony also addressed approaches if a standard protocol does arise. *Id.* Specifically, the testimony described two approaches that could be taken to facilitate communication with appliances under a standard protocol. In response, CUB expressed alarm at the potential cost. The testimony, however, was clear - PGE would only seek, and expect the Commission to approve, cost-effective changes or updates. By definition long-term costs will be reduced, not increased, through cost-effective changes. Further, CUB ignores the testimony that states, "Where a standard protocol does not exist *or is not utilized*, PGE's proposed AMI system is completely ready, as installed, to communicate with load control switches on appliances and thermostats to provide direct load-control benefits." *Id.* at 12 (emphasis added). In other words, even if a standard communications protocol is established, PGE could continue using its meter vendor's communications system to control appliances and thermostats, if that is the best option.

B. CUB's second claim is that the business plan is supported by relatively small net benefits compared to the risks. The projections for the project show a net benefit of approximately \$33 million to customers. That number is estimated using a conservative approach

¹ See the Sensus press release at http://www.sensus.com/corporate/PressRelease/PressReleaseDetail.asp?VSS_KEY=55

² While CUB argues that AMI technology is not sufficiently mature, CUB also argues that the NMR meters installed by PGE several years ago provide "much of the same benefit that would be provided by the new UE 189 advanced meters that would replace the UE 115 meters." Opening Brief of the Citizens' Utility Board, p. 13.

that does not include any quantification of potential direct load control or other demand side management benefits that may be enabled by the AMI project. PGE plans to use the AMI system for cost-effective demand-side management programs, which would increase the net benefits of the project. Given the estimated net benefits, as well as the potential demand-side benefits, and the other non-quantified operational and environmental benefits of advanced metering infrastructure, the stipulating parties believe this is a reasonable project to pursue.

CUB attempts to support its argument by comparing the projected \$33 million net benefit to PGE's projected 2008 net variable costs of \$745 million. This is a meaningless comparison. It is surprising that CUB would attempt to minimize a potential \$33 million savings to customers. To these briefing parties, \$33 million in savings is significant and should be pursued. The \$33 million savings is more noteworthy if we recall that the benefits are net of AMI paying for two systems: itself and the existing metering system to be replaced. By itself, the AMI system would generate a net present value of over \$66 million.

CUB is, of course, right that there are risks with this project, just as there are risks in any investment or new program. The parties to the Stipulation all agree, however, based on the information made known to them through this docket and Docket No. UE 180, it is prudent for PGE to pursue the AMI project at this time. Only CUB argues that the projected benefits are not sufficient. The AMI project is in the public interest.

C. CUB misconstrues PGE's testimony regarding prudence. CUB's brief states: "PGE wants Commission approval of the Stipulation in this docket, should the Company receive it, to stand as defense against future prudence arguments related to cost overruns or benefit shortfalls in PGE's UE 189 advanced metering project." *Opening Brief of the Citizens' Utility Board*, p. 7. This is not PGE's position. *See*, UE 189/PGE/300/Carpenter-Tooman/2. Contrary to CUB's assertions, PGE is not trying to avoid any future prudence review. In fact, PGE clearly

acknowledged this in the joint testimony in support of the stipulation: "PGE acknowledges that all parties have the right in a future proceeding to address AMI costs and benefits and that the costs and benefits will be subject to a prudence review." Joint/100/Schwartz-Owings-Tooman/22. PGE and the other stipulating parties acknowledge that the only decision before the Commission at this time is the prudence of proceeding with the installation of AMI.

D. If AMI is approved, CUB does not oppose accelerated depreciation of the vast majority of PGE's existing meters, but at the same time opposes accelerated depreciation of the NMR meters installed pursuant to the Commission's decision in Docket UE 115. In some ways it appears that CUB is attempting to re-argue UE 115. CUB also ignores the uncontested facts regarding the NMR meters, and basic ratemaking principles.³

CUB's arguments ignores the fact that if the NMR meters are not replaced, annual O&M costs would be \$600,000 higher, which represents the O&M savings that AMI provides. UE 189/Joint/100/Schwartz-Owings-Tooman/18. In addition, capital costs would also increase to keep the NMR components functional. *Id.* Finally, the projected net benefit of approximately \$33 million from implementation of the AMI project includes the costs of replacing almost all of PGE's current meters, both mechanical and NMR.

