

From IRP to Portfolio Procurement

Default supply in a mixed retail market

Bob Rowe
Chairman
Montana Public Service Commission
browe@state.mt.us

June 2003

1

Overview

- IRP – *"we never knew thee"*
- Retail restructuring – *"the dog caught the bumper"*
- Default supply – *"the wonder (?) years"*
- Portfolio roundtable and rules
- '03 legislation – default supply, competition, and "advanced approval"
- Collaboration and its discontents
- Bonus section: Implementation

2



Montana IRP

- PSC adopted rules in 1992
 - Result of collaborative following tough “used and useful” resource decisions/denial by PSC
- Applicable to vertically integrated utilities – initially MPC, MDU, PacifiCorp
- Resource plans filed on 2-year cycle
- PSC comments on plans, does not approve
 - Avoid risk shifting
 - Consistent with information and resource disparity (PSC has fewer than 40 employees – including commissioners)
 - Less bureaucratic, more flexible
- Minimize long-term total societal costs
 - MDU files dual analysis – PSC’s societal cost and its preferred Ratepayer Impact.
- Specifically consider external costs
- Demand-side resource considered cost-effective to 115% of long-term avoided cost
- Ongoing role for Least Cost Planning Advisory Committee (LCPAC)₃



Montana retail restructuring


- 1997 – Montana enacted SB 390, the Electric Utility Industry Restructuring and Customer Choice Act
 - Large customer choice by July 1998
 - 4-year transition to choice for all customers
 - Exemption for Montana-Dakota Utilities
 - Optional for rural cooperatives
- Driven by MPC’s desire to get its low cost generators out from under regulation
- Law of unintended consequences *not* repealed



Montana retail restructuring

- December 1999 – Montana Power Company sells generating assets. (*Unintended consequence*)
- Mid way through statutory transition period choice opportunities limited/non-existent except for large users. (*Unintended consequence*)
- Default supply options included
 - Competitive bid
 - Small Buyers' Cooperative
 - Local governments
 - Distribution company
- 2000 – PSC designates MPC the default supplier in its service area
- January 2001 –MPC sale of electric and gas distribution systems to NorthWestern (*Unintended consequence*)


5



"I have yet to see any problem, however complicated, which, when looked at in the right way, did not become still more complicated."

- Poul Anderson
Author of Hokas Pokas,
and other works of science fiction,
describing the "movement to choice" for small customers


6



Default supply portfolio planning - genesis

- 2000-2001 – Western wholesale markets demonstrate serious dysfunctions
- April 2001 – MT Legislature enacts HB 474 designating restructured utilities default suppliers, requiring default suppliers to procure a portfolio of resources from the market using industry accepted practices
- June 2002 – PSC finds that some resources proposed by NorthWestern Energy would not likely be approved if procured

7



*“Now what we have
here
is a failure to
communicate,”
Cool Hand Luke (1967),
just before the gunfire
started.*

*“Deregulation” becomes
politically divisive,
unproductive blame game,
with very little useful getting done*

8



Default supply portfolio planning - process

- July 2002 - PSC initiates broad, transparent roundtable process to develop guidelines for default supply resource planning and procurement and portfolio management
- Final rules adopted March 2003, <http://psc.state.mt.us/pdf/38-2-170adparm.pdf>

9



Planning and procurement rules – goals

- Adequate, reliable electricity service
- Stable, reasonable prices
- Lowest long-term total cost
- Financially healthy default supplier
- Manage and mitigate risks
- Balanced portfolio with diverse resources, demand response, and efficiency

10



PSC default supply procurement rules - process

- Clearly articulate regulatory expectations.
- Analyze and consider alternative methods of providing default service, including a comprehensive DSM assessment and review of rate design options.
- Use transparent and competitive procurement processes.
- Completely document and justify management decisions.
- Advisory committee of technical and public policy experts.
- Guidelines *are* IRP for default provider

11



Planning and procurement rules - elements

- Goals and objectives
- Default service responsibilities
- Resource needs assessment
- Cost allocation and rate design
- Resource acquisition
- Modeling and analysis
- Demand-side resources

12



Planning and procurement rules - elements

- Risk management and mitigation
- Transparency and documentation
- Affiliate transactions
- Stakeholder input/advisory committee
 - Rejuvenated LCPAC – role strongly emphasized by Commission
- Filings – action plans
- Rewards for superior performance

