Service Date: August 24, 1994

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER OF the Submission of Montana Power Company's Integrated Electric Least Cost Resource Plan	)))))	UTILITY DIVISION DOCKET NO. 93.3.9 FINAL ORDER NO. 5745b

BACKGROUND

1. The Montana Power Company filed its initial Integrated Least Cost Resource Plan (plan) on March 15, 1993, pursuant to ARM 38.5.2001-2012 (rules).

2. The Commission received comments from interested parties in writing and orally at public hearings. The Commission also employed a consultant to review MPC's plan and to report to the Commission whether the plan was consistent with the rules.

3. In Order No. 5745, issued September 23, 1993, the Commission found that MPC's plan lacked sufficient transparency to determine whether the plan was consistent with the rules and directed MPC to refile its plan, correcting the transparency problems, within 60 days. In addition, the Commission provided 30 days for interested parties to submit written comments on MPC's refiled plan.

4. On November 23, 1993, MPC filed supplemental information on its plan. No comments were received within the 30 day period provided by Order 5745.

5. On July 7, 1994, the Department of Natural Resources and Conservation (DNRC) submitted comments on MPC's November 1993 supplemental filing. The Commission's consultant provided a final report and recommendations to the Commission on July 18, 1994. Based on its consultant's report and recommendations, and review of the DNRC's comments, the Commission issues the following findings. These findings will primarily address MPC's response to paragraph 7 of Order 5745.

DISCUSSION

6. It has been well over one year since MPC initially filed its integrated least cost resource plan. MPC is scheduled to file its next plan in March 1995. The Commission finds that more time spent reviewing the current filing will not benefit MPC or the state of Montana with respect to furthering the goals of integrated resource planning. Suggested changes to MPC's planning process must be provided to the Company well in advance of the next filing date so that the suggested changes may be incorporated into the process.

7. Overall, the Commission is pleased and encouraged by MPC's efforts to comply with the Commission's IRP guidelines. The Commission especially appreciates MPC's efforts, through its supplemental filing, to improve the transparency of its planning process. The rules state, however, that integrated resource

planning is "an on-going, dynamic and flexible process" and the Commission believes MPC's process can and should be improved.

8. The Commission accepts MPC's 1993 Integrated Least Cost Resource Plan, as supplemented, and finds that it sufficiently satisfies the integrated least cost resource planning guidelines. The Commission's acceptance of MPC's plan does not constitute acceptance or approval of any individual resource contained in the plan and does not suggest that if the same resources are contained in MPC's 1995 plan that that plan will be accepted by the Commission. Consistent with ARM 38.5.2012 (4), the Commission's acceptance of MPC's plan does not extend to MPC's load forecasting methods or results.

9. The Commission agrees with its consultant that, while the supplemental information provided by MPC in its November 1993 filing increases the transparency of the plan in terms of the information provided, the presentation of that information should be improved. The Commission does not feel that MPC's 1995 filing needs to be as voluminous as the 1993 filing, including all the supplemental information. MPC should attempt to distill key information from the resource summary sheets, present this information in a clear and concise manner and explain how this information was used to obtain the preferred final plan.

10. Information on demand-side resource evaluation should be expanded in the main volumes by distilling key process

information from the memos, papers and reports included in Appendix A of the November filing. The Commission agrees with DNRC that, rather than providing source material, the IRP process would be better served by a narrative summary with illustrative examples of some specific DSM measures[1]. In addition, MPC should analyze and illustrate the sensitivity of the DSM portfolio to changes in the cost effectiveness level. The rules specify a cost effectiveness level of 115 percent of long-term avoided costs (ARM 38.5.2011). This cost effectiveness level is designed to offset the less than optimal acquisition of demand side resources by ratepayers which results from market failures and market barriers. MPC's 1995 plan should discuss the Company's efforts to identify and reduce, remove or overcome these barriers.

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[1] This comment is found in DNRC Attachment A: MPC's Responsiveness to Commission Order No. 5745 p. 2. The attachment was not included with DNRC's July 7, 1994 comments. However, on p. 2 of those comments DNRC states that it is available on request.

11. The Commission finds that more creative use of graphs (especially supply curves for both demand- and supply-side resources), tables and diagrams may help to efficiently convey large amounts of information. Graphs, tables, diagrams, etc. should be placed appropriately within the text rather than in a separate appendix. An index which references the page number for each graph, table, diagram, etc. should also be included. The Commission finds that MPC should, if it has not already done so, review the integrated resource plans of the following utilities for ideas on how to improve its presentation of information: New England Electric System, Potomac Electric Power Company, Nevada Power Company and Sierra Pacific Power Company[2].

12. Both DNRC and the Commission's consultant expressed concern over MPC's use of benefit-cost ratios in the initial screening process. DNRC stated that "...under certain conditions maximizing B/C is inconsistent with maximizing NPV [net present value] and that only the NPV criterion [is] consistent with maximizing society's welfare." The Commission finds that MPC's 1995 plan should provide supply curves for demand- and supply-side resources based on the net present value societal cost of the resources. The Commission finds that the information

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[2] These utilities were selected based on a recommendation from the Commission's consultant. See Comments of Commission consultant Cynthia K. Mitchell on MPC's November 1993 Revision. July 15, 1994.

provided by the supply curves will assist interested parties and the Commission in intuitively judging the reasonableness of preferred plans selected by MPC's modeling process. The supply curves need not necessarily be used as inputs into MPC's modeling process. MPC should construct a resource plan which minimizes total net present value societal costs which may be compared to MPC's preferred plan. In addition, MPC's preferred plan as well as the next three highest ranking plans should be tested against a set of alternative futures.

13. The findings above address issues related to the Commission's findings in paragraph 7, Order 5745. DNRC's comments on MPC's November 1993 supplemental filing identified several additional issues which it feels MPC should analyze in the 1995 plan. These issues include incorporating transmission and distribution planning into IRP, determining the capacity benefits of DSM, analyzing fuel switching as an electric resource and service to discretionary contract loads (Rural Electric Cooperatives). At this time the Commission finds only that these issues appear to fall within the realm of integrated resource planning and leaves to MPC and its advisory committee if and how these issues should be addressed in the 1995 plan.

14. Finally, the Commission finds that MPC's 1995 plan should detail the progress the Company has made in completing the goals set forth in its 1993 action plan. If the Company abandons

any of the 1993 action plan items in its 1995 plan, the Company should explain what circumstances led to the decision to abandon the item.

CONCLUSIONS OF LAW

1. Montana Power Company is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to Title 69, Chapter 3, MCA.

2. The Montana Public Service Commission may require public utilities providing electric service to file plans for meeting requirements of its customers (integrated least cost resource plans) in the most cost effective manner consistent with the utility's obligation to serve. ' 69-3-1204 (1), MCA.

3. The Montana Public Service Commission may adopt guidelines to be used in preparing integrated least cost resource plans. ' 69-3-1204 (3), MCA.

4. If integrated least cost resource plans do not meet the requirements of the Commission guidelines, the Commission must return the plan to the utility with a list of deficiencies and a time certain to submit a corrected plan. ' 69-3-1204 (3), MCA.

5. The Montana Public Service Commission has adopted integrated least cost resource planning guidelines. ARM 38.5.2001-2012.

ORDER

1. Montana Power Company is hereby directed to make every effort to incorporate the suggestions and comments made in this order into its 1995 integrated least cost resource plan.

2. This Docket is hereby closed.

DONE AND DATED this 22nd day of August, 1994, by a 4 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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BOB ANDERSON, Chairman

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BOB ROWE, Vice Chairman

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DAVE FISHER, Commissioner

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NANCY McCAFFREE, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.