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## **MEDA Approach to Revising Missouri's IRP Rules**

### **Purpose**

The purpose of this document is to summarize MEDA's approach to drafting a revision to Missouri's Chapter 22 Integrated Resource Planning (IRP) rules and describe the rationale for the changes represented in its draft proposed revision to the rules.

### **Background**

MEDA and its member utilities have participated in a number of informal workshops initiated by the Missouri Public Service Commission (PSC) Staff for the review and revision of Missouri's Chapter 22 rules governing IRP. In these workshops MEDA has advocated an approach which would identify and make use of the following steps to improve the current rules:

- Develop a consensus view on the overall objectives of IRP
- Establish guiding principles that should be followed in reviewing and revising the rules
- Review features of IRP in other states that might be worth considering

MEDA has also advocated a transition toward greater flexibility and transparency in the IRP process to address the ever-changing landscape of the energy industry and markets and the increasingly complex range of considerations involved in resource planning. Greater flexibility would be in the form of both reduced prescriptiveness in the rules, primarily in terms of the analysis methods to be used, and a change in the focus of the IRP development and review from strictly a process-oriented focus to more of a plan-oriented focus. Greater transparency could be achieved by taking advantage of any number of ideas put forth by the utilities and other parties, including the following:

- Advance communication of the utility's planned approach for its IRP filing (e.g. "the plan for the plan" as proposed by NRDC)
- Staged filing in which portions of the utility's IRP could be reviewed prior to proceeding with further analysis as proposed by KCP&L
- Periodic (e.g. annual) updates to the PSC and stakeholders as proposed by Staff and included in the current draft rules
- Provision to require additional analysis and re-filing by the utilities to address major issues identified through the Commission's review

Where there appears to be conflict between the need for flexibility and transparency, MEDA advocates the use of general language within the rules to ensure transparency rather than enumerated listings of data, assumptions and decision methods that must be provided.

In the end, MEDA believes that taking the approach outlined above will result in more efficient and effective planning and yield both a process and results that are meaningful to the parties involved.

### **Objectives of the IRP Process**

While the primary objective of IRP should be to provide safe, reliable and efficient service at just and reasonable rates, which requires balancing customer and shareholder interests, the way IRP accomplishes this is by ensuring the utility plans for the acquisition of adequate resources to meet customer demand while also taking into account the desire to minimize the long-run cost to customers to the extent consistent with the primary objective. This in turn is ensured by thorough planning on the part of the utility, in compliance with the rules established by the PSC for such planning.

MEDA believes that the overall objective of these rules should be to ensure a reasonable plan that satisfies the primary objective, and any other important objectives, based on the conditions at the time of its development. This objective appears to align with the positions articulated by DNR and other parties involved in the informal rulemaking workshops and associated proceedings, which advocate “acknowledgement” of the utility’s plan in the Commission’s orders. MEDA is not implying that the process itself is unimportant, but rather that the process should not be the sole focus of IRP. By focusing on a good result, it should necessarily follow that the process used was reasonably sound. Said another way, it is not possible to get to a truly good result unless the process used was sound or unless any perceived shortcomings in the process were not important to the result.

To the extent the PSC and other parties desire a process by which large investments can be pre-approved as proposed by KCP&L (i.e. decisional prudence), MEDA advocates that such a process be at the option of the given utility. To the extent the PSC and other parties desire a process which specifies requirements for competitive bidding as proposed by Dogwood Energy, MEDA advocates that such a process be handled through new rules adopted by the Commission and based on the appropriate statutory authority, rather than be included in the Chapter 22 rules on IRP.

