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NATURAL RESOURCES DEFENSE COUNCIL

August 17, 2009

RE: File No. EW-2009-0412, IRP Rulemaking Workshops

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Missouri Public Service Commission
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Dear Lena Mantle,

NRDC appreciates the informal, workshop process that stakeholders are pursuing as Missouri embarks on revising resource planning rules that are close to 20 years old. This is a good time to engage in such an effort, as much has and likely will change over the next couple of decades.

Other participants in this process have been generous with sharing their thoughts both orally and in writing. We put the following together in this spirit, to help others understand our orientation to resource planning and our ideas for fundamental objectives and process. Just as it appears the other participants in this workshop understand, NRDC believes it is wise to start with objectives and process. We also believe that, because the objectives for resource planning should frame the process, product and ultimate outcomes of the effort, it is particularly important that they are clear and oriented to the future conditions into which utilities are planning. To that end, NRDC offers the following with regard to planning objectives and process, to further the "conversation" emerging from the in-person workshops and various written ideas other participants have offered.

Our comments arise from the following foundational beliefs. First, a meaningful planning process:

- Makes clear the decision maker's thinking process and assumptions; and

- Provides interested parties an opportunity to influence both.

It is far less a matter of quantity and quantification than of quality. In fact, with too many numbers, model runs and scenarios, it can be easy to lose sight of matters that are particularly important for the years the utility is planning into.

Second, a meaningful planning process:

- Expresses where "we" are now, from all important perspectives. These include, at a minimum:

    - Customers of the utility; however, this cannot be solely a perspective of someone paying a bill for electricity. A customer is a person, or an organization of persons, and all of us have multiple roles as residents of a community, stakeholders in various interest groups based on our beliefs, investors in businesses near and far, and employees of for-profit or not-for-profit organizations. Costs we fail to recognize or recognize but ignore with respect to electricity service can easily be costs that nonetheless affect "customers" in other aspects of their lives and work. Nor is shifting the costs to more distant people or "customers" comforting because, if utilities serving those customers make the same choices, the unrecognized or ignored costs can easily fall on the customers relevant to the planning process at hand.

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- The utility; including its equity and debt investors and employees.
- The policy and strategic choices of the communities the utility serves, of the state(s) in which those communities exist, and of the US.

- Expresses where "we" are trying to go, in light of known challenges and opportunities and any fundamental constraints or desirable outcomes. This envisioned state should transcend current ideas of what is "economic" and what is technologically feasible. Both will surely change over time and the pace by which the utility moves toward the envisioned state can vary depending on the current state of both. If we make long-term energy decisions without an envisioned state in mind that is consistent with a very long-term future, arriving in that future with the means of meeting our energy needs suitable for those times and with minimum disruption along the way becomes no more than a remote accidental chance. In addition, the envisioned state should transcend the win-lose "balance" assumed to exist between utility investors and utility customers. This paradigm requires a static situation in which investor return derives only from cost to customers, and the value of energy services to customers equals or does not exceed the cost of those services to customers. Beyond this static situation is an indefinite period in which investor supported acquisition and management of tangible and intangible resources supports energy services of value to customers in excess of the costs of those services. If we are envisioning a future state, it is certainly desirable that it be a state in which a win-win is possible.

- Examines various options for making progress toward the goal(s) and timing by which the stakeholders responsible for such actions could discharge that responsibility, recommends a set, and describes how all involved will know whether implementation of these actions moved "us" from the current state toward the goal(s) and envisioned state.

With this framing, we offer the following with respect to objectives.

Fundamental Objective
A draft circulated last month rephrased the fundamental objective for 4 CSR 240-22.010 as:
"Electric utilities provide the public with energy services that are safe, reliable, and efficient, at just and reasonable rates, in compliance with all relevant federal, state and local energy and environmental policies, and in a manner that serves the public interest."

NRDC suggests that a clearer statement of this over-arching objective would be as follows:
Electric utilities provide energy services designed to enable the public to safely and efficiently obtain and apply energy in their homes and businesses at a total cost to themselves and the public that is reasonable [alternate: the lowest possible] over the long term. Such services shall achieve and further federal and state energy and environmental requirements, objectives and policies, as those are adopted from time to time.

Our reasons for suggesting this wording are as follows.

1. This phrases the energy services in terms of the characteristics of service that customers receive, rather than what the utility offers. It makes relevant to the planning process costs that customers incur to achieve space conditioning, lighting, motive power, and other outcomes of applying energy, not just the utility's costs or the rates that result from those costs. This shift in focus makes the inclusion of energy efficiency in planning much easier and more logical, and is consistent with the term "energy services."

2. The phrase "at a total cost to themselves and the public that is reasonable" accomplishes two purposes. First, it again puts customer results at the center of the planning, just as the change discussed above. Energy services that reduce this total cost are desirable. Second, by including the

public in the goal of reasonable costs, the objective makes clear that it is not acceptable to lower costs to customers simply by shifting them to the public at large. The cost to both must be reasonable. This is only sensible because utility customers are also, of course, members of the public. Declining to recognize costs associated with energy services does no one a favor.

3. Including the words "over the long term" makes clear that the goal is not achieving a low cost today by shifting costs into the future. The planning process should focus on minimizing life cycle costs, not today's rates.

4. The suggested change for government policy separates this important component into its own sentence and expresses the objective more explicitly in terms of achieving requirements and furthering policies.

Objective Subparts

Considering the subparts A-C of the existing rule and the draft objectives of last month's meeting, NRDC suggests the following subparts for the 4 CSR 240-22.010 objective stated above.

