

Stakeholder Input on the Context for Montana’s Review of its Resource Planning and Procurement Rules – March/April 2012 Interviews

Overall Themes

Both the short-term and the long-term are important

A number of stakeholders raised this, in a variety of ways. There is general comfort with the prospect of taking actions into the next three to five years; beyond this, into the period that spans the life of a newly constructed resource, say, comfort diminishes rapidly. This is not only the territory of known unknowns (fuel prices, loads) but of the disturbing unknown unknowns. How can planning help all stakeholders engage better with the long-term and the implications of considering it with respect to short-term decisions and actions?

Interaction is good; there is room for improvement

Generally, all stakeholders value the interaction that happens now, whether that be in the utilities’ advisory group processes, in the Commission’s hearing on a plan during which relatively unstructured questions and answer conversation occurs, or in Commission-sponsored round tables on various issues. But it could be better. Disagreements over decisions and outcomes will always exist but processes in which all stakeholders feel heard and perceive fairness are possible. Especially important to planning is a free-flowing conversation that builds a shared understanding of the past, present and future; but good interaction is also a goal even in the procurement process and ratemaking dockets for specific resource actions.

Align value and effort

No disagreement exists that the current processes, directly or indirectly related to the core issue of resource planning and procurement, take significant human resource effort and time. Some perceive imbalances in what this time is spent on; others worry about availability of the expertise required for various aspects of the processes. Montana is a relatively small state in terms of population and energy use. The MPSC does not have a large staff or budget. The utilities are fairly lean and everyone is busy. On the other hand, the state has a history of “thinking big” on energy policy matters, including resource planning. How can the processes of resource planning and procurement – considered in context with related processes – provide good value for good effort? While involving the matter of the planning/procurement cycle, the question broadly asks what is addressed, when, how and by whom.

Categories of Comments

Values

- Right effort for good value
- Timely review
- Good flow of communication
- Diversity in decisions/actions, even if must sacrifice some apparent efficiency or optimization
- Decisions that balance the short-term and long-term, policy drivers and consumer drivers

- Competitive neutrality
- Flexible generating fleet and grid – operating flexibility (AGC, cycling, dynamic reserve calculations)
- Consistency between dockets, for resource portfolio, handling of environmental issues, retail sales etc.
- Good balance between the short-term and the long-term
- Diversification
- Minimize interference with utility decision-making so that prudence test remains meaningful
- Stability, coherency, predictability in policy framework
- Effective use of resources
- Highlight the long-term, big picture – this is what the plan is for
- Balance of cost and risk
- Dialogue with working group, with Commission
- Ongoing work – always looking at forecasts, resource choices – plan just puts it together at a specific point in time
- Way to approach thinking about both short-term and long-term
- Process gives content to the “black box” between need and decisions/actions
- Ability to have pre-rate case interaction without lawyers, share views
- Risk assessment
- Ability to ask “why” in a setting where can engage with and push back on the answer
- All participants take the planning seriously, contribute
- Utility listens, willing to be influenced
- Tie to NWPPC regional plans
- Plan useful; “teeth”; ties to actions
- Planning and procurement process: transparency, objectivity and inclusiveness
- Outcome: resource diversity, cost with consideration of risk, affordability with respect to low-income consumers and consideration of environmental externalities
- Clear Commission direction on policy matters (e.g. QFs, wind integration, DSM)
- Stability of planning/procurement environment
- Open, transparent planning and procurement processes
- Time frame for procurement and pre-approval addresses possibility that conditions change, assumptions stale
- Planning procurement framework values both flexibility and stability (e.g., consider upstream actions needed to increase reliability and stability of a gas-fired resource)
- Sufficient Commission human resources (including expertise) to play meaningful role in planning and procurement – perhaps a technical advisory staff
- Process includes reflection as well as just repeat of the steps
- Utility management at risk for post-decision prudence review – discomfort with pre-approval
- Arms length relationship between Commission and utility; less collegiality, more scrutiny Robust set of choices for supporting energy services

