

Regulatory Assistance Project Electric Resource Long-range Planning Survey¹

State: **Montana** Date: 6/20/03
Name of Agency: Montana Public Service Commission
Source: Phone interview, NWPPC Reliability Forum notes, email
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Policies

1. Is any form of long-range electrical resource and/or investment planning required?

Yes

2. What is it called?

There are two separate processes.

“Traditional”: the one traditional vertically integrated regulated utility (Montana Dakota Utilities) practices Integrated Resource Planning (IRP).

“Restructured”: the one restructured regulated utility (Northwestern Energy, formerly Montana Power Company) practices Portfolio Planning, Management and Resource Procurement. This utility has become the default supplier in its service territory.

3. What is the process?

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 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.

Restructured

This process is new. Future rulemaking will establish the formal time frame for the utility’s long-range plan. As of now, the utility must file a portfolio Action Plan annually. The PSC recommends that the utility submit its Action Plan in the context

¹ All responses written from notes compiled and edited by Cathie Murray at RAP. Any corrections to the draft document, suggested by the contact person, have been incorporated.

of the annual “tracker filing,” so that it does become part of a formal docketed proceeding with a public hearing, etc. The utility has an advisory committee and PSC staff participate on it. The utility has decided to file a preliminary long-range plan in September 2003, a final long-range plan may be submitted by December 2003.

4. Describe the analysis required by the regulatory body.

Traditional: The utility submits its load forecast(s) and proposes a broad array of potential resources to meet demand, including supply, DSM and rate design approaches. The utility is supposed to integrate resources into a least social cost plan over the long term, including an evaluation of environmental externalities. The utility usually submits a low, medium and high forecast, although that is not explicitly required.

Restructured: The utility must submit a resource needs assessment, including a prediction of customer loss or gain due to choice. The utility must examine resources to meet needs, including supply, DSM and rate design (e.g. demand response). The utility is supposed to submit an “environmentally responsible portfolio,” but is not explicitly required to quantify environmental externalities. The PSC does not require least social cost because the utility has to compete with other entities that are not regulated. Competition is not currently a reality for residential customers, but mid-to-large commercial and industrial customers have arranged for alternative suppliers, such as merchant power producers or PPL.

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

It is utility-specific. When restructuring was implemented in Montana, there were three vertically integrated utilities falling under the traditional IRP process. One utility, PacifiCorp, sold its Montana interests to a cooperative, which is exempt from the IRP process. The one regulated restructured utility, Northwestern Energy (NWE) is now a distribution company. The PSC is essentially asking for a portfolio management plan from that utility. Montana Dakota Utilities (MDU), which was exempt from the restructuring requirements, is now the only IRP utility. The bulk of MDU customers are in North Dakota (only 25,000 customers are in Montana). North Dakota has a different IRP process. One big difference is that Montana looks to minimize long term societal costs, but North Dakota uses the RIM test to determine a plan’s benefits. As a result MDU submits a plan in Montana that shows what its decisions might be if using the Montana process, and what its decisions will be using the North Dakota process.

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. MDU has not been before the PSC for a rate case since 1986. It plans to come before the PSC this year.

Required Elements

7. Which of the following resources must be evaluated/included:

	Traditional utilities	Restructured
Generation	Yes	Yes
Transmission	Yes	Yes*
Distribution	Yes*	Yes*
Energy efficiency	Yes	Yes
Load Management	Yes	Yes
Other	The PSC has discussed Distributed Generation vs. Transmission and Distribution upgrades, but there is no formal policy to date.	
Other	Rate design is considered a resource planning tool for both types of planning	

*To the extent choices between alternative supply resource strategies affect transmission and/or distribution costs differently, yes. The PSC's integrated resource planning rules for traditional utilities explicitly require that the opportunity cost of new or existing transmission capacity necessary to deliver the power from a potential new resource be imputed into the total resource cost.

8. Is a comparison of supply and demand side options/resources required? Yes

Both the Traditional and the Restructured approach require this comparison.

9. The plans' 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.

10. The plans' 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.

11. Are alternative scenarios analyzed as part of the plan? Yes

If so, what factors are considered?

In both cases the utilities include variable factors in their scenarios such as fuel costs, weather, new or potential environmental regulations, and hydro availability. The restructured utility also looks at retail choice and market factors. The traditional utility is small enough in Montana that they do commercial and industrial customer-specific interviews to predict demand.

12. Are externalities considered?

Traditional	Economic	No	Environmental	Yes
Restructured	Economic	Yes*	Environmental	No

*A statute passed in the last session required the PSC to consider economic externalities as a tie breaker when considering alternative resource options in the Restructured process

13. What is the planning horizon?

Traditional: no explicit planning horizon or action plan length is described. However, in practice the planning horizon is twenty years, and action plans are 2-3 years.