13



HB 509

- Response to voters' repeal of HB 474 (November '02), which reinstated original '97 restructuring law . . . (*probably an unintended consequence*)
- PSC convened open collaborative to draft principled consensus legislation. *As introduced*, bill supported by:
 - Consumer groups, environmental groups, large customers, competitive suppliers, utility.
- Utility is default supplier
- Changes to customer choice options
 - Max 10 MW small customer choice per year
 - Max 20 MW med customer choice per year
 - One time, permanent choices by large customers
 - Requirements for public agency customers
 - PSC to adopt rules, rates and fees that protect small customers against rate impacts from choice
 - PSC to monitor competitiveness of retail market after 2007

14



HB 509

- Transition period runs through 2027
- PSC to adopt rules governing resource planning and procurement
- PSC to adopt mechanism to ensure full recovery of prudently incurred costs
- PSC may require default supply to offer multiple service options
- Default supplier must offer separate product composed of environmentally preferred resources

15



SB 247 “pre-approval” of supply contracts

- As introduced, cumbersome process, shifting (still more) risk to customers. PSC, consumer groups, some environmental groups opposed (*some kinda liked it*, but behaved themselves).
- PSC convened . . . another roundtable, reached consensus on much improved bill consistent with Commission’s default guidelines and HB 507.
- Default suppliers may apply for “*advanced approval*” of power purchase agreements
- PSC must develop minimum filing requirements for applications
- PSC must issue order within 180 days of receipt of adequate application
 - Advanced approval in public interest?
 - PPA complies with procurement rules?
 - Price, quantity and term are reasonable?

16



Collaboration and its discontents

- Cumbersome
- Costly
- Slow
- Not assured of success
- Not binding

17



Benefits of collaboration

- Broader participation
- Reduces expenses compared to multiple contested cases
- More efficient and timely outcomes
- Better outcomes
- Greater acceptance by participants
 - Lower litigation risk
 - Better basis for ongoing working relationship


18



Prerequisites for successful collaboration

- Roughly equal bargaining power or incentive.
 - The 2x4 prerequisite
- Transparency to participants, decision-makers, and informed citizens
- Efficient communications
- Ability of stakeholders to participate effectively
- Outcomes bounded by a relatively known range of possibilities (e.g. past or ongoing guidance from decision-makers)
- Good results provide decision-makers (e.g. PUC) greater not narrower range of tools and options

