From IRP to Portfolio Procurement

Default supply in a mixed retail market

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

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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
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 duel 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)

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- Law of unintended consequences *not* repealed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)

"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
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

“Now what we have here is a failure to communicate,”

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

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
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

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
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

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
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

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?
Collaboration and its discontents

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

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
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

"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?
Another reason energy efficiency matters -
Natural gas prices driven by electric
generation demand
“I got my mind right boss”


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**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.
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

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
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