

Open and Transparent Integrated Resource Planning

The landscape for traditional electric utilities in the U.S. is being changed rapidly as new technologies interact with aging infrastructure, and energy efficiency-minded customers opt for cleaner, sometimes self-generated sources of power. Natural gas has supplanted coal as the go-to fossil resource while electricity demand has been stagnant in the past few years. The power companies' one-way, we make it, you buy it business model is no longer sufficient.

Since the 1980s, an integrated resource planning (IRP) process has become the norm in helping utilities plan for an uncertain future. IRPs, in most jurisdictions, have evolved to allow for both supply-side options, like renewable energy, and demand-side options, like energy efficiency and demand response, to play a larger role in meeting the needs of the utility. Energy Alabama calls for implementing best practices for IRP planning across the state, which include a participatory process with significant stakeholder involvement.

Specifically, Energy Alabama supports open and transparent integrated utility resource planning that includes meaningful participation by the utility, the utility regulatory agency, and consumer and environmental advocates.

Background |

Most electric utilities are monopolies, have no competition and require regulation by a government body unless it is a cooperative. The goal is to strike a balance between the utility's needs to have the resources required to supply electricity accompanied by a reasonable return on its investment and consideration for the customers' need to pay no more than necessary. In traditional regulatory planning, utilities would project how much electricity would be needed and describe how to meet the need through supplying, transmitting and delivering more power from

various sources. However, in the 1970s and 80s energy crisis and cost overruns for nuclear construction created disruption in energy supply. In response, the Public Utilities Regulatory Policies Act of 1978¹ recommended that states begin to look at options to diversify supply and reduce electricity demand as well – both supply-side and demand-side options – by using integrated resource planning.

What is an Integrated Resource Plan (IRP)? |

The goal of an Integrated Resource Plan (IRP) is to identify the least-cost mix of supply and demand side resources for the utility and its consumers consistent with safety, reliability and reserve capacity. Least cost is the total cost over the planning horizon given the risks faced, which is interpreted in some states to include the environmental costs. A valuable IRP process tends to focus on reducing bills and not just rates, because energy efficiency is one of the tools for meeting demand. Energy efficiency lowers demand as well as customer bills.

Why Have an Open and Transparent IRP? |

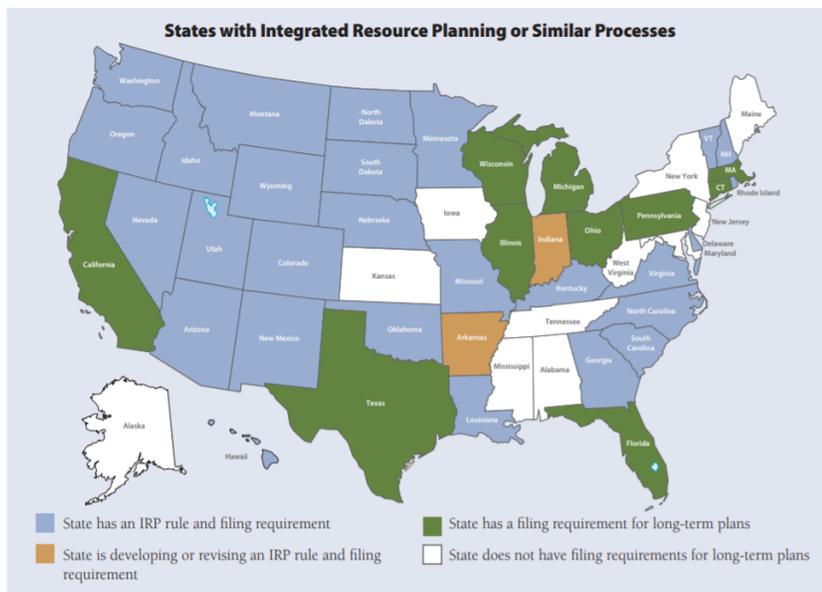
An IRP with stakeholder participation and Public Service Commission oversight for investor-owned utilities like Alabama Power should require utilities to evaluate consumer-provided resources like energy efficiency or distributed solar that may benefit ratepayers rather than being of primary benefit to shareholders.

