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SHARYLAND UTILITIES, L.P.'S §
REQUEST FOR APPROVAL OF AN §
ADVANCED METERING SYSTEM §
(AMS) DEPLOYMENT, AMS §
SURCHARGE, AND NON-STANDARD §
METERING SERVICE FEE §

PUBLIC UTILITY COMMISSION
OF TEXAS

COMMISSION STAFF'S EXCEPTIONS TO THE PROPOSAL FOR DECISION

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), and files this Exceptions to the Proposal for Decision (PFD), and would show the following:

I. INTRODUCTION

Staff supports the deployment of advanced metering systems (AMS) and does not dispute the benefits that AMS can provide. However, Staff excepts to the PFD's approval of Sharyland Utilities, L.P.'s (Sharyland) AMS deployment plan for two reasons. First, Sharyland should be required to implement a pilot project as part of its plan. A pilot project is not required by any applicable law or rule, but Sharyland must propose a plan that is reasonable in order to minimize the amount of risk that Sharyland ratepayers should bear, and they have failed to do so. Implementing a pilot project is a reasonable component of the AMS deployment plan because it will reduce the risk to Sharyland and its customers that there will be problems during the AMS deployment. A pilot program should have defined criteria that Sharyland must meet and meet these criteria for a set period of time before Sharyland should be allowed to continue with a full AMS deployment. Second, in Docket No. 45188, Ovation Acquisition and Shary Holdings have committed to studying a possible business combination between Oncor Electric Delivery Company LLC (Oncor) and Sharyland.¹ While Docket No. 45188 was filed after the Sharyland's AMS application was filed, Sharyland has not updated its AMS filing or even considered the potential cost savings a possible business combination between Oncor and Sharyland could have on this proceeding. In this proceeding, Sharyland has not presented a reasonable plan, and the application

¹ Joint Report and Application of Oncor Electric Delivery Company LLC, Ovation Acquisition I, LLC, Ovation Acquisition II, LLC, and Shary Holdings, LLC for Regulatory Approvals Pursuant to PURA §§14.101, 37.154, 39.262(I)-(M), and 39.915, Rebuttal Testimony of Ralph Goodlet, Jr. at 5:3-11, Docket No. 45188 (Dec. 21, 2015).

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should be amended to include a pilot project and/or abated until the Commission makes a decision in Docket No. 45188 or it should be rejected.

II. EXCEPTIONS TO THE PROPOSAL FOR DECISION

PFD Sec. IV. SHARYLAND'S AMS DEPLOYMENT PLAN AND STATEMENT OF FUNCTIONALITY

A. Does Sharyland's Deployment Plan Meet the Requirements of 16 TAC § 25.130? (Preliminary Order Issues 1, 2, 4, 6, 7, 21, 22, 25, 30 and 31).

Disregarding the benefits of a pilot project increases the risks inherent in an AMS deployment. PURA § 39.107(h)² provides that the Commission shall establish a surcharge “to recover reasonable and necessary costs incurred in deploying” AMS. The Commission’s rules also require that the utility will “file testimony and other supporting information... that prove the reasonableness of the [deployment] plan.”³ The ALJs are correct that a pilot program is not required by any applicable law or rule.⁴ However, this does not mean that requiring a pilot project is unreasonable, especially in the present case where there are insufficient safeguards and information to support a full deployment.

As noted by Staff witness Katie Rich, “[a] meaningful pilot is imperative to engage customers and test various technologies and their performance in the field under various conditions. The operational experience gained for a pilot(s) cannot be understated.”⁵ With regard to a pilot project, the PFD states that the parties “argue that cost and time savings may be achieved, however, the opposite may also be true.”⁶ This illustrates the problem that no one knows whether there will be any issues in the AMS deployment. Sharyland acknowledges that the AMS deployment is a significant undertaking that will affect many different parts of the company.⁷ It is unlikely that Sharyland will conduct such a complex undertaking without encountering any

² Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.016 (West 2007 & Supp. 2015) (PURA)

³ 16 Tex. Admin. Code § 25.130(d)(5) (TAC).

⁴ Proposal for Decision at 14 (Jan. 20, 2016).

⁵ Staff Ex. 2, Direct Testimony of Christine L. Wright as adopted by Katie Rich at 9:17-19.

⁶ PFD at 14.

⁷ See Tr. at 62:19-20; 172:19-25.

problems. A reasonable way to minimize the risk of significant problems developing during the AMS deployment together with the attendant additional costs to correct them, is to require that Sharyland conduct a pilot program before beginning its full deployment. Sharyland's customers are already concerned about their rates, and every attempt should be made to minimize any risk of additional costs or delay with the AMS deployment.

A reasonable pilot project is one that would require that Sharyland install meters and communication for a limited set of customers, preferably in geographically diverse areas, to ensure that the communication systems can adapt to different areas. The pilot should require that meter communication and functionality meet certain success rates for a certain period of time, and that the data is valid, to ensure that the AMS infrastructure is functioning properly. There are several testing requirements relating to communicating with the meter, meter functionality, and data validation set forth in the PFD that Sharyland has already committed to performing.⁸ These testing requirements should be incorporated into any pilot project. Only when these criteria are met, should Sharyland proceed with the full deployment.

Further, requiring a pilot project will give Sharyland the operational experience that will benefit the full deployment. A pilot project will minimize the risk of encountering significant issues during the full deployment, when any solution to address problems would be more costly and time consuming.

2. AMS Technology (Preliminary Order Issues 1, 2, 21, 22, 25, 30, and 31).

The PFD describes that Sharyland will not provision its meters until it has fully deployed all meters, and can test the meters during the deployment period.⁹ The ALJs agree with Sharyland that proposing a pilot project in this situation is "arguing form over substance."¹⁰ While Staff supports the testing of the smart meters and AMS components during the deployment process, a pilot project does not put "form over substance." As noted in Staff's testimony:

During a pilot and early deployment stages, a utility might discover a variety of issues. Each deployment is different, but the common thread is that unexpected issues commonly arise. Generally speaking, these may include communication issues along the network; random updates to back office components like CIS

⁸ PFD at 28-29.

⁹ PFD at 21-23.

¹⁰ Id. at 23.

which might inadvertently interfere with AMS functions; and meter installation issues.¹¹

Requiring Sharyland to conduct a pilot with a limited number of meters will identify any of these or other issues prior to full AMS deployment. This is not a case of “form over substance.” Rather, identifying these issues early in a pilot project, before many or most of the smart meters are deployed, will help to minimize the risk inherent in the AMS deployment and minimize cost and delay. This is the benefit that a pilot project provides over Sharyland’s plan to test as they deploy. The current deployment schedule provides no room for delay to address issues that may arise. Finally, Sharyland’s argument that the a pilot project would add additional costs is incorrect, because the costs of installing meters and communication equipment would be incurred by Sharyland regardless of the timing, whether it would be during a pilot project or a full deployment. The pilot project would save potential costs if issues are identified during the pilot that would be addressed before a full deployment.

The Office of Public Utility Counsel (OPUC) also supports a pilot project, stating that “a pilot program would have helped Sharyland identify and avoid the types of communications failures involving both the meters and the communications networks identified by [TXU Energy Retail Company LLC/Alliance for Retail Markets] in previous AMS deployments prior to its own deployment.¹² OPUC also notes that the “most reasonable and cost-effective method to avoid these same problems is to engage in a pilot project,” rather than Sharyland hoping to address the technical and operational issues during the full deployment.¹³ OPUC also agrees that the lack of a pilot program increases the risk that Sharyland will experience delays in deployment and cost overruns.¹⁴

3. Schedule for Deployment [Germane to Preliminary Order Issues 7 and 31]

Sharyland states that its deployment plan will allow for “incremental deployment and testing that will allow us to continue evaluating how the Deployment Plan is progressing and make any necessary adjustments along the way.” However, Sharyland does not provide any formal

¹¹ Staff Ex. 2 at 8:19-9:1.

¹² Office of Public Utility Counsel’s Initial Brief at 6-7 (Nov. 23, 2015), citing to Direct Testimony of John Schatz, TXU/ARM Ex. I at 7:9-11:10.

¹³ OPUC’s Initial Brief at 7.

¹⁴ Direct Testimony and Workpapers of Scott Palmer at 12:12-18 (Apr. 24, 2015).

criteria that must be met by the AMS or even allow for any “adjustments” in its deployment schedule. Again, while Staff appreciates the ability of Sharyland to evaluate the AMS infrastructure during deployment, this process lacks any formal criteria that must be met in a pilot project before continuing with the full deployment.

PFD Sec. VI. SHARYLAND'S AMS SURCHARGE [GERMANE TO PRELIMINARY ORDER ISSUES 8-18, 20, AND 34]

A. Reasonableness of the Surcharge [Germane to Preliminary Order Issues 8-17]

Staff argues that the potential transaction currently being considered in Docket No. 45188 could significantly impact the expenses incurred by Sharyland, which would, in turn, significantly change the surcharge amount. The ALJs acknowledge that Sharyland's service territory covers approximately 8,500 square miles, fully 34% of which (2,900 square miles) is dually certificated with Oncor, and that Sharyland proposes to employ the same type of meters deployed by Oncor to its customers in the dually-certificated area, and many of the meters use the same RF Mesh communications technology that Sharyland proposes to use.¹⁵ Despite this, the ALJs then state that “[a]ssuming that the transaction will be approved, and that it will lead to cost-savings on Sharyland's Deployment Plan, is nothing more than speculation.”¹⁶ In addition, Sharyland argues that the claim that there could be significant cost savings is unfounded because the vast majority of the investment relates to new customers and new service areas, which would need to be made regardless of any potential affiliation with Oncor. However, any capital expenses relating to communication equipment on overlapping service territory between Oncor and Sharyland as well as any redundant back-office systems would be avoided. The communications network will cost \$6.9 million, including installation.¹⁷ If this system does not need to be installed on the 34% of Sharyland's service territory that is dually certificated with Oncor, this could result in significant cost savings by Sharyland.

Ovation Holdings and Shary Holdings, the purchasers of Oncor in Docket No. 45188, have committed to studying the business combination of Oncor and Sharyland.¹⁸ While that proceeding

¹⁵ PFD at 77.

¹⁶ Id. at 78.

¹⁷ PFD at 54-55

¹⁸ Rebuttal Testimony of Ralph Goodlet, Jr. at 5:3-11, Docket No. 45188 (Dec. 21, 2015).

is still contested, with Staff even recommending denial in the proposal's current form, the Commission has not made a final decision in that proceeding. Despite the potential for significant cost savings, Sharyland has not even considered or examined how any type of business combination between Oncor and Sharyland could affect Sharyland's AMS application. Staff considers this lack of consideration unreasonable given the potential financial impact on the transaction. Staff excepts to the PFD's characterization that any potential savings are speculative, given that Docket No. 45188 is not yet decided and that the purchasers have committed to studying the business combination of Sharyland and Oncor. Staff recommends that this proceed be abated until the Commission has made a final decision in Docket No. 45188. If the Commission does decide to approve the transaction and a study is performed on a business combination between Oncor and Sharyland, Sharyland should include any possible cost savings to the AMS deployment in the study.


III. CONCLUSION

Staff argues that Sharyland's application is unreasonable because Sharyland has not included a pilot project in its deployment plan and has not explored any costs savings from a potential business combination with Oncor. A pilot project is crucial for Sharyland to identify and address potential problems before full deployment of the advanced meters and any business combination with Oncor could result in significant cost savings for Sharyland's rate payers. Because of these omissions in the deployment plan, the plan is not reasonable and should be amended to account for these issues or be denied.

DATE: February 4, 2016

Respectfully Submitted,
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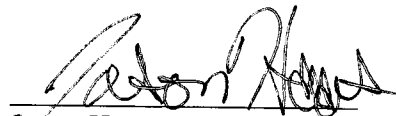
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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on this the February 4, 2016 in accordance with 16 Tex. Admin. Code § 22.74.



Jason Haas