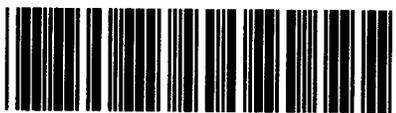




Control Number: 38306



Item Number: 257

Addendum StartPage: 0

PUC DOCKET NO. 38306
SOAH DOCKET NO. 473-10-4451

TEXAS-NEW MEXICO POWER	§	PUBLIC UTILITY COMMISSION
COMPANY'S REQUEST FOR	§	
APPROVAL OF ADVANCED	§	
METERING SYSTEM (AMS)	§	OF TEXAS
DEPLOYMENT AND AMS	§	
SURCHARGE	§	

ORDER

This Order addresses the request of Texas-New Mexico Power Company (TNMP) for approval of an advanced metering system (AMS) deployment plan and request for AMS surcharge. A stipulation was executed that resolves all of the issues in this proceeding. Consistent with the stipulation, TNMP's requests are approved.

The Public Utility Commission of Texas adopts the following findings of fact and conclusions of law:

I. Findings of Fact

Procedural History

1. On May 26, 2010, TNMP filed requests for approval of an AMS deployment plan and for an AMS surcharge. In its application, TNMP requested a waiver of the obligation to install an advanced meter with all the functionalities provided for under P.U.C. SUBST. R. 25.130 for certain retail customers and service types to include: (a) loads that may cause a safety or health issue if disconnected; (b) loads that do not require and will never require a home area network (HAN) device; (c) loads that currently have a poly-phase, class 200 (200-amp rating); and (d) loads that have poly-phase and instrument rated meters.
2. TNMP's application also requested a waiver of the obligation to install an advanced meter under the circumstances set forth in P.U.C. SUBST. R. 25.130(g)(6) in advance of the full deployment of advanced meters in a given area, and a waiver of any and all provisions of P.U.C. SUBST. R. 25.130(g)(1)(E)(i) and (G) if and only to the extent those

- provisions require real-time access to data for end-use customers, until such time as access is provided by their retail electric provider (REP).
3. On June 1, 2010, the Commission entered the order of referral which transferred this proceeding to the State Office of Administrative Hearings (SOAH) to hold an evidentiary hearing on the merits and issue a proposal for decision.
 4. On June 22, 2010, the SOAH administrative law judge (ALJ) entered Order No. 2, setting a procedural schedule and including a deadline for intervention.
 5. The following parties intervened and were granted party status: Alliance for Retail Markets (ARM); the cities of Angleton, Brazoria, Clifton, Gatesville, Hamilton, Hico, Kermit, League City, Olney, Pearland, Pecos, Point Princeton, Sweeny, West Columbia and Whitney (collectively, ATM); the cities of Alvin, Celeste, Dickinson, Farmersville, Friendswood, La Marque, Lewisville, and Texas City (collectively, Cities); the Office of Public Utility Counsel (OPC); TXU Energy Retail Company LLC (TXUE); and Reliant Energy Retail Services, LLC (Reliant).
 6. On July 8, 2010, the Commission issued the preliminary order listing the issues that were to be addressed in this proceeding.
 7. TNMP provided notice of this application by: (a) providing direct notice to all REPs doing business in the State of Texas listed on the Commission's website as of May 26, 2010; (b) publishing notice once each week for four consecutive weeks in newspapers of general circulation in each of the counties in TNMP's service areas; and (c) providing direct notice to the parties to TNMP's most recent base rate case as of May 26, 2010, Docket No. 36025.¹ In addition, TNMP provided notice of this application to all municipalities in TNMP's service areas. TNMP filed the form used to provide this notice on June 16, 2010.
 8. On September 2, 2010, the SOAH ALJ entered Order No. 5, granting the parties' joint motion to modify the procedural schedule and reset the hearing on the merits for February 28 - March 2, 2011. On January 6, 2011, the SOAH ALJ entered Order No. 6,

¹ *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Docket No. 36025, Order (Aug. 21, 2009).

granting the parties' request to abate this proceeding for 30 days and reset the hearing on the merits for April 18-20, 2011. On March 8, 2011, the SOAH ALJ entered Order No. 7, granting the parties' joint motion to modify the procedural schedule and reset the hearing on the merits to May 18-20, 2011. The parties sought these schedule modifications in an effort to seek a negotiated resolution of this matter.

