Regulatory Assistance Project Electric Resource Long-range Planning Survey[1]
Compiled by CM ☐ LB☒

State: MT Date: 9/29/05

Name of Agency: Montana Public Service Commission (PSC)

Contact Person, title: Will Rosquist, Rate Analyst

Phone/email: (406) 444-6199 ext 6359; wrosquist@mt.gov

Website: www.psc.state.mt.us

Policies

1. *Is any form of long-range electrical resource and/or investment planning required?*
☒Yes ☐No

2. *If yes, what planning processes are going on?*

Currently, there are two separate processes: traditional and restructured.
Traditional: The state's one vertically integrated utility (MDU) practices Integrated Resource Planning.
Restructured: The state's one restructured utility (Northwestern Energy) practices Portfolio Planning, Management, and Resource Procurement for procurement of supply for default customers.

In Northwestern Energy's territory, there is currently no competitive supply available for residential and small business customers. However, there was a statutory change in 2005 that will allow entities to aggregate residential and small business customers, subject to regulatory approval. These entities will be required to supply service that is consistent with the default supply, but it is unclear if the same planning objectives have to be embodied in a supply plan submitted by the aggregators. The Commission doesn't have the authority to adopt portfolio rules for aggregators, but it will be approving some sort of plan.

3. *Please describe (the process). (Who files what, when, how often? Who analyzes filings? Formal docket? Who responds? Who are regular parties? How is it used?)*

Traditional: The utility files its IRP on a two year cycle in odd numbered years. The PSC could, but generally does not, hold a public hearing on the plan. Written comments are accepted. The Department of Environmental Quality is required by law

[1] All responses written from notes compiled and edited by Liz Baldwin, RAP researcher. Corrections to the draft document, suggested by the contact person(s), have been incorporated.

to comment on the plan. The PSC issues its response after reviewing the plan and all comments. How the utility responds to any concerns raised by the PSC may be an issue in subsequent rate proceedings. The utility does have an advisory committee participating in the planning process. PSC staff could, but do not participate on that committee.

The traditional IRP rules for vertically integrated utilities were adopted following a period of some large investments in new generation resources that ultimately the Commission chose to disallow from rate base, so the original intent of the IRP rules was to provide a process for the Commission and public involvement in the front end, in terms of the utility's plan for serving future load, in order to avoid the situation where the utility meets a load by building a plant and the regulators disallow costs.

Restructured: The default supply portfolio management rules have the same basic purpose as the IRP rules. They were enacted following restructuring, when it became clear that even with competition, the utility would still provide most customers with default service, and there needed to be a way to make sure that these customers were supplied with the best (least risk, lowest cost) portfolio mix.

The utility files its plan on a 2-year cycle in odd-numbered years. The Commission treats those filings similar to IRP filings. There is a public comment period, following which the Commission reviews and comments on the plan. One difference from the IRP process is that the Commission is required by law to respond to the utility's plan, and if the Commission has any concerns, these must be specified in writing, with instructions for the utility about how to remedy the problem. To date, one plan has been filed under these rules. In that instance, the Commission went beyond its legal obligations in allowing parties to participate in discovery and comment on the plan. The Commission hired a consultant to review and analyze the plan, and several public meetings were held. (This degree of public participation may not be routine in future filings.) The plans, the Commission's comments on the plans, and the utility's response are all folded into annual default supply cost recovery filings, where Commission makes a decision on the prudence of the utility's resource procurement practices. There is a presumption that if the utility is following its plan, the decisions will be deemed reasonable and prudent.

4. *Is it statewide or utility-specific planning? What types of entities are required to participate?*

   The process is utility-specific and applies only to the 2 utilities.

5. *Is there any relationship between this process and other decisions, e.g. construction permits, likelihood of inclusion or pre-approval of rate treatment for the anticipated resource investments?*

   The Commission is not involved in construction permitting and there is no relationship between those two processes.

MDU has not been through a rate proceeding since the Commission issued IRP rules, but in theory the Commission would consider, in the rate case, how the company's procurement actions have been consistent with the IRP and the Commission's comments on the IRP. MDU is multi-jurisdictional, and its corporate philosophy differs from the Commission's IRP philosophy. When rate treatment is sought for projects that are in conflict with the Comission's philosophy, it may not be granted.

There is a preapproval process for the restructured utility, and the default portfolio plan is integral to the preapproval process. Any company request for preapproval should include or incorporate by reference the most recent plan, as well as any updates or steps taken to address problems.

