Objectives of Integrated Resource Planning

PSC Roundtable - Electric & Gas IRP

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It's all about providing safe and reliable service at reasonable rates

- This is the intended outcome of an IRP process overseen by state utility regulators.
- The actual outcomes from a resource planning process at particular utilities are determined by resource planning rules, analytical tools, involvement of Commission Staff and others in the planning process, financial incentives, and decisions of utility management.

Electric Utility Resource Planning Rule's "fundamental objective"

"…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." (4 CSR 240-22.010 (2))

Factors considered in achieving this broad objective include…

- Level of average bills and degree of rate volatility for utility service.
- Resource adequacy and reliability of generation and transmission (gas supply portfolio for gas utilities).
- Equal consideration of supply and demand-side solutions.
- Cost minimization and risk mitigation trade-offs
- Environmental impacts.

What happens without Commission oversight of an IRP process?

- The planning process and the prudency of resource plans are reviewed after they are implemented, when the utility is seeking cost recovery in a rate proceeding.
- Utility conducts its internal planning process (resource needs assessment and LR and SR budgets to meet these needs) without contemporaneous feedback.
- Without an IRP process with regulatory involvement, resource planning decisions are driven by financial incentives and other considerations that vary by utility.

Potential problems without a formal IRP process

- 1)Balance between risk mitigation and cost minimization planning objectives may not be addressed in a manner that benefits consumers.
- 2)Inadequate review of demand-side resources.
- 3)Financial incentives and strategic considerations at utility or holding company level can lead to poor outcomes.
- 4)Less likely to have a transparent planning process with a productive exchange of ideas between the utility and other interested parties.

#1 Balance between cost minimization and risk mitigation

- Pressure to achieve short-run earnings targets can incent actions that increase risk and lead to higher costs in the long-run.
- Example – Utility sales of SO2 allowances (at low prices) to meet quarterly EPS targets have sacrificed flexibility to defer costly environmental upgrade costs resulting from new (but not unexpected) environmental rules.

#2 Inadequate Review of Demand-Side Resources

- Despite substantial increases in the current and projected future cost of supply-side resources, some electric utilities still fail to seriously examine meeting future load growth needs with demand-side resources.
- Not uncommon to hear "we looked at those programs a decade ago and they weren't cost effective, so no need to re-examine."

#2 Inadequate Review of Demand-Side Resources (cont.)

- The "been there, done that, nothing has changed" attitude ignores the many changes in demand-side resources over the last 10 years including:
  - New and improved technologies
  - Higher avoided costs due to increased fuel prices and environmental compliance costs.
  - Increased potential for cost-effective demand response with new regional wholesale markets developing at MISO and SPP.

#3 Adverse impact of financial incentives and strategic factors

- a)Regulatory environment can create financial incentives that impact resource planning
  - Incentive plans/rate moratoriums can encourage deferral of major investments early in the moratorium time period.
  - FAC/environmental riders impact timing and choice of resources.
  - Cost recovery options for demand-side resources.

#3 Adverse impact of financial incentives and strategic factors (continued)

- b)Utilities with extensive non-regulated operations and affiliate relationships have different financial incentives than stand-alone utility companies.
- c)Utilities that are under a holding company structure tend to make plans and decisions that maximize financial performance for shareholders at the holdco level.

#3 Adverse impact of financial incentives and strategic factors (continued)

- Example – Due to financial incentives at the holding company level, one MO utility recently decided: (1) to transfer generating assets from a non-regulated affiliate to its regulated Missouri operations (without conducting a comprehensive search for lower cost options) and (2) to NOT renew a very low cost PPA with an affiliate.

#4 Lack of transparent planning process with external input

- OPC's experience with the informal IRP process following suspension of the IRP rule is that the planning process at some Missouri utilities has become much less transparent and the opportunities for significant dialogue between parties have decreased.
- The KCPL regulatory plan case illustrates the public's increased level of interest in the environmental impacts of resource planning decisions.

