

Service Date: August 15, 1997

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of	)	UTILITY DIVISION
THE MONTANA POWER COMPANY	)	
for Approval of its Electric Utility Restructuring	)	DOCKET NO. D97.7.90
Transition Plan Filed Pursuant To Senate Bill 390.	)	ORDER NO. 5986b

**PRELIMINARY DETERMINATION AND ORDER ON TRANSITION PLAN**

**BACKGROUND**

1. Pursuant to the "Electric Utility Industry Restructuring and Customer Choice Act" (Act), passed by the 1997 Montana State Legislature, Montana Power Company (MPC) filed its Electric Restructuring Transition Plan (Plan) on July 1, 1997 with the Montana Public Service Commission (Commission). Section 6(2) of the Act required the Commission to develop a procedural schedule that provides for (a) a preliminary transition plan determination by the Commission with findings on whether the Plan is complete and adequate as required by the Act and (b) an opportunity for the public utility to file a revised plan based on the preliminary determination.

2. Following a prefiling procedural conference in which MPC and the major parties intending to intervene met with Commission Staff, the Commission issued its Procedural Order and schedule in Docket No. D97.7.90, Order No. 5986. In the scheduling conference, the Parties agreed that under Order No. 5986, ¶ 2 (Procedural Schedule), the Commission would make its preliminary determination on the completeness and adequacy of the Plan on August 12, 1997, and MPC would have the opportunity to file its Revised Plan on or before August 26, 1997. Preliminary comments on the initial Plan's completeness were due from the intervenors on July 22, 1997, to assist the Commission in its preliminary determination. The Commission received written comments from the Large Customer Group (LCG), Montana Consumer Counsel (MCC), Montana

Department of Environmental Quality (DEQ), Natural Resources Defense Council (NRDC), Bonneville Power Administration (BPA) and the United States Executive Agencies (USEA).

3. On August 12, 1997, at its duly scheduled work session, the Commission considered MPC's Plan and the comments submitted by the parties and determined that the Plan was not complete and adequate. The Commission issues the following Preliminary Transition Plan Determination.

#### SUMMARY OF COMMENTS ON COMPLETENESS AND ADEQUACY OF PLAN

4. The USEA stated that the Plan did not propose a method for customers to choose an electricity supplier (Sec. 7).

5. The DEQ found many deficiencies in the Transition Plan, including the failures (a) to functionally separate retail energy services (Secs. 3, 8); (b) to demonstrate that stranded costs reflect all reasonable mitigation (Sec. 12); (c) to estimate the value of its generation-related assets and liabilities and supply related costs using a statutorily listed method (Sec. 12); (d) to estimate stranded costs on a net basis (Sec. 12); (e) to demonstrate the customer benefits of issuing transition bonds (Sec. 32); (f) to provide a pilot program design that will gather the statutorily required information (Sec. 4); and (g) to provide a customer education plan that is objective and does not advantage one particular supplier (Sec. 7).

6. The LCG found numerous deficiencies: (a) the Transition Plan failed to provide sufficient information on pilot program design and operation, including how aggregator participation will be managed and tested (Sec. 4); (b) the Plan provided insufficient information to evaluate the schedule for transition to customer choice (Sec. 5); (c) MPC did not show the functional separation of regulated and unregulated energy services (Sec. 8); and (d) the Plan did not provide sufficient information on the transfer of generation assets from rate base, including valuation of the specific assets that will be transferred (Secs. 8, 11). LCG stated that the Plan failed to consider the value of generation assets on a net basis, including enhanced value that may accrue to the set of resources in an unregulated sector (Secs. 8, 11). Further, according to LCG, the Plan did not provide sufficient information in transmission tariffs on ancillary service pricing and provision on a competitive and nondiscriminatory basis (Secs. 8-10), or to support assumptions contained in distribution tariffs, including why suppliers must provide firm service and why customers can only

purchase from one electricity supplier at a time (Secs. 8-10). MPC did not reasonably demonstrate the validity of transition costs and charges, adequately justify its preferred method, or address an alternative factual basis or analysis with which to compare its preferred method (Sec. 12).

