Perspectives on Missouri IRP Rules

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Matt Michels – Managing Supervisor – Resource Planning

Overview

- Current state of IRP in Missouri
- Alternative approaches to IRP
- Characterization and Guiding Principles for setting rules under different approaches
- AmerenUE view of resource planning
- AmerenUE Criteria for Selecting a Preferred IRP Approach
- Other Concepts to Consider
- Proposed Next Steps

Current State of IRP in Missouri

- Regulatory focus is on following the process and complying with prescriptive rules
- Resultant plans carry relatively little weight in establishing customer rates
  - Only a determination of compliance with the rules is made
  - Plans themselves are not approved, and therefore do not represent a pre-approved procurement plan
    - *Determinations of decisional prudence are left to specific rate proceedings, although consistency with the utility's IRP is beneficial*
- Despite the fact that plans are not explicitly approved or rejected…
  - Staff and stakeholders use them as an indication of the path the utility plans to pursue
    - *Interest in any deviation from the plans on the part of the utility is high*
  - The plans represent a fairly well-defined course of action that the utility can pursue
    - *A starting point for ongoing planning and updates*
    - *Stakeholder review and comments provide an alternate viewpoint to consider*
- However, the process focus can lead to a weakening of the process itself, and therefore the plans as well ("Can't see the forest for the trees")

Alternative Approaches to IRP

- A survey commissioned by the California PUC and conducted by Aspen/E3 found a wide range of approaches to IRP in both restructured and non-restructured jurisdictions
- A similar survey of western utility companies by the Regulatory Assistance Project also identified a range of different approaches to IRP
- Objectives of the IRP process vary by jurisdiction as well – generalized examples include:
  - Process compliance – Did the utility conduct a good planning process?
  - Strategic/Collaborative – More focus on the plan itself, but no approval for procurement
  - Procurement approval – Review and approval of long-range plans and/or shorter term procurement plans
    - *May specify a procurement/implementation period that is shorter than the long-term planning horizon*
- Different objectives mean a different focus for the process and require that different principles be followed when crafting the rules
  - What are the overarching energy policy objectives?
  - Which is/are more important – the plan, the process or the open/transparent review?
  - At what point should resource decisions be approved? How are such decisions determined? What does approval mean?

Process Compliance Approach to IRP

- Philosophy is to follow a good planning process and “let the chips fall where they may”
- Characteristics of process-focused approach
  - Utility accountability is relatively high – follow detailed steps using prescribed methods
  - Stakeholder accountability is very low – nothing at risk with focus solely on utility’s process
  - Openness/transparency can be mixed, depending on the level of contentiousness over the application of the rules
  - Process complexity is high, with prescriptive rules on what must be considered and how it is to be analyzed
  - Frequency with which full updates can occur is long, driven mainly by process complexity
- Guiding principles to govern the setting of rules
  - Support the achievement of the state’s energy policy goals
  - Pre-determined interval for updates to incorporate better market information
  - Embody best practices for resource planning
  - Plans are to be considered indicative courses of action rather than approved procurement plans
  - Leave determinations of investment prudence to the ratemaking process
  - Clearly establish the definitions and parameters for findings of process deficiencies

Strategic/Collaborative Approach to IRP

- Philosophy is to foster open and ongoing discussion to drive toward a clear future vision
- Characteristics of strategic/collaborative approach
  - Utility accountability is moderate to high – planning is ongoing and highly coordinated with business planning
  - Stakeholder accountability is moderate to high – responsible for providing constructive and meaningful feedback
  - Openness/transparency is moderate to high – ability for frequent updates, no specific plan approval/disapproval
  - Process complexity is low, with little, if any, prescriptiveness on how to conduct analysis
  - Frequency with which full updates can occur is relatively short, driven mainly by the timing of significant changes in assumptions
- Guiding principles to govern the setting of rules
  - Support the achievement of the state's energy policy goals
  - Ensure that ideas, opinions, assumptions and analysis methods and results are shared (codify stakeholder process?)
  - Allow for creativity and innovation of analysis methods
  - Allow for frequent updates as assumptions and circumstances change
  - Plans are to be considered indicative courses of action, subject to changes in market conditions
  - Focus is on identifying an appropriate mix of resources to meet future needs
  - Leave determinations of investment prudence to the ratemaking process