9. On February 16, 2011, TNMP filed the supplemental testimony of witnesses Allan Burke, Gary Kessler, and Stacy Whitehurst, updating the information provided in the application and initial direct testimony and reducing the estimated revenue requirement to be recovered through the requested surcharge.
10. On May 17, 2011, TNMP, Commission Staff, OPC, Cities and ATM appeared for a prehearing conference and announced that they and ARM had reached agreement to resolve the case by settlement, and that they understood that Reliant and TXUE either would join in the settlement or would not oppose the settlement. A settlement term sheet setting out the principal terms of settlement was introduced into the record as joint parties' exhibit 1. Discovery and a pending motion to strike were abated, and a hearing was set for June 1, 2011, to receive a formal settlement stipulation and supporting evidence and to consider remand of this matter to the Commission.
11. On June 9, 2011 the stipulation signed by the signatories was filed. On June 13, 2011, the SOAH ALJ issued Order No. 11, which memorialized the June 1, 2011 hearing, admitted additional testimony and exhibits for the limited purpose of supporting the stipulation, and remanded this matter to the Commission. At the June 1, 2011 hearing, the SOAH ALJ admitted all of the parties' prefiled testimony into evidence for the limited purpose of supporting the stipulation.

AMS Deployment Plan

12. Subject to the conditions established in this Order, TNMP's AMS deployment plan, attached as exhibit A to this Order, complies with the requirements of P.U.C. SUBST. R. 25.130.
13. Subject to the conditions established in this Order, TNMP's statement of AMS functionality, attached to this Order as exhibit B, (a) describes how TNMP will

implement the functionality requirements; and (b) complies with the requirements of P.U.C. SUBST. R. 25.130.

14. Upon full deployment, TNMP's AMS will (a) encourage dynamic pricing and demand response; (b) improve the deployment and operation of generation, transmission, and distribution assets; (c) provide more choices for electric customers; and (d) at such time as TNMP implements an outage management system (OMS), increase the reliability of the regional electrical network.
15. TNMP's deployment plan, including technology, functionalities, services, deployment, operations, maintenance, and cost recovery, is not unreasonably discriminatory, prejudicial, preferential, or anticompetitive. Parties had the right to address whether the AMS deployment plan was unreasonably discriminatory, prejudicial, preferential, or anticompetitive.
16. Under the AMS deployment plan, TNMP will not be providing any service that is a competitive energy service under P.U.C. SUBST. R. 25.343.
17. In any proceeding referenced in the Stipulation, all parties may fully participate as parties.

Waivers

18. In the event of a base rate case during the AMS deployment period ending September 30, 2016, TNMP requested that the costs being recovered through the AMS surcharges remain in the surcharges, rather than moving the cost of installed AMS equipment into base rates and decreasing the surcharges, as required by P.U.C. SUBST. R. 25.130(k)(4).
19. TNMP requested waivers permitting it not to install an advanced meter with all functionalities required by P.U.C. SUBST. R. 25.130(g)(1) in the following four specific circumstances:
 - a. Loads that have met the criteria for designation as critical loads and are registered with TNMP as critical loads under the Commission's rules and may cause a safety or health issue if disconnected, such as traffic lights, metered street lights, railroad

- crossings, hospital facilities, police stations, service points providing cathodic protection, and TNMP's emergency facilities, will not be required to have disconnect functionality;
- b. Loads that do not require and will never require a home area network (HAN) device, such as traffic lights and metered street lights, and other applications that would not benefit from a HAN device, such as electric gates, communication power supplies, sprinkler controls, and cathodic protection power supplies, will not be required to support a HAN device;
 - c. Loads that currently have poly-phase, class 200 (200 amp rating) meters, which include commercial customers and some residential customers, will not have a service switch until a poly-phase meter with those devices becomes available in the market; and
 - d. Loads that have poly-phase and instrument rated meters will not be required to support a HAN device until those meters with HAN devices become available in the market.
20. TNMP seeks a waiver from P.U.C. SUBST. R. 25.130(g)(1)(E)(i) and (G) if and only to the extent those rules require real-time access to data for end-use customers. Real-time access to data is provided to end-use customers through the HAN.
21. TNMP requests that it not be required to install advanced meters under the circumstances set forth in P.U.C. SUBST. R. 25.130(g)(6) in advance of the full deployment of advanced meters in a given area, as set forth in TNMP's AMS deployment plan.
22. Granting the waivers described in finding of fact 18 through 21 is reasonable.

AMS Surcharges

23. TNMP's use of the advanced metering infrastructure example project valuation model (McKinsey model), as modified in conjunction with its supplemental direct testimony and to remove the costs of the OMS pursuant to the terms of the stipulation (modified AMS surcharge model), to calculate revenue requirement associated with its planned AMS

deployment is reasonable. The Commission adopted the McKinsey model in Project No. 33874.