7. LCG also maintained that the Plan provided insufficient information on the value of buying out or buying down Qualifying Facility contracts (Sec. 12) and on its stranded transition wheeling costs (Sec. 12). According to LCG, MPC did not adequately demonstrate on a net basis its requested stranded costs in using the embedded cost assessment of production revenue requirements (Sec. 12). MPC failed to demonstrate the customer benefits of issuing transition bonds (Sec. 32) and did not adequately describe whether and how it will raise rates during the rate moratorium period (Sec. 12). LCG believed that MPC should have explained how MPC's transition is affected by the parallel transition of cooperatives (Secs. 13-20). MPC should explain the role it proposes with respect to the USBC, and how it intends to coordinate its program with the role of the TAC, any governmental or non-profit administrative agency and cooperative efforts (Sec. 22). Finally, LCG maintained that MPC's Plan should explain how it will implement a sliding scale for USBC charges (Sec. 22), address consumer safeguards (Secs. 23-27), explain whether MPC has or will obtain a license (Sec. 24), provide adequate information on unbundled bills (Sec. 26), and describe how its Plan will be integrated with the roles of the TAC (Sec. 29).

8. BPA criticized the Plan for its failure to discuss how it affects MPC's participation in the Residential Exchange Program and to provide sufficient information on the application of penalties for monthly differences in the load profiling proposal (Secs. 4, 5). BPA suggested that the Plan should provide a more adequate design of residential and small commercial pilot programs (Sec. 4). Finally, BPA stated that the Plan did not provide sufficient information concerning calculations of hydro, thermal and QF out-of-market costs, or provide a sufficient rationale for using fully allocated costs in determining transition costs, the basis for the selected test year, cost savings from mitigation, and valuation of generation assets and liabilities and electricity supply costs (Sec. 12). The Plan also did not provide an adequate explanation of how CTC-RA for each rate class was calculated (Sec. 12)

9. NRDC said that the Plan did not provide sufficient information on the PSC's role in determining that the USBC funds are spent in the public interest (Sec. 24).

10. MCC's only criticism was that the Plan failed to functionally separate retail energy services (Sec. 8).

### DISCUSSION

11. The Act does not provide guidance on what constitutes a complete and adequate transition plan. From the comments, there appears to be a range of interpretations. MCC applied a "checklist" approach, stating that "[a]t this early stage, the preliminary determination must necessarily concern whether MPC has addressed all of the issues which SB 390 requires...." LCG, on the other hand, asserted that to be complete the Plan must address each pertinent requirement of the Act and "...provide a sufficient basis for the Commission to approve, modify or deny approval of the Plan without anticipating further inquiry or testimony by other parties" (emphasis added). Consequently, while MCC only identified one deficiency, LCG found many. The approaches taken by the other commenting parties fall between MCC's and LCG's approaches.

12. To be complete and adequate, the Commission determines that the Plan must be transparent in terms of addressing the requirements of the Act. A transparent plan should contain all the basic information needed to evaluate the filing, including quantitative and qualitative analyses and documentation of methods used. Parties should not have to spend discovery time to get basic supporting information.

13. The Commission finds MPC's Plan incomplete and inadequate with respect to two important areas. First, the Plan lacks complete and adequate information on the Company's customer education proposals and pilot programs. The Plan relies on internal work groups to fill in the gaps in these areas but does not include a time line for when the work will be completed.

14. Second, the Plan fails to adequately analyze and document stranded costs, including (1) the estimation of future market values of electricity and the embedded costs of generation assets and liabilities and supply related costs, (2) consideration of the net value of production capability, and (3) demonstration and quantification of mitigation. Additional discussion on each of these high-level areas of incompleteness and inadequacy are discussed separately below.

### Pilot Programs and Customer Education

15. Section 4 of the Act requires utilities to conduct pilot programs beginning July 1, 1998. Section 7 requires utilities to educate their customers about customer choice so customers can make informed decisions. Section 26 of the Act addresses separating the components of a customer's bill. Several intervenors commented that MPC's transition plan filing is incomplete and inadequate in satisfying these requirements.