To summarize MEDA’s view on the objectives of the Missouri IRP process, they are:

- Focus on the utility’s plan and how it satisfies the primary objectives
- Allow for options to gain pre-approval of large investment decisions
- Exclude requirements for, and related to, competitive bidding in favor of handling such requirements through separate rules (if necessary)

## **Guiding Principles for Revision of the IRP Rules**

Based on the positions articulated in the foregoing discussion, MEDA proposes the following Guiding Principles for the revision of Missouri's Chapter 22 rules:

- The end result of the process must be a “good” plan, which satisfies the primary objective and other important objectives identified
- The process must be transparent and leverage input from a variety of interested parties both before and after the filing
- Compliance with other resource-related statutes and policies (e.g. RPS, GHG, etc...) must be handled in rules developed pursuant to those statutes and provided for in IRP through a general requirement for compliance with such statutes and policies
- References to the developing technologies of the day must be avoided in favor of general provisions requiring their consideration
- Considerations that relate primarily to grid reliability and security must be handled separately from IRP
- The selection of analysis methods must be left to the utility in consultation with stakeholders
- Requirements for data sharing must be stated generally
- Requirements for analysis rigor must be stated generally and include requirements for thorough explanation of the utility's methods
- The utility's filing must thoroughly explain its decision process in arriving at the selection of its resource plan and any other key conclusions

MEDA believes that by following these principles in reviewing and revising the Chapter 22 rules, it will ensure an efficient, effective and meaningful process for all involved, but more importantly it will ensure good plans that serve as the first step toward meeting the future electric energy needs of Missouri.

Using the aforementioned approach to revising the Chapter 22 rules, MEDA has drafted a proposed revision to those rules, taking into consideration both the views of MEDA's members and those put forward by other parties involved in the rulemaking process. What follows is a summary of the changes represented in MEDA's proposal relative to the most recent draft revision distributed by Staff.

## **MEDA's Proposed Draft Rules for IRP**

MEDA's proposed revision to the Chapter 22 IRP Rules reflects the following key changes relative to the PSC Staff's draft released in July, 2009:

- **Reporting requirements are woven into the rules rather than called out in a detailed list**
  - Rationale: The requirements are stated once in the context of the analysis requirements to show a direct tie between the analysis and reporting and to avoid repetition and improve readability.
- **Rules requiring a specific analytical approach have largely been removed**
  - Rationale: This provides the utility flexibility in how it will approach the analysis along with an obligation to explain its approach. It also avoids specification of methods that may become outdated.
- **Eliminated all references to "Smart Grid" and RES**
  - Rationale: Omitting specific technologies from the language limits the potential that the rules would become outdated. Similarly, avoiding references to other laws ensures that changes outside of IRP will not require a change to the rules. Other laws and statutes can be addressed with the general provision to ensure compliance with such laws and statutes. Specifically regarding Proposition C, the rules for planning to meet those standards should be addressed in the rules developed for Proposition C.
- **Demand Side Analysis Rule Rewritten**
  - Rationale: The existing rules on Demand Side Analysis are strongly tied to a specific analytical approach. By changing the rules we are able to include more flexibility on methods and provide for consideration of other options. Following are a few of the improvement areas:
    - More focus on cost effectiveness testing
    - Included distributed generation evaluation
    - Statewide marketing evaluation
- **Load Analysis and Forecasting**
  - **Eliminated end-use forecasting requirements**
    - Rationale: This allows the utility discretion for forecasting methods and acknowledges differences between companies.
  - **Eliminated "extreme weather" concept**
    - Rationale: Weather effects are appropriately handled in the determination of the reliability criteria (e.g. Planning Reserve Margin, or "PRM"). The rules also provide separately for analysis of high and low demand cases.

- **Eliminated various intermediate analysis steps, summarizing them into general requirements**
  - Rationale: This streamlines the language for reading ease and understanding.
- **Supply Side Analysis**
  - **Eliminate redundancy, specifically the elimination of separate sections to address the inclusion of resource options already listed in 4 CSR 240-22.040(1)**
    - Rationale: Elaboration on the nature of each resource listed is not needed.
  - **Included transmission cost as additional generic cost information**
    - Rationale: Includes the specific consideration of transmission interconnect requirements with the supply side resource characterization rather than elsewhere in the rules.
- **Transmission and Distribution rule eliminated**
  - Rationale 1: Transmission and distribution considerations relevant to IRP are better handled as part of the Supply Side or Demand Side analyses, depending on the specific consideration. Following are the T&D considerations relevant to IRP and the sections of the rules that cover each:
    - T&D efficiency (including loss reduction) – generally in 4 CSR 240-22.040(1) and specifically in 4 CSR 240-22.040(7)
    - T&D upgrades as sources of supply – 4 CSR 240-22.040(1)
    - Transmission interconnection costs for supply side resources, including any investment required for integration of intermittent resources – 4 CSR 240-22.040(1)(M); it is also expected that intermittency would be a key consideration in the Risk Analysis
    - Assessment of T&D facility age, condition and efficiency – 4 CSR 240-22.040(7)
    - Impact of RTO rules on demand side programs – 4 CSR 240-22.050(2)(G)
    - Costs of enabling technologies (e.g. “Smart Grid” technologies) required for implementation of demand side programs, including distributed generation – 4 CSR 240-22.050(2)(E) (as part of annualized cost)
    - Interconnection risk – 4 CSR 240-22.070(2)(E,F)
  - Rationale 2: Consideration of compliance with the Smart Grid provisions of EISA 2007 should be handled separately as those provisions go beyond considerations relevant to IRP. Specifically, Smart Grid includes reliability and security aspects that go beyond what can or should be handled in the context of IRP.