According to the EPA Energy and Environment Guide to Action, “A successful electricity resource planning approach typically includes:

- Rigorous and meaningful participation of diverse stakeholders, including the utility, utility regulators, consumer advocates, and environmental advocates.
- Development and vetting of key analysis factors, such as demand forecasts, commodity price forecasts, and available resource options.
- Use and vetting of one or more correctly scaled and structured electricity system models.”²

IRP Requirements in Other States |

As shown in the map³, as of 2013, 39 states rely on IRPs or a similar process, but differ in the specifics of their requirements. A 2013 review for the Regulatory Assistance Project (RAP) of “Best Practices in Electric Utility Integrated Resource Planning” identifies Arizona, Colorado and Oregon for having model IRP requirements. Clear rules, stakeholder group involvement, post-submission public review and comment to determine utility choices are several features they identify as being in the public interest.



What Do IRPs Currently Look Like in Alabama? |

Tennessee Valley Authority: As a federal entity, TVA is governed by an appointed board of directors, which has chosen to have one of the most robust IRP public outreach processes in the U.S. Interested consumers can attend public meetings and webinars and submit suggestions and comments in person and online at specific times during the year-long process. Also, a twenty-member IRP working group meets with TVA staff monthly to provide their input. Eight members represent local power companies and industrial customers and twelve are from state government, research and academia, economic development and energy, environment, and sustainability interests. The working group evaluates different scenarios and strategies and provides input on assumptions as TVA plans how to manage their future system portfolio. There is also a public review and comment period after the plan is published.⁴

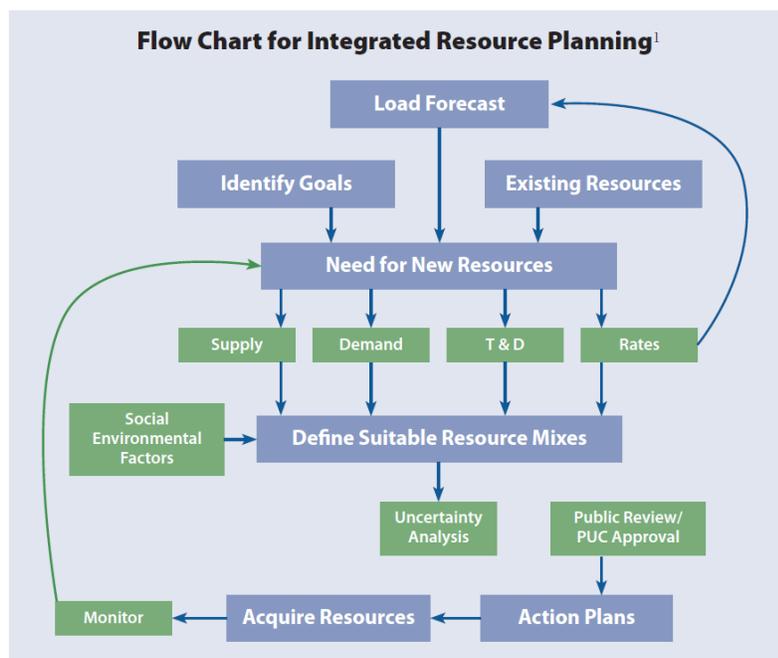
Alabama Power: Alabama Power Company (APC) has an IRP which is created privately every three years on the same schedule as the other two Southern Company operating entities – Georgia and Mississippi Power. The Georgia PSC has a formal IRP process; Mississippi is considering implementing one and has received comments about how best to structure a process. The Alabama PSC has no requirements and no formal review for Alabama Power’s IRP. It is only “submitted” to the PSC and not “filed”. Even a redacted version of the actual final report cannot be viewed by stakeholders. There is no opportunity for the public to intervene or provide a consumer perspective for the plan. The brief narrative of IRP conclusions provided by the utility has been extended in recent years as a result of pressure from affected parties. However, there is no stakeholder participation in the development of the plan.

What Could an IRP Look Like in Alabama? |

Most private utility integrated resource planning processes roughly follow the steps in the flow chart below.⁵ What tends to vary across states are the regulatory requirements for public input during the planning process as well as for a final review.

The best IRP practices serve to balance the needs of the utility to have resources to provide safe, reliable service and the customers’ interests in paying the least amount necessary. Successful IRPs also evaluate a wide array of potential scenarios for the future and strategies for how a utility might operate in such a future.

