

**Department of Natural Resources Remarks
by Brenda Wilbers
Public Service Commission
Public meeting on Chapter 22 rule, January 25, 2010**

- I appreciate the opportunity to comment on key points the Department believes the Commission should consider in its revision of the Chapter 22 rules guiding long-range electric utility planning.
- My remarks today will highlight the major proposed rule revisions in general terms. The Department provided detailed proposals for these revisions in comments submitted to Staff on December 29, 2009.

I'll cover four major areas:

- The fundamental objective of planning
- DSM as a priority resource
- Supply side resources; and
- Commission authority

Fundamental Objective of Long-Range Planning

I want to begin by focusing on the first rule (010), setting out policy objectives.

- As an intervenor in utility resource plan filings, it is the Department's responsibility to assess not only whether the utility has complied with the explicit requirements of Chapter 22 but also whether the utility's planning meets the fundamental objectives of the planning processes. In the words of the current rule, we are to identify any deficiencies that would cause the utility's resource acquisition strategy to fail to meet the requirements set out in Rule 010. So from our point of view, the provisions of Rule 010 are absolutely critical and it is essential to get them right.
- As formulated in 1993, Rule 010 sets out the "fundamental objective" of resource planning as follows:
 - "The fundamental objective of the resource planning process at electric utilities shall be to provide the public with energy services that are safe, reliable and efficient, at just and reasonable rates, in a manner that serves the public interest."

We propose two revisions to this fundamental objective.

1. First, we propose that rather than "just and reasonable **rates**," the statement should refer to "just and reasonable **costs**." Customers' interest and welfare is directly and fundamentally related to the **costs** they incur in order to meet their energy needs. Rates are one factor but not the only factor affecting costs. Focusing on short-term rates instead of trying to reduce costs to customers over

the long-term may result in planning and decisions that are short-sighted and that may not be in the best long-term interest of the public. Missouri's energy policy should support reasonably priced electricity that is understood to be the lowest long-term cost, where cost is the product of the average rate multiplied by the amount used.

2. Second, the rule should require that utility planning is consistent with applicable state energy and environmental policies.¹

The Department's view is that state energy policies should align utility choices in the long-term best interest of consumers, utilities, the environment and economy. We believe Missouri is at a crossroads. Our current heavy dependence on coal to generate electricity is not sustainable with the prospect of carbon regulation. The state faces significant challenges and opportunities for developing resources to meet energy needs at the lowest long-term cost and sustain a healthful environment. The resource planning process should be consistent with state energy and environmental policies developed to meet these needs.

The current rule draft refers to "legal mandates" rather than policies. We certainly agree that utility planning should comply with legal mandates. But because some state energy and environmental policies may be stated as goals rather than mandates, we believe the statement in the rule should refer explicitly to policies as well as mandates to avoid confusion later.

Priority Consideration and Analysis of Demand-Side Resources

- One of the key requirements of the 1993 rule is that demand-side and supply-side resources be considered and analyzed "on an equivalent basis." In Director Templeton's August 24 presentation, he presented data illustrating that Missouri has underperformed relative to its energy efficiency potential compared to other states with comparably low electricity prices.
- Obviously energy efficiency has taken a back-seat to traditional new generation even though analysis, if done on an equivalent basis, should have resulted in more demand-side programs. We believe that Rule 010 should be changed to reflect priority for demand-side resources that result in cost-effective demand-side savings. This change would clearly incorporate the PURPA Section 111(d)(16) and EISA Section 532(a)(16) that states consider adopting "policies establishing cost-effective energy efficiency as a priority resource." We do not believe the current Staff draft rule meets this PURPA standard or includes energy efficiency or DSM as a priority resource.
- We believe this policy change is also consistent with the goal in SB 376, for utilities to achieve "all cost-effective demand-side savings." It is the Department's position that this policy action by the legislature establishes demand-side resources as priority resources and that the rule should be changed to explicitly reflect this priority.

¹ Our concern is with policy goals established by statute that are not legal mandates (all cost-effective demand side savings is a goal established by SB 376).