24. TNMP's modified AMS surcharge model provides a reasonable method for calculating appropriate AMS surcharges and reflects an appropriate methodology for calculating the AMS surcharge amounts.
25. The estimated costs identified by TNMP in its modified AMS surcharge models are associated with the proposed AMS deployment to residential customers and nonresidential customers (other than those required by ERCOT to have an interval data recorder meter, or take non-metered service) and are reasonable estimates. Those costs include, but are not limited to: (a) advanced meter costs; (b) costs of communications technologies; (c) costs of back-office systems; (d) TNMP's share of the costs of the common repository and common portal; (e) operation and maintenance expenses; (f) applicable taxes; (g) customer education costs; (h) TNMP's share of the fees for the participation of Solutions Cube Group, LLC in Project No. 34610;² (i) travel-related expenses for TNMP's participation in Project No. 34610; and (j) severance costs related to meter readers and installers. These costs reflect the signatories' agreement set forth in the stipulation and should be recovered through TNMP's proposed AMS surcharge to the extent the actual costs are reasonable and necessary and until such time as these costs are included in base rates. These costs are subject to review in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130 (k)(6).
26. The meter installation costs included in TNMP's modified AMS surcharge model to be recovered through the surcharge are net of a 20% reduction from the total estimated meter installation costs. This reduction reflects the portion of the installation costs that should be allocated to cost of removal for non-AMS meters. The cost of removal of the non-AMS meters will be charged to accumulated depreciation of these meters, independent of the AMS surcharge.
27. Consistent with the Stipulation, TNMP's actual AMS pilot program costs of \$4,516,724.00 are reasonable and necessary costs incurred in deploying AMS and should

² *Project Relating to the Implementation of Advanced Metering*, Project No. 34610 (pending).

be approved for recovery through the AMS surcharges provided for in the stipulation and this Order.

28. Consistent with the stipulation and based upon review by Commission Staff, actual rate-case expenses incurred for this docket are \$952,442. Of this amount, TNMP's actual rate-case expenses of \$667,976, Cities' actual rate case expenses of \$118,734, and ATM's actual rate case expenses of \$165,732 are reasonable and necessary costs incurred in deploying AMS should be approved for recovery through the AMS surcharges provided for in the stipulation and this Order.
29. The estimated costs identified by TNMP in the modified AMS surcharge model are reasonably based on the functionality described in the statement of functionality, exhibit B to this Order, and do not account for the resolution of the constraints described in exhibit B or any additional functionality required by Project No. 34610 or similar, related proceedings. Should resolution of the constraints described in exhibit B or provision of additional functionality be required by Project No. 34610 or any similar, related proceeding, TNMP will resolve such constraints or provide such additional functionality as and to the extent the means to do so are commercially available. In the event the means to resolve such constraints or provide such functionality are not commercially available, TNMP will use reasonable efforts to develop or encourage the development of such means. The actual costs of adding any such functionality or resolution of identified constraints should be approved for recovery through TNMP's AMS surcharges to the extent the actual costs are reasonable and necessary. These costs are subject to review in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130(k)(6).
30. TNMP's total estimated capital investment for advanced metering facilities of approximately \$67.8 million, as set forth in the estimated AMS deployment and maintenance costs, exhibit C to this Order, is a reasonable estimate of investment that is necessary for the provision of advanced metering to the retail customers in TNMP's service areas and should be approved for recovery through TNMP's AMS surcharges to the extent the actual investment is reasonable and necessary. These costs are subject to review in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130(k)(6).

31. TNMP's total estimated operating and maintenance expenses of approximately \$37.4 million for the twelve-year surcharge period, as set forth in exhibit C to this Order, is a reasonable estimate of expenses that are necessary for the provision of advanced metering to the retail customers in TNMP's service areas and should be approved for recovery through TNMP's AMS surcharges to the extent the actual expenses are reasonable and necessary. These costs are subject to review in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130(k)(6).
32. TNMP's estimated savings and benefits for the surcharge period of approximately \$19.3 million, consisting of \$15.4 million in meter reading savings, \$0.3 million in ad valorem tax savings, and \$3.6 million for other savings, such as BTS reductions, as set forth in the AMI benefits summary of customer service savings, exhibit D to this Order, are reasonable. Savings and benefits in those categories recognized in the modified AMS surcharge model, as well as any savings and benefits associated with TNMP's planned OMS, and any savings directly attributable to the fraud coordinator position through settlements or other penalties as may result from the fraud coordinator's work, will be subject to review in a reconciliation pursuant to P.U.C. SUBST. R. 25.130(k)(6).
33. TNMP's total estimated AMS revenue requirement of approximately \$113.4 million is reasonable and should be approved for recovery through the AMS surcharge approved in this Order, and is subject to reconciliation pursuant to P.U.C. SUBST. R. 25.130(k)(6).
34. The seven-year depreciation period utilized for the meter investment and related infrastructure costs in TNMP's AMS surcharge models is reasonable. The five-year depreciation period utilized for information technology and software assets in TNMP's AMS surcharge models is reasonable.
35. The surcharge methodology proposed by TNMP, consistent with the stipulation, is a reasonable methodology for recovery of reasonable and necessary costs of AMS deployment.
36. TNMP's proposed rider AMS - advanced metering, exhibit E to this Order, is reasonable, and should be approved. The monthly nonbypassable surcharges reflected in rider AMS

and listed below are based on the revenue requirement from TNMP's AMS surcharge model and are reasonable and necessary.