According to Ceres, an organization involving one hundred very large investors with over \$10 trillion in assets, “Collaboration and transparency are essential ... and will require robust, transparent and inclusive processes for both Integrated Resource Planning and Integrated Distribution Planning.”⁶ The Regulatory Assistance Project also suggests citizen participation: “For an IRP process to be deemed successful, it should include both a meaningful stakeholder process and oversight from an engaged public utilities commission”⁷ and, “A proper IRP will include discussion of the inputs and results, and appendices with full technical details. Only items that are truly sensitive business information should be treated as confidential, because such treatment can hinder important stakeholder input processes.”⁸ The World



Resources Institute emphasizes that “An IRP is most effective when it is created through a planning process that is informed by public involvement and active dialogue with national policymakers, state agencies, customer and industry advocacy groups, project developers, civil society, and others.”⁹

Benefits of an Open Transparent IRP Process for Customers |

Policy, market, and technology-driven changes, as well as aging plant and transmission infrastructure, are requiring alterations to the business models for electric utilities. Grid flexibility, reliability, and resilience are increasingly important as utilities and the communities they serve are faced with managing extreme weather events and a new operating environment.

Where a regulator provides a public process for an IRP, stakeholders--consumers' groups, industries, environmental advocates, business groups and others--can participate in the planning and review process.

A structured process for including stakeholders in the utility's IRP process can:

- Allow the public to weigh in on issues germane to utility energy planning that might not otherwise be addressed by the utility or the regulator;
- provide for input that can promote technology improvements in energy efficiency, transmission, distributed renewable energy and pollution reduction;
- increase the opportunity to broaden utility thinking to include social and environmental impacts and address innovation and emerging challenges;
- help create trust, reduce conflict and increase buy in from affected parties especially when it comes to rates proposed to address the identified challenges and potential solutions.

Conclusions |

Past Alabama Public Service Commissioners have considered requiring Alabama Power to “file” their Integrated Resource Plan rather than only “submit” it. This would at least open the IRP process so interested parties could access the finalized document with sensitive information redacted. To date, the Commission has rejected even that weak option.

Private and opaque decisions will continue to determine the future course of this rapidly transforming market and may better serve investors than customers unless provision is required for stakeholder input. Alabama Power is well rewarded for capital investments in legacy technologies. Consumer protection oversight at the PSC is weak, dependent on the choices of the Alabama Attorney General, and currently there is no guarantee that the utility and PSC decisions will be in the best interests of all Alabamians.

The Alabama Public Service Commission has an opportunity to improve the provision of low-cost, low-risk electricity for its only regulated utility, Alabama Power, by following the best practice lead of other states and the advice of investors and regulatory advisors. Planning should be transparent, and consumers should have an adequate opportunity for knowledgeable and effective representation in the planning process and in the rate setting process overseen by our Public Service Commission

To have a successful Alabama IRP process the Alabama legislature should enact a law requiring the PSC to conduct an open and transparent IRP process, as Georgia has required since 1992.¹⁰

Without this necessary legislative and PSC action, customers are left in the dark about the demand and supply assumptions and analyses the utility conducts and whose interests they serve.

¹ PURPA <http://energy.gov/oe/services/electricity-policy-coordination-and-implementation/other-regulatory-efforts/public>

² EPA, Chapter 7.1: Electricity Resource Planning and Procurement' of the Energy and Environment Guide to Action <https://www.epa.gov/statelocalenergy/energy-and-environment-guide-action-chapter-71-electricity-resource-planning-and>

³ Best Practices in Electric Utility Integrated Resource Planning: Examples of State Regulations and Recent Utility Plans, by Rachel Wilson and Bruce Biewald, Prepared by Synapse Energy Economics for the Regulatory Assistance Project, p 5. (<http://www.raonline.org/document/download/id/6608>)

⁴ <https://www.tva.com/Environment/Environmental-Stewardship/Integrated-Resource-Plan>

⁵ Wilson & Biewald , p. 4. (<http://www.raonline.org/document/download/id/6608>)

⁶ Ceres, Practicing Risk-Aware Electricity Regulation; 2014 Update, p. 20.

https://www.ceres.org/sites/default/files/reports/2017-03/Ceres_RiskAwareElec_2014Update_111714_final.pdf

⁷ Wilson & Biewald , p. 2. (<http://www.raonline.org/document/download/id/6608>)

⁸ Wilson & Biewald , p. 32. (<http://www.raonline.org/document/download/id/6608>)

⁹ World Resources Institute, 10 Questions To Ask About Integrated Resources Planning

http://www.wri.org/sites/default/files/wri_10questions_integrated_resources_planning.pdf

¹⁰ [10]§ 46-3A-2. Filing and approval of an integrated resource plan O.C.G.A. § 46-3A-2 (Lexis Advance through the 2018 Regular Session of the General Assembly)