16. Both LCG and DEQ commented generally about the lack of information on pilot programs and specifically that the Plan lacks sufficient information on managing and testing participation by suppliers and aggregators. DEQ stated that the Plan did not present a customer education plan which provides customers with complete and objective information clearly separated from marketing efforts. LCG maintained that MPC's bill unbundling proposal is incomplete, given the requirements of the Act, and that a prototype of an unbundled bill should be included. BPA was concerned about the lack of information on the penalty provisions that apply to suppliers when there are imbalances between the forecasted load profiles of customers without special meters and the actual consumption of those customers.

17. In the Plan MPC states that because of the timing of the filing in relation to passage of the Act, it has not been able to develop all the details necessary to offer customer choice (Direct testimony of Patrick R. Corcoran, p. 6). MPC has created internal work groups to address issues such as metering and billing, load profiling, energy balancing, customer education and information, customer service agreements, procedures for customers to choose electricity suppliers, pilot program design and participant selection. However, as filed, important elements related to pilot programs and customer education are not complete.

18. While the Commission finds MPC's Plan incomplete and inadequate with respect to important details underlying pilot programs and customer education, the Commission will allow some flexibility in redressing these deficiencies. As part of its revised filing MPC should provide as much information as possible on each of the work team projects. In addition, MPC should propose a remedy for processing the Plan with regard to those work team items which are not complete. The remedy should allow for these items to be thoroughly addressed by the Company and intervenors before the hearing date specified in the procedural order for this case.

Stranded Costs; Market Values of Electricity; Net Value of Production Capability

19. Section 12 of the Act addresses transition costs and charges for public utilities, and requires mitigation of hydro and thermal resources and power purchase contract costs, including qualifying facility contracts. Section 12 requires the value of all generation-related assets and liabilities and electricity supply costs to be reasonably demonstrable and considered on a net basis. The utility must use one of the following methods to determine the value: (1) estimating future market values of electricity and ancillary services provided by the assets; (2) appraisal by independent third-party professionals; or (3) a competitive bid sale. The Commission finds MPC's Plan incomplete and inadequate with respect to market value estimates.

20. MPC's witness John Leland in direct testimony on MPC's method of valuation stated that MPC used an actual market price offer to sell electricity to value the power supply. MPC solicited forward price quotes on several occasions from two businesses, in one sentence: "Please provide forward prices for mid-C energy for 1998-2002 where MP energy is the seller."

21. BPA, DEQ and LCG each maintained that MPC should explain why it prefers the selected method over other possible methods and that the Plan must be more transparent.

22. As BPA commented, MPC's market value determination is not adequately explained. An adequate explanation depends on details of the following concerns which are absent from MPC's filing: (1) a life-cycle approach to value the remaining life of the plants beyond the transition period; (2) an estimate of the value of support services MPC facilities provide in the way of system stability and transmission reliability; and (3) estimates of the value of FERC defined ancillary services. The limited price information in MPC's Plan makes it difficult to assess the accuracy of the market value estimates. Also absent in MPC's Plan are market values for energy and capacity services. MPC's Plan does not adequately describe the markets used to estimate or calculate the market value used in the transition cost calculations. Finally, the Commission finds that BPA's proposed remedies for MPC's Plan serve to make the Plan more transparent so that the Commission can find a Revised Plan adequate and complete.

23. DEQ commented on the relevance of MPC's market value estimates and whether these estimates indicate future values of power. Another DEQ concern regards the uncertainty of MPC's point estimates. DEQ asserted that the market value of assets cannot be determined over

the transition period only, but must reflect the value of the power over the useful lives of the deregulated assets.

24. LCG maintained that MPC's Plan fails to provide information sufficient for the Commission and others to determine the validity of MPC's proposed transition charges and costs. The Plan is inadequate without additional information. LCG shared DEQ's concern that the Plan contains no sensitivity analysis of market fluctuations. MPC must explain what other future market values were considered and why it selected a limited firm market value. In selecting a firm market value, missing from the Plan is information on the geographic region and potential suppliers MPC considered, the product market's price quality and quantity assumptions such as delivery points, ancillary services, load factors.

25. The Commission finds merit in these intervenor comments on MPC's Plan. MPC's market valuation method may flow from the Act, but there is no evidence on why MPC selected the method of valuation it chose. In contrast to MPC's Plan, when FERC selected its "revenues lost" approach, it explained why other methods of analysis were not selected. MPC should follow FERC's lead and fully explain in its own words why its method is superior in the present circumstances to other methods available to value stranded costs. The relevance of MPC's forward market value to the valuation of a complex integrated system of hydro, thermal and purchase resources is not evident from MPC's Plan. MPC's Revised Plan should minimally address the concerns raised by the above intervenors.