- Rationale 3: Transmission planning provisions are redundant to established and well-defined processes in which the utilities already participate through their respective RTO's and reliability organizations:
  - NERC standards compliance
  - Local planning criteria
  - Transmission service analysis
  - Generation interconnection and deliverability
- Rationale 4: In addition to the redundancy, the proposed rule mischaracterizes the nature of transmission planning and the relationship between the transmission owners and the RTO. The planning process is from the bottom-up. The transmission owners perform the bulk of the planning effort while the RTO provides an independent review and regional coordination of plans.
- Rationale 5: Any considerations of RTO cost allocation are best left to separate considerations of utility RTO participation and should not be addressed within IRP.
- Note: The foregoing rationale cites provisions of the current Chapter 22 rules rather than the proposed draft to account for ongoing revision to the draft. It is expected that the provisions cited are still covered by the proposed draft.
- **Integration Analysis**
  - **Eliminated prescribed plans**
    - Rationale: Eliminates plans specifically required for analysis of compliance with Proposition C, which should instead be included as necessary in the rules being developed to implement the requirements of Proposition C.
  - **Generalized the process**
    - Rationale: Describes a more general approach to integration to allow flexibility on the part of utilities in conducting the integration analysis. The utility would be expected to fully explain the approach it chooses to take.
- **Risk Analysis and Strategy Selection**
  - **Generalized several subsections into a single section describing an overall objective for risk analysis**
    - Rationale: Provides for flexibility in the methods used to conduct the risk analysis without diminishing the considerations that the utility must make in its analysis (e.g. rather than specifically citing "EVBI", the proposed draft refers to a need to evaluate how changes in circumstances might cause the utility to select a plan other than its preferred plan).

- **Eliminated emergency imports analysis**
  - Rationale: Emergence of transparent power markets eliminates the need for such analysis.
- **Filing Requirements and Schedule**
  - **Added specifics on stakeholder process**
    - Rationale: Explicitly sets out the framework for significant stakeholder participation.
  - **Replaced annual update filing with annual workshop**
    - Rationale: Limits the scope to ensure the annual update is not overly burdensome and costly. To the extent significant changes have occurred, this is covered by a separate notification requirement.
  - **Added the requirement for parties to distinguish between deficiencies and concerns**
    - Rationale: This delineation helps to separate issues that may have a significant impact on plan selection from those that have little or no impact. This is tied to the definition of deficiency, which itself means that any noncompliance is substantial enough that compliance would have caused selection of an alternative resource plan.
  - **Added more focus on implementation plan**
    - Rationale: With full filings required every three years, this focuses attention on decisions and actions the utility will take before its next full filing is completed and reviewed. Decisions and actions beyond this timeframe will be revisited in a subsequent IRP (or IRP's) before such decisions are made and actions taken.
  - **Added provision for a Commission order acknowledging a utility's IRP**
    - Rationale: Places the focus of the IRP development and review on the resultant plan rather than solely on the process used.
  - **Added the option for utilities to seek pre-approval**
    - Rationale: A utility may desire greater certainty with respect to decisional prudence prior to implementing a significant resource investment. This provision provides the utility the option to request a separate docket to seek pre-approval of that investment decision.