- Strong tie to regional planning, assumptions
- Balance of short-term and long-term with due weight to the long-term
- High transparency (given clarity and Received understanding) in planning: assumptions, relationships
- Transparency
- Stability in policy decisions, e.g role/value of QFs, whether losing bidders can participate in pre-approval dockets
- Support for small projects, developers
- Balance value of rate base with value of competition
- A planning/procurement process that emphasizes thinking before doing
- Engagement by all concerned, including the Commission and Staff, in a serious effort that moves the controversy and its resolution up front, before the decision
- Minimizing big mistakes
- Open and transparent procurement process

Wants

- Clearer what overall value of the planning process is
- Longer planning cycle
- Bidders feel heard in procurement and have fair chance to participate; commercially timely path to challenge if legitimately concerned; perhaps review of RFIs/RFPs
- Clearer direction on how to balance policy and cost (consumer) perspectives in planning and procurement, which often gets into the short-term versus the long-term
- Accessible big picture about markets, market options
- Use of non-contested processes where useful and feasible – build on round table model
- Improvements in forecasting process
- Evaluation of market participation, market power in Montana
- Boundaries on percentage of rate base or generation portfolio that can affect rates solely through tracker and not general rate case
- Meaningful influence on planning – comments heard and addressed; ability to react to a draft plan; more useful review docket
- Thorough thinking on the characteristics of built resources and purchased power, including end of life issues
- Better integration of transmission planning matters and transmission issues
- Model is capable of testing “fit” of opportunity resources; model performs adequately
- Analytic (qualitative and quantitative) path from plan to actions taken
- Transparency – ability to “un-pack” a decision/action
- Coherency in rules that began as process for layered term contracts and now include owned resources
- Thorough recognitions of risks of both purchased power and rate base generation, including contract default risk, production risk, prudence adjustment risk

- Clarify state policy: is it customer indifference or preference for utility ownership?
- Recognition that NWE is a strategic asset in Montana
- More value for same or less effort
- Effort correspondent to significance
- Recognition of difference from NWE and of primacy of N Dak service territory
- Acceptance that MDU is integrated across its service territory
- Recognition process is fluid
- Timely Commission response and feedback
- Means to hear regularly regarding overall operations matters
- Less “crossing the t’s”; e.g., looking at all the options, focus on DSM disproportionately to its contribution
- Consideration of externalities, both qualitatively and quantitatively
- More time between plans
- Aspects of the planning that are understandable by and potentially engaging to the broader public
- Ability to have certain scenarios modeled
- Way to think about opportunity resources
- Greater policy guidance on purchase versus owned resources
- Total resource cost test for energy efficiency cost-effectiveness
- Objective oversight of a competitive procurement process but no substitution of an outsider’s judgment for the utility’s
- Balance between the short-term and the long-term
- Make policy decisions to lessen friction between developers/QFs and NWE
- Longer time between plans – timing is too short
- Clear up status of DSM – advantage or not?
- Information and participation without feeling co-opted
- Process that is risk reducing but not risk eliminating
- Solid consideration of non-traditional resources, externalities
- Transparency on what NWE plans to do to rebuild its portfolio – this is a financial decision, not a planning decision
- Long-term costs/issues not swamped by up-front cost weighting
- Resource choices evaluated with all necessary infrastructure and related cost (e.g. fuel production and delivery)
- Full range of consequences of resource choices assessed, not just quantifiable and/or obvious ones
- Ability to influence options considered, such as annual DSM target
- Retain 10 MW threshold for qualifying for standard contract
- Consider the size of the state, utility when designing framework – balance value and cost
- A more sophisticated model
- Better integration of transmission issues in the planning process

- Consideration of resource (including purchases) operational flexibility and actions needed to achieve this so can minimize externalities during operation as well as in planning
- More opportunities for face-to-face engagement and less reliance on written comments; e.g., current Commission hearing process that includes free-flowing questions and answers and raises confidence of all
- Way for resource developers to engage with the utility within some kind of framework other than just PURPA; regulated RFP process
- Stakeholder ability to ask questions during the informal part of the process with some teeth
- Specific reference to and consideration of state policy goals
- Perhaps acknowledgement or way to get more involvement/engagement by Commission in the process
- More inclusive informal process – open attendance
- Broad (suppliers, customers, other stakeholder) opportunity to review and comment on competitive procurement
- RFP is within itself quite prescriptive of what will be done and how it will be done in getting to winners but this could vary from RFP to RFP
- A “market monitor” type entity for larger procurements, who is observing the process from beginning to end to provide utility and participant assurance of fairness and due diligence
- Risks identified, examined and measured in the planning process – unbundled from current notions
- Recognition of PPA debt equivalency handled through utility COC process, not adjustment to bids in procurement

What is Success?

