

Draft Proposal
Montana Planning and Decision-Making Practice (DPD)

Overview

Much that is in Montana’s current planning and decision-making practice around utility resources works well for the stakeholders and does not require change.¹

Our suggestions for improving the practice fall into four categories:

- Planning Content
- Planning Process
- Procurement Process
- Tools

Below are conceptual statements of our suggestions to support the planned workshop discussion. These are not intended to be in the formal language of “rules”.

Planning Content

- **Load:** Load forecast expanded to consider projected use of all current and future planned utility services (e.g., energy, transmission, net metering, pricing options), customer demographics, and key assumptions about the state/regional/national context within which customers will be making decisions to use utility services. Plans include an assessment of past forecasted loads compared with actual loads to enable learning about the characteristics (nature, frequency, size, possible causes, etc.) of variations.
- **Services:** Current requirements to consider rate design and cost allocation and to plan for demand-side resources (DSR) are core of broader assessment of current and future planned utility services (including transmission, ancillary services, net metering, and retail services such as pricing options). Plans include a ten year forecast of retail prices, along with the assumptions used to create the forecast.
- **T&D:** Transmission and distribution current capabilities and operating characteristics (including degree of integration in operations) are explicitly considered along with required and optional investments to maintain or enhance those as needed to support utility services. Ancillary services provided via transmission assets are expressly contemplated.
- **Resources:** The Plan explicitly identifies the resources needed to support the services anticipated by the plan. For Supply-Side Resources (SSR), this includes information on possible resource types and locations using Requests for Interest/Information or other means, direct costs (generic examples) of those resources (including currently applicable or relatively certain new environmental requirements), and related costs (e.g. financial, material and human resource needs; power and fuel-related infrastructure, water requirements). Whenever

¹ In our final report, we may suggest wording changes to the current rules that clarify or align the rules with the accepted practice. We may also suggest planning steps within the major content categories with which the stakeholders might experiment as they continue to improve the practice.

possible, monetary cost information is available to utilities and stakeholders both as year-by-year nominal amounts over the expected lives (from ground-breaking to decommissioning) of the resources, and as net present values. SSR explicitly include transmission investment to interconnect with new or existing individual or market electricity generation resources.

- **Modeling:** Stakeholders (including utility personnel not directly involved with the model) develop a shared understanding, as non-technical as possible, of the relationships in the model and the meaning that its output will have for the questions being asked. Using this understanding, stakeholders make and record hypotheses about outcomes before running the model and use the difference between these hypotheses and observed outcomes to: (1) confirm assumptions, especially regarding cause-and-effect relationships among modeled variables; (2) explore possible errors in assumptions and cause-and-effect beliefs; and (3) examine, test and improve model mechanics.
- **Action Plan:** Specific requirements for the Action Plan content, including planned RFPs and decision-making frameworks for planned or possible resource decisions outside of RFPs, proposed rate design/cost allocation actions, and new or changed services (including DSR programs).
- **Risk:** The risk analysis includes: characteristics of various resource options, including operational flexibility, variability, and duration (economic obsolescence or continued operation beyond expected life); exit options should a sudden and dramatic change in circumstances occur; end of life value in either land or materials; environmental regulatory costs; and external value (such as overall utility financial strength and direct Commission operational oversight) or liability (such as debt leverage effects or unknown ownership risks) associated with the question of resource ownership or contractual obligation status. Resource operational variability should be assessed using such actual operating data, by type of plant and plant ownership/operating status (i.e., owned and operated by utility or IPP; owned by utility or IPP but operated under contract).

Planning Process

- Interaction between the Commission and the utility and stakeholders happens at several key points during preparation and implementation of the plan, including:
 - Preparation for planning:
 - Decisions and questions that will be the focus of the next planning effort
 - Information access
 - Participation and outreach
 - Schedule, including points of interaction with the Commission
 - Services assessment (demand-side resources, rate design and cost allocation, and other)
 - Existing resource assessment, including generation, transmission and distribution
 - Service use (including load) projections and resulting resource/investment needs
 - Resource/investment options assessment
 - Action Plan

- Utility planning meetings are open to any interested person, with suitable protection around the sharing of confidential information.
- Utilities file plans every three years. For each three-year cycle (beginning with the preparation for planning), the Commission will open a non-contested case docket under which participants can track comments, questions and commitments that emerge from interactions during the processes and electronically access materials. Plans contain, at a minimum, a 20-year look (ten actual back, ten forecasted forward) at:
 - Load information, including system- and customer- class based average energy, peak, peak price differentials, load duration, load shapes
 - Retail price information, overall average and by class, along with assumptions used to create the forecast
 - SSR information, including operating data for owned or contracted resources, and fuel and power market quantities and prices
 - Transmission information, including price and availability of owned transmission and of transmission used or reachable by the utility, and current regional transmission plans and regional transmission tariffs and operating practices, for both existing and anticipated new facilities
 - Distribution information, including system characteristics, and operational end use information, such as system capacity factor and reliability statistics
- At least once a year (separately, or as part of another PDP interaction), the Commission, utilities, and stakeholders meet to discuss current system operations, power and fuel markets, and other events or trends in the economic, political, and social environments that may affect the provision, use or regulation of utility services. The update includes short-term forecasts for loads, fuel and power markets, and reflections on possible changes to the most recent long-term forecasts given recent events.

Procurement Process

- **Competitive bidding guidance:** Explicit parameters express the Commission’s expectations for existing statutory requirement to use open, fair and competitive procurement processes whenever possible.
 - Utilities may acquire wholesale products in liquid markets without competitive bidding.
 - Utilities may acquire wholesale products in illiquid markets without competitive bidding if other reasonable means exist to acquire market information on availability of choices and reasonableness of prices and contractual terms.
 - Utilities are expected to use competitive bidding if the resource types sought include the acquisition of a generating plant or the output from a specific generating plant or supplier for a period 10 or more years, regardless of whether the resource will be acquired through construction of a resource for the utility (self-build), transfer of a resource to the utility, or a tolling or output contract based on a specific resource, subject to specific exceptions:
 - The utility’s Action Plan proposes and supports an alternate acquisition strategy

- The utility does not plan to seek pre-approval of the resource acquisition, or
 - An emergency or time-limited opportunity acquisition of unique value exists. The utility may seek Commission comment on its intent to use this exception by filing an application, given expedited processing as contemplated by the pre-approval statute, that identifies the resource, explains why peculiarities in this particular instance raise other objectives to greater importance than the statutory preference for competitive bidding, and details the criteria and information the utility proposes to use to make the acquisition decision.
- **RFP Notice:** In addition to the Action Plan identification of dates and scopes of planned RFPs, utilities will post (see Tools section below) and file with the Commission a notice of intent to issue an RFP at least 30 days in advance of the availability of a draft RFP, indicating the types and sizes of resources sought and any other information, such as requested availability date or location, likely to be of use to potential bidders in determining their interest.
- **Independent Monitor:** The Commission will retain an Independent Monitor for RFPs that seek resources of greater than 10 years in duration. To allow time for IM selection prior to the availability of a draft RFP, for RFPs that meet this criterion, notice is due at least 90 days in advance. The Commission on its own motion or in response to the utility's request may retain an IM for RFPs outside of this parameter. The IM's duties will include:
 - Review and comment on the draft RFP and other materials
 - Oversee the RFP process to ensure it is conducted fairly and properly
 - Request confidential treatment of bidder and bid information that qualifies for protection as a trade secret under Montana law
 - Provide the Commission with updates on the process as appropriate
 - Check the reasonableness of the utility's scoring of bids and selection of the short-list
 - If the RFP involves utility ownership options (defined below), the IM will:
 - Receive the utility's self-build proposal on or before other bids are due
 - Independently score the self-build bid and any build-transfers and a sample of other bids
 - Compare its scores with the utility's and attempt to resolve any differences
 - Prepare for the Commission and make available to stakeholders a closing report concerning the process, the reasonableness of the scoring and selection of the short list, and the IM's review of any utility ownership options
- **Draft and Final RFPs:** Utilities will post and file with the Commission the draft RFP, qualification criteria for bidding and the bid evaluation methodology. Within 30 days of that filing, the Commission will convene a meeting at which stakeholders may ask questions and provide the utility comments on the RFP. If the RFP involves an IM, the IM will provide comments on the RFP at the meeting. The final RFP will include a communication indicating how the utility has answered the questions or addressed the comments. Utilities may also engage in an informal RFP review process with potential bidders and stakeholders.
- **"Self-Build":** Utility ownership options include either of the following:

- A generating plant that a third party proposes to construct on a site under its control and transfer ownership to the utility after completion
- A generating plant the utility proposes to construct on a site under its control. Utilities may bid the engineering, procurement and construction (EPC) work as part of the RFP or, if doing this outside of the RFP, must have detailed cost estimates to bid the resource as a “self-build” proposal within the RRP
- **QF/PURPA Issues:**
 - Utilities will file avoided cost updates based on their plans as currently happens. To the extent these avoided costs incorporate a fuel price forecast from a published source, utilities will update the avoided costs as frequently as necessary upon publication of a new forecast by that source.
 - Upon completion of an RFP, utilities will file a price formula, reflecting the results of the RFP, that will be available for QF projects between 2 MW and 10 MW for a period of no longer than twelve months following filing. If this formula contains a fuel price forecast that is updated by its source before the end of the twelve months, the utility will update the formula for the most recent fuel price forecast.
 - QF projects sized 10 MW and larger must participate in competitive bidding if an RFP has been initiated and, if no RFP is pending, will negotiate with the utility for contracts.

Tools

IRP was created before the Internet and, while Montana’s “new” planning and procurement rules were crafted after the rise of the web, the decade or so since then has seen a vast expansion in the capability and use of the web for communication. While many utilities and Commissions still use the web solely as an electronic repository of static paper documents, a better practice is emerging that incorporates the interactive, question-driven presentation of information and uses the web for virtual conversation. Some utilities employ these more interactive approaches for non-regulatory information.

We suggest that Montana begin to more aggressively bring the web into its planning and decision-making practice. It makes most sense to us that the utility create and maintain (likely within its existing website) the primary PDP website (its costs of doing so should be recoverable in its revenue requirement). The utility should assemble an advisory committee for this effort that includes people with expertise in presenting visual information and people that can help assess the effectiveness of possible information representations, as well as interested stakeholders.

The implementation should include links to the Commission’s website as appropriate; for example, to the non-contested case dockets opened for each planning cycle, and related contested case dockets (such as a pre-approval application). Other links could facilitate ready access to additional sources of relevant information or insight. Initially, the PDP website may simply present information about activity in the PDP cycle (meeting and RFP notices, meeting materials, plans, draft and final RFPs etc.) and a set of contextual information identified by stakeholders (such as the utility’s historical load and resource data). The Internet medium allows presentation in visual, dynamic formats. Contextual information should include the historical facts about the generating, transmission and distribution resources that are

the basis of an annual interaction with the Commission and stakeholders (see Planning Process section). Over time, the site should include a forum through which stakeholders could communicate and a place to post items of interest (such as regional or national news relevant to utilities and energy resources). It might also feature ways in which non-expert stakeholders could engage with the PDP.