6. *This form of planning has been required since what date?*

   The IRP rules have been in place since 1991. Restructured planning was adopted in March 2003.

7. *How is this process enforced, if at all? If a utility does something inconsistent with the Plan, does it have to explain itself satisfactorily to avoid a charge of imprudence? Is it routine for utilities to diverge from a Plan with an explanation? Are there any consequences for non-compliance?*

   Enforcement generally would occur in the context of a rate proceeding in both instances. In the traditional process, MDU uses a "lowest average system rates" planning approach, which is what they use in their other jurisdictions and which affects the way they view demand side resources. The Commission has adopted a least total cost planning criteria, which differs from the approach used by MDU. In their IRP, they typcially have said that they are subject to multiple jurisdictions, and they outline the both approaches. The Commission then lets them know that they are subject to Montana's IRP rules. Enforcement comes in rate treatment, and if their actions were not consistent with Montana's planning criteria, a portion of their costs might be disallowed. (MDU files rate cases as it deems them necessary. The utility has not filed a rate case since the IRP rules were enacted.) There is no a separate enforcement process.
   Monitoring and enforcement for the restructured utility also occurs in rate proceedings, but there is more continuous monitoring because formal rate reviews occur on an annual basis.

8. *Is anything similar required for non-electric natural gas-related planning?*
   ☐ Yes ☐ No

   If yes, what is that process called?

Montana in the process of developing a similar portfolio management planning for NW Energy on the natural gas side. It isn't pursuant to any kind of statutory mandate, but is an expansion of what's being done on the electric side.

Required Elements

9. *Back to the electric resource process. Which of the following resources must be explicitly evaluated/included:*

Generation ☒
Transmission ☒
Distribution ☐
Energy efficiency ☒
Load Management ☒
Other demand side measures ☐
Specific generation (e.g. renewable, distributed) ☐
Others
Renewable energy and DG are typically included, but they are not explicitly identified either set of rules. Language in the IRP rules states that all options must be considered, but does not explicitly mention renewables or distributed generation. The default supply planning process uses similar language in capturing all options, but includes explicit mention of wind generation.

What tests must be included/utilized?

The IRP rules require the total societal cost test, the total resource cost test, and an explicit quantification of environmental externalities. The objective is to minimize long-term societal costs.

For default supply planning, there are no tests explicitly required. The objective of minimizing societal costs is the same, but the Commission also specifies other objectives in terms of minimizing the risk of price volatility and having an efficient portfolio (using DSM). Externalities are defined, but the Commission doesn't require that those costs be explicitly quantified, mainly so that the utility can compete with other suppliers.

10. *Describe the analysis required by the regulatory body (what is compared to what to make decisions? How are resources compared to each other? Cost with one set of resources vs another, economic, environmental?)*

There are some commonalities between the two processes. In both processes, the utilities start by assessing long term load requirements. (At this point, neither utility is required to use an end-use load forecasting process; they use regression analysis based on historic information and projections of economic trends.) A load forecast is developed for each customer class and then built to include the whole system. S separate forecast of capacity requirements is not required, although for the restructured utility has been asked to do a stand-alone peak forecast. Once demand

obligations have been defined, a range of options for meeting load growth is developed, including both supply and demand side resources. When considering resource alternatives, they have to be put in context of the existing mix of resources in the portfolio. Under the IRP rules, MDU is required to adjust the cost for each resource to reflect externalities (this isn't required for default supply planning). Then resource alternatives are combined in different portfolios and the present value of total portfolio costs is computed. There is also some analysis of the probability that those portfolio costs are accurate, and analysis of how those portfolio costs will be translated into rates for consumers (although the RIM test is not used to find best portfolio). Then the utility chooses the best plan and explains any subjective processes that went into their choice (e.g., risk assessment).

11. *Does the process investigate how the employment of one strategy vs. another may increase the consumers' exposure to risk (e.g. natural gas prices)? If so, how?*

    Yes. See above. Certain risks are identified that they need to analyze, including scenarios for high, medium and low market prices for electricity, gas prices, other fuel cost inputs, and differences from expected load growth (higher or lower, or loss of a large customer).

    Risk of future environmental regulation is considered explicitly in the traditional process, with the requirement to quantify externalities.

    For default supply planning, the impact of drought is explicitly looked at. Future environmental regulation has also come up with NW energy.

