

Comments of the Natural Resource Defense Council

January 25, 2009

Docket No. EW-2009-0412

Re: Chapter 22 Electric Utility Resource Planning Revisions

Good morning and thank you for providing the opportunity to share our perspective on the latest staff draft of the revised Chapter 22 resource planning rules. My name is Rebecca Stanfield and I am a senior energy advocate working in the Midwest office of the Natural Resources Defense Council.

First, I would like to applaud the thoughtful and diligent work of staff and many others over the past six months to develop the current draft rule revisions. Missouri and America face extraordinary challenges in meeting future energy demand in a way that is consistent with the public interest and our economic and environmental imperatives. Utility resource planning can be a critical tool to meet these challenges, and we believe that this draft rule incorporates many of the features needed to optimize both planning process and outcomes. Rather than walking through the entire rule line by line today, I will just say that there is much to be commended in the draft, and I will briefly focus on five changes that we believe would make the rule stronger.

- a. **Incorporation of the goal of achieving all cost-effective energy savings:** We were pleased to see that the rules incorporate the Missouri policy goal of acquiring all cost-effective demand side savings in section 22.050(1) which enumerates the criteria by which a utility will develop demand-side programs and rates for integration into the plan. However, other sections of the rule create confusion and ambiguity about how the utility should evaluate the adequacy of its demand-side plans. Specifically, section 22.070 specifies that in selection of a resource acquisition strategy, the utility must choose a plan that uses demand-side resources “to the maximum amount that comply with legal mandates and in the judgment of the utility decision makers are consistent with the public interest and achieve state energy policies.” This language seems to imply, without specifying, that the acquisition strategy should meet the state’s goal of capturing all cost-effective demand-side savings, but it lacks clarity and calls into question whether that goal, which is clearly articulated in section 22.050 is also the applicable standard to use in section 22.070. Further ambiguity is created by the omission of this goal in the resource planning objectives enumerated in the planning objectives articulated in section 22.010(2), which are critical reference points for the utilities throughout the planning process. This confusion is compounded by the focus on rates, rather than costs, in the planning objectives, which relegates consideration of cost-lowering demand side resources to a less important objective. We respectfully suggest that the goal of capturing all cost-effective demand side savings be clearly articulated not just as a criteria for developing demand-side program options, but as a key planning objective that guides the integration of the resource options and the

selection of an acquisition strategy. With this change, the rule would more plausibly meet the PURPA standards to establish cost-effective energy efficiency as a priority resource.

- b. **Performance Measures:** When taking the critical step of integrating the resource options and choosing a preferred plan, utilities are required in the current draft section 22.060(2) to describe and document a set of quantitative performance measures. These performance measures as currently drafted include the out-of-pocket costs to participants in demand-side programs, but do not include a measure of the value of net savings achieved by the demand-side programs or rates. The net savings would subtract the costs, including out of pocket costs of participants, from the avoided costs, a calculation that is already required to be performed in the context of the development of a demand-side resource portfolio. We would strongly suggest that the use of the net savings value would be a far more meaningful performance measure upon which the utility should assess alternative plans.
- c. **Evaluation of demand-side plans:** Good evaluation is critical to successful energy efficiency plans. Therefore, we applaud the staff for requiring utilities to file evaluation plans as part of the tariff application, and for articulating the main elements that must be part of the evaluation. However, it is a glaring omission that the current draft does not require the evaluation to be conducted by an independent third party, ideally reporting directly to the commission rather than to the utility. In any audit, the auditors must be free in appearance and in fact from anyone with a vested interest in the outcome. The success of the program depends upon the credibility of the evaluation, which in turn hinges on independence from the program implementers. We would urge a revision to this draft that specifies that evaluation must be conducted independently.
- d. **Iterate between avoided cost determination and risk analysis.** The rule does not indicate to what extent, if any, utilities should take uncertainty regarding the costs or performance of supply-side resources into account in setting avoided capacity and energy values used to check the cost-effectiveness of potential DSR. The selection of single point estimates in building avoided costs is unrealistic. The screening should be done with at least low, base, and high case estimates for these avoided capacity and energy costs.
- e. **Ensure a whole portfolio look.** It appears to us that the rule does not necessarily require that utilities look at any new resources – supply-side or DSR – in the context of existing resources, some of which may be facing costly capital additions, constraints on their output, or additional variable costs (emission allowances). Will IRP consider DSR as a cost-effective way to avoid the upward cost pressures associated with existing plants? If an existing plant will face such issues within the planning horizon, will the IRP analyze the effects of consistent DSR now to minimize or avoid the eventual replacement of that resource because of efficiency gains? Perhaps this happens now but we cannot tell from the rule or the IRPs filings we have perused so far.
- f. **Evaluate the amount of material considered highly confidential.** Our effort to become familiar with Missouri IRP has been seriously hampered by the large amount of material the Plans treat as “highly confidential.” This appears to include such basic information as fuel price forecasts, avoided cost calculations, energy efficiency spending levels, and cost rankings of supply-side resource alternatives. In NRDC’s experience, admittedly not focused in Missouri until recently,

this information has not been confidential in other IRP or similar proceedings. Although parties can access highly confidential information, that is only a partial solution. Any information that cannot be shared publicly harms the perceived transparency of the process and understanding of the result. The Commission could ask a small working group to look into this and make recommendations regarding what must be confidential and why, revising practice accordingly.

- g. **Contemporary issues.** We appreciate the inclusion of the process contained in section 22.080(4) for placing “contemporary issues” before the utility well in advance of its April 1 filing deadline so that the plans may appropriately incorporate evolving conditions. We believe this process can help to make the planning process far more outcome-oriented. Traditional planning envisions a process driven almost entirely by forecasts of what the utility and its stakeholders think about what is going to happen, including their forecasts of what they think is uncertain and the probabilities by which those uncertainties might occur. Aside from vaguely defined objectives, such as “a just and reasonable rate” the planning occurs without the benefit of any process to define where we want to be one and two decades from the starting point. For example, what capabilities are needed in the grid to accommodate high penetration of electric vehicles over the next 15 years? Rather than trying to predict that penetration rate and react to the circumstances, the resource planning process could be designed to create conditions favorable to high penetration rates. Such goal-based plans provide an important complement to our usual forecast-based plans, allowing us to look at things from another perspective and ask whether a given set of steps is “worth it.” We are hopeful that the contemporary issues process can provide an avenue for building consensus around more concrete objectives.
- h. **Acknowledgement.** Finally, we agree with those parties who argue in favor of Commission acknowledgement of a plan, rather than just a process review. We disagree with those who argue that acknowledgement would disrupt the rigors of demonstrating prudence, or unduly shift risk to ratepayers. A process of acknowledgement, or denial of acknowledgement, may well help to avoid imprudent expenditures before they happen, lowering risk for both ratepayers and the utility.

Again, we appreciate the opportunity to comment on this latest draft revision to the Chapter 22 planning rules, and commend the staff and others for the work that has brought us to this point. Thank you for consideration of the suggestions we make today, and we look forward to continued participation in this process.