Estimated annual health impacts of fossil fuel power plants in USA

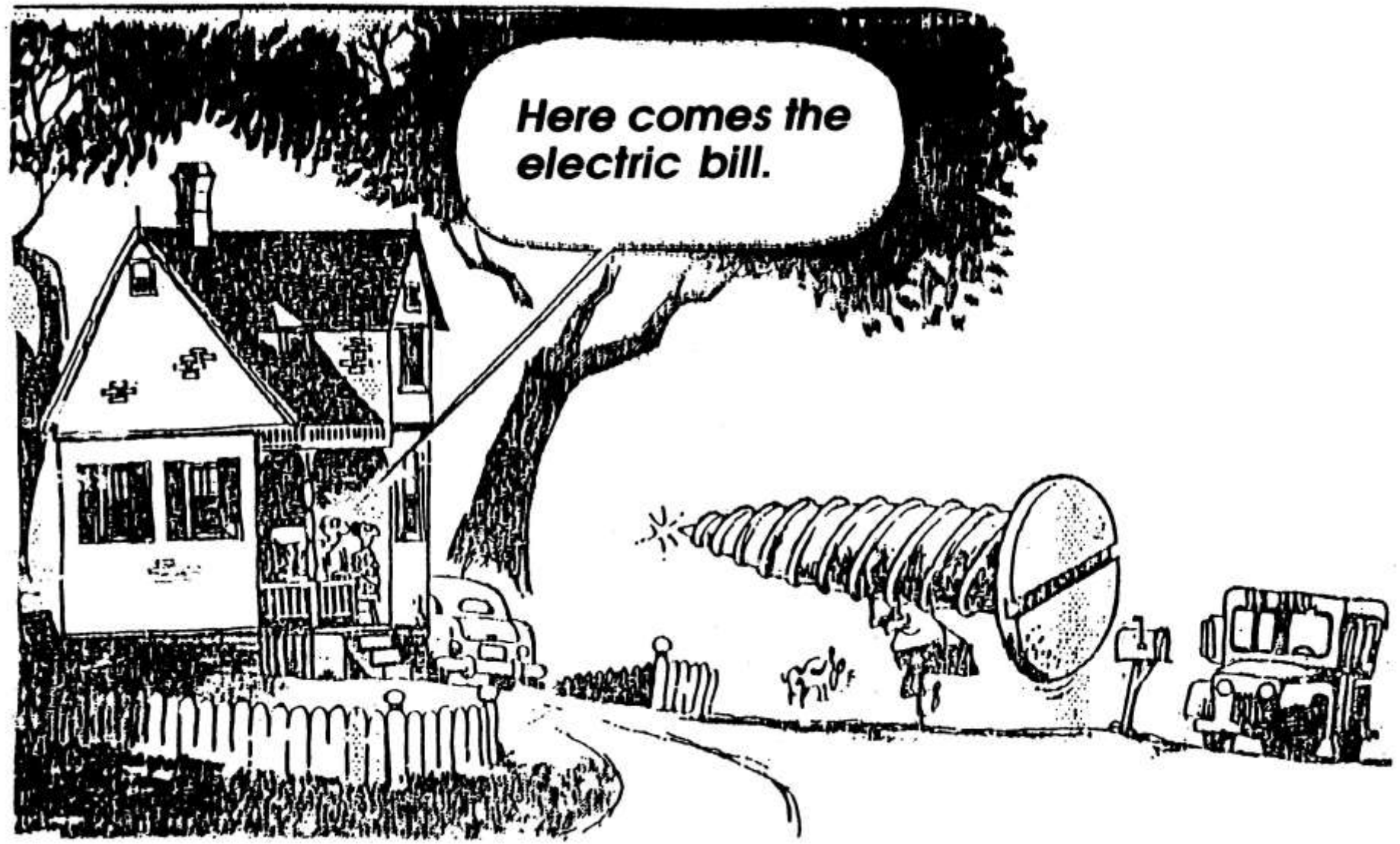
- Deaths: 23,000 nationwide (754 in MO)
- Hospital admissions: 21,850 (699 in MO)
- Emergency room visits for asthma: 26,000
- Heart attacks: 38,200 (1,237 in MO)
- Asthma Attacks: 554,000
- Lost work days: 3,186,000
- Monetized health costs: $167.3 billion/year

Source: 2004 Abt Associates Report commissioned by Clear Air Task Force

Achieving the objectives of an IRP rule

- A rule specifies the parameters of a planning process that promotes the public interest.
- Such a process won't eliminate the adverse influences on the planning process that exist without IRP but instead serves to offset or reduce that influence.
- More than a good IRP rule is needed to achieve outcomes from the planning process that promote the public interest. Must also have sufficient resources at PSC Staff and OPC dedicated to implementing the rule and interacting with utilities on IRP issues.

Achieving IRP objectives can help avoid consumer perceptions that their utility is “putting the screws” to them every time the bill arrives.



Changes in IRP over the last ten years

- The death of IRP was declared prematurely by those who thought electric restructuring would spread to all 50 states and that market forces could best achieve IRP goals.
- One deficiency of relying on market forces was the huge surge in the construction of gas-fired generation which contributed to the upward movement of natural gas prices.

Changes in IRP over the last ten years (continued)

- Even states like Illinois that restructured their electric industries are now recognizing the wisdom of not relying solely on market forces for providing electric service.
  - The Governor of Illinois recently announced his "Sustainability Initiative" which seeks to increase utility investments in renewables and energy efficiency.
- Ten years later, utilities still need to perform analysis and make plans for acquiring resources to serve growing loads while keeping bills low and reducing the risks of adverse scenarios when hedging costs are reasonable.