#### Embedded Costs of Generation Assets; Mitigation

26. Section 11 of the Act requires MPC to remove its generation assets from ratebase. Both LCG and BPA commented that the Plan is incomplete and inadequate with respect to this requirement. LCG stated that it cannot assess MPC's proposal from the information in the Plan. BPA commented that the Plan inadequately documents and supports the relationship between fully allocated costs, transition charges and mitigation. BPA also found that the Plan lacks sufficient support for test year power supply costs.

27. Section 12 of the Act requires transition costs to reflect all reasonable mitigation. LCG, BPA and DEQ each commented that the Plan is incomplete and inadequate with respect to

mitigation of stranded costs. BPA requested a specific quantification of hydro and thermal and QF mitigation savings. LCG stated that the Plan lacks an analysis of the value of buying out or buying down QF contracts. LCG concluded that the Plan, as filed, does not illustrate that MPC has undertaken all mitigation or that the proposal for collecting QF stranded costs is supportable.

28. The Commission finds that MPC's Plan is incomplete and inadequate with respect to the transfer of generation assets from rate base, including a complete analysis of the revenue requirements of all assets being transferred and documentation and quantification of any mitigation savings. MPC's Revised Plan should satisfy the information requirements identified in LCG's comments, section 7 (a)-(d), and BPA's comments, section 4 (b)-(g). The Commission realizes that some of the information that would satisfy these requirements may already have been provided in various data responses. However, this information should be brought together with other necessary information and presented as a single, complete and transparent demonstration of MPC's proposed asset transfer, transition cost calculation and mitigation.

#### Functional Separation of Energy Services

29. Section 8 of the Act requires utilities to functionally separate electricity supply, retail transmission and distribution, and regulated and unregulated energy services. MCC, DEQ and LCG each commented that MPC's Plan fails to functionally separate its energy services. The Commission agrees with these comments. In its Revised Plan MPC should document how it will functionally separate its regulated and unregulated energy services operations.

#### Ancillary Services

30. Sections 8 and 10 of the Act require transmission services to be functionally separated and provided to suppliers, distribution service providers and customers on a nondiscriminatory and comparable basis. LCG commented that the Plan fails to include an adequate explanation of how transmission and ancillary services will be provided and priced. The Commission agrees. MPC's Revised Plan should provide additional explanation of available transmission and ancillary services along with their associated prices.

**CONCLUSIONS OF LAW**

1. Pursuant to the "Electric Utility Industry Restructuring and Customer Choice Act," Senate Bill 390, Section 6, the Montana Public Service Commission is required to issue a preliminary transition plan determination, with findings on whether the Plan is complete and adequate subject to the requirements of the Act.

**ORDER**

WHEREFORE, THE COMMISSION ISSUES THE PRECEDING FINDINGS, DETERMINING THAT THE TRANSITION PLAN FILED BY MPC ON JULY 1, 1997 IS NOT COMPLETE AND ADEQUATE, AND ISSUES THE FOLLOWING ORDER DIRECTING MPC TO FILE A REVISED PLAN THAT REMEDIES THE DEFICIENCIES IDENTIFIED IN THIS PRELIMINARY TRANSITION PLAN DETERMINATION.

THE REVISED PLAN SHALL MEET THE FOLLOWING REQUIREMENTS:

MPC's Revised Filing. To ensure that MPC's Transition Plan is as transparent and accessible as possible, MPC should refile its entire Plan, adding supplemental material where appropriate. Supplemental material should be clearly marked, but MPC should not underline, redline, bold or otherwise change the appearance of the text. Additionally, mathematical or other errors that have been discovered through the discovery process or through further analysis may be corrected in the revised filing. Any material change to information presented by a witness in the initial filing must be clearly identified and explained at the beginning of each witness's revised testimony.

Done and Dated this 13th day of August, 1997 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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DAVE FISHER, Chairman

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NANCY MCCAFFREE, Vice Chair

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BOB ANDERSON, Commissioner

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DANNY OBERG, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See arm 38.2.4806.