

October 19, 2009

RE: File No. EW-2009-0412, IRP Rulemaking Workshops October 19 and 20

Lena Mantle  
Manager, Energy Department  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102

Dear Ms. Mantle:

NRDC regrets that staffing limitations prevent it from participating in person at the workshop on the IRP rules occurring on October 19 and 20. NRDC has, however, reviewed the draft rules prepared by Staff and the utilities, along with the commentary on those, and hopes that parties will consider the feedback and input contained in this memorandum in lieu of our appearance. The informal workshop process is valuable for the useful exchange of ideas prior to formal written filings and one that NRDC heartily endorses. We want to remain part of this process even when our limitations prevent personal appearances.

Of greatest importance, NRDC wants to express appreciation to both Staff and the utilities for taking on the hard work of drafting potential rules for consideration in this workshop. Even though the drafts differ, there is much in each that we support and applaud. In particular, we strongly support section .070(1)(C) of Staff's draft rule, which requires that the utility's preferred resource plan "Utilize demand-side resources to the maximum amount that in the judgment of the utility decision makers is consistent with the public interest and achieves state energy policies." As indicated in NRDC's prior comments in this informal proceeding, helping utility customers become more energy efficient is the most beneficial action utilities can take to minimize cost in the current environment, whether to forestall new generating resource development or minimize future cost of compliance with existing or new environmental requirements. Moreover, most energy efficiency efforts result in greater personal and economic benefit to customers than just the cost of the energy saved. NRDC strongly supports this provision appearing in a final new rule.

NRDC also appreciates how both rule drafts, in different ways, recognize the dynamic nature of the planning environment in the coming years. Staff's rule does this through the contemporary issues process. The utility's rule does this more implicitly through the flexibility it seeks to create in the requirements and process. NRDC suggests melding the two approaches through the pre-integration analysis fling the utility rule proposes in section .080(4). This filing should include a narrative of what the utility believes are the primary matters this particular plan must address in the integration, risk analysis, and strategy phases, and the quantitative measures and qualitative risk factors the utility intends to use. Stakeholders could then comment on these matters and measures, as well as "deficiencies and concerns" so that, before the utility begins integration and risk assessment, all have

reached a common understanding of what the modeling and qualitative work will focus on. It would also be helpful if, at this stage, parties could request particular candidate plans to optimize a specific set of quantitative and qualitative measures. As discussed in greater detail below, the Commission process should provide an administrative law judge or hearings officer to help parties resolve disputes, which would include any disagreement about requested candidate plans.

In addition to the above, NRDC has three areas of suggested changes. In the order address below, they are to:

- Put the customer perspective more firmly at the center of the process
- Remove the “growth” bias in both sets of draft rules
- Clarify the avoided costs used to screen potential energy efficiency measures through the Total Resource Cost test

We close these comments with some observations on the process issues that seem to form a considerable portion of parties’ attention in this matter.

#### Customer Perspective

For the vast majority of customers, it is not rates that are important but what they spend to achieve what they need to achieve by applying energy, whether that is conditioning the spaces they live and work in, running various kinds of appliances and equipment, or lighting.<sup>1</sup> Indeed, most of these customers do not know the rates they pay. Accordingly, utility resource planning documents that present only future rate information are not meaningful to them and a goal that seeks to minimize only utility rates or costs does not fully serve their interests.

To improve how Missouri’s IRP rules address customer interests, NRDC suggests that:

1. The goal in section .010 use the phrasing “The fundamental objective of the resource planning process at electric utilities shall be to provide the public with energy services that are safe, reliable and efficient, at just and reasonable **costs** . . .” rather than “rates” and that the primary quantitative standard is “minimization of long-run **costs**,” not just long-run utility costs.
2. In every section in which the IRP rules require that the utility present estimates of long-term rate information, it also require that the utility present estimates of long-term bills, which combine the projected rates with forecasted usages calculated in “units” that will be meaningful to customers. Such units might be by household (e.g., single family and multi-family), by commercial purpose (e.g., office space, retail space, educational space), and at least samples of bills for various types of industrial activity or output. The projected bills should assume that the

---

<sup>1</sup> NRDC acknowledges that there are certain, primarily industrial, customers for whom rates are extremely important because of the commodity nature of their output and the use of legacy equipment and processes that would be expensive and/or difficult to upgrade to more energy efficient ones. Because these customers are exceptions, however, rather than the “rule”, NRDC urges that utility planning deal with them as such and not subvert all customer interests to that handful that, today, care most about rates.

“customer” has taken advantage of all cost-effective energy efficiency programs included in the plan. The information should include showing the estimated bills as a percentage of the personal income and economic output forecasts used for preparing the load forecast. This will provide customers critical context for assessing the information shown.

### Growth Bias

The combined effects of federal, state and local standards and code requirements, energy efficiency portfolio requirements, demographic changes, continuing globalization effects, and many other things may mean that the future for electric utilities is not of load growth, but of load decrease. These circumstances, however, will not eliminate the need for resource planning. Planning to identify the best resource portfolio for the anticipated circumstances will remain critically important. NRDC urges that Missouri’s new IRP rules operate equally well whether the planning is to meet load growth or adjust the existing resource portfolios to meet future conditions.

The implicit assumption that resource planning is about meeting load growth is strongest in the utility’s draft rules but also appears, in places, in the Staff draft. For example, the utility draft load forecast rule identifies a base case and a high load growth and low load growth case. The Staff draft refers to “growth” in the integration section. More often, however, in referring the future, the Staff draft simply states “load,” which is the approach NRDC supports.