12. *Is a comparison of supply or T&D infrastructure and demand side options/resources required?* ☒Yes ☐No

    This is required for both processes.

13. *The plan's objectives, from the regulatory perspective:*

    Traditional: minimize long term societal cost; and promote reliability, rate stability, environmental responsibility and resource diversity.

    Restructured: same goals except minimizing costs without explicitly quantifying environmental externalities.

14. *The plan's objectives, from the utility perspective:*

    In both cases the utilities use the plans to promote their financial health, avoid disallowances and achieve regulatory predictability. They want to know upfront, to the extent possible, what is expected for future cost recovery.

15. *Are alternative scenarios analyzed as part of the plan?* ☒Yes ☐No

Yes -- see Question 10, above.

Are externalities considered? If so, which ones and how are they considered?

Traditional: Environmental externalities are quantified and incorporated through the use of adders. The adders are resource-specific, typically an adjustment factor that applies to each resource that is used to upwardly adjust the total life cycle cost of the resource. The adder is based on a variety of factors, including estimates of emissions.

Restructured: Externalities are not explicitly used in the analysis. Resource costs aren't specifically modified to reflect externalities. A qualitative approach is used, and aconsideration how the plan meets the Commission's goals.

16. *What is the planning horizon?*

20-25 years for the traditional process; 10-20 years for default planning (planning varies, but must be as long as the lifetime of each resource used).

Length of Energy and Demand forecasts?

20 years for both processes

Length of Short-term Action Plan?

Both require short term action plans of 3 years.

17. *How often do utilities have to file plans? Update plans? What actually happens?*

Plans are filed every 2 years. No updating is routinely done, although the rules say that if something substantial happens, an update should be filed. Filing has been basically done in a timely fashion.

18. *What monitoring or other processes are used to determine consistency of investments with plans? Are there consequences for non-compliance?*

See Question 7, above.

19. *Are environmental issues considered in the planning process?* ☒Yes ☐No
If yes, please describe.

Yes. For the traditional process, the use of the total societal cost test and the quantification of externalities capture environmental issues.

In the default supply rules, one of the objectives is to have an environmentally responsible portfolio. This is a subjective requirement. A range of environmental attributes of resources are qualitatively considered.

20. Is reduction or elimination of carbon emissions an issue? If so, how is it dealt with?

Generally, carbon emissions isn't explicitly dealt with, but is dealt with indirectly when environmental impacts are considered. Carbon becomes more of an issue in the review of the plan. The Commission would look at whether the utility's plan chooses a resource mix that reduces carbon. Intervenors typically comment on the plans about this issue, and it might be something the Commission askes the default supply utility to address in the plan.

Agency Process

21. Is there a formal acceptance and/or acknowledgement process used for the resource filing? ☐ Yes ☒ No

Dockets are opened for each plan when it is filed, although cases are not contested and typically a formal document is issued that includes the Commission's comments, but not a Commission order. There is no formal acceptance. On the traditional side, the Commission isn't required to comment on the IRPs, although in practice it generally does. For default supply planning, the Commission is required to identify any concerns and express them in writing, along with methods to remedy the concerns. If the Commission had no concerns, the utility could consider the plan accepted. There is no process for the utility to follow with a subsequent plan. Either the concerns would be addressed in a cost recovery proceeding, or in the next plan.

22. Does the agency hold public hearings on draft/final utility plans? ☐ Yes ☒ No

If not, describe what does happen.

Hearings in the "contested case" sense aren't held, but public meetings are held to give interested parties an opportunity to comment on the plan. This included a formal round of discovery with intervenors in the last default supply filing.

If yes, what is the duration of the public hearing process?

For the traditional process, there is a 90 day period for written comments. Public meetings, if held, occur shortly after that. For default supply planning, no formal time period is specified, but usually the same 90 day period is used, followed by public meetings.

23. Other ways the public participates and comments on plans are:

24. What action can the Commission take on the plan(s)?

Review it ☒
Accept it ☐
Approve it ☐
Reject it ☐
Acknowledge it ☐
Require utility to modify and resubmit it ☐
Other

Commission typically comments on plans. In its comments, implicit approval may be given, although there is no formal approval process.

25. Have resource acquisition decisions changed as a result of the planning process?

☒Yes ☐No ☐Not Sure

With respect to MDU, this is uncertain because there has been no evaluation of their actual resource acquisitions in a contested rate cases since the process began. With respect to the default supply, however, resource decisions have definitely changed.