In Docket UE 115 the Commission approved implementation of a network metering program. Due to changes in circumstances after that order, only part of the proposed NMR system was deployed. That deployment was consistent with the Commission's decision and was

³ CUB argues against accelerated depreciation of the NMR meters if AMI is approved, but apparently does not argue against recovery of the undepreciated balance if not accelerated. We do not see a valid legal or policy reason why recovery of the meters on an accelerated basis as they are removed from service would be improper but recovery over some longer time proper. Under recent court decisions, PGE believes that there would be an unfair impact on PGE as it would not be allowed to earn a return on the investment after it is removed from service. PGE does not know if this is what CUB proposes, but if it is, PGE opposes such cost treatment.

prudent. The costs have been included, without challenge in PGE's rates since that time.⁴ CUB's assertion that subsequent events can somehow be used to look back and attack that decision violates basic ratemaking principles. Prudence is determined at the time the decision is made. *In re PacifiCorp*, UM995, Order No. 02-469 at 4. The NMR meters have been used and useful since that time, and continue to be today. And like the mechanical meters, they will continue to be used and useful if the AMI project is not pursued. It is, however, cost-effective to replace these meters.

CUB has correctly set forth the law regarding undepreciated utility property. CUB quotes ORS 757.140(2), which states that the Commission can allow in rates undepreciated investment "when the commission finds the retirement is in the public interest." CUB then quotes from DR 10, wherein the Commission stated that it is in the public interest to retire plant if there is a net benefit to customers. CUB even quotes the following passage:

[I]f the costs of continued operation of the plant are greater than the costs associated with retiring the plant plus the expected long-term costs of replacing the plant's output, there is a net benefit to closure.

That is exactly the case here. The costs of operating the NMR meters will be \$600,000 per year greater than if they are replaced with AMI meters. Additional capital expense will also be necessary. There is a net benefit to customers and replacement of the meters is in the public interest.

CUB argues that replacement of the NMR meters is not necessary, stating, "...PGE's UE 115 metering system is cost-effective through meter-reading savings in rural areas. . ." Opening Brief of the Citizens' Utility Board, p. 14. But when CUB is arguing about accelerated depreciation of those same meters, CUB characterizes the decision to implement the NMR meters

⁴ In fact, because the full NMR system envisioned in UE 115 was not deployed, PGE refunded to customers the difference between the projected and actual information technology costs, including NRM network costs, from 2003 through 2007.

as a poor business decision. *Id.* at 17. The persuasiveness of CUB's arguments is undercut by their lack of consistency.

Contrary to CUB's assertion, there is no valid issue here. The facts lead to only one conclusion. Those facts are:

1. The over 700,000 meters, both mechanical and NMR, that will be replaced as part of the AMI project were prudently installed, and have been included in rates.
2. The meters, both mechanical and NMR, have been and continue to be used and useful.
3. Replacement of both mechanical and NMR meters as part of the AMI project will yield cost reductions to customers.

The analysis is as simple as that. Accelerated depreciation and replacement of the meters is in the public interest.

CUB concludes, "There is no reason PGE cannot proceed without Commission pre-approval if the Company is confident about its business case...." *Opening Brief of the Citizens' Utility Board*, p. 19. However, if PGE is to recover the remaining depreciation of existing metering equipment it plans to replace, ORS 757.355 requires that the Company do so prior to the retirement of such equipment. Therefore, PGE must request such treatment before installing its new AMI system.

IV. CONCLUSION

Several parties to this docket have signed and supported a Stipulation, with Conditions, that resolves all issues, and provides for the implementation of the AMI project. The project is expected to lower costs to customers and at the same time improve service. Only CUB opposes the Stipulation and it has not provided valid objections to the Stipulation. The Commission should adopt the Stipulation, find the implementation of the AMI project prudent, and implement

Schedule 111.

DATED: February 6th, 2008.

Respectfully submitted,

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February 6, 2008

Via Electronic Filing and U.S. Mail

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Enclosed for filing in the above captioned docket is an original and five copies of:

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These documents are being served upon the UE 189 service list.

Thank you in advance for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Tingey", written in a cursive style.

Douglas C. Tingey

DCT:saa
Enclosures
cc: Service List – UE 189

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing **REPLY BRIEF OF PORTLAND GENERAL ELECTRIC COMPANY, STAFF OF PUBLIC UTILITY COMMISSION OF OREGON AND THE OREGON DEPARTMENT OF ENERGY** to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class US Mail, postage prepaid and properly addressed, to those parties on the attached service list who have not waived paper service from OPUC Docket No. UE 189.

Dated at Portland, Oregon, this 6th day of February 2008.



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