Corollary to eliminating the growth bias, NRDC suggests that the rules strengthen each planning cycle’s grounding in the current state of affairs. Specifically, we urge that the rules require utilities to apply the quantitative and qualitative criteria<sup>2</sup> they propose to use to screen future resources to their existing portfolios recent performance. This is the baseline, if you will, upon which the proposed preferred resource plan should improve. We specifically suggest that, for both this baseline and evaluation of potential future resource portfolios, the criteria include actual air, waste, and water impacts. Although the drafts require stating these in monetary terms, the utilities must know the amounts first to prepare the monetary estimates and presenting these amounts will make the issue of environmental impacts more transparent.

### Avoided Cost

Avoided cost plays a critical role in resource planning: energy efficiency measures that are not cost-effective when compared to avoided cost are eliminated from further consideration in the process.<sup>3</sup>

---

<sup>2</sup> Not all of the criteria may be relevant to a retrospective look but, at a minimum, the rates that existed, the bills that customers paid, and how the portfolio performed under the various unusual circumstances that actually occurred would be relevant and useful.

<sup>3</sup> It is not clear from either draft rule whether utilities will assess cost-effectiveness on a measure, program, or portfolio basis. Energy efficiency programs as typically designed sometimes include measures that do not pass the TRC test. These less cost effective measures are included to create complete program offerings attractive to the consumer. Low income programs often include weatherization measures that do not pass the TRC test; the

Because of this, it is important to take some care around defining avoided cost. The utility draft rule provides no specificity here, which is a concern. Staff's proposed rule provides more detail in section .050 but leaves two concerns unaddressed. First, how will the avoided capacity and energy costs consider uncertainty? At a minimum, future construction (capacity) costs and future fuel costs (energy) are uncertain. Which of many uncertain estimates should the utility use in avoided cost? TRC calculations require that one use just one number but the rules should require that utilities:

- Identify the specific numbers selected out of the ranges used elsewhere in the plan
- For measures screened out, identify the points on the ranges of key assumptions at which that conclusion would reverse itself

Second, the Staff proposed rule is unclear what type of plant utilities should use for avoided generating capacity. To ensure that the planning properly reflects the long-term, NRDC suggests that the rule specify a base-load plant as the capacity avoided by energy efficiency, rather than a peaking plant or intermediate-load plant. Even if a utility does not need a base-load plant in the near term, cumulative energy efficiency ultimately avoids the construction of base-load capacity and that should be the basis of cost-effectiveness calculations.

#### Process Issues

Both at the Commission hearing in late August and in the respective Staff and utility draft rules, it is apparent that disagreement exists regarding the level of detail the rules should have and that significant "history" exists around the matters of deficiencies and concerns. As a newcomer to Missouri IRP processes, NRDC lacks foundational knowledge to be of much use in these debates but we wanted to offer an outside perspective for what use it might be to those deep in the matter.

With respect to the detail necessary in the requirements, we suggest that the utilities, Staff and other highly involved parties stay focused on what they likely already agree upon: the goal is a planning process and implementation plan that focuses on the matters most meaningful to the decisions that must occur for actions in the Implementation Plan and the time frame that those decisions will implicate. Thus, for example, if a utility does not need to start planning a new supply-side resource (other than mandated renewable resources) in the Implementation Plan, it should not devote a lot of time and effort to inventorying every supply-side option and its costs and running numerous portfolios with the addition of these resources at years deep into the 20 year planning period. The options and information will surely change before the next planning cycle. Perhaps this "sorting" of what is important can happen in the waiver process. Perhaps some of the detail can come out of the rules and into Staff "guidance" documents that are easier to update and adapt to the circumstances at the time of

---

programs themselves are often not held to cost effectiveness restrictions. Despite this, they undoubtedly function as a utility system resource. NRDC urges the rules clarify that utilities may include in the process measures or programs that do not pass a strict TRC test as long as the energy efficiency portfolio as a whole for a given market segment passes the TRC test.

a particular utility's planning cycle. NRDC suggested a "plan for the plan" in our August comments. This might be informal, rather than a rule – a time the core parties meet early in the start of the planning cycle and strive to reach agreement on the critical issues and analysis for the circumstances facing the utility. Whatever the approach taken, it is useful for everyone to "keep the end in mind."

With respect to deficiencies and concerns, NRDC urges that the parties discuss finding a way to ensure these matters get aired at the point(s) when it is least disruptive and easiest to address them and look for a process means to resolve disagreements about the usefulness or necessity of a given analysis most expeditiously, whether through an administrative law judge or other third party. Not all interesting analyses are useful; not all useful analyses are necessary. The goal is a plan that draws on what a diverse group of people think is the right set of known matters and solid assessment of risky or unknown assumptions from which to make required decisions.

NRDC supports Commission acknowledgement of a resource plan but we believe the language used is less important than acceptance of the principle and goal. Prudence requires the decision a reasonable person could make based on what is known or knowable at the time. Resource planning is about achieving this at a time when the utility can make a different decision, rather than waiting until significant time has passed and money been spent, at which point the consequences of disagreement are so much worse and no one is likely to walk away satisfied. If Commission "acknowledgement" focuses everyone on achieving this goal, then it is useful. If the Commission simply expects this as the outcome, official "acknowledgement" may not be necessary.

### Conclusion

Thank you for your consideration of these comments. Again, NRDC regrets that we cannot participate in person.

Sincerely,

Dylan Sullivan  
Energy Advocate  
Natural Resources Defense Council

Pamela Lesh  
Graceful Systems LLC