[If "Yes", get recent example (docket number, etc.)]

In 2002, Montana Power Company (later acquired by Northwest Energy) was the default supplier in its territory. Before the Commission adopted the default supply planning rules, Montana Power came in for rate review with a portfolio of resources for default supply, some of which the Commission disallowed. Montana Power subsequently got out of those contracts, and the Commission immediately adopted the default supply rules. During that period, Northwest Energy acquired Montana Power's territory. Northwest Energy began to implement the rules, and when they returned to the Commission, their plan included a bigger portion of demand side resources than Montana Power's had. While it appears the change in rules has led to a change in the resource mix, changes in markets or utility ownership could also be factors.

26. Are competitive processes used to acquire new resources? ☒Yes ☐No

27. If yes, do you require regulatory review and approval of the competitive solicitations used?

Both sets of rules say that competitive procurement is preferred. The Commission doesn't review and approve solicitations. Utilities are urged to have advisory committees to do that.

28. Do utilities file an energy efficiency or DSM plan? ☒Yes ☐No

If so, is it separate or integrated with other plans?

Integrated.

29. *Is competitive bidding used to acquire EE resources?* ☐Yes ☐No
To date it has not been used to actually acquire the resources. Competitive solicitations within the demand side approach are used for contracting with people who implement the programs, however.

30. *Does the regulatory agency have open dockets, or is it considering opening a docket investigating any long-range electrical investments?* ☐ Yes ☒No

31. *Citation and description:*

32. *Are utility plans available on-line?* ☒Yes ☐No

If so, what is the address?

Default supply plans have been available on line; IRP plans have not been. The Commission doesn't post them, so utilities decide on their own. Commission rules require hard copies to be provided to public libraries in major cities within their jurisdictions.

Is on-line publication voluntary or mandatory?

Voluntary

33. *Citation and description of State policies (legislation, rules/regs, PUC orders) governing this planning process:*

Traditional:
§§ 69-3-1201-1206, Montana Code Annotated, enacted in 1993, established Montana's Integrated Least-Cost Resource Planning and Acquisition Act.
Administrative Rules of Montana 38.5.2001-2016, adopted by the Montana PSC in December 1992, established the policy of the Montana PSC concerning integrated least-cost resource planning and acquisition.

Restructured:
Administrative Rules of Montana 38.5.8201-8227, adopted by the Montana PSC in March 2003 concerning long-term default electricity supply resource planning and procurement.
SB 247 and HB 509, enacted by the 2003 Montana Legislature, add details to the default planning rules about pre-approval, and other issues. The statute can be found in Title 69, Chapter 8 of the Montana Code Annotated.

SB 415 (enacted in 2005) on renewable portfolio standards for electric utilities.

34. Do you anticipate any changes to this process in the near future? ☒Yes ☐No
If yes, please describe.

The newly-passed RPS will be factored into the criteria for compliance.

35. Have there been any recent settlements or orders in rate cases or other dockets that may affect resource procurement or investment incentives? ☐Yes ☒No

36. Does your state do performance–based regulation? ☐ Yes ☒ No
If so, please describe briefly.

37. If your state uses PBR, is successful compliance with an approved resource plan one of the areas subject to incentives or penalties? ☐ Yes ☐ No

Are there any regulatory incentives specifically for energy efficiency, other DSM, or renewables? (Examples: lost revenue recovery, shared savings, bonus rate of return)
☒ Yes ☐ No

If so, please describe briefly.

There is a statutory incentive that allows the Commission to add 2 percentage points to authorized rate of return for DSM investments. This hasn't been used, mainly because MDU does little DSM and NW Energy prefers to expense, rather than capitalize, DSM.

38. Do any tariffs include a fuel/purchased power clause? ☐ Yes ☒ No
If so, how does it work?

39. Does your state have any renewable mandates (e.g. from a legislated standard or goal, or a regulatory settlement or Order)? ☒ Yes ☐ No

If so, please describe, including how the mandate relates to power vs. RECs.

Compliance with the standards is tied directly to RECs. The utilities can acquire the power also, but it's the REC itself used for compliance.

Can EE or DSM savings be credited toward a utility's renewable mandate?

No.

State Energy Plan

40. Is there a State Energy Plan?	☐ Yes	☒ No
41. Is it connected to the planning described above?	☐ Yes	☐ No

42. If yes, who is responsible for the Plan?

43. What is included in the Plan, apropos of long-range electrical planning?