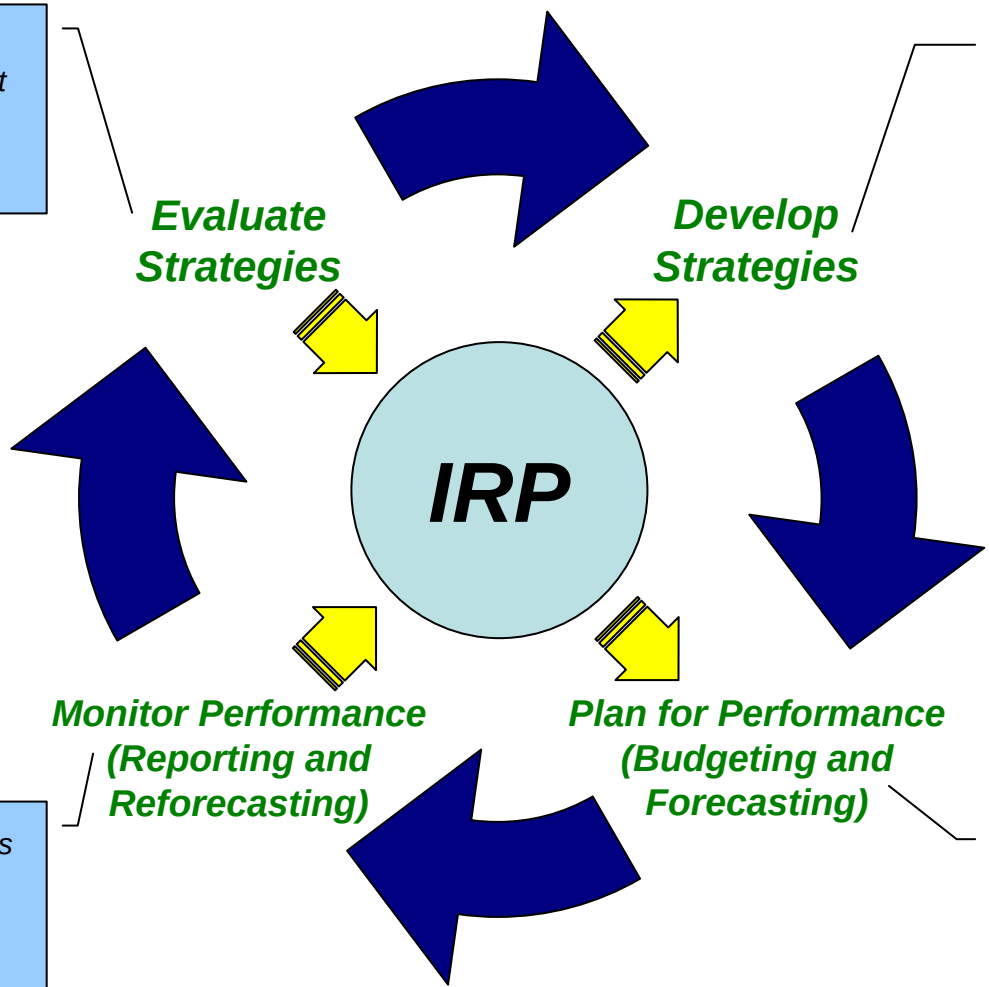
Procurement Approval Approach to IRP

- Philosophy is to conduct open, detailed planning through which investment decisions can be reviewed and approved
- Characteristics of procurement approval approach
  - Utility accountability is high – plans will be used to set utility's short-term course of action
  - Stakeholder accountability is high – approval of short-term investment decisions in IRP rather than rate proceedings
  - Openness/transparency is moderate to high – prescriptive requirements for approval of procurement plans, but long process interval
  - Process complexity is high, with great focus on short-term procurement plans and findings of decisional prudence
  - Frequency with which full updates can occur is relatively long, driven mainly by process complexity and the procurement plan approval process
- Guiding principles to govern the setting of rules
  - Support the achievement of the state's energy policy goals
  - Provide the option to transfer decisional prudence determination from ratemaking process to IRP for certain resource and resource-related decisions