- Plan posits a likely reality, one that came into play. May be many uncertainties of course but plan provides the environment for the business decision
- Stakeholders perceive procurement process as fair
- A least cost portfolio, one that looks at all of the options in a vertical sense and reduces risk
- Plan sets stage to make resource decisions that are satisfactory to customers, NWE investors, and Montana; sets reasonable expectations
- Clarity on needs (timing, quantity etc.) and options (e.g., recognize constraints)
- NWE is operationally sound, a strong utility, long-term results matter
- Stable and reasonable rates – risk most concerned about is high price excursions
- Confirmation headed in right direction
- Lack of surprises
- Way to reflect, see what’s changed
- Not making avoidable mistakes
- Ability to respond in timely manner when the unexpected happens because have a shared base from which to fashion a response

- The planning process is useful; gives the public a good sense of what the utility is going to do before it does it and where it is headed
- A better framework for planning and procurement than exists now and that is supported by all of the major stakeholders
- Reintegration continues
- No surprises
- No disallowances of large utility investments
- People understand and support the decisions
- NWE financially sound
- For short-term, ought to have some way to gauge utility actions against index
- For long-term, need to consider context forward and back
- Good handling of near-term issues
- Establishing a view of the long-term that can come back to and reflect on
- Planning is not broken; stay the course
- Procurement needs to look more like Oregon although latest move to require utility to make its sites available to bidders may be a step too far
- Confidence in the process and that subsequent actions/decisions are “good” given the information that was available
- Thriving market with great variety of suppliers and products spreading risk broadly and well
- Financially healthy market players, including utilities

Who to Look At?

- Oregon
- Wyoming
- North Dakota
- Colorado
- Washington
- Idaho
- Utah
- California IOUs process
- SMUD
- Puget
- Washington, Idaho with respect to informal process
- Arizona Track “D” process
- Mid-Atlantic Basic Generation Service reverse auctions (bids to supply a slice of utility system customers)

Other

- Procure DSM competitively?
- Is there a role for an ALJ or Hearings Officer?

- Forward test years?
- The rules seem to say the right things but dissatisfaction remains
- What is the value of forecasting given uncertainty and volatility?
- Montana is small state that thinks big on energy policy matters such as integrated resource planning
- Consider role for alternative dispute resolution?
- Montana has a lot of “captive” energy/capacity for sale and NWE has leveraged that; not much IPP attention (historically)
- Concerns about independent observer, evaluator in procurement process
- Suppliers are generally neighbors – not much contention over procurement
- Entering more of a growth phase and MISO market maturing
- Positives of a forward test year? May sometime soon see crises
 - Demand destruction
 - Financial melt-down
 - Climate change effects
 - Political implications of the above
- Broader environment quiet right now
- Montana Commission history of heavy reliance on after-the-fact regulation
- Limit pre-approval process to short-term resources?
- Cannot assume an RFP solves all problems, old-style prudence reviews still necessary
- Many don’t have financial resources to bring expertise to planning process; have to do that at pre-approval or ratemaking docket
- Pre-approval is burdensome and slows NWE down
- Modeling is fascinating but the result seems to be what you want it to be
- Not sure how relevant NWPPC process is at individual utility level – ignores some utility constraints
- NWE follows a guess and check process, not a supply curves and loading order
- During the transition to deregulation, the MPSC disallowed recovery of some older QF contract costs; also in 1980s, disallowance of some QF buy-out costs – projects halted because Colstrip 4 coming on line
- Current rules arose out of situation in early 2000’s in which MPSC disallowed some purchases
- Commission involvement could slow things down in pre-procurement stages
- Making final contracts contingent on Commission approval puts too much risk on suppliers
- IRP generally not in tune with market developments of last 15 years or so – focused on technology not product/outcome – let broad footprint market decide technology to fulfill product orders/provide outcomes