- The resource planning rule (060), which sets out requirements for developing alternative resource plans and submitting them to integrated analysis, should explicitly require utilities to identify and analyze "aggressive" demand-side cases based on state energy policy established by SB 376. The Department proposes that these should include, at minimum, cases that utilize sufficient demand-side resources to achieve or surpass a one percent and a two percent incremental reduction in energy usage and demand, and maintain these levels of reduction each year in the remaining 20-year planning horizon. "All cost-effective" demand side savings is very likely greater than these levels.
- One factor that utility decision-makers should weight heavily when selecting a preferred resource plan is whether the plan is consistent with the SB 376 goal of "achieving all cost-effective demand-side savings."
- We urge the Commission to adopt these standards of demand side impact as a tangible yardstick to measure utility diligence and progress toward the state policy goal stated in SB 376.
- To support this effort, Missouri should develop cost recovery and incentive policies such that utilities are encouraged and rewarded rather than penalized for pursuing that level of demand-side savings. SB 376 provides for cost recovery and for the alignment of utility incentives with achieving the potential for demand-side savings. Interpretation of these provisions consistent with the intent of the law is critical. I understand a discussion of these issues will occur in a separate docket established by the Commission (EW-2010-0187). My department looks forward to working with the Commission to move Missouri forward in the area of energy efficiency.

Supply-Side Resources

- Missouri has established a legal mandate requiring that utilities provide at least a certain percentage of energy from renewable sources. We would hope that this would be a minimum and not viewed as a cap. We believe state energy policy should emphasize low-carbon technologies, with the goal of positioning Missouri well in a low-carbon environment and that analysis and consideration of risks associated with carbon regulation is likely to lead to resource acquisition strategies that include more renewables than the minimum required by Missouri's renewable energy standard.
- Technology advances and federal policy developments have created new opportunities for various forms of distributed supply side resources including combined heat and power (CHP) and clean customer-based renewable distributed generation (DG). Customer based DG is an important element of customer choice, power system resilience, portfolio diversity, and greater use of indigenous sources of energy. We encourage the Commission to include revisions to the 1993 rules that assure that customer-based DG as well as utility-scale DG will not slip through the cracks in the planning process.

- In addition, the revised rule should support and facilitate a thorough consideration of resource retirements. A combination of factors - the aging of existing power plants, the impact on load of pursuing all cost-effective demand side savings and the prospect of more stringent federal energy and environmental policies - make it necessary to systematically weigh costs and benefits of replacing older fossil-fired facilities versus committing new resources to keep them on line.
- The Department's written comments identify a number of instances in which the 1993 rule refers to resource additions but makes no reference to resource retirements. Our written comments propose changes that will assure that resource additions and retirements are considered and analyzed on an equivalent basis.
- NRDC, in written comments submitted on October 29, remarked that the combined effect of many factors "may mean that the future for electric utilities is not of load growth, but of load decrease." We generally concur with NRDC on this point and urge the Commission to craft a rule that is sufficiently flexible to support optimal planning whether the utility's load is growing or declining.

Acknowledgment

- In an effort to make resource planning a more meaningful process, the Department supported Staff's proposal for annual IRP updates and also proposed that the Commission should have additional authority - beyond determining compliance with the rule. We proposed that the Commission have the authority to "acknowledge" that a utility's long-term resource plan is reasonable at the time of the filing. I am pleased to see the annual IRP updates in the current rule draft and that some additional authority is proposed for the Commission in the area of approving or disapproving the joint filing on the remedies to the plan deficiencies or concerns.
- If the Commission has reviewed and determined that it does not want the additional authority provided by "acknowledgement" in the resource planning process, that's fine. If the Commission has not yet finalized its decision, I will present the key components of this concept as we presented in the working group.
- As conceived here, acknowledgement is not a finding of prudence. Prudence findings are limited to rate cases. However, in proceedings in which the reasonableness of resource acquisitions is considered, such as rate cases, consistency with an acknowledged resource plan or acquisition strategy may be used as supporting evidence.
- The Department's written comments propose a definition that together with new rule provisions could serve as the basis for establishing that authority. I ask the Commission to review these proposals keeping in mind the following points:

- The proposals provide an avenue for Commission and intervenors to review the substance of the utility's IRP filing and add weight and consequence to their findings.
- The Department's proposal affords the Commission great flexibility. The authority to acknowledge is, importantly, the authority not to acknowledge. The Commission may acknowledge as reasonable the entire resource acquisition strategy or specific portions; may find that the entire resource acquisition strategy or specific portions are not reasonable and return them with comments; or may choose to take no action with respect to acknowledgment.
- One result of the new authority would be to encourage utilities to align their business planning with long-term resource planning. In cases such as rate cases for which long-term resource planning is relevant, the utility should be able to benefit from consistency of its actions with an "acknowledged" plan or resource acquisition strategy. On the other hand, the utility will need to explain any inconsistencies between its actions and the acknowledged plan or strategy.
- Staff and intervenors would be able to comment on reasonableness of utility plans in reports to the Commission.