  - Clearly establish the criteria by which plan quality is judged
  - Clearly establish the requirements for procurement approval
  - Ensure a balance between the focus on the approval process and the focus on the quality of the plan
  - Plans, beyond a short-term procurement period (if employed), are to be considered indicative courses of action

AmerenUE View – Critical Features of IRP Process

- Consideration of a broad range of viable resource options, both demand-side and supply-side
- Integration of environmental compliance strategies and energy policy objectives (e.g. Renewable Portfolio Standard)
- Robust assessment and determination of appropriate resource mix under uncertainty (address need for long-range flexibility)
- Linked to Business Planning process, with ability to incorporate changes in market conditions
- Stakeholder interaction – ability to exchange views on important matters

AmerenUE View of Resource Planning's Role



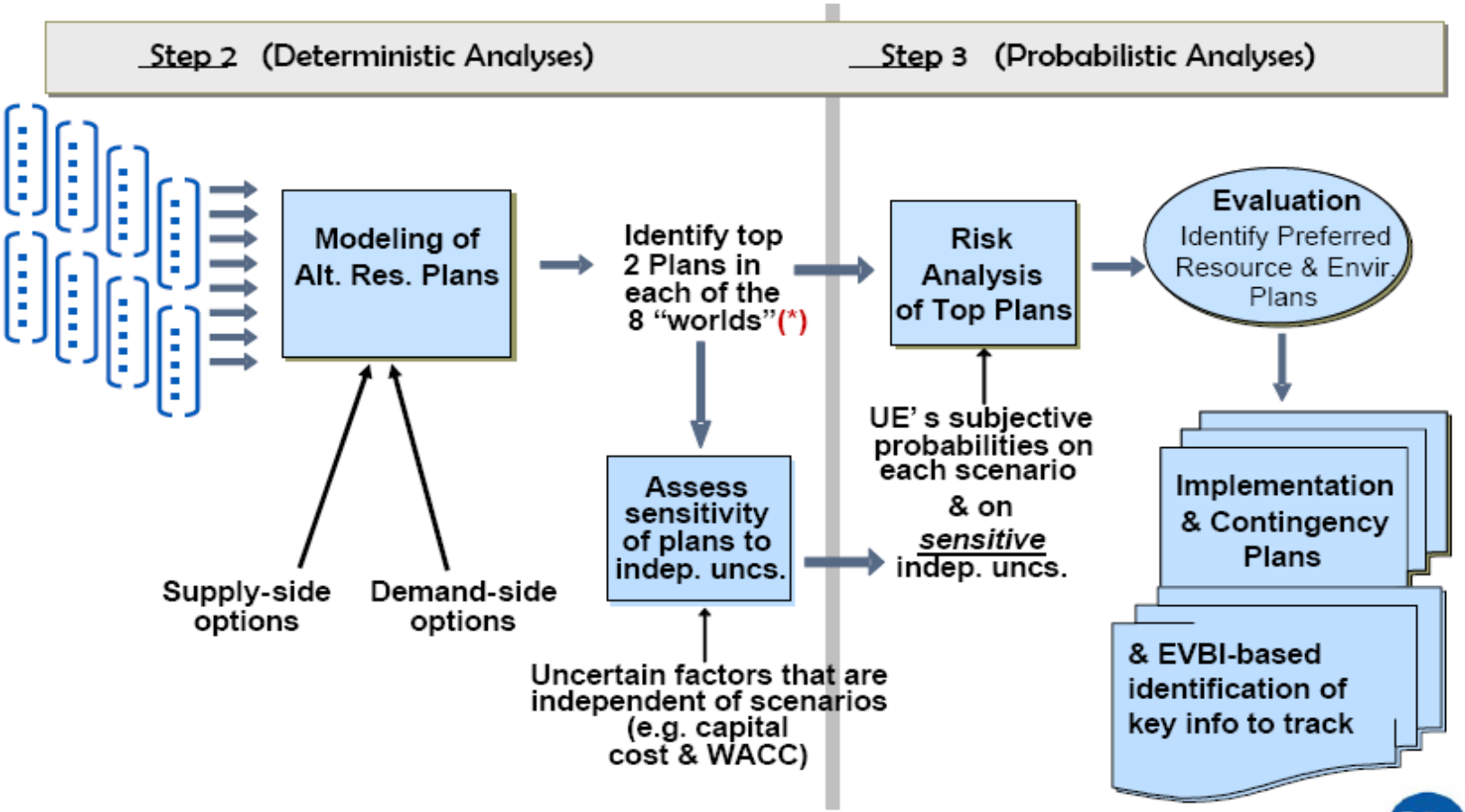
- *Evaluate existing strategies in the context of actual performance*
- *Provide guidance on potential strategies*