<u>These objectives require that the utility –</u>

(A) <u>Plan energy services that systematically increase the efficiency with which its customers use electricity, acquiring as energy savings those reductions in use that are cost-effective and offering as services increases in energy efficiency found to be technically effective but not necessarily cost effective under current calculations ;</u>

(B) <u>Consider energy efficiency as the preferred means of both meeting future electricity demands and supporting re-alignment of the existing resource portfolio to reduce its carbon emissions and meet other environmental targets;</u>

(C) <u>Assess the consistency of its entire, current and future, generating resource portfolio and delivery (transmission and distribution) system, with federal and state energy and environmental requirements, objectives and policies.</u>

NRDC's reasons for suggesting this wording are as follows:

1. Over the long term, accomplishing the work we need in our lives and businesses with less application of energy, particularly energy that we must convert from a primary source to electricity, is foundational to a stronger economy and more satisfied populace. It makes far more sense to design our structures, equipment and appliances to achieve what we need with less energy rather than more. This is, in essence, the true least cost. Subparts A and B both reflect this fundamental matter.

2. Subpart A makes clear that the ultimate goal, and what Missouri will measure to gauge success, is the efficiency of people's use of electricity and energy. While it may remain important to "measure" electricity and energy use that does <u>not</u> occur for programs that expend money to spur the adoption of more energy efficiency equipment and appliances and improvement or construction of better structures, the best indicator over time of energy efficiency will be what <u>does</u> happen, rather than what <u>does not</u> happen.

3. Subpart A also opens the way for utilities to begin considering energy services that are more than just kilowatt-hours. People (customers) differ both in how they value the cost and attributes of their energy services, but also in their interest in and value of the outcomes which those services support. Optional energy services could provide significant value and contribute to the overall objective for those people who value more highly than our current cost-effectiveness tests permit either the energy efficiency they would gain or other effects (such as comfort or overall process improvement) of changing structures or equipment/appliances.

4. Subparts B and C add emphasis to the implication in the overall objective that utility resource planning relates not just to meeting load growth but to the overall provision and management of energy resources in support of energy services to people (customers) over time. This is a particularly important change given the advent of carbon emission regulation, which will affect existing means of providing electricity to current load as well as new resources for load growth. The planning process ordered by 4 CSR 240-22 must go forward even if load is not growing to assess changes in both generation and delivery that current or future policy or fundamental opportunities and risks might require.

Process

The world is dynamic and, ideally, the planning process can reflect this. The preparation of every plan proceeds in its own particular set of relevant circumstances, with its own set of questions that are critical to answer. NRDC suggests basing that the process objectives and requirements of the rule on this reality, along with the fundamental planning objective. The process, thus, might flow something like this.

Stage One – Planning to Plan

In a collaborative, stakeholder process, the utility builds (or refreshes) its view of where "we" are now. This would include:

- Identifying federal and state energy and environmental requirements, objectives and policies, either enacted or likely in the near term;
- Detailing current loads, resources (generation and delivery), and costs;
- Determining the current state of energy efficiency in the service territory, using energy per outcome/output measures suitable for the range of personal and economic activities done there. This would likely take some time to develop but, once developed, would be much easier to maintain; and
- Preparing a high level "base case" picture of loads, resources and costs if all current trends simply extended 20 years into the future.

Using this and drawing on the diversity of the stakeholder group, the utility would then prepare a "plan for the plan;" in other words:

- What questions it needs to answer for the period during which it would implement the action plan that emerges from the planning process
- What tools it should use to answer those questions
- What information it needs to gather or create assumptions for to use the identified planning tools
- What perspectives it is critical to obtain and how to do that

At this point, the utility would file the "plan for the plan" with the Commission. The Commission might take a round of written comments, as well as hold a session for oral comments and for its own questions about the "plan for the plan." With any additions requested by the Commission, the utility would then finalize the "plan for the plan" and proceed.

In the near term, given Missouri's generating resource situation, resource plans might focus on energy efficiency and demand response, preserving and enhancing delivery system capabilities, and evolving the generating resource base to comply with the renewable energy standard and minimize carbon emissions over time. In later years, resource plans may need to include new generating resources or major life extension proposals. Whatever the circumstances, however, the Commission, the utility, and its stakeholders would tailor the planning process to be the most useful possible.

Stage Two - Planning
Planning proceeds according to the "plan for the plan." NRDC recommends that the Commission set the expectation that stakeholders participate fully in the planning process and not "save" substantive comments about either the adequacy of the planning process or suitability of the action plan to the objectives until the Commission review process or, of even less desirability, a rate proceeding including costs incurred in pursuing the action plan. A simple process might include workshops, utility preparation of a draft plan, comments by stakeholders on the draft plan, utility response to those comments and further meetings if necessary, and then utility preparation of a final plan.

Stage Three - Closure
NRDC recommends that Commission process follow the completion of the plan, at which time the Commission would review, with stakeholder input either written and/or oral:

- Whether the utility and stakeholders followed the "plan for the plan;" and
- Whether the proposed action plan will further the overarching objective of planning, including subparts of that objectives.

The review should have a written end product, with findings regarding the two components above and, if the Commission believes that the plan fails either, direction to the utility and stakeholders how to remedy the deficiency so that, once corrected, the plan is a good expression of what the utility and stakeholders believed was known or knowable at the time of deciding to proceed with the actions. Some Commissions (for example, Oregon) call this "acknowledgement," but the word is less important than the intent and the Commission's expectations of the planning participants.

Conclusion
NRDC looks forward to further interaction with the other participants in this process.

Sincerely,

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