Restructured: the planning horizon is the longer of: 1) longest remaining contract term in current supply portfolio, 2) longest contract term being considered for a new resource acquisition, or 3) 10 years. The action plan is three years.

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

Traditional: Every 2 years

Restructured: The utility must file three year action plans on an annual basis. The PSC has not established the frequency for filing a comprehensive long-term plan by the restructured utility.

15. What monitoring or other processes are used to determine consistency of investments with plans?

Traditional: consistency will be examined in cost-recovery procedures in the next rate case. (There hasn't been a rate case since the IRP rules were promulgated.)

Restructured: A bill passed in the 2003 legislature allows the utility to obtain pre-approval from the PSC for supply purchases. The PSC is developing rules. They anticipate pre-approval will require consistency with plans.

16. Are environmental issues considered in the planning process? Yes

Both plans consider the costs of compliance with existing, new and potential environmental regulations. IRP requires inclusion of environmental externalities. The restructured utility must balance environmental responsibility with other portfolio objectives including lowest- long term total cost, reliability and price stability.

Agency Process

17. Agency holds public hearings on utility plans

Traditional: Although the PSC provides notice and the opportunity for a public hearing on the IRP, there is rarely a request for one. This may in part be due to the lack of significant new resource acquisitions since the IRP process began.

Restructured: Since the utility files its action plan in the context of a tracker filing, action plans are subject to a public hearing.

18. Other ways public participates and comments on plans are:

Both traditional and restructured utilities are encouraged to involve the public and they both use stakeholder advisory committees. The traditional IRP must be filed in public and university libraries in the towns served by the utility. PSC Commissioners are elected in Montana. Sometimes they hold public meetings in their districts to discuss the utilities' plans.

19. What action does the Commission take on the plan(s)?

Traditional: The PSC reviews the IRP and may comment on whether the plan filed by the utility conforms to the rules. This gives the utility feedback before making investments or requesting cost recovery. PSC comments do not bind the Commission with respect to future ratemaking decisions.

Restructured: SB 247 requires the PSC to comment on action plans and the comprehensive plan filed by the restructured utility. The PSC must identify any concerns it has regarding the utility's compliance with PSC rules and identify ways to remedy the concerns.

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

It is possible. However, there are not many examples because the utilities have acquired few resources since either planning process was adopted.

21. Are competitive processes used to acquire new resources? Yes

Traditional: The utility is encouraged to test the competitive market before acquiring resources. However, some improvements, such as upgrading capacity, do not always lend themselves to this approach.

Restructured: Competitive processes are preferred, especially when acquiring resources from an affiliate. Pre-approval rules may be more explicit about competitive procurement.

22. Do utilities file an energy efficiency or DSM plan? Yes

It is integrated with the IRP or the action plan, respectively.

23. Is competitive bidding used to acquire EE resources? Sometimes

In the past Montana Power (predecessor to NWE) used a combination of in-house and RFP approaches. NWE is ramping up their DSM programs. They have talked about competitive acquisition. They may go out for an all-resource RFP.

24. Does the regulatory agency have open dockets, or is it considering opening a docket investigating any long-range electrical investments? Yes

25. Citation and description:

MDU will file its first rate case in over 15 years soon. NWE will file its first comprehensive plan and its first action plan in Fall 2003.

26. Are filed plans available on-line? No

The PSC does not post the plans on-line. Individual utilities may choose to.

27. Citation and description of State policies (legislation, rules/regs, PUC orders) governing planning:

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 2003 Montana Legislature (not yet codified) add details to the default planning rules about pre-approval, and other issues.

28. Do you anticipate any changes to this process in the near future?

No major changes. There will be some tweaking of the process since pre-approval and the restructured utility planning process are so new. There will be rulemaking about the schedule for the restructured utility's comprehensive plan.

29. Does your state do performance-based regulation? No

The PSC has authority to, but hasn't to date. The March 2003 rules re: restructured utilities have a specific section allowing the PSC to reward the default supplier for superior performance.

State Energy Plan

30. Is there a State Energy Plan? No

However, Montana participates in comprehensive electric resource planning efforts coordinated by the Northwest Power Planning Council.

31. Is it connected to the planning described above? N/A

32. If yes, who is responsible for the Plan? N/A

33. What is included in the Plan, apropos of long-range electrical planning? N/A

Note: The verbatim responses of Montana regulators and plan practitioners to similar survey questions can be seen at

<http://www.nwcouncil.org/energy/powersupply/adequacyforum/Default.htm>