- *Integrated view of demand and supply balance*
- *Evaluation of multiple objectives*
- *Focus on critical uncertainties*
- *Evaluation of options in complete financial context*

- *Starting point for resource costs and timing*
- *Regulatory visibility of planned costs*

- *Feedback of actual costs and performance to IRP process*
- *Provides guidance on assumptions*

AmerenUE's IRP Approach – Integration and Risk Analysis



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(*) Not strictly limited to plans in top 2;
will also review for evidence of robust plans at tertiary level

AmerenUE Criteria for Selecting an IRP Approach

- Flexibility
  - Allow for continuous updates in the face of changing market conditions
  - Encourage and promote innovation and creativity in methods and approaches to foster discussion that is more focused on strategy and approach and less on process compliance
    - *Changes in methods should not require changes in rules or the need to file extensive waivers*
  - Limit prescriptiveness only to areas where it clearly adds value
  - Recognition of increasing complexity of resource planning decisions (RPS, CO2, etc.)
- Meaningful Process and Result
  - Follow a good, robust process without making it the sole focus
  - Advance discussion of strategy and vision
  - Acknowledgement of resource plans as viable paths, if not absolute
- Equitable balance of accountability between utilities and stakeholders
  - Process must be meaningful for all involved
  - Avoid imbalance between freedom to critique and responsibility for constructive input
  - Utility Board of Directors has the final decision on preferred resource plan
- Availability of Options for Cost Recovery Determinations

Other Concepts to Consider

- Renewables Integration Study to determine any transmission infrastructure and supply-side resources needed to integrate renewable resources
- Deliverability Risk Assessment to analyze the risk of delays in resource availability due to supply, program implementation or other factors
- Specific estimation of the value of GHG emission reductions
- Use of standardized load and resource tables to facilitate aggregation at the state level (as proposed in the current draft rules)
- Standardized methodologies for determining avoided cost and levelized cost of energy (incorporate into separate Planning Standards document)

Proposed Next Steps

- Thorough discussion and resolution of the purpose of IRP and the preferred approach
- Establish a set of Guiding Principles, consistent with the selected approach, to inform the development of detailed rules
- Consider the development of Planning Standards outside the language of the rules
  - Existing rules and recent utility waiver requests provide good material as a start
  - Review existing surveys of IRP practices and methods
  - Possibly conduct a new survey with focus on the Midwest region
- Identify need(s) for statement of Missouri Energy Policy Goals
- Adjust approach to development of new rules consistent with the selected approach and associated Guiding Principles