<u>Residential Schedule</u>	August 8, 2011- August 7, 2023 Surcharge	
Residential service	\$3.40 per ESI ID per month	
<u>Non-Residential Schedule</u>	August 8, 2011- February 7, 2016 Surcharge	February 8, 2016- August 7, 2023 Surcharge
Secondary service less than or equal to 5 kW	\$ 8.20	\$0.00 per ESI ID per month
Secondary service greater than 5 kW	\$13.63	\$0.00 per ESI ID per month
Primary service	\$17.32	\$0.00 per ESI ID per month
Lighting service (metered facilities)	\$ 7.22	\$0.00 per ESI ID per month

The schedule in rider AMS contemplates that the surcharge will begin on July 18, 2011; however, in the event this Order is granted on a date later than will allow the surcharge to be implemented on July 18, 2011, the schedule will be modified to reflect the new commencement date. Regardless of the beginning date, the surcharges shall end on the last day of the 144th month after the commencement date. The ending date also shall be subject to change based on the results of any proceeding to adjust the AMS surcharges or a reconciliation proceeding under P.U.C. SUBST. R. 25.130(k)(6).

37. TNMP will track and record AMS revenues and related AMS costs and track AMS savings in a manner that will readily allow for the identification, tracking, and reporting of these amounts on a monthly basis.

Meters, Communications Networks, and Back-Office Systems

38. The terms, including pricing, of TNMP's contracts with SmartSynch and AT&T relating to the deployment of advanced meters and communication technology, are reasonable. In

the event TNMP subsequently contracts for a different meter or communications system for any portions of its service areas, TNMP agrees that it will provide to the Commission the executed contract(s) with the vendor within 30 days of its execution in a manner that is consistent with the terms of the protective order in this proceeding.

39. The AMS technologies are reasonable and prudent technology choices for use in TNMP's deployment plan.
40. The AMS technology will utilize on-board meter storage of meter data that complies with current American National Standards Institute (ANSI) standard C12.19-2008. The AMS technology will use the C12.19 tables consistent with the current Association of Edison Illuminating Companies (AEIC) C12.19 guidelines. TNMP agrees that it will report on its plans to comply when the AEIC C 12.19 Version 2.0 guidelines are adopted.
41. TNMP agrees that its AMS shall utilize open standards and protocols that comply with nationally recognized standards for the transport of ANSI C12.19 table data over networked connections. All SmartSynch meters deployed will transmit data using C12.22 ANSI communications prior to the end of deployment. Those meters in the field that were not C12.22 compliant at the time of installation will be upgraded from C12.19 via an over-the-air firmware update by June 30, 2013; all meters installed after June 30, 2013, will be C12.22 compliant at the time of installation.
42. TNMP's deployment plan incorporates a communications system that utilizes AT&T cellular communications throughout all its service areas. TNMP agrees that it will continue to evaluate alternative communication technologies in 2011, 2012, and 2013 and will monitor advanced meter technology as it evolves. In the event TNMP determines that an alternative technology should be implemented in conjunction with or in place of its cellular communications solution in one or more of its service areas, TNMP will file an amendment to its AMS deployment plan as required by P.U.C. SUBST. R. 25.130(d)(10).
43. TNMP's advanced meters satisfy the requirements of P.U.C. SUBST. R. 25.130(g), and no non-compliant AMS meters will be installed during the deployment period, unless those

meters are installed consistent with a waiver described in the stipulation and approved by the Commission.

44. With installation and overhead costs included, the average estimated cost for the advanced meters included in TNMP's surcharge models is \$205.85 for residential meters and \$312.21 for non-residential meters. The average costs listed above are based on (a) meter unit prices; (b) installation costs; (c) applicable sales tax; (d) project loading; (e) project management; and (f) the quantity TNMP expects to install of each model.
45. TNMP agrees that it shall include numbers of advanced meter failures and identify repair rates and costs incurred as a result of those failures and repairs, net of warranty payments, if any, in the monthly progress reports required under P.U.C. SUBST. R. 25.130(d)(9).
46. TNMP agrees that it will support prepaid service, consistent with P.U.C. SUBST. R. 25.498, by the functionality date for customers with AMS provisioned meters with remote connect and disconnect capability. The functionality date shall be the first day of the eighth full calendar month following the filing of a signed final order in this docket. TNMP agrees that it will include information related to the status of achieving this commitment in its monthly progress reports to the Commission.
47. TNMP agrees that it shall reconnect power to a customer with prepaid service, after disconnection of service at the meter, within one hour of receiving notice from the customer's REP through a standard market transaction (i.e., TexSET) requesting that the customer's power be reconnected if the customer has an AMS provisioned meter with remote disconnect and reconnect capability.
48. TNMP agrees that it shall provide or support all of the functionality described in exhibit B to this Order, in accordance with its terms.
49. In TNMP's monthly progress reports required under P.U.C. SUBST. R. 25.130(d)(9), beginning with October 15, 2011, TNMP agrees that it shall list the ESI-IDs with advanced meters. Such information will be submitted as confidential, for review by the Commission and Commission Staff only, subject to such further requirements as may be prescribed by the Commission governing the information that TNMP makes available to all REPs.

Outage Management System

50. TNMP's AMS deployment plan provides for the purchase and implementation of an OMS at a future date. Consistent with the stipulation, TNMP may seek base-rate recovery of capital expenditures for OMS through a periodic rate adjustment under the Act of May 28, 2011, SB 1693, § 1, 82d Leg., R.S. (to be codified at TEX. UTIL. CODE ANN. § 36.210) through an AMS surcharge reconciliation proceeding, or through TNMP's next general rate case.
51. TNMP shall not propose OMS recovery until after OMS is used and useful in providing service. Capital cost recovery is limited to capital expenditures found to be reasonable and prudently incurred. Each signatory reserves the right to challenge the merits of TNMP's OMS request, including TNMP's legal right to seek recovery of such expenditures in a periodic rate adjustment proceeding, subject to the limits provided for below. Signatories also reserve the right to take any position in the rulemaking to implement Act of May 28, 2011, SB 1693, § 1, 82d Leg., R.S. (to be codified at TEX. UTIL. CODE ANN. § 36.210). Signatories reserve potential technical and cost challenges to TNMP's specific OMS investment, as well as the right to assert that costs should be adjusted for any OMS-related savings and revenue enhancements, until such time as TNMP seeks cost recovery, but the signatories agree not to challenge the need for TNMP to deploy OMS.
52. Consistent with the signatories' agreement, if OMS recovery is determined to be outside the scope of a periodic rate adjustment proceeding, then OMS recovery shall be deemed within the legal scope of an AMS reconciliation proceeding. In the event that TNMP recovers its capital OMS investment through an AMS reconciliation proceeding, TNMP agrees to seek to reassign capital cost recovery to base rates in its next general rate case.
53. TNMP may seek recovery of OMS operations and maintenance costs in an AMS reconciliation proceeding, no earlier than the time at which it seeks capital cost recovery. Consistent with the stipulation, TNMP may recover such costs through an adjustment to its AMS surcharges to the extent such costs are found to be reasonable and necessary. TNMP will propose to reassign any OMS-related costs from the surcharges to base rates in its next general rate case.

Regulatory Assets/Liabilities

54. TNMP agrees that it shall establish one or more reasonable regulatory asset or liability accounts in which will be recorded at least annually the difference between the AMS surcharge revenues and the net revenue requirements for the period, based on actual expenses and net investment in AMS.
55. Interest will accrue on the balance in the regulatory asset or liability account net of accumulated deferred income taxes (ADIT) based on TNMP's pretax cost of capital. This interest rate shall be adjusted if TNMP's cost of capital is adjusted in a future rate case.
56. The plant balance and accumulated depreciation will not be reduced as the old meters are retired. However, any net salvage value, including the 20% of meter installation costs categorized as cost of removal, will be charged to or credited to accumulated depreciation of the old meters, independent of the AMS surcharges. The cost of the existing meters to be replaced and their proportional share of the accumulated depreciation can be determined and TNMP agrees that it shall put those costs into separate sub-accounts so that they can be easily tracked. TNMP agrees that it will identify the undepreciated cost of the retired meters, place them in a regulatory asset account, and include them in net plant in its next general base-rate case.
57. TNMP agrees that the plant balance of the old meters described in the preceding finding of fact 56 shall be amortized by TNMP until the accumulated depreciation of the old meters is equal to the plant balance of the old meters. The amortization rate will be the current approved depreciation rates for TNMP. These rates and the ratemaking treatment of the plant balance are subject to change in a general rate case.

Return on Equity and Cost of Debt

58. A return on equity (ROE) of 10.125% and a cost of debt of 9.72% approved in Docket No. 38480³ for TNMP together with the approved capital structure of 55% debt and 45% equity shall be used in the calculation of the AMS surcharge. A subsequent adjustment to TNMP's AMS surcharge shall be made reflecting any Commission-authorized change in the ROE, cost of debt, or capital structure used to calculate TNMP's base rates. The

³ *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Docket No. 38480, Order (Jan. 27, 2011).

adjustment to the AMS surcharge shall be effective at the same time that the corresponding base rate change becomes effective.

Customer Education

59. Consistent with the stipulation, TNMP agrees that it shall conduct a customer education program in accordance with the AMS public outreach and customer education, exhibit F to this Order.
60. It is reasonable for TNMP to spend and to include in the AMS surcharge a total of approximately \$1.95 million in O&M costs to pay for the costs associated with the customer education proposed by TNMP in exhibit F to the Order. Exhibit F is intended to be representative of the types of activities and the estimated costs of those activities that will be undertaken in educating customers about advanced meters and is not intended to specify the exact activities to be undertaken or to specify the exact amounts to be spent on each activity.
61. TNMP agrees that it shall report on its customer education efforts quarterly, and that those reports shall be filed at the Commission until AMS deployment is complete.

Discretionary Service Charges

62. Consistent with the stipulation, it is appropriate that all customers in the TNMP service areas benefit from the impact of the cost savings that result from the deployment of advanced meters through reduced charges for TNMP's meter-related discretionary services. These meter-related discretionary service charges include cost recovery for: (a) move-in connection services (b) disconnecting service for non-payment (DNP); (c) reconnecting service after DNP; (d) meter re-read service; and (e) out-of-cycle meter reads for the purpose of a switch charge. It is reasonable to require TNMP to seek Commission approval of annual reductions in two of these meter-related discretionary service charges over a period of five years to reflect the progressive reduction in costs resulting from AMS deployment. Those two discretionary service charges are the standard DNP charge and the standard reconnect after DNP charge that apply to advanced meters with remote capabilities.

63. TNMP shall file an application to implement reductions in these discretionary service charges no later than July 1 in each year of the five-year period, beginning with July 1, 2012. Each application shall seek to update and reduce the two affected discretionary service charges to reflect the then-current mix of AMS and non-AMS meters on the TNMP system. Such a yearly update mechanism shall reasonably capture the cost savings associated with the deployment of advanced metering and provide customers with the cost savings that result from the use of advanced metering technology. It is reasonable for the Commission and all other regulatory authorities to review and, if appropriate, to approve requested reductions to the two affected discretionary service charges on an annual basis for these reasons.
64. Exhibit G reflects estimated future reductions to the AMS-meter-related DNP charge and the AMS-related reconnect after DNP charge in the first four years of the five-year period. TNMP shall reduce the two affected discretionary service charges in year five to at least the level identified in exhibit G under the heading "July 2016." The reductions reflected in exhibit G under the heading "July 2016" represent an annual revenue reduction at year five of \$1,038,439 as shown on exhibit G.
65. The two affected meter-related discretionary service charges for fully functional AMS meters established for the fifth year through the process set out in finding of fact 63-64 shall reflect all cost savings in the provision of these discretionary services associated with AMS deployment, and will result in charges equal to or less than the July 2016 levels shown on exhibit G. No later than two years after the end of the five-year deployment period, TNMP shall seek to reduce all of the discretionary service charges listed in finding of fact 63 to the lower of \$1.50 or the incremental cost of providing the discretionary service. This request may include both the cost savings associated with AMS deployment, as well as an accounting of the residual costs remaining in the discretionary service charges that would otherwise be in base rates, and in an appropriate proceeding may include a request to adjust base rates. Nothing in the stipulation or this Order precludes a party from requesting a reduction in one or more of these meter-related discretionary service charges in a future Commission proceeding. Nothing in the stipulation or this Order precludes a regulatory authority from exercising its authority

under PURA⁴ to initiate a rate proceeding. Nothing in the stipulation or this Order requires TNMP to initiate a general rate case at any time, unless TNMP elects to initiate a general rate case to meet the obligation to request reduction of these discretionary services fees to the lower of \$1.50 or the incremental cost of providing the discretionary services set forth in the second sentence of this finding of fact. For purposes of the provisions of the stipulation addressing the reduction in discretionary services fees to reflect the cost savings resulting from AMS deployment and the installation of advanced meters at customers' premises, a fully functional AMS meter is one that utilizes two-way communications to obtain meter reading data and has a functioning service switch that allows the meter to be remotely connected or disconnected via communication over the AMS network.

Web Portal

66. TNMP, together with the other TDUs, will continue to support independent, third party security audits of the common AMS web portal requirements as the development of the common portal continues and will provide the results of that audit to the Commission. In addition, TNMP will include information about the status of the audits in its monthly progress reports to the Commission.
67. TNMP agrees that, together with the other TDUs, it will continue to support the common portal, as required by Commission rules and orders, with all associated costs subject to recovery through AMS surcharge reconciliation proceedings. Upon commencing the deployment of advanced meters following entry of this Order, TNMP agrees that it shall have in place the TNMP interim REP portal, as defined in exhibit A to this Order, capable of providing 15-minute validation, editing, and estimation (VEE) interval data to REPs via a TNMP-hosted file transfer protocol (FTP) site. TNMP agrees that will continue to provide REPs with 15-minute VEE interval data through the TNMP interim REP portal until access to TNMP data is available through the common repository and common portal.

⁴ Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.016 (Vernon 2007 & Supp. 2010) (PURA).

68. Taken together, the TNMP interim REP portal, the common repository, and the common portal meet the functionality requirements of P.U.C. SUBST. R. 25.130(g)(1), as modified by any waivers granted to TNMP, and are reasonable.
69. The estimated capital costs and estimated annual operation and maintenance costs included in TNMP's AMS surcharge to develop, implement, operate, and maintain the common portal are reasonable. Such costs shall be subject to reconciliation pursuant to P.U.C. SUBST. R. 25.130(k)(6).
70. TNMP's AMS surcharge models include approximately \$0.9 million in estimated costs for administering its share of the common repository and portal (including TNMP's share of a web portal audit) during the first three years of the surcharge period. Should ERCOT not assume the administration of the common web portal and repository following the three-year period and/or the costs of administering the common web portal and repository are not then recovered through the ERCOT fees to market participants, the signatories acknowledge that any costs incurred in connection with administration of the common web portal and repository will be allowed in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130(k)(6).

Low-Income In-Home Monitors

71. Consistent with the stipulation, TNMP agrees that it will make in-home monitors available to low-income customers. TNMP is not required to begin deployment of low-income in-home monitors until the fourth year of its AMS deployment. TNMP shall be entitled to recover the reasonable and necessary costs of providing low-income in-home monitors through a reconciliation proceeding, although nothing prohibits TNMP from seeking to recover these costs in a rate case in the event TNMP files one during its deployment period. Such costs shall include (a) the costs of purchasing the monitors; (b) the associated administrative costs; and (c) the costs of distribution, training and customer education related to in-home monitors. Once it begins to provide monitors, TNMP agrees that it shall provide semiannual reports regarding the cost of the monitors and the deployment of such monitors.

72. TNMP further agrees to consult and work with Staff, OPC, and any other interested parties to utilize the experience gained from the program for providing in-home energy monitors to low-income customers to develop feasible and economical additional programs with the objective of more widely making in-home energy monitors available to as many eligible low-income customers as reasonably possible. TNMP may seek recovery of the additional costs reasonably and necessarily expended on these additional activities through TNMP's AMS surcharges. These costs will be recovered in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130(k)(6), although nothing prohibits TNMP from seeking to recover these costs in a rate case in the event TNMP files one during the deployment period.
73. For purposes of this commitment, the definition of low-income customer in P.U.C. SUBST. R. 25.5 shall apply.
74. All in-home monitors provided to eligible low-income customers pursuant to this low-income program will be compatible with TNMP's AMS meters.
75. The program will require the in-home monitors be provided equitably across the entire TNMP service areas.

HAN

76. TNMP shall reflect any HAN requirements determined in Project No. 34610 in a compliance tariff.
77. No later than June 1, 2012, TNMP will support remote service orders for AMS retail products.

Security and Testing

78. Beginning immediately after the entry of this Order, and in conjunction with Commission Staff, TNMP agrees that it will engage a third party vendor to conduct an independent security assessment of TNMP's AMS network. TNMP and Commission Staff will agree, or, in the absence of such agreement, either party may request that the Commission select, an appropriate vendor to perform the security assessment. The results of the security assessment will be provided to the Commission in one of TNMP's compliance

filings. The costs of these security assessments can be recovered through the AMS surcharge and are subject to reconciliation.

79. Beginning immediately after the entry of this Order, and in conjunction with Commission Staff, TNMP agrees that it will conduct a testing of its AMS meters. TNMP agrees that it will retain Navigant Consulting for this advanced meter testing. The results of the testing will be provided to the Commission in one of TNMP's compliance filings. The costs of these advanced meter tests and any Navigant Consulting fees can be recovered through the AMS surcharge and are subject to reconciliation.

Settlement at ERCOT

80. TNMP's AMS will be able to support 15-minute settlement at ERCOT, for both the interim and long-term settlement solutions identified in Project No. 34610 by March 31, 2012, assuming deployment begins as planned.

Adjustment and Recovery of Costs

81. The size, novelty, complexity, and duration of TNMP's AMS deployment plan, and other causes beyond TNMP's reasonable control, make it impossible to precisely estimate the final reasonable and necessary cost of TNMP's AMS deployment plan. As a result, adjustments to the estimated costs stated in this Order will be necessary in the future. In accordance with P.U.C. SUBST. R. 25.130(k), TNMP will be allowed the opportunity to recover, through the surcharge and base rates, all of its AMS costs, including such costs that are more than what is estimated in this Order, to the extent TNMP proves that those costs were spent, properly allocated, reasonable and necessary, and reduced by the net operating cost savings resulting from TNMP's AMS.

Rate Case Expenses

82. TNMP has reasonable actual rate case expenses of \$667,976 for this proceeding.
83. Cities have reasonable actual rate case expenses of \$118,734 for this docket. ATM has reasonable actual rate case expenses of \$165,732 for this docket.

REP Notice

84. Within three business days following Commission approval of this Order, TNMP agrees to provide electronic written notice to the REPs who are authorized to provide service in TNMP's service areas, that includes the following information: (a) the surcharges under the Stipulation; (b) the billing cycle in which TNMP will begin assessing those surcharges to REPs; (c) all applicable 810-02 transaction information; and (d) the date/time of a conference call that TNMP agrees to hold for REPs to ask questions about implementation of the surcharge. TNMP agrees to use MSCO39 (code designated by ERCOT as advanced metering system cost recovery factor) for the SAC04 code for the AMS surcharge. TNMP also agrees to hold the conference call within five business days after the Commission open meeting vote in favor of approving this Order, and agrees this call will be scheduled for a weekday at a time between the hours of 8:00 AM and 6:00 PM Central time. Electronic notice required by this paragraph includes notice *via* the ERCOT RMS retail list serv.

Informal Disposition

85. The requirements for informal disposition pursuant to P.U.C. PROC. R. 22.35 have been met in this proceeding.

II. Conclusions of Law

1. TNMP is an electric utility as that term is defined in § 31.002(6) of PURA.
2. The Commission has jurisdiction over this proceeding pursuant to PURA § 39.107(h).
3. TNMP provided notice in this proceeding pursuant to P.U.C. PROC. R. 22.55.
4. TNMP's application was processed in accordance with the requirements of PURA, the Administrative Procedure Act, TEX. GOV'T CODE ANN. §§ 2001.001 et seq. (Vernon 2010), and Commission rules.
5. The Commission's consideration of the stipulation complies with PURA § 14.054 and P.U.C. PROC. R. 22.206.

6. The terms of the stipulation are supported by a preponderance of the evidence and, except for those requests addressed in this Order for which the Commission has found good cause to grant waivers, comply with the requirements of P.U.C. SUBST. R. 25.130.
7. The stipulation, taken as a whole, is a fair, just, and reasonable resolution of all issues presented, is supported by the record, and is consistent with the relevant provisions of PURA.
8. TNMP's requests for waivers pursuant to P.U.C. SUBST. R. 25.130(g)(3) are reasonable.
9. TNMP's request that it not be required to install advanced meters in advance of the full deployment of advanced meters in a given area, as set forth in TNMP's AMS deployment plan that is attached to this Order as exhibit A, is reasonable.
10. TNMP's request for waiver of the requirements in P.U.C. SUBST. R. 25.130(k)(4), relating to moving the cost of AMS equipment into base rates, is reasonable.
11. The surcharge methodology proposed by TNMP is reasonable and consistent with P.U.C. SUBST. R. 25.130(k)(3).
12. It is reasonable for TNMP to spend and to include in the AMS surcharge a total of \$1,952,069.00 O&M costs for customer education. These costs are subject to review in a reconciliation proceeding pursuant to P.U.C. SUBST. R. 25.130(k)(6).

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following order:

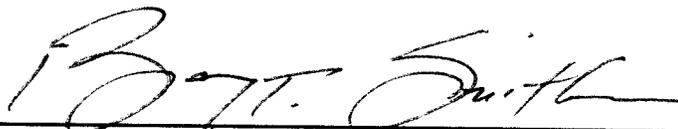
1. TNMP's request for approval of the AMS deployment plan and surcharge, as modified by the stipulation, is granted.
2. Rider AMS, in the form attached as exhibit E, is approved, effective 30 days after entry of this Order.
3. TNMP shall make a compliance filing of Rider AMS in the form attached in exhibit E within three business days after entry of this Order. Upon such filing, rider AMS shall be file-stamped "Approved" by Central Records and retained for future reference.

4. TNMP shall perform all actions in accordance with the deployment plan, the stipulation, and this order.
5. TNMP's request for waivers pursuant to P.U.C. SUBST. R. 25.130(g)(3) is approved.
6. TNMP's request that it not be required to install advanced meters in advance of the full deployment of advanced meters in a given area, as set forth in TNMP's AMS deployment plan that is attached to this Order as exhibit A, is granted.
7. TNMP's request for waiver of the requirements in P.U.C. SUBST. R. 25.130(k)(4) is granted.
8. TNMP shall jointly with the other TDUs, hire an independent, third party to conduct security audits of the common AMS web-portal requirements as the development of the common portal continues and shall provide the results of the audits to the Commission.
9. Consistent with the requirements of P.U.C. SUBST. R. 25.130(j)(3), TNMP shall have an independent security audit of the mechanism(s) for customer and REP access to meter data conducted within one year of initiating such access and promptly report the results to the Commission. Subsequent annual audits shall be conducted and the results of such audits reported to the Commission.
10. TNMP may seek cost recovery for an OMS following implementation and in accordance with the requirements described in Finding of Fact Nos. 50 through 53.
11. TNMP shall reduce its meter-related discretionary service charges in accordance with the stipulation and this Order and the procedures described in Finding of Fact Nos. 62 through 65.
12. TNMP may request recovery of any rate case expenses incurred by TNMP, Cities, or ATM for Docket No. 38306, which were not included in the amounts presented for Commission Staff review in this docket, in AMS surcharge reconciliation proceedings.

13. Entry of this Order does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the stipulation. Entry of this Order consistent with the stipulation shall not be regarded as a binding holding or precedent as to the appropriateness of any principle that may underlie the stipulation.
14. All motions or requests for entry of specific findings of fact and conclusions of law, other requests for general or specific relief not expressly granted, are denied.

SIGNED AT AUSTIN, TEXAS the 8th day of July 2011.

PUBLIC UTILITY COMMISSION OF TEXAS



BARRY T. SMITHERMAN, CHAIRMAN



DONNA L. NELSON, COMMISSIONER



KENNETH W. ANDERSON, JR., COMMISSIONER