ML 212555

ORDER NO. 88018

IN THE MATTER OF THE REQUEST OF SOUTHERN MARYLAND ELECTRIC COOPERATIVE, INC. FOR AUTHORIZATION TO PROCEED WITH IMPLEMENTATION OF AN ADVANCED METERING INFRASTRUCTURE SYSTEM	* * * *	BEFORE THE PUBLIC SERVICE COMMISSION OF MARYLAND CASE NO. 9294

Issue Date: February 8, 2017

On September 21, 2016, Southern Maryland Electric Cooperative, Inc. ("SMECO") filed a Request for Authorization to Implement its Plan to Mitigate Potential Future Rate Effects of Advanced Metering Infrastructure ("AMI"). On October 7, 2016, the Commission issued a Notice of Request for Comments. Comments were received from the Maryland Office of People's Counsel ("OPC") and the Technical Staff of the Commission ("Staff").

SMECO's plan to mitigate potential future rate effects of AMI has two components:

(1) Confirm that SMECO has the authority to depreciate its AMI over 15 years; and

(2) Allow SMECO to implement a temporary tracker on its customer-members' distribution bills to support AMI deployment.

According to SMECO, the 15-year depreciation period will better match SMECO's expectation for the useful life of the AMI system than would a shorter period, while the temporary tracker, the Capital Cost Recovery Mechanism ("CCRM"), would begin to collect revenue closer in time to when benefits would begin to accrue that would waiting for a future base rate case.

The Commission specifically requested comments on (1) the merits of extending the depreciable life of AMI as it applies to SMECO and any applicable recommendation for Commission consideration and (2) the establishment and implementation of a tracker at this time as a partial cost recovery mechanism as it applies to SMECO's AMI deployment.

In its comments, OPC urges the Commission to reject SMECO's proposed tracker for cost recovery of AMI. OPC states that the Commission rejected the same CCRM as proposed by SMECO in Order No. 85678, and to authorize the CCRM now would require the Commission to reverse its earlier decision. OPC points out that the Commission did not authorize a tracker for any of the electric companies – Baltimore Gas and Electric Company, Potomac Electric Power Company, Delmarva Power & Light Company, or SMECO - for the reasons stated in the respective deployment orders, including that deferring cost recovery was a means of allocating risk between companies and their customers. OPC does not believe the Commission's decision on this major issue should be reversed at this stage for a single company, even if it is a Cooperative. OPC maintains that the Commission's approach with regard to AMI cost recovery is consistent with the statutory requirement that only investments which are used and useful are eligible for cost recovery. OPC reiterates its position that the CCRM portion of SMECO's AMI Plan would violate the prohibition in the Case No. 9396[1] rate case settlement barring any increase or modification of the residential facilities charge for a

[1] OPC references Case No. 9336 in its comments; the correct case number is 9396.

period of thirty months. Lastly, OPC argues that even if the Commission were to consider approval of the CCRM, there are numerous factual issues that SMECO's Request has failed to address.

OPC also commented on SMECO's proposal for a 15-year depreciation schedule for AMI assets, indicating that it has no objection to 15 years as the depreciation period. OPC, however, states that benefits should be measured under the same time frame as the depreciation period. OPC's position is therefore that the appropriate depreciation schedule should be the subject of a full evidentiary hearing.

In its comments, Staff maintains that ten years is the useful life for AMI meters, based in large part on a concern that the technology may become obsolete prior to the end of the useful life, leaving a portion of the cost of AMI on a company's books, to be collected at the same time a new technology solution is put in place. Staff's position is that Order No. 85678 in this case provides that the Commission will undertake a cost-benefit analysis based on a ten-year view of costs and benefits, but will allow SMECO to depreciate the AMI meters and related equipment over 15 years. Staff recommends that the Commission continue to allow SMECO to use a fifteen-year depreciation schedule for the AMI system.

Staff does not believe that SMECO has provided sufficient evidence in its Request for the Commission to reconsider its decision in Order No. 85678 related to CCRM. Staff maintains that SMECO should not be permitted to recover AMI costs until it has delivered a cost-effective system, and recommends that the request to do so be denied.

COMMISSION DECISION

Staff is correct in its interpretation of Order No. 85678. The Commission was apprised of SMECO's intention to depreciate the AMI meters over a fifteen-year period, and the Commission did not find this to be unreasonable.[2] At the same time the Commission determined that it would evaluate SMECO's business case based upon a ten-year useful life. Although ideally, benefits are measured under the same time frame as the depreciation period,[3] we note that rarely do such time periods line up precisely. For instance, depreciation of AMI assets begins upon deployment, whereas the ten-year period for evaluating benefits is forward-looking from the time the company determines it has delivered a cost-effective system and presents its cost-benefit analysis. In any event, we are not aware of an accounting or actuarial prohibition against a ten-year view of costs and benefits of certain assets, while using a fifteen-year depreciation period for those same assets. We further note that no party appealed Order No. 85678 which provided for this result in this case.

We decline to authorize SMECO to implement a temporary tracker on its customer-members' distribution bills. We agree with Staff that SMECO has not provided sufficient reason for the Commission to reconsider its decision that has been applied to all the companies with respect to their respective AMI systems. At the time SMECO has delivered a cost-effective AMI system, SMECO may seek cost recovery in a base rate proceeding. We will conduct a post-deployment review of the actual costs and realized benefits of SMECO's AMI before we authorize any cost recovery. Moreover, as OPC

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[2] Order No. 85678, n. 2.
[3] OPC's statement is: "obviously benefits should be measured under the same time frame as the depreciation period." OPC Comments, p. 6.

notes, the CCRM would violate the settlement approved in the Case No. 9396 rate case. For all of these reasons, SMECO's request to implement a tracker will be denied.

IT IS THEREFORE, this 8th day of February, in the year Two Thousand and Seventeen, by the Public Service Commission of Maryland,

ORDERED THAT: (1) SMECO's request to implement the Capital Cost Recovery Mechanism on its customer-members' distribution bills to support AMI deployment be and hereby is DENIED; and

(2) SMECO has authority to apply a fifteen-year depreciation period to its AMI assets.

/s/ W. Kevin Hughes

/s/ Harold D. Williams

/s/ Jeannette M. Mills

/s/ Michael T. Richard

/s/ Anthony J. O'Donnell
Commissioners