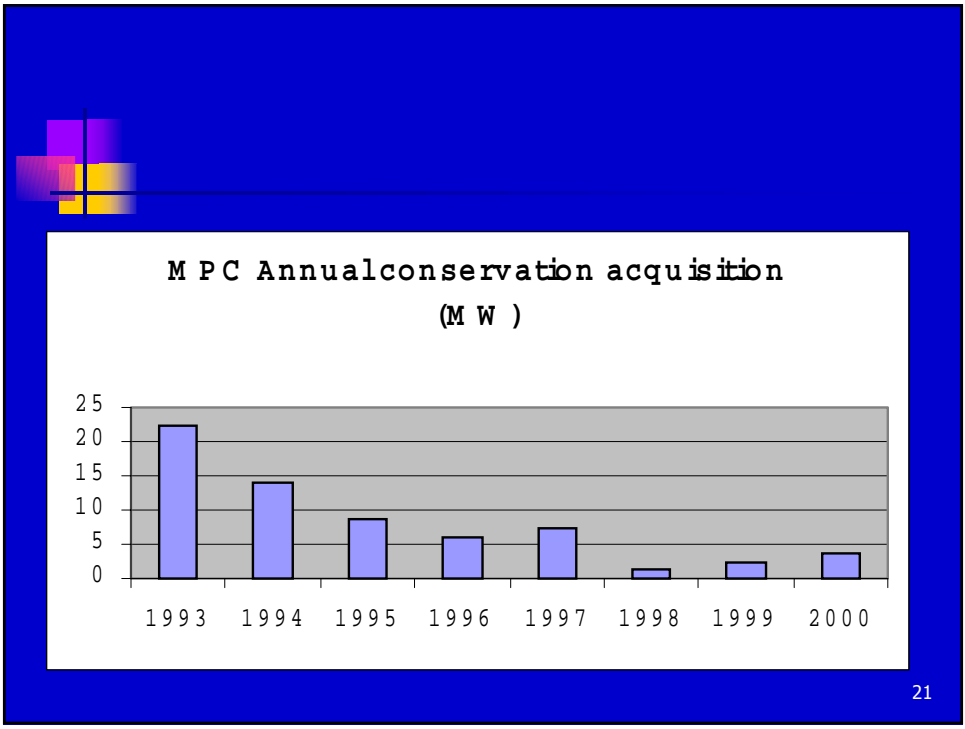
19



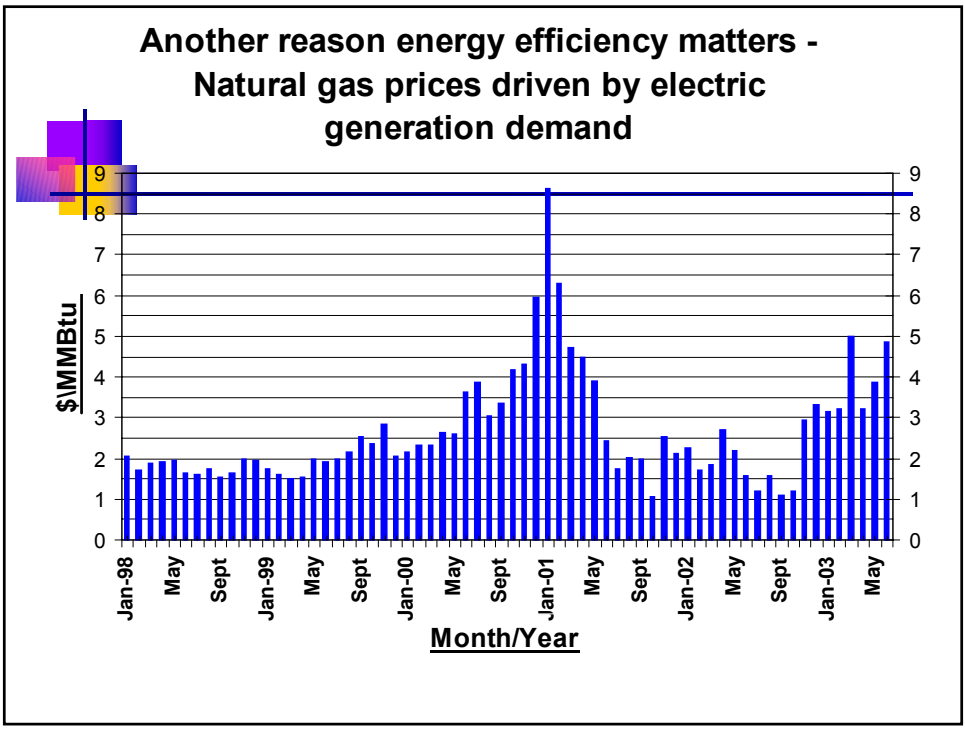
*"This is no time for phony rhetoric,
This is no time for political speech,
This is a time for action,
because the future's within reach,
This is the time."*

*Lou Reed
... Consumer Advocate?*

20



21



“I got my mind right boss”

- Cool Hand Luke (1967), just before Luke drove off in dump truck on his third escape attempt.



23

Bonus - Implementation

- **Default supply-related work items and time lines**
- Goals:
 - Establish substantial certainty and stability in default supply portfolio.
 - Resolve current resource acquisition issues
 - Implement robust long-term planning process
 - Develop near term action plan
 - Coordinate near term actions and long term strategy, especially with respect to rate design, demand-side management, and supply-side portfolio development.

24



Implementation

- Before July 1, 2003
- Default supply cost tracking adjustment filing
 - Unbilled revenue issue
 - Monthly tracking
 - Replacement for expiring Duke Energy contract – 111 MW
- CTC-QF true-up and adjustment filing pursuant to D97.7.90 Settlement
- Termination of T&D sale credit
- BPA residential exchange credit adjustment filing
- Update customer choice tariff schedule to make consistent with HB 509

25



Implementation

- Before December 31, 2003
- PSC rulemaking to implement SB 247 and HB 509
 - Minimum filing requirements for advanced approval
 - Timing of future long-term default supply resource plan filings
 - Revisit default supply procurement rules, ensure consistency with HB 509 and SB 247
 - Adopt rules, rates and fees that ensure customers exercising choice (leaving or returning) do not impact default supply rates.
- Review preliminary default supply resource plan and new default supply portfolio resources
- Review and comment on final default supply resource plan

26



Implementation

- Other issues without firm timelines
- Default supply cost of service/rate design
- Resource adequacy and demand response
- Role, structure and performance of NWE advisory committee
- Separate, environmentally preferred service option
- Pilot programs
- Small customer aggregation programs
- Customer choice rules
- Generation source and emissions disclosure and labeling
- Metering issues
- Billing issues

27