
GRACEFUL SYSTEMS LLC MEMORANDUM

TO: NARUC
FROM: PAMELA MORGAN
MARTY HOWARD
SUBJECT: MONTANA RESOURCE PLANNING AND PROCUREMENT OPTIONS WORKSHOP
DATE: AUGUST 24, 2012

Approximately 40 people attended a workshop at the Montana Public Service Commission (MPSC) offices on August 21, 2012. Attendees consisted of stakeholders in the MPSC's exploration of its resource planning and procurement rules. The objective of the workshop was to discuss a draft set of conceptual changes to the existing rules. The changes were prepared by the consultants and circulated to potential workshop participants about a week in advance. The workshop produced valuable feedback on the draft conceptual changes. The Commission made a live stream of the meeting available and recorded it for future access.

The workshop format employed a panel of five diverse stakeholders engaging with the draft proposal topics. Panel members made brief presentations of their thoughts about a proposal topic, followed by discussion with one another, and then interacted with comments and/or questions from the others attending the meeting. Members of the panel were:

- Bill Pascoe, an independent consultant representing the interests of developers of smaller power projects and qualifying facilities (QFs)
- John Hines from Northwestern Energy Company (NWE)
- Jimmy Lindsay from Renewable Northwest Project
- Larry Nordell from the Montana Consumer Counsel's office
- Joel Cook from PPL Montana

This format worked well and gathered valuable feedback from a wide range of perspectives.

The panel members first spoke for 5-10 minutes on their overall reactions. These ranged from general support for many components of the proposal, especially those that were perceived as increasing the predictability and transparency of the procurement process, to general concern over the potential long-term consequences of parts of the proposal, especially proposal elements that might, in the view of some panel members, compromise the financial health of NWE. Other comments of interest during the opening statements included:

- Support for:
 - Including transmission in the planning process

- Providing more opportunity for involvement in planning
- Using an independent monitor for competitive bidding processes
- Concern about:
 - Incorporating rate design and cost allocation in planning
 - Lack of official Commission action on IRPs and RFPs
 - Potential ill-effects of greater regulatory involvement in both planning and procurement
 - Potential discouragement of utility-owned resources

The panel and other attendees then worked through the specific proposals in four categories:

- Planning content
- Planning process
- Procurement
- Tools

Some of the comments offered regarding the proposals' suggestions are listed below, grouped by category.

Planning Content

- Changes should not increase the workload associated with planning.
- Including transmission may not add much insight; the utility already plans separately for its transmission and distribution investments.
- More detail on the load forecast will not improve its usefulness.
- Transmission should be part of an IRP because transmission investment can be an alternative to generation investment, and vice versa.
- Including a backward look at actual data in planning should not interfere with doing a long-term (at least 20 years) forecast look for use in modeling.

Planning Process

- Moving to a three-year planning cycle makes sense, particularly if there are annual updates about current matters relevant to resource planning and procurement.
- Utilities should interact with the Commission on a regular basis regarding planning and procurement matters, but not in a way that would compromise Commissioners' effective judgments about ultimate outcomes. There are trade-offs between invitation-only meetings and open meetings. With limited attendance, discussion may be more frank and agreement more easily achieved. More open meetings may elicit a greater breadth of important topics and perspectives that might otherwise be overlooked or ignored.

- Potential suppliers may make better offers to the utility if they better understand the utility's situation, such as could occur with more supplier participation in the planning and procurement process, particularly during the utility's development of an RFP.
- It is difficult to provide meaningful input on IRP if one can only comment on a completed plan.
- How can the utility work to reach stakeholders that do not currently see themselves as such but are interested in utility services from a different paradigm; for example, utility support services for local generation and distribution systems?

Procurement

- Loosely defined or enforced bidding rules invite litigation, especially if apparent exceptions are made after an initial round of bidding has occurred: for example, if a late non-conforming bid is accepted.
- Too much Commission oversight of the procurement process can reduce efficiency and interfere with resource opportunities that offer good value to utility customers.
- The Commission need not require competitive bidding because resource acquisition that is not openly competitive puts the utility at risk of being required by the Commission to prove bidding was unnecessary or impossible in the specific context.
- Allowing comments on draft RFPs may reveal, clarify, or even settle issues, and instill greater confidence in the process. The Commission could resolve some uncertainty by either its own comments, or by responding to the comments of others. The Commission could also remain silent, leaving the utility to respond to issues raised in comments and to explain its responses in any ensuing request for associated rate treatment.
- Allowing a period for comments on RFPs interferes with the utility's control over what it is responsible for and could delay an RFP process unnecessarily.
- Competitive bidding processes should have the minimum complexity required to achieve their objectives. Such simplicity requires high clarity.
- In an RFP, a good balance - between utility autonomy and the Commission's responsibility to determine prudence - could be struck by employing a monitor who would report to the Commission at the end of an RFP process regarding the quality of the process. The monitor could also be assigned other specific tasks, e.g. reviewing the utility's conduct of its bid scoring methodology. A monitor should not be expected to participate in or report on direct utility negotiations with bidders.
- The costs of using an independent monitor may outweigh the benefits in some instances.
- Commission oversight of the procurement process is closely linked to pre-approval: requests for pre-approval increase the Commission's responsibility for resource

decisions and the procurement process oversight couples that responsibility with appropriate authority. A pre-approval process can reduce risk for the Commission because it gives the Commission an opportunity to influence a potentially flawed resource decision before that decision is made final.

- Pre-approval provides benefits to customers by reducing risk, allowing for higher utility credit ratings that in turn lower the cost of debt; utilities still bear operating risk.
- Avoided costs for QFs are hard to establish. However, there are ways to standardize the updating of avoided costs based on IRPs and to update inputs on a more regular basis, capping the avoided cost at market opportunity cost if the utility is not otherwise acquiring resources.
- It is not clear that continued required QF purchases benefit utility customers.
- A transparent and fair bidding process may provide support for restricting the availability of an avoided cost offer and standard contract to the smallest QFs for whom the transaction costs of participating in the bid would be discouraging.

Tools

- More timely access to planning- and procurement-related documents using the Internet would be especially helpful.
- An Internet-based forum around planning and procurement issues could be too chaotic to manage without placing an undue burden on the organization administering the forum.
- Customers could have Internet access to graphical representation of the utility's mix of resources and the environmental consequences of that mix.
- How to make the best use of the Internet's capabilities in planning processes could be a topic for the IRP.

At the end of the workshop, stakeholders were invited to provide the consultants with any further comments or questions they had within the week or so following the workshop. The consultants also explained the anticipated nature and schedule